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Week of August 9, 2015 • $2.50

page 3 Herron eager for Obama visit; Alaska Arctic policy at center stage

This week's Mining News

NORTH OF 60 MINING news

page 11 Agnico creates long-term plan for Nunavut mine, new deposit

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The weekly mining newspaper for Alaska and Canada's North

Week of August 9, 2015

NEWS NUGGETS

Compiled by Shane Lasley

Fort Knox helps keep Kinross on track

Kinross Gold Corp. July 29 reported that its Fort Knox Mine in Interior Alaska produced 116,061 ounces of gold during the second quarter of 2015, a 40 percent jump over the 82,673 oz recovered during the first three months of this year. Kinross attributes the output to higher grade mill material and the seasonal impact of warmer weather on heap leach performance. Lower fuel and power costs, combined with the higher mill grades and more ounces sold, has driven down the cost per ounce of Fort Knox gold sold during the quarter. Kinross sold 113,938 oz of gold produced at Fort Knox for a production cost of US$606 per oz during the second quarter of 2015, compared to 85,938 oz at US$834/oz during the same period last year. The strong performance at Fort Knox helped offset some of the production losses that resulted from a nearly two-month partial shutdown of operations at the Maricunga Mine following extremely heavy rains in northern Chile during March, which caused heavy damage to local infrastructure. Kinross produced 660,898 gold-equivalent oz across all of its operations during the second quarter, down slightly from the 679,831 gold-equivalent oz produced during the same period of 2014. Kinross said it is tracking at the high end of 2015 production guidance of 2.4- to 2.6-million gold-equivalent oz for the year. "Kinross continued to deliver on its targets, with production in the first half of 2015 tracking at the high-end of guidance for the year, and all-in sustaining cost tracking at the low-end of the full-year forecast. The company achieved these results despite a temporary suspension of operations at Maricunga and fewer ounces sold due to timing of some gold sales, which, together with a decline in the gold price, impacted earnings," Kinross CEO J. Paul Rollinson commented. Kinross' reported net loss for the quarter was US$83.2 million, or roughly US7 cents per share. A US$24.5 million inventory write-down at Maricunga accounted for a large portion of this loss. Despite the loss, Kinross bolstered its cash and cash equivalents by US$20.9 million, to US$1.03 billion during the second quarter. "With strong liquidity, including more than $1 billion in cash on the balance sheet, Kinross is well-positioned to weather the current market volatility," Rollinson added.

see NEWS NUGGETS page 12

MARKETS

Bear market survival

From partnerships to playing dead, some Alaska explorers endure tough markets

By SHANE LASLEY

Mining News

Mining is a notoriously cyclical business that generally ebbs and flows with the overall state of the global economy, and these cycles are amplified for junior mining companies charged with scouring the globe for the next generation of mines. Following a bull market that reached a crescendo at the end of 2010, the current bear market has been especially deep and painful for even seasoned mining sector veterans.

"This has been a particularly treacherous bear market," longtime natural resource investor, Rick Rule, noted during a recent appearance on Palisade Radio. "The reason that this has been a particularly treacherous bear market is that the last bull market was particularly generous."

The share prices of 12 junior mining companies that were exploring Alaska at the top of the bull market and are still around today have lost an average of 89 percent of their value over that span. This median would be well into the 90th percentile if you remove three of those companies that have only lost a relatively mild 60-70 percent of their stock value.

Despite the heavy losses to share prices, a handful of Alaska's juniors have found ways to survive the brutal mauling this bear market is inflicting on the sector.

Safety in numbers

One bear market survival strategy that has worked well for some Alaska mineral explorers is to form partnerships with companies that look beyond the current market cycle and have the financial wherewithal to see that vision to fruition.

Constantine Metal Resources Ltd. found such a partner in Dowa Metals & Mining Co. Ltd.

In 2013, Dowa and Constantine inked a deal that provides the Tokyo-based smelting and mining company the opportunity to earn a 49 percent stake in the Palmer project by investing US$22 million in the Southeast Alaska exploration property over a four-year span.

At the time, some analysts felt that Constantine was giving up too large a portion of the copper- and zinc-rich volcanogenic massive sulfide project for the money. Following two years of resource expansion in tough equity markets, however, the deal has worked out well for both parties.

"We felt from the beginning the scale of investment Dowa is making to earn 49 percent would give us a good chance to establish a resource at Palmer with potential for mine viability," Constantine Vice President of Exploration Darwin Green told Mining News.

In May, Constantine published an inferred resource of 8.125 million metric tons averaging 1.41 percent (252.6 million pounds) copper, 5.25 percent (940.4 million lbs.) zinc, 0.32 grams per metric ton (83,600 ounces) gold and 31.7 g/t (8.3 million oz.) silver for Palmer.

This 97 percent expansion of the resource is largely due to US$10 million invested by Dowa through 2014.

The Tokyo-based company has agreed to invest another US$5 million this year.

As part of its agreement with Dowa, Constantine receives annual cash payments totaling US$1.25 million over the four-year span. This, along with any other option payments and management fees received, has allowed the company to avoid raising money in the bear market.

"We are currently cash-flow positive, which is a bizarre and privileged position to be in," observed

see BEAR MARKET page 11

From partnerships to playing dead, some Alaska explorers endure tough bear markets. Read more in Mining News, page 9.

Shell starts drilling in Chukchi

At 5 p.m. on July 30 the semi-submersible rig Transocean Polar Pioneer started drilling in the Chukchi Sea, as part of Shell's 2015 Chukchi drilling program, company spokeswoman Megan Baldino has told Petroleum News.

"We remain committed to operating safely and responsibly and adding to Shell's long history of exploration offshore Alaska," Baldino said.

Shell is drilling in the Burger prospect, about 70 miles

see SHELL DRILLING page 20

Kitchen Lights platform completed

Construction of Furie Operating Alaska's Kitchen Lights platform offshore in Cook Inlet has been completed, Bruce Webb, Furie senior vice president, told Petroleum News in an Aug. 4 email. The platform, located about 10 miles northwest of Boulder Point, near Nikiski on the Kenai Peninsula, will support production from Furie's Kitchen Lights gas field.

After the heavy lift vessel MV Svenja placed the platform's monopod caisson onto the seafloor in early June, the

see PLATFORM COMPLETED page 19

Quarles new head of Exxon Alaska

ExxonMobil Production Co. said Aug. 3 that Cory Quarles has been named Alaska production manager.

Quarles joined ExxonMobil in 1998 and has held various technical and supervisory positions in the U.S. In 2010 he was named asset manager for the Beryl offshore platforms in the United Kingdom and in 2012 he was assigned as

see QUARLES page 20

EXXONMOBIL

CORY QUARLES

FINANCE & ECONOMY

Conoco: $195M in 2Q

Recovering prices and lower spending offsets declining Alaska oil production

By ERIC LIDJI

For Petroleum News

A small bump in oil prices early in the year helped ConocoPhillips earn $195 million from its Alaska operations during the second quarter — up from the first quarter of the year but down considerably from a year ago, when oil prices topped $100 per barrel.

The largest oil company in the state had earned $145 million in the first quarter of this year and $627 million in the second quarter of last year. With global oil prices depressed, Alaska remained one of the most profitable segments in the company's portfolio.

By comparison, after adjustments, ConocoPhillips reported a loss of $293 million from its Lower 48 operations and a loss of $60 million from its Canadian operations, and gains of $328 million from its Asia Pacific and Middle Eastern operations and $71 million from its European operations during the second quarter. Companywide, ConocoPhillips reported a net loss of $179 million on $8.6 billion in revenue, down from nearly $2.1 billion in net income on $14.7 billion in revenue in the second quarter of 2014.

The quarterly figures came shortly after ConocoPhillips announced it would begin market-

In the second quarter, the company reached important milestones on two major North Slope projects by drilling the initial wells at the CD-5 satellite at the Colville River unit and the Drill Site 2S project at the Kuparuk River unit.

see CONOCO EARNINGS page 18

GOVERNMENT

Alaska is exempted

EPA's final rule for reducing power plant CO2 emissions excludes Alaska

By ALAN BAILEY

Petroleum News

The Environmental Protection Agency has issued a final rule for its Clean Power Plan, a set of new regulations for limiting emissions of carbon dioxide from existing commercial-scale electricity generation plants. But for the time being the agency has exempted the two non-contiguous states of Alaska and Hawaii from the need to set emissions targets because of, the agency says, a lack of sufficient information or analytical tools for measuring in these states the means whereby emission targets may be achieved. The territories of Guam and Puerto Rico have also been exempted for the same reason.

"I am pleased that the EPA has recognized the unique circumstances Alaska is facing, and I look forward to working with the agency officials to come up with appropriate goals for the state in the near future."
—Alaska Gov. Bill Walker

The EPA plan comes as part of a drive by the Obama administration to reduce U.S. greenhouse gas emissions through government regulation under the terms of the Clean Air Act. EPA originally released its

see EMISSIONS RULE page 15

GOVERNMENT

Cross-border testiness

Harper pins hopes for Keystone on new US president, cites 'peculiar politics'

By GARY PARK

For Petroleum News

If there have been any doubts before that relations between the leaders of Canada and the United States are at their lowest point in 60 years, they have been removed by Canada's Prime Minister Stephen Harper.

STEPHEN HARPER

He said delays in getting a final decision on the US$8 billion Keystone XL pipeline reflect "the very peculiar politics of this particular administration."

"Notwithstanding the facts, a positive decision has not been rendered (by the Obama administration) for a very long time," Harper said in a Bloomberg TV interview. "That's obviously not a hopeful sign."

He then delivered his ultimate taunt, in declaring "that whether this project goes ahead or not under this administration, it will ultimately go ahead under a subsequent administration."

What is beyond dispute is that Obama will end his eight years in the White House in January 2017.

