# Petroleum news

**page 3** Tarr enjoying House Resources, expects panel to work in interim

**Vol. 20, No. 19** • **www.PetroleumNews.com** *A weekly oil & gas newspaper based in Anchorage, Alaska* **Week of May 10, 2015 • $2.50**

## This week's Mining News

NORTH OF 60 MINING news

page 12 Lt. Gov. visits B.C. to strengthen trans-boundary mining relations

www.MiningNewsNorth.com *The weekly mining newspaper for Alaska and Canada's North* Week of May 10, 2015

NEWS NUGGETS

*Compiled by Shane Lasley*

**Novagold repays debt, still has US$136M**

Novagold Resources Inc. May 4 reported the payment of the remaining US$15.8 million principal balance of its 5.5 percent convertible notes and US$400,000 in interest. With US$135.5 million in cash and term deposits after the May 1 pay-off of the convertible notes principal and interest, Novagold said it has sufficient capital to complete the permitting of the Donlin Gold project in western Alaska, conduct planned studies on its 50-percent-owned Galore Creek project in northwestern British Columbia and ample financial resources to continue with existing activities for many years should gold prices remain at current levels. "Full repayment of our public debt obligations is an important milestone," said Novagold President and CEO Gregory Lang. "Our financial strength coupled with the fact that our flagship Donlin Gold project is now well over half-way through the permitting process, places Novagold in an exceptional position to continue building value for all of its stakeholders for many years to come."

GREGORY LANG

**Kensington generates US$12.3M in cash**

Coeur Mining Inc. May 4 reported first-quarter 2015 revenue of US$153 million, a US$12.4 million increase over the comparable sum in the fourth quarter of 2014. The company attributes the 9 percent improvement in revenue to increased sales and slightly better prices for metals sold. The Kensington gold mine in Southeast Alaska generated US$12.3 million in cash flow, and US$8.2 million in free cash flow, after capital expenditures. Coeur said a 14 percent increase in average gold grade enabled lower throughput in the first quarter. In April, the company released a re-scoped mine plan for Kensington that reflects the impact of mining the high-grade Jualin zone. Mining rates at Jualin are expected to peak in 2018-2019 when annual production at Kensington is expected to average roughly 143,000 ounces at costs of about US$760 applicable to sales per oz gold. Recent drilling results suggest the potential to expand the

see **NEWS NUGGETS** page 14

PUBLIC POLICY

**Senators: WOTUS unclear**

*Murkowski grills McCarthy; bill seeks to narrow U.S. water definitions*

By SHANE LASLEY

*Mining News*

Viewed by many as a dangerous expansion of authority, marketed by the U.S. Environmental Protection Agency as simply a clarification of water protection rules already in place, the proposed "Clean Water Rule" has emerged as a primary point of contention between many U.S. lawmakers and the EPA.

This dispute was crystal clear when EPA Administrator Gina McCarthy faced U.S. Sen. Lisa Murkowski, R-Alaska, during a recent hearing of the Senate Interior Appropriations Subcommittee in which the environmental agency was seeking congressional approval for an US$8.6-billion budget for the coming year.

SHANE LASLEY

SEN. LISA MURKOWSKI

GINA MCCARTHY

Murkowski, who chairs the subcommittee, grilled McCarthy on new definitions of waters of the United States being proposed in the pending Clean Water Rule as well as a number of other concerns she has on how EPA is going about its business.

"EPA's proposal to change the definition of the waters of the United States under the Clean Water Act has been described by some as a simple clarification, but in reality the change would substantially increase the EPA's regulatory reach," Murkowski said.

The senator said the regulatory burden created by the water rule would be a showstopper for new development in Alaska.

McCarthy assured the panel that the EPA is not seeking to extend its reach with the water rule.

"This is not an expansion of our jurisdiction, this is a way to focus attention where it is deserved so there can be increased clarity about what's in and what's not in," the administrator explained.

"While your words are articulate, I don't think it does much to calm the fears of the miners out in Fortymile who are worried about whether or not they are going to be able to move forward with their small placer mining activity," Murkowski fired back.

The Fortymile Mining District, for which the senator was referring, grabbed national media attention when the EPA headed a 2013 task-force of armed agents to investigate water quality violations by placer miners in the region.

**Narrowed definition**

While Murkowski and McCarthy were discussing the proposed changes to water rules, Sen. John Barrasso, R-Wyo., was preparing to introduce a bill that would direct the EPA to draft new guidelines that would narrow the definition of waters of the United States, compared to what is currently being proposed.

"After working together for months, we've introduced a strong bipartisan bill that will protect America's waterways – and America's farmers, ranchers and landowners," said Barrasso.

The legislation, known as the Federal Water Quality Protection Act, was introduced to the Senate on April 30 with nine co-sponsors onboard – six Republican and three Democrat – including Sen. Dan Sullivan, R-Alaska.

"With Alaska already home to more waters under the jurisdiction of the Clean Water Act than any other state in the country, the EPA's attempt to expand the definition of what constitutes the Waters of the United States impacts no state more than my own," said Sullivan.

In early April, Sullivan held field hearings in Alaska on the potential impacts of the proposed changes to the definitions of waters of the United States.

During an April 8 hearing in Fairbanks, Alaska Miners Association Executive Director Deantha

see **WATER DEFINITIONS** page 14

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**Proposed "Clean Water Rule" has emerged as a primary point of contention between many U.S. lawmakers and the EPA. Page 11.**

## Uncertainty for Alberta oil patch

The longest political dynasty in Canadian history came to a stunning end May 5 when voters in the oil and natural gas heartland of Alberta gave a resounding mandate to the New Democratic Party led by former lawyer and labor negotiator Rachel Notley.

Traditionally viewed as a left-of-center, socialist movement, the NDP at the latest count held 53 of 87 seats in the provincial Legislature — 37 more than its previous high — followed by

see **ALBERTA ELECTION** page 22

## Just 8 bids in Cook Inlet sale

The Alaska Department of Natural Resources' Division of Oil and Gas received just eight bids on seven tracts in its areawide Cook Inlet lease sale held May 6 in Anchorage. There were no bids on Alaska Peninsula acreage.

Division of Oil and Gas Director Corri Feige said after the sale that the division had to go back to 2009, when oil prices were in the $60 per barrel range, to find a comparable low rate of bidding in a Cook Inlet areawide sale. Feige also said the bids the

see **LEASE SALE** page 23

## Miller faces multiple troubles

Is Miller Energy Resources Inc. in a struggle for survival?

That might be an overstatement, given the company's substantial oil and natural gas production. But the Tennessee-based company clearly is under duress.

On April 29, Miller made a trio of significant disclosures.

First, it said it was in danger of being booted off the New York Stock Exchange because the average closing price of the company's common stock had been less than $1 over a period of 30

see **MILLER TROUBLES** page 16

EXPLORATION & PRODUCTION

# Moving the assets

*Furie prepares for gas production platform installation at Kitchen Lights*

**By ALAN BAILEY**

*Petroleum News*

*"If everything goes well with the mooring of the Svenja, we should start setting the main support caisson the week of May 25th." —Bruce Webb, Furie senior vice president*

With winter coming to an end, Furie Operating Alaska has started setting up and moving the various assets the company needs to install the production platform and associated subsea pipeline for its Kitchen Lights natural gas field offshore in Cook Inlet.

The platform, of monopod design, will be installed some 10 miles northwest of Boulder Point, near Nikiski on the Kenai Peninsula. The subsea pipeline, about 16 miles in length, will carry natural gas from the platform to an onshore gas processing plant near East Foreland. Utility-grade gas from the plant will be delivered by pipeline into the nearby Kenai Peninsula gas pipeline infrastructure. In transitioning from the seafloor to the onshore facility, the pipeline will pass through a directionally drilled borehole that runs under the coastal bluff.

Furie hopes to be in a position to test the installed platform and the onshore facility in late August or early September, with first gas coming on line on Oct. 1, Bruce Webb, Furie senior vice

see **FURIE PRODUCTION** page 16

EXPLORATION & PRODUCTION

# The protests continue

*Seattle blocks Shell use of port; Coast Guard sets more safety zones for vessels*

**By ALAN BAILEY**

*Petroleum News*

*Apparently Seattle Mayor Ed Murray is using the port permit issue as a means of expressing his opposition to fossil fuel development.*

In the latest challenge to Shell's planned 2015 Chukchi Sea drilling program, the mayor of Seattle has ruled that the city's port must obtain a new land use permit, if Shell is to use the port as a West Coast base for its Arctic operations. And, concerned about possible accidents involving protestors against Shell's Arctic program, the U.S. Coast Guard has proposed further safety zones around the vessels in the company's Arctic drilling fleet. Activist environmentalist organization Greenpeace has already conducted one boarding operation on a drilling vessel under contract to Shell, while that vessel was transiting the Pacific Ocean en route for the U.S. The drilling vessel, the Polar Pioneer, is now stationed at Port Angeles, near Seattle.

### Oil industry opposition

Apparently Seattle Mayor Ed Murray is using

see **SHELL PROTESTS** page 21

FINANCE & ECONOMY

# Conoco earns $146M in 1Q

*Severe drop in oil prices over the past year hits company earnings hard*

**By ERIC LIDJI**

*For Petroleum News*

*Even though falling prices and level-to-falling production is bringing down revenue, ConocoPhillips saw spending and expenses stay level for its Alaska operations.*

ConocoPhillips Co. reported $146 million in adjusted earnings from its Alaska operations during the first quarter, a significant decline over last year on lower oil prices.

The largest oil company in Alaska had earned $379 million in the fourth quarter of last year and $598 million in the first quarter of last year. The quarterly and annual declines in profits during the first quarter were largely the result of oil prices, which were less than half their average from a year earlier. Compounding those lower commodity prices were regular declines in oil and natural gas production and steady spending and taxation.

Oddly, though, Alaska accounted for slightly more than half of ConocoPhillips' total net income for the quarter, as many segments of the company's portfolio reported losses.

Companywide, ConocoPhillips earned $272 million on $8 billion in revenue during the first quarter, down from $2.1 billion on $16 billion in revenue in the first quarter of 2014.

see **CONOCO EARNINGS** page 21

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GOVERNMENT

# Tarr enjoying House Resources assignment

*Anchorage Democrat says she expects committee will be busy with gas line issues such as payment in lieu of taxes during interim*

**By STEVE QUINN**
*For Petroleum News*

Rep. Geran Tarr spent five years working for Sen. Johnny Ellis as a legislative aide, then decided it was time to hold office. Upon arriving to the 28th Legislature as a freshman, Tarr received an appointment to the House Resources Committee, getting one of the few slots afforded the Democratic minority.

She brought a background of environmental studies and work as adjunct to the University of Alaska-Anchorage campus to the committee. Now in her second term with the House and the committee, Tarr spoke to Petroleum News the recent session and what lies ahead for lawmakers.


REP. GERAN TARR

*Petroleum News: This being your third year, what interested you in getting on Resources? That's a lot of heavy lifting for a freshman, though not unprecedented certainly as you've got a freshman co-chair.*

Tarr: I have science background and about 20 years of experience in resource background so it was a good fit for me.

*Petroleum News: What have you learned these three years? You've had your share of significant legislation to review.*

Tarr: I had not focused closely on oil and gas issues when I was a staffer so we certainly spent a lot of time on oil and gas with SB 21 and the gas line bill. I was pretty proud that several of the amendments I offered on the gas line bill were incorporated into that legislation. I think they were key components related to in-state use and good pricing whether we work with one of the major producers to sell our gas or not.

So I feel more knowledgeable in what's going on in the dynamics with worldwide markets with these commodities. I think we spent quite a bit of our time on that, more so than any of the other resources issues.

We haven't really touched on mining issues in a significant way. We haven't really touched on agriculture. This year we touched on timber a little bit, but it's been dominated by oil and gas. It's been nice to work on in the moment rather than just have a more historical perspective.

It's such a dynamic situation. You've got to really be up to speed on what's going on. What I try to do as a complement to my work on the Resources Committee is I'm involved with PNWR — the Pacific Northwest Economic Region — and I attended their last two summits and participated in some of their working groups.

> *"Certainly with the economic crisis we are in now with the significant drop in oil, we are reminded even more how we need something that is part of our revenue for the future and the gas line project is going to be it."*
> ***—Rep. Geran Tarr, D-Anchorage***

I felt pretty well prepared for this job. Some of these issues are perennial issues. I was thinking back at first when we had HB 77, we kind of rang alarm bells on that because I was familiar with the water rights issues.

When we had the cruise ship waste situation that was something I felt I could add to. That's an issue I've worked on before. A lot of my work involved environmental engineering work and doing water quality sampling and helping people with the very permits we talk about in the committee. So it's good to have that practical hands-on work to understand the implications of that policy.

Q AND A

*Petroleum News: On SB 138, you were among the yes votes. It wasn't a party line finish. So what prompted you to vote yes?*

Tarr: I felt good about some of the amendments we were able to offer and given the restrictions of the AGIA license at the time, that was clearly the only path forward and involved the partners and to get everybody sort of an equal, if you will, playing field in terms of the type of commitment they are making and then having some opportunity to influence decision making going forward on the project. This is our economic future. Certainly with the economic crisis we are in now with the significant drop in oil, we are reminded even more how we need something that is part of our revenue for the future and the gas line project is going to be it.

*Petroleum News: People sort of came here thinking they would be getting occasional updates on the gas line. What you ended up having was a dispute between the House leaders and the governor, and what the governor's plans really are. This led to HB 132. So first what were your impressions of HB 132?*

Tarr: I was a no vote. I looked at this pretty critically and understand why we would need to pass this legislation at this time and what was the governor doing and how timing was related to that.

As I said on the floor and in committee, as it's been described, the governor wanting to have additional information so there truly was a backup plan had a lot to do with the timing and resource was available — that technical committee was on retainer by AGDC doing some of that work and they were about to wrap up.

If you were about to have the same people do additional work, HB 132 could produce a time delay and maybe that same group of people wasn't available. So I really thought at this time that it's worth taking advantage of this technical expertise and having them answer some additional questions. It was a unanimous (AGDC) vote and that gave me a lot of confidence.

We spent a lot of time on that in committee. If there were something problematic, the board members could have stepped up and said this isn't what we want to do. I think timing is an issue for sure. I don't think there is much time for delay in getting our project to the top of the list.

But because this was going to be a short-term information gathering and presentation, I felt like that was a good move on the part of the governor to show that we are serious. They (the producers) have other projects around the world. They don't have all their eggs in one basket. If there is some other opportunity, there are a lot of dynamics where we don't have any influence at all and so they could choose to put resources elsewhere. We don't have all of those same opportunities.

