Petroleum news

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This week's Mining News

NORTH OF 60 MINING news

page 11 Miners from shuttered Snap Lake transfer to Gahcho Kué project

www.MiningNewsNorth.com The weekly mining newspaper for Alaska and Canada's North Week of December 13, 2015

NORTHERN NEIGHBORS

Compiled by Shane Lasley

ROCKHAVEN RESOURCES LTD.

The 56-hole drill program completed at Rockhaven Resources' Klaza property this year continued to expand upon zones of gold- and silver-rich quartz-sulfide veins such as those identified in this core.

Klaza gold resource expands by 43%

Rockhaven Resources Ltd. Dec. 9 released an updated mineral resource estimate for its Klaza gold-silver project in southern Yukon Territory. Incorporating the 56 holes drilled this year, Klaza now hosts 9.42 million metric tons of inferred resource grading 4.48 grams per metric ton (1.36 million ounces) gold, 89.02 g/t (26.96 million oz.) silver, 0.75 percent (155.4 million pounds) lead and 0.95 percent (197.8 million lbs.) zinc. This marks a 43 percent increase in gold ounces and a 23 percent increase in silver ounces compared to a resource calculated in January. "The updated mineral resource clearly demonstrates the potential of the road-accessible Klaza deposit," said Rockhaven President and CEO Matt Turner. "There is a high probability for further expansion because the mineralized zones included in the mineral resource are open for extension along strike and to depth, and there are other parallel zones on the property that have not yet been systematically evaluated."

IDM nabs massive Yukon portfolio

IDM Mining Ltd. Dec. 8 reported that it has entered a binding agreement to acquire Oban Mining Corp.'s extensive portfolio of precious and base metal properties in the Yukon Territory. Oban also has agreed to subscribe for 11,111,111

see NORTHERN NEIGHBORS page 11

NOVAGOLD RESOURCES INC.

By 2008, nearly 90 percent of the more than 200 workers at the Donlin Gold camp were Calista Corp. shareholders, or their descendants.

PERMITTING

20 years and counting

Donlin Gold reaches major milestone; long path to production remains

By SHANE LASLEY

Mining News

After 20 years of exploration and permitting, the Donlin Gold project is on the downhill side of gaining the permits needed to develop a mine at the 39-million-ounce gold deposit in the Yukon-Kuskokwim region of Southwest Alaska.

On Nov. 25, the U.S. Army Corp. of Engineers released a draft Environmental Impact Statement for what will likely be among the largest gold-producing mines on the planet.

The Donlin Gold Mine being considered in the draft EIS includes a 53,500-metric-ton-per-day mill that is expected to produce an average of 1.1 million ounces of gold annually at a cash-cost of US$585 per ounce for 27 years. During its first five years of operation, the mine is designed to extract 1.5 million oz. of gold annually at a cash-cost of US$409 per ounce.

"Donlin Gold's significant resource remains a great asset to Barrick," said Kelvin Dushnisky, president, Barrick Gold Corp., which is co-owner of the project.

At the current rate, it is expected that the final EIS and all the permits needed to begin construction of the 1.1-million-ounce-per year gold mine will be in place sometime in 2017.

For residents of the Kuskokwim region – many of whom were part of the team that advanced Donlin Gold to the permitting stage and many more that are looking forward to taking part in the development and operation of the world-class gold mine – the

see DONLIN GOLD page 12

The Donlin Gold project has reached major milestone, but a long path to production remains. Read more in Mining News, page 9.

Two finalists for Fairbanks gas; AIDEA team narrows the search

The Interior Energy Project has now selected two candidate companies for the delivery of natural gas at an affordable price to the city of Fairbanks, the board of the Alaska Industrial Development and Export Authority heard during its Dec. 3 meeting. Those companies are Spectrum LNG LLC and Salix Inc., Robert Shefchik, Interior Energy Project team leader, told the board.

Spectrum proposes building a liquefied natural gas plant on the North Slope, with the LNG to be trucked to Fairbanks via the Dalton Highway. Salix wants to build an LNG plant in the Cook Inlet region: LNG could be shipped to Fairbanks by truck, with

see FAIRBANKS GAS page 18

AKLNG 2016 plan, budget OK'd; Walker releases gas agreements

After something of a cliffhanger, with a vote delayed and the chair of the board fired by the governor, the Alaska Gasline Development Corp. board voted unanimously at a Dec. 3 meeting to approve the state's share of the 2016 budget for the Alaska LNG project. Later that day, the AKLNG partners — AGDC for the state, BP, ConocoPhillips and ExxonMobil — also voted unanimously to approve the budget.

Approval of the 2016 work plan and budget continues preliminary front end engineering and design work on the project, designed to move North Slope natural gas to Nikiski for liquefaction, and then ship liquefied natural gas to the Far East. If the budget had not been approved, the project would have wrapped up for lack of funding.

see AKLNG PLAN page 19

EXPLORATION & PRODUCTION

Another jack-up coming

Furie bringing new rig to Cook Inlet for further Kitchen Lights unit drilling

By ALAN BAILEY

Petroleum News

Furie Operating Alaska is bringing another jack-up rig to Cook Inlet to enable the company to continue to pursue its exploration and development drilling campaign in the offshore Kitchen Lights unit, Bruce Webb, Furie senior vice president, told Petroleum News Dec. 4.

Furie will use the rig, Shelf Drilling's Randolf Yost rig, for its upcoming drilling projects, instead of the Spartan 151 jack-up rig that has been used for previous Kitchen Lights drilling. The Randolf Yost is currently in dry dock in Singapore being modified for Alaska use and will be delivered to Cook Inlet in early to mid April, Webb said.

ALAN BAILEY

BRUCE WEBB

Bigger rig

The Randolf Yost rig is bigger and more powerful than the Spartan 151 and will be more easily cantilevered over the Julius R offshore platform for development drilling in Furie's Kitchen Lights gas field, Webb explained. The new rig's greater deck space extent will reduce operating costs by accommodating larger quantities of materials and supplies, reducing the shuffling of supplies to and from the rig. And the rig's longer legs will enable operation in deeper water than the Spartan rig could handle. Moreover, with a stronger rated drilling derrick, Furie will be able to drill deeper into the rocks of the Cook Inlet

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EXPLORATION & PRODUCTION

Land sales point to slide

17-year Canadian lease sale low ties in with projection for 58% drop in drilling

By GARY PARK

For Petroleum News

With lease sales of petroleum rights in Western Canada headed for a 17-year low it's no surprise that the industry's major drilling organization is forecasting a mere 4,728 wells will be drilled in 2016, down 58 percent from 2014.

Canada's National Energy Board reported that land sales in the four provinces had tallied C$322.3 million by the end of November compared with C$1.08 billion for the same period of 2014 and light years from the all-time high of C$7.4 billion in 2008.

At the same time, average revenues have spiraled down to C$193 per hectare (equal to 2.471 acres) from C$745.

CAODC President Mark Scholz said the utilization rate for the rig fleet is predicted to hit its lowest point in the 38 years that his organization has been collecting the data.

The heaviest setbacks occurred in Alberta, which slumped to C$263 million from C$494 million, compared with that province's benchmark year in 2011 of C$3.6 billion, while British

see LAND SALES page 18

GOVERNMENT

Forecast volumes down

State revenues down by more than 50%; Walker's plan includes cuts, more taxes

By KRISTEN NELSON

Petroleum News

State revenues, driven by lower production and lower oil prices, are down dramatically.

That was the guts of the fall 2015 revenue forecast released by the Alaska Department of Revenue Dec. 8.

The following day Gov. Bill Walker unveiled a plan for state funding which includes cuts, more taxes and a major shift in the use of the Alaska Permanent Fund to finance state government.

Revenue Commissioner Randall Hoffbeck said in a Dec. 8 statement that state revenues for fiscal year 2015 are down by more than 50 percent from fiscal year 2014, with general fund unrestricted revenues down nearly 60 percent.

The oil and gas tax credit system will be changed into a low-interest loan program, with the rate determined by the number of Alaskans hired.

The biggest source of the state's general fund unrestricted revenue is taxes on oil production, and while Cook Inlet production increased 13.6 percent, North Slope production was down by 5.6 percent, Hoffbeck said, resulting in an overall state production decrease of 5 percent. He said ANS production is forecast to remain at more than

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GOVERNMENT

Micciche: AKLNG has upsides, drawbacks

Soldotna Republican says greater collaboration needed if administration, Legislature hope to advance AKLNG project into future stages

By STEVE QUINN

For Petroleum News

Sen. Peter Micciche says he remains bullish on the prospects of a natural gas pipeline, but he warns Gov. Bill Walker's administration needs to smooth out its organizational chart and, with that, eliminate what many lawmakers perceive are internal struggles among departments. He also cautions against the Legislature taking unnecessary shots at Walker as the project — known as AKLNG — progresses.

In an interview following last month's special session and follow-up correspondence, Micciche, a Soldotna Republican who serves as the Senate Finance Committee vice chair, offered his thoughts on where things are with the project and what remains to be done.

Petroleum News: A lot has happened since special session ended. First, what are your thoughts on the changes at AGDC with Dan Fauske and John Burns no longer with the corporation or on the board? Do you have any concerns or is this the natural course of business under a new administration?

Micciche: I certainly have my concerns and they are two-fold. First, there was a level of trust between Dan Fauske and the Legislature. The trust was not based upon a political allegiance, it was simply due to his skill set and his well-established relationships as an administrator. In fact, I know of several key legislators that were not generally supportive of Fauske's communication style, yet supported him due to the specific results delivered by Fauske-led projects over the years. I am going to miss Dan Fauske. Many of us will.

Secondly, the removal of the last two key members (Fauske and Burns) causes one to question if the SB 138 roadmap is the route the current administration intends to follow. The past administration's AGDC board members and their associated backgrounds demonstrated fidelity to the essential concepts in SB 138. As I've said in the past, I certainly don't mind the route taking a side road from time to time due to appropriate adjustments from the new administration. The expectation, however, is that the general route will continue to track the interstate that is the SB 138 framework. Only time, and the quality of relationships developed between willing individual legislators and the administration will write the rest of the AKLNG story.

Petroleum News: Does the news of the partners agreeing to move forward last week give you any particular hope or was this simply to be an expected extension of the special session?

Micciche: Although I remained focused on communicating with the administration and key AGDC board members regarding my desire for a continuation of the current path through a "yes" vote, I was not surprised by the unanimous agreement to move forward through the vote on the third (of December). Although there are key agreements to complete and execute over the next months, I believe there remains an "all in" attitude at this point from all four partners to determine if AKLNG will pass the adequate feasibility test to move to the next decision gate. We have much to do to execute key agreements in the near future, such as the gas supply and balancing agreement, the RIK/RIV decision and preparation for the constitutional amendment in 2016. Cool heads and a steadfast commitment to a successful project will be required to get us there. Cautious optimism, pragmatic decision-making and the absence of political rhetoric will remain imperative in the process needed to get us there for the benefit of all Alaskans.


SEN. PETER MICCICHE

Petroleum News: You asked a lot of critical questions, but in the end you had a yes vote. Why?

Micciche: in the process of our due diligence of SB 3001, the essential elements of the bill are easy. We sort of reached a place where I believe our relationship with TransCanada had maximum value. I'm excited about the fact that we essentially bought out our AGIA liability — $500 million plus trebled damages — for the sum of about $3 million in interest, plus I believe there was a conflict between the state and TransCanada in the project decision making process. So SB 3001 solved those problems.

It provides no additional liability to the state. We have the same level of risk. We have full control over the 25 percent of the project. Generally speaking the special session was very productive. I think it was time well spent. We were efficient. It gave us a chance to look under the hood so to speak of the state's current organization and I think we found some gaps. A lot of the questioning around the buyout of TransCanada centered around is the state ready for that responsibility. Do we have the right people in place? Do we know what we know and do we know what we don't know?

It became obvious that the four entities involved in AKLNG on the state side — AGDC, Department of Natural Resources, Department of Revenue and Department of Law — truly need a charter if you will. They need to know who is filling what boxes, what the responsibilities are. For the empty boxes, what are the skill sets there? As a member of the Legislature, I want to make sure the state of Alaska is receiving 25 percent of the revenue for 25 percent of the investment. I'm not sure we are there yet.

