Petroleum News

Celebrating 20 years: 1996-2016

page 3 Q&A: Wielechowski eager for more answers, will listen to new ideas

Vol. 21, No. 33 • www.PetroleumNews.com | *A weekly oil & gas newspaper based in Anchorage, Alaska* | Week of August 14, 2016 • $2.50

This week's Mining News

NORTH OF 60 MINING news

page 11 Christie will lead one junior; serve as director of another

www.MiningNewsNorth.com | *The weekly mining newspaper for Alaska and Canada's North* | Week of August 14, 2016

NORTHERN NEIGHBORS

Compiled by Shane Lasley

ATAC RESOURCES LTD.

At the Nadaleen trend, located about 90 kilometers (55 miles) east of Tiger, Atac Resources Ltd. is carrying out rotary air blast drilling to follow up on the 2015 discovery hole at the Orion target, which returned 3.79 grams per metric ton gold over 47.24 meters. This hole bottomed in gold mineralization with the last interval grading 2.56 g/t gold over 1.52 meters.

Atac finds additional oxide gold mineralization adjacent to Tiger

Atac Resources Ltd. Aug. 10 posted results from exploration of the Rau trend located at the western end of its huge Rackla Gold project in Yukon Territory. Follow-up prospecting, mapping and soil sampling has expanded the Airstrip gold anomaly to 11.5 square kilometers (2,840 acres). Discovered in 2015, about 4,000 meters south of the Tiger gold deposit, Airstrip is the largest gold-in-soil anomaly in the Rau Trend. The initial evaluation program also included seven shallow rotary air blast drill holes at two priority anomalies identified at Airstrip. Near-surface gold mineralization was encountered at both of these targets, including one 13.7-meter intercept of 1.43 grams per metric ton gold in hole ASR-16-006. Atac said the first-pass drill results are very encouraging at Airstrip and warrant further drilling. The company also completed detailed prospecting at a previously underexplored gold-in-soil anomaly situated 125 meters from the southeastern limit of the proposed Tiger deposit pit. Ten out of 21 oxide float composite grab samples collected over a 150-meter-long area upslope of the east end of the Tiger deposit, returned values greater than one g/t gold with the most notable sample returning 18.3 g/t. The company says follow-up trenching and diamond drilling is warranted to determine if this mineralization could complement the current Tiger Deposit oxide mineral resource outlined in a preliminary economic assessment published in May. "The recently identified oxide mineralization is a major development as this new area has potential to add oxide gold ounces directly adjacent to the eastern end of the proposed Tiger Deposit open-pit," said Atac President and CEO Graham Downs. "This in addition to the fact that we were able to encounter gold in three of our very first scout holes drilled at the Airstrip anomaly is very significant and a testament to the extensive mineralizing system that exists within the Rau Trend." The company is also carrying out RAB drilling 90 kilometers (55 miles) east of Tiger, at the Orion Carlin-type gold discovery within the Nadaleen trend of the Rackla property.

A bonanza of gold discoveries at Plateau South, drilling begins

Goldstrike Resources Ltd. Aug. 10 said drilling is underway at its Plateau South gold property in the Yukon Territory. The drilling started in the Goldstack zone, a seven-meter-wide gold-bearing outcrop where drilling in 2015 cut 17.5 meters averaging 13.5 grams per metric ton gold. The zone is part of the Yellow Giant Trend, a 29-kilometer- (18

see **NORTHERN NEIGHBORS** *page 11*

METALS MARKETS

Soaring zinc prices?

Shrinking supplies seems to overcome gravity of slowing base metals demand

By SHANE LASLEY

Mining News

Caught between an updraft caused by dwindling supply and the gravity of slowing growth in global demand, zinc prices seem to have reached a cruising altitude above US$1 per pound.

Recent closures of two large zinc mines – Century in Australia and Lisheen in Ireland – wiped out more than 600,000 metric tons of the world's annual supply of the galvanizing metal.

Analysts expected these looming supply deficits to send zinc prices soaring well above US$1/lb. in 2015. While the metal did climb to US$1.10/lb. in May, lackluster global economic growth muting the demand for commodities in general instead dragged the price to seven-year lows.

With zinc prices falling below US70 cents/lb. late in 2015, Glencore PLC slowed its output, removing another 500,000 metric tons from the global supply.

"The main reason for the reduction is to preserve the value of Glencore's reserves in the ground at a time of low zinc and lead prices, which do not correctly value the scarce nature of our resources," the Switzerland-based company explained.

In the July 26 edition of its commodity prices index, Scotiabank said the 8 percent drop in zinc supply resulting from the two large mine closures and Glencore's curtailment sets zinc apart from its contemporaries.

"The base metals narrative remains split between demand-driven stories surrounding beleaguered contenders like copper and the supply-centric focus in outperforming metals like zinc and, more recently, nickel," the Canadian bank penned in the report.

Adding, "Zinc remains the bullish story within the base metals group."

This tale of zinc prices rising 41 percent since the beginning of the year is a good read for Teck Resources Ltd., operator of the Red Dog zinc mine in Northwest Alaska, and Hecla Mining Company, which enjoys considerable by-product credits from zinc recovered at its Greens Creek silver mine on the state's Southeast Panhandle.

Starving market

CRU, a global analyst and consultant focused on mining, metals, fertilizers, believes the supply-side shortage will continue to push zinc prices higher.

In a report published at the end of July, CRU Head of Zinc Research Graham Deller wrote, "With concentrate stocks now almost exhausted, metal inventories will fall sharply soon, and further significant price increases look likely through the course of next year."

The world's best-known stockpile of zinc is already being eroded. Inventories in the London Metal Exchange warehouse have dropped from about 480,000 metric tons in January to below 440,000 metric tons, or about 12 days of global demand.

Most analysts are predicting that more clandestine zinc inventories will find their way to market as prices rise.

"While it is possible that further inventories are delivered to the major exchanges from hitherto less visible locations, it is inevitable that we eventually see an impact on refined (zinc) supplies and the current rally is likely the market preemptively getting ahead of this tightness," Scotiabank penned in its July commodities index.

"The base metals narrative remains split between demand-driven stories surrounding beleaguered contenders like copper and the supply-centric focus in outperforming metals like zinc and, more recently, nickel."
—Scotiabank

Scotiabank and CRU see the current market imbalance eroding both the known and less visible stockpiles of zinc.

Deller said, "The key question in the zinc market is no longer whether, but is now when will the market run out of metal?"

Scotiabank sees this depletion of stocks happening sooner rather than later.

In its annual Global Outlook report published in early July, the bank forecast zinc prices to average US$1.25/lb. in 2017.

"Prices are expected to rise over the coming years until sufficient supply can be incentivized back onto a starved market," the bank penned in the comprehensive economic report.

Welcome news

Rising zinc prices is welcome news to Teck Resources and NANA Regional Corp., owners of the Red Dog Mine in Northwest Alaska.

Red Dog is on track to produce about 570,000 metric tons (1.26 million lbs.) of zinc in 2016. Accounting for roughly 5 percent of the world's supply, this arctic operation supplies nearly as much zinc to global markets as did the recently closed Century and Lisheen mines combined.

Teck is the operator at Red Dog and NANA, the Alaska Native regional corporation that owns the land where the zinc-rich mine is located, is 30 percent owner of the operation. NANA's ownership increases by 5 percent every five years and is set to climb again in 2017.

In its second-quarter 2016 report, Teck noted that on top of the deficit brought on by the closure and suspension of several large mines, demand for zinc is expected to grow at about three percent per annum during the next two years.

"While the commodity cycle continues to be challenging, we are starting to see some positive changes in the direction of zinc and steelmaking coal prices," said Teck President and CEO Don Lindsay.

While zinc is the primary metal produced at Red Dog, it also is an important tertiary metal at Hecla's Greens Creek Mine near Juneau.

Thanks to zinc, along with lead and gold, the cost to produce an ounce of silver at this Southeast Alaska operation totaled just US$4.61 through the first half of 2016. The ongoing upward trend in gold prices and zinc sitting above US$1/lb. should help drive the already low production costs at Greens Creek even lower.●

Caught between dwindling supply and slowing demand, zinc prices reach a cruising altitude above US$1 per pound. Page 9.

New economic group formed to work in Gov. Walker's office

A new economic-planning group has been formed in Gov. Bill Walker's office.

Two senior state economists, John Tichotsky and Ed King, have been transferred to the governor's office from the Department of Revenue, where Tichotsky was chief economist, and the Department of Natural Resources, where King was a commercial analyst in the Division of Oil and Gas, an agency within DNR.

Tichotsky is based in Anchorage and King is in Juneau.

The group will work under Walker's chief of staff, Jim Whitaker.

Three other people now in the governor's office will be part of the team, Tichotsky said in an interview. They include Ryan

see **ECONOMIC GROUP** *page 18*

Caelus is evaluating its plans; oil price & fiscal issues at fore

Faced with issues surrounding Alaska's fiscal system, the veto of state tax credits by Gov. Bill Walker and the continuing downward pressure on the price of oil, Caelus Energy sees uncertainty over its future plans, Casey Sullivan, Caelus Alaska director of public affairs, told Petroleum News Aug. 8.

In May, faced with continuing low oil prices, Caelus suspended development drilling in the company's Oooguruk oil field, offshore the North Slope.

"Those (issues) all go into the final hopper for planning and none of those are looking overly optimistic," Sullivan said.

see **CAELUS PLANS** *page 20*

EXPLORATION & PRODUCTION

Slope drilling down

First half development drilling at 6 largest units declined over 2015

By ERIC LIDJI

For Petroleum News

With two notable exceptions running against the trend, the six most active North Slope units collectively reported a decline in development drilling in the first half of the year.

According to Alaska Oil and Gas Conservation Commission completion reports for the Prudhoe Bay, Kuparuk River, Colville River, Milne Point, Oooguruk and Nikaitchuq units, operators completed 74 wells during the first six months of this year, down from 86 wells during the first half of 2015 and down from 79 wells during the first half of 2014.

While the figures show an easing at the two largest fields on the North Slope, they show the complete opposite at the next two largest fields: Colville River and Milne Point.

The trend was even stronger comparing the second quarter to the first quarter. Not only was the total amount of drilling greater last year but also the rate of drilling was steadier.

While development drilling was fairly level through the first half of 2015 — from 44 wells in

see **SLOPE DRILLING** *page 20*

EXPLORATION & PRODUCTION

ASRC advancing Placer

Exploration well looks promising; company wants time to plan development

By ERIC LIDJI

For Petroleum News

COURTESY ASRC

Kuukpik Rig. No. 5 drilling at ASRC Exploration LLC's Placer No. 3 well last winter

ASRC Exploration LLC is hinting at promising results from its first exploration well, and asking the state for a little breathing room as it proceeds with work at the prospect.

In a letter to state officials, the subsidiary of Arctic Slope Regional Corp. suggested that the Placer No. 3 well expanded the known size of the reservoir and appears to be capable of producing economically. The company wants a five-year extension to the terms of its Placer unit on the North Slope citing both the recently completed well and previous permitting delays that prevented it from pursuing its exploration activities sooner.

The extension would give the ASRC Exploration until Sept. 8, 2021, to complete a plan of work for the unit. Without the extension, the unit would expire on Sept. 9 of this year.

According to a July 26 letter to the Alaska Department of Natural Resources and an associat-

see **PLACER DRILLING** *page 19*

EXPLORATION & PRODUCTION

Preparing to drill

Ahtna says Tolsona gravel pad is ready for drilling in September for gas search

By ALAN BAILEY

Petroleum News

Ahtna Inc. is preparing for the start of drilling of its Tolsona No. 1 natural gas exploration well about 11.5 miles west of the town of Glennallen, the Native regional corporation for the Copper River region announced Aug. 10. Construction of a new 4-acre gravel drilling pad is complete, with the drilling rig scheduled to arrive on site by Sept. 1. Drilling is expected to start in mid-September and should be completed by late October.

The Native corporation had originally anticipated doing the drilling in the spring.

Ahtna says that uncertainty over the status of state oil and gas tax credits has proved challenging for the project. The extension of the credits for Alaska's "Middle Earth" region, including the Copper River basin, has made the drilling possible, the corporation says, presumably referencing tax legislation passed in the summer. The primary objective of the project is to find a source of gas for heating and power generation in a region where energy costs have become very high.

Ahtna says that uncertainty over the status of state oil and gas tax credits has proved challenging for the project.

see **TOLSONA WELL** *page 18*

contents

Petroleum News | *North America's source for oil and gas news*

● GOVERNMENT

Wielechowski: Eager for more answers

Market conditions remain flat, but Anchorage Democrat willing to listen to new ideas for advancing natural gas pipeline project

By STEVE QUINN
For Petroleum News

Sen. Bill Wielechowski has been in office for 10 years and has seen two wholesale changes to the state's tax system and proposals for a natural gas pipeline come and go. With the state facing a $3.2 billion to $4 billion deficit, discussions of each become more difficult. Wielechowski, an Anchorage Democrat, shared his views on where the state stands with the prospective project and whether it's achieved a stable tax regime.

Petroleum News: Let's start with the AKLNG quarterly update. What were your takeaways?

Wielechowski: I think there is the impact of low oil prices and gas prices. You've seen that with this project and with projects all over the world. That's the essence of the project. The governor went out and got somebody new who has got a lot of experience. Hopefully we can weather these low oil and gas prices and hopefully the project turns out that it's economic.