*Petroleum News: They might have opportunities around the world, but they are not stacking up their opportunities in the same pipeline path, so do you see the governor's aspirations to expand the scope of the smaller line as competition?*

Tarr: I don't. I have listened to what he said. I heard him say we can't afford to wait a few years until we get to the FEED decision, and if for any reason one of the partners wanted to walk away at that point, it would be difficult for us to be in a place where we were starting from scratch.

I think it is good for us to take advantage of the technical expertise and get a little more information on the table. Now as time evolves we will have to see where things go. Nothing in the timeline has slipped.

We got the right-of-way legislation passed and that is good for both projects but ASAP as it was envisioned originally is uneconomic. There is just really no reason to say that's a backup plan. You know that's not going to happen. This governor, people compare him to Wally Hickel, the owner state governor. That he wants to have

see **TARR Q&A** page 19

● EXPLORATION & PRODUCTION

# April ANS production 542,154 bpd, up 0.9%

## *Kuparuk up 2.3% month-over-month, Prudhoe up 0.6%; March Cook Inlet output averages 18,292 bpd, up just 0.3% from February*

**By KRISTEN NELSON**
*Petroleum News*

Alaska North Slope crude oil production averaged 542,154 barrels per day in April, up 0.89 percent from a March average of 537,367 bpd.

The largest month-over-month increase was at Kuparuk River, operated by ConocoPhillips Alaska, where production averaged 143,145 bpd in April, up 2.34 percent from a March average of 139,878 bpd.

Information for April is from the Alaska Department of Revenue's Tax Division which reports North Slope oil production consolidated by major production centers and provides daily production and monthly averages. More detailed data, including Cook Inlet and individual North Slope fields and pools, is reported by the Alaska Oil and Gas Conservation Commission on a month-delay basis.

Kuparuk production includes volumes from the Eni-operated Nikaitchuq field and the Caelus Alaska-operated Oooguruk field. Nikaitchuq production, as reported by AOGCC, averaged 25,336 bpd in March, up 2.87 percent from a February average of 24,629 bpd. In March, Nikaitchuq accounted for 18.11 percent of the volumes reported for Kuparuk. Oooguruk production averaged 10,677 bpd in March, up 8.97 percent from a February average of 9,798 bpd, accounting for 7.63 percent of the March production reported for Kuparuk.

### Prudhoe, Alpine also up

The BP Exploration (Alaska)-operated Prudhoe Bay field averaged 316,463 bpd in April, up 0.62 percent from a March average of 314,499 bpd.

Volumes from Prudhoe, the North Slope's largest oil field, include satellite production from Aurora, Borealis, Midnight Sun, Orion, Polaris, Sag River, Schrader Bluff and Ugnu, as well as from the Hilcorp Alaska-operated Milne Point and Northstar fields.

AOGCC data show that Milne Point averaged 18,491 bpd in March, down 4.37 percent from a February average of 19,336 bpd, accounting for 5.88 percent of Prudhoe production volumes in March, while Northstar averaged 11,588 bpd in March, up 9.51 percent from a February average of 10,581 bpd, accounting for 3.68 percent of Prudhoe volumes in March.

The ConocoPhillips-operated Alpine field on the western edge of the Slope averaged 48,582 bpd in April, up 1.33 percent from a March average of 47,942 bpd. Alpine includes satellite production from Fiord, Nanuq and Qannik, with the main Alpine field accounting for 65 percent of the field's production in March, followed by 28 percent at Fiord and some 3 percent each at Nanuq and Qannik.

### Endicott, Lisburne down

The Hilcorp-operated Endicott field averaged 9,634 bpd in April, down 0.06 percent from a March average of 9,640 bpd. Endicott includes volumes from the Savant Alaska-operated Badami field, the farthest east production on the Slope, which averaged 954 bpd in March, down 3.55 percent from a February average of 989 bpd. Savant Alaska is a subsidiary of Miller Energy Resources.

The BP-operated Lisburne field, part of greater Prudhoe Bay, averaged 24,330 bpd in April, down 4.24 percent from a March average of 25,408 bpd. Lisburne includes production from Niakuk and Point McIntyre.

### Cook Inlet holds level

Cook Inlet crude oil production averaged 18,292 bpd in March, up 0.33 percent from a February average of 18,231 bpd.

The largest month-over-month increase was at the Hilcorp-operated Trading Bay field, which averaged 2,940 bpd in March, up 10.72 percent from a February average of 2,656 bpd.

The Cook Inlet Energy-operated Redoubt Shoal field averaged 1,057 bpd in March, up 4.36 percent from a February average of 1,013 bpd. Cook Inlet Energy is a subsidiary of Miller Energy Resources.

Hilcorp's Beaver Creek field, Cook Inlet's smallest, averaged 119 bpd in March, up 0.96 percent from a February average of 118 bpd.

The Hilcorp-operated Granite Point field averaged 2,682 bpd in March, up 0.33 percent from a February average of 2,673 bpd.

The steepest month-over-month Cook Inlet production drop was at the Cook Inlet Energy-operated West McArthur River field, which averaged 1,314 bpd in March, down 7.55 percent from a February average of 1,421 bpd.

The Hilcorp-operated Swanson River field averaged 2,688 bpd in March, down 2.89 percent from a February average of 2,768 bpd.

The Hilcorp-operated McArthur River field, Cook Inlet's largest, averaged 5,518 bpd in March, down 1.58 percent from a February average of 5,606 bpd.

Middle Ground Shoal, operated by ExxonMobil subsidiary XTO, averaged 1,975 bpd in March, down 0.11 percent from a February average of 1,977 bpd.

ANS crude oil production peaked in 1988 at 2.1 million bpd; Cook Inlet crude oil production peaked in 1970 at more than 227,000 bpd. ●

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● EXPLORATION & PRODUCTION

# Canada in push and pull

*Big oil sands operators keep pumping into storage, clinging to hope there will be a payoff, while posting landslides in Q1 results*

**By GARY PARK**
*For Petroleum News*

There is a mood of bravado in the core of Canada's oil producing industry, tempered with edginess over where the business is headed.

As the major operators have rolled out the results of their first full quarter of a 50 percent plunge in oil prices, they have set the stage for an even larger wave of budget cuts and layoffs.

At the same time, they have continued pouring even more crude bitumen into a saturated market, shrugging off for now some of the shrinking profits and warnings that weak commodity prices will not go away soon, if ever.

"Stay tuned," said Rich Kruger, chief executive officer of Imperial Oil (70 percent owned by ExxonMobil and Canada's largest refiner). "We're still early in this cycle and the dust hasn't settled."

Amid that somewhat ambiguous assessment, Imperial said it has not given up on plans to increase oil sands output beyond the 11 percent year-over-year boost in its production from northern Alberta to 219,000 barrels per day.

Output from its Kearl facility continued a steady climb to 95,000 bpd from 70,000 bpd a year earlier and is targeted at 110,000 bpd — although Imperial is not saying much about its plans for spending C$28.5 billion on the project and ramping up to 345,000 bpd by 2020 — from a resource of 4.6 billion barrels of recoverable bitumen.

Like its oil sands peers, Imperial's bottom line took a hit. However, unlike Suncor Energy and Cenovus Energy, Imperial remained in the black, although its profit slumped more than 50 percent from a year ago to C$421 million.

Cenovus lost C$668 million in the first three months of 2015, a turnaround of almost C$1 billion in a year, while bitumen powerhouse Suncor posted a loss of C$341 million, compared with net income of C$1.49 billion a year earlier.

Suncor output for the opening quarter was 440,000 bpd, up almost 50,000 bpd from the same quarter of 2014 as the company turns even more attention to reducing costs and improving efficiency, while backing away from its once-ambitious plans to produce 1 million bpd by 2020.

## Room on down side

Peter Tertzakian, chief energy economist at ARC Financial, suggested there is still more room to "go down. It's not going to be a significant step down (in capital spending), but I think you will see some more budget pullbacks."

Regardless of some signs that crude prices might be firming up, some analysts say it will take a much larger and more sustained rebound to avoid another dose of cuts to spending and employment.

A 41 percent drop in drilling activity across all sections of the petroleum industry in Western Canada, with the Petroleum Services Association of Canada lowering its original forecast for 2015 by almost 50 percent to 5,320 wells, is expected to see the elimination of about 3,400 direct jobs and another 19,500 indirect jobs.

The eight largest upstream companies have slashed their combined spending by 25 percent to C$26.9 billion, while 47 energy firms are expected to reduce their collective spending by 30 percent to C$38.7 billion.

"Everybody's uncertain," said Jim Fearon, vice president with industry hiring firm Hays Oil & Gas, noting that companies are positioning themselves to have an appropriate workforce "to execute the projects that they deem essential" and prepare the industry for "what happens next."

## Volumes into storage

In setting record volumes Suncor, Imperial and Cenovus are putting more volumes into storage, in hopes that it will ultimately sell at a better price, but that poses its own problem.

Cenovus Chief Executive Officer Brian Ferguson said potential storage congestion could even force a turnaround in crude prices.

"One of the things we're very closely monitoring is supply and we've seen clearly a big drop in the rig count," he told the Canadian Press. "That has not translated to a drop in supply yet in the United States. I think we'll have more information, a clearer view in the direction of oil prices perhaps in the third quarter."

## Operating costs down

On the flip side, operating costs at Cenovus' two big oil sands facilities are down 31 percent in the past year and suppliers, under pressure, are cutting their costs by 5-10 percent, which could yield C$200 million in savings for the company this year. That also reflects a 15 percent reduction in its workforce and a C$700 million cut in its 2015 capital budget.

Although Canadian heavy crude prices were down 55 percent in the first quarter, Cenovus raised output at its flagship Christina Lake and Foster Creek thermal recovery operations by 20 percent to 144,000 bpd.

Cenovus, in looking to sell or go public with its royalty lands, has had "substantive interest from substantive parties," Ferguson told analysts, indicating a transaction is possible this year if the "valuation meets our expectations."

Suncor said its cash operating costs dropped to C$28.40 per barrel in the first quarter from C$35.60 a year earlier, but it has also trimmed its forecast for average West Texas Intermediate prices to US$54 a barrel from its previous target of US$59.

Chief Executive Officer Steve Williams said any price recovery could be offset by a revival of U.S. shale volumes

see PUSH AND PULL page 6

NATURAL GAS

# Moving for resolution for Interior gas

*AIDEA project for Fairbanks energy supply is progressing on multiple fronts towards decision point over potential solution*

By ALAN BAILEY

*Petroleum News*

The Interior Energy Project, an Alaska Industrial Development and Export Authority initiative to bring affordable natural gas to Fairbanks and the Alaska Interior, is moving forward on multiple fronts, the AIDEA board heard during its monthly meeting on April 30. Members of the project team described progress in three distinct but related areas: the establishment of a suitable gas supply; the identification of private entities for the transportation of natural gas to Fairbanks; and the due diligence required for a final decision over the AIDEA purchase of Pentex Alaska Natural Gas Co. LLC, the company that currently supplies some natural gas to Fairbanks.

Meantime, work is moving ahead on the buildout of the gas distribution pipeline network in Fairbanks, on the assumption that an expanded gas supply for the city will be forthcoming.

*Gardiner said that the target closing date for AIDEA's Pentex purchase is July 31, with the sale of the Pentex LNG assets to Harvest expected to complete in September.*

## Gas price target

Mark Gardiner from the Western Financial Group said that projected financials for the project indicate an eventual consumer gas price of $15.89 per thousand cubic feet, assuming that an appropriate new gas supply can be established, and also assuming that the Fairbanks utility gas business expands, with Fairbanks consumers converting to the use of gas for heating their homes and businesses. A target "burner tip" price for Fairbanks gas has previously been set at $15 per thousand cubic feet.

The Interior Energy Project originally planned on obtaining gas for Fairbanks via a to-be-constructed liquefied natural gas plant on the North Slope, with the LNG being carried by tanker truck down the Dalton Highway to the city. In early January, following months of investigation AIDEA terminated the project. The estimated cost of gas at the city gate for this project turned out to be around $13.50. Factoring in the additional costs of Fairbanks LNG storage, LNG gasification and gas distribution around the city would have resulted in a burner tip price that would have been too high.

Now, while the option of obtaining natural gas from the North Slope has not been entirely dismissed, the AIDEA team is particularly focusing on obtaining gas for Fairbanks from the Cook Inlet basin, especially given the recent revival of the Cook Inlet gas industry. Fairbanks Natural Gas already supplies a relatively small volume of Cook Inlet natural gas to a few consumers in Fairbanks, using an LNG plant near Point Mackenzie on the inlet. But the price of this gas in Fairbanks is far above that $15 target.

Fairbanks, with a heavy dependence on expensive fuel oil and diesel for its energy supplies, is hurting from high energy costs. And the widespread use of wood burning stoves to alleviate those costs is causing severe air pollution during the winter.

## Seeking a gas supply

The Alaska Department of Commerce, Community and Economic Development, AIDEA's parent agency, is taking a lead role in trying to establish a reliable and affordable natural gas supply from one or more Cook Inlet gas producers. Robert Shefchik, AIDEA's team leader for the Interior Energy Project, told the AIDEA board that the department will issue a solicitation for gas supplies and enter into negotiations to the point of near commercial terms, with the ultimate objective of the Fairbanks utilities signing up for supply contracts.

In parallel, the AIDEA team is preparing a request for proposal for one or more private businesses for delivering the gas to Fairbanks. The RFP should go out during the week of May 15 and will remain open for 30 days, Shefchik said. The team will consider any workable option for gas delivery, including the shipment of LNG, the construction of a gas pipeline, or even the delivery of propane rather than natural gas, he said. A two-step process will then winnow down some 18 entities that have expressed an interest in the project to perhaps two or three contenders who have the capacity and interest for more comprehensive negotiations — the idea is to delineate the entire supply chain to Fairbanks, using either a single company or perhaps with different businesses handling different components of the operation, Shefchik said.

During AIDEA's June board meeting the team should be able to tell the board

see INTERIOR GAS page 7



*continued from page 5*

## PUSH AND PULL

and continued storage levels that are well above historic levels.

Along with partners Total and Teck Resources, Suncor is pushing ahead with its most ambitious new oil sands mine in years, with construction of the 180,000 bpd C$13.5 billion Fort Hills project now 25 percent complete and first oil targeted for late 2017.

Kruger, noting that 1.2 million bpd of new oil sands capacity has been shelved within the last year, said it is not possible to sell into the current price environment without participation by the entire supply chain in lowering the cost structure.