I think we heard and saw a lot of testimony that we've got some work to do. And that's OK. As long as we recognize it, take this opportunity and use it very wisely to create that organization that doesn't mirror the organization of the producers but certainly has the right people in place to validate that our interests are being adequately represented.

Q AND A

Petroleum News: I know from the hearings you weren't happy with the organizational chart. Is that one of those gaps?

Micciche: I hate to place focus around a piece of paper that was handed to us that was titled an organizational chart. I think the chart was created to try to satisfy the request. What it did for me was it brought light on the fact that that organization is lacking an independent evaluation of what's need from the state side to manage this project. Part of the problem is you've got a very sophisticated DNR, a very sophisticated Department of Revenue. You've got a relatively sophisticated AGDC. Those organizations have not been blended at the proper roles and responsibilities for an AKLNG. How are we going to realize of expansion is hurting and helping maximum and best use of the resource for Alaskans?

Do we have the people who are going to recognize whether or not we are competing against ourselves and our 25 percent of AKLNG? Are we going to protect that investment? Are we going to flood that investment with a lower revenue producing source of new gas? That's my worry and that's what the state needs to evaluate. If you look at the project model, in year 15 they are assuming gas.

Do we want expansion prior? You've got a billion cubic feet of extra capacity in the 42-inch line. Is that not enough? That's another Point Thomson today. What gas is going to backfill the need for new gas in year 15? I think we really need to evaluate that and not just be focused on maximum production of natural gas at all costs. I challenge the administration to model what would have happened if we had upsized the TAPS line in the earlier days. My assumption is, had we had significantly higher production in the earlier years, we would have never met the years of a higher commodity cost. We would have produced our resources much earlier and we would have essentially had nothing in savings today.

So when you think about the maximum value to a sovereign, does it happen over 15 years, or does it happen over a generation or two? I think we've seen many projects globally where that longer

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● FINANCE & ENVIRONMENT

Hostile takeover fight extended

Suncor, Canadian Oil Sands given until early 2016 to end squabbling; securities regulator says both firms playing 'hardball'

By GARY PARK
For Petroleum News

Two months of sharp-edged, tit-for-tat exchanges over Suncor Energy's hostile bid to acquire Canadian Oil Sands are now set to last another month, raising hopes among investors in the targeted company that they can land a belated Christmas gift.

Suncor's extension to Jan. 8 of the previous Dec. 4 deadline on its C$6.9 billion all-shares offer, including the assumption of debt, shows again that Canada's largest oil sands operator is eager to expand its 12 percent stake in the Syncrude Canada consortium by absorbing the 37 percent stake that COS holds.

However, Suncor has given no signal that it is ready to raise its terms, although it has hired JPMorgan Chase & Co to advise on its bid.

It set the new expiry date after the Alberta Securities Commission gave COS until Jan. 4 to find alternative buyers.

ASC chairman Stephen Murison said it is clear both companies are playing "hardball" in the dispute, but added "hardball is allowed."

He also said the ASC is satisfied that the process COS is engaged in to find a better deal is "real" and "active" and that it could benefit from the extended deadline.

Suncor Chief Executive Officer Steve Williams said "the pressure is clearly on COS's board and management to prove they are acting in someone's interest other than their own."

"The Alberta Securities Commission decision allows COS more time to surface a superior offer from a credible third party, something most analysts see as unlikely."

Williams claims his company has approached 60 percent of COS's institutional investors and that the "majority" endorsed the bid.

COS calls bid undervalued

COS board Chairman Donald Lowry reiterated his company's line that "extending the expiry of Suncor's bid does not change the fact that it is substantially undervalued and opportunistic."

COS said the extension allows its shareholders to absorb information about the COS 2016 capital budget, which has been cut to C$298.5 million from the C$451 million estimated for 2015.

COS Chief Executive Officer Ryan Kubik said Syncrude's ability to "reduce costs and respond to the lower oil price environment is exceeding market expectations."

The company said that even if West Texas Intermediate prices remain below US$45 per barrel it could "fully fund all costs, including capital expenditures and the current dividend."

It expects to generate C$338 million in free cash flow next year which assumes production of 38.6 million barrels for the year, about 10 percent higher than this year.

Tristram Mallett, a member of the COS legal team, accused Suncor of issuing passive-aggressive threats and objected to that company's portrayal of COS as a "financial basket case."

No desire to compete

Imperial Oil, Sinopec, CNOOC, Murphy Oil and Nippon Oil's unit Mocal are the other partners in Syncrude Canada, but none has shown any desire to compete for the COS holding, although Lowry insisted that are "several interested parties in our data room now."

National Bank Financial analyst Kyle Preston said in a research note that the COS budget assumptions "may prove to be somewhat optimistic as the company has not achieved its initial production guidance in recent history," reinforcing one of Suncor's key arguments that COS is poorly managed.

David Harrison, head of JPMorgan's natural resource investment banking in Canada, noted that COS has failed to say whether the parties it claims are interested in a counterbid have their sights set on the whole company, or what price they were considering.

Claiming that it typically takes about four weeks for an arrival bid to surface, he said in a court document that "it is unusual for serious bidders to move as slowly as the partied identified by the COS board when there is an unsolicited offer outstanding."

"In my experience, truly interested parties would have executed confidentiality agreements and scheduled management presentations within one to two weeks of the announcement of the Suncor offer" in early October.

Tristram Mallett, a member of the COS legal team, accused Suncor of issuing passive-aggressive threats and objected to that company's portrayal of COS as a "financial basket case."

"There's a lot of fear-mongering going on here," he said. ●

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● FINANCE & ECONOMY

Global oil inventories up, Brent down

EIA says global oil increased some 1.3 million bpd in November, causing downward pressure on North Sea Brent crude oil prices

By KRISTEN NELSON
Petroleum News

North Sea Brent crude oil prices averaged $44 per barrel in November, the U.S. Energy Information Administration said in its Short-Term Energy Outlook released Dec. 8.

That $44 per barrel average is a drop of $4 from the Brent average in October. EIA said it is forecasting that Brent crude oil prices will average $53 per barrel this year and $56 per barrel in 2016, with the West Texas Intermediate crude oil price forecast to be $4 lower than Brent this year and $5 lower in 2016.

EIA Administrator Adam Sieminski said lower U.S. residential heating costs are expected. "The effect of lower crude oil prices, along with the potential for above-average temperatures (in the Lower 48), is spilling over to lower residential heating oil expenditures, as the average household using heating oil should save almost $600 this winter," he said in a Dec. 8 statement on the December forecast.

EIA also said U.S. crude oil production declined by some 60,000 bpd in November compared with October, and is forecast to drop further through the third quarter of 2016. U.S. crude oil production is projected to average 9.3 million bpd this year and 8.8 million bpd in 2016.

Production outpaces consumption

Globally, crude oil production continues to outpace consumption, the agency said, leading to inventory builds which averaged 1.8 million bpd in the third quarter, down from 2 million bpd in the second quarter, "which had the largest inventory builds since the fourth quarter of 2008."

EIA expects the pace of inventory builds to slow in the fourth quarter to some 1.4 million bpd, and to slow further to an average of 600,000 bpd in 2016.

Global consumption of petroleum and other liquids grew by 1.2 million bpd in 2014, the agency said, averaging 92.4 million bpd. For 2015 and 2016, EIA expects consumption to grow by 1.4 million bpd.

Consumption outside the Organization for Economic Cooperation and Development increased by 1.4 million bpd last year and is projected to grow by 800,000 bpd this year and 1.1 million bpd in 2016, with China continuing to be the main driver of non-OECD oil consumption growth.

EIA said it "expects U.S. crude oil production declines to continue through September 2016," when total production is estimated to average 8.5 million bpd, 1.1 million bpd less than the monthly peak reached in April 2015.

OECD petroleum consumption fell by 300,000 bpd in 2014 and is expected to rise by 600,000 bpd this year and by 300,000 bpd in 2016, averaging 46.7 million, the highest level since 2010. U.S. consumption is expected to grow by an average of 300,000 bpd this year and by 200,000 bpd in 2016.

Non-Organization of the Petroleum Exporting Countries' production grew by 2.5 million bpd last year, mainly reflecting growth in the U.S. Non-OPEC growth is expected to average 1.2 million bpd in 2015 and then decline by 400,000 bpd in 2016, "which would be the first annual decline in non-OPEC production since 2008," EIA said.

"Non-OPEC production growth in 2015 is large attributable to investments committed to projects before the oil price decline that began in mid-2014," the agency said, with 2016 declines mostly attributable to U.S. onshore and North Sea production declines.

OPEC continues production

At its Dec. 4 meeting OPEC announced it would continue to monitor developments, indicating OPEC producers "are continuing the policy of defending market share in a low oil price environment."

EIA said it estimates OPEC production averaged 31.4 million bpd in November, 1.3 million bpd higher than November 2014, mainly driven by increased production in Saudi Arabia and Iraq.

OPEC production is estimated to have averaged 30.1 million bpd in 2014, and is forecast to increase by 900,000 bpd this year, "led by production growth in Iraq." OPEC crude oil production is forecast to increase by 300,000 bpd in 2016, "with Iran forecast to increase production once international sanctions targeting its oil sector are suspended."

The price decrease

The Brent crude oil spot price decreased in November to an average of $44 per barrel, while the WTI crude oil spot price averaged $42 per barrel, down $4 per barrel from October, "as crude oil inventories in the Cushing, Oklahoma, storage hub increased in November despite rising refinery inputs of crude oil following seasonal maintenance."

EIA said its crude oil price forecast, an average of $53 per barrel this year and $56 per barrel in 2016, "remains subject to significant uncertainties as the oil market moves toward balance. During this period of price discovery, oil prices could continue to experience periods of heightened volatility."

The agency said uncertainties in the oil market include the pace and volume at which Iranian oil reenters the market, the strength of oil consumption growth and responsiveness of non-OPEC production to low oil prices.

EIA said U.S. crude oil production is projected to increase from a 2014 average of 8.7 million bpd to a 2015 average of 9.3 million bpd and then decrease in 2016 to 8.8 million bpd.

U.S. monthly crude oil production is estimated to have averaged 9.4 million bpd through the first nine months of the year, EIA said, 100,000 bpd more than the average during the fourth quarter of 2014, despite a decline of more than 60 percent in the U.S. oil-directed rig count since October 2014.

Oil prices are projected to be below $60, limiting onshore drilling activity and well completion totals, "despite continued increases in rig and well productivity and falling drilling and completion costs," EIA said.

Monthly crude oil production started to decrease in the second quarter 2015, with Lower 48 onshore production declining starting in April, falling from 7.6 million bpd in March to an estimated 7.1 million bpd in November. The agency said total U.S. crude oil production began declining in May and has fallen from 9.6 million bpd in April to an estimated 9.2 million bpd in November.

EIA said it "expects U.S. crude oil production declines to continue through September 2016," when total production is estimated to average 8.5 million bpd, 1.1 million bpd less than the monthly peak reached in April 2015.

Production is forecast to begin increasing in late 2016, returning to an average of 8.7 million bpd in the fourth quarter.

Oil prices are projected to be below $60, limiting onshore drilling activity and well completion totals, "despite continued increases in rig and well productivity and falling drilling and completion costs," EIA said. ●

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● ENVIRONMENT & SAFETY

Murray Edwards: Opinion that matters

Oil patch billionaire leads oil sands execs, accompanies environmental organizations, aligning with Alberta's climate action plan

By GARY PARK
For Petroleum News

Murray Edwards seldom emerges into the spotlight.

He has no need to seek approval beyond the board room, given his estimated personal net worth of US$2.2 billion, largely accumulated from his holdings in the Canadian oil patch.

As a co-owner of the Calgary Flames of the National Hockey League, he has both imparted and absorbed stick-handling skills when it comes to finances, playing an instrumental role in turning Canadian Natural Resources from a penny stock into one of the world's largest independent oil producers through its holdings in Western Canada, the British North Sea and West Africa.