Ultimately if you can't get buyers at a cost that is higher than the tariff — $11 or $12 — then the project is never going to happen. No one can make that happen. We are very price dependent and we have to weather these low prices. In some ways it's a good time to be looking into building a big project because you have commodity prices that are lower. You've got a lot more people looking for work. Labor costs will be probably lower.

In some ways now is the time to be planning for the future uptick, which some people say will be happening at some point.

Petroleum News: Were there any particular takeaways from Steve Butt's presentation? Was there optimism or realism?

Wielechowski: I think both. I think he's done a great job. He's a professional; he's very qualified; he's got experience building pipelines. I think there is room for optimism there. Many, many times over the last few years I've asked him to be realistic with us and give us his best advice on whether the project will happen or not. He's always said that he thinks it will.

Alaska has a lot of competitive advantages with the cold weather and our location. The fact that we've got a huge amount of gas that's already been discovered, you don't have to worry about plunking down huge amounts of exploration costs. It's being pumped and re-injected at Prudhoe Bay every day in huge quantities. We've got a lot of reasons to be optimistic. We've got a lot going for us.

It's just the low gas prices around the world right now is the biggest hurdle. Most people seem to think the demand for natural gas will increase and the prices will rebound, so we've got to try to wait it out right now. The problem with looking at gas prices right now is that this isn't where gas prices are going to be for the next 30 years. I don't think so. Many people don't think so.

There is this tendency to run from one side of the ship to the other side of the ship as prices go up and down. I think we've got to set a policy and keep going forward on it. This is a project that is going to take a very long time to build. As long as the fundamentals demonstrate that the price is very likely to go up, I think the project is still viable and it's going to create a lot of Alaskan jobs and provide in-state gas for a lot of Alaskans. Hopefully, it's something we can keep going with.

SEN. BILL WIELECHOWSKI

Petroleum News: You also heard from Mr. Meyer. What were your takeaways from the discussion with him?

Wielechowski: Well, he's someone who has experience in natural gas. He's very confident. There seems to be a bit of a change of direction in the overall gas line project. I think there is concern over having BP, Conoco and Exxon and the state of Alaska, they all have varying interests. Whereas BP, Conoco and Exxon all have competing oil projects and competing gas projects all around the world. I think a lot of times our interests are aligned but there can be times where there are not. I think we've got to look out for our best interest and they have certainly are going to look out for their best interest. Hopefully, we can find a way to see that all of our interests are met. We've got to worry about the people of Alaska. This is an important project for the future of our state, for low cost energy for revenue for our state. That's where the problem comes in. Yeah, they have competing projects. This is it for us.

I think he recognizes that. He is open to looking at different directions to make sure the project gets going. As Alaskans know, this is a project we've waited for, for 30 years and it's difficult to get all the interests aligned. I think that is a big challenge that he is trying to make happen.

Petroleum News: There seems to be some concern that his willingness to go forward if one of the partners backs out. The term go-it-alone was used a lot. What are your thoughts on that?

Wielechowski: You know it is a balancing act, and this has been the dilemma we've faced for 30 years. We have not had all of our interests aligned. As a sovereign, that's very challenging to do. I think as a state, we have an obligation to follow the constitution to get the maximum value for our resources.

That doesn't always line up with the timelines set by the producers. They've got competing projects; they've got different timelines; they've different hurdle rates they are pushing in other parts of the world. It is a complex negotiation that has to occur, but at the same time, as a state we have an obligation to develop our resources responsibly and get the maximum benefit for our resources. We hope we can figure out a way to be on the same timetable and work with the producers. But if we can't and we think it's in our best interest to move forward on it, and we can make money on it and they can make money on it, like I said we've been waiting for 30 years to get this done. It's pretty hard to get everybody's interests aligned at the same time. We may have to say yeah, we'll go onto the next step on our own.

Q AND A

Petroleum News: So what do you want to hear next either at the quarterly update or at the conclusion of pre-FEED?

Wielechowski: I think it's important that there be a demonstration that they are really looking at this project to try to figure out the economics of it, try to make it as profitable for them as possible while providing a reasonable return for the state of Alaska. I want to see a genuine movement towards doing the economic analysis, the construction analysis, figuring out what the tariff is going to be, what the market is going to look like the next 20 to 30 years.

I think that's all we can really ask right now. We can't ask them to go build a project because we don't know if it's economic yet, but I think performing a rational economic analysis and cost analysis is all you can really ask at this point.

Petroleum News: There was concern among your colleagues about turnover because there seems to be a different person at each quarterly update providing testimony. It's always somebody else talking. Do you have any concerns or is this the governor still assembling his team?

Wielechowski: If you look at the oil industry, how many people have we had come before us over the years. If you counted up the number of different people from industry over the years, it's certainly nothing that unusual. You hope to get good people and keep them on, but people have different things going on. I think the governor is working on putting

see **WIELECHOWSKI Q&A** *page 17*

Petroleum news

www.PetroleumNews.com

Kay Cashman	PUBLISHER & EXECUTIVE EDITOR
Mary Mack	CEO & GENERAL MANAGER
Kristen Nelson	EDITOR-IN-CHIEF
Susan Crane	ADVERTISING DIRECTOR
Heather Yates	BOOKKEEPER
Shane Lasley	NORTH OF 60 MINING PUBLISHER
Marti Reeve	SPECIAL PUBLICATIONS DIRECTOR
Steven Merritt	PRODUCTION DIRECTOR
Alan Bailey	SENIOR STAFF WRITER
Tim Bradner	CONTRIBUTING WRITER
Eric Lidji	CONTRIBUTING WRITER
Wesley Loy	CONTRIBUTING WRITER
Gary Park	CONTRIBUTING WRITER (CANADA)
Steve Quinn	CONTRIBUTING WRITER
Judy Patrick Photography	CONTRACT PHOTOGRAPHER
Mapmakers Alaska	CARTOGRAPHY
Forrest Crane	CONTRACT PHOTOGRAPHER
Tom Kearney	ADVERTISING DESIGN MANAGER
Renee Garbutt	CIRCULATION MANAGER
Ashley Lindly	RESEARCH ASSOCIATE

ADDRESS
P.O. Box 231647
Anchorage, AK 99523-1647

NEWS
907.522.9469
publisher@petroleumnews.com

CIRCULATION
907.522.9469
circulation@petroleumnews.com

ADVERTISING
Susan Crane • 907.770.5592
scrane@petroleumnews.com

Bonnie Yonker • 425.483.9705
byonker@petroleumnews.com

FAX FOR ALL DEPARTMENTS
907.522.9583

Petroleum News and its supplement, Petroleum Directory, are owned by Petroleum Newspapers of Alaska LLC. The newspaper is published weekly. Several of the individuals listed above work for independent companies that contract services to Petroleum Newspapers of Alaska LLC or are freelance writers.

OWNER: Petroleum Newspapers of Alaska LLC (PNA)
Petroleum News (ISSN 1544-3612) • Vol. 21, No. 33 • Week of August 14, 2016
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518
(Please mail ALL correspondence to:
P.O. Box 231647 Anchorage, AK 99523-1647)
Subscription prices in U.S. — $118.00 1 year, $216.00 2 years
Canada — $206.00 1 year, $375.00 2 years
Overseas (sent air mail) — $240.00 1 year, $436.00 2 years
"Periodicals postage paid at Anchorage, AK 99502-9986."
POSTMASTER: Send address changes to Petroleum News, P.O. Box 231647 Anchorage, AK 99523-1647.

● UTILITIES

Questions arise over ML&P's Beluga gas price

Utility wants to factor depreciation costs into returns from field, eventually move to rate base approach for revenue calculation

By ALAN BAILEY
Petroleum News

Anchorage electricity utility Municipal Light & Power has asked the Regulatory Commission of Alaska to approve a change to the way in which it prices its gas from the Beluga gas field. The gas price calculation, while somewhat esoteric in nature, is important since it directly impacts the cost of electricity for the utility's customers.

Providence Health and Services, operator of Providence hospital and one of ML&P's largest customers, has filed objections to the proposed gas price calculation changes, while the public advocacy section of the state attorney general's office has raised questions over some of ML&P's proposals.

Gas field purchases

In 1996 ML&P purchased a one-third share of the Beluga field and was subsequently able to use its own gas from the field as its primary source of fuel for its gas-fired power stations. This enabled the utility to obtain its own gas at cost, rather than at the prevailing Cook Inlet market price, an arrangement that, in turn, reduced the price of electricity for ML&P's customers.

In February the utility bought an additional 23 percent of the field from ConocoPhillips, to establish a continuing adequate supply of gas from the field at an attractive cost. Chugach Electric Association also bought a portion of the field.

The gas transfer price

The price that ML&P uses internally for its Beluga field gas, the price that factors into the utility's cost of electricity generation, is called the gas transfer price, or GTP. Essentially, the GTP consists of the revenue that ML&P requires from its gas field ownership divided by the volume of gas that the utility obtains from the field.

In June ML&P asked the commission for approval of the utility's proposed method of accounting for its interests in the Beluga field. In that filing the utility said that it would continue calculating the GTP in a similar manner to the calculations used in conjunction with the field ownership established in 1996. But the utility also said that it was going to make a further filing, requesting approval for a change in the GTP calculation. That filing was made on July 1.

The requested change revolves around the financial return that ML&P wants to make on its investment in the Beluga field. ML&P currently calculates its Beluga field revenue requirement, the basis of the GTP calculation, by summing the utility's share of the field's operating expenses; the field's production and property taxes; and funds needed to cover the cost of the debt incurred to purchase that original one-third of the field. The debt-related revenue consists of the principle and interest payments on the debt multiplied by a factor of 1.6.

But the recent purchase of an additional 23 percent of the field did not involve any debt. Instead, ML&P used the accumulated revenues from its sale of some of its Beluga gas to fund the purchase.

With no debt incurred from the recent purchase, the debt funding component and its associated multiplier factor disappear from the revenue requirement calculation, a situation ML&P says is unfair since it precludes the utility from making a return on its investment in 23 percent of the field.

Depreciation and depletion expenses

Consequently, ML&P has asked for approval to include in the revenue requirement calculation the depreciation and depletion expenses for Beluga field plant purchased as part of the recent field acquisition. The proposed change to the calculation would raise the annual field revenue requirement from $23.2 million to $24.1 million, an increase that would raise the price of electricity by 1.22 percent, ML&P told the commission.

Providence has challenged this approach. The health care group says that ML&P has failed to demonstrate the reasonableness of either its proposed new GTP calculation or of its decision over the means of funding of its recent Beluga River field acquisition. The utility's request violates conditions set when the commission approved the field acquisition and ML&P has failed to prove the reasonableness of its request, Providence commented.

Debt retirement in 2018

A further complication arises from the fact that the debt used to fund the original purchase of part of the field in 1996 retires in 2018, thus entirely eliminating the cost of debt factor from the GTP computation. Consequently, ML&P wants after July 1, 2019, to incorporate into the revenue requirement a rate of return calculation using the rate base determined by the capital structure of the field. The return on base rate is a very common method of calculating the revenue requirement for a regulated utility. A regulated utility is normally allowed to make some reasonable rate of return on its investments.

The attorney general's office has questioned the rate of return that ML&P proposes using for the return on rate base calculation and has urged the commission to carefully scrutinize the field acquisition costs that ML&P proposes using in its GTP calculations. The office also raised questions over some other funds associated with the Beluga field ownership factor into the GTP. ●

Contact Alan Bailey at abailey@petroleumnews.com

● FACILITIES

Upgrades continue on Dalton Highway

Second of four reconstruction projects starts, with eventual aim of paving northernmost 50 miles of the Haul Road to Deadhorse

By ALAN BAILEY
Petroleum News

Work is progressing on upgrading the northern end of the Dalton Highway, the access road to Deadhorse and the North Slope oil fields. The Alaska Department of Transportation and Public Facilities is conducting the upgrades. The eventual intention is to pave the northerly section of the road, from mile 362 to mile 414, into Deadhorse, Meadow Bailey, DOT&PF public information officer, told Petroleum News.

As the only route for land transportation to the Slope, the road forms a vital transportation corridor for the shipping of equipment, materials and other supplies.

Flooding of the road as a consequence of winter overflow from the Sagavanirktok River between March and May 2015 closed the road in two separate episodes, causing major disruption to the overland supply chain for the oil industry — at that time, as a consequence, Gov. Bill Walker issued two states of emergency.

Coincidentally, DOT&PF had already planned to start its road reconstruction project in the summer of 2015, with the winter flooding adding impetus to the work. The flooding had impacted the stretch of road between miles 378 and 413.

Four projects

In fact, DOT&PF has planned four distinct projects for the road from mile 362 to mile 414, with each of the first three projects targeting a specific section of the road, Bailey said. The fourth project will come in later to make some additional improvements to road sections and pave the complete 52 miles of upgraded highway, she said.

After the completion of emergency repairs to damage caused by the 2015 flooding, work on the first reconstruction project began in 2015, targeting the section of the road between miles 397 and 414.

"It's a two-year project that started last year and will be finished this year," Bailey said. "This summer we started another section in addition to that from miles 379 to miles 397, and that will be completed next year. Then next year (2017) we will begin the section from miles 379 to 362, and again it's a two-year project."

The timeframe for phase four, including the paving of the road, has yet to be determined.

On Aug. 3 the U.S. Army Corps of Engineers published for public comment an application from DOT&PF for a permit for the discharge of fill material and development of two gravel pits in association with the upgrade for miles 379 to 362.