"There is a lot being written about where prices will settle out — US$50 to US$60, somewhere higher or somewhere lower. The truth is, no-one knows." ●

*Contact Gary Park through publisher@petroleumnews.com*

*continued from page 6*

# INTERIOR GAS

how many entities have responded to the RFP, what options the team is evaluating and what the timeline looks like for a decision, he said.

### Pentex due diligence

Following an agreement in late January for the potential purchase of Pentex, AIDEA has been conducting its due diligence for the proposed deal. Pentex owns gas utility Fairbanks Natural Gas, the Port Mackenzie LNG plant and the associated LNG trucking operation that currently delivers LNG to Fairbanks. However, prior to the deal with AIDEA, Pentex had announced the proposed sale of the LNG plant and trucking operation to Harvest Alaska, a subsidiary of Hilcorp Alaska, a major Cook Inlet natural gas producer.

AIDEA has said that it expects the deal with Harvest to complete, regardless of the state agency's purchase of Pentex, and that AIDEA's interest in Pentex is the acquisition of Fairbanks Natural Gas as a means of furthering the objectives of the Interior Energy Project.

Ted Leonard, the recently retired AIDEA executive director who is working with the Interior Energy Project team, told the board that the due diligence for the Pentex deal should be completed soon.

"We believe that we will be tying up the due diligence in the next one to two weeks, and be able to have a plan to the board in mid-May, for the board to be able to make a decision," Leonard said.

### Gas pricing

In conjunction with the sale of the Pentex LNG assets to Harvest, Fairbanks Natural Gas has formed a 10-year natural gas supply agreement with Hilcorp, an agreement that AIDEA says will remain in place after AIDEA's Pentex takeover. Gardiner told the AIDEA board that this supply agreement involves an initial city gate price of $15 per thousand cubic feet, with a price escalator after two years but with the possibility of negotiating a lower price after the fifth year. The gas supplied under this agreement would only amount to 0.85 billion to 0.95 billion cubic feet per year, the volume required to meet the demand of Fairbanks Natural Gas' existing customers, Gardiner said.

The Interior Energy Project concept involves a significantly larger gas demand than this, with the Fairbanks gas utilities making major expansions to their distribution networks and electric utility Golden Valley Electric Association also planning to use gas for power generation. The AIDEA project team anticipates this additional gas being purchased at a lower price than that in the existing Hilcorp deal with Fairbanks Natural Gas. The blending of the prices between a relatively small volume of gas at the higher price with a much larger volume of lower-priced gas will ultimately enable the Fairbanks gas price goal to be met, Gardiner said.

Part of the economic equation involves AIDEA's intent to merge the two existing Fairbanks gas utilities, Fairbanks Natural Gas and the Interior Gas Utility, into a single entity, once the agency has ownership of Fairbanks Natural Gas. The consolidated utility could achieve cost savings through unified management and the efficient integration of the gas storage and distribution infrastructure, AIDEA thinks. In addition, following the purchase of Fairbanks Natural Gas, consumer gas rates should drop by about 14 percent, Leonard said — AIDEA, as owner of the gas utility, would have a lower business expense profile than that of a privately owned utility.

### Anticipated schedule

Gardiner said that the target closing date for AIDEA's Pentex purchase is July 31, with the sale of the Pentex LNG assets to Harvest expected to complete in September. The Interior Energy Project team then hopes to agree with stakeholders by the end of this year on a plan for Fairbanks utility consolidation. The intent is to complete that consolidation by December 2016 — AIDEA's preferred option is to sell the consolidated utility to a third party, although leasing the utility to a third-party operator is also a possibility.

The July purchase of Pentex would cost $54 million, but with $15.15 million of that coming back later from the sale of the LNG assets. AIDEA anticipates then recovering the resulting total cost of $38.85 million for Fairbanks Natural Gas from the sale of the consolidated utilities in 2017, while also making a roughly $2.9 million return on the investment, Gardiner said.

A projection of the financing of this plan indicates the gas rate for Fairbanks Natural Gas's existing customers dropping from some $24 per thousand cubic feet at present to $20 in 2016, Gardiner said. Then, as the Fairbanks distribution system expands and demand increases, with cheaper gas supply contracts kicking in, that rate should drop to $15.89, he said. ●

*Contact Alan Bailey at abailey@petroleumnews.com*

## GOVERNMENT

# BSEE slates risk reduction initiatives

During the Offshore Technology Conference in Houston, Texas, Brian Salerno, the director of the Bureau of Safety and Environmental Enforcement, announced two initiatives that his agency has introduced to reduce the risks associated with offshore oil and gas operations. The first of these initiatives is a program called SafeOCS, aimed at collecting near miss data as a means of identifying safety trends and increasing awareness of offshore risk. The second initiative is the launch of BSEE's new annual report, a presentation of the agency's offshore activities, together with data relating to issues such as trends, indicators and incidents, BSEE says.

SafeOCS comes as part of an effort by BSEE to identify all available methods to learn about the causes of serious offshore incidents.

"I strongly encourage participation in the system by the entire offshore community as a way to help improve the overall safety posture of the industry," Salerno said. "Shared awareness of safety trends will better equip everyone to focus on the right things and thereby drive down the risk of serious incidents."

The Bureau of Transportation Statistics will collect and analyze near-miss reports submitted by workers, companies and others engaged in outer continental shelf activities, BSEE says. Aggregated data will then be shared with the general public through the bureau's website, the agency says.

BSEE's annual report summarizes oil and gas activities from the past year, makes comparisons with previous years and describes trends which BSEE has identified, BSEE says. The report also outlines BSEE current initiatives and the agency's risk reduction plans for the coming year, the agency says.

—ALAN BAILEY

● PIPELINES & DOWNSTREAM

# Pipeline will 'go forward'

*'Astounded' by opposition, Kinder Morgan boss says Trans Mountain expansion will 'get built' by late 2018; unhappy it is 'choke point'*

**By GARY PARK**

*For Petroleum News*

Seldom heard from in public, Richard Kinder, chairman and chief executive officer of Kinder Morgan, has displayed his pique over opposition that has blocked a speedy passage through the regulatory process for plans to triple capacity on Western Canada's Trans Mountain pipeline.

Declaring himself to be "astounded" by what has transpired since the proposal was formally unveiled, he told an IHS CERA conference in Houston that the application is facing an organized movement to turn pipeline permits across North America into a "choke point."

But Kinder showed he has no intention of backing away from the plans to deliver 890,000 barrels per day of bitumen from the Alberta oil sands to tanker ports and refineries in British Columbia and Washington state.

"I believe that Canada, like the U.S., has the rule of law and I think that if you have a valid federal decision to go forward, the project will go forward," he declared.

*Both Canada and the U.S., while faced with similar levels of pushback, are also defenders of the right to protest. But at "some point, the public good should outweigh individual protest," Kinder said.*

"I think we will get this permitted. We intend to get it built. And we hope to see it in service in the third quarter of 2018."

### Focus on last 30 miles

Kinder said the bulk of opposition is focused on the last 30 miles of the pipeline route in the Metropolitan Vancouver region.

Otherwise, communities in the remaining 87 percent of the pipeline right of way have signed community support agreements for the C$5.4 billion expansion.

What surprises Kinder the most is that the protests, confrontations and legal actions are concentrated on the route used by the existing 300,000 bpd Trans Mountain pipeline that was expanded five years ago with only limited difficulty, even though it crosses through a national park.

"I am sure there are legitimate concerns about any mega infrastructure development, but a lot of this is about the pipeline as a choke point to get at production of the oil sands," which activists in Canada and the U.S. want to "strangle altogether."

He said those opponents are relying on a "spurious argument" to slow the development of fossil fuels, adding "I don't know what the hell they are going to replace it with."

### Issue of 'the public good'

Both Canada and the U.S., while faced with similar levels of pushback, are also defenders of the right to protest.

But at "some point, the public good should outweigh individual protest," Kinder said.

Even so, he is confident that Canada's National Energy Board will decide by early 2016 whether the Trans Mountain project is in the public interest, leaving 90 days for the federal cabinet to accept or reject the board's recommendation.

The unprecedented heat on the NEB is forcing the regulator to take a more transparent approach to answering public criticism.

Peter Watson, recently installed as NEB chairman and chief executive officer, told the Vancouver Sun his agency plans to conduct an audit of the emergency response program at Kinder Morgan's Canadian facilities, although the review will not be a part of the Trans Mountain public review.

He said the year-long audit will examine the company's policies and practices, its safety culture and whether employees feel empowered to bring discrepancies to light, while noting that Kinder Morgan has a "good plan in place ... but we just don't want to be complacent."

### Concern from BC, Vancouver area

British Columbia Premier Christy Clark, and the seven Vancouver area mayors, voiced displeasure with the amount of information being made public by the NEB, especially in the wake of a recent spill of bunker oil from a cargo ship in the heart of the Vancouver port.

Watson said he has called on the Canadian Energy Pipeline Association to develop a new set of "best practices" for public consultation.

At the same time, he said 400 interveners have registered for the Trans Mountain review, which shapes up as the largest in the NEB's history, which puts pressure on the review panel to keep the hearings "effective, fair and transparent for all."

Although Watson told the mayors he wants to ensure "deeper engagement" with the public, Vancouver Mayor Gregor Robertson said he has little faith in the board and Trans Mountain process.

Robertson accused the NEB of "completely ignoring the economy and the quality of life here in Vancouver."●

*Contact Gary Park through publisher@petroleumnews.com*


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● EXPLORATION & PRODUCTION

# Conoco requests Meltwater injection change

*AOGCC schedules hearing on proposed modifications to existing order for enhanced recovery operations at Kuparuk River satellite*

**By KRISTEN NELSON**
*Petroleum News*

ConocoPhillips Alaska has requested modifications to the area injection order for the Meltwater oil pool at the Kuparuk River unit, reflecting knowledge gained from operating Meltwater.

The Alaska Oil and Gas Conservation Commission said that in response to that request it will "take this opportunity to update the order and rules to reflect current operating practices and latest regulatory requirements and conditions" and has scheduled a hearing for 9 a.m. July 9 at its Anchorage office to hear evidence on these matters from ConocoPhillips, which operates the field on behalf of itself and the other working interest owners. In addition to ConocoPhillips, which holds a 54.02 percent interest at Kuparuk, working interest owners include BP Exploration (Alaska) with 38.3 percent, Chevron USA with 4.95 percent and ExxonMobil Alaska Production with 2.73 percent.

*A third initiative, in the planning stage, "would be designed to place injectors and producers within the same reservoir body, or lobe, through the use of coiled tubing drilling (CTD) sidetracks and well conversions."*

The Meltwater pool sits south of the Kuparuk River field, separated from the remainder of the unit.

In March, the most recent month for which production volumes are available from AOGCC by pool, Meltwater, one of Kuparuk's smaller pools, produced 2,337 barrels per day; the Kuparuk River unit averaged 109,055 bpd in that same month.

### Reasons for request

In an April 14 request for amendments to the existing area injection order ConocoPhillips said the requested amendments "arise from geologic and production data analyses that indicate there has been no further migration of injection fluids out of the" Meltwater oil pool. The company also said "recent geologic and production data analyses indicate that well conversions and sidetracks utilizing coiled tubing drilling technology may further reduce the risk of potential migration of injected fluids out of the MOP (Meltwater oil pool)."

ConocoPhillips said the requested amendments would improve Meltwater flood efficiency and ultimate hydrocarbon recovery; enable the company to "conduct surveillance initiatives to ensure confinement of injected fluids" within the Meltwater pool; and remove the expiration date associated with the existing area injection order.

### Bermuda interval

The Meltwater pool is the Bermuda interval between 6,785 and 6,974 feet measured depth in the Meltwater North No. 2A well, the company said.

"The Bermuda interval itself is a complex shelf-slope turbidite deposit," with the reservoir "compartmentalized into turbidite lobes, which are individual bodies of reservoir quality sandstone," often separated within the Meltwater oil pool "by stratigraphic and/or structural discontinuities that can cause significant balling of flow."

Initial migration of injected fluids out of the interval was likely "a result of a large pressure differential between injectors and producers," with that pressure differential "exacerbated by stratigraphic and/or structural discontinuities within the Bermuda interval," the company said.

ConocoPhillips has implemented an injection pressure limit to mitigate the large pressure differential and undertaken a containment project "designed to ensure the containment of injected fluids within the" Meltwater oil pool.

### Injector, producer in same lobe

A third initiative, in the planning stage, "would be designed to place injectors and producers within the same reservoir body, or lobe, through the use of coiled tubing drilling (CTD) sidetracks and well conversions."

ConocoPhillips said it believes "historic migration of injected fluids out of the Bermuda reservoir was likely related to compartmentalization of the reservoir into turbidite lobes and the bottomhole locations of the existing development wells."

With injectors and producers in the same lobe, "reservoir connectivity is considered excellent. In the case in which injectors and producers are located in different lobes, reservoir connectivity is deemed poor, resulting in lower hydrocarbon production rates and recovery factors." ●

*Contact Kristen Nelson at knelson@petroleumnews.com*

NORTH OF 60 MINING news

**page 12** Lt. Gov. visits B.C. to strengthen trans-boundary mining relations

www.MiningNewsNorth.com | *The weekly mining newspaper for Alaska and Canada's North* | **Week of May 10, 2015**

## NEWS NUGGETS

*Compiled by Shane Lasley*

### Novagold repays debt, still has US$136M

Novagold Resources Inc. May 4 reported the payment of the remaining US$15.8 million principal balance of its 5.5 percent convertible notes and US$400,000 in interest. With US$135.5 million in cash and term deposits after the May 1 pay-off of the convertible notes principal and interest, Novagold said it has sufficient capital to complete the permitting of the Donlin Gold project in western Alaska, conduct planned studies on its 50-percent-owned Galore Creek project in northwestern British Columbia and ample financial resources to continue with existing activities for many years should gold prices remain at current levels. "Full repayment of our public debt obligations is an important milestone," said Novagold President and CEO Gregory Lang. "Our financial strength coupled with the fact that our flagship Donlin Gold project is now well over half-way through the permitting process, places Novagold in an exceptional position to continue building value for all of its stakeholders for many years to come."