Harper's position not clear

What is far less clear is whether Harper will still be in office at that time. He has officially launched the campaign leading to a national vote on Oct. 19,

see BORDER RELATIONS page 19

contents

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ON THE COVER

Conoco: $195M in 2Q

Recovering prices and lower spending offsets declining Alaska oil production

Alaska is exempted

EPA's final rule for reducing power plant CO_2 emissions excludes Alaska

Cross-border testiness

Harper pins hopes for Keystone on new US president, cites 'peculiar politics'

Shell starts drilling in Chukchi

Kitchen Lights platform completed

Quarles new head of Exxon Alaska

ENVIRONMENT & SAFETY

14 Carbon dioxide corrosion found in Arctic

EXPLORATION & PRODUCTION

4 **July ANS crude output up 1% from June**

Kuparuk, Endicott up month-over-month; Prudhoe, Lisburne, Alpine down; June Cook Inlet crude production down almost 1% from May

8 **Aurora Gas plans Cook Inlet exploration**

Asking DEC for contingency plan for six prospects, four on west side, one near Kenai, one east of Anchor Point

FINANCE & ECONOMY

8 New York Stock Exchange delists Miller

13 Shell's approach to the pricing challenge

15 Repsol profits down 44 percent in Q2

18 Exxon profit falls by half, production up

GOVERNMENT

3 **Herron eager for President Obama visit**

Bethel Democrat says coming events puts Alaska at center stage for Arctic policy issues

13 **Murkowski promotes new energy bills**

Legislation would trigger a series of energy initiatives, including heightened OCS leasing, OCS revenue sharing and oil exporting

14 AOGCC fines Great Bear over drilling test

PIPELINES & DOWNSTREAM

5 **Pipeline doom and gloom**

Nexen spill from new Alberta line predicted to increase scrutiny of proposed oil sands lines; too early to demand sweeping changes

SIDEBAR, Page 5: Costs, timetables mount

6 **Courting BC on pipelines**

Leading petroleum lobby group opens Vancouver office, pledges less talk more listening; targets 33% 'disengaged' from energy debate

14 Alyeska names Nuttall VP risk, technical

● GOVERNMENT

Herron eager for President Obama visit

Bethel Democrat says coming events leading into and including Obama's arrival puts Alaska at center stage for Arctic policy issues

By STEVE QUINN
For Petroleum News

House Majority Whip Bob Herron's August calendar keeps filling up. On Aug. 14, he will be part of a gathering featuring a host committee for an expected visit to Alaska by President Barack Obama and possibly Secretary of State John Kerry. On Aug. 23-25, he'll be part of a conference discussing priorities for advancing Alaska's interests in Arctic policy.

And on Aug. 31, Alaska welcomes Obama and members of his team for a discussion on the Arctic. It will be part of a conference called Global Leadership in the Arctic: Cooperation, Innovation, Engagement and Resilience, also known as GLACIER.

Herron, along with Senate colleague Lesil McGuire, has been on the front lines of Arctic policy for the state.

The Bethel Democrat, who aligns himself with the Republican majority, recently accepted an appointment as chair for the Arctic Caucus from the Pacific NorthWest Economic Region, a coalition of states and Canadian provinces and territories looking to advance mutual economic interests.

Herron spoke to Petroleum News about what lies ahead in August and a little beyond.

Petroleum News: Let's start by talking about your PNWER appointment as Arctic caucus chair. What would you like to accomplish for Alaska?

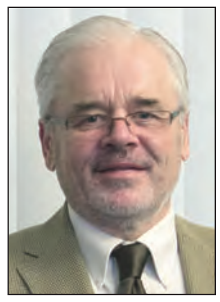
Herron: Every year the three jurisdictions rotate. So it's Alaska's turn. It will either be the Yukon or the Northwest Territories next year. So, it's not just Alaska, of course. It's the Yukon and the Northwest Territories. We have so much in common being in the northern latitudes. The Canadian federal government has what I would call a better relationship with its two sub national jurisdictions than possibility we do. You know, I'm not focusing on that. The thing I'm going to focus on is how can we work together across the border for our own mutual benefit.

At this conference PNWER had in Montana, David Ramsay (Northwest Territories minister of Justice, Industry and Tourism), he said they found in the Mackenzie, their oil deposits, there might be between 200 million and 300 million barrels of a deposit there. And so, to have such a large deposit so close to Alaska how would that benefit Alaska. He even mentioned in his remarks there is a pipeline that goes to Valdez that's not far away.

It's all about the stranded natural resources all three jurisdictions have. It's all about the opportunities that are coming our way because of Arctic issues. There are just so many opportunities to try to move the Arctic caucus within PNWER forward with again all the opportunities that come our way.

Petroleum News: Do you like that it coincides with the U.S. becoming chair of the Arctic Council?

Herron: Well, PNWER was real sensitive about that. So was the Yukon and Northwest Territories. It made sense that we have the chair of the Arctic caucus when we have chair of the Arctic council. It made sense to all three jurisdictions.


REP. BOB HERRON

Petroleum News: You know PNWER is a rather elusive organization to the general public. So with that in mind, and with Alaska on the forefront of the U.S. holding the chair position with Arctic Council, how else can PNWER help during these next two years?

Herron: It's an education process that we are all doing. We are all trying to make sure the Lower 48 states understand what Arctic means to them. The same thing goes for PNWER. Both the four Pacific Northwest states — Montana, Washington, Idaho and Oregon — and then all the jurisdictions on the Canadian side — British Columbia, Alberta and Saskatchewan — why the Arctic region helps them. So again, when a person from Montana or a person from Alberta gets in the discussion, they must think of how the Pacific Northwest can benefit from the Arctic.

That's why these protests that we saw in Seattle and Portland were, I don't know how you put it, to me they were shortsighted. To me, these people — well meaning, they don't realize how resource development not only helps people who live in the north, it helps them.

I always ask facetiously, were those kayaks all made of wood in the Pacific Northwest, and were all those kayaks tested for invasive species? They just can't see that there are positives to making sure we work as a region, specifically the Pacific Northwest region, how our future can be positive. It's not all going to be negative. Sure there are challenges. That's what's so ironic. They want all the benefits, but they want to lock up this place for what? Who? Clearly, I guess I would say I was bemused.

Petroleum News: Certainly there were protesters from Washington, Oregon and maybe even Alaska down there, but there were also lawmakers, political leaders ranging from Seattle City Council, Seattle Mayor Ed Murray and Washington Gov. Jay Inslee. What are your thoughts on this? Are they meddling in Alaska's business or simply tending to their own?

Herron: It would be the same for us up here. You have to be responsive to your constituents. As you know, when you're an elected official you can't worry about your own constituents; you have to worry about everybody. Unfortunately, in society, today, and it's every aspect of society, there always has to be a winner and there has to be a loser. We've lost that at the local level, somewhat at the state level and at the federal level.

How we get that boat turned around where we get people working together to make our lives better rather than making sure the other guy loses. That's where I kind of put it in that respect. And so the elected officials from any of these states down there, they need to listen to their constituents, and hopefully they can listen to them and understand it's not all about one place. It's about all of our places.

Petroleum News: What progress have you seen this year, maybe separate from the bills and resolutions passed, toward advancing Alaska's interest in Arctic development? I know these things take time, so I wouldn't expect a long list necessarily.

Herron: Well, again, it's such a long trail. There is not going to be quick solutions. What we've got to keep our focus on is that it takes money, of course; it takes infrastructure and the ramp up of infrastructure is going to take a while. And the competing interests of everyone, and I've said this before, politicians have short attention spans. They really do want to be successful.

But on the Arctic, though, I guess it's how can we deal with the opportunity and the exposure we are going to have with so many people coming to Alaska to talk about circumpolar issues. So how do we do that? What do we learn from it?

On Aug. 25, the two Arctic committees from the House and the Senate, we will have a joint hearing. We are going to listen to President (Olafur Ragnar) Grimsson from Iceland, (former Lt. Governor) Mead Treadwell from Alaska and (Alaska Dispatch publisher) Alice Rogoff from Alaska. We are going to ask a lot of Bering Sea mayors, both from the larger hubs and the smaller hubs, what is our future with shipping ports.

What are going to learn from this conference in late August? How can the government, how can the Legislature, given its current challenges, learn from these people and decipher and flesh out all of these ideas that are coming, and figure out which one makes the most sense. Obviously there is going to be an emphasis on the climate change issue that will be, I'm assuming, delivered by the president or John Kerry. Hopefully, they will understand yes, we've got to be

see HERRON Q&A page 17

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● EXPLORATION & PRODUCTION

July ANS crude output up 1% from June

Kuparuk, Endicott up month-over-month; Prudhoe, Lisburne, Alpine down; June Cook Inlet crude production down almost 1% from May

By KRISTEN NELSON
Petroleum News

Alaska North Slope crude oil production averaged 467,922 barrels per day in July, up 1 percent from a June average of 463,289 bpd. Production in both months is down from a May average of 497,673, as production is impacted by planned summer maintenance projects at major fields and on the trans-Alaska oil pipeline.

The largest month-over-month increase was at the Kuparuk River field, operated by ConocoPhillips Alaska, which averaged 144,329 bpd, up 9.5 percent, 12,517 bpd, from a June average of 131,812, and also up from a May production average of 137,959 bpd.

Kuparuk includes satellite production from Meltwater, Northeast West Sak, Tabasco, Tarn and West Sak, as well as from the Eni-operated Nikaitchuq field and the Caelus Alaska-operated Oooguruk field.

Information for July comes 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.

AOGCC data for June show Nikaitchuq averaged 23,209 bpd, up 4.5 percent from a May average of 22,210 bpd, while Oooguruk averaged 13,925 bpd in June, down 4.2 percent from a May average of 14,530. In May, Nikaitchuq and Oooguruk production combined accounted for some 28 percent of the total volume reported for Kuparuk, with 96,176 bpd coming from the Kuparuk River field and its satellites.

Endicott also up

Production from the Hilcorp Alaska-operated Endicott field averaged 9,330 bpd in July, up 8.5 percent from a June average of 8,602 bpd, an increase of 728 bpd.

Endicott includes satellite production

AOGCC June data show Cook Inlet crude oil production averaging 18,346 bpd, down 0.8 percent, 147 bpd, from a May average of 18,492 bpd.

from Eider and Sag Delta, as well as from the Savant Alaska-operated Badami field. AOGCC data show that Badami averaged 962 bpd in June, up 13 percent from a May average of 851 bpd, an increase of 111 bpd.

Prudhoe, Alpine, Lisburne down

The BP Exploration (Alaska)-operated Prudhoe Bay field, the Slope's largest, averaged 250,099 bpd in July, down 2.1 percent from a June average of 255,399 bpd. Prudhoe Bay volumes include satellite production from Aurora, Borealis, Midnight Sun, Orion and Polaris, as well as production from the Hilcorp-operated Milne Point and Northstar fields.

AOGCC data for June show Milne Point production averaging 17,752 bpd, down 1.2 percent from a May average of 17,963 bpd, and Northstar production averaging 5,757 bpd, down 6.9 percent from a May average of 6,186 bpd.

The ConocoPhillips-operated Alpine field averaged 46,185 bpd in July, down 3.2 percent from a June average of 47,688 bpd. Alpine includes production from satellites at Fiord, Nanuq and Qannik, with the main Alpine field accounting for some 69 percent of production.

The BP-operated Lisburne field, part of greater Prudhoe Bay, averaged 17,979 bpd in July, down 9.1 percent from a June average of 19,788 bpd. Lisburne volumes include production from Niakuk, Point McIntyre and Raven.

Cook Inlet production down

AOGCC June data show Cook Inlet crude oil production averaging 18,346 bpd, down 0.8 percent, 147 bpd, from a May average of 18,492 bpd.

The largest percentage drop, 16.8 per-

see **ANS PRODUCTION** page 6

CORRECTION

Maximizing recovery AOGCC focus

The article titled "A critical step" in the Aug. 2 issue of Petroleum News incorrectly characterizes the Alaska Oil and Gas Conservation Commission's purpose in assessing BP's application to be allowed to increase the natural gas offtake from the Prudhoe Bay field, in anticipation of the possibility of major gas sales via a future gas line from the North Slope.