$135 million

DOT&PF anticipates total construction costs of about $135 million for the upgrades, Bailey said. Phase one is expected to cost $43 million and phase two $33 million. Phases three and four, which have yet to go out to bid, have estimated price tags of $38 million and $21 million.

The objectives of the upgrades vary a little from one section of the road to another. At the more northerly end, where the potential for flooding is a known issue, DOT&PF is re-enforcing the road for flood prevention. In the more southerly section, raising of the road surface by four feet will isolate the road from the underlying permafrost while also protecting the road from the drifting snow that can cause road closures, Bailey said.

Another road repair

As previously reported in Petroleum News, DOT&PF is also planning a Dalton Highway upgrade project between miles 222 and 209, where road damage from heavy truck traffic and the effects of permafrost has necessitated repairs. At this section of the highway the road also needs to be repositioned, to avoid a slowly moving frozen debris lobe that could reach the highway's current location in about nine years time.

Researchers from the University of Alaska Fairbanks are determining the exact cause and the speed of movement of the lobe — it probably results from the start of melting of the permafrost as the ground warms, Bailey said.

Bailey said that DOT&PF plans to start a section of that project next year and that the department has about $20 million to $30 million for the project. However, the department is unlikely to complete the project with available funds — the concept is to start the project, probably at milepost 209, and go as far as funding allows. The remainder of the work would then form a second project, to be conducted at a later time, Bailey said. ●

Contact Alan Bailey at abailey@petroleumnews.com

NATURAL GAS

AKLNG sets Mat-Su community meetings

The Alaska Liquefied Natural Gas project has scheduled community meetings in Houston on Aug. 23 and in Wasilla on Aug. 24.

Both meetings will be from 6-8 p.m.

Members of the Alaska LNG team will provide project updates and share information about upcoming resource reports.

The Houston/Big Lake/Willow community meeting will be at Houston Middle School, 12801 Hawk Lane, Houston, and the Wasilla/Palmer community meeting will be at Evangelo's Restaurant, 2530 E. Parks Highway, Wasilla.

—PETROLEUM NEWS

ENVIRONMENT & SAFETY

Cleanup underway after Drift River spill

Cleanup is underway following July crude oil spills discovered at the Drift River Terminal Facility on the west side of Cook Inlet.

In an Aug. 9 update the Alaska Department of Environmental Conservation, Division of Spill Prevention and Response, said a recovery plan was provided by Cook Inlet Pipeline Co., which runs the terminal, and has been accepted by the department. The pipeline company, a subsidiary of Hilcorp Alaska, has hired an environmental contractor to address the contamination discovered July 28. The spill discovered July 2 was primarily contained inside a valve box (14 gallons) with 1 gallon on the ground. The spill discovered July 28 was a stain at the surface of one of the buried 20-inch fill line blind flanges in the pipe corridor between tanks 1 and 4. DEC said the stain area reported by Cook Inlet Pipeline is a triangular surface area 24 feet by 24 feet by 30 feet (see story in Aug. 7 issue of Petroleum News).

The cause of the spill was over pressurization of the 20-inch fill line while emptying two tanks in preparation for internal inspection, the agency said.

The cause of the spill was over pressurization of the 20-inch fill line while emptying two tanks in preparation for internal inspection, the agency said.

The recovery plan includes: Excavation of contaminated soil from the area where the stain was discovered July 28; excavation of oil around buried flanges associated with the 20-inch fill line to visually inspect the flange condition and determine if any leaks were evident at these locations by collection of soil and water samples for lab analysis; and removal of remaining crude oil from the isolated 20-inch fill line.

DEC said remaining oil in the 20-inch line will be removed when a tanker comes in on Aug. 14.

—KRISTEN NELSON

PIPELINES & DOWNSTREAM

Unocal still working to unload TAPS share

Unocal Pipeline Co. has again applied to the Regulatory Commission of Alaska for an extension of the transfer of its operating authority in the Trans Alaska Pipeline System.

Unocal has been trying to get out of its 1.35 percent ownership interest in TAPS since 2012, when it notified the other TAPS owners that it would not continue its TAPS operations after July 31, 2012.

Unocal has been trying to get out of its 1.35 percent ownership interest in TAPS since 2012, when it notified the other TAPS owners that it would not continue its TAPS operations after July 31, 2012.

The original TAPS System Agreement was for a 30-year term from the date of pipeline commissioning, with an option to renew the agreement for successive five-year terms, "provided at least two owners agreed to continue operations."

The pipeline was commissioned on July 31, 1977, so the initial agreement expired July 31, 2007, at which time the owners elected to renew the agreement for an additional five-year term, expiring July 31, 2012.

Unocal notified the other owners that it did not intend to continue operations and applied to the commission to temporarily suspend its service on TAPS starting July 31, 2012, pending the sale or transfer of its ownership interest, and has applied for numerous extensions since then.

In its June 28, 2012, application to the commission for temporary suspension of service Unocal said that an owner who elects not to continue with TAPS must sell its interest to a third-party or another TAPS owner, subject to the remaining TAPS owners' right of first refusal, and said it was "actively engaged in negotiations" with the other TAPS owners on the transfer of its ownership interest.

"Unocal has decided not to continue TAPS operations for an additional renewal term because its interest in TAPS no longer meets the company's core strategic needs," it told the commission in its 2012 application.

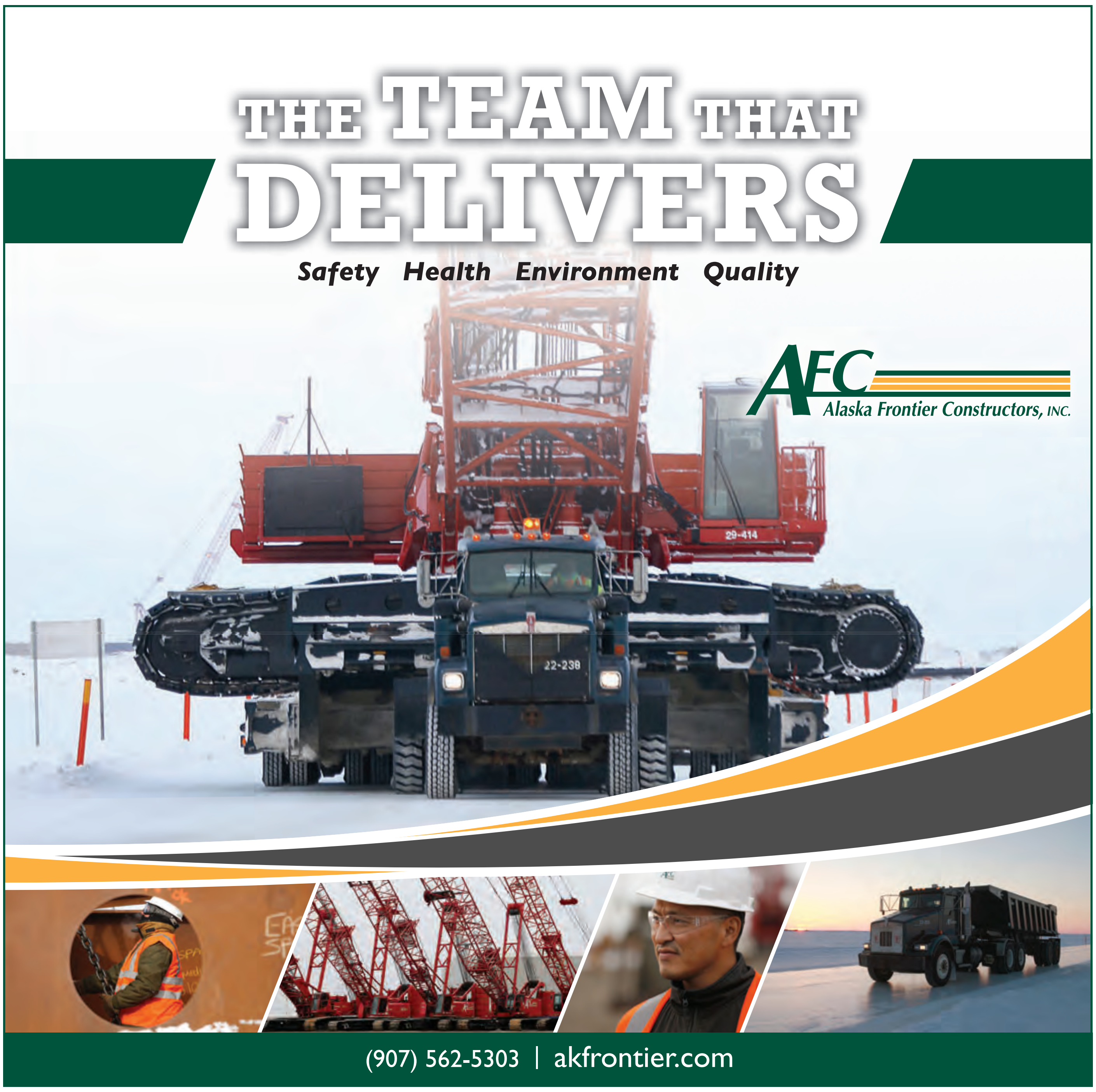
Disputes in arbitration, litigation

In its latest application for extension Unocal told the commission: "Unocal and the other TAPS Carriers have a dispute over several transfer-related matters." Koch Alaska Pipeline Co., previously an owner, transferred its ownership share to the other owners in 2012. The remaining owners, in addition to Unocal, are BP Pipelines (Alaska) Inc., ConocoPhillips Transportation Alaska Inc. and Exxon Mobil Pipeline Co.

Unocal said the dispute is in arbitration, with some portions in litigation.

"The litigation has been time-consuming and is likely to continue for a significant period of time. Unocal is evaluating all its options regarding how best to proceed with these matters," the company told the commission.

—KRISTEN NELSON



● FINANCE & ECONOMY

EIA: US production continues to drop

Brent down $3 in July, first monthly decrease since January, driven by British vote to exit EU, Canadian supply disruptions easing

By KRISTEN NELSON
Petroleum News

The U.S. Energy Information Administration expects U.S. crude oil production to decrease from an average of 9.4 million barrels per day in 2015 to 8.7 million bpd this year and to 8.3 million bpd in 2017.


ADAM SIEMINSKI

EIA said in its Aug. 9 Short-Term Energy Outlook that the forecast reflects declining production onshore in the Lower 48 partly offset by growing production in the federal Gulf of Mexico.

The agency said it estimates that total U.S. crude oil production has fallen by 1.1 million bpd since April 2015 to a July average of 8.6 million bpd.

"Based on the current oil price forecast, EIA expects oil production to continue declining in most Lower 48 onshore oil production regions through mid-2017," the agency said, with expectations of lower cash flow this year and next prompting many companies to scale back investment programs and to defer major new undertakings until there is a sustained price recovery. EIA said it expects that the prospect of tighter lending conditions is likely to limit availability of capital to many smaller producers, "giving rise to distressed asset sales and consolidation of acreage holdings by firms that are more financially sound." Lower onshore investment is expected to reduce oil-directed drilling and well completions this year and next.

Growing US production

"After a steep drop over the past year in U.S. production, a recent uptick in the number of rigs drilling for oil is expected to contribute to more steady monthly oil output starting this fall," EIA Administrator Adam Sieminski said in a statement on the agency's energy outlook.

"Domestic monthly oil production is expected to begin consistently rising in late 2017 due in part to higher forecast oil prices and improvements in drilling productivity," he said.

The immediate forecast is for U.S. crude oil production to continue to decline, from an average of 9.2 million bpd in the first quarter of this year to an average of 8.2 million bpd in the third quarter of 2017. EIA said 8.2 million bpd would be 1.5 million bpd below the April 2015 level, the highest monthly production since April 1971.

The most rapid production decline is expected from this April through September, with a drop of some 150,000 bpd each month expected. EIA said it expects production to be relatively flat from October through next July, averaging 8.4 million bpd.

After hurricane-related outages expected in the third quarter, dropping production to some 8.2 million bpd, production is then expected to rise, with late 2017 increases reflecting "productivity improvements, lower breakeven costs, and forecast oil price increases."

Brent averages $45

North Sea Brent crude oil spot prices averaged $45 per barrel in July, down $3 from June, the first monthly decrease since Brent fell to a 12-year low of $31 per barrel in January, EIA said.

Brent is forecast to average $42 per barrel this year and $52 per barrel in 2017, while West Texas Intermediate prices are forecast to be slightly less than Brent this year and the same in 2017.

EIA said significant global oil supply outages contributed to rising crude prices in the second quarter of the year, but "concerns about future economic growth related to the United Kingdom's June 23 vote to exit the European Union and the easing of supply disruptions in Canada contributed to falling oil prices in late June."

High levels of U.S. production and global petroleum product inventories contributed to falling prices in July "despite relatively strong demand, and because of growing U.S. oil rig counts," the agency said.

The Baker Hughes U.S. active oil rig count increased for six consecutive weeks

see EIA OUTLOOK page 8

● ALTERNATIVE ENERGY

Grant Lake hydro project a step closer

FERC accepts license application, initiates environmental assessment for hydropower plant near Moose Pass on the Kenai Peninsula

By ALAN BAILEY
Petroleum News

The Federal Energy Regulatory Commission has accepted a license application by Kenai Hydro LLC for the construction of a modest-sized hydropower facility at Grant Lake, near the town of Moose Pass, on the Kenai Peninsula, and has launched an environmental assessment for the proposed plant. Kenai Hydro LLC is a subsidiary of the Alaska Electric and Energy Cooperative, the business entity that operates power generation and transmission facilities as a part of Homer Electric Association. The proposed project lies within the Chugach National Forest.