GREGORY LANG

### Kensington generates US$12.3M in cash

Coeur Mining Inc. May 4 reported first-quarter 2015 revenue of US$153 million, a US$12.4 million increase over the comparable sum in the fourth quarter of 2014. The company attributes the 9 percent improvement in revenue to increased sales and slightly better prices for metals sold. The Kensington gold mine in Southeast Alaska generated US$12.3 million in cash flow, and US$8.2 million in free cash flow, after capital expenditures. Coeur said a 14 percent increase in average gold grade enabled lower throughput in the first quarter. In April, the company released a re-scoped mine plan for Kensington that reflects the impact of mining the high-grade Jualin zone. Mining rates at Jualin are expected to peak in 2018-2019 when annual production at Kensington is expected to average roughly 143,000 ounces at costs of about US$760 applicable to sales per oz gold. Recent drilling results suggest the potential to expand the

*see* **NEWS NUGGETS** *page 14*

PUBLIC POLICY

# Senators: WOTUS unclear

*Murkowski grills McCarthy; bill seeks to narrow U.S. water definitions*

**By SHANE LASLEY**

*Mining News*

Viewed by many as a dangerous expansion of authority, marketed by the U.S. Environmental Protection Agency as simply a clarification of water protection rules already in place, the proposed "Clean Water Rule" has emerged as a primary point of contention between many U.S. lawmakers and the EPA.

SHANE LASLEY

SEN. LISA MURKOWSKI

This dispute was crystal clear when EPA Administrator Gina McCarthy faced U.S. Sen. Lisa Murkowski, R-Alaska, during a recent hearing of the Senate Interior Appropriations Subcommittee in which the environmental agency was seeking congressional approval for an US$8.6-billion budget for the coming year.

GINA MCCARTHY

Murkowski, who chairs the subcommittee, grilled McCarthy on new definitions of waters of the United States being proposed in the pending Clean Water Rule as well as a number of other concerns she has on how EPA is going about its business.

"EPA's proposal to change the definition of the waters of the United States under the Clean Water Act has been described by some as a simple clarification, but in reality the change would substantially increase the EPA's regulatory reach," Murkowski said.

The senator said the regulatory burden created by the water rule would be a showstopper for new development in Alaska.

McCarthy assured the panel that the EPA is not seeking to extend its reach with the water rule.

"This is not an expansion of our jurisdiction, this is a way to focus attention where it is deserved so there can be increased clarity about what's in and what's not in," the administrator explained.

"While your words are articulate, I don't think it does much to calm the fears of the miners out in Fortymile who are worried about whether or not they are going to be able to move forward with their small placer mining activity," Murkowski fired back.

The Fortymile Mining District, for which the senator was referring, grabbed national media attention when the EPA headed a 2013 task-force of armed agents to investigate water quality violations by placer miners in the region.

### Narrowed definition

While Murkowski and McCarthy were discussing the proposed changes to water rules, Sen. John Barrasso, R-Wyo., was preparing to introduce a bill that would direct the EPA to draft new guidelines that would narrow the definition of waters of the United States, compared to what is currently being proposed.

"After working together for months, we've introduced a strong bipartisan bill that will protect America's waterways – and America's farmers, ranchers and landowners," said Barrasso.

The legislation, known as the Federal Water Quality Protection Act, was introduced to the Senate on April 30 with nine co-sponsors onboard – six Republican and three Democrat – including Sen. Dan Sullivan, R-Alaska.

"With Alaska already home to more waters under the jurisdiction of the Clean Water Act than any other state in the country, the EPA's attempt to expand the definition of what constitutes the Waters of the United States impacts no state more than my own," said Sullivan.

In early April, Sullivan held field hearings in Alaska on the potential impacts of the proposed changes to the definitions of waters of the United States.

During an April 8 hearing in Fairbanks, Alaska Miners Association Executive Director Deantha

*see* **WATER DEFINITIONS** *page 14*

● INTERNATIONAL RELATIONS

# Mallott visits B.C., Mount Polley mine

*Alaska's lieutenant governor seeks to understand other side of trans-boundary mining issues, strengthen relations with neighbor*

By **SHANE LASLEY**
*Mining News*

Alaska Lt. Gov. Byron Mallott spent this week getting a firsthand look at trans-boundary water issues from the British Columbia side of the border, where a number of mines are being proposed on water systems that feed rivers that run through Southeast Alaska.

"These rivers are key to Southeast Alaska's way of life, including Native cultures, community economies, recreation and subsistence, and, of course, its profitable seafood and tourism industries that employ thousands of people," said Mallott.

His tour of neighboring British Columbia included stops at Victoria, where he met with provincial government leaders; Vancouver, where he met with mining sector and First Nations groups during B.C. Mining Week celebrations; and central B.C., where he toured the site of the tailings storage dam failure at the Mount Polley Mine.

After meetings with B.C. Minister of Mines Bill Bennett and B.C. Minister of Environment Mary Polak, Mallott says he believes the regulators are sincere about protecting the waters shared by B.C. and Alaska.


GOVERNMENT OF BRITISH COLUMBIA

**Alaska Lt. Gov. Byron Mallott (center) met with B.C. Mines Minister Bennett (left) and B.C. Environment Minister Mary Polak (right) in Victoria on May 4 to strengthen relationships and expand collaboration on Alaska-B.C. trans-boundary mining issues.**

## Strengthen relationships

Many Southeast Alaskans are alarmed about the potential development of several mines in northwestern B.C., one of the world's richest mineral districts, and what this mining boom could mean for the quality of waters that drain this region and run through the Alaska Panhandle.

The August failure of a tailings storage facility at Imperial Metals Corp.'s Mount Polley Mine, however, raised the level of these worries and prompted the Alaska government to take closer notice of what is happening in neighboring British Columbia.

As a result of this mounting concern, Alaska Gov. Bill Walker formed a trans-boundary working group to be chaired by Lt. Gov. Mallott. The group also includes commissioners of Alaska departments of Environmental Conservation, Fish and Game, and Natural Resources.

Of Tlingit heritage and born in Yakutat, Mallott has a special connection to Southeast Alaska and the people that live there.

"I grew up in an environment that was so natural, and so much a part of me, that I never really considered it as separate from my being. And I know many Alaskans, particularly First Peoples, feel the same way," Mallott said during a February speech at the Alaska Forum on the Environment.

Despite his strong connection to the people and environs of Southeast Alaska, Mallott is taking a consolatory tone as chairman of the trans-boundary water group.

*"As neighbors, we have many things in common, and I want to strengthen the relationships we Alaskans have with British Columbia." –**Alaska Lt. Gov. Byron Mallott***

"As neighbors, we have many things in common, and I want to strengthen the relationships we Alaskans have with British Columbia," he said before his trip. "I look forward to this trip and seeing first-hand the Canadian side of the trans-boundary issues."

## Bridging chasms

Mallott began his tour of B.C. in the provincial capital of Victoria, where he met with government leaders, including a sit-down with Minister of Mines Bennett, who has come under increased pressure from both sides of the border since the Mount Polley incident.

"It is my intention to work really closely with Alaska to make sure we can manage our trans-boundary issues – British Columbia and Alaska," Bennett said during a November presentation at the Alaska Miners Association 2014 Convention.

Though both sides seem to want to reach out, the risk-reward scenarios on each side of the border creates a wide chasm to bridge.

British Columbia, for its part, believes that the development of a number of world-class metals deposits in its northwestern sector is vital to the future of mining in the province.

"Proposed mine developments in Northwest B.C. have the potential to create thousands of direct and indirect jobs in the region, as well as result in billions of dollars in capital investment," according to a government factsheet on mine development in the region.

Red Chris (Imperial Metals), Brucejack (Pretium Resources), Kerr-Sulphurets-Mitchell (Seabridge Gold), Tulsequah Chief (Chieftain Metals), Schaft Creek (Copper Fox Metals-Teck Resources), Galore Creek (Novagold-Teck) and Kisault (Avanti Mining) are among the most advanced of the northwestern B.C. projects located in this mineral rich area just east of Alaska.

Alaska sees little financial upside of developing these mines but shares in the environmental risks posed to the salmon-bearing rivers flowing through Southeast – namely the Taku, Stikine and Unuk rivers.

"Downstream salmon fisheries in Alaska could be ruined by a dam failure at B.C. mines proposed in the Taku, Stikine and Unuk watersheds," according to Chris Zimmer, Alaska campaign director, Rivers Without Borders, a trans-boundary watershed conservation group.

Of the northwestern B.C. mines on the docket, the Red Chris Mine began conditional production earlier this year; the Kerr-Sulphurets-Mitchell (KSM) and Brucejack projects have gained provincial permit approvals and are awaiting final approvals from the federal government.

Brucejack, a high-grade gold project about 65 kilometers (40 miles) north of Stewart in northwestern British Columbia,

see **MALLOTT VISIT** page 13

*continued from page 12*

## MALLOTT VISIT

does not intend store its tailings behind a dam. Instead, the company will use some of its waste to backfill the underground mine, the rest will be stored in a natural lake devoid of fish. The KSM project, however, is to store its tailings in an engineered facility.

In late April, Salmon Beyond Borders, a Southeast Alaska conservation group, sent a letter to the B.C. Mines Minister Bennett and B.C. Environment Minister Mary Polak calling for a shift from permitting facilities that store mine tailings under water to dry-stack storage, a method in which the water is squeezed out and the tailings are compacted and stacked.

While less prone to spills, most in the industry consider the costs of the extra processing required prohibitive for many mine projects.

In an interview with the Vancouver Sun, Bennett said, "I don't think that's in the cards for B.C. — or any other province in Canada — to adopt a policy where all you can use to manage tailings is dry-stack tailings."

### Visiting Mt. Polley

Salmon Beyond Borders also visited British Columbia during the province's mining week. While the trips are separate, the environmental group and Mallott's itineraries include a visit to Mount Polley.

Though not located upstream of Alaska, the collapse of the tailings dam at Mount Polley legitimized fears that similar B.C. mines located in the Taku, Stikine and Unuk watersheds pose risks rivers running through Southeast.

"The Mount Polley disaster was a clear sign that B.C. cannot assure us trans-boundary waters and fish won't be polluted by the province's aggressive mining agenda," said Sitka Mayor Mim McConnell.

Bennett argues that the Mount Polley event does not represent British Columbia's 160-year mining history.

"Your suggestion, based on the Mount Polley failure, that in B.C. we are somehow less responsible in developing our mining industry than you are in Alaska, or that we're charging forward without due care for environmental protection is based on a misrepresentation of the facts," he wrote in response to an editorial in the Juneau Empire.

Mallott says his visit to Mount Polley is about finding out what lessons have been learned from the breach that spilled an estimated 31 million cubic yards of tailings and water into the rivers and lakes downstream of the mine.

Bennett believes the visit to the area will provide Alaska's lieutenant governor with further insight into B.C.'s rules and permitting process.

Imperial Metals is currently working with the province and local First Nations communities to re-open the Mount Polley Mine. In the restart plan, tailings would be deposited into a previously mined pit. The company hopes to get regulatory permission to restart operations in June.

During its visit to B.C., Salmon Beyond Borders is hoping to drum up added support for involvement by the International Joint Commission, an organization formed in 1909 to deal with U.S.-Canada trans-boundary water issues.

Bennett, however, does not believe that Alaska-B.C. trans-boundary issues need to be overseen by federal or international authorities.

"The suggestion that it is time for the International Joint Commission to get involved is very much premature, and ignores the history of trans-boundary engagement and co-operation between our jurisdictions on environmental issues associated with mining," the mines minister penned in an editorial in the Juneau Empire.

This state-provincial co-operation took a step forward with Lt. Gov. Mallott's visit to B.C. ●

## NORTHERN NEIGHBORS

*Compiled by Shane Lasley*

NORTH ARROW MINERALS INC.

**These diamonds, totaling 17.22 carats, are representative of run-of-mine diamonds recovered in a recently completed bulk sample collected from the Qilalugaq Diamond Project in Nunavut.**

### Q1-4 yields 21.5% yellow diamonds

North Arrow Minerals Inc. May 5 reported final diamond recoveries from a bulk sample collected from the Q1-4 kimberlite at the Qilalugaq Diamond Project bulk sample in Nunavut. Diamond recoveries from the sample include 11,083 diamonds greater than +1 DTC (roughly 1 millimeter) weighing 384.28 carats from 1,353.37 dry metric tons of kimberlite for an overall sample grade of 28.4 carats per hundred metric tons. The recovered diamonds include 30 larger than three grainer (roughly 0.6 carats) and 15 larger than 1 carat. Yellow diamonds comprise roughly 9 percent by stone count and 21.5 percent by carat weight of the +1 DTC diamonds recovered to date. The three largest diamonds recovered remain the 4.42-, 4.16-, and 3.53-carat diamonds reported in February. The diamonds will now undergo valuation in Antwerp Belgium. "The purpose of the valuation will be to provide an indication of the value of the diamonds hosted within the Q1-4 kimberlite, and, if positive, could provide the basis for a preliminary economic assessment of a potential mine development at the Qilalugaq Project," said North Arrow CEO Ken Armstrong. North Arrow is earning an 80 percent interest in the Qilalugaq Diamond Project from Stornoway Diamonds Corp., subject to a one-time back-in right held by Stornoway, by collecting and processing the current bulk sample.

### BC pays C$18M for Arctos licenses

Fortune Minerals Ltd. and POSCO Canada Ltd. May 5 announced the completion of an agreement with the British Columbia government, under which the British Columbia Railway Company has purchased 61 contiguous coal licenses in the Klappan region of northern B.C. for C$18.31 million. These coal licenses belonged to the Arctos Anthracite Joint Venture, a partnership between Fortune and POSCO. Fortune and POSCO are selling their respective

*see* **NORTHERN NEIGHBORS** *page 14*



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Petroleum news

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## NORTHERN NEIGHBORS

interests in the Arctos project in order to allow the province and Tahltan First Nation to continue their dialogue on a shared vision for responsible resource management in the Klappan. By maintaining the coal licenses in BC Rail, the province is preserving the value of the coal deposits. Fortune and POSCAN have the exclusive right to repurchase the licenses at the selling price should this dialogue be successful in determining that development can occur in the area under a framework of mutual respect and cooperation. The companies will each receive C$9 million in exchange for amounts already expended at Arctos and supporting the province in providing the time it needs to continue its dialogue with the Tahltan.

### Commander to buy out Bearing assets

Commander Resources Ltd. May 5 said it has signed an agreement to acquire all eight of Bearing Resources Ltd.'s exploration assets. Bearing's portfolio includes five exploration assets in the Yukon Territory, two in British Columbia and one in Mexico; plus three royalties including a production royalty on a portion of the Boundary Zone deposit at Imperial Metal Corp.'s currently idled Mount Polley Mine in British Columbia. The exploration properties include Flume, a gold prospect located 60 kilometers (37 miles) southwest of Dawson City, Yukon. Other top properties include the October Dome gold-copper property in central British Columbia and the Pedro gold property in northeastern Durango State, Mexico. Under the terms of the agreement, Commander will issue 13 million treasury shares and pay C$15,000 in cash to Bearing for all the assets. The intent is that all Commander shares issued to Bearing will be distributed to Bearing shareholders by way of a dividend in specie (in current form) or return of capital.