The article incorrectly states that the commission will need to be convinced that the proposed increase in the gas offtake will result in a net economic advantage to the state. In fact, the commission's role is to ensure the maximum recovery of hydrocarbons from Alaska's oil and gas fields. To achieve this objective the commission has placed a cap on the offtake of gas from the field, with the commissioners favoring the use of gas to assist with oil recovery.

To obtain approval for an increased gas offtake, the owners of the Prudhoe Bay field will need to convince the AOGCC commissioners that the offtake will result in greater hydrocarbon recovery while minimizing any hydrocarbon wastage. In other words, the question revolves around the hydrocarbon recovery that can be achieved from different gas versus oil recovery scenarios, rather than around the economic value of the products.

The article also incorrectly states that the hearing will be held on Aug. 17. The hearing date is in fact Aug. 27.

● PIPELINES & DOWNSTREAM

Pipeline doom and gloom

Nexen spill from new Alberta line predicted to increase scrutiny of proposed oil sands lines; too early to demand sweeping changes

By GARY PARK

For Petroleum News

By some estimates, it may have taken two weeks for the escape of 5 million liters of bitumen emulsion from a Nexen pipeline to attract public attention in northern Alberta.

It may now take months to fully understand what happened, said Fang Zhi, chief executive officer of Nexen, which is wholly owned by the China National Offshore Oil Corp.

What is troubling to the Alberta Energy Regulator, the government agency that regulates the province's oil and gas industry, is that the year-old pipeline had been deemed a low risk because "the leak detection system that had been installed seemed to be effective."

Even more disturbing is the impact the spill, which covers the size of two football fields and is rated as Alberta's worst spill in 35 years, will have on the increasingly difficult job of gaining approvals for new pipelines out of the oil sands.

The rupture, which spilled bitumen, waste water and sand into the bog-like muskeg country near Nexen's Long Lake operation, is ammunition for those demanding a minimum of more stringent regulations and a maximum of an outright ban on the projects, effectively shutting down oil sands expansion.

Greater scrutiny expected

Michal Moore, a University of Calgary economics professor and former California energy regulator, has no doubt that the incident will lead to greater scrutiny.

He said every high-profile spill, "especially those that involve operator malfeasance" adds to the clamor for an end to new pipelines.

Alberta Premier Rachel Notley said the leakage will rattle public confidence in the industry.

She wants an investigation that results in "clear, meaningful recommendations to ensure that it doesn't happen again."

Zhi, who visited the site, said his company's focus is on "the safety, the environment and the root causes" of the spill.

"It's disheartening to see the site and it is very disappointing this has happened. I therefore personally apologize for the consequences this might have caused," he said.

Too soon for rules change

But the AER said it is too soon to decide whether rules need to change.

Steven Paget, an analyst at FirstEnergy Capital, said the incident "reinforces the general negativity that's playing into the challenge to get pipelines built," and adds to the opposition to four proposed pipelines out of Alberta — Keystone XL (TransCanada), Energy East (TransCanada), Northern Gateway (Enbridge) and the Trans Mountain expansion (Kinder Morgan).

Nexen Senior Vice President Ron Bailey said the pipeline, which has a built-in leak detection system, had not been inspected since it was laid in 2014.

The double-layered steel pipe — a 16-inch pipe inside a 24-inch line — transports bitumen from the company's Kinosis steam-assisted oil sands operation, which produces 9,000 barrels per day, to its Long Lake facility.

"Certainly all the work was done to help us believe that we had a very good design," Bailey said.

He said the cost of cleanup is not an issue for Nexen, adding "this is not a rush job. This is not about cuts or anything like that. We're going to get to the bottom of this event and we're going to own it."

He said tests at the site have shown chloride levels of 2,000 parts per million, compared with 50 ppm for potable water.

Concern over when leak started

Alberta Energy Minister Marg McCuaig-Boyd said she found it "concerning" that the leak may have started weeks before it was discovered, calling the sequence of events "unacceptable."

"We all want to know that when something like this happens, not only is it contained and cleaned up, but every possible effort is made to find out what went wrong and fix it," she said.

"This is a new pipeline, but I guess things happen and nothing is 100 percent."

Even so, McCuaig-Boyd and Environment Minister Shannon Phillips said they remain confident that pipelines are the safest means of transporting all forms of crude.

When the NDP was in opposition it frequently raised concerns about the quality of 240,000 miles of pipeline in Alberta and the adequacy of the provincial government's regulatory system.

But, now that her party is in power, McCuaig-Boyd said there is "no need at this point" for a sweeping regulatory review.

Auditor General Merwan Saher reported in March that a number of improvements could be made to improve pipeline safety, although he concluded the Alberta Energy Regulator was "adequately performing its

see **NEXEN SPILL** *page 6*

Costs, timetables mount

Laying the groundwork for Canada's longest oil pipeline is becoming more uncertain in every respect except cost and timing for TransCanada.

Its proposed Energy East system was originally designed to ship 1.1 million barrels per day from Alberta and Saskatchewan to refineries in Ontario and Quebec and export terminals in Quebec and New Brunswick, starting in late 2017 or early 2018 at a cost of C$12 billion.

TransCanada now warns that the price tag is sure to grow for the 2,800-mile pipeline, while the in-service date has been extended to 2020.

The cost inflation is partly the result of a company decision in April to relocate a proposed marine terminal at Cacouna, Quebec, on the St. Lawrence River, in response to concerns about the impact on a beluga whale population.

Adding to the delays is the hard-line opposition from TransCanada's gas utility customers in Ontario, who believe their supply source could be threatened, the governments of Ontario and Quebec, landowners along the pipeline right of way, environmentalists and First Nations.

Mindful of how aboriginal communities have effectively sidelined Enbridge's planned Northern Gateway pipeline across British Columbia, TransCanada has been engaged in negotiations with First Nations leaders to secure their support in return for their confidentiality.

So far, TransCanada has reportedly signed 32 "capacity funding agreements" over the past two years, but insists none of its contributions to pay for projects such as fire stations, youth centers and 43 land use studies are designed to muzzle the aboriginal residents.

Kanesatake Grand Chief Serge Simon told the Montreal Gazette that "once we signed an agreement it was basically a gag order. You could not speak of the processes you were in with Energy East" — a claim that TransCanada would not discuss.

However, one person who has participated in the negotiations said the deals do not prevent First Nations from opposing Energy East, but do put them in an "awkward position if they take money from TransCanada and then speak out against" the company.

—GARY PARK

● PIPELINES & DOWNSTREAM

Courting BC on pipelines

Leading petroleum lobby group opens Vancouver office, pledges less talk more listening; targets 33% 'disengaged' from energy debate

By GARY PARK

For Petroleum News

The Canadian Association of Petroleum Producers is renewing its push for new oil pipelines to the British Columbia coast at the same time opposition keeps building against Kinder Morgan's plans to triple capacity on its Trans Mountain system from Alberta to the Greater Vancouver area and Washington state.

CAPP Chief Executive Officer Tim McMillan said his organization will talk less and listen more, starting with the opening of an office in Vancouver.

"Coming from a political background, I think listening to Canadians is as important," said McMillan, a former cabinet minister in the Saskatchewan government of current Premier Brad Wall.

He said the plunge in oil prices means the price gap between Brent crude and what landlocked Canadian producers have to accept from the West Texas Intermediate markets they serve makes it more important than ever to open exports to the Pacific-Asia region.

"Pipeline capacity, in many senses, is more crucial today, if we want to be competitive," McMillan said.

Aiming at the 'middle ground'

Despite the industry's challenge to gain political and public acceptance for pipelines, CAPP's internal polling shows about 40 percent of Canadians are generally supportive of energy projects, with 25 percent opposed and 33 percent listed as "disengaged," he said.

"I think trying to engage that middle ground is crucial," McMillan told reporters, claiming that CAPP has already managed to shift more of the disengaged towards support.

He said that developing oil resources sustainably and transporting them safely has been accompanied by "continuous improvement" on the environmental front, with producers lowering their greenhouse gas emissions by 30 percent per barrel since the 1990s and recycling 95 percent of the water they use.

Expert disagrees

University of British Columbia resource-policy expert George Hoberg said making a case around reduced per-barrel emissions won't win over the public at a time when oil sands production is expected to grow by 800,000 bpd over the next five years, with plans to add several million barrels in the 2020s.

He said CAPP would make more headway if it laid out a clear plan for Canada to play a "meaningful role in global efforts to reduce carbon emissions."

Hoberg told the Vancouver Sun the Canadian industry's focus on the oil sands has been overtaken by the rest of the world, which has made "dramatic growth in renewable energy production. We have greater renewable resources in Canada, but we're letting them atrophy because we're spending so much time trying to get (oil sands) bitumen to tidewater."

Another bump for Kinder Morgan

However, as fast as the industry cranked up its pitch, Kinder Morgan's Trans Mountain expansion plan hit another bump in the road.

The application to triple capacity on the line to 890,000 bpd, which enters a National Energy Board regulatory hearing later this year, became entangled in plans for a new shipping terminal near Vancouver's Fraser River Estuary.

The Roberts Bank Terminal 2 has been identified by activists as a possible alternative port for the Trans Mountain pipeline, which currently plans to use its Westridge terminal in the Greater Vancouver city of Burnaby.

But Port Metro Vancouver dismisses claims that Roberts Bank Terminal 2, which is part of an Asia-Pacific Gateway initiative to build international trade, could also be used to ship oil from Trans Mountain and overcome resistance from Burnaby.

A Trans Mountain spokeswoman told the Vancouver Sun that Kinder Morgan had initially evaluated using the new terminal, but said the idea made no sense because the company has existing infrastructure in Burnaby.

However, CAPP and Kinder Morgan are among 25 lobby organizations that have registered with Port Metro Vancouver to maintain a close watch over their desire to build crude exports from Canada's Pacific Coast.

Their big test starts Aug. 24 with Kinder Morgan's opening oral summary before the National Energy Board, followed Sept. 9-30 with oral arguments from the public. ●

Contact Gary Park through publisher@petroleumnews.com

continued from page 5

NEXEN SPILL

function of overseeing pipeline safety."

Phillips echoed the general view that the lag between when the line began to leak and when it was discovered was troubling.

She said other aspects of the leak were also worrying, but declined to provide further details, saying the AER needed space to do its work. ●

Contact Gary Park through publisher@petroleumnews.com

continued from page 4

ANS PRODUCTION

cent, was at Cook Inlet Energy's West McArthur River field, which averaged 1,206 bpd in June, down 243 bpd from a May average of 1,449 bpd.

The largest per-barrel drop was at Hilcorp Alaska's McArthur River field, Cook Inlet's largest, which averaged 5,564 bpd in June, down 5.3 percent, 311 bpd, from a May average of 5,875 bpd.

Hilcorp's Beaver Creek, Cook Inlet's smallest, averaged 123 bpd in June, down 0.5 percent from a May average of 124 bpd.

All other Cook Inlet fields showed month-over-month production increases.