Thus, when he does go public, Edwards commands attention as one of the industry's most influential leaders. And that has been the case over the past few weeks.

Endorsement of carbon policy

He startled many Albertans in mid-November when he shared a platform with three other leading oil sands executives to endorse a sweeping new carbon policy announced by Premier Rachel Notley that includes an economy-wide carbon tax and a cap on greenhouse gas emissions from the oil sands.

However, what has apparently angered many within the industry is evidence of collaboration among Edwards, chairman of Canadian Natural Resources, and the top executives of Suncor Energy, Shell Canada and Cenovus Energy, and four environmental organizations in striking a deal with the Notley government. Edwards said his three oil sands peers opted to lead by example, taking a "bold step" and hoping that other large producers, including those in the United States, would also accept a price on the carbon that is linked to their output.


MURRAY EDWARDS

"We understand this is an important issue to Canadians and to the globe, as we are going to start pricing carbon into the oil sands and we are going to start to incentivize to reduce our emissions," Edwards said.

"I hope that the leadership position helps change the conversation in Canada, that we are what I would call 'clean oil,' and provide leadership on a global basis," he said.

Informal discussions

Edwards disclosed that the oil sands strategy evolution stemmed from informal discussions over the past year with environmental non-government organizations to better appreciate their concerns.

Despite the industry's own attempts to explain the benefits of oil sands development and its creation of the Canadian Oil Sands Innovation Alliance to share environmental improvements, Edwards said the industry still lacked the game-changing technologies needed to lower GHGs.

However, he hopes the shift towards more positive discussions with NGOs will gain momentum, even though he is not counting on support for more pipelines.

"My view is that the industry is doing the right thing as a responsible developer," he said. "And we think it's important to communicate, to reflect Canadians' aspirations and value set."

Edwards said Alberta's proposal to set a cap on oil sands emissions of 100 million metric tons a year (up 30 million metric tons from current output) provides an incentive to innovate, which could include a variety of measures, such as using trucks powered by electricity to move raw bitumen, or nuclear-powered operations.

What he hasn't explained is why other leading producers such as Imperial Oil and MEG Energy were apparently not consulted or involved in the deal-making. Imperial has said only that it needs more time to assess the potential impact of the government's policy announcement. Others have talked about "secretive" deal making.

'In a different world'

Following the introduction of Alberta's climate change plan, Edwards delivered a speech at a business forum in the Canadian Rockies when he talked about a world of sub-US$100 oil that faces a sharp rise in carbon taxes and possibly royalties.

"I'm now starting to, with our staff, communicate that we're in a different world," he said, by way of explaining his changed profile.

"Around town in Calgary, I get a lot of questions about when we're going to return to the way it was.

"I don't believe it's going to go back," Edwards declared, having already established his credentials as a forecaster a year ago when he suggested oil would sink under US$40.

"We're in a period of change; we're in a period of, if you want to use the words, 'new normal.' All of us are going to have to find ways to do things more efficiently, find ways to get our costs into line, and do it in a time of higher regulatory and environmental standards."

With OPEC showing no willingness to reduce export quotas, many of its member countries and outside oil jurisdictions are having to deal with shrinking revenues.

Pressure to raise royalties

Edwards conceded that has put the pressure on Alberta not to raise royalties on a sector which is slashing capital spending and releasing thousands of employees — so far costing about 40,000 direct and 100,000 indirect industry jobs across Canada, as capital budgets have nosedived to C$45 billion this year from C$81 billion in 2014.

He said Alberta's dependence on oil sands production gives it the "lowest oil price in the world, (along with) some of the highest, if not the highest, regulatory standards in the world. And we're captive to one market, the Americans. We have a lot of wind blowing in our face right now, a lot of challenge before us. So it's really going to cause all of us to rethink how we do business."

Peter Tertzakian, chief energy economist at ARC Financial Corp., told the same forum he is "confident that segments of the industry will remain competitive. This is a very major period of disruption in the world of energy and companies and institutions that are able to adapt will definitely be competitive."

"But whenever you have change of this magnitude, there are always elements of the industry that cannot be competitive and we just have to move forward." ●

Contact Gary Park through publisher@petroleumnews.com

● EXPLORATION & PRODUCTION

Aurora gets 2-well lease plan approval

Wells to be drilled from 2 temporary pads adjacent to Beluga Highway in Susitna Flats State Game Refuge; Theodore River well first

By KRISTEN NELSON
Petroleum News

Aurora Exploration has won approval for a lease plan of operations for two natural gas exploration wells from the Alaska Department of Natural Resources Division of Oil and Gas.

The wells, Theodore River No. 2 and Chedatna Lake No. 1, are on the west side of Cook Inlet, some 13 miles northeast of the Beluga River airstrip.

The exploration program includes drilling to natural gas wells and construction of two temporary drilling pads adjacent to the Beluga Highway within the Susitna Flats State Game Refuge.

The division said the Theodore River No. 2 pad will be immediately adjacent to the Beluga Highway and require no access road. The Theodore River site is proposed as a temporary matter and/or gravel fill pad depending on geotechnical soil results.

The division said a nearby Lewis River pad would be used for staging supplies and drilling wastes, minimizing the footprint needed for the temporary Theodore River pad.

The Chedatna Lakes well site will be northeast off the Beluga Highway approximately one mile from the Lewis River D pad. The division said off road travel for the Chedatna Lakes well "will adhere to the goals and principles laid out in the SFSGR management plan," and also said Aurora "will utilize existing Cook Inlet west side infrastructure whenever possible during the project," including gravel roads, airstrips, barge landings, landfills, water supplies, heavy equipment and personnel.

Both wells are on lands jointly managed by DNR and the Susitna Flats State Game Refuge.

Aurora Exploration holds the state oil and gas leases for the Theodore River No. 1 well and well pad and for the Chedatna Lakes No. 1 well and pad. The state said Aurora is seeking formal land use agreements with Hilcorp to secure use of Hilcorp's surface improvements for work at the Chedatna Lakes site.

Fall, winter programs

The division said Aurora plans a fall 2015 program for the Theodore River well, with pad construction including either placement of composite mats directly on the ground or in the case of insufficient soil competency or low terrain, placement of two layers of geotextile fabric with one to three feet of gravel fill on top.

The Theodore River site is preferable for fall operations, the state said, because drilling can occur from a pad constructed immediately adjacent to the Beluga Highway, requiring no access road.

Chedatna Lakes will be a winter program, as the Chedatna Lakes NO. 1 well pad is within SFSGR and will be permitted with the Alaska Department of Fish and Game and the U.S. Army Corps of Engineers. A snow/ice pad was selected for the Chedatna Lake site to reduce the impacted tundra/wetland in the project area, the division said. The proposed well site is approximately one mile northeast of the Beluga Highway; a small gravel fill ramp will be used to connect the existing Lewis River D pad with a snow trail accessing the Chedatna Lake site.

There will be no permanent buildings for the project. Temporary facilities will be placed on the well pads and a small man camp will be will be stationed across the road/trail at the drilling locations for fire safety reasons.

Aurora Exploration applied for approval of the lease plan of operations Aug. 19; the division's approval is dated Nov. 16. The project milestones in the plan proposed a start date of construction on the Theodore River pad in mid-September and drilling of that well in October through mid-November. Prepacking of the snow route to Chedatna Lakes was proposed to take place in November, with construction of the snow/ice trail to Chedatna Lakes from the Lewis River Pad D in the first half of December, mobilization of the drill rig to Chedatna Lakes the second half of December and drilling of the Chedatna Lakes well in January through mid-February with demobilization at Chedatna Lakes and removal of both pads in March. ●

Contact Kristen Nelson at knelson@petroleumnews.com

PIPELINES & DOWNSTREAM

CIPL files to increase pipeline tariff

Cook Inlet Pipe Line Co. has filed a revised tariff with the Regulatory Commission of Alaska, proposing to increase the rate for petroleum transportation from Granite Point or Trading Bay on the west side of Cook Inlet to CIPL's Drift River terminal from $3.76 per barrel to $4.47 per barrel. The new tariff includes a 60 cent per barrel surcharge for dismantlement, removal and remediation, Harvest Alaska, the pipeline's owner, told RCA in a Dec. 1 letter.

Harvest said the existing annual intrastate revenue for Cook Inlet Pipe Line Co. is $17,051,000; the proposal annual intrastate revenue would be $17,802,000.

Shippers affected are CIPL's intrastate shippers, Harvest said, typically consisting of fewer than three shippers.

RCA said CIPL has requested an effective date of Jan. 1 for the tariff filing.

Comments on the tariff revision, TL58-303, are due to the commission by 5 p.m. Dec. 22.

—PETROLEUM NEWS

NORTH OF 60 MINING news

page 11 Miners from shuttered Snap Lake transfer to Gahcho Kué project

www.MiningNewsNorth.com | *The weekly mining newspaper for Alaska and Canada's North* | **Week of December 13, 2015**

NORTHERN NEIGHBORS

Compiled by Shane Lasley

ROCKHAVEN RESOURCES LTD.

The 56-hole drill program completed at Rockhaven Resources' Klaza property this year continued to expand upon zones of gold- and silver-rich quartz-sulfide veins such as those identified in this core.

Klaza gold resource expands by 43%

Rockhaven Resources Ltd. Dec. 9 released an updated mineral resource estimate for its Klaza gold-silver project in southern Yukon Territory. Incorporating the 56 holes drilled this year, Klaza now hosts 9.42 million metric tons of inferred resource grading 4.48 grams per metric ton (1.36 million ounces) gold, 89.02 g/t (26.96 million oz.) silver, 0.75 percent (155.4 million pounds) lead and 0.95 percent (197.8 million lbs.) zinc. This marks a 43 percent increase in gold ounces and a 23 percent increase in silver ounces compared to a resource calculated in January. "The updated mineral resource clearly demonstrates the potential of the road-accessible Klaza deposit," said Rockhaven President and CEO Matt Turner. "There is a high probability for further expansion because the mineralized zones included in the mineral resource are open for extension along strike and to depth, and there are other parallel zones on the property that have not yet been systematically evaluated."

IDM nabs massive Yukon portfolio

IDM Mining Ltd. Dec. 8 reported that it has entered a binding agreement to acquire Oban Mining Corp.'s extensive portfolio of precious and base metal properties in the Yukon Territory. Oban also has agreed to subscribe for 11,111,111

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NOVAGOLD RESOURCES INC.

By 2008, nearly 90 percent of the more than 200 workers at the Donlin Gold camp were Calista Corp. shareholders, or their descendants.

PERMITTING

20 years and counting

Donlin Gold reaches major milestone; long path to production remains

By SHANE LASLEY
Mining News

After 20 years of exploration and permitting, the Donlin Gold project is on the downhill side of gaining the permits needed to develop a mine at the 39-million-ounce gold deposit in the Yukon-Kuskokwim region of Southwest Alaska.

On Nov. 25, the U.S. Army Corp. of Engineers released a draft Environmental Impact Statement for what will likely be among the largest gold-producing mines on the planet.

The Donlin Gold Mine being considered in the draft EIS includes a 53,500-metric-ton-per-day mill that is expected to produce an average of 1.1 million ounces of gold annually at a cash-cost of US$585 per ounce for 27 years. During its first five years of operation, the mine is designed to extract 1.5 million oz. of gold annually at a cash-cost of US$409 per ounce.

"Donlin Gold's significant resource remains a great asset to Barrick," said Kelvin Dushnisky, president, Barrick Gold Corp., which is co-owner of the project.

At the current rate, it is expected that the final EIS and all the permits needed to begin construction of the 1.1-million-ounce-per year gold mine will be in place sometime in 2017.