### Klondike nabs GroundTruth expertise

Klondike Gold Corp. April 30 announced the start of a C$800,000 exploration program targeting gold-bearing quartz veins and newly identified fault structures at the Lone Star and Dominion Properties near Dawson City, Yukon Territory. Klondike has hired Dawson City-based GroundTruth Exploration Ltd. to use aerial drone technology to acquire ultra-high resolution imagery that has been geometrically corrected to produce accurate base maps and digital elevation models over key areas of interest at the Klondike gold properties. GroundTruth will also acquire magnetics data using ground "walking" magnetometer systems, which have high-sensitivity and zero environmental disturbance. Each of these geoscience programs are anticipated to continue through mid-summer. Additionally, Klondike Gold is resampling and mapping of old trenches, which will be followed by final remediation of these sites. The company has budgeted for an initial test of about 1,000 meters of drilling, depending upon exploration results. Klondike Gold has working capital of about C$1.2 million and is fully funded for 2015. Work has also resumed for the season at the McKinnon Creek placer property operated under lease for the second year by Todd Hoffman (Jerusalem Mining LLC). Under the terms of the lease, Klondike Gold receives a 20 percent gross production royalty, which netted the company 202 ounces of gold in 2014.

*Klondike has hired Dawson City-based GroundTruth Exploration Ltd. to use aerial drone technology to acquire ultra-high resolution imagery that has been geometrically corrected to produce accurate base maps and digital elevation models over key areas of interest at the Klondike gold properties.*

### Skeena increases funds for Spectrum

Skeena Resources Ltd. April 29 said a C$4-million financing announced in late April is heavily oversubscribed, triggering a decision to increase the private placement to C$6.5 million. The terms of the financing otherwise remain the same – each flow-through share will be priced at C8 cents per share and each non-flow-through share will be priced at C6 cents. Skeena will use the funds to advance its Spectrum gold property in northwestern British Columbia and general purposes. The company anticipates an early start to the drill season at Spectrum and is finalizing plans for a 10,000- to 12,000-meter drill program primary focused on the Central zone. Skeena also reported that it has received notice of a potential legal action from Eilat Exploration Ltd. with respect to a 2014 agreement related to the acquisition of Spectrum. Skeena has not received any formal notice of claim and says that, based on the potential claim as described by Eilat, its legal council considers Eliat's claim to be without merit.●



*continued from page 11*

## WATER DEFINITIONS

Crockett said the proposed water rules provide less clarity, the opposite of EPA's aim.

"Definitions of numerous key terms and concepts, like waters, floodplain, wetlands, subsurface connection, etc. are ambiguous and unclear," Crockett testified. "There is no room for confusion when it comes to permitting and regulating mining projects in Alaska."

DEANTHA CROCKETT

"To be perfectly frank, we fear this provides an avenue for our federal agencies to take a large leap into overreach, and place unreasonable regulations on mining projects simply because they can," she added.

SEN. DAN SULLIVAN

This sentiment is reflected in comments made by several of the co-sponsors of Sen. Barrasso's legislation.

"The administration's proposed waters of the U.S. rule is unnecessary and yet another example of unelected bureaucrats overstepping their boundaries when it comes to rulemaking," said Sen. Mike Rounds, R-South Dakota.

The EPA's proposed water rules are particularly troublesome to the agriculture sector in the Midwest.

"There isn't a regulation that has caused more concern for North Dakota farmers and ranchers than the Waters of the U.S. rule," said Sen. Heidi Heitkamp, D-North Dakota.

One of the concerns is that pools and streams created by uncommon floods, such as is currently happening in North Dakota, would fall under the category of Waters of the U.S., under EPA's proposal.

As a counter, the bill introduced by Barrasso directs the EPA and Army Corps of Engineers to come up with a new definition of waters of the United States that includes: navigable and interstate waters; drinking water streams; streams with enough flow to carry pollutants to a navigable stream; wetlands adjacent to waters of the U.S.; and unlawfully filled areas.

More importantly to the senators is what they do not want included, such as: groundwater; isolated ponds; converted croplands; and agriculture water management systems, such as ditches.

"Our legislation gives the EPA the direction it needs to write a reasonable rule that will truly protect our 'navigable' waterways," said Barrasso. "By striking the right balance, we'll keep our waterways safe and pristine and allow them to be used as natural resources."

### Finding balance

Until passage of Barrasso's bill, or some other development that ends the process, EPA plans to continue moving ahead with its proposed clean-water rule.

"In fiscal-year 2016 we will finalize and support implementation of the Clean Water Rule, which will clarify types of waters covered under the Clean Water Act," McCarthy said in her testimony before the Interior Appropriations subcommittee.

Murkowski said the proposed rule changes are stirring discontent.

"You are using the word 'clarification'; for so many of the people we are hearing from, it is not clarifying, it is confusing and confounding, and making people very angry at our government," she informed McCarthy.

Alaska's senior senator said that this anger is resulting in constituents calling for her "to shut the EPA down!"

Murkowski, who understands EPA has a "clear and legitimate role" in protecting the air and waters of the United States, does not intend to dismantle the agency. On the other hand, she has no intention of sitting idle while the agency expands it regulatory reach.

"We want to work with you, but I think you know the pressures that are on us to stop this thing cold, stop it cold in its tracks," the senator warned.

She said this sentiment is spurred by the view of many who see the EPA as an increasing threat to their way of life.

"We do care (about the environment), but we need to have the ability to provide for livelihoods; and sometimes these livelihoods are not clean. You get pretty grubby as placer miner," she informed McCarthy.

"What we are talking about is trying to find a balance between protection of our environment and care and concern for the men and women that are trying to support their families in economies that make sense in their regions," she added. ●

*continued from page 11*

## NEWS NUGGETS

resource at Jualin and extend the 2017 -2019 production profile. Coeur invested US$1.7 million on exploration at Kensington during the first quarter. In 2015, Kensington is expected to produce 110,000 - 115,000 oz of gold at costs applicable to sales of US$900-$975/oz.

### Redstar starts 2015 drilling at Unga

Redstar Gold Corp. April 29 reported that it has begun the first phase of its 2015 drill program at its Unga gold project, located at the eastern end of the Aleutian Islands of Southwest Alaska. This initial eight-hole (roughly 1,450 meters) program will target the Shumagin gold zone, which is part of the larger Shumagin trend that extends six miles and parallels the six-mile-long Apollo-Sitka trend. This diamond drilling will occur in an area where historically reported holes (1983-2011) yielded high-grade gold intersections, including three drilled by Redstar: 29.65 meters of 14.98 grams per metric ton gold and 11.5 g/t silver in hole 11SH010; 4.0 meters of 11.7 g/t gold and 10.2 g/t silver in hole 11SH009; and 1.0 meter of 43.9 g/t gold and 18.5 g/t silver in hole 11SH007. Redstar said the phase-1 program is designed to test for continuity and expansion of Shumagin gold zone mineralization along strike and at depth. The company is planning to complete a more extensive phase-2 drill program during the second half of this year that is expected to include continued testing of the Shumagin gold zone and exploration of other known high-grade gold targets at Unga. ●

NATURAL GAS

# LNG: The price of consent

*Pacific NorthWest offers C$1 billion to gain aboriginal approval for project; package averages C$320,000 per person over 40 years*

**By GARY PARK**
*For Petroleum News*

An Asian partnership led by Malaysia's Petronas has placed more than C$1 billion on the table in its effort to gain consent from aboriginal communities for British Columbia's Pacific NorthWest LNG project.

In an unparalleled offer to win over First Nations, the corporate joint venture has made the cash offer to the 3,600 members of the Lax Kw'alaams community based in Prince Rupert, working out at C$320,000 per person to be paid over 40 years, including an upfront C$20 million.

In addition, the British Columbia government is including more than C$100 million worth of government land in the groundbreaking pact.

But final approval still hinges on a ruling expected in September by a Canadian government environmental agency that must precede a final corporate investment decision.

British Columbia Aboriginal Relations Minister John Rustad described the deal, which members of the Lax Kw'alaams will put to a vote in May, as "significant and serious. There is no question liquefied natural gas sets the stage for an incredible opportunity for all of British Columbia and especially the First Nations."

As well as Pacific NorthWest's C$11.4 billion export terminal — to be built by Petronas, China's Sinopec, Indian Oil Corp., JAPEX and Petroleum Brunei — TransCanada is a participant through its proposed Prince Rupert Gas Transmission pipeline project.

"Lax Kw'alaams has been offered benefits, including significant cash payments, job training and employment," the aboriginal community said in a bulletin. "Membership will be asked to vote by a show of hands after the presentations."

Other incentives to win over aboriginal consent for the LNG terminal and the pipeline include money for a local road and the establishment of a fisheries compensation fund to protect a salmon habitat.

A spokesman for Pacific NorthWest said the partnership believes the offer "addresses the fundamental areas of importance as they relate to the Lax Kw'alaams" and represents a "multi-generational opportunity."

A year ago the Lax Kw'alaams said Petronas was "aggressive to the point of being offensive" to the community and showed "no idea how to successfully operate in Canada with aboriginal people. Petronas does not seem to understand that a social license to move ahead with their project is not something they give to themselves."

### More labor available

Wood Mackenzie energy analyst Alex Munton said in an April 30 report that Pacific Northwest will have access to a larger pool of skilled labor due to layoffs in the Alberta oil sands.

He said a "bearish" outlook for steel prices also improves the cost structure for LNG developments in Canada to a greater extent than those in the United States "because of the need for long-distance feed-gas pipelines."

*The analysis pointed to cost as the key reason behind the different pace of U.S. and Canadian LNG development.*

Munton said recent tax concessions proposed by the Canadian and British Columbia governments (including a lowering of corporate tax rates to 8 percent from 11 percent by the provincial government) are also improving project profitability.

"A window of opportunity is opening for Canadian LNG to become potentially cost competitive with U.S. LNG into Asian markets," Munton said.

He said that for Petronas to give the go-ahead it will seek cost reductions of 15 percent from contractors compared to levels tendered in 2014.

Otherwise, he noted that 50 million metric tons a year of LNG production capacity is under construction in the United States, compared with none in Canada.

The analysis pointed to cost as the key reason behind the different pace of U.S. and Canadian LNG development.

TransCanada said it expects the British Columbia Oil and Gas Commission to decide this quarter on the two pipeline applications to support Pacific NorthWest.

One 540-mile pipeline section across northern British Columbia made a breakthrough in late April when TransCanada signed an agreement covering financial and other benefits with the Kitselas First Nation, having previously signed parallel deals with two other communities. The details were not released. ●

*Contact Gary Park through publisher@petroleumnews.com*

## EXPLORATION & PRODUCTION

### US drilling rig count drops by 27 to 905

Oilfield services company Baker Hughes Inc. says the number of rigs drilling for oil and natural gas in the U.S. declined by 27 the week ending May 1 to 905 amid depressed oil prices.

Houston-based Baker Hughes said 679 rigs were drilling for oil and 222 for natural gas. Four were listed as miscellaneous. A year ago, 1,854 rigs were active.

Among major oil- and gas-producing states, Texas lost 13 rigs; Oklahoma lost seven; New Mexico and Pennsylvania were each down two; and Alaska, Arkansas, Kansas and Louisiana were each down one.

North Dakota and Wyoming each gained one rig. California, Colorado, Ohio, Utah and West Virginia were unchanged.

The U.S. rig count peaked at 4,530 in 1981 and bottomed at 488 in 1999.

—ASSOCIATED PRESS

## FINANCE & ECONOMY

### Statoil posts loss citing lower oil price

Norwegian oil and gas company Statoil has posted its third consecutive quarterly loss, citing lower oil prices and impairments on shale assets in the U.S.

Statoil on April 30 reported a first-quarter net loss of 35.5 billion kroner ($4.67 billion), compared with a profit of 23.6 billion kroner in the same period in 2014.

Revenue slumped 30 percent to 119.5 billion kroner.

Statoil booked impairment charges of 46.1 billion kronor, mostly related to U.S. shale assets, saying the company is taking "a more cautious view due to the uncertainty in the commodity markets."

Statoil's production in the quarter was 2.06 million barrels of oil equivalent per day, up from 1.98 million barrels daily a year ago.

Statoil shares rose 2.5 percent to 157.40 kroner ($20.70) in Oslo.

—ASSOCIATED PRESS

*continued from page 1*

# FURIE PRODUCTION

president, told Petroleum News in an April 30 email. The company has previously said that it hopes to secure gas supply contracts that would support an initial production rate of 85 million cubic feet per day.

## Heavy lift vessel

The MV Svenja heavy lift vessel that will be used for platform installation is expected to arrive in Cook Inlet from Singapore around May 15, depending on the weather, Webb said. After setting anchor, the vessel must set in place the seafloor template used to position the platform.

The platform itself should depart Seattle around May 10 for transportation by barge to Cook Inlet, where it should arrive around May 25. The platform has been stored in Seattle for the winter.

"If everything goes well with the mooring of the Svenja, we should start setting the main support caisson the week of May 25th," Webb said.

A barge that will lay the subsea gas gathering pipeline from the platform had been docked at the Northstar Terminal near the Port of Anchorage for the installation of the stinger, the device needed to support the pipeline during the pipe laying operation, Webb said. With the barge scheduled to depart Anchorage on April 30 to move to the planned pipeline location, the pipe laying should start around May 10, he said.

Last year Furie staged the cement-coated piping for the pipeline at Port MacKenzie, near Anchorage. The company is borrowing a vessel from Hilcorp Alaska to transport the pipeline sections from Port MacKenzie to the pipe laying barge, Webb said.

FURIE OPERATING ALASKA LLC

Furie Operating Alaska says that the onshore gas processing facilities, seen in the foreground, for its Kitchen Lights gas field are now 90 percent complete. The company's Spartan 151 jack-up drilling rig, seen in the background, is now in position for the operation of threading the field's gas gathering pipeline through an underground borehole to the onshore facilities.

STEVE SUTHERLIN

Furie Operating Alaska's Spartan 151 jack-up drilling rig being towed up the Cook Inlet, in preparation to engage in the Kitchen Lights gas field development.

## Borehole from shore

Webb said that Furie plans to use its Spartan 151 jack-up drilling rig to pull the shore section of the pipeline through the borehole from the onshore facility. The horizontal directional drilling of the borehole from the onshore end began last year and will now continue. However, Furie will position drilling units both onshore and on the jack-up rig, to enable drilling and pipeline pushing and pulling at both ends of the borehole, Webb said.

The jack-up rig has been moved from its overwinter staging location at Port Graham in readiness for these operations.