The largest percentage increase, 10.7 percent, was at Cook Inlet Energy's Redoubt Shoal field, which averaged 999 bpd in June, up from a May average of 903 bpd.

The largest per-barrel increase was at Hilcorp's Swanson River field, which averaged 2,735 bpd in June, up 202 bpd from a May average of 2,533 bpd.

The Middle Ground Shoal field, currently operated by ExxonMobil subsidiary XTO, but in the process of being acquired by Hilcorp, averaged 1,914 bpd in June, up 1.9 percent from a May average of 1,878 bpd.

Hilcorp's Trading Bay field averaged 3,447 bpd in June, up 1.9 percent from a May average of 3,385 bpd, and Hilcorp's Granite Point field averaged 2,357 bpd, up 0.5 percent from a May average of 2,346 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. ●

Contact Kristen Nelson at knelson@petroleumnews.com

● EXPLORATION & PRODUCTION

Aurora Gas plans Cook Inlet exploration

Natural gas producer asking DEC for contingency plan for six prospects, four on west side, one near Kenai, one east of Anchor Point

By KRISTEN NELSON
Petroleum News

Aurora Gas has an application in with the Alaska Department of Environmental Conservation for drilling at six prospects, four on the west side of Cook Inlet and two on the Kenai Peninsula.

Aurora Gas, established by Aurora Power Resources in 2000 as an exploration and production arm, has production and shallow natural gas prospects on the west side of Cook Inlet, and prospects on the Kenai Peninsula. The company holds some 32,000 acres of state oil and gas acreage.

The DEC application is for an oil discharge prevention and contingency plan renewal covering six prospects: Chickalusion, Three Mile Creek Deep, Congahbuna Lake, Nicolai Footwall, Forest Lake and West Eagle, the first four of which are on the west side, while Forest Lake is near Kenai and West Eagle is east of Anchor Point.

Same rig on west side

For all of the west side wells the company is proposing to use the Aurora Well Service No. 1 rig or another suitable rig. That is also the rig proposed for the Forest Lake prospect. For West Eagle, however, Aurora is proposing to use Cook Inlet Energy's Rig No. 37, formerly Glacier Rig No. 1.

Some road work is needed for west side prospects and for the Forest Lake well on the Kenai Peninsula.

For the Chickalusion prospect, which has one potential drilling location and up to two wells at section 33, township 12 north, range 11 west, Seward Meridian, existing roads in the Tyonek/Beluga area and oilfield roads will be used to get near the drill site and about 1/2 mile of new access road will be required to get to the actual drilling location, some 4 miles west of Tyonek.

The drill site and access road are on land owned by Tyonek Native Corp.; Cook Inlet Region Inc. has subsurface rights to both the drilling location and gravel pits.

There will be limited lodging onsite for supervisory personnel with support personnel to be housed at Shirleyville Camp.

Three Mile Creek Deep, Congahbuna Lake

The Three Mile Creek Deep prospect well has one drill site at 34-T13N-R11W, SM, with up to two wells. The site is some 8 miles north of Tyonek and is accessed by road systems in the Tyonek/Beluga area and existing oilfield roads, with some 1/2 mile of new access road required. The drilling location is on lands managed by the Alaska Department of Natural Resources which also has subsurface rights at the location. Limited lodging will be provided onsite with support personnel to be housed at the CH2M Hill Camp in the Beluga area.

The Congahbuna Lake prospect is some 10 miles west-northwest of Tyonek and has two potential drilling locations each with a single well at 22/27-T12N-R12W, SM, and 28-T12N-R12W, SM.

Site access will be by the road system, including old oilfield roads, in the Tyonek/Beluga area. The drilling location is on lands managed by DNR; subsurface rights are Mental Trust Health Lands. Limited lodging will be provided onsite with support personnel to be housed at the Shirleyville Camp.

Nicolai Footwall

The Nicolai Footwall prospect has two potential drilling locations with a single well at each site some 10 miles southwest of Tyonek, 29-11N-12W, SM, and 20-T11N-R12W, SM. The Nicolai Footwall No. 1 well has surface management from DNR and subsurface management by Mental Health Trust Lands. The No. 2 well has Mental Health Trust surface management and federal Bureau of Land Management subsurface management.

Site access will be by the road system in the Tyonek/Beluga area and by existing oilfield roads, with some 1/2 mile of new access road required to get to the actual drilling locations.

There will be limited onsite lodging for supervisory personnel with support personnel housed at the Shirleyville Camp.

Forest Lake, West Eagle

On the Kenai Peninsula, Forest Lake has two potential drilling locations with a single well proposed for each, some 12 miles northeast of Kenai. Forest Lake Well No. 1 is at 22-T7N-R9W, SM, and No. 2 is at 15-T7N-R9W, SM. Site access will be on the Kenai/Soldotna area road system with existing oilfield roads used to get near the proposed sites and some 2 miles of new access road required. The drilling location and access road are on land managed by the U.S. Fish and Wildlife Surface; CIRI holds subsurface rights.

Only limited housing will be provided onsite, with support personnel housed in the Kenai/Soldotna area.

The West Eagle well location is some 20 miles east of Homer, within the footprint of an existing material site on public lands operated by a local company.

Aurora said the West Eagle No. 1 may encounter either oil and/or natural gas. The site is reached by some 21 miles of existing roads.

DNR has subsurface ownership; surface ownership of the existing pad is held by the Kenai Peninsula Borough.

Personnel will be housed offsite in existing commercial lodging. ●

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FINANCE & ECONOMY

New York Stock Exchange delists Miller

Miller Energy Resources Inc. said July 30 that it had been notified that trading in its common and preferred stock would be suspended by the New York Stock Exchange after the close of business July 30.

Miller said the stock exchange said proceedings to delist the stock would begin as a result of the company's failing to maintain an average market capitalization of $15 million or more over the preceding 30 trading days.

The company said it would request review of the decision by the NYSE board of directors, and said trading in its stock would resume on the over the counter markets.

Miller said neither the actions of the NYSE nor the transition to OTC markets would affect its business operations.

Miller, headquartered in Houston, operates Cook Inlet and North Slope oil and gas fields through Cook Inlet Energy and Savant Alaska.

—PETROLEUM NEWS

NORTH OF 60 MINING news

page 11 Agnico creates long-term plan for Nunavut mine, new deposit

www.MiningNewsNorth.com *The weekly mining newspaper for Alaska and Canada's North* Week of August 9, 2015

NEWS NUGGETS

Compiled by Shane Lasley

Fort Knox helps keep Kinross on track

Kinross Gold Corp. July 29 reported that its Fort Knox Mine in Interior Alaska produced 116,061 ounces of gold during the second quarter of 2015, a 40 percent jump over the 82,673 oz recovered during the first three months of this year. Kinross attributes the output to higher grade mill material and the seasonal impact of warmer weather on heap leach performance. Lower fuel and power costs, combined with the higher mill grades and more ounces sold, has driven down the cost per ounce of Fort Knox gold sold during the quarter. Kinross sold 113,938 oz of gold produced at Fort Knox for a production cost of US$606 per oz during the second quarter of 2015, compared to 85,938 oz at US$834/oz during the same period last year. The strong performance at Fort Knox helped offset some of the production losses that resulted from a nearly two-month partial shutdown of operations at the Maricunga Mine following extremely heavy rains in northern Chile during March, which caused heavy damage to local infrastructure. Kinross produced 660,898 gold-equivalent oz across all of its operations during the second quarter, down slightly from the 679,831 gold-equivalent oz produced during the same period of 2014. Kinross said it is tracking at the high end of 2015 production guidance of 2.4- to 2.6-million gold-equivalent oz for the year. "Kinross continued to deliver on its targets, with production in the first half of 2015 tracking at the high-end of guidance for the year, and all-in sustaining cost tracking at the low-end of the full-year forecast. The company achieved these results despite a temporary suspension of operations at Maricunga and fewer ounces sold due to timing of some gold sales, which, together with a decline in the gold price, impacted earnings," Kinross CEO J. Paul Rollinson commented. Kinross' reported net loss for the quarter was US$83.2 million, or roughly US7 cents per share. A US$24.5 million inventory write-down at Maricunga accounted for a large portion of this loss. Despite the loss, Kinross bolstered its cash and cash equivalents by US$20.9 million, to US$1.03 billion during the second quarter. "With strong liquidity, including more than $1 billion in cash on the balance sheet, Kinross is well-positioned to weather the current market volatility," Rollinson added.

see **NEWS NUGGETS** page 12

MARKETS

Bear market survival

From partnerships to playing dead, some Alaska explorers endure tough markets

By SHANE LASLEY

Mining News

Mining is a notoriously cyclical business that generally ebbs and flows with the overall state of the global economy, and these cycles are amplified for junior mining companies charged with scouring the globe for the next generation of mines. Following a bull market that reached a crescendo at the end of 2010, the current bear market has been especially deep and painful for even seasoned mining sector veterans.

"This has been a particularly treacherous bear market," longtime natural resource investor, Rick Rule, noted during a recent appearance on Palisade Radio. "The reason that this has been a particularly treacherous bear market is that the last bull market was particularly generous."

The share prices of 12 junior mining companies that were exploring Alaska at the top of the bull market and are still around today have lost an average of 89 percent of their value over that span. This median would be well into the 90th percentile if you remove three of those companies that have only lost a relatively mild 60-70 percent of their stock value.

Despite the heavy losses to share prices, a handful of Alaska's juniors have found ways to survive the brutal mauling this bear market is inflicting on the sector.

Safety in numbers

One bear market survival strategy that has worked well for some Alaska mineral explorers is to form partnerships with companies that look beyond the current market cycle and have the financial wherewithal to see that vision to fruition.

Constantine Metal Resources Ltd. found such a partner in Dowa Metals & Mining Co. Ltd.

In 2013, Dowa and Constantine inked a deal that provides the Tokyo-based smelting and mining company the opportunity to earn a 49 percent stake in the Palmer project by investing US$22 million in the Southeast Alaska exploration property over a four-year span.

At the time, some analysts felt that Constantine was giving up too large a portion of the copper- and zinc-rich volcanogenic massive sulfide project for the money. Following two years of resource expansion in tough equity markets, however, the deal has worked out well for both parties.

"We felt from the beginning the scale of investment Dowa is making to earn 49 percent would give us a good chance to establish a resource at Palmer with potential for mine viability," Constantine Vice President of Exploration Darwin Green told Mining News.

In May, Constantine published an inferred resource of 8.125 million metric tons averaging 1.41 percent (252.6 million pounds) copper, 5.25 percent (940.4 million lbs.) zinc, 0.32 grams per metric ton (83,600 ounces) gold and 31.7 g/t (8.3 million oz.) silver for Palmer.

This 97 percent expansion of the resource is largely due to US$10 million invested by Dowa through 2014.

The Tokyo-based company has agreed to invest another US$5 million this year.

As part of its agreement with Dowa, Constantine receives annual cash payments totaling US$1.25 million over the four-year span. This, along with any other option payments and management fees received, has allowed the company to avoid raising money in the bear market.