For residents of the Kuskokwim region – many of whom were part of the team that advanced Donlin Gold to the permitting stage and many more that are looking forward to taking part in the development and operation of the world-class gold mine – the

see **DONLIN GOLD** *page 12*

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NORTHERN NEIGHBORS

IDM common shares at C9 cents each, for gross proceeds of C$1 million, by way of a non-brokered private placement. "IDM is excited to welcome Oban Mining as a significant shareholder," said IDM President and CEO Rob McLeod. The Yukon portfolio consists of 54 properties totaling 308,000 hectares (761,000 acres) of properties that were previously held by Ryan Gold Corp. and its subsidiaries. Ryan Gold invested roughly C$25 million on exploration at these properties, including drill programs on two of them, as well as tens of thousands of rock and soil samples collected during grass-roots exploration programs in several districts throughout Yukon. Additionally, geophysical surveys and geologic mapping programs have outlined many anomalous areas that have not received follow-up work. IDM said it will compile Ryan Gold's work and prioritize the properties for follow-up exploration. As consideration for Oban's Yukon portfolio, IDM will issue 7,188,889 common shares and grant a 1 percent net smelter royalty over the properties to Oban. The properties are subject to certain other underlying royalties. Upon closing, Oban will own 18.3 million IDM shares, or roughly 19.9 percent of the shares of the company and will be entitled to appoint one director to the board of IDM. Oban also will be granted the right to participate in future equity financings of IDM on a pro rata basis to its shareholding immediately prior to any such financing. In addition, Oban will be granted a 30-day right of first refusal over any royalty or stream agreements that IDM proposes to enter into. IDM Executive Chairman Michael McPhie said, "The IDM team led by our CEO, Rob McLeod, has had significant exploration success in the Yukon; with Underworld Resources, he and his exploration team discovered the White Gold deposit, leading to the largest staking rush in the Dawson Mining district since the Klondike Gold Rush. These highly prospective properties from Oban provide another great opportunity to create future shareholder value with IDM." IDM also is earning an option to acquire Red Mountain, an advanced staged gold-silver project in northwestern British Columbia.

Key Snap Lake workers sent to Gahcho Kué

The De Beers Group of Companies Dec. 4 announced that it is placing the Snap Lake diamond mine on care and maintenance. The company said it will evaluate market conditions over the next year to determine the potential of resuming operations at the underground mine in Northwest Territories. The process of suspending production at Snap Lake is underway. During the care and maintenance period, environmental monitoring and work required under the mine's permits will continue. Suspension work requires roughly 120 employees and the care and maintenance phase will require about 70 employees. De Beers transferred 41 of the Snap Lake workers to Gahcho Kué, a diamond mine development project located about 80 kilometers (50 miles) to the east, with the potential for another 60 to transfer at some point in 2016. Another 434 employees have been notified that they are losing their jobs. "The men and women at Snap Lake have put enormous effort into this challenging ore body over many years, but even the gains made this year are not enough to overcome the market conditions and put us in a profitable position," explained De Beers Canada CEO

KENNADY DIAMONDS INC.

Sampling of the Kelvin North Lobe kimberlite at the Kennady North project, which is located immediately adjacent to the nearly completed Gahcho Kué mine project, has consistently returned grades of around three carats per metric ton of commercial size diamonds.

Kim Truter. Gahcho Kué, a joint venture between De Beers Canada (51 percent) and Mountain Province Diamonds (49 percent) – is more than 80 percent complete and remains on track for first production during the second half of 2016. Truter, who is also chairman of the Gahcho Kué JV management committee, said, "The regrettable decision relating to Snap Lake will have no impact on plans for the Gahcho Kué mine. On the contrary, Gahcho Kué will benefit from the availability of trained and experienced employees who are being transferred to Gahcho Kué to support operational readiness." This group of experienced diamond miners will help commission the primary crusher and diamond plant in preparation for the start of commercial production at Northwest Territories newest diamond mine. Mountain Province President and CEO Patrick Evans said, "We continue to make excellent progress at Gahcho Kué." Mountain Province is fully funded to finance its portion of bringing the mine to commercial production.

Kennady North sample returns 3.4 c/t diamonds

Kennady Diamonds Inc. Dec. 7 posted final recovery results from a 2.67-metric-ton sample from the Kelvin North Lobe at the Kennady North diamond project adjacent to the Gahcho Kué mine project in Northwest Territories. The sample, processed by caustic fusion at the Geoanalytical Laboratories Diamond Services of the Saskatchewan Research Council, averaged 3.4 carats per metric ton for diamonds of commercial size. Kennady Diamonds President and CEO Patrick Evans said, "Kelvin North Lobe drill samples continue to return outstanding diamond recovery results. Over the course of 2015, we have processed by caustic fusion a total of 12.8 tonnes of core samples from the Kelvin North Lobe, which have returned an average sample grade of 2.79 carats per metric ton." Processing of this sample clears the way to complete grade modeling for a Kelvin resource statement that is expected to be released in early 2016. Kennady Diamonds expects to be in a position to make a decision on developing a mine at Kennady North by the end of 2017.

TerraX extends three Yellowknife gold zones

TerraX Minerals Inc. Dec. 4 reported results from the first 19 holes of a 41-hole drill program completed at the Crestaurum Shear on its Yellowknife City Gold Project, immediately north of the capital of Northwest Territories. Most of the initial results were from drilling in the Central Shoot area of the shear. Highlights from 13 holes drilled at the Central Shoot include: TCR15-037, which cut 1.39 meters grading 40.52 grams per metric ton gold in in a newly discovered zone in the hanging wall of the main shear; and TCR15-040, which cut one meter of 13.6 g/t gold in the hanging wall zone. The Central Shoot historically has been the smallest mineralized zone along the main shear. However, TerraX says the discovery of a higher grade zone in the hanging wall indicates the potential of developing another high-grade shoot in the Central zone. The remaining six holes were drilled in the North Shoot area of the shear, highlights include: TCR15-048, which cut 2.87 meters of 6.01 g/t gold in in the main shear; and TCR15-045, which cut 2.45 meters of 4.72 g/t gold in the hanging wall zone. The surface expression indicates the new North Shoot hanging wall mineralization is on the same shear structure and 240 meters northeast from the hanging wall zone discovered in the Central Shoot area. On Dec. 8, TerraX reported results from the remaining 22 holes drilled at the Crestaurum Shear, all of which targeted the South Shoot. Highlights of this drilling include: TCR15-068, which cut 4.21 meters of 12.29 g/t gold; TCR15-052, which cut 10.8 meters of 3.49 g/t gold; TCR15-064, which cut 9.2 meters of 3.37 g/t gold; and TCR15-072, which cut 1.50 meters of 11.37 g/t gold. Several of the South Shoot holes also hit significant mineralization in hanging wall veins near surface. This hanging wall structure has been consistently mineralized with gold. It is unknown whether these hanging wall veins are related to the hanging wall structure in the Central and North Shoot areas of Crestaurum located roughly 500 meters to the northeast.

Final permit in place for the Eagle Gold Mine

Victoria Gold Corp. Dec. 7 said it has received the Water Use License for its Eagle Gold project, a proposed open-pit heap leach mine in the Yukon projected to produce roughly 200,000 ounces of gold annually. This completes the major mining permits required to advance Eagle through construction and operations. "With the final Water Use License in hand, Eagle represents a truly unique asset, being a fully permitted gold project, with First Nation support, located in Canada, capable of significant annual gold production exceeding 200,000 oz. at a low all-in-sustaining cost," said Victoria Gold President and CEO John McConnell. Eagle's low-cost of production is expected to be achievable due to a number of factors including: a low strip ratio; short mine haul distances and superior infrastructure, including existing year-round road access; close proximity to the Yukon electrical grid and a nearby commercial airstrip as well as an existing construction camp.

Goldstrike consolidates Lucky Strike ownership

Goldstrike Resources Ltd. Dec. 4 reported that it has entered into an agreement to purchase a 3 percent net smelter returns royalty on the Lucky Strike gold property, located in the Yukon's White Gold District, together with a 3 percent net smelter returns royalty on the nearby BRC property. Goldstrike owns a 70 percent interest in the Lucky Strike mineral claims and has entered into an agreement to purchase the remaining 30 percent from Petro One Energy Corp. On completion of its proposed arrangement with Petro One and the purchase of the royalties, Goldstrike will own 100 percent unen-

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Petroleum news

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cumbered interest in Lucky Strike. On completion of the royalties purchase, Goldstrike also will hold 100 percent unencumbered interest in BRC. Goldstrike is currently focused on its Plateau gold project, also in the Yukon, but has obtained increasingly promising results from short exploration programs carried out at Lucky Strike over the past two summers. A total of 63 rock grab samples and 128 soil samples were collected at the property in 2015. Rock samples ranged from detection level to 4.26 grams per metric ton gold, and soil samples ranged from detection level to 1.99 g/t gold. In addition, Kaminak Gold Corp. has announced a proposed access road to its Coffee Creek deposit which is planned to pass within six kilometers (four miles) of the Lucky Strike property. Management believes full ownership of Lucky Strike will make the gold project more attractive to investors and prospective financial partners. Under the agreement, Goldstrike will issue 75,000 shares and 75,000 warrants to the vendor for the royalties. Each warrant will be exercisable for two years to purchase one additional share for C10 cents.

Kiska vectors on intriguing targets at Chuchi

Kiska Metals Corp. Dec. 3 said a recently completed induced polarization survey has detailed significant chargeability and resistivity anomalies that, in conjunction with other geological data, indicate the potential footprint of a significant porphyry copper-gold deposit at the Chuchi project in northern British Columbia. The anomalies cover the main BP Zone and extend from known zones of copper-gold mineralization into untested areas, and identify new zones that have yet to be drilled. Drilling completed from 1989 to 1991 returned significant intervals of copper-gold mineralization and higher grade, gold-only mineralization at the BP zone, including: 100 meters grading 0.27 percent copper and 0.37 grams per metric ton gold in hole 89-07; 194 meters grading 0.21 percent copper and 0.21 g/t gold in hole 90-27; and 54.6 meters grading 2.03 g/t Au and 0.09 copper in hole 91-42. The IP survey, recently conducted by Peter E. Walcott & Associates, consisted of two 5,000-meter-long lines centered on the BP zone. One line shows near-surface chargeability high anomalies over a width of 2,000 meters that is partly coincident with a magnetic high feature related to monzonitic porphyry intrusions with local magnetite-chalcopyrite veins and breccias. The resistivity data supports the presence of a resistive intrusive body at depth coincident with the magnetic high feature, and the "Valley" fault zone east of this feature. In addition, this line also has identified a new chargeability anomaly to the east of the Valley fault zone at a depth of 200 meters below surface. Kiska said this feature may represent a faulted offset of the BP zone concealed by cover. The second line was conducted over a postulated south-side fault that displaced the porphyry intrusive center to depth. The western portion of this line displays flat-lying chargeability anomalies that might cap intrusive rocks and porphyry mineralization at depth; the eastern portion of the line also has identified a potential BP Zone offset east of the Valley fault. "This IP survey is the first modern exploration to be conducted over the BP zone since it was discovered by drilling 25 years ago," explained Kiska Vice President of Exploration Mike Roberts. Kiska is currently seeking a partner to help advance this drill-ready project located 32 kilometers (20 miles) to the northwest of the Mt. Milligan copper-gold mine. ●

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DONLIN GOLD

release of the draft EIS is a long-awaited milestone along a path to economic prosperity for the area of Southwest Alaska they call home.

"(Donlin Gold) has the potential to create jobs and financial benefits for TKC (The Kuskokwim Corporation) and the people in the region, allowing them to continue living off this land for generations to come," TKC President and CEO Maver Carey said upon hearing that the draft EIS has been released for public comment.

TKC is an Alaska Native village corporation that owns the surface rights at the Donlin deposit and has secured a number of benefits for its shareholders in exchange for granting Donlin Gold long-term use of the land to develop the mine and supporting infrastructure.

Stan Foo, president and general manager, Donlin Gold LLC, the joint venture company advancing the project, cautions that the actual start of production at Donlin could be later than 2021, which is indicated by the current timeline.

"There is still a long path ahead of us and a lot of challenges ahead," he said during a Dec. 3 Resource Development Council breakfast.

High hurdles

Along the long and challenging road to a mine at Donlin lies finalization of the EIS, authorization of more than 100 permits by at least a dozen federal and state agencies, and three to four years of constructing one of the world's largest gold mines some 300 miles off the beaten path in Alaska.

If and when Donlin Gold receives that final permit needed to begin development, the company then must decide whether it is prudent to do so.