*Construction of the onshore facility began last year and is now about 90 percent complete, Webb said.*

Use of the jack-up rather than a barge for the offshore activities will eliminate the complications of avoiding the snagging of subsea fiber optic cables or an existing subsea gas line when anchoring and mooring a floating vessel, Webb explained.

Construction of the onshore facility began last year and is now about 90 percent complete, Webb said.

## Large gas field

Initial development of the Kitchen Lights field will use the Kitchen Lights No. 3 well that Furie drilled in 2013 in the Corsair block of the Kitchen Lights unit using the Spartan 151 rig. The company reported finding multiple productive gas pools in the Sterling and Beluga formations at depths ranging from 3,618 feet to 6,228 feet. The field was originally discovered in 2011 when Escopeta Oil Co., Furie's forerunner company, drilled the nearby Kitchen Lights No. 1 well. Following an initial claim of finding a massive gas resource, Furie has since been reticent about making public statements about the scale of its find. However, the company's development plan for the field envisages the possibility of two 100 million cubic feet per day gathering lines from the field, if purchase contracts for the gas can be established.

Webb has previously told Petroleum News that an evaluation of the field had indicated that production could continue for 11 to 15 years. However, that estimate was based on proved and producible gas reserves — Furie plans to drill a couple of wells from the Kitchen Lights platform to prove out further reserves. The Spartan 151 rig, cantilevered over the platform, would conduct the delineation and development drilling. ●

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*continued from page 1*

# MILLER TROUBLES

trading days.

Second, Miller said it had received notice that the staff of the U.S. Securities and Exchange Commission had made a preliminary determination to recommend that the SEC "pursue a civil action against the company related to its 2009 Alaska asset acquisition."

Third, Miller said it had engaged Global Hunter Securities to help execute a "capital repositioning." Miller said it had liquidated its 2016 oil hedges, raising about $11.5 million in proceeds, and was "aggressively pursuing" cost reductions, throttling back capital expenditures and exploring asset sales.

## Alaska-focused company

More distressing news came on May 6, when Miller said its board of directors had voted to defer the cash payment of a quarterly dividend on the company's preferred stock.

Miller included some reassuring remarks, writing in a press release: "Miller Energy believes that it has substantial asset value. Additionally, with its reduced debt and increased production as well as the recent improvement in oil prices, the company believes its fundamental outlook has improved."

Miller is focused on Alaska, having sold off its legacy Tennessee oil and gas assets in November 2014.

The company made its Alaska entry in late 2009 when its subsidiary, Cook Inlet Energy LLC, acquired an assortment of assets out of the bankruptcy of California-based Pacific Energy Resources Ltd. These properties included the West McArthur River oil field and the offshore Redoubt unit and Osprey platform.

Since the Alaska acquisition, Miller has worked to rehabilitate and expand these fields and to acquire additional Alaska properties. In 2014, the company picked up the North Fork gas field on the Kenai Peninsula and a controlling interest in the Badami oil field on the North Slope.

## Addressing the challenges

Miller Energy said it will address and overcome the challenges confronting the company.

With regard to the possible NYSE delisting, Miller said it has six months to bring up its stock price and regain compliance with the exchange.

"The company intends to cure the deficiency and to return to compliance before the expiration of the six-month deadline," Miller said, noting its stock would continue to trade on the NYSE in the meantime.

Miller's stock closed May 6 at 59 cents. It was above $6 as recently as July 2014.

With respect to the SEC notice of a possible civil action against the company, Miller said: "The company is still seeking additional information on the factual basis for the proposed enforcement action before determining its formal response. Miller Energy welcomes the opportunity to respond before any action is taken and asserts that it does not believe that an enforcement action is warranted in this case."

Miller's 2009 Alaska asset acquisition has long been a point of some controversy.

The company in 2011 was hit with a swarm of lawsuits alleging fraud, with investors claiming Miller executives had overstated the value of the Alaska assets and violated accounting principles.

Miller defended its asset valuation. But in February, a federal judge in Tennessee approved a nearly $3 million settlement between Miller and shareholders.

## AOGCC penalty

Adding to Miller's woes, the Alaska Oil and Gas Conservation Commission, in a May 1 order, imposed a $446,000 civil penalty against Cook Inlet Energy in connection with safety valve system violations at the Sword No. 1 well on the inlet's west side.

Miller Energy does have some positives going for it, namely substantial oil and gas production. The company reported average daily production of 3,401 barrels of oil equivalent for the quarter ended Jan. 31.

For the remainder of calendar year 2015, Miller said it has approximately 90 percent of its expected oil production hedged at a weighted average price of $96.49 per barrel.

The company also said it expects to receive, by early June, the cash proceeds from a $33 million state tax credit application.

—WESLEY LOY

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● EXPLORATION & PRODUCTION

# Exxon applies for Point Thomson reinjection

*Company says initial production may be from existing well, which would be converted to injection after planned 3rd well completed*

By **KRISTEN NELSON**
*Petroleum News*

ExxonMobil Production Co. has applied to the Alaska Oil and Gas Conservation Commission for an area injection order for the Thomson sand reservoir in the Point Thomson unit. AOGCC said it has tentatively scheduled a public hearing for 9 a.m. July 7, but may issue an order without a hearing.

Initial production from the field is planned for the end of the winter of 2015-16.

In its application ExxonMobil said gas produced from the Thomson sand would be re-injected back into the Thomson Sand.

The Point Thomson initial production system project will bring natural gas and condensate to the surface, recover liquid condensate and re-inject residual gas back into the reservoir. The IPS project includes drilling wells, installing and operating infield pipelines and processing facilities and installing support facilities.

"In its full production mode after PTU-17 is drilled, the IPS will have one producing well (PTU-17) and two gas injection wells (PTU-15 and PTU-16)," ExxonMobil said, with gas cycled at a rate of some 200 million cubic feet per day and routed to the Central Processing Facility where up to 10,000 barrels per day of condensate will be extracted from the gas. Some of the gas will be used as fuel with the remainder re-injected "to help maintain reservoir pressure and conserve the gas for future development."

ExxonMobil said one option under consideration "is commissioning the initial startup of the IPS processing facilities using the PTU-15 well as a producer and the PTU-16 well as a single injection well." Those wells, drilled in 2009 and 2010, are on the Central Pad. Once the PTU-17 is drilled and completed, it would become the single producing well and PTU-15 would be converted to serve as the second injector well.

In addition to the two wells, pads, connecting roads, an airstrip, camps and other support infrastructure has been installed and the Point Thomson export pipeline constructed, ExxonMobil said.

In the first quarter of this year a UIC Class 1 nonhazardous disposal well was drilled, permitted by the U.S. Environmental Protection Agency. In the first quarter and early second quarter of the year a flow line was installed from West Pad to Central Pad.

ExxonMobil said remaining work includes completion of the PTU-15 and PTU-16 wells on the Central Pad in the second and third quarters of the year. "PTU-15 is being completed in a manner such that it may be used to initiate production ... and then converted to injection service without requiring any downhole well work," the company said.

The second half of the year will see the installation and commissioning of facility process modules which are being fabricated offsite and will be sealifted to Point Thomson.

PTU-17, a new development well, will be drilled in 2015 and 2016 on the West Pad and completed as a producer.

ExxonMobil, the Point Thomson operator, holds a 62.24 percent working interest at Point Thomson; BP Exploration (Alaska) holds a 32.04 percent interest; ConocoPhillips Alaska holds 4.96 percent; and 21 other owners have a combined working interest of less than 1 percent. ●

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## GOVERNMENT

### BSEE participates in inaugural forum

The Bureau of Safety and Environmental Enforcement has participated in the inaugural two-day meeting of the Arctic Offshore Regulators Forum, a forum of representatives from the regulatory authorities of six Arctic nations, BSEE announced on May 1.

Acting in response to a recommendation of the Arctic Council's Task Force on Arctic Marine Oil Pollution Prevention, the regulators forum is providing a mechanism for the exchange of information, best practices and experience derived from the regulation of the development of petroleum resources in the Arctic. The forum participants consist of technical and operational offshore regulators, dedicated to improving offshore safety, BSEE said.

During its inaugural meeting, chaired by BSEE Alaska Regional Director Mark Fesmire and held in Washington, D.C., the forum adopted its terms of reference; listened to presentations from individual countries on legislative frameworks and noteworthy offshore projects; and conducted a roundtable discussion about substantive issues. The U.S. delegation included representatives from the U.S. Coast Guard, the BSEE Alaska office, the BSEE Oil Spill Preparedness Division, and the Office of Congressional and International Affairs.

In addition to the United Sates, representatives came from Canada, Finland, Iceland, Greenland and Norway. The group plans to reconvene in the fall, BSEE said.

—ALAN BAILEY

## ENVIRONMENT & SAFETY

### 2-mile ice core shows climate fluctuation

Cylinders of ice from a two-mile long ice core collected from the West Antarctic Ice Sheet are providing evidence for rapid climate fluctuations during the Earth's last glacial period, tens of thousands of years ago, according to a paper published in Nature on April 29. An analysis of the ice's methane and sea-salt content, and the isotope content of the melted ice, points to a climate transitioning from a relatively warm to a relatively cold period in less than 20 years, a team of scientists based in Nevada's Desert Research Institute has found.

*A comparison with ice-core evidence from Greenland indicates that the Arctic and Antarctic climates alternated between warm and cold periods, with the Antarctic warming as Greenland was cooling, and vice versa.*

Scientists collected the 4.8-inch diameter ice core at a field camp in the center of western Antarctica, about 650 miles from the geographic North Pole.

A comparison with ice-core evidence from Greenland indicates that the Arctic and Antarctic climates alternated between warm and cold periods, with the Antarctic warming as Greenland was cooling, and vice versa. Scientists attribute this phenomenon to the heat transfer impacts of ocean currents, with these currents carrying heat between the Earth's northern and southern hemispheres.

"These past climate changes are different from what is happening today," said the study's lead author Christo Buizert, a postdoctoral researcher at Oregon State University. "The abrupt climate changes during the ice age were regional in scope and caused by large-scale changes in ocean circulation. The changes in temperature and precipitation that are occurring now are global and primarily caused by increasing levels of carbon dioxide in the Earth's atmosphere."

However, Buizert said that the new observations can help test and improve the global climate models that are used to predict future climate warming trends.

—ALAN BAILEY



● GOVERNMENT

# PILT bill introduced to begin discussion

BY KRISTEN NELSON

*Petroleum News*

*Commissioner Hoffbeck tells House committee fiscal negotiations not far enough along to finalize payment in lieu of taxes formula.*

Alaska Commissioner of Revenue Randall Hoffbeck told the House Community and Regional Affairs Committee in mid-April that House Bill 183 on payment in lieu of taxes for the Alaska LNG project is part of a three-part process including impact payments during construction; a durable and predictable property tax; and distribution of revenues between state and local entities, both during construction and operation.

The Municipal Advisory Gas Project Review Board began work under the Parnell administration, Hoffbeck said, and identified that a PILT needed to be fair and equitable to all stakeholders; clear and easily understood; robust and durable — able to cope with future changes in operation and not just static; unambiguous — not subject to judgment and interpretation; and commercially sound, enhancing the chance of project success, not an impediment.

The bill was introduced just to begin the discussion, he said, and start fine tuning issues. While a PILT agreement had been expected during this session, he said fiscal negotiations were not far enough along to establish a PILT.

Hoffbeck said the issue is how high a PILT the project can support and still be viable.

*Hoffbeck said the issue is how high a PILT the project can support and still be viable.*

### Relative to oil

Janak Mayer and Nikos Tsafos, partners in enalytica, and consultants hired by the Legislative Budget and Audit Committee to advise the Legislature, said they agreed with Hoffbeck on broad areas.

Tsafos noted that property tax could be $1 billion a year on the project, that there will be a long construction period, that the tax is regressive, fixed regardless of revenue, and possibly contentious, given the state's history with property taxes on the trans-Alaska oil pipeline. He said a good framework would include a clear formula which is predictable and stable, balanced — fair and equitable — and which enables project development.

Comparing property tax on an oil project with that on liquefied natural gas, he said the AKLNG project may need prices of $10-$13 per million Btu in Asia to be viable, and property tax could be as high as $1 per million Btu, more than the shipping cost to Asia. And that $1 is out of $10 or $13, he said, not out of a $50 or $100 price for oil.

Property tax is a huge chunk of what this project has to pay for, Tsafos said, and in the commercial context it's not just the money spent, but stability. If that $1 could become $2.50 over time, he said, that is a difference in a project that might be viable at $90 oil or would require an oil price of $105 to $110.

### PILT vs. property tax

Mayer said it's important to distinguish between the concept of a PILT and things done directly through property tax. The heads of agreement laid out the intention of all parties that AKLNG would have a negotiated PILT rather than a property tax, and be based on cents per thousand cubic feet vs. a property tax established under statute.

And, he said, once a PILT is negotiated and signed off on by all parties, the link with property tax is severed. PILT will be cents per mcf, whereas property tax is based on an ongoing assessment. ●

*Contact Kristen Nelson at knelson@petroleumnews.com*



## PIPELINES & DOWNSTREAM

### KBPL requesting Furie connection

As Furie Operating Alaska LLC is mobilizing its gas production platform for installation, the company is also taking care of some final administrative issues at Kitchen Lights.

Kenai Beluga Pipeline LLC is asking regulators for permission to connect a gathering line from a new onshore processing facility to the existing regional transmission grid. Furie intends to deliver gas from its offshore Kitchen Lights unit in Cook Inlet to onshore facilities in Nikiski through a subsea pipeline. The proposed intertie would connect the facilities with the Cook Inlet Gas Gathering System section of the consolidated KBPL.

—ERIC LIDJI

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*continued from page 3*

## TARR Q&A

Alaska a little more in charge of our destiny.

I'm trying to give him the chance to articulate that more. But if there comes a time when we part ways and his vision is different from mine, I'm not afraid to stand up and say what I think.

*Petroleum News: Do you think you've got enough information from the governor on what his plans are?*

Tarr: I think we need more information. And I think we are going to get that in coming weeks. They have been under the gun the last four months on a lot of issues. So many resources have gone into this unexpected budget crisis, and I know we are working on them internally because we keep in touch through staff. I think we'll see some of that during the summer.

*Petroleum News: Let's talk about some of that. You're not the co-chair, but what would you like to see happen during the interim?*

Tarr: I think some of the work we didn't get to this time, like the PILT (payment in lieu of taxes) bill is really important. I want to know better what's happening. The municipal advisory board had a report due at the beginning of session, but because there was change in membership with a new administration some of that work got delayed. I think we can make the interim very productive if we address that issue. That's a major, major piece of a project going forward, the local community buy-in and how they will be affected.