FERC requires comments on the scope of the environmental assessment by Oct. 10. The agency has scheduled public meetings in the community of Moose Pass on Sept. 7 and 8, and an on-site review on Sept. 7.

In recent years Homer Electric, having switched from buying its power from Anchorage-based utility Chugach Electric Association, has brought on line its own gas-fired power generation capacity on the Kenai Peninsula. The utility also has a goal of meeting 22 percent of its peak annual generation from renewable energy sources by 2018 — in common with other Alaska Railbelt utilities, Homer Electric already obtains some of its power from the Bradley Lake hydropower facility in the southern Kenai Peninsula.

Near Moose Pass

Grant Lake is an L-shaped water body in the hills above and to the east of the Seward Highway, where the highway runs through the valley of Moose Pass, with Grant Creek flowing from Grant Lake into Lower Trail Lake, just south of the southern end of Upper Trail Lake. According to Kenai Hydro's license application, construction of the five-megawatt hydro facility would involve diverting water from Grant Lake through a tunnel to a powerhouse near the outlet of Grant Creek canyon, a natural rock canyon. The powerhouse would contain two turbines, with a maximum design water flow of about 385 cubic feet per second. The project would require an access road to the powerhouse and the water intake at the lake.

With a potential water drawdown from the lake's natural water surface elevation of 703 feet to a minimum elevation of 690 feet, the hydropower system would have access to about 18,791 acre-feet of water storage in the 1,741-acre lake, the license application says. To provide the maximum volume of stored water following the spring runoff, the drawdown to the minimum elevation would take place during the winter. Although the project would change the natural water flow regime in Grant Creek, the change would have little, if any, impact on the existing aquatic resources, the license application says.

Development schedule

Following land acquisition, permitting and the completion of engineering, Kenai Hydro sees the possibility of FERC approval of facility construction by January 2019. Construction could be completed in the fall of 2020, with commercial power production starting in early 2021. The estimated total cost of construction, including final engineering, is $52 million. Kenai Hydro says that developing its license application for the Grant Lake project cost $5.5 million, $2.1 million of which came from an Alaska Energy Authority grant. In the interests of minimizing the cost of power from the plant, Kenai Hydro will apply for whatever low cost loans and grants may be available for the project, the license application says.

Original application in 2008

The story of the Grant Lake project goes back to 2008, when Kenai Hydro applied to FERC for a preliminary permit for the project and for another proposed hydro project at nearby Falls Creek. The projects raised environmental concerns

see **GRANT LAKE** *page 13*

continued from page 6

EIA OUTLOOK

in July and August, EIA said, "the longest stretch of weekly increases in almost a year."

Global oil inventory builds are expected to limit upward price pressure in the coming months, with Brent forecast to average $43 per barrel in the second half of the year.

EIA said it expects "consistent global oil inventory draws to begin in mid-2017," with Brent averaging $52 per barrel in 2017, based on a forecast average of $58 per barrel in the fourth quarter of 2017.

Natural gas

The Henry Hub natural gas spot price averaged $2.82 per million British thermal units in July, up 24 cents from June, with the price increase reflecting "warmer-than-normal temperatures in July, which led to increased demand from the electric power sector," EIA said.

The agency said it expects natural gas prices to rise gradually, averaging $2.41 per million Btu this year and $2.95 in 2017.

Natural gas marketed production in May averaged 78.1 billion cubic feet per day, down 2 bcf from record-high daily average production in February 2016. EIA said it expects production to increase in late 2016 and through 2017 in response to forecast price increases and increases in liquefied natural gas exports, which are expected to average 0.5 bcf per day in 2016 with the start of Cheniere's Sabine Pass liquefaction plant in Louisiana, which sent out its first cargo in February. ●

Contact Kristen Nelson at knelson@petroleumnews.com

NORTH OF 60 MINING news

page 11 Christie will lead one junior; serve as director of another

www.MiningNewsNorth.com The weekly mining newspaper for Alaska and Canada's North Week of August 14, 2016

NORTHERN NEIGHBORS

Compiled by Shane Lasley

ATAC RESOURCES LTD.

At the Nadaleen trend, located about 90 kilometers (55 miles) east of Tiger, Atac Resources Ltd. is carrying out rotary air blast drilling to follow up on the 2015 discovery hole at the Orion target, which returned 3.79 grams per metric ton gold over 47.24 meters. This hole bottomed in gold mineralization with the last interval grading 2.56 g/t gold over 1.52 meters.

Atac finds additional oxide gold mineralization adjacent to Tiger

Atac Resources Ltd. Aug. 10 posted results from exploration of the Rau trend located at the western end of its huge Rackla Gold project in Yukon Territory. Follow-up prospecting, mapping and soil sampling has expanded the Airstrip gold anomaly to 11.5 square kilometers (2,840 acres). Discovered in 2015, about 4,000 meters south of the Tiger gold deposit, Airstrip is the largest gold-in-soil anomaly in the Rau Trend. The initial evaluation program also included seven shallow rotary air blast drill holes at two priority anomalies identified at Airstrip. Near-surface gold mineralization was encountered at both of these targets, including one 13.7-meter intercept of 1.43 grams per metric ton gold in hole ASR-16-006. Atac said the first-pass drill results are very encouraging at Airstrip and warrant further drilling. The company also completed detailed prospecting at a previously underexplored gold-in-soil anomaly situated 125 meters from the southeastern limit of the proposed Tiger deposit pit. Ten out of 21 oxide float composite grab samples collected over a 150-meter-long area upslope of the east end of the Tiger deposit, returned values greater than one g/t gold with the most notable sample returning 18.3 g/t. The company says follow-up trenching and diamond drilling is warranted to determine if this mineralization could complement the current Tiger Deposit oxide mineral resource outlined in a preliminary economic assessment published in May. "The recently identified oxide mineralization is a major development as this new area has potential to add oxide gold ounces directly adjacent to the eastern end of the proposed Tiger Deposit open-pit," said Atac President and CEO Graham Downs. "This in addition to the fact that we were able to encounter gold in three of our very first scout holes drilled at the Airstrip anomaly is very significant and a testament to the extensive mineralizing system that exists within the Rau Trend." The company is also carrying out RAB drilling 90 kilometers (55 miles) east of Tiger, at the Orion Carlin-type gold discovery within the Nadaleen trend of the Rackla property.

A bonanza of gold discoveries at Plateau South, drilling begins

Goldstrike Resources Ltd. Aug. 10 said drilling is underway at its Plateau South gold property in the Yukon Territory. The drilling started in the Goldstack zone, a seven-meter-wide gold-bearing outcrop where drilling in 2015 cut 17.5 meters averaging 13.5 grams per metric ton gold. The zone is part of the Yellow Giant Trend, a 29-kilometer- (18

see **NORTHERN NEIGHBORS** *page 11*

METALS MARKETS

Soaring zinc prices?

Shrinking supplies seems to overcome gravity of slowing base metals demand

By SHANE LASLEY

Mining News

Caught between an updraft caused by dwindling supply and the gravity of slowing growth in global demand, zinc prices seem to have reached a cruising altitude above US$1 per pound.

Recent closures of two large zinc mines – Century in Australia and Lisheen in Ireland – wiped out more than 600,000 metric tons of the world's annual supply of the galvanizing metal.

Analysts expected these looming supply deficits to send zinc prices soaring well above US$1/lb. in 2015. While the metal did climb to US$1.10/lb. in May, lackluster global economic growth muting the demand for commodities in general instead dragged the price to seven-year lows.

With zinc prices falling below US70 cents/lb. late in 2015, Glencore PLC slowed its output, removing another 500,000 metric tons from the global supply.

"The main reason for the reduction is to preserve the value of Glencore's reserves in the ground at a time of low zinc and lead prices, which do not correctly value the scarce nature of our resources," the Switzerland-based company explained.

In the July 26 edition of its commodity prices index, Scotiabank said the 8 percent drop in zinc supply resulting from the two large mine closures and Glencore's curtailment sets zinc apart from its contemporaries.

"The base metals narrative remains split between demand-driven stories surrounding beleaguered contenders like copper and the supply-centric focus in outperforming metals like zinc and, more recently, nickel," the Canadian bank penned in the report.

Adding, "Zinc remains the bullish story within the base metals group."

This tale of zinc prices rising 41 percent since the beginning of the year is a good read for Teck Resources Ltd., operator of the Red Dog zinc mine in Northwest Alaska, and Hecla Mining Company, which enjoys considerable by-product credits from zinc recovered at its Greens Creek silver mine on the state's Southeast Panhandle.

Starving market

CRU, a global analyst and consultant focused on mining, metals, fertilizers, believes the supply-side shortage will continue to push zinc prices higher.

In a report published at the end of July, CRU Head of Zinc Research Graham Deller wrote, "With concentrate stocks now almost exhausted, metal inventories will fall sharply soon, and further significant price increases look likely through the course of next year."

The world's best-known stockpile of zinc is already being eroded. Inventories in the London Metal Exchange warehouse have dropped from about 480,000 metric tons in January to below 440,000 metric tons, or about 12 days of global demand.

Most analysts are predicting that more clandestine zinc inventories will find their way to market as prices rise.

"While it is possible that further inventories are delivered to the major exchanges from hitherto less visible locations, it is inevitable that we eventually see an impact on refined (zinc) supplies and the current rally is likely the market preemptively getting ahead of this tightness," Scotiabank penned in its July commodities index.

"The base metals narrative remains split between demand-driven stories surrounding beleaguered contenders like copper and the supply-centric focus in outperforming metals like zinc and, more recently, nickel."
—Scotiabank

Scotiabank and CRU see the current market imbalance eroding both the known and less visible stockpiles of zinc.

Deller said, "The key question in the zinc market is no longer whether, but is now when will the market run out of metal?"

Scotiabank sees this depletion of stocks happening sooner rather than later.

In its annual Global Outlook report published in early July, the bank forecast zinc prices to average US$1.25/lb. in 2017.

"Prices are expected to rise over the coming years until sufficient supply can be incentivized back onto a starved market," the bank penned in the comprehensive economic report.

Welcome news

Rising zinc prices is welcome news to Teck Resources and NANA Regional Corp., owners of the Red Dog Mine in Northwest Alaska.

Red Dog is on track to produce about 570,000 metric tons (1.26 million lbs.) of zinc in 2016. Accounting for roughly 5 percent of the world's supply, this arctic operation supplies nearly as much zinc to global markets as did the recently closed Century and Lisheen mines combined.

Teck is the operator at Red Dog and NANA, the Alaska Native regional corporation that owns the land where the zinc-rich mine is located, is 30 percent owner of the operation. NANA's ownership increases by 5 percent every five years and is set to climb again in 2017.

In its second-quarter 2016 report, Teck noted that on top of the deficit brought on by the closure and suspension of several large mines, demand for zinc is expected to grow at about three percent per annum during the next two years.

"While the commodity cycle continues to be challenging, we are starting to see some positive changes in the direction of zinc and steelmaking coal prices," said Teck President and CEO Don Lindsay.

While zinc is the primary metal produced at Red Dog, it also is an important tertiary metal at Hecla's Greens Creek Mine near Juneau.

Thanks to zinc, along with lead and gold, the cost to produce an ounce of silver at this Southeast Alaska operation totaled just US$4.61 through the first half of 2016. The ongoing upward trend in gold prices and zinc sitting above US$1/lb. should help drive the already low production costs at Greens Creek even lower. ●

continued from page 9

NORTHERN NEIGHBORS

miles) long gold system where the company continues to find intriguing zones with visible gold. Prospecting and mapping carried out during an initial phase of 2016 exploration identified a number of significant new gold showings, including the new Bonanza Zone located 4,000 meters northwest of Goldstack. The Bonanza discovery contains the most pervasive coarse visible gold seen in bedrock on the Plateau property to date, and has returned grab samples up to 436.4 g/t gold. A second high-grade showing, Bonanza North, has been discovered outcropping 100 meters north of the initial discovery. A third showing was found on trend and 160 meters southeast of Bonanza North. Follow-up exploration to prepare Bonanza for drilling is underway. The phase-1 exploration discovered four other new zones – Goldback, Goldbar, Gold Standard and Goldworks. Follow-up mapping, prospecting and ground geophysics are planned to delineate drill targets at these new zones. "These new discoveries have significantly expanded the known extent of this new district-scale gold system," said Goldstrike Director Trevor Bremner. "The discovery of extensive high-grade mineralization in the Bonanza area, a sizeable expansion of the Goldbank trend, a new showing on a separate structure southwest of Goldstack, and significant gold assays from fine-grained sedimentary rocks as well as the metavolcanics, demonstrate just how extensive and pervasive the gold mineralization on this property is."

Drilling Strategic gold properties in the Yukon

Strategic Metals Ltd. Aug. 9 said the second phase of its 2016 exploration, which includes roughly 5,000 meters of drilling at three of its properties in Yukon Territory, is now underway. Drilling at the Hartless Joe property is testing below trenches at the King and Queen showings, where chip samples collected earlier this summer graded 44.3 grams per metric ton gold across 2.1 meters and 462 g/t gold across 0.4 meters, respectively. Strategic also intends to drill at the Hopper and the Mars properties as part of the phase-2 program. The primary target at Hopper, located along the Aishihik road in southwestern Yukon, is a gold-rich skarn horizon that was intercepted in two 2015 drill holes. Located 350 meters apart, these intercepts graded 43.6 g/t gold over one meter and 12.15 g/t gold over 2.65 meters. The skarn horizon is believed to have a shallow dip and the mineralization is open in all directions. Drilling at the Mars property, located 40 kilometers (25 miles) north of Hartless Joe, will test along strike and down-dip of a 2004 drill intercept that averaged 6.44 g/t gold over 4.57 meters. No other holes have been drilled in the area of this discovery.