While a gold price hovering near six-year lows may be advantageous for plating shovels for the groundbreaking ceremony, just above US$1,000 per ounce is not advantageous for paying back the roughly US$6.7 billion needed to build one of the world's largest gold mines.

Novagold Resources Inc. and Barrick Gold, equal owners of Donlin Gold, have individually expressed their unwillingness to develop the nearly 40-million-ounce gold mine unless the gold price looks like it is on the mend and the costs of raising the capital needed to build the mine is favorable.

A number of analysts believe gold could break below US$1,000 per ounce before trending higher.

At US$1,200-per-ounce gold, the base-price scenario used for a feasibility study completed for Donlin in 2011, the mine is predicted to generate after-tax cash flow averaging US$949.5 million annually for the first five years and would pay back its projected US$6.7 billion in capital costs in just over nine years.

When asked about how increased taxes might affect a production decision for Donlin, Foo responded, "We are going to see a gold price higher than (US$1,055 per ounce) to see this project go forward, and any additional burden placed on the project … makes that hurdle taller."

While there has yet to be any specific proposals to raise mining taxes in Alaska, such an idea will likely be revisited by state lawmakers looking for ways to close an annual budget deficit north of US$3.7 billion.

With sparse infrastructure and a sub-arctic climate, Alaska already is an expensive place to work and any added financial burdens do not weigh favorably on development of Alaska's resources.

"I am never comfortable talking about how I want to be taxed, but it is a significant concern – not just for gold but for any industry in Alaska," Foo added.

Donlin Gold, which is sitting solely on Native lands, is not subject to Alaska royalties or claim fees but the joint venture would pay mining license and corporate income taxes to the state.

Opportunities

When Donlin Gold eventually does go into production, the economic impacts and opportunities it provides will ripple out from the Kuskokwim region.

Calista Corp., the Alaska Native regional corporation that owns the subsurface (mineral) rights at Donlin, sees development of the 39-million-ounce gold deposit as a turning point for its 13,000 shareholders.

"As an Alaska Native Claims Settlement Act corporation, Calista must meet two key goals, to successfully operate as a profitable business and to provide socio-economic benefits to our shareholders. The advancement of this project can allow Calista to meet both ANCSA goals by providing an opportunity to develop partnerships for future low-cost energy, in addition to meaningful employment opportunities for shareholders and a revenue stream for Calista," explained Calista President and CEO Andrew Guy.

Donlin Gold anticipates an annual payroll of US$375 million to pay the roughly 3,000 workers during the three- to four-year construction phase. Once in production, the company expects about 800 workers making roughly US$100 million per year. Having the mine in place is expected to spur about another US$60 million a year worth of jobs.

While not all of these jobs will be filled by residents of the region, history indicates that many will. Over the past 20 years, the companies involved with exploring Donlin have built a reputation for local hire. By 2008, nearly 90 percent of the more than 200 workers at the advanced exploration project were Calista shareholders, or their descendants.

As the Army Corps works on finalizing the EIS, Donlin Gold is helping Kuskokwim residents prepare to fill the jobs that will be needed at the pending mine.

"Our focus has shifted to preparing the region for the job opportunities that will be created by the project," Foo said.

This work includes community outreach to inform area residents of the jobs that will be available at the mine and the company's requirements and expectations for the workers that will fill these positions. Donlin Gold also is providing scholarships to assist TKC and Calista shareholders in meeting the educational requirements of the coming jobs.

While Donlin Gold has built a reputation for local hire, this commitment was enshrined in a surface-land-use agreement with TKC.

In addition to job preference, the agreement, which was updated in 2014, provides direct compensation to TKC through payments; commits to a coordinated and consultative approach regarding annual project planning, reclamation and preparation of a subsistence harvest plan for affected surface lands; and gives preference to TKC for contracts.

In particular, the agreement provides an exclusive contract to build and operate the Angyaruaq (Jungjuk) Port, an important facility on the Kuskokwim River that will handle the fuel and supplies needed to build and operate the Donlin Mine some 30 miles to the north.

"Donlin Gold's continued presence in the region over the past two decades and the partnership which we have developed through the updated surface-use agreement, represent tremendous opportunities for the shareholders of our 10 villages and the broader Yukon-Kuskokwim community," said TKC President and CEO Carey.

Beyond providing jobs to shareholders living in the region, Novagold President and CEO Greg Lang believes the opportunities provided by Donlin could draw family and friends back to the Kuskokwim.

"Donlin Gold offers significant opportunities for economic stimulus, job creation, and social and community development. More importantly, the project could create unique incentives for people to return to their region by generating economic growth that is consistent with traditional ways of life," he said. "With this opportunity in mind, we encourage the local communities in the Yukon-Kuskokwim region and other interested parties to be active participants in the public meetings."

While the schedule has yet to be finalized, the Army Corps plans to hold roughly 14 public meeting on the Donlin Gold draft EIS from mid-January through April. One of these meetings will be in Anchorage, the rest will be held in communities across the Kuskokwim region.

The Corps also will be accepting written comments on the draft EIS through the end of April. Upon considering and addressing the comments submitted, the agency is anticipating it will be able to finalize the EIS by early 2017 and publish a record of decision later that year.

If gold markets have turned positive, TKC, Calista, Novagold and Barrick could be ready to break ground at Donlin Gold, and after more than 20 years their respective shareholders will be on their way to reap the rewards of owning a piece of one of the world's largest producing gold mines. ●

● NATURAL GAS

RCA rules CINGSA can sell found gas

Commission denies tariff revision; allows sale of up to 2 bcf; requires report on sales which occur, further engineering evaluation

By KRISTEN NELSON
Petroleum News

The Regulatory Commission of Alaska has ruled on a request by Cook Inlet Natural Gas Storage Alaska LLC for a tariff revision allowing it to sell 2 billion cubic feet of found native gas. The commission denied CINGSA's request to incorporate the sale into its tariff and also denied the proposed allocation of net proceeds from the sale.

However, the commission said that rather than requiring CINGSA to file a standalone request to sell 2 bcf of found native gas, "for administrative efficiency's sake we will treat the record in this docket" as a request to sell the gas and address that request.

The commission said it found the CINGSA had adequately evaluated the impact of the sale of up to 2 bcf of found native gas on current operations and future expansion, and would allow the sale. If CINGSA sells any portion of the 2 bcf it "shall file a notice or notices of the sale or sales, including the identity of the buyer, the sales price, the quantity sold, and all other terms and conditions of the sale."

CINGSA had proposed an allocation of the proceeds and the commission denied that allocation, ruling instead that net proceeds from any sale of the 2 bcf of found native gas should be divided primarily on the proportion of base gas to maximum storage quantity.

Found native gas

The issue arose after CINGSA, in the course of drilling a well to support its storage operation, found 14.5 bcf of native gas in a previously pressure isolated section of the reservoir.

CINGSA operates its storage facility in the Sterling C Pool, formerly a producing natural gas field in the Cannery Loop unit operated by Marathon, from whom CINGSA acquired the Sterling C Pool in 2011.

RCA said that at the time CINGSA acquired the Sterling C Pool the pool was believed to be depleted, with no more than 3.6 bcf of natural gas remaining. The pool was selected for the storage project because of its estimated reservoir size and because it was believed to be depleted, the commission said in its decision.

CINGSA perforated the C1c sand interval when it drilled the Cannery Loop Unit No. S-1 storage well in early 2012. The commission said the CLU S-1 is the northernmost of CINGSA's five storage wells and was directionally drilled to provide drainage for the northern portion of the reservoir.

Within a few days wellhead pressure in the well rose and CINGSA then studied the issue and collected data which indicated that the source of the high pressure was likely a pressure-isolated section of the Sterling C1c sand, "a separate reservoir that previously had no pressure communication with the Sterling C Pool," the commission said.

CINGSA wasn't able to determine how much additional gas it had found until the spring of 2014, when it was able to estimate that it had discovered some 14.5 bcf of found native gas.

The commission said CINGSA was also able to confirm that the 14.5 bcf was within the boundaries of its storage field and leases.

The commission denied the tariff modification sought by CINGSA. It also said that any request to sell native gas beyond the 2 bcf "should be initiated by petition."

Tariff modification sought

CINGSA sought to modify its tariff for the storage operation to allow it to sell 2 bcf of that natural gas.

CINGSA plans to evaluate the sale of additional volumes in the future.

The commission said "CINGSA is a public utility certificated to furnish the service of natural gas storage to the public for compensation. Terms and conditions for the commercial sale of natural gas are not appropriate in the tariff of a storage utility."

The commission denied the tariff modification sought by CINGSA.

It also said that any request to sell native gas beyond the 2 bcf "should be initiated by petition."

As part of its application to modify its tariff CINGSA presented an engineering review by Petrotechnical Resources of Alaska. PRA said in its review that its dynamic stimulation indicated that CINGSA can produce and sell up to 2 bcf of found native gas and still meet storage and deliverability commitments. The commission said PRA found that "operational limits, such as well bore capacity and reservoir complexity provide more of an impact on CINGSA's ability to provide" firm storage service than the sale of 2 bcf of found gas.

CINGSA told the commission that it was in the process of acquiring production permits and regulatory approval from the Alaska Oil and Gas Conservation Commission and the Alaska Department of Natural Resources to exercise its production rights to the found native gas.

Stipulated settlement

CINGSA, Enstar Natural Gas, Chugach Electric Association and Homer Electric Association had reached a stipulated settlement, but Municipal Light and Power, the Alaska Attorney General and Tesoro did not join in the settlement.

The commission announced during hearings on the issue that a majority of the commission would not accept the proposed stipulation.

"We may accept any settlement without a hearing, including a compromise settlement, if it is supported by all parties of record. The stipulation was not supported by all parties of record. We are not

see **RCA RULING** *page 14*

● NATURAL GAS

Pentex proposes gas rate reduction

Fairbanks residents would benefit from lower cost of business following AIDEA acquisition of natural gas supply chain

By ALAN BAILEY
Petroleum News

Following the Alaska Industrial Development and Export Authority's purchase of Pentex Alaska Natural Gas Co., Pentex is proposing reduced natural gas costs in 2016 for its Fairbanks customers, the AIDEA board heard during its Dec. 3 meeting.

Under the proposed rate structure, starting on Jan. 1 residential customers would see a rate cut of 13.5 percent to $20.20 per thousand cubic feet of gas. The small commercial customer rate would drop 12 percent, the large commercial customer rate by 11.3 percent and the interruptible small customer by 1.8 percent. The overall average rate reduction would be 10.4 percent.

AIDEA ownership of Pentex

AIDEA completed its purchase of Pentex at the end of September, as part of the Interior Energy Project, a project to bring affordable energy to the city of Fairbanks and the surrounding Alaska Interior. The rate reduction comes about because, as a government owned entity, Pentex has lower business costs than when operating as a private entity. Pentex owns a small liquefied natural gas plant near Point MacKenzie, a trucking operation for shipping LNG from the plant to Fairbanks, and Fairbanks Natural Gas, the gas utility that distributes gas to customers in the central part of Fairbanks.

AIDEA sees its ownership of Pentex as a temporary arrangement. The idea is to use the agency's ownership position as a means of facilitating operational efficiencies through the consolidation of the two Fairbanks gas utilities, Fairbanks Natural Gas and the Interior Gas Utility. The agency would then spin off the consolidated utility to the local control of some third party operator.

The proposed rate structure would result in a return on investment to AIDEA of about $900,000 from the Pentex acquisition, Britton said.

Mark Gardiner from the Western Financial Group told the AIDEA board that the objective is to transfer the Fairbanks utility to local control by June 30, 2016. Meanwhile, with government ownership of Fairbanks Natural Gas, the AIDEA board, rather than the Regulatory Commission of Alaska, becomes the rate setting regulatory authority for the utility. The proposal is to initiate a temporary rate setting process at the board's Dec. 17 meeting, Gardiner explained. Then, with an interim rate in place, a full rate setting procedure, including an opportunity for public comment, would happen during the first quarter of 2016.