And to the extent that the governor's office can develop more of what they envision, or where they are going, I think we should put some time into that. The summer is a difficult time to engage the public so I would like us to use the summer to do our work internally so that by the fall, if we are going to have a special session, everything is very organized and we can be affective in our outreach to the public and make sure the communities understand what we are doing.

We spent a lot of time on SB 138 with Commissioner (Angie) Rodell looking at our overall financial situation. With everything so uncertain right now, we haven't lost our AAA bond rating, the agencies haven't downgraded us yet but they put us on warning. As things evolve, we may see some things change. There are a lot of pieces we need to keep careful watch of.

I don't think we can afford to take too much time off. The last two years, the Resources Committee was very active. We did have a series of meetings each interim. We got reports and a lot of analytical work from Black & Veatch as well as other consultants. We should take full advantage of those resources.

And Larry Persily, now as an employee of the Kenai Peninsula Borough, is keeping us updated with reports from around the world. It's a fascinating thing to try and understand with natural gas projects around the world.

We need to be in the know about that. We are competing with numerous other projects for the same couple of year window when those Asian markets open up. We need to have an understanding of the big picture.

*Petroleum News: Speaking of Larry Persily, even though he was in Washington, in a lot of ways, he never really left Alaska, having been back here so much working with various groups including the Legislature. What do you think of him still being in the mix as he is now?*

Tarr: I think he is going to be a great resource. He certainly brings many years of closely watching everything to the table. I've gone to him as a resource many times. It's important to go to many people and places to ask another person and get their feedback, so I think he's got a lot to offer. I appreciate that he has continued that daily news briefing. I have loads of them that are summer reading. I'm able to go back to them.

When things come up in committee, I go back to them. Time will tell whether we should go back to funding a position in D.C. The federal government has been receptive to other things like an export permit; the EIS work is going forward. So hopefully we don't miss out by not having somebody in D.C.

*Petroleum News: Given what you've heard from the producers, the administration and AGDC on the AKLNG project, what are your thoughts on their message, especially as they all seem to be on the same page?*

Tarr: Everybody has been very positive. The report that I liked came from (Exxon's) Steve Butt. I have a high level of confidence in him. He is experienced. When he lets you know what's going on, he gives you the impression that things are moving forward in a positive way.

Of course, separate from us, the producers have different interests in this project. He has more insight into what those conversations are like. I didn't sign a confidentiality agreement. How we are still going to receive that information has not been completely worked out.

This governor still wants it to be a bit more public. I'd like to be getting briefs from them. They have been frankly pretty quiet in reaching out to legislators and with the exception of having the update hearings in Resources where everybody said they've got strong teams in place.

*Petroleum News: Getting back to Exxon, Point Thomson is up and running and building toward production, did you ever make it up there to look at the operations?*

Tarr: It's great to see a project happening. It's unfortunate that it took litigation. The outcome is something everybody hopes will be a winner and a big part of the AKLNG project. It's not that it's changing dramatically, but one thing is clear, the footprint is getting smaller in comparison to the older developments. From Prudhoe to Kuparuk, you can see a difference; from Kuparuk to Point Thomson, you can see a big difference.

It's important for us to see what's happening. Whether we are responsible for it or not, climate change is happening. We are dealing a lot with Arctic development, and what that's going to mean. We used to have 200 days of ice roads. Now we have 100.

I think it's good to get on the ground and see what that means for those kinds of development. They have an impressive operation there. I especially like seeing spill response capabilities and what they are doing for Arctic waters. I think we are at the cutting edge of developing that technology in the Arctic for sure.

*Petroleum News: Speaking of the Arctic, in January, the Legislature and the governor were taken aback by news of the Obama administration's announcements of his intentions for ANWR (wilderness designation) and outer continental shelf exploration. What are your thoughts on those developments?*

Tarr: On the OCS, there are a lot of leases that haven't been developed yet and the new lease sales will contain two years. If I were the president and you look at their role as the manager for the entire United States, instead of concentrating on OCS just up here, they added the East Coast. If you want to have a balanced approach, that's probably what you do.

Now what I don't like about the OCS situation is the revenue side of it. I know that our delegation is working on that and I hope that they are successful. We are in the infancy of this Arctic development and I'd like to see it happen successfully before you move forward in any location. I think there will be a lot of activity up there. It gives us time to get our act together and make sure we do it right.

On the ANWR side of things I would like to see us take a different approach. I look back over the last 20 years — it doesn't matter whether it's been a Republican president, or a Democratic president, a Republican-led Congress, or a Democratic-led Congress. Something about that dynamic is not working. I tend to look for a more collaborative approach.

I think Sen. Begich was working hard with that and bringing delegations to Alaska and seeing the size of the shrinking footprint and what it might mean. In the Lower 48, the special places have been developed. There is nostalgia about that. Without people getting an understanding of what it looks like, I don't think you can change people's minds.

This governor has been back east a couple of times already. He is trying to establish a productive relationship. Maybe we can invite a delegation of leaders to collaborate with our congressional delegation.

*Petroleum News: The U.S. is now chair of the Arctic Council. What would you like to see for Alaska in this role?*

Tarr: Of course, we are what makes the United States an Arctic nation. Hopefully for some folks, it will show that being part of an international organization, or an international delegation, that talks about policy and how we can get together can be a very positive thing.

We've seen here sometimes people want to steer clear of that and don't want someone else telling us how we are going to live and what we are doing to do. I can appreciate that to some degree, but I think this Arctic Council opportunity will show that when you work with similar groups that you can do something productive. Hopefully, with all of this, people will understand Alaska a lot better.

*Petroleum News: The State Department's agenda with this is climate change driven, but many here want the focus to be on economic development. Can Alaska make some headway?*

Tarr: I think so. We talk about how we are a little behind. We need to get up to speed on things and keep the communication open on this. We've heard from Sen. Murkowski on this. So those conversations will come together and we'll be able to recognize some of those opportunities. ●

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Petroleum news

# Oil Patch Bits

## 2015 educational scholarships awarded to six students


COURTESY PHOTO

The 11th annual Norm Manly PSM/YMTA Maritime Educational Scholarship competition was held April 18 at Compass Course Maritime Training. Youth Maritime Training Association is proud to announce the six Washington state high school seniors awarded the 2015 YMTA Scholarships.

Bethany Shimasaki, planning to attend the University of California San Diego majoring in marine science, received a $2,000 scholarship sponsored by Ocean Peace Inc.

Rosie Wilcox is planning to attend NW School of Wooden Boatbuilding in Port Hadlock. She received the $1,000 scholarship sponsored by John and Anita Crawford & PSM as well as the $500 Pacific Maritime Magazine Scholarship sponsored by RH Philips Publishing Group.

Donald Lay, planning to attend CMA in marine engineering, received the $3,000 scholarship sponsored by Foss Maritime Co.

Connor Vincent, also planning to attend CMA in mechanical engineering, received the$1,500 scholarship sponsored by Compass Courses Maritime Training

Christine Kimball plans to attend Seattle Maritime Academy's Marine Engineering Program as well as CMA majoring in Marine Transportation. She received the $1,000 scholarship sponsored by Ocean Peace Inc.

Alyssa Scott is planning to attend WWU majoring in marine and environmental sciences or UW majoring in marine biology. She received the $5,000 scholarship sponsored by the Seattle/Pacific Northwest Chapter of Council of American Master Mariners.

All six recipients have demonstrated strong leader skills and are model students with a passion.

## ASRC executive unanimously selected as council chair

During the April 23 meeting of the Arctic Economic Council in Ottawa, Canada, Tara Sweeney, Arctic Slope Regional Corp. executive vice president of external affairs, was unanimously chosen to serve as board chair. Sweeney also represents the Iñuit Circumpolar Council and will serve on the AEC board for the next two years. The AEC is the primary entity for dealings between the Arctic Council and the wider-reaching circumpolar business community.

"It truly is an honor to serve as the chair of the AEC for the next two years," Sweeney said after the announcement. "My goal is for our working groups to meet their deadlines and solidify the AEC's ties to other organizations with activities in the Arctic. I'd like to thank outgoing

see OIL PATCH BITS page 22

# 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*

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## SHELL PROTESTS

the port permit issue as a means of expressing his opposition to fossil fuel development. According to a report in the Seattle Times Murray has concurred with Seattle's Department of Planning and Development's finding that Shell's planned use of the port does not fall within the definition of the cargo operations that the current permit covers.

"While requiring a permit may not stop the port's plans, it does give the port an opportunity to pause, an opportunity to rethink the issues," Murray told a fundraising breakfast for Climate Solutions, a clean energy economy nonprofit, according to the Seattle Times report. "This is an opportunity, I believe, for the port and all of us to make a bold statement about how oil companies contribute to climate change, oil spills and other environmental disasters and reject this short-term lease."

Environmental organizations have been opposing the lease of the port's Terminal 5 to Shell for the company's operations.

### Shell: won't delay program

According to a report in the Fuelfix oil industry news website, on May 5 Ann Pickard, Shell executive vice president for the Arctic, told the Offshore Technology Conference in Houston that the Seattle permit problem will not derail Shell's Arctic program.

Although "it's not my preferred approach … we have backup plans," Pickard said, according to the Firefox report. "I don't think this will delay the program."

Pickard told Firefox that there are alternative ports that Shell can use.

In a May 5 email Megan Baldino, Shell spokeswoman in Alaska, told Petroleum News that Shell continues to review Seattle's permit interpretation.

### Safety zones

Meantime the U.S. Coast Guard has been filing a series of proposals for establishing safety zones around the vessels that will participate in Shell's Chukchi Sea drilling program. In recognition of the likelihood of continuing protests against Shell's Arctic activities, the Coast Guard had already set safety zones for Shell's vessels in the Puget Sound and Seattle area.

On May 1 the Coast Guard filed a notice in the Federal Register, proposing safety zones around offshore exploration or support vessels in the Dutch Harbor and Broad Bay areas of the Aleutian Islands. The zones would extend 25 yards out from vessels at anchor and 100 yards from vessels under way. The agency says that the purpose of the safety zones is to protect people and vessels — lawful demonstrations will be allowed outside the safety zones as long as they do not represent a safety hazard.

"Based on information provided by private entities affiliated with oil exploration activities, the Coast Guard anticipates approximately 28 exploration or support vessels will call on Dutch Harbor during the periods of time that the temporary safety zones are in effect," the Coast Guard said in its Federal Register notice. "The addition of these vessels in conjunction with the high volume of traffic operating within the Port of Dutch Harbor creates a safety risk for all vessels operating therein."

The Coast Guard has also proposed similar safety zones for Shell's staging area in Goodhope Bay, Kotzebue Sound. And on May 4 the Coast Guard proposed

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## CONOCO EARNINGS

By comparison, ConocoPhillips reported a loss of $389 million from its Lower 48 operations and a loss of $140 million from its Canadian operations during the first quarter, and gains of $396 million from its Asia Pacific and Middle Eastern operations and $86 million from its European operations during the first quarter of the year.

### Production could stabilize

The quarterly report amplifies a trend from the end of 2014.

Typically, in recent years ConocoPhillips had seen its Alaska earnings increase even though it was producing less oil and gas, as rising prices offset declining production.

Now, those trend lines are reversing.

ConocoPhillips produced 186,000 barrels of oil equivalent per day in Alaska during the first quarter of 2015, even quarter-over-quarter and down from 200,000 boepd year-over-year.

The company produced 163,000 barrels of oil per day in Alaska during the quarter, down from 164,000 bpd in the fourth quarter of 2014 and 175,000 bpd in the first quarter of 2014. Natural gas liquids production in the state was relatively flat at 14,000 bpd in the first quarter, level quarter-over-quarter and down from 16,000 bpd year-over-year.

By comparison, ConocoPhillips produced 198,000 bpd of oil in the Lower 48 and 14,000 bpd of oil in Canada during the first quarter and produced 93,000 bpd of NGL in the Lower 48 and 25,000 bpd of NGL in Canada during the first quarter.

But ConocoPhillips expects its Alaska production to flatten over the next three years as a range of projects come online, starting with CD-5 and DS-2S toward the end of this year.

The CD-5 satellite of the Alpine field is already 75 percent complete, according to the company. Drilling has begun and installation of pipelines and modules is eminent.

Alaska oil production will likely decline in the short term, though, as ConocoPhillips undertakes regular summer maintenance activities in the second and third quarters.

The company produced 52 million cubic feet per day of natural gas in Alaska during the first quarter, up from 49 mmcf per day in the fourth quarter and down from 55 mmcf per day in the first quarter of 2014. Those rates should rise in the second quarter, as the Kenai liquefied natural gas export terminal resumed operations in April and will export in May.

By comparison, ConocoPhillips produced 1.5 billion cubic feet per day of gas in the Lower 48 and 736 mmcf per day of gas in Canada during the first quarter of the year.

Companywide, ConocoPhillips produced 1.6 million barrels of oil equivalent per day from its worldwide operations. Alaska accounted for some 11.5 percent of that total.

### Sinking prices

As production promises to stabilize, though, commodity prices have fallen.

ConocoPhillips reported an average sale price of $50.74 per barrel in the first quarter for Alaska crude oil, which includes natural gas liquids. The average price was $74.07 per barrel in the fourth quarter of 2014 and $106.39 per barrel in the first quarter of 2014.

By comparison, the company reported an average sale price of $40.77 per barrel of oil and $15.55 per barrel of NGL in the Lower 48 during the first quarter and $37.12 per barrel of oil and $18.28 per barrel of NGL in Canada during the first quarter.

The company reported an average sale price of $4.29 per thousand cubic feet for natural gas in Alaska during the first quarter, down from $5.01 per mcf in the fourth quarter of 2014 and $5.22 per mcf in the first quarter of 2014. Alaska gas prices are set on long-term contracts using indices based on Lower 48 markets and approved by regulators.

By comparison, ConocoPhillips reported an average sale price of $2.60 per mcf in the Lower 48 and $2.21 per mcf in Canada during the first quarter. In those regions, natural gas is traded on the open market, where prices fluctuate based on supply and demand.

Among the open questions for ConocoPhillips is whether Alaska oil can compete with other crude oil stocks in the Lower 48, where most Alaska oil ends up. According to Executive Vice President Matthew Fox, realizations for Alaska crude are currently averaging $2 to $3 below Brent crude, which could make alternative markets attractive.

"We have taken one cargo this year to Asia and one last year. We always have that option if that is what we choose to do," Fox said, referring to export opportunities from Alaska.

### Spending even/up

Even though falling prices and level-to-falling production is bringing down revenue, ConocoPhillips saw spending and expenses stay level for its Alaska operations.