High-grade gold spurs quicker earn-in at KSP

Colorado Resources Ltd. Aug. 8 reported that it has already completed 5,482 meters of drilling in 40 holes this year at the KSP gold-silver property in northwestern British Columbia and drilling continues. Colorado is working toward earning up to an 80 percent interest in KSP from Seabridge Gold Inc., which recently acquired the property as part of its purchase of SnipGold Corp. Though Colorado has met its 2016 work commitments, the company is continuing work towards earning an initial 51 percent interest in KSP by the end of this year's program. Upon satisfying the 51 percent earn-in requirements, Colorado would have the right to earn up to 80 percent interest in the property by investing another C$4 million there within a year. Colorado has received assay results from 30 of the holes drilled at KSP's Inel zone. The best intercept cut one meter of 165.5 grams per metric ton gold, 37.1 g/t silver and 2.5 percent zinc inside 25.7-meter section of hole INDDH16-029 that averaged 9.24 g/t gold, 36.6 g/t silver and 3.3 percent zinc. "We are also seeing broader intervals (20 to 99 meters) returning greater than one g/t gold, attesting to the robust nature of the mineralized system," said Colorado President and CEO Adam Travis. The company has begun drilling at Khyber, a zone situated about 2,000 meters south of Inel. Initial drilling at Khyber will focus on a 500- by 1500-meter gold-in-soil anomaly that coincides with the well-mineralized volcanic-sediment contact that also was noted at Inel. Work also will continue at Inel, targeting extension drilling in areas that are returning high-grade results.

COLORADO RESOURCES LTD.

An aerial drop of fuel to a rig targeting the Inel zone at KSP, a gold-silver property in northwestern British Columbia being explored by Colorado Resources Ltd. Encouraged by early performance and results of this drilling, Colorado opted to increase its 2016 program with the goal of earning a 51 percent interest in KSP by the end of the field season.

Klondike Gold doubles its position in historic district

Klondike Gold Corp. Aug. 8 reported an agreement to acquire 223 square kilometers (55,0000 acres) of mining claims in the Dawson Mining District of Yukon Terrtory from Gimlex Enterprises Ltd., a privately owned Dawson-area exploration and mining business that has been placer mining in the area since 1984. Upon completion of this transaction, Klondike Gold will have effectively doubled its land position in Yukon's historic Klondike gold region with direct ownership of a total of 2,780 quartz claims that form a continuous 50-kilometer- (30 miles) long property covering a region where 20 million ounces of placer gold has been recovered. "This acquisition consolidates ownership of the Klondike district into one contiguous district-spanning claim group for the first time," said Klondike Gold President and CEO Peter Tallman. Klondike Gold believes there is significant potential for multiple discoveries, and this consolidation will allow the greatest opportunity for testing the best-possible targets." In exchange for the property and exploration data accumulated over the past 24 years, Klondike Gold has agreed to pay Gimlex C$500,000 in cash; issue the family-owned company 3 million Klondike Gold shares; and grant Gimlex a 2 percent net smelter returns royalty on the acquired property, of which Klondike Gold may purchase 1 percent for C$1.5 million. Gimlex President James Christie said, "This opportunity will allow these quartz properties to be advanced to the next stage." Former Gimlex President Tara Christie has been appointed to the Klondike Gold board of directors. "The opportunity to draw upon their multi-generational experience in the Klondike district will be a strategic asset to help guide the next phases of exploration," Tallman commented on having Christie on the board. Klondike Gold said the merging and compilation of exploration data is in progress and a comprehensive work program and budget for district-wide exploration is being planned. The company is currently carrying out drilling on its original claims in the Klondike district.

Christie takes Banyan Gold's helm

TARA CHRISTIE

Banyan Gold Corp. Aug. 5 announced the appointment of Tara Christie as its new president and CEO. An accomplished mining executive with more than 20 years of operational experience, Christie has managed a number of mineral resource companies and served as a member of the Yukon Environmental and Socioeconomic Assessment Board. She earned her bachelor's and master's degrees in geotechnical engineering and has spent most of her career working in Yukon Territory. "Tara brings with her a unique blend of mining experience spanning from the pit face to the board room," said Banyan Chairman Mark Ayranto. "As a Yukon resident and longtime director of Banyan, Tara is well-suited to advance Banyan's Hyland gold project and create real shareholder value." Banyan also said an updated technical report for the Hyland gold project in southeastern Yukon Territory has been completed. "Banyan's Hyland gold project represents an exciting opportunity for shareholders, and the company is poised to begin a 2016 field program following recommendations of the first phase of the newly released updated technical report," said Christie.

Brixton identifies another gold-silver zone at Thorn

Brixton Metals Corp. Aug. 5 posted results from an initial phase of 2016 exploration at its Thorn gold-silver project in Northwest British Columbia. A total of 891 soils and 159 rock samples were collected during this program. Most of these were collected within a previously unexplored area of the property called the Chivas zone. This sampling outlined a roughly 2,500- by 1,900-meter gold-in-soil anomaly that remains open in several directions. The highest gold-in-soil sample obtained from Chivas returned 6.39 grams per metric ton gold. From the 891 soil samples collected, 227 assayed greater than 100 parts per billion gold, 76 assayed greater than 300 ppb gold, 20 assayed greater than 1,000 ppb gold and three assayed greater than 3,000 ppb gold. Additionally, a rock grab sample collected at Chivas returned 2,240 g/t silver, 1.16 g/t gold, 9.4 percent lead and 3.15 percent zinc. Follow-up sampling was also conducted at the Outlaw, Aberlour, Trapper and Amarillo zones. A one-meter rock chip sample collected at Aberlour contained 19.39 g/t gold and 136 g/t silver. Given the success of phase-1 sampling, Brixton Chairman and CEO Gary Thompson said the company is "looking forward to further work at Thorn, including geochemi-

see **NORTHERN NEIGHBORS** *page 12*

Contact North of 60 Mining News:

Publisher: Shane Lasley • e-mail: publisher@MiningNewsNorth.com
Phone: 907.229.6289 • Fax: 907.522.9583

Petroleum news

North of 60 Mining News is a weekly supplement of the weekly newspaper, Petroleum News.

Shane Lasley	PUBLISHER & NEWS EDITOR
Rose Ragsdale	CONTRIBUTING EDITOR
Mary Mack	CEO & GENERAL MANAGER
Susan Crane	ADVERTISING DIRECTOR
Heather Yates	BOOKKEEPER
Marti Reeve	SPECIAL PUBLICATIONS DIRECTOR
Steven Merritt	PRODUCTION DIRECTOR
Curt Freeman	COLUMNIST
J.P. Tangen	COLUMNIST
Judy Patrick Photography	CONTRACT PHOTOGRAPHER
Forrest Crane	CONTRACT PHOTOGRAPHER
Tom Kearney	ADVERTISING DESIGN MANAGER
Renee Garbutt	CIRCULATION MANAGER
Mapmakers Alaska	CARTOGRAPHY

ADDRESS • P.O. Box 231647
Anchorage, AK 99523-1647

NEWS • 907.229.6289
publisher@miningnewsnorth.com

CIRCULATION • 907.522.9469
circulation@petroleumnews.com

ADVERTISING
Susan Crane • 907.770.5592
scrane@petroleumnews.com

FAX FOR ALL DEPARTMENTS
907.522.9583

Several of the individuals listed above are independent contractors

NORTH OF 60 MINING NEWS is a weekly supplement of Petroleum News, a weekly newspaper.
To subscribe to North of 60 Mining News,
call (907) 522-9469 or sign-up online at www.miningnewsnorth.com.

continued from page 11

NORTHERN NEIGHBORS

cal surveys, geophysical surveys, geological mapping and drilling."

Silver Range stakes gold claims near Lupin Mine

Silver Range Resources Ltd. Aug. 4 said it has staked and completed an initial examination of the Itchen gold property about 78 kilometers (48 miles) west of the Lupin Mine in Nunavut. Exploration in the Itchen Lake area dates to the early 1960s, when gold was discovered at Contwoyto Lake. The development of the Lupin Mine in the early 1980s spurred a second round of exploration. The Itchen claims cover nine gold targets documented in the NWT Mineral Inventory that are found in several tightly folded iron formation horizons up to 4,000 meters long and up to 20 meters thick. Results from historical work on the property include: grab samples of up to 20.06 grams per metric ton gold; trench samples of up to 2.4 meters averaging 5.8 g/t gold; and a drill intersection of 1.1 meters grading 1.1 g/t gold. Silver Range Resources staked and explored the Itchen property in early Juloy. Confirmatory sampling returned up to 6.64 g/t gold. Recent mapping and sample results are being compiled with historical data to design future work programs and define drill targets.

Copper North plans to explore targets at Thor project in B.C.

Copper North Mining Corp. Aug. 4 reported the start of 2016 exploration at Thor, a northern British Columbia project that provides the company with an opportunity to explore for porphyry copper-gold mineralization in the slopes and valleys adjacent to the shutdown Kemess South mine. Initial exploration will focus on target evaluation in the Thor East area, followed by drilling in both the Thor West and Thor East areas. The company said historical exploration defined porphyry copper-gold mineralization at Thor. Copper North completed additional geophysical surveying in the fall of 2014 that defined targets for reconnaissance drilling in the Moose Valley portion of Thor West, an area hidden by overburden. Magnetic data indicate a large anomaly of elevated magnetic susceptibility that hosts a smaller area of reduced magnetics and modest increase in chargeability from the induced polarization survey data. The Thor West IP target covers a roughly 4,000- by 2,000-meter area. The Thor East target is located in the more mountainous area forming the eastern portion of the property. Historical exploration work identified anomalous copper and gold in soil and rock geochemical samples in the steeper terrane that flanks Moose Valley. Six shallow drill holes totaling 692 meters were completed in 1997. One of the holes cut 60 meters grading 0.12 percent copper and 0.04 grams per metric ton gold. Drilling is planned to begin later this month.

Ryan's GroundTruth begins to reveal Ballarat potential

Stakeholder Gold Corp. Aug. 3 reported encouraging results from an initial phase of exploration at it Ballarat gold property in the Yukon Territory. Planned and executed by GroundTruth Exploration Inc., an innovative exploration company founded by Shawn Ryan, the program included soil sampling; GT Probe bedrock interface sampling; ground-based resistivity/induced polarization surveying; and a drone survey to collect detail imagery of the entire property. This work has significantly expanded the Eastern zone target. Before the program, this prospect was defined by six contiguous, gold anomalous ridge and spur soil samples. The 374 soil samples collected there this year has expanded the anomalous area to 600 by 300 meters. Two float rock samples of quartz feldspar biotite gneiss collected from the Eastern zone returned assays of 0.759 grams per metric ton and 0.587 g/t gold. A grab sample of similarly altered gneiss collected from a trench at the Northwest zone ran 1.492 g/t gold. An immediate program of geophysical and GT Probe surveying is planned for the newly expanded Eastern zone anomaly. This will be followed by rotary air blast drilling at both the Northwest and Eastern zones. The Ballarat property is located about 14 kilometers (nine miles) northeast of Goldcorp Inc.'s Coffee Gold project.

GOLDEN PREDATOR MINING CORP.

Riddled with gold, this large chunk of quartz was chipped off an outcrop in the Main Discovery zone at Golden Predator's 3 Aces project in eastern Yukon Territory. Recent work has focused on Sleeping Giant, another high-grade gold zone about 850 meters northeast of Main.

Increased exploration, bridge, roads in the cards for 3 Aces

Golden Predator Mining Corp. Aug. 3 said it has begun the second phase of 2016 exploration at its 3 Aces project in southeastern Yukon Territory. With a budget of C$4 million, this program includes detailed soil sampling, structural mapping, geophysical work, road construction, trenching, drilling and bulk sampling. To date, four quartz veins with coarse visible gold have been discovered at surface within a roughly 10-square-kilometer (2,450 acres) central core area of the 225-square-kilometer (55,600 acres) property. The veins with visible gold exposed at surface occur within three of 16 soil anomalies in the core area. Planned phase-2 exploration in the core area includes: 4,800 soil samples; detailed resistivity-induced polarization surveys to identify quartz veins and structural targets; 3,500 meters of reverse circulation drilling to test grade and continuity along strikes to modest depths; and 500 meters of core drilling to augment vein delineation and geologic understanding. Golden Predator said the large diameter drilling will be designed to collect large volume samples to accurately estimate grades in the veins containing coarse visible gold. To lower costs and ease year-round access, the company is building a bridge over the Little Hyland River and six kilometers (3.7 miles) of road into the core area, which encompasses the Main Discovery and Sleeping Giant veins. Golden Predator said previous stream sampling across the larger 3 Aces property and peripheral to the central core area has identified at least 12 drainages. Wide-spaced grid and contour soil sampling in these outlying drainages is intended to outline additional target areas outside of the central core. The company also plans to carry out property-wide airborne geophysics to assist in determination of regional lithologic and structural controls on gold mineralization. The company said newly generated soil anomalies outside of the core area will be more thoroughly explored in 2017.