Oil price challenge

Dan Britton, president of Fairbanks Natural Gas, told the board that a prime challenge in determining a 2016 budget for Pentex is the current low price of oil, with fuel oil prices undercutting those of natural gas in Fairbanks. In particular, the current price situation has resulted in a major drop in gas demand from Fairbanks Natural Gas's two largest customers, the University of Alaska Fairbanks and Fairbanks Memorial Hospital, Britton said. Both of these customers are currently using oil rather than gas, he said.

Britton said that he understands that the current cost of fuel oil for the university is equivalent to a gas price of somewhere around $15 per thousand cubic feet.

An objective for the gas utility is to establish a gas rate that will return these large customers to the gas supply system, Britton said.

Other price factors

Other factors impacting gas prices include a slight softening of demand as a consequence of warmer winter weather and an increase in 2016 in the cost of the gas supplied to Pentex by Hilcorp Alaska, under the terms of a Hilcorp gas supply agreement.

Britton also commented that the Point MacKenzie LNG plant is running somewhat under capacity, and that an ability to use the excess capacity would help reduce the impact of the fixed costs of the facility. ●

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RCA RULING

bound to adopt a stipulation by the parties and we may require evidence to support a finding that the stipulation is in the public interest and consistent with controlling law," the commission said in its ruling.

It did allow CINGSA and the stipulating parties the opportunity to present evidence on the stipulation, which provided that CINGSA would sell 2 bcf of found native gas to its firm storage service customers with the proceeds divided 50 percent between CINGSA and the firm storage service customers, and provided for sales of found native gas beyond the 2 bcf.

The commission disagreed with the allocation of the proceeds and ordered a different allocation; it also said it is not in the public interest to provide for sales of found native gas beyond the 2 bcf allowed under the ruling.

"We do not find that acceptance of the stipulation is in the public interest. Accordingly, we do not accept the stipulation," the commission said in its order.

The commission also is requiring an additional reservoir study and provided a number of questions for that study to address, requiring the study to be filed with the commission by June 30, 2016. Notices of sale of the 2 bcf of found native gas must be filed with the commission within 30 days of the sale or sales.

Reservoir study

The commission also is requiring an additional reservoir study and provided a number of questions for that study to address, requiring the study to be filed with the commission by June 30, 2016. Notices of sale of the 2 bcf of found native gas must be filed with the commission within 30 days of the sale or sales.

Commissioner Janis Wilson dissented in part, saying that while she agreed with the denial of the filed tariff, the record does not indicate that the additional free base gas harms the operation of the storage facility, and the record "does not demonstrate any compelling need, for operational purposes," to remove the 2 bcf, nor any "compelling need" to keep the gas in the facility.

Wilson said that in her view CINGSA is free to sell the gas or not.

"My task, as a regulator, is to determine how to treat a sale, if it happens, for ratemaking purposes," she said, noting that this is a decision which does not need to be made until CINGSA's next rate case.

She said if gas is to be sold, "why should it be the free gas," and why not gas CINGSA paid for? ●

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MICCICHE Q&A

period of production is far more beneficial and far more manageable during those peaks and valleys. What if you are in a low commodity cost 10 of those 15 years? You're never going to bridge to where you can get maximum value over catching the next peak of the commodity value. I worry about that. I want to make sure we have the right people in place not to jab the producers but to serve as an equal 25 percent shareholder in a 100 percent project that has three producers as our partners.

Petroleum News: Do you feel that the project has been advanced as a result?

Micciche: absolutely. As far as advancing the project, this wasn't a make or break decision. This was a gate designed in SB 138 and this exit ramp was at the place where we would ask the question does this relationship with TransCanada make sense. I think this is a segment in a forward moving project. As our consultants explained to us the fiscal benefits of a TransCanada exit are likely a net positive. I believe they will be. Even if they are a wash, I believe eliminating that conflict between two parties that have 25 percent will result in a smoother project going forward.

The administration made a decent case for taking this off ramp, particularly in terms of alignment — or lack thereof — between TC's and the state's interests and the question of who gets to vote for what at the negotiation table. Ultimately this was a case of the administration making a policy call that was every bit within its rights under SB 138 and the Legislature deciding whether or not to endorse that decision via a $157 million appropriation.

Petroleum News: Could this have been headed off in SB 138?

Micciche: I can't think of a more positive way to resolve the AGIA liability issue than the way it occurred. Had we even challenged whether or not AGIA was any longer economically feasible we likely would have spent a greater amount and there was always the potential for compensatory damages paid to TransCanada. We spent $3 million for a positive result for the elimination for potential liability.

We executed the plan and the plan worked as intended, and I do think, as I said, we've reached a point where there is likely no additional value to keeping TransCanada in the project. I appreciate TransCanada very much. I think they are a class act from day one. The fact they are going to leave key employees in position until May 2016 to ensure a smooth transition. I think TransCanada's backing remains with the state even though it's not formal and it's not financial.

I believe this wakeup call of reformulating the state organization will lead to a very positive outcome.

> ***"There are still some folks in the Legislature poking the governor and this administration at every opportunity. That needs to stop. We need to put this project and what's best for Alaskans first and forget about the last election."***
> ***—Sen. Peter Micciche, R-Soldotna***

Petroleum News: What would you like to see done next session or even next year to advance this project?

Micciche: Obviously there remains some minor conflict between the producers that needs to be worked out and result in a gas supply balancing agreement. That's due by the second quarter of 2016. I'd like to see that moving along. Now that we've resolved a conflict problem within our organization, I'd like to see the same with the other three partners. We are still working on gas supply agreements. The governor made it clear that he is not looking at a gas supply withdrawal contract. He's looking for something largely in concept that gas would be available if we move forward.

In my view, risk is in relative proportion to market cap. We've got four entities in this AKLNG organization. If you start at the top with market cap, you've got ExxonMobil, then BP, then the state of Alaska, then ConocoPhillips. You have to think about the relative risks if one of the partners pulls out because of challenged economics on this project. It's not time to look for a way to immediately expand Alaska's proportion of the interest. It's time to sit back and evaluate whether it's time to move forward with this project or look at another project.

Right now I've joined the Senate in requesting that the governor remain with the SB 138 framework. We support this project. We think the administration supports this project, however we are going to keep respectfully encouraging that we don't put the little processes in place which create obstacles. I think you saw some of that. You saw some uncertainty about the Department of Law's role, whether or not folks who are very highly compensated in other departments — very highly qualified individuals — are we letting them go to work every day to do the best job they know they can do. Or are there internal obstacles in the way of maximum forward motion of this project.

I think there are some obstacles. I think it's time for the administration to sit back and say to themselves what are we doing here? Let's create a list of objectives of what we want to see done in the next work period. Let's create an effective organization and let's let those professionals go to work every day do what they do best. We can tweak the project as we go along, but we can't do it without allowing them to do what they do best.

I personally feel the administration recognized some of those obstacles as well. We are going to support this administration. If they don't succeed in this project, none of us succeed and that is something we absolutely have to do. There are still some folks in the Legislature poking the governor and this administration at every opportunity. That needs to stop. We need to put this project and what's best for Alaskans first and forget about the last election.

If Governor Walker doesn't succeed, Alaska doesn't succeed. Three more years is a long time to delay this project. So we need to pull together as a team and ensure its success to the very best of our collective abilities.

Petroleum News: With that in mind, what are your concerns moving forward? What questions still need to be answered? Are you worried about what some have identified as a lack of internal alignment?

Micciche: The market remains the single biggest factor in whether or not this project comes to fruition, so that will always be a concern. But I'm optimistic — and I think more importantly our project partners seem to be optimistic — that the LNG markets will recover in time to support a positive final investment decision.

Another concern I have is the state assuming a larger share of the project than the 25 percent it will hold following TransCanada's exit. Along with a greater share in the project would come greater risks and greater costs. I'm not sure we want to assume greater risk on a project of this scale nor am I convinced we would want to — or even could — pay for more than the $14 billion-$17 billion that amounts to the state's estimated contribution toward the total project cost.

I'm a little concerned about the transparency vs. confidentiality paradigm as it's been framed by the administration. While I understand and fully support transparency in state government, the way the state's participation is structured in AKLNG — and I think it's a way that makes a great deal of sense — has us fundamentally taking on a far different role than we're used to. Instead of adopting the role we're used to — that of a sovereign that sits back and collects taxes and royalties — we will effectively become a business partner that's responsible for the costs of transporting and marketing tens of billions of dollars' worth of gas.

As such, I don't think we can afford to revolt against standard business practices by refusing to sign confidentiality agreements. Competitiveness is going to be the key to getting this project sanctioned. Anything we do to undermine that competitiveness — like refusing to sign confidentiality agreements or, worse yet, compromising one of our partners by letting sensitive commercial information fall into the wrong hands — is taking a step in the wrong direction.

Petroleum News: Given the number of projects globally getting shelved, are you surprised there is this kind of movement?

Micciche: No. If you look at the spend curve, we are still at the low end of the curve. It hasn't started its upward climb. When I buy a position in an equity, I buy blue chip companies that do well in all markets. The very best companies invest in low value commodity markets so they have projects in the queue and are prepared to enjoy maximum profits and high value commodity market. I'm not a dot.com sort of guy. The state needs to think like a blue chip. It is appropriate. I think ultimately it will be beneficial to continue to evaluate this project despite this current global out-

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Oil Patch Bits

Crowley adds 400 refrigerated containers to its fleet

Crowley Maritime Corp.'s liner services group has added 400 new refrigerated cargo containers to top off its industry-leading fleet of equipment to better serve the growing needs of its perishables customers in Central America and the Caribbean. All of the units are 40-foot high cubes, built to Crowley's exacting structural and security standards.

The 40-foot reefer containers are being delivered in Santo Tomas, Guatemala, directly from the manufacturing facility in a perfectly timed manner to accommodate the Central America's heavy northbound reefer season, which is currently underway and will continue through May 2016. These reefers will also be deployed as needed throughout the rest of Crowley's service lanes. The new containers are equipped with Carrier's high efficiency PrimeLINE refrigeration units, incorporating several changes to help boost efficiency and reliability even further.

Since 2003, Crowley has invested more than a quarter of a billion dollars in new cargo equipment for its liner services fleet. Today, the company operates more than 52,000 pieces of owned and leased intermodal equipment, including more than 22,015 chassis; 21,297 dry containers; and more than 3,916 refrigerated containers, all of which come in a variety of sizes and are strategically located throughout the United States, Central America and the Caribbean.

Foss Maritime welcomes new chief operating officer

Foss Maritime is pleased to announce that John Parrott will be joining the Foss executive team as chief operating officer.

Parrott comes to Foss from sister company, TOTE Maritime Alaska, where he has served as president for 16 years. In his new role as Foss' COO, Parrott will be responsible for overseeing key operating divisions, developing and delivering on strategic plans, and optimizing day-to-day operations through implementation of best practices throughout the organization.

JOHN PARROTT

"We are thrilled to have John join us in our corporate office after the first of the year," said Paul Stevens, president and CEO of Foss Maritime. "John is a maritime industry veteran who is well known to us at Foss. We look forward to having his expertise and experience on board."

After 10 years sailing aboard a wide range of vessels in trade routes around the world, Parrott began at TOTE Maritime in 1992 as the chief mate of the SS Northern Lights. In 1994 he came ashore, and later became the general manager for Sea Star Stevedore, which manages the loading, discharge and terminal operations for TOTE Maritime. In 2002, Parrott returned to TOTE Maritime as the Alaska general manager, where he was soon promoted to vice president/general manager, then vice president of commercial before being named president of TOTE Maritime Alaska in 2009.

Parrott has a BS degree in Marine Transportation from the U.S. Merchant Marine Academy; Kings Point, New York, and an MBA from Seattle University.

Harrington joins ASRC's external affairs department

Arctic Slope Regional Corp. announced that Shalon Harrington has joined the company's external affairs department as its new director of government affairs. In her new role, Harrington will be responsible for formulating position recommendations and strategies on legislative issues, monitoring legislative activity on both the state and federal level and handling long-term and short-term legislative planning for the company. Harrington comes

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Companies involved in Alaska and northern Canada's oil and gas industry

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STATE REVENUE

500,000 barrels per day until 2018.

The fall forecast is based on an annual average ANS oil price of $49.58 per barrel for fiscal year 2016, increasing to $56.24 per barrel for fiscal year 2017.