"We are currently cash-flow positive, which is a bizarre and privileged position to be in," observed

see **BEAR MARKET** page 11

continued from page 9

BEAR MARKET

Green.

Contango Ore Inc. is another explorer that has been successful in bringing on a partner to fund exploration of its Alaska project.

In January, Royal Gold Inc. agreed to invest up to US$30 million in furthering the exploration and potential development of the Tetlin gold properties situated along the Alaska Highway near the crossroads community of Tok in eastern Alaska.

In return, the Denver-based royalty company will earn up to a 40 percent interest in Peak Gold, a joint venture that will hold the 676,200 acres of Native owned lands Contango leased from the Tetlin Village Council and some 83,720 acres of state of Alaska mining claims the company staked adjacent to the Tetlin lease.

While this extensive land package blankets numerous precious and base metal targets ripe for exploration, the Peak zone, a gold-rich skarn deposit located on the Tetlin lease, is currently considered the property's most promising asset.

Early in 2014, Contango published a maiden indicated resources of 6 million metric tons averaging 3.46 grams of gold per metric ton, 11 g/t silver and 0.25 percent copper for 783,115 gold-equivalent ounces. Additionally, the skarn deposit has an inferred resource of 3.9 million metric tons averaging 2.07 g/t gold, 14.28 g/t silver, 0.23 percent copper for 332,969 gold-equivalent ounces.

For 2015, Royal Gold has committed US$5 million to a phase-one program targeting some of the outlying Tetlin targets – Tars, Saddle, North Saddle and Saddle Skarn – as well as expansion targets at the Peak zone.

Contango Ore said that the partners may extend the 2015 program after seeing the results from phase one.

Intellectual capital

The "prospect generator model" is another means some Alaska explorers have employed to mitigate the risk of discovering new deposits with the size and quality being sought by world's pre-eminent mining companies.

In a nutshell, a prospect generator is a mineral exploration company that identifies a number of early stage mineral prospects, completes the data compilation and early stage field work necessary to market them to potential partners — preferably mid-tier or major mining companies — that have the financial wherewithal to do the heavy lifting needed to elevate a prospect to a deposit worthy of consideration for mining.

Resource investor Rule said he prefers the prospect generator model because it allows him to retain the value of the exploration team that he has invested in.

"Given that the chance of success on any one exploration property is small, maintaining your equity in the intellectual capital rather than having that diluted away to raise money to explore an individual property is the process of financing exploration which has worked for me," Rule explained in a May interview with Sprott Global Resource Investments Ltd.

The savvy exploration team at Millrock Resources Inc. has built a portfolio of 21 early-stage mineral exploration projects, including eight Alaska properties prospect for gold, copper, zinc and associated metals

Since 2008, roughly C$40 million has been invested in exploring projects generated by Millrock, about 85 percent of which was funded by partners. The company also receives management fees and options payments that offset overhead, which allows the prospect generator to go long periods without needing to raise money in the equity market.

Millrock anticipates roughly US$2.5 million of exploration in Alaska this year, including a US$2 million program funded by First Quantum Minerals to further exploration at the aptly named Alaska Peninsula project, a 500,000-acre tract highly regarded for its porphyry copper-gold potential, was the primary focus in 2015.

Much of the balance of Millrock's 2015 exploration involves the expansion of its "intellectual capital" through the collaboration with a yet-to-be-named major gold mining company to seek out high-grade gold deposits in Alaska.

So far, this partnership has acquired a wealth of knowledge from nearly two decades of exploration by Anglogold-Ashanti and International Tower Hill Mines.

Millrock CEO Philip St. George said, "With the acquisition of the Anglogold-Ashanti database, our company will have the most comprehensive store of geological knowledge on this district. We will have a distinct competitive advantage for generating new grass-roots exploration targets for high-grade gold deposits with our strategic partner."

The company acquired this geological knowledge from Corvus Gold Inc., a spin-out company formed to explore International Tower Hill's non-Livengood assets.

In addition to purchasing the geological database, Millrock purchased West Pogo, a gold property located about two miles west of Sumitomo Metal Mining Co.'s Pogo Mine, and the right of first refusal to acquire LMS, another gold project in the area.

Bear hunting

While a bear market may not be the ideal place to raise equity capital through traditional financings, it is a great environment to hunt for exploration companies with undervalued assets.

In June, NovaCopper Inc. closed a buy-out of fellow mineral explorer Sunward Resources Ltd. that had US$20 million in the bank but a market cap hovering at around US$13 million.

"It really is a financing, that's how we view it. Sunward was a company that raised a substantial amount of money when markets were really good – fortunately for us they did not spend it all – but they were trading well below cash value," NovaCopper President and CEO Rick Van Nieuwenhuyse told Mining News earlier this year.

In exchange for the some US$20 million and Sunward's copper-gold project in Columbia, NovaCopper issued 43.1 million shares to Sunward shareholders, or 0.3 NovaCopper shares per Sunward share issued.

Considering the state of the junior mining sector, Van Nieuwenhuyse said, "We felt this is the best financing alternative, with the least amount of dilution."

With its improved cash position, NovaCopper can complete the work needed to complete a pre-feasibility study for a potential open-pit mine at its Arctic volcanogenic massive sulfide deposit, part of the larger Upper Kobuk Mineral Projects in Northwest Alaska.

NovaCopper said this pre-feasibility work he is expected to be carried out over a two- to three-year period.

NovaCopper has approved a US$5.5 million budget for the 2015 field program that will include 2,500 meters of in-fill drilling at the Arctic deposit designed to improve the confidence level of the resource model with the goal of re-categorizing the in-pit inferred resources to measured and indicated.

Other facets of this year's program include geotechnical and hydrology drilling

see **BEAR MARKET** *page 12*

NORTHERN NEIGHBORS

Compiled by Shane Lasley

Agnico extends Meadowbank toward Amaruq

Agnico Eagle Mines Ltd. July 29 reported net income of US$10.1 million (US5 cents per share) for the second quarter of 2015, compared with net income of US$22.2 million (12 cents per share) for the same period last year. Cash provided by operating activities was US$188.3 million, up slightly from US$182.7 million provided by operating activities during the same period a year ago. Agnico said a 24 percent jump in gold production was the primary reason for the increased cash this year. "With continued strong operating performance, favorable local currency foreign exchange rates, and near-term opportunities to increase production at several of our mines, we remain well-positioned to manage the current price volatility in the gold market," said Agnico CEO Sean Boyd. Agnico's Meadowbank Mine in Nunavut produced 91,276 ounces of gold at cash costs of US$688 per oz. during the second quarter. This compares with 118,161 oz at cash costs of US$563 during the same period of 2014. The lower production and higher costs this year are primarily due to the processing of lower grade ore and lower recoveries. Agnico announced that an extension of the Vault pit at Meadowbank has been approved, which is expected to extend the life of the mine by about one year, to the third quarter of 2018. The added year is expected to help bridge the gap between the end of production at Meadowbank and the potential start of a satellite operation at Amaruq. Though Amaruq has yet to be approved for construction, exploration of this project located 50 kilometers (about 30 miles) northwest of Meadowbank is indicating the potential for both open pit and underground mining. The Whale Tail deposit at Amaruq has been defined for at least 1,200 meters along strike and to a depth of 450 meters. Recent work confirms that this deposit consists of multiple lenses of mineralization with a high-grade wide core. In February, Agnico reported an initial inferred mineral resource containing 1.5 million oz of gold 6.6 million metric tons at 7.07 grams per metric tons (1.5 million oz) gold for Amaruq, based on drilling from 2013 through October 2014. Roughly 50,000 meters of drilling completed through the end of June will be incorporated into an updated Amaruq mineral resource that is expected later this summer. A roughly US$15 million phase-two exploration program is now underway. Some 50,000 meters of drilling – as well as prospecting and geochemical sampling – is planned for phase two. Agnico also reported that it is evaluating potential expanded production scenarios for its Meliadine gold project near Rankin Inlet, Nunavut. In March, the company published an updated technical report for Meliadine that investigated extracting only the 3.3 million oz of gold in proven and probable mineral reserves (13.9 million metric tons of ore at 7.44 g/t gold), which is all contained in the Tiriganiaq and Wesmeg deposits. The Meliadine property also hosts 3.3 million oz of measured and indicated mineral resources (20.2 million metric tons at 5.06 g/t gold), and 3.5 million oz of inferred mineral resources (14.1 million metric tons at 7.65 g/t gold). In order to keep the Meliadine project on track

AGNICO EAGLE MINES LTD.

Agnico Eagle Mines' Meadowbank Mine in Nunavut.

see **NORTHERN NEIGHBORS** *page 12*

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Petroleum news

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continued from page 11

BEAR MARKET

to provide engineers with the information needed to design the mine; as well as wetlands delineations and continued environmental baseline studies required to have the copper-rich polymetallic project ready for permitting when the time comes.

Playing dead

If attacked by a bear, experts recommend playing dead until the predator loses interest and moves on. Many of the junior miners are employing a similar tactic to survive the current bear markets by conserving what little cash they have in the bank in hopes of surviving until the bear markets pass.

Rule told Palisades Radio that he does not know how much longer the bear market will endure but the junior mining sector has a lot more room to move up than down from here.

"I would say we are within 20 or 30 percent of a bottom, and we are 500 percent away from a top," he said. "In terms of when this blessed time might occur, I have no earthly idea."

The longtime resource investor anticipates the sector has a rough stretch of capitulation before recovery.

"This bear market has gone on long enough to even wear me out. I would welcome capitulation because in my experience capitulation, while violent, is of short duration and marks the beginning of the next bull market," he concluded. ●

continued from page 9

NEWS NUGGETS

Kiska re-allocates major investor shares

Kiska Metals Corp. July 29 reported the resignations of George Ireland and John Kanellitsas from its board of directors. Ireland and Kanellitsas are representatives of Geologic Resource Partners, a privately owned hedge fund sponsor that owned a majority stake in Geoinformatics Exploration Inc. Geoinformatics and Rimfire Minerals Corp. merged to form Kiska in 2009. The resignations follow the sale of the entirety of 28.6 million Kiska common shares held by GRP, representing about 25 percent of the company's issued and outstanding shares. Kiska said members of its senior management team and board of directors purchased 9.2 million of the shares sold by GRP, and the company assisted GRP to place the remaining shares with strategic investors. "The transaction places the shares with investors who are committed to the company's success, and provides Kiska with a strong shareholder foundation going forward," said Kiska President Grant Ewing.