Summer drilling taps Faraday kimberlites at Kennady North

Kennady Diamonds Inc. Aug. 2 said summer drilling program at its Kennady North project adjacent to the Gahcho Kué diamond mine in Northwest Territories is underway with two rigs conducting exploration and delineation drilling at the Faraday kimberlite bodies. Kimberlite has been intersected in the first two drill holes at Faraday 3 and the first drill hole on Faraday 2 is currently nearing the target zone. "The focus of our summer program is to define the extension of the Faraday bodies to the northwest as they extend from beneath Faraday Lake toward the shore," explained Kennady Diamonds President and CEO Rory Moore explained. "We established in the last few drill holes of the winter drilling program that the Faraday 1 and 3 kimberlites merge at depth, and we are excited to determine whether the Faraday bodies have north-limb extensions similar to that defined at Kelvin. The systematic drilling planned for the summer will ultimately determine the size and shape of these bodies." Processing of a 620-metric tons bulk sample of the Kelvin kimberlite is well underway. About 40 percent of the sample recovered during the 2016 winter program has been processed at the Geoanalytical Laboratories Diamond Services of the Saskatchewan Research Council, with final results expected within the next four to six weeks. Kennady anticipates that more than 1,200 carats of diamonds will be recovered from the sample. Valuation of the parcel, which will be used for revenue modeling of the Kelvin North Lobe, is expected to be completed before the end of the third quarter. ●

● ENVIRONMENT & SAFETY

Environmental groups to sue over polluted Fairbanks air

By DAN JOLING

Associated Press

Three environmental groups announced Aug. 3 that they intend to sue the Environmental Protection Agency for not enforcing federal air pollution law in Fairbanks.

Six years after the Fairbanks North Star Borough was designated as non-compliant because of unhealthy fine particulate, federal law requires the EPA to declare the borough a "serious non-attainment area," according to the groups.

State environmental officials who created cleanup plans for Fairbanks air pollution, now designated as "moderate," likely would have to consider stronger controls, said Kenta Tsuda, an attorney for Earthjustice, an environmental law firm.

"At the very least the state will have to reconsider all these control measures, and will face a higher bar if it proposes not to implement them," he said by email.

Earthjustice is representing Fairbanks-based Citizens for Clean Air, Anchorage-based Alaska Community Action on Toxics and the Sierra Club.

EPA review

EPA spokeswoman Marianne Holsman said in an agency statement that a review of air quality results completed at the end of July confirms that Fairbanks did not meet fine particulate standards by the end of 2015.

"The EPA is now working on proposing reclassification of the Fairbanks nonattainment area to serious," she said.

The Fairbanks area in winter months experiences fine particulate levels that regularly exceed federal standards and spike to the highest levels in the nation. Particulate is emitted by wood stoves that heat homes and businesses. Cars and coal-fired heating systems or power plants also emit particulate.

The issue pits clean air advocates against residents who want to continue burning wood, a less expensive alternative to oil or electricity in frigid interior Alaska winters.

Particulate is a mix of solid particles and liquid droplets ranging from soot to microscopic pieces. The most dangerous particles, according to the EPA, are less than 10 micrometers, which can be inhaled deep in the lungs. A human hair is about 70 micrometers in diameter.

Fine particulate measures 2.5 micrometers or less. It's linked to heart attacks, decreased lung function and premature death in people with heart or lung diseases.

Link to illness

A Fairbanks pulmonologist who advocates for a cleanup plan, Dr. Owen Hanley, said in the announcement that there are few areas in medicine where the cause of illness is so well established.

"It is inexcusable that the vulnerable must repeatedly petition their government for safe air," he said.

The groups in June sued the EPA to force an agency decision on whether to accept a state plan to reduce unhealthy fine particulate produced by wood stoves and other sources. The groups claim the plan is flawed and should be rejected because it anticipates that most homes will transition from wood heat to natural gas in the near future.

The current plan also does not include control measures used elsewhere such as firewood dryness certification programs for firewood or taxes and other disincentives to discourage the resale of used, inefficient wood stoves, Tsuda said.

A 60-day notice is required before the agency can be sued. ●

ENVIRONMENT & SAFETY

District Court ends polar bear habitat appeal

The federal District Court in Alaska has brought to an end appeals against the U.S. Fish and Wildlife Service's designation of critical habitat for the polar bear. Following a February decision by the Court of Appeals for the 9th Circuit overturning an earlier District Court decision upholding the appeals, and following the subsequent rejection by the 9th Circuit court of a request for an en banc rehearing, on Aug. 9 District Court Judge Ralph Beistline issued an order dismissing the appeal.

"Pursuant to the Feb. 29, 2016, decision of the U.S. Court of Appeals for the Ninth Circuit … judgment is entered in favor of the defendants," Beistline wrote.

The order brings to an end three closely related appeals against the critical habitat designation. Organizations which had launched the appeals include the Alaska Oil and Gas Association, the American Petroleum Institute, Arctic Regional Corp., the state of Alaska and the Inupiat Community of the North Slope.

Fish and Wildlife issued the polar bear critical habitat designation in November 2010, following a 2009 listing as threatened, under the terms of the Endangered Species Act. The habitat designation covered a total area of 187,157 square miles, including a vast offshore area; barrier islands and spits; and polar bear denning habitat along Alaska's northern coast. People challenging the designation have been worried about the potential impact of the designation on economic activity and have questioned the massive scale of the habitat area.

In a 2013 District Court decision Judge Beistline had rejected the habitat designation, ruling that the on-land and barrier island components of the designation had been too broad and had lacked evidence of the actual locations of habitat features. But the 9th Circuit Court overruled this view, saying that the Endangered Species Act envisages the designation of areas containing critical habitat components, but that it makes little sense to limit the designation just to habitat that the protected animals currently use.

—ALAN BAILEY

continued from page 10

GRANT LAKE

from local residents and others.

In March 2011 Kenai Hydro abandoned the Falls Creek concept, telling the FERC that it had determined that the project was not feasible. However, the company continued to pursue its Grant Lake proposal, conducting extensive environmental studies for the hydropower concept.

The company investigated several possible designs, including the construction of a 10-foot high concrete dam at the lake's output. The eventually selected design eliminates the dam and involves a water intake below the level of the lake's natural water surface, to the east of the lake's outlet into Grant Creek. The license application says that this design "presents the optimum environmental configuration by eliminating the dam, eliminating the diversion of Falls Creek and placing the powerhouse tailrace upstream of the prime aquatic habitat." A bypass pipe to Falls Creek from the project's water intake in the lake would enable a required minimum creek flow rate to be maintained as necessary.

The project has raised numerous concerns about possible impacts on the Kenai River watershed. The historic Iditarod Trail from Seward to Nome also passes through the project area, a situation that has required discussions over any conflicts with the trail route. In 2010 FERC conducted a scoping study for an environmental assessment under the National Environmental Policy Act. However, the agency now says that, because the project has changed significantly since that earlier scoping study, it is re-initiating the scoping process. ●

Contact Alan Bailey at abailey@petroleumnews.com

NATURAL GAS

Alternate AKLNG route through Denali

The Federal Energy Regulatory Commission is requesting comments on an alternate route for the planned Alaska LNG project where it crosses Denali National Park and Preserve.

FERC said in a late July notice that in response to scoping comments and working with federal and state regulators, Alaska LNG has identified an alternative route for the AKLNG pipeline where it runs adjacent to the Denali National Park and Preserve.

The planned route would be 8.05 miles long through this area and would not enter the park and preserve; the corresponding segment of the alternative would be 8.5 miles long and 6.16 of those miles would pass through the park and preserve.

The route currently planned is closely aligned with the Parks Highway, FERC said, but deviates where the highway passes through the park and preserve entrance area.

The alternative route passes directly through the park and preserve entrance area and is closely aligned with the Parks Highway. The planned route would be 8.05 miles long through this area and would not enter the park and preserve; the corresponding segment of the alternative would be 8.5 miles long and 6.16 of those miles would pass through the park and preserve.

FERC has opened a limited scoping period, running through Sept. 25, to gather input on the alternative route. FERC staff will be available to answer questions Aug. 23 between 4 and 6 p.m. at Murie Dining Hall at Denali National Park.

—PETROLEUM NEWS

● PIPELINES & DOWNSTREAM

RCA allows ADR for KBPL tariff revision

Alternative dispute resolution for Kenai Beluga Pipeline tariff increase; settlement conference, mediator, settlement judge named

By KRISTEN NELSON

Petroleum News

Kenai Beluga Pipeline requested a substantial tariff increase in late May and in early June filed a petition requesting alternative dispute resolution procedures, including appointment of a mediator.

The tariff, an increase from 29.15 cents per thousand cubic feet to 63.98 cents per mcf, was suspended in a late June order and a temporary rate established equal to the filed rate, subject to refund of the difference between the temporary rate and a rate established by RCA at the conclusion of the proceedings.

The new rate went into effect July 1.

The commission, in an Aug. 9 ruling, granted petitions to intervene by Agrium U.S., Tesoro Alaska Co., Enstar Natural Gas Co., Matanuska Electric Association, Homer Electric Association, Alaska Electric Energy Cooperative, Municipal Light and Power, AIX Energy and a late-filed petition to intervene by Chugach Electric Association. RCA had invited the participation of the Alaska Attorney General.

ADR

In addition to opposition to the increase in tariff rate, which KBPL told the commission was necessary to recover its $21.45 million cost of service, and said at the current rate of 29.15 cents per mcf it would recover only $9.77 million, an under-recovery of 119 percent, based on project annual throughput of 33,531,740 mcf, the commission also received opposition to the use of ADR. Those opposing included Tesoro, Agrium, the Alaska Attorney General and Homer Electric. Enstar filed partial opposition and ML&P filed non-opposition.

KBPL told the commission its tariff revision was filed in compliance with an existing settlement agreement and said terms were the result of a mediation process instituted by the commission. It said mediation leading to the existing settlement included informal discovery procedures under the supervision of mediator Blythe Marston, and requested that Marston be appointed the mediator in this proceeding and that similar informal discovery procedures be allowed.

Those opposing ADR argued that the request for ADR was premature and that formal discovery and investigation of KBPL's revenue requirement was necessary prior to attempting ADR process. The commission said they received substantially the same general arguments, in addition to specific arguments from individual parties, that the subject matter was too complex and the timing for the request of ADR did not give the participants the opportunity to adequately prepare.

KBPL's response

KBPL told the commission that if mediation took place only after formal discovery that would eliminate one of the greatest cost-savings to be achieved through mediation, contending that formal discovery is costly because requests can be more broadly worded and burdensome than necessary to obtain required information. It noted that when Enstar filed its most recent rate case it proposed an increase in rate case cost from $1 million in 2014 to an estimated $1.8 million, citing high cost of discovery in the 2014 case, including production of 28,000 pages of documents.

KBPL also noted that RCA has allowed mediation prior to formal discovery in three prior pipeline dockets.

RCA decision

RCA said it was not persuaded by arguments against ADR at this stage of the proceedings. "It is difficult to comprehend that it would be beneficial to either the

see TARIFF REVISION page 15

continued from page 14

TARIFF REVISION

pipeline or its ratepayers to have the parties engage in a lengthy and costly discovery process without first attempting to resolve any or all of the issues through voluntary information exchange and mediation."

It also said it does not appear that issues in this docket are more numerous or complex than those in proceedings where mediation has been successful.

The commission said KBPL has filed testimony supporting its revenue requirement study and in comments and pleadings parties have identified issues they believe require further investigation. It also said "KBPL has clearly indicated its willingness to provide information necessary to resolve the issues raised in the comments and pleadings and any other issues that may arise in this proceeding."

The commission said it was granting KBPL's request for ADL procedures and for the appointment of a mediator. Marston is appointed as mediator, the commission said, is also appointed settlement judge and "authorized to conduct settlement efforts for so long as those efforts are productive in her sole discretion."

The initial settlement session will begin Sept. 20 and continue, if necessary, through Sept. 23, with further sessions scheduled by the mediator/settlement judge if she believes informal resolution of any or all issues is possible.

The commission said the dates set for the initial session allow parties more than six weeks to prepare for ADR.

The parties have until Sept. 12 to provide Marston with a statement of issues and she will provide a settlement report to the commission within five days of the conclusion of the initial settlement session, to inform the commission of any additional information that should be provided to the commission and whether additional sessions will be scheduled.

If the parties cannot agree on any or all of the issues, the commission requires them to work with Marston to identify unresolved issues for hearing and to agree to a procedural schedule for facilitating resolution of the docket. ●

Contact Kristen Nelson at knelson@petroleumnews.com

NATURAL GAS

Conoco pauses Nikiski LNG exports

ConocoPhillips did not export any liquefied natural gas cargoes from its Nikiski LNG facility on Alaska's Cook Inlet during the first quarter of 2016, according to a report that the company has filed with the Federal Energy Regulatory Commission. In February the company secured an extension to its Nikiski LNG export license from the Department of Energy but so far has not made use of its license extension. Global LNG prices have been depressed recently due to a combination of the low oil price and the softening of demand relative to supply.

"Due to market conditions, we do not currently have plans for an LNG export program from the Kenai plant in 2016," ConocoPhillips spokeswoman Natalie Lowman told Petroleum News in an Aug. 10 email. "It will remain operational and ready to resume exports. We will continue to evaluate opportunities for future LNG exports."

Lowman said that gas being produced from ConocoPhillips' North Cook Inlet gas field is currently under contract and being sold in the local market.