Hoffbeck said that beyond fiscal year 2017 the department is projecting annual average prices to rise slowly to more than $80 per barrel within the 10-year forecast period.

FY 2015

In the fall forecast Revenue said the state received $8.5 billion in FY 2015 from all sources, down more than 50 percent from FY 2014. General fund unrestricted revenues were $2.3 billion, with oil and gas revenues accounting for approximately 75 percent. By comparison, total state revenues were $17.2 billion in FY 2014, $5.4 billion of which was GFUR.

The department is forecasting total revenues of $9.5 billion for FY 2016 and $10.3 billion for FY 2017.

FY 2015 total crude oil production averaged 519,500 bpd, 27,400 bpd less than in FY 2014, the department said.

North Slope production decreased from 531,100 bpd in FY 2014 to 501,500 bpd in FY 2014.

"In general, this provides downward pressure on oil and gas revenues, although not on the same scale as the decrease in price," the department said.

Plan impacts on oil and gas

In a statement describing the "New Sustainable Alaska Plan" the governor's office said The Alaska Permanent Fund Protection Act would re-plumb "the flow of funding by diverting volatile resource revenue away from the state's annual budget" and placing it directly into the permanent fund.

The plan also calls for continued cuts, with $100 million to come from the operating budget and $425 million from oil exploration credits.

The oil and gas tax credit system will be changed into a low-interest loan program, with the rate determined by the number of Alaskans hired. Exiting commitments will be honored, the administration said, with the FY 17 budget allocating $1.2 billion for a transition fund and loan program.

The plan also calls for an increase of $100 million in the minimum tax on the oil and gas industry.

Mining, fishing and tourism will also be taxed, along with alcohol, tobacco and motor fuel, and a state income tax would be instituted.

AOGA responds

Kara Moriarty, president and CEO of the Alaska Oil and Gas Association, said in a Dec. 9 statement that low oil prices have been difficult for the oil industry, as well as for the state, "with multiple companies announcing plans to curtail exploration in the Arctic and on the North Slope."

She said that with low oil prices it is not the time "for the state to increase taxes or reduce incentives to the oil and gas industry," both of which the governor is proposing. AOGA supports the governor's goal to put more oil into the trans-Alaska oil pipeline, she said. "However, increasing taxes and removing incentives will not lead to more production."

Mixed legislative response

Legislative comments on the proposal varied.

Rep. Mark Neuman, R-Su-Valley, House operating budget chair, said Walker "deserves credit for proposing some difficult options for filling our income gap; we appreciate him stepping out and taking this head on. It's time for us to digest it, get with our experts and our neighbors and start weighting it on the merits."

Rep. Steve Thompson, R-Fairbanks, House capital budget chair, also thanked the governor and his team, said he was looking forward to seeing the details, but also said, "I don't want to ask Alaskans to pay an income tax unless it's absolutely necessary. We're not sure we're there yet; there's room for more cuts."

The co-chairs of Senate Finance said they remain committed to cuts before asking Alaskans to pay taxes.

Sen. Anna MacKinnon, R-Eagle River, said the governor's proposal was a starting point. "We must be mindful of our economy, jobs for Alaskans and keeping our people safe and secure when making these decisions."

Sen. Pete Kelly, R-Fairbanks, noted the series of taxes in the governor's proposal, and said, "I wish I had some pithy comment to express my disdain for taxes, but I don't. So for now, I'll just say no."

Senate Democrats said they were disappointed with the specifics of the governor's plan. Senate Minority Leader Berta Gardner, D-Anchorage, expressed concerns about cuts to education, saying the "plan falls far short of the values embraced by Alaskans." Sen. Bill Wielechowski, D-Anchorage, said oil companies and wealthy Alaskans "will be thrilled" because three-quarters of what the proposal takes "will come from hard-working Alaskans, many of whom rely on their permanent fund checks to cover the basics."

House Democrats shared that view, saying the plan "shifts much of the burden of paying for state government from the oil and gas industry onto the backs of hard-working, average Alaskans."

House Minority Leader Chris Tuck, D-Anchorage, said the governor's "proposal misses the mark."

"Our troubling fiscal situation was not caused by low-income Alaska, working families, and small-business owners but today's budget proposal shifts a large share of the burden of responding to the fiscal situation squarely on their shoulders." ●

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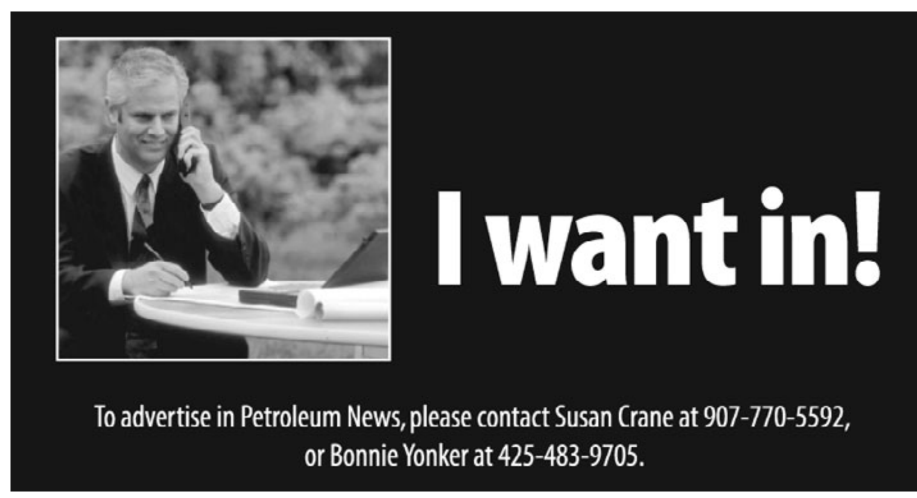

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MICCICHE Q&A

look. It's going to change.

Petroleum News: Also, next year you will be taking another look at the state's tax credit system. What are your thoughts on that?

Micciche: I can't say at this point whether or not there needs to be a change, but I certainly think it's appropriate to have a detailed evaluation. We started with the Senate Oil Tax Working Group. We have to evaluate without picking winners and losers, if we have a process in place that responsibly disperses state credits to companies with some sort of evaluation whether or not they have any probability of success.

I think it's an appropriate discussion. Do I think there will be some changes; yes I think there will be. I go back to my dot.com discussion. We want to operate like a blue chip. It's a temporary downturn in a commodity price. We want to make sure we have future projects in the queue for additional revenue when the commodity price recovers. We also want to make sure we are offering those exploration and development credits to companies that have a relatively high probability of success, and at this point I think we've got some gaps in that system. ●

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LAND SALES

Columbia plunged to C$12.3 million from C$383 million and Saskatchewan dropped to C$45.5 million from C$197.9 million.

NEB cites factors

In a rare flag-waving by the NEB, the federal regulator said the volatile land revenues stem from a number of factors.

"Low commodity prices have been a significant contributor to low leasing revenues so far in 2015 due to companies cutting back on exploration and expenditures," the board said.

"Volatility exists because there are often 'land rushes' when new prospective trends are discovered, or when oil or gas revenues rise high enough for companies to justify acquiring when had been previously considered uneconomic resources."

The NEB listed the major "land rushes" in the past decade as: Alberta oil sands from 2005 to 2008; Saskatchewan tight oil prospects for 2007 to 2010; British Columbia Horn River Basin shale gas and Montney Formation tight gas prospects in 2008; tight oil in the Exshaw Formation of southern Alberta in 2010; and shale gas and shale oil in the Duvernay Formation of Alberta in 2011.

"Since 2011, the majority of known prospect land in Western Canada has been leased and no new major prospective trends have been identified," the NEB said.

Martin Pelletier, portfolio manager at TriVest Wealth Counsel in Calgary, told the Globe and Mail that with both gas and oil "in the toilet" he is close to the point of wondering whether it really matters "what uncertainties are unfolding in Alberta."

Barometer of drilling intentions

Land sales are one of the strongest barometers of industry drilling intentions in the next year.

The Bank of Canada has already forecast industry spending will fall 49 percent this year and another 20 percent in 2016, which points to a further decline in land sales.

The Canadian Association of Oilwell Drilling Contractors has added to the negative outlook by estimating the anticipated decrease in well drilling next year with contribute to a 57 percent fall in operating days to 56,260 and a 57 percent drop in upstream employment to 21,488 jobs from 49,973 in 2014.

CAODC President Mark Scholz said the utilization rate for the rig fleet is predicted to hit its lowest point in the 38 years that his organization has been collecting the data.

The Petroleum Services Association of Canada is taking a slightly less gloomy view, predicting 5,150 wells will be drilled, down 4 percent from 5,340 n 2015 and 56 percent from the five year average of 11,670 wells.

PSAC estimates 2,733 wells will be drilled in Alberta and 1,789 in Saskatchewan, flat for both provinces against this year's anticipated final count; British Columbia, which needs sanction of LNG projects to revive exploration, is expected to fall by 28 percent to 344 wells; and Manitoba is expected to post a slight improvement of 12.4 percent to 250 wells.

PSAC Chief Executive Officer Mark Salkeld said low commodity prices, oversupply of oil and gas and low cash flows will extend in 2016, meaning the industry "can't expect anything better." ●

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FAIRBANKS GAS

the carriage of LNG containers by railroad also being a possibility.

The Interior Energy Project team had planned to announce the selection of a single preferred option at the Dec. 3 AIDEA board meeting but after going through the selection process had been unable to choose between the Spectrum and Salix offers, Shefchik told the board. A planned AIDEA board decision on the company selection, originally scheduled for Dec. 17, will now be deferred into early February.

Proposals invited

The Interior Energy Project, with an objective of establishing an affordable source of energy for Fairbanks residents and businesses, had invited proposals for a means of delivering energy, probably in the form of natural gas, to the city. Having received 16 proposals from 13 vendors, the project team whittled down the proposal list to five vendors, each of which was invited to present a best and final offer for one energy delivery proposal. Four of the five finalists presented their concepts at a public meeting in Fairbanks on Nov. 4. All the finalists propose the shipment of LNG to Fairbanks as the means of providing a gas supply.

On Nov. 12 the project evaluation committee met to determine which of the finalists to propose to the board, as the selected provider of a gas delivery service. In the event, with Spectrum and Salix both coming IN ahead of the other contenders and both having equally appealing concepts, the committee decided that it needed more information, to enable a more comprehensive understanding of the commercial terms involved in each offer, hence the delay in the resolution of a final decision.

The intent is to pull together all of the required information by Jan. 10, so that the project's evaluation committee can meet in mid-January for the selection of a single proposal to recommend to the board, Shefchik said. Especially given that much of the work involved in further evaluation of the two remaining finalists would have been required anyway, even with a single selected option, there was no compelling business reason for sticking to the original project schedule, he said.

LNG production only

Spectrum, a major U.S. LNG producer, has said that its proposal is only targeting the development of an LNG production facility on the North Slope, but that the company would be willing to coordinate the transportation of the LNG to Fairbanks by truck. The company has said that it has evaluated both Cook Inlet and North Slope LNG options and has found that the North Slope option would result in cheaper gas for Fairbanks. A previous phase of the Interior Energy Project, involving the evaluation by engineering firm MWH of North Slope LNG production, ran aground in late 2014 because the projected costs of LNG delivered to Fairbanks would have been too high for commercial viability. Apparently, Spectrum's proposal has lower estimated costs than that earlier North Slope LNG concept.

Salix, a subsidiary of electric and gas utility Avista Corp., proposes charging a volumetric fee for producing LNG in a Cook Inlet LNG facility that the company would build. Presumably the viability of this option would depend on the availability of a Cook Inlet gas supply at an acceptable price, and the establishment of an appropriate trucking or rail transportation operation

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AKLNG PLAN

Alaska Gov. Bill Walker had made the state's approval contingent on an agreement that producers would make their natural gas available to a project should they withdraw.

He got written agreements with BP and ConocoPhillips and said he received verbal assurances from ExxonMobil.