More gold at less cost for Kensington

Coeur Mining Inc. Aug. 4 announced that it now expects the Kensington Mine to produce 115,000-125,000 ounces of gold in 2015, compared to its previous guidance of 110,000-115,000 oz for the year. The company anticipates the cost of sales per oz of gold from the Southeast Alaska Mine for 2015 to be US$850-US$900, a marked improvement compared to the US$900-US$975 per oz originally forecast. The Kensington Mine produced 63,754 oz of gold during the first six months of 2015, a 19 percent increase over the 53,517 oz recovered during the first half of last year. Development of a decline to the Jualin deposit has begun and underground drilling of this high-grade gold deposit at Kensington is expected to begin early in 2016. According to a new mine plan for Kensington, mining is expected to begin at Jualin in mid-2017 at a mining rate of about 250 tons per day, and increase to 500 tons per day in early 2018. By 2018, the first full year of production after Jualin comes online, gold production at Kensington is expected to reach 149,000 oz. ●

continued from page 11

NORTHERN NEIGHBORS

for a potential late 2019 startup, Agnico increased the 2015 capital budget by US$22 million. Agnico said it is looking into options and alternatives to capitalize on its large and growing mineral resource base in Nunavut and to maximize value.

Major upgrades for Nunavut capital port

The Honorable Leona Aglukkaq, minister of the Canadian Northern Economic Development Agency, and member of Parliament for Nunavut July 30 announced the federal funding for the Iqaluit Marine Infrastructure Project under the New Building Canada Plan. The federal government has committed to fund up to fund up to C$63.7 million of the roughly C$84.9 million project, the government of Nunavut will pay the balance. When completed, the new marine port and sea lift facility at Nunavut's capital is expected to significantly reduce the time it takes to offload dry cargo and fuel; increase safety and reduce the risk of boat damage for small crafts; provide a safe harbor for ships in distress and a potential base of operations for military or search and rescue operations; enhance the feasibility of resource and economic development in the North; and build on Canada Arctic sovereignty. "Our government will continue to work with the government of Nunavut to ensure infrastructure funding continues to flow in our territory as we focus on creating jobs, promoting growth, and building strong, prosperous communities across Canada's North," said Aglukkaq. Peregrine Diamonds Ltd., which has outlined an inferred mineral resource of 8.57 million carats of diamonds Chidliak diamond project about 120 kilometers (75 miles) from Iqaluit, said the port would provide an important supply point for construction and operations, if a mine is developed. "In addition to being a key component of the infrastructure required to construct and operate a diamond mine at Chidliak, the efficiencies that the port will bring will improve the quality of life and lower the cost of living for the people of Iqaluit and the communities on Baffin Island," noted Peregrine President and CEO Tom Peregoodoff.

Minto receives long-awaited license

Capstone Mining Corp. Aug. 5 said it has received a new water use license needed to begin stripping the high-grade, shallow Minto North deposit at its Minto copper mine Yukon Territory. "Access to the high-grade mineralization at Minto North will have a very positive impact on the continuation of jobs and economic benefit in Yukon, said Capstone President and CEO Darren Pylot. "The mining of the Minto North deposit also makes a significant contribution to the economics of the mine and to Capstone's cash flow in 2016." Capstone said preparations for pre-stripping Minto North will begin immediately, with ore from the pit expected to begin feeding the mill in December. For the balance of 2015, the mill will continue to process underground and stockpiled ore. In 2016, the mill will process predominantly ore from Minto North supplemented by underground and stockpiled ore. Minto is expected to surpass its 2015 production guidance, despite the delay in receiving the water use license. The mine is forecast to produce roughly 60 million pounds of copper in 2016. The majority of the 2015 capitalized stripping guidance of C$23.6 million is still expected to be spent in 2015. The Minto Mine commenced operations in 2007 with a six-year mine life from the Main pit, the only known ore deposit at that time. Since then, exploration has extended the mine life to 2021.

New tech pulls selenium from KSM waters

Seabridge Gold Inc. Aug. 4 reported the completion of a pilot plant evaluation of a new process for the removal of selenium from waters at its KSM copper-gold project in northwestern British Columbia. Seabridge Gold Chairman and CEO Rudi Fronk said, "The results provide further evidence that KSM has been designed to operate in an environmentally responsible manner." The BC Environmental Assessment Certificate issued for KSM in July 2014 required completion of the pilot plant test within one year of issuance of the certificate. Vancouver B.C.-based BioteQ Environmental Technologies Inc., the developer of the patent pending technology being tested, set up and operated the pilot plant. BioteQ President and CEO DavidKratochvil said, "We are extremely pleasedwith the successful demonstration of ourSelen IXTM treatment technology toreduce selenium concentrations to one(part per billion) using water extractedfrom the KSM project site."

New Polaris funding, processing hits snag

Canarc Resource Corp. Aug. 4 said PanTerra Gold Ltd. indicated that it will not be able to commit to further expenditures to begin stage-two exploration and permitting work on Canarc's New Polaris gold mine project in northwestern British Columbia until it receives government approval for importing New Polaris gold concentrate into the Dominican Republic for processing. As a result, Canarc and Panterra will work to negotiate the terms and conditions of a one-year extension of their agreement during the next two months. During this negotiating period, Canarc also intends to evaluate other options for advancing the New Polaris property. ●

● GOVERNMENT

Murkowski promotes new energy bills

Legislation would trigger a series of energy initiatives, including heightened OCS leasing, OCS revenue sharing and oil exporting

By ALAN BAILEY

Petroleum News

In her role as chair of the Senate Energy and Natural Resources Committee, Sen. Lisa Murkowski, R-Alaska, has been pressing hard for new legislation which she thinks will benefit the energy economies of the United States, including Alaska. In recent action Murkowski has introduced a bill called the Offshore Production and National Security Act, which addresses oil and gas leasing on the outer continental shelf, including the thorny question of revenue sharing with the federal government, and which would also allow the export of oil from the United States. A second bill, the bipartisan Energy Policy Modernization Act of 2015, introduced by Murkowski and ranking committee member, Maria Cantwell, D-Washington, contains a series of provisions addressing topics ranging from energy efficiency to land conservation.

The Senate committee has approved both bills.

OCS oil and gas

The Offshore Production and National Security Act contains separate bill "titles" for the outer continental shelves of Alaska, the Gulf of Mexico and the South Atlantic.

The Alaska title would require a minimum of three lease sales in each of the Beaufort, Chukchi, and Cook Inlet outer continental shelf planning areas during any five-year period, as well as annual lease sales in the areas of the federal waters of the Beaufort Sea and Cook Inlet within three miles of the outer boundary of state waters. There is also a provision for extending the terms of certain Chukchi Sea and Beaufort Sea leases to 20 years.

The bill, if passed, would require, through the year 2026, the federal government to pass 7.5 percent of revenues from oil and gas operations on the Alaska outer continental shelf to the State of Alaska; 7.5 percent of the revenues would go to Alaska coastal boroughs; and 2.5 percent of the revenues would be used to fund the North Slope Science Initiative. A different distribution of funds under the revenue sharing arrangements would apply from 2027 onwards.

The bill would also allow any U.S. domestic crude oil or condensate, other than crude oil stored in the Strategic Petroleum Reserve, to be exported from the United States without the need for an export license.

Modernization act

The 357-page Energy Policy Modernization Act contains five titles covering energy efficiency, energy infrastructure, energy supply, government accountability and the re-authorization of land conservation measures.

The energy efficiency title includes provisions relating to utility energy service contracts and for the re-authorization of weatherization and state energy programs.

The infrastructure title is aimed at initiatives such as the modernization of the electricity grid, cybersecurity, maintenance of the Strategic Petroleum Reserve, natural gas export projects and ensuring a qualified, well-trained workforce. Included in this section is a requirement that the Department of Energy must issue a decision on an application to export liquefied natural gas to a non-free trade country within 45-days of a completed review by the Federal Energy Regulatory Commission.

Energy development

The energy supply title addresses numerous issues relating to the efficient development of both renewable and traditional energy resources, as well as non-fuel minerals. This title contains changes to existing statutes relating to Department of Energy support for methane hydrate research, including authorization for the Department of the Energy to allocate funding for methane hydrate test drilling in Arctic Alaska.

The accountability title presents reforms designed to advance innovation, protect electric reliability and ensure the proper stewardship of taxpayer money. This title includes a requirement for the Bureau of Land Management to coordinate with state agencies over the rules and processes for oil and gas development on federal lands in the state. Provisions in this title would also repeal parts of the existing U.S. code that are outdated or redundant.

The conservation re-authorization title would permanently re-authorize the Land and Water Conservation Fund in a way that would balance land acquisition with other conservation programs. Legislation within this section would also permanently re-authorize the Historic Preservation Fund. The legislation would also create a new National Park Maintenance and Revitalization Fund, to address a maintenance backlog at some national parks. ●

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FINANCE & ECONOMY

Shell's approach to the pricing challenge

With forecasting the future price oil generally being little better than an exercise in crystal ball gazing, oil companies face a tricky problem when evaluating potential projects whose viability depends on erratic commodity pricing. During an analyst call on July 30, two Shell executives explained their company's approach to the oil price conundrum.

For some time Shell has used a price of $70 for screening projects, a price of $90 for ranking projects within a project portfolio, and a price of $110 for testing a project's upside potential, Simon Henry, Shell's chief financial officer said. Ben van Beurden, Shell's chief executive officer, said that Shell uses these price levels for long-term planning, for evaluating projects that may have lives of 30 to 40 years. Short term planning, on the other hand, requires current oil prices, to ensure that the company retains a robust financial status, with the ability to pay its dividends, van Beurden said.

Henry said that projects that do not demonstrate a positive net present value at the screening level of $70 oil do not make the cut for further consideration. The projects that pass this first test are then compared using the $90 price, to determine which projects seem best to pursue. The $110 price provides insights into a project's potential, should oil prices rise above expected levels.

Van Beurden also responded to a question about whether liquefied natural gas can compete on price with other fuels, in the absence of some form of carbon price that would change the market dynamics. Van Beurden commented that, at present, gas demand is becoming squeezed between cheap coal and strong pushes towards the use of renewable energy sources.

"That's happening in Germany and it's starting to happen in Japan," he said.

Putting a price on carbon could level the playing field but would also result in higher energy prices, he said. This approach could work in the rich countries but would be ineffective in countries in South Asia or Africa, for example, where coal usage would continue unabated. The required approach in the developing world is to make gas more competitive, van Beurden said.

—ALAN BAILEY

GOVERNMENT

AOGCC fines Great Bear over drilling test

The Alaska Oil and Gas Conservation Commission has proposed fining Great Bear Petroleum Operating LLC $20,000 for not correctly pressure testing the surface casing of the Alkaid No. 1 exploration well that the company drilled this winter. Great Bear is conducting a drilling program to evaluate the potential for source-rock oil development and to seek conventional oil targets near the Dalton Highway south of Prudhoe Bay.

The commission said that Great Bear did not follow the required procedure for carrying out a leak-off test after completing the surface casing of the well. A leak-off test ensures that the well structure can withstand and contain a pressure kick from an unexpected influx of gas or fluid from a rock formation.

AOGCC says that, when the drillers at the Alkaid well conducted the test, a significant change in pumping rate midway through the test impacted the quality of the test data and contradicted the validity of the test result that Great Bear reported to the commission. Moreover, Great Bear's kick tolerance calculations were not realistic, the commission says. And the test result required in Great Bear's permit to drill the Alkaid well was not achieved, the commission says.