According to the FERC report neither did the Nikiski plant deliver any LNG to Fairbanks Natural Gas in the first half of 2016 — the Nikiski plant sometimes supplies LNG to the gas utility to bolster gas supplies for the city of Fairbanks.

After mothballing the plant in early 2013, ConocoPhillips restarted the facility in 2014, shipping out five cargoes between May and September of that year. The company followed up with the shipping of six cargoes between May and mid-October 2015. Cargo sizes have ranged from 588,764 barrels to 855,100 barrels.

—ALAN BAILEY

FINANCE & ECONOMY

Royalty board to meet on crude contracts

The Alaska Royalty Oil and Gas Development Advisory Board will hold a public meeting Aug. 31 at 10 a.m. to consider a proposal from the commissioner of the Department of Natural Resources to sell royalty oil to Petro Star Inc.

See information on the state's public notices website, https://aws.state.ak.us/OnlinePublicNotices/default.aspx.

There are two separate contracts, one for a single year and another for four years. The board will determine whether the proposed royalty oil sale meets statutory and regulatory criteria and will prepare its recommendation to the Legislature on the four-year contract at the hearing.

The meeting will be in suite 1100, 550 W. 7th Avenue, Anchorage.

Public comments will be taken at the hearing or may be submitted in writing. Written comments are due by 4:30 p.m. Aug. 29 and should be sent to the attention of Alex Nouvakhov, Division of Oil & Gas, 550 W. 7th Ave., Ste. 1100, Anchorage, AK 99510-3560.

—PETROLEUM NEWS

Petroleum news

Oil Patch Bits

AECOM's Rich Kleinleder receives 2015 NMFS award

AECOM, a premier, fully integrated global infrastructure firm, said Aug. 3 that it is proud to announce Rich Kleinleder was selected as a recipient of the 2015 National Marine Fisheries Service Team Member of the Year Award. Team Member of the Year award recipients are honored for their outstanding contributions in advancing the NMFS mission. Kleinleder was recognized by his peers in the program management, scientific and technical category.

Kleinleder is a senior biologist who has more than 35 years of experience with all aspects of wildlife research throughout Alaska. Since 2009, he has served as project manager for the NMFS regional fisheries science center environmental compliance project. In this role, Kleinleder is responsible for coordinating with each of the six regional fisheries science centers and numerous other NMFS offices and contractors to develop programmatic environmental assessments and applications for letters of authorization under the marine mammal protection act for each center.

"Rich's award is further recognition of his tireless efforts of being an extraordinary team player and showing outstanding leadership," said AECOM's Joe Hegna, Alaska operations manager and vice president. "His hard work has paid off tremendously and we are proud of his many accomplishments."

Arctic Catering lends resources to AWAIC tournament

For the fifth year in a row, Arctic Catering & Support Services sponsored a team in AWAIC's Drive Out Domestic Violence Golf Tournament, and the event photography for the tourney.

AC&SS' team was an all-female group, led by long-time Executive Director Client Solutions Eileen Simmons. The tournament is funded 100 percent by sponsorships, and raises money for victims of domestic violence and their children.

The tournament raised $30,000 in support of the shelter, from 68 golfers and sponsors. Funds are used to provide a safe place for those in imminent danger of domestic abuse. The shelter generally runs at or over capacity, with an average daily population of 50, providing services to more than 700 individuals annually.

The winning team in the tournament was Bristol Bay Native Corp.

"We are pleased to support events like this that address a serious need in our community," said AC&SS CEO Dave Gonzalez. "Having our employees and senior staff take the lead in community support fundraisers like the AWAIC tournament is an excellent way for us to give back."

Editor's note: Some of these news items 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 September.

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

All of the companies listed above advertise on a regular basis with Petroleum News

continued from page 3

WIELECHOWSKI Q&A

together a good team. He's only been in office not only two years. The financials have changed and the market has changed over the last couple of years. It would have been nice to have people there and stay there, but I think being realistic, people have different things going on in their lives. He's got good people in there now, so that we can things moving forward.

Petroleum News: So let's talk about one that's left and two that have come on board. You lost Marty Rutherford at DNR. Talk about that.

Wielechowski: I've known Marty ever since I've been in office. She's done an excellent job for the state. She's got a great amount of institutional knowledge. It's a loss of somebody with a lot of heart for the state, so I'm disappointed to see her go. I don't think it's a huge surprise. I've been hearing for almost a year now that she's been planning on moving on. Still, you don't like to see somebody of that caliber leave.

Petroleum News: Does it upset you that the governor couldn't keep somebody of that caliber on board?

Wielechowski: It is what it is. The governor has known her since they were kids. I was happy he figured a way to bring her back in the beginning and help get a team together and make the transition. She had a lot of institutional knowledge and brought a lot to the table. I was sorry to see her move on.

Petroleum News: OK, onto those who came on board: The governor quickly hired Mr. (John) Hendrix to a cabinet level position. What are your thoughts on that hire?

Wielechowski: That was a little surprising. I don't know him very well. In the past it's always been oil and gas issues handled by the DNR commissioner and the Revenue commissioner has always been pretty actively involved in those issues. So I was surprised to see that. I haven't spoken with him yet and I don't know what his plans are or what new things he brings to the table, which is a probably a good thing.

Petroleum News: So if you've never spoken with him, what would you like to hear from next?

Wielechowski: I want to hear what his plans are to help us get more oil in the pipeline. What are his plans to get more oil and gas exploration? What can he bring to the table that others can't? Our mantra was we need more tax cuts and it's just tax cuts. We've tried that. We still don't have more oil projected over the next 10 years. There are projected declines, in fact. So what are his ideas? What are his thoughts on how we do that? If he can figure out a way to get to 1 million barrels of oil, or even 600,000 barrels of oil.

Petroleum News: So have you met with Andy Mack?

Wielechowski: Yes, I have. It was a really good meeting. I like him. I've known him for a couple of years and he's very qualified. He is someone who knows natural resources in the state. He's very well connected throughout the state on natural resources issues and a variety of rural and Alaskan issues. I had a really good meeting with him and look forward to working with him.

> ***"Most people seem to think the demand for natural gas will increase and the prices will rebound, so we've got to try to wait it out right now."***
> ***—Sen. Bill Wielechowski, D-Anchorage***

Petroleum News: OK, so now you've got three new high-level players on board. What do you want the collective three to be able to accomplish?

Wielechowski: First of all, natural resources we tend to think of it as oil and gas, but there are other things like timber and mining. But the big focus is typically on oil and gas. I want to see what ideas they have and what thoughts they have to get more oil and gas moving through Alaska. Really, what are their plans to create more responsible development throughout the state?

Petroleum News: Let's talk about a hearing that took place a few weeks later that questioned the administration over its pursuit for more plan of development information at Prudhoe Bay. You seemed OK with the request.

Wielechowski: I think it was a reasonable request. The state is the owner of the resource and we have an obligation to get the maximum value for the resource. Quite frankly, I'm surprised that previous administrations haven't asked for this information. I think asking how this gas would be marketed is a perfectly legitimate question. I don't think it's any kind of attack or any sort of affront. It's just simply acting as a responsible resource owner, saying hey we are interested in finding out how you plan on developing the resource. When you take out a lease from the state of Alaska, there is an obligation to explore, an obligation to develop and an obligation to market. The administration is simply asking, what's the plan on how you want to market the gas and development. It's the way any responsible owner would act.

Petroleum News: You said you're surprised previous administrations haven't asked for this information. That's been the industry's position how unprecedented the request is.

Wielechowski: I think one of the concerns they have — and it's a legitimate one — so I asked the administration will you work with the industry to ensure the confidentiality of this information. They said absolutely. Anytime you do something a little differently, anytime there is a little change, there tends to be reflexive opposition to it.

I think in this case they are working to address the industry's concerns about confidentiality. I think it's a case where we've got a huge amount of gas on the North Slope, how do you plan to develop it. How do you plan market it? That's a very reasonable, rationale request. If there are confidentiality issues, we'll protect your confidentiality. But as the resource owner, we can't just wait until the last minute, so I think it's reasonable.

Petroleum News: Are you concerned this could end up in court the way Point Thomson did?

Wielechowski: I hope it doesn't. I hope it doesn't. Ultimately, we waited 25-30 years to develop Point Thomson. We didn't really ask any questions. We just kept approving the various plans of development. We didn't ask any questions. We just took them at their word.

No administration under Gov. Murkowski's team said wait a second, this isn't the proper approach. It took us taking away the lease; it took us going to court but finally it's getting developed. You hate to have litigation as the answer to the problem.

We waited for 25-30 years on Point Thomson. What is happening with the governor is he's saying we don't want to go through this again; I don't want to have to go through that again for decades more. We've already waited for decades. Nobody wants to through litigation. Sometimes you have to.

Petroleum News: On to what may be next. In the coming 2017 session, there's an expectation that oil taxes and oil tax credits are expected to be on your plate. Are you expecting more bills?

Wielechowski: It's tiresome. I've been here for 10 years and there's not a lot of time that has gone by where we haven't done oil and gas issues. There are still a lot of people who still feel our oil and gas tax system isn't the way it should be. Even with the small fixes that were made to the tax credit system, I think there is still a lot of concern that we are getting the maximum value for the resource that we are required to do. I think you need to look at that. You want to balance that. You want to provide as much stability to the industry as you can. I think we need to look out for the people of Alaska as well.

Petroleum News: Do you ever foresee the state having a tax system that seems to be fair at all price levels? That seems to be elusive.

Wielechowski: We have to do that. I think it's critical that we do that. If you look at a country like Norway, which has a very high net profits tax, they managed to do it. They get a lot at high prices and not very much at low prices. They have almost a trillion dollars in the bank and the companies are making good profits, and they are not changing their system every year. There has got to be a way to come up with something that is fair to them and fair to the people of Alaska. I don't think we are quite there yet, but I'm hopeful that we can get there.

Petroleum News: Why does that seem to be so difficult? ACES grabbed too much at the high side and now the state doesn't seem protected at the low side.

Wielechowski: I think it's politics. I think you have the oil industry that is extremely active in our political system. They take a keen interest in protecting their shareholders. They are doing their very best at maximizing their bottom line. We had a system in place that worked, I thought. Everybody made money. The only thing that changed it was politics — redistricting. So it's politics more than anything else. I think it's the root of a lot of problems. ●

Contact Steve Quinn at squinnwrite@gmail.com

continued from page 1

TOLSONA WELL

AHTNA INC.

An aerial view of the gravel pad and access road for Ahtna Inc.'s Tolsona No. 1 well, on the north side of the Glenn Highway, 11.5 miles west of the town of Glennallen

"Ahtna would not be doing this exploration if the tax credits were not in place. A substantial discovery would benefit not only the Copper River region but the state at large, helping to address high energy costs in the region and beyond," said Ahtna President Michelle Anderson.

Ahtna says that construction of the drilling pad and the access road to the nearby Glenn Highway involved the placement of more than 100,000 yards of gravel and more than 7,000 truck trips from a gravel pit over a 35-day period. The drilling rig is being mobilized for arrival at the pad in about 40 truckloads by Sept. 1.

Target depth

The planned well, drilled in state land under the terms of a state exploration license, will target thick Nelchina sandstone intervals at depths between 4,000 and 5,000 feet. The drilling crew will conduct flow tests once the well has reached its target depth, Ahtna says.

The region is known to be gas prone. A previous gas exploration well, the Ahtna 1-19 well, drilled about two miles east of the Tolsona well between 2005 and 2007, encountered gas but eventually had to be abandoned because of exceptionally high formation pressures and problems with water encroachment.

Ahtna says that, for the Tolsona well, the crew will use special equipment to separate and analyze fluids flowing from the well. Following demobilization of the rig towards the end of October, the well will be secured and a site cleanup performed.

Public access

Ahtna has previously indicated that, depending on whether the drilling pad becomes used for gas production following a significant gas find, the pad and access road may be made available for recreational access to the land on the north side of the Glenn Highway. The access road is currently open to the public, with a pullout and turnaround area at the security gate near the pad entrance. However, the corporation says that, in anticipation of heavy traffic, including trailers carrying the drilling rig, restrictions will be placed on road access to ensure the safety of both the public and the project work crew.

Alaska employment

Once the drilling is underway, Ahtna anticipates approximately 50 people, mostly from third-party contractors, to be working on the project at any given time. About 70 percent of the people who worked on the pad and road construction consisted of Ahtna Native shareholders and members of trade unions; all project staff, including subcontractors, are Alaskans, Ahtna says.

Ahtna sees local employment, in addition to the resource potential, as a benefit of the project.

"We hope to see an increase in local hire for this phase of the project and, taking a longer view, that if the potential resources are successful, we will see an increase in long term jobs and employment opportunities with the region," Anderson said. ●

Contact Alan Bailey at abailey@petroleumnews.com

continued from page 1

ECONOMIC GROUP

Colgan, Ty Keltner and Barbara Blake, who is actually on Lt. Gov. Byron Mallot's staff.

The governor's office was unable to provide information on what Colgen, Keltner and Blake are doing in addition, or previously, to being involved with the economics team.

Tichotsky said the group will function informally as a team to focus on a number of broad long-range issues on economic development. "This grows out of the governor's plan to 'fix' the state's economy this year through the Permanent Fund Protection Act and then start 'building' the economy next year," Tichotsky said.