The company reported $402 million in capital expenses during the first quarter, up from $390 million in the fourth quarter of 2014 and $415 million in the first quarter of 2014.

The spending comes from the new capital projects as well as increased drilling.

By comparison, during the first quarter of the year ConocoPhillips spent $1.37 billion on Lower 48 capital projects, $500 million on European capital projects, $488 million on Asia Pacific and Middle East capital projects and $455 million on Canadian capital projects.

The company spent $3.33 billion on capital projects worldwide during the quarter.

ConocoPhillips also reported $140 million in depreciation, depletion and amortization expenses from its aging Alaska operations in the first quarter of this year, up from $135 million in the fourth quarter of last year and $132 million in the first quarter of last year.

ConocoPhillips reported an effective income tax rate of 35.2 percent for its Alaska operations during the first quarter. The company paid an effective income tax rate of 31.5 percent in the fourth quarter of last year and 35.6 percent in the first quarter of last year.

By comparison, during the first quarter of the year, ConocoPhillips reported an effective income tax rate of 58.3 percent in Europe, 36.5 percent in the Lower 48, 28.6 percent in Asia Pacific and the Middle East and 28 percent in Canada. The total government take in a region also includes obligations such as royalties and taxes other than income taxes. ●

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## OIL PATCH BITS

AEC chair Tom Paddon for his leadership as well as the other AEC members. I look forward to aligning the work of the AEC with the Arctic Council priorities of the United States in such critical areas as energy, telecommunications infrastructure and response operations."

The AEC was founded in Iqaluit, Nunavut, six months ago and has three working groups: Arctic stewardship, responsible resource development and maritime transportation. AEC representatives have delivered more than 40 outreach presentations around the world and have met with business leaders seeking partnerships to promote responsible economic development in the Arctic.

Sweeney will be assisted by an executive committee, consisting of vice chairs Tero Vauraste from Finland, Evgeny Ambrosov from Russia and outgoing chair Tom Paddon from Canada.

### Crowley honored with 'Earth Day Award for initiatives

Crowley Maritime Corp. has been honored with the 2015 Federal Maritime Commission Chairman's Earth Day Award in recognition of the organization's companywide environmental stewardship initiatives.

The FMC Chairman's Earth Day Award is given annually and highlights technologies, programs or practices of the maritime transportation industry that, through efficiency or innovation, benefit the environment. The award also looks to emphasize efforts that provide a reduction in environmental harm, emissions or pollutants, and increase the public's awareness of the maritime transportation industry's hard work to protect the environment.

"Crowley companies place the highest priority on individual safety, security, prevention of pollution and customer satisfaction," said the company's Charlie Nalen, vice president, SSQE. "We understand how our jobs may impact the environment and also what we can do to minimize those impacts. Taking the initiative to reduce negative impact not only helps the environment, but also is in the best interest of our customers, the communities in which we work and our employees."

The Federal Maritime Commission is the federal agency responsible for regulating the nation's international ocean transportation for the benefit of exporters, importers, and the American consumer. The FMC's mission is to foster a fair, efficient, and reliable international ocean transportation system while protecting the public from unfair and deceptive practices.



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## ALBERTA ELECTION

Wildrose with 21, the governing Progress Conservatives with 10 and one each for the Liberal and Alberta parties. Entering the latest election, the NDP had only four members of the assembly.

For the Conservatives, under newly appointed Premier Jim Prentice, defeat ended almost 44 years in power by his party and 12 consecutive election victories. He immediately resigned as leader and as a member of the Legislature.

### Timing, taxes, stumbles cited

The dismantling of a political juggernaut has been linked by analysts to a wide range of issues, notably Prentice's decision to call an election a year sooner than required and what he called a "generational" budget that hiked taxes for Albertans but not corporations, combined with a long list of scandals and stumbles by previous governments.


DAVE COURNOYER
RACHEL NOTLEY

Already buffeted by shaky commodity prices, stalled crude pipeline projects and thousands of layoffs, the petroleum industry's woes are now compounded by uncertainty over Notley's pledges to raise corporate taxes to 12 percent from 10 percent and her decision to give up the Alberta government's fight for TransCanada's Keystone XL and Enbridge's Northern Gateway.

She was emphatic during the campaign that if elected she would not follow the lead of her four predecessors as premier and make trips to Washington, D.C., to lobby the Obama administration on XL, while she rated Northern Gateway as a "lost cause."

But Notley did endorse TransCanada's planned 1.1 million barrels per day Energy East pipeline to carry crude from Western Canada and the North Dakota Bakken to Quebec and New Brunswick refineries and export terminals in Eastern Canada and Kinder Morgan's application to triple capacity to 890,000 bpd on its Trans Mountain pipeline to refineries and export points in British Columbia and Washington State.

She is also making a case for increased refining of oil sands crude in Alberta — a sector littered with failed and cancelled projects — to reduce the opposition to moving raw bitumen by pipeline across British Columbia and by tanker from the Pacific Coast to Asia.

### Unease over commission

What has spread unease through the industry, which contributes about 25 percent to Alberta's gross domestic product, is Notley's plan to appoint a Resource Owners Rights' Commission — made up of citizens from all walks of life — to hold public hearings and determine if the province is getting its "fair share" of revenues.

That turned the clock back eight years to a destructive effort by former premier Ed Stelmach to hike royalties which drove billions of dollars of investment away from Alberta and triggered a major round of payroll cuts.

Stelmach's money grab collided with the recession that started in 2008 and with commodity prices heading in the opposite direction.

By 2010, the industry backlash forced the government to capitulate.

However, Notley made frequent attempts during the campaign to reach out to the business world and particularly the oil and gas sector by describing Alberta as "an energy economy. That's what we are. We need to build on our strength."

Enbridge Chief Executive Officer Al Monaco was one of the first energy leaders to say he was "encouraged" by Notley's pledge to "build a good relationship with our industry."

In her call for change, Notley also gave priority to diversifying the Alberta economy away from its reliance on petroleum royalties and taxes, to advancing renewable energy sources while phasing out coal-fired power plants and to working with the rest of Canada on a national climate change strategy.

But she enters power with only three others who have experience as legislators and a large team that is untested in government at any level.

The result is "completely devastating" for energy companies and investors said Rafi Tahmazian, who managed C$1 billion in energy funds at Canoe Financial in Calgary.

He said the initial assessment from investors is that the New Democrats could be "extremely dangerous."

—GARY PARK

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## SHELL PROTESTS

a 500-meter safety zone around the drillship Noble Discoverer that Shell will use in the Chukchi, with that safety zone being in effect both when the drillship is anchored and when the vessel is deploying and recovering moorings, when on location for drilling.

### Restraining order

Judge Sharon Gleason from the federal District Court in Alaska has already issued a temporary restraining order against Greenpeace, banning protestors from the organization from boarding or interfering with certain of Shell's vessels. The judge has yet to determine whether to broaden the injunction to include all vessels involved in Shell's Chukchi Sea program.

Shell, if it can successfully obtain all of the permits that it needs, hopes to move its drilling fleet north into the Chukchi in early July. ●

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# LEASE SALE

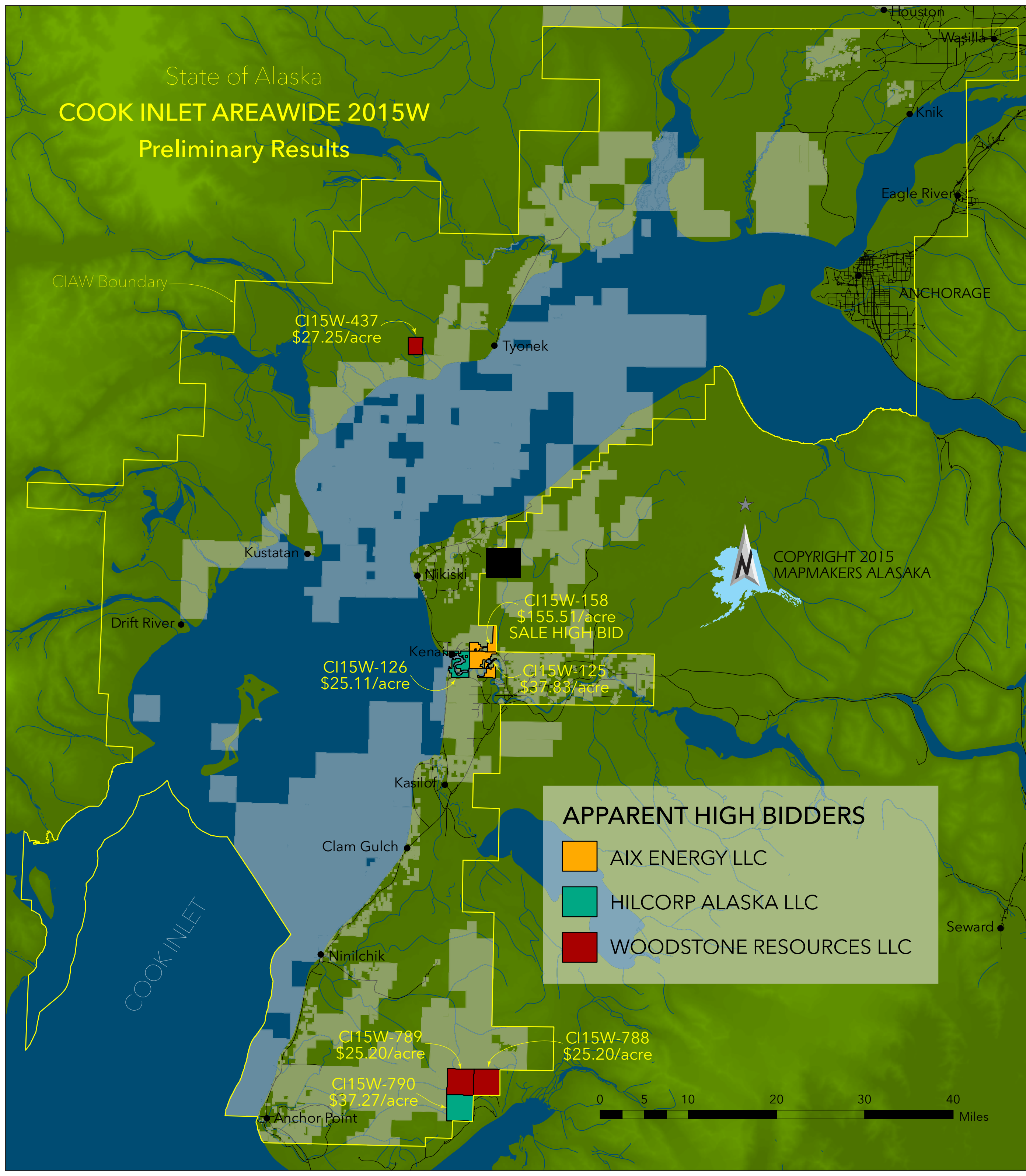
state received were on highly prospective acreage, with companies apparently targeting development areas.

This year's Cook Inlet sale brought in $749,819.79 in apparent high bids on 23,801 acres, compared to some $80,000 in apparent high bids for four tracts, 5,733 acres, in the 2009 sale.

Aside from the difference in acreage, the 2009 sale had a minimum required bid of $10 an acre; the minimum bid in this year's sale was $25 an acre, which became standard in 2012.

Over the last five years Cook Inlet lease sale have brought in more than a million dollars a year: in 2010, $1.72 million for 104,629 acres; $8.2 million in 2011 for 449,164 acres; $4.6 million in 2012 for 128,300 acres; $3.1 million in 2013 for 100,322 acres; and $4 million in 2014 for 83,521 acres.

*There were three bidders in the sale: AIX Energy LLC, Hilcorp Alaska and Woodstone Resources.*




## Three bidders

There were three bidders in the sale: AIX Energy LLC, Hilcorp Alaska and Woodstone Resources.

AIX Energy, a Texas-based independent, took over ownership and operation of the Kenai Loop gas field from Buccaneer Energy in a bankruptcy sale last year. AIX held one tract of state oil and gas lease acreage, some 1,049 acres, prior to the May 6 sale. It also holds Mental Health Trust acreage, from which the Kenai Loop field produces.

AIX acquired two tracts in the vicinity of that field, bidding $37.85 an acre for a tract of some 1,700 acres and $155.51 an acre for a 425-acre tract. The company's bids totaled some $130,395 for about 2,124 acres, an average of $61.39 per acre overall — 17.4 percent of the high bids in the sale for 9 percent of the acreage. The $155.51 per acre bid was the highest per-acre bid in the sale.

Hilcorp Alaska, Cook Inlet's major oil and gas producer, bid $25.11 an acre for a 2,698-acre tract in the vicinity of the Cannery Loop and Kenai gas fields which it operates, for a total of $67,747. It also picked up a tract on the southern end of the Kenai Peninsula adjacent to a sizeable block of undeveloped acreage which it holds, bidding $37.27 an acre for a 5,648-acre tract, a total of $210,486.05, the most paid for a tract in this sale. The company's total for the sale was $278,232.83 for 8,345.6 acres, 37.11 percent of the apparent high bids for 35.1 percent of the acreage, an average of $33.34 per acre.

Hilcorp, which entered Alaska when it acquired Cook Inlet assets previously operated by Chevron and Marathon in 2011 and 2012, recently acquired assets from BP on the North Slope, so now operates in both basins, holding some 341,251 acres of state oil and gas leases prior to this sale.

Woodstone Resources, a Houston-based independent, acquired its first interest in Alaska in 2010 with a small royalty share in a transfer of Cook Inlet leases from Stellar Oil and Gas to Buccaneer Alaska. Prior to this sale the company had 29,281 acres of oil and gas leases in Alaska, some 6,300 acres in Cook Inlet and some 22,954 on the North Slope.

*Hilcorp Alaska, Cook Inlet's major oil and gas producer, bid $25.11 an acre for a 2,698-acre tract in the vicinity of the Cannery Loop and Kenai gas fields which it operates, for a total of $67,747.*

In this sale Woodstone acquired three tracts, one on the west side, northeast of the Nicolai Creek gas field and west of the Moquawkie gas field, bidding $27.25 an acre for 2,560 acres, $69,760. On the southern Kenai Peninsula Woodstone was apparent high bidder on two blocks adjacent to a sizeable block of Hilcorp acreage, paying $25.20 per acre for each of the two tracts, one some 5,011 acres and the other 5,760 acres, $126,280 for the smaller tract and $145,152 for the larger. Woodstone had apparent high bids totaling $341,192.22 for 13,331.12 acres, 45.5 percent of the apparent high bids for 56 percent of the acreage, an average of $25.59 per acre.

Overall bidders paid an average of $31.50 an acre in this sale.

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