The commission says that Great Bear has offered four reasons for the problems with the testing: a drilling rig crew improperly training in the test procedure; a perception by Great Bear staff that it was not necessary to notify the commission about the testing anomalies because they believed that the test results met the minimum safety margin; a belief that the test result was acceptable because the well's total depth had been reduced; and a view that coal seams below the surface casing could explain the lower-than-expected test result.

The commission says that any changes to the parameters in a drilling permit require commission approval.

—ALAN BAILEY

ENVIRONMENT & SAFETY

Carbon dioxide corrosion found in Arctic

The Bureau of Ocean Energy Management has issued a report on an assessment of the chemistry of the waters of the Arctic outer continental shelf and of the sensitivity of this chemistry to climate change. The report has found widespread evidence of carbonate mineral corrosion as a consequence of carbon dioxide dissolved in the seawater.

The study, which encompassed the Beaufort, Chukchi and Bering seas, investigated and measured two climate-change related processes: the stock and movement of carbon that acts as an energy source for marine organisms, and ocean acidification resulting from the buildup of human-generated carbon dioxide in the oceans.

The study found that over the entire outer continental shelf the carbon energy source does not accumulate in the surface layer of the ocean, indicating the rapid use or removal of the material near the surface. In the Bering Sea the researchers found evidence indicating that the mechanism for consumption or transportation of the material varies between three distinct domains of the shelf.

The observations also showed widespread evidence that ocean acidification from dissolved carbon dioxide dramatically increases the intensity, extent and duration of conditions that corrode carbonate minerals. And while biological productivity in the surface layer reduces the corrosive effect, anthropogenic carbon dioxide is causing extremely severe corrosion on both the Bering and Chukchi shelves, the report says.

The study, conducted over several years, resulted from collaboration between BOEM, the Bering Sea Project and Fairweather LLC. The Bering Sea Project is funded by the National Science Foundation and the North Pacific Research Board.

—ALAN BAILEY

PIPELINES & DOWNSTREAM

Alyeska names Nuttall VP risk, technical

Alyeska Pipeline Service Co. has named Curtis Nuttall vice president of the company's Risk and Technical Division, replacing Rod Hanson, who became vice president of Operations and Maintenance for Alyeska in June.

Alyeska President Thomas Barrett cited Nuttall's knowledge of pipeline operations, strategic leadership skills and strong performance in previous posts with the company.

"Curtis worked on many major flagship projects in recent years," Barrett said in a statement. "He has demonstrated steady leadership and strategic thinking with a consistent emphasis on improving any process or project he worked on."

Nuttall joined Alyeska in 1989 as a senior engineering project leader and has served in various positions, including as manager of the Strategic Sourcing and Contracts Department.

—PETROLEUM NEWS

continued from page 1

EMISSIONS RULE

proposed plan for public comment in June 2014. At that time the plan aimed to reduce emissions of carbon dioxide from power plants by 30 percent of 2005 levels by 2030, with each state set a target reduction level as a component of that overall reduction target. States, either individually or in combination, would be required to submit plans for achieving their required emission reductions. And, as a "best system of emissions reduction" for determining emission reduction goals, EPA proposed four strategies or building blocks.

Changes to plan

In the agency's final rule the overall plan is broadly similar to the original proposed plan, but with some significant changes in response to public comments, including the exclusion of Alaska from the regulations. In particular, the building blocks for emission reductions have changed, and there have been some significant changes in the parameters relating to state plans and goals. The plan has increased the overall target for emissions reduction from 30 percent to 32 percent.

The new plan has reduced the four building blocks for emissions reduction to three by dropping a block that envisaged emissions savings through improved efficiency in electricity use. EPA said that the regulation of energy efficiency does not fall within the traditional interpretation of the Clean Air Act. The three building blocks in the final rule consist of improving the efficiency of existing coal-fired power plants; substituting the use of high-efficiency combined-cycle natural gas fired power plants for the use of steam turbines, a technology primarily used in conjunction with coal or oil; and increasing the use of renewable energy sources such as wind and solar.

The alterations to the original specifications to the building blocks exclude nuclear generation as a means of achieving emissions reductions and take into account the falling cost and continuing deployment of renewable energy sources, EPA says.

However, states can retain flexibility in the methods they can use to achieve the emissions targets that EPA has set.

In response to some of the comments that the agency received, EPA is allowing states a level of flexibility in the measurements used to specify their carbon dioxide emissions goals. Goals can be expressed either in terms of the rate of carbon dioxide emissions or as the mass of the emissions. States can also choose between two types of plan for achieving their goals: plans based on emissions standards for all affected power plants within a state, and plans that use measures such as renewable energy standards that a state has adopted. But a plan must include specifications for how the state will demonstrate progress towards meeting its 2030 emissions target, the EPA rule says.

Each state must submit a plan by Sept. 6, 2016, unless the state files an initial submittal with an extension request. Final, complete plans are due by Sept. 6, 2018.

Interconnected grids

In setting emission reduction targets for each state, EPA has now taken into account the interconnected nature of regional power grids by evaluating carbon dioxide emissions from different types of power stations within three major regions of the contiguous states. The agency then applied these regional rates to the mix of power generation facilities within each state, to develop individual state emissions reduction goals.

Also, recognizing the interconnected nature of the Lower 48 power supply infrastructure, EPA is allowing emissions trading, an arrangement in which power plants can meet emissions targets by trading emissions credits or allowances with plants that are relatively efficient.

EPA says that its final rule recognizes the importance of the reliability of power supplies by allowing some flexibility in the manner in which the rule is implemented, by requiring states to demonstrate that they have considered reliability issues, and by allowing a state to revise its plan in the event of an unanticipated reliability challenge.

As in the original version of the Clean Power Plan, the EPA is setting each state an interim carbon dioxide emissions target that must be met several years prior to a final state target that will contribute to the overall U.S. emissions reduction of 32 percent. But the agency has relaxed the timing requirement for the interim targets, moving the deadline for meeting these targets from 2020 to 2022.

Mixed response

The issue of the Clean Power Plan triggered a flood of comments from different sectors of U.S. society, with responses ranging from strong support to vehement opposition. The final rule will presumably face challenges through the courts. EPA predicts climate benefits of $20 billion and health benefits of up to $34 billion if the plan is implemented.

"The Clean Power Plan is the most significant single action any president has ever taken to tackle the most serious threat to the health of our families: the climate crisis," said Sierra Club Executive Director Michael Brune. "Today marks the end of an era for dirty power plants that have spewed dangerous pollution into our air without limits for too long."

"Consumer Energy Alliance is disappointed that the White House failed to give significant consideration to the impacts to energy consumers in its final version of the Environmental Protection Agency's 'Clean Power Plan' released today," said David Holt, president of the Consumer Energy Alliance. "Study after study has shown that these rules will raise both electricity and natural gas prices for all American consumers, threaten grid reliability and security, and take an amount of electricity equal to the total electricity demand of New England offline with no plan to replace the lost production."

"America is leading the world in reducing emissions thanks to a revolution in the production and use of natural gas," said Howard J. Feldman, American Petroleum Institute senior director of regulatory and scientific affairs. "We can continue that progress without costly new regulations that could hurt consumers and stifle economic growth."

Alaska officials expressed satisfaction that EPA had taken Alaska's concerns into account and exempted the state from regulated carbon emissions targets.

"Alaska has over 200 small utilities across the state, and a very limited power grid on the Railbelt. Requiring our state to abide by 'one-size-fits-all' standards could potentially increase our energy costs, which are already the highest in the nation," said Gov. Bill Walker. "I am pleased that the EPA has recognized the unique circumstances Alaska is facing, and I look forward to working with the agency officials to come up with appropriate goals for the state in the near future."

"This is by far the best possible outcome for our state and therefore a significant victory," said Sen. Lisa Murkowski. "I appreciate the EPA's recognition of the facts — that Alaska has unique needs, limited options for cost-effective compliance, and is not interconnected. We simply should not be bound by this sweeping regulation." ●

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FINANCE & ECONOMY

Repsol profits down 44 percent in Q2

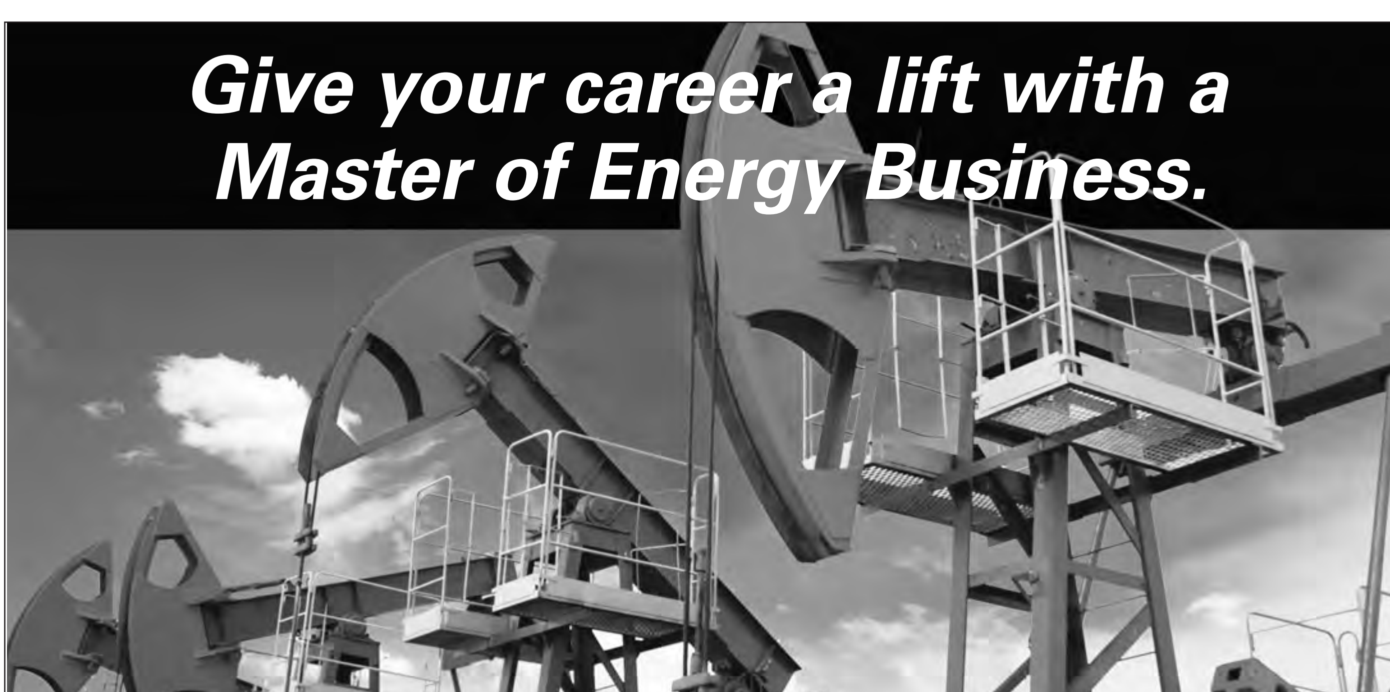
Spanish energy company Repsol says its second-quarter profit fell by 44 percent compared with the same period last year following a sharp drop in oil prices and given that 2014 profits had been boosted by a one-off capital gain.