On Dec. 8 the governor made the agreement with BP and ConocoPhillips public. The document, dated Dec. 4, was signed by Department of Natural Resources Commissioner Mark Myers, by ConocoPhillips Alaska Vice President Leo Ehrhard and by BP Exploration (Alaska) President Janet Weiss.

"I thank BP and ConocoPhillips for making public the signed agreement so Alaskans can fully appreciate the significance of this project milestone," Walker said in a statement. "This agreement ensures that there will be gas for a gasline if either partner withdraws from the project."

"As we work to solve the state's fiscal problems, it is important that we continue to negotiate with partners commercially reasonable and mutually agreed terms to ensure a gasline project," Walker said. "This public agreement is the assurance this project has long needed to ensure a pipeline project."

Gas availability agreement

The Dec. 4 gas availability agreement between the state, BP and ConocoPhillips provides that if a party withdraws from the project, "such Non-continuing Party will make its gas available to the State or its designee if mutually agreed commercially reasonable terms can be reached between the relevant Party and DNR."

The agreement also says the parties agree that AKLNG is "currently targeting a FEED sanction decision for the AKLNG Project no later than July 1, 2017."

The agreement can be terminated by written agreement of all parties; by execution of an agreement on mutually reasonable terms; if the state gives notice that it does not intend to continue with the project; 90 days after any party notifies the others that "it has become aware of the expiry or termination of the Alaska LNG Project Pre-FEED Joint Venture Agreement, if such expiry or termination occurs"; or on Dec. 1, 2017.

Commenting on the recent departure of former board Chair John Burns and AGDC President Dan Fauske, Chenault said: "AGDC has talented people in place, diligent and accomplished Alaskans. Here's hoping the Walker Administration gets leadership in place that melds well with staff and keeps the proving moving a pace."

Negations will be bilateral, with DNR negotiating separately with ConocoPhillips and BP.

2016 plan

In a statement following approval of the 2016 work plan and budget AKLNG said a key component of the 2016 work program will be developing and executing "a comprehensive contracting strategy to provide sufficient time for bidders to prepare competitive and quality bids for front-end engineering and design (FEED), the next stage in the project's development."

Project sponsors have spent $350 million to date on pre-FEED work.

"The project participants see an opportunity in 2016 to advance activities that were initially planned for the FEED stage of the project," Steve Butt, AKLNG senior project manager, said in the statement. "This early effort will provide participants with higher quality information and analysis to help better support a FEED funding decision."

The project said filing draft environmental and socioeconomic resource reports with the Federal Energy Regulatory Commission is a key component of the approved 2016 work plan.

Also included is completing the feasibility evaluation and cost implications of a 48-inch diameter pipeline option. The project had been working on a plan for a 42-inch diameter line, which it said optimized delivery of natural gas from Prudhoe Bay and Point Thomson. Walker pushed for a 48-inch line, arguing that it would allow for other North Slope natural gas to be developed and shipped through the line.

The project said a FEED funding decision is anticipated in mid-2017, "in line with the Heads of Agreement signed by the State of Alaska and the Alaska LNG project participants in 2014."

Acting AGDC board Chairman Dave Cruz said in a statement after the board vote, "This is a monumental occasion for Alaska. Today's vote is a clear indication of our commitment to get this project built."

Funds contingent on 'yes' vote

In a statement following the AGDC board vote House Speaker Mike Chenault, R-Nikiski, congratulated the board on its unanimous vote to approve the 2016 AKLNG work plan and budget.

"Thank you, first, to Dave Cruz for leading the AGDC Board through its transitions. This was a good first step for the new Board. I, too, shared in the uncertainty and worry voiced by many over the direction of the new Board and its leadership team, but that's been tempered with today's vote."

Chenault said the board's vote was expected, but noted the Legislature "guarded against a 'no' vote during the special session approving the TransCanada buyout by making the funding contingent on a 'yes' vote to continue the project."

He said legislators "will closely watch the movement of the Corporation and will carefully scrutinize their efforts as we get through the upcoming legislative session."

Commenting on the recent departure of former board Chair John Burns and AGDC President Dan Fauske, Chenault said: "AGDC has talented people in place, diligent and accomplished Alaskans. Here's hoping the Walker Administration gets leadership in place that melds well with staff and keeps the proving moving a pace."

"Today's 'yes' vote was critical for advancing a natural gas pipeline," Senate President Kevin Meyer, R-Anchorage, said in a Dec. 3 statement following the AGDC board vote. "The project is still on track to supply our natural gas to Alaska's homes and world markets. We are glad to see our state gas team moving this project forward with confidence."

Sen. Cathy Giessel, R-Anchorage, chair of the Senate Resources Committee, said: "AGDC's vote means the largest infrastructure project in North America continues for another year. AKLNG was given yet another green light, and while there's much more to do, the project continues to progress toward real engineering and design work."

The Alaska Legislature approved a $68.5 million buyout of TransCanada's share in AKLNG in the special session which ended Nov. 5, along with $75.6 million for the state's share of the 2016 work program and budget.

Following the TransCanada buyout the state, through AGDC, holds a 25 percent interest in the project, based on taking its North Slope natural gas royalties and taxes as natural gas.

—KRISTEN NELSON

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OIL PATCH BITS

SHALON HARRINGTON

to ASRC with a long history of working in Alaska politics. Her career began in Washington, D.C., working for the U.S. House Resources Committee in the Office of Native American & Insular Affairs. She returned home to Alaska in 2004 and began her work with the Alaska Legislature. Harrington served as chief of staff to a state senator for six years before joining the governor's team as a legislative liaison. Most recently, she worked as the director of government affairs for the Municipality of Anchorage. Harrington was born and raised in Alaska and is now raising her own family in her hometown of Eagle River. She is a graduate of the University of Nevada, Reno where she earned a Bachelor of Arts in Political Science. Having worked in senior/executive positions at various levels of Alaska government, Harrington brings a wealth of knowledge and experience to ASRC's external affairs team.

Editor's note: All of these news items — some in expanded form — will appear in the next Arctic Oil & Gas Directory, a full color magazine that serves as a marketing tool for Petroleum News' contracted advertisers. The next edition will be released in March.

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NEW FURIE RIG

basin he said, adding that Furie wants to drill a well seeking oil in deep rocks of Jurassic age, below the Tertiary strata that host the producing Cook Inlet oil and gas fields.

The Spartan rig has been moved to the port of Seward for the winter. BlueCrest Energy, operator of the Cosmopolitan field, under development in the Cook Inlet off the southern coast of the Kenai Peninsula, has said that it may use the Spartan rig for drilling wells to develop gas pools in the field, but the company has yet to make a decision on this development option — the company is developing Cosmopolitan oil using directional drilling from onshore.

Furie's drilling plans

Furie's drilling plans involve both the drilling of development wells in the Kitchen Lights field and exploration drilling elsewhere in the Kitchen Lights unit.

Gas production from the Kitchen Lights field began on Nov. 22 from a single, initial production well, the Kitchen Lights unit No. 3 well.

As reported in the Nov. 29 issue of Petroleum News, in October Furie filed a plan of development proposing the drilling and completion of a single development well at Kitchen Lights in 2016. In an earlier plan the company had envisaged drilling but not completing two development wells in the field during that year — the idea had been to evaluate by the end of the year the zones penetrated by the wells, Webb said. Based on that evaluation, the company would have conducted appropriate well completions in 2017, he said.

But, with a gas supply contract with Homer Electric Association starting in April 2016, Furie has decided that it needs at least one additional Kitchen Lights production well in operation, as a contingency against some unforeseen problem with the KLU 3 well, Webb said. So, the company now plans to both drill and complete a single development well in 2016, and then to drill and complete another development well in 2017. The end result will be a total of three Kitchen Lights production wells at the end of 2017, as originally conceived, but production from the first of the new development wells will begin earlier than originally proposed, Webb said.

Webb has also told Petroleum News that Furie plans to have four production wells completed by the end of the 2018 drilling season, in readiness for use by the spring of 2019.

As part of its agreement with Homer Electric, Furie has also committed to put 500 million cubic feet of gas into the Cook Inlet Natural Gas Storage Alaska storage facility near Kenai, to act as a backup gas source in the event of an interruption in field production. Furie is in the process of placing gas in storage, to meet that commitment, Webb said.

Exploration drilling

Furie now plans to up its exploration efforts in 2016 by re-entering and deepening the Kitchen Lights unit No. 4 well that the company originally completed in 2014, and to drill a further exploration well in 2017, Webb said. Currently the company anticipates that the 2017 well will be the Kitchen Lights unit No. 6 well in the Kitchen Lights southwest block. However, a final determination of the well location will involve an assessment of data from a 3-D seismic survey that Furie carried out this year, Webb said.

The seismic survey, which was conducted by SAExploration, included the entire Kitchen Lights unit, and encompassed a total surface area of more than 155,500 acres, an area almost double that of the unit itself, Webb said.

Data from the seismic survey is currently being processed, Webb said. Initial processing, which should be completed by the middle or end of January, is focusing on the identification of a target for the development well that Furie will drill in 2016. In February the seismic data processing for the rest of the unit will begin, for the identification of exploration targets, Webb said.

An amended oil spill contingency plan which Furie has submitted to the Alaska Department of Environmental Conservation identifies 10 potential exploration well locations, he said.

Production ramping up

Since the start of Kitchen Lights gas production in November, Furie has been gradually ramping up the production rate, which started at about 2 million cubic feet per day and is now running at about 9 million cubic feet per day, Webb said. The company anticipates maximum production from the well to be some 22 million to 25 million cubic feet per day, although the plan is to produce at about 18 million cubic feet per day, he said. So, with Homer Electric contracting for a supply of around 12.4 million cubic feet per day, Furie has about 5 million cubic feet of extra capacity available — the company has some interruptible gas supply contracts in place and is currently negotiating two gas supply contracts that would start between 2017 and 2019. Those later contracts would account for about 12 billion cubic feet of gas per year, Webb said.

Each of the two additional Kitchen Lights development wells that Furie plans to drill should be capable of producing some 35 million cubic feet per day of gas, thus giving the three Kitchen Lights production wells anticipated to be in operation after the 2017 drilling season a combined potential production rate of about 88 million cubic feet per day, Webb said. ●

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RCA approves HEA's Furie gas contract

The Regulatory Commission of Alaska has approved an agreement between Homer Electric Association and Furie Operating Alaska for the supply of gas from Furie's Kitchen Lights gas field as a fuel for Homer Electric's power generation facilities. The initial agreement runs from April 1, 2016, to Dec. 31, 2018, with options for agreement extensions to the end of 2019 and the end of 2020. The maximum volume of gas to be delivered in any complete year of the contract is 6.2 billion cubic feet, at a maximum delivery rate of 18 million cubic feet per day.

Base load gas will be priced at $6.50 per thousand cubic feet when the agreement goes into effect in 2016, with the price rising at the start of each year to $7 in 2018, $7.25 in 2019 and $7.50 in 2020. Gas delivered at rates above 12.4 million cubic feet per day will be priced at 115 percent of the base rate, while peaking gas delivered at rates above 15.4 million cubic feet per day will cost 165 percent of base rate.

In a letter to Homer Electric, confirming commission approval of the agreement, T.W. Patch, chair of the commission, said the gas sales agreement is consistent with a statutory requirement that Homer Electric needs to be able to procure sufficient gas supplies. Failure to approve the contract would put at risk the electric utility's ability to meet its responsibilities to the public, Patch said.

—ALAN BAILEY

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FAIRBANKS GAS

to ship the LNG to Fairbanks. The Interior Energy Project team has also been assessing responses to a request for interest in gas supplies from Cook Inlet gas producers, to determine whether there would be a viable supply, if necessary.

Meanwhile, on the assumption that, regardless of which supply option is ultimately picked, there will need to be a trucking option to ship LNG to Fairbanks, a prototype LNG trailer is arriving in Alaska for road testing. Shefchik said that the trailer will be available for the board to view on Dec. 11, prior to the start of road tests.

And, on the assumption that an expanded natural gas supply will become available for Fairbanks, the two Fairbanks gas utilities, Fairbanks Natural Gas and the Interior Gas Utility, moved ahead over the summer with expanding the natural gas distribution pipeline network in the city.

—ALAN BAILEY

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