There is obvious potential — "low-hanging fruit," Tichotsky called it — in established industries like oil and gas, minerals and seafood, where near-term initiatives can be developed, as long as long-term possibilities, like agriculture.

Infrastructure will be another near-term initiative, he said.

Health care, where rising costs are a drag on the economy, is another area ripe for initiatives beyond efforts now underway, he said. Economic diversification is the overall goal, Tichotsky said.

Another example of how the governor is working to better harness state resources is the study now underway by a consulting group of merging aspects of the Alaska Housing Finance Corp., the Alaska Industrial Development and Export Authority and the Alaska Energy Authority, Tichotsky said.

The idea for a "think tank" within the governor's office grew out of the administration's initial work last spring on the Permanent Fund Protection Act, an initiative that was initially planned to convert the Fund into a sovereign wealth fund like that in Norway, Tichotsky said.

It was a bold vision, but a complex one, and the Legislature opted for a simplified version. The bill failed to pass the Legislature but may be considered again if a special session is held later this fall.

The planning work on the Permanent Fund Protection Act bill drew people together from several agencies, like Tichotsky from the revenue department.

There are always complications in working on special projects when people have other responsibilities, and now being transferred to the governor's office has simplified those, Tichotsky said. For example, in the revenue department he had to use confidential data in his work as chief economist, and he always had to worry about potential conflicts in using data.

"Now I don't have to worry about that because I only work with public data," he said.

At the Division of Oil and Gas King's work involved economic analysis of field operators' plans of development and the agency's work on royalty-in-kind decisions on oil and gas royalty sales, said Alex Nouvakhov, manager of DO&G's commercial section.

In the governor's office the new economics group will continue working on a sovereign wealth concept as well as other ways the state's financial resources can be used more effectively to stimulate the economy, Tichotsky said.

"We want to learn why Singapore, a country without natural resources, is such an economic powerhouse, and also why resource-rich countries like Nigeria and Venezuela are failures," he said.

—TIM BRADNER

Contact Tim Bradner at timbradner@gmail.com

● ENVIRONMENT & SAFETY

Attorneys argue for listing bearded seals

By DAN JOLING

Associated Press

Bearded seals, the largest of the Arctic seals, deserve to be listed as a threatened species because of continuing loss of their sea ice habitat, a federal government attorney told a panel of the 9th U.S. Circuit Court of Appeals Aug. 4.

Robert Stockman of the National Marine Fisheries Service urged judges to reverse a lower court ruling that said the agency improperly listed bearded seals in December 2012.

The agency's best projection is that ice critical to bearded seals will disappear or be greatly reduced by the end of the century in the Bering Sea, where 70 percent of bearded seals thrive. Ice loss already is outpacing models, he said.

"The minimum ice years will start being harmful soon," he said.

Attorneys for the North Slope Borough, the Alaska Oil and Gas Association and others who sued to reverse the listing said the federal agency has not demonstrated that Bering Sea ice losses will harm bearded seals, which have thrived for centuries and survived other warming periods.

"Here all we have is information on sea ice loss," said attorney Tyson Kade.

Bearded seals get their name from short snouts covered with thick, long, white whiskers, according to the agency. They grow as large as 8 feet, weigh between 575 and 800 pounds and can live to 25 years or more.

They eat Arctic cod and shrimp but also dive for crab and clams, usually in depths less than 325 feet, according to the agency.

They give birth and rear pups on drifting pack ice. When females give birth, they need ice to last long enough in spring and early summer to successfully reproduce and molt.

2014 ruling found listing improper

U.S. District Court Judge Ralph Beistline in 2014 ruled the threatened species listing was improper. It did not appear, he wrote, that any serious threat of a population reduction, let alone extinction, existed before 2100. The listing itself conceded that through the middle of the century, there would be enough sea ice to sustain Bering Sea bearded seals at or near current levels, Beistline said.

Judges on Aug. 4 closely questioned how far out an agency could project harm before it declared a species threatened or endangered.

Kristen Monsell of the Center for Biological Diversity, which sought the listing, said agencies must act to protect future generations of a species, not just the current population, and take measures with enough time to do so.

But Jeffrey Leppo, representing the Alaska Oil and Gas Association, said NMFS has not documented harm to bearded seals despite well-documented sea ice loss that already has occurred. He dismissed the idea that bearded seals will face harmful competition if they migrate north of the Bering Strait into other areas with ice.

"If this was a small area, that would be a fair point," he said. "The area is a very, very large area." ●

continued from page 1

PLACER DRILLING

ed plan of development, the well "confirmed extension of the Placer reservoir beyond the central Placer No. 1 location." As of now, the Placer No. 3 well only identified one productive interval at the unit. But the company intends to determine, at a later date, whether other zones at the unit also have the capability to be productive.

Now ASRC Exploration is proposing a plan to move toward development. The two-year program would "re-evaluate and incorporate new seismic into our model to complete geological mapping of the area; perform reservoir engineering for reserves estimates; perform facilities engineering for a development plan; and perform economic evaluations with the goal to sanction the project development," according to the company.

Between September 2016 and September 2017, ASRC Exploration would undertake early development activities. The company would use information from all three existing Placer wells to estimate the "extent, size and continuity of all producible reservoirs." It would obtain information from the "CGG Tabasco 3D seismic" and merge the findings into other seismic surveys to better map the geologic structure. It would develop a high-level cost estimate for infrastructure. And it would start discussions with Brooks Range Petroleum Corp. and ConocoPhillips Alaska Inc. about sharing existing facilities.

Between September 2017 and September 2018, the company would use the results of its reservoir mapping to plan future development wells, begin engineering work for drilling pads, roads and pipelines, and propose the first participating area for the unit.

A five-year extension would allow ASRC Exploration to complete this two-year program and prepare a new work plan in 2018 without the threat of losing the unit or its leases.

The Division of Oil and Gas is accepting comments on the request through Sept. 3.

Hunch confirmed?

Although well results are scarce, the details are telling.

A major point of contention between ASRC Exploration and the state Division of Oil and Gas in previous years was how much acreage the company needed to explore the region.

When the company initially requested the unit in early 2011, it wanted to include four state leases covering some 8,769 acres. But later that year, the state approved a 1,480-acre unit covering portions of those leases — restricting the unit boundaries to the area immediately around Placer No. 1. After reprocessing some seismic information over the region, ASRC asked the state to expand to unit to the original boundaries, arguing that any well drilled within the smaller boundaries would be a "twin" of Placer No. 1.

After several rounds of administrative decisions and appeals, the state ultimately approved the larger unit boundaries in late 2014. Earlier this year, ASRC Exploration finally drilled and completed the Placer No. 3 well. By saying that the well "confirmed extension of the Placer reservoir beyond the central Placer No. 1 location," the company was suggesting that it was justified in its request to include more acreage in the unit.

In addition to hinting about the reservoir size, ASRC provided another glimpse into its results by telling the state it intended to apply for the well to be certified of capable of producing hydrocarbons in paying quantities, which can be used to extend certain leases.

When ASRC Exploration first took an interest in Placer, as part of an "apprenticeship" to learn more about Arctic oil and gas operations, the prospect was included in the Kuparuk River unit. ConocoPhillips operated a two-well exploration program in early 2004 on behalf of a consortium of companies, including a 35.7 percent interest for ASRC Exploration. But the Placer No. 1 and No. 2 wells ultimately did not justify development.

ASRC Exploration acquired the prospect through a state lease sale in 2006, after the leases were contracted from the Kuparuk River unit. By the time the company officially acquired the Placer No. 1 well in mid-2010, the leases were only a year from expiring. The original unitization request was an attempt to preserve the leases for exploration work.

'Billion-dollar fairway'

The Placer unit is nestled between the Kuparuk River unit to the east and the Colville River unit to the west. ARCO Alaska Inc. referred to the region as the "billion-dollar fairway" because of the presumed quantities of oil contained between the giant fields.

In recent years, independent operators Armstrong Oil & Gas and BRPC have been pursuing the opportunities in that fairway. While Armstrong in still early in the development process at the Pikka unit to the northwest of Placer, BRPC is nearing startup at the Southern Miluveach unit to the south — and that creates an opportunity.

For a time, ASRC Exploration wondered if the Placer reservoir might extend far to the south, and entered negotiations with BRPC to jointly explore and develop Placer. Those negotiations petered out, but the companies could still partner.

The Alaska Industrial Development and Export Authority partially financed much of the initial infrastructure investments at the South Miluveach unit, including its processing facilities. One reason the public corporation was interested in the project was the opportunity to improve the economics of other projects in the fairway, including Placer. ●

Contact Eric Lidji at ericlidji@mac.com

continued from page 1

SLOPE DRILLING

the first quarter down to 42 wells in the second quarter — it fell sharply over the same period this year — from 45 wells in the first quarter to 29 wells in the second quarter.

The figures represent administrative filings published through July 2016. AOGCC completion reports occasionally lag behind actual drilling and are often revised. With future revisions, these figures could end up being higher but are unlikely to be lower.

Any discrepancies between these figures and those reported for the first quarter, in the May 15 issue of Petroleum News, are the result of AOGCC revisions, additional completion reports and adjustments to remove apparent duplicates from the database.

Except when mentioned, references to "wells" includes laterals and sidetracks but not workover activities to repair aging or damaged wells. The well totals include both production wells and injection (or "service") wells required to maintain field pressure.

> *While the figures show an easing at the two largest fields on the North Slope, they show the complete opposite at the next two largest fields: Colville River and Milne Point.*

Prudhoe and Kuparuk

While the completion reports appear to reflect a noticeable downward trend in the aggregate, they become more complicated when considered on a unit-by-unit basis.

But both the Prudhoe Bay and Kuparuk River units follow the trend.

Reflecting the large cuts to employment and expected activity that operator BP Exploration (Alaska) Inc. announced earlier this year, development drilling declined at the Prudhoe Bay unit. The company drilled 27 wells at the unit in the first half of 2016, down from 33 wells in the first half of 2015 and up from 23 wells during the first six months of 2014.

And like the overall North Slope figures, the Prudhoe Bay numbers also show a decline between first quarter and second quarter activity. The rate of drilling remained fairly level in early 2015 — with 18 wells in the first quarter and 15 wells in the second quarter. But this year, drilling declined from 18 wells in the first quarter to nine wells in the second.

Similarly, at the Kuparuk River unit, ConocoPhillips Alaska Inc. reported a slowdown in activity. The company drilled 30 wells at the unit through the first half of 2016, down from 38 wells during the first half of 2015 and up from 26 wells in the first half of 2014.

And while the rate of drilling activity was steady last year — with 19 wells in both the first and the second quarter — the rate appeared to be slowing through the first half of this year — with 18 wells drilled in the first quarter and 12 wells drilled in the second quarter.

The Kuparuk River unit figures are more nuanced than they first appear because of ConocoPhillips' ongoing strategy of multilateral drilling at the unit. The 30 penetrations drilled at the unit can be further broken down to six single wells, three sidetracks and 21 laterals, including what appears to be a septa-lateral well at Drill Site 3H, a penta-lateral well at Drill Site 3O and a tri-lateral well at Drill Site 3Q, all in the north of the unit.

Alpine and Milne Point

While the figures show an easing at the two largest fields on the North Slope, they show the complete opposite at the next two largest fields: Colville River and Milne Point.

With its ongoing development program at the new CD-5 pad underway, ConocoPhillips increased activities at the Colville River unit over last year. The company drilled eight wells at the unit in the first six months of 2016, up from five wells during the same period last year. And the rate of drilling remained steady between the first and second quarters.

One of the wells drilled this year was plugged and abandoned, and later sidetracked.

And at the Milne Point unit, operator Hilcorp Alaska LLC started its drilling campaign after a period of preliminary workover and administrative activities. The company drilled seven wells at the unit in the first half of this year, after drilling none during the same period last year. But previous operator BP drilled 17 wells during the first half of 2014.

Oooguruk and Nikaitchuq

The declines were sharpest at two of the newest producing units.

Caelus Natural Resources Alaska LLC drilled two wells at the Oooguruk unit in the first half of 2016, after drilling four wells at the unit during the same period of 2015.

And while the four 2015 wells were evenly split between the first and second quarters, Caelus drilled both of the two 2016 wells in the first three months of this year.

Earlier this year, the small independent announced plans to suspend drilling operations at the unit through at least August 2017, as a response to persistently low oil prices.

Similarly, the major Eni US Operating Co Inc. suspended drilling at the neighboring Nikaitchuq unit in late 2015 and expects the hiatus to remain in place for much of this year. While the company drilled eight wells at the unit in the first half of 2014 and six wells in the first half of 2015, it drilled no wells during the first six months of this year. ●

Contact Eric Lidji at ericlidji@mac.com

continued from page 1

CAELUS PLANS

"We're continuing to evaluate our future plan and are hopeful for an additional price uptick and a time when we see some certainty in the fiscal system."

In May, faced with continuing low oil prices, Caelus suspended development drilling in the company's Oooguruk oil field, offshore the North Slope. The Nuna project, a planned expansion to the Oooguruk field, is also on hold. Last winter the company drilled two exploration wells in Smith Bay, about 59 miles southeast of Barrow and reported a possible large oil find. The company has been planning to return to Smith Bay for further drilling next winter.

In November 2015, prior to last winter's drilling at Smith Bay, Sullivan told the Resource Development Council's annual conference that Caelus' Smith Bay exploration project would not be possible without the partnership of the state through its tax credit program.

—ALAN BAILEY

Contact Alan Bailey at abailey@petroleumnews.com