Repsol S.A. said July 30 that its net profit for April through June was 292 million euros ($322 million), compared to 520 million euros for the same period in 2014 when it made strong gains on extricating itself from Argentina's YPF, which was nationalized in 2012.

Like other oil companies, Repsol said its earnings have suffered from the nearly 50 percent drop in oil prices over the past year.

Repsol shares were down 1.31 percent to 15.8 euros in early morning trading in Madrid.

—ASSOCIATED PRESS



Petroleum news

Oil Patch Bits

Usibelli Coal Mine achieves safety milestone

Usibelli Coal Mine Inc. in Healy, Alaska, achieved a treasured benchmark on July 16 of one complete year with no lost time injury.

Joe Usibelli Jr., president of Usibelli Coal Mine, stated, "We work in a very demanding environment with very large equipment. Add in the challenging weather and terrain — it is tough business to keep this operation moving forward safely. It is a tremendous credit to every employee that we have achieved one full year with no injuries. The culture of the company is to empower every employee to be safe. I am extremely proud of their accomplishments."

Alan Renshaw, general manager and VP operations, said, "We work hard to satisfy our customers demand for coal. The military, the university, and our local electric cooperative depend on us for on-time deliveries. The schedule is aggressive. There's work to be done 24/7/365. The lights stay on all the time at UCM. Regardless of whether we have just a few employees on duty or a full crew, safety is mission number one. We take good care of our workforce. We provide them with rewards and incentives to accomplish their mission in a safe manner."

Usibelli Coal Mine is a fourth generation, family-owned, all-Alaskan business, employing approximately 115 Alaskans, and currently the only operational coal mine in Alaska. UCM will produce 1.4 million tons of ultra-low sulfur, subbituminous coal during calendar year 2015.

AECOM hires Nathaniel Webb as a senior chemist


NATHANIEL WEBB

Nathaniel Webb has joined AECOM's Anchorage, Alaska, office as a senior chemist.

Webb has more than 17 years of experience with remedial investigations and actions throughout Alaska and the Pacific region. His efforts have aided in the successful closure of many polychlorinated, biphenyl and petroleum contaminated sites.

In this role, he will be responsible for developing a chemistry program to support federal, oil and gas, and mining clients.

AECOM's team in Alaska comprises nearly 200 dedicated engineers, constructors, scientists, planners, and support staff located in offices in Anchorage, Fairbanks and Prudhoe Bay. AECOM is a premier fully integrated professional and technical services firm positioned to design, build, finance and operate infrastructure assets around the world for public- and private-sector clients.

ASRC Energy Services names Reed senior VP and CFO

ASRC Energy Services LLC is pleased to announce that Mike Reed has joined the com-

see **OIL PATCH BITS** *page 18*

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

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PENCO 15
Petroleum Equipment & Services 6
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PND Engineers Inc.
PRA (Petrotechnical Resources of Alaska) 2
ProComm Alaska
Price Gregory International
Resource Development Council
Ravn Alaska (formerly Era Alaska) 8

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continued from page 3

HERRON Q&A

part of the solution, but how can 730,000 people compared to over 339 million people who live in the rest of the United States? Why should we be punished for trying to steer our destiny when 339 million people have far greater effect on the climate? I don't want people to lose sight of the fact that we are just a little speck on the political scene just by the small numbers that we have. At the same time we have a really large mass. We have a world looking to what's essentially not only their countries but our state. We have to make sure we take advantage of legislation that promotes Alaska and protects Alaska all at the same time.

It's keeping in mind what is our Arctic policy to us, and how does it dovetail into what other people want to do with Arctic policy, whether it's international or with our own government. That's what we need to do. Remember who we are instead of getting distracted. People, in my opinion, will try to slice us off and get us to where we are not together. Hopefully, we don't go there.

Petroleum News: Let's talk more about the president's visit? Will you be involved at all, given your role on advancing the state's Arctic policies?

Herron: I'll physically be in the room, but obviously the chances of me meeting him are a trillion to one. Realistically, it ain't going to happen. But that's fine. Just to be there will be interesting to watch. He's been to Alaska before but he's never stepped off JBER (Joint Base Elmendorf-Richardson). It will be the first time he's on Alaskan soil. At least I'm invited to go to the Glacier Conference and I will go.

Petroleum News: When the president and Secretary Kerry come there with his own mission, his own agenda, so what would you like the president to take away from this trip?

Herron: That Alaska is a beautiful state, has wonderful people. He'll get to see Anchorage. The word on the street is he is going to travel to two other parts of Alaska. He is going to go to the Northwest and he's going to go to the Southwest. The Northwest is of course, the Arctic, and how those small communities go about life. Then he is apparently to go to the Southwest in Bristol Bay. He's going to see a different kind of Alaska, but not a different kind of people. This is just an assumption here, but he'll get an urban Alaska, Northwest Arctic Alaska and, of course, the Southwest on the edges of the Aleutians.

I think it will be a good balance. What he comes away with is something that is not like a smaller region in the Lower 48 where there is a power grid and everybody is connected by it somehow. Up here there are 200 mini grids. Just the sheer time it takes to fly across Alaska compared to how long it takes to drive across a few counties in the Lower 48. I hope he gets that sort of mosaic and sees that there is no one size fits all. That's when we were carved out of the coal issue (Obama's recent EPA emissions standards), somebody got it and understood it.

I hope it says he wants his climate change legacy but it does have a recognition that it's not a one size fits all.

Petroleum News: Can you talk about that a little bit more? Could something like that be a turning point for seeing that Alaska needs its own considerations on certain federal policies, not all, of course?

Herron: I don't know what the real ramifications are from that or how thorough it is. At least there is a recognition. Whatever he says at the end of the month, he is going to say, and I just want to come away with knowing he is driven to having climate change be his legacy but at the same time he can't forget that people live up here. Alaska is such a dynamic place and we want it to be a sustainable healthy place to life. What it takes in my opinion — and people may disagree with me — it does take responsible resource development to make that happen.

Petroleum News: I know you've had one informal meeting with Sen. Lesil McGuire and Gov. Walker's Arctic advisor Craig Fleener. What have you guys discussed in advance of the president's visit?

Bob Herron: Me and Lesil have been talking to a new woman in the White House on Arctic initiatives. She is a Coast Guard commander who came out of the Gulf States, and her responsibility was maritime and maritime security. It's a good transition and we've been talking a lot about this. You know this G7 foreign ministers' Glacier Meeting is the first major gathering that will set the tone, I guess. We are pretty excited about it. As far as me being one of the members of the host committee, and that's just on the government side — there is a who's who on the private sector side — collectively we will open our arms to welcome everybody who comes here.

We want to strive for the host committee to be involved in all these meetings. It's not about us. It's about we want to make sure we are included in the conversations wherever they are at. If it's a senior Arctic officials meeting, we want to be there. If it's a working group out of the Arctic Council, we want to be there. We want to listen. We want to be involved.

For example on the Arctic Council and the working groups, we clearly have the number of delegates because of all the participants who are from Alaska. In this kickoff that will happen Aug. 14 with Sen. Murkowski in the inaugural gathering with the entire host committee, it should be a lot of fun and it should bring a lot of ideas on how we can take advantage of these visitors.

Petroleum News; Do you get a sense that you and Sen. McGuire are off to a good start with Craig Fleener in working with the administration?

Bob Herron: Oh, absolutely. He's doing real good. One of the benefits that's come out of this is that the Arctic forum hosted by Alice (Rogoff) is Gov. Walker is the keynote speaker. That's really good because the highest elected official in the state of Alaska is going to address this. It's a good time for the governor of Alaska to let us hear for ourselves what his Arctic vision is. But Craig has been really good. He's already represented the governor in many places in the Lower 48, Washington, D.C., and in Alaska. I think it's been really beneficial. We are in this Arctic spotlight. These are all great opportunities for us.

Petroleum News: I know everyone in the Legislature seems to have their specialties, but I'd like to switch to the gas line and the prospects of a special session. What are your thoughts on the gas line and a special session?

Herron: First of all, I want a gas line special session. It's important. The issues going on in conversation, but of course I don't get to sit in on those, is the gas balance issue that is going on. BP and ExxonMobil in conversations with AOGCC, how can the offtake increase that won't affect oil production. Those are some of the things going on that the Legislature will need to be brought up to speed on. What I'm hearing is the project is doing well on the technical side. When we were down in Kenai (in June) I came away with a really good feeling that we are still marching along. It's pretty well known that the Big 3 are not really interested in going from 42 to a 48 (inch line) from what I understand is not necessary.

If the governor wants to bump it to 48, then that's your part of the price tag but they are not interested in that. But everybody is being realistic here. Oil is not going to jump back over $100 any time soon. Maybe in a couple of years. That would be great.

No matter where we are at in the conversation the timing for an update from all parties, is very, very important. I want it to happen in late October or early November. We really need to have an update to say here's where we are at, here is what the Legislature needs to do whether it's a kick in the pants or a pat on the back. We just need to keep the momentum going.

Petroleum News: Looking ahead to next session, it's pretty well expected that the Legislature will be reviewing the state's tax credit system in the aftermath of the governor vetoing tax credit payments from the budget and delaying them until next year. Is this something that should be examined next year, either separate from budget talks, part of those discussions or both?

Herron: Well, tax credits, if it's a benefit to your constituents, that's a great deal. If you don't see any direct benefit, it's not such a great deal. So the debate has to happen. How can we minimize the impact of a tax credit but maximize the benefit of a tax credit. I don't know what's going to happen, but it's going to be a conversation that's going to become intense. Hopefully, as I said earlier about society, let's make sure everybody wins, not where there is going to be a definitive winner and a definitive loser. We are kidding ourselves if we can't find that compromise. ●

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FINANCE & ECONOMY

Exxon profit falls by half, production up

Exxon Mobil Corp. profit dropped by half in the second quarter on sharply lower oil and gas prices around the world, but the company's oil and gas production, which has been generally declining in recent years, surged.

The company posted net income for the second quarter of $4.19 billion, down 52 percent from $8.78 billion in the second quarter of last year. It was Exxon's lowest quarterly profit since June of 2009, when the nation was in recession and oil and gas prices had plummeted.

Exxon's revenue for the quarter of $74.11 billion, down 33 percent from last year, was also the company's lowest since 2009. On a per-share basis Exxon earned $1, down from $2.05 last year and less than the $1.11 per share expected by analysts surveyed by Zacks Investment Research. Exxon shares fell 4.7 percent to $79.15 in morning trading.

Lower global oil and gas prices hit all oil and gas companies hard in the quarter, reducing revenue and profit, and forcing most to reduce investment into new projects. Exxon cut its capital expenditures by 16 percent in the quarter to $8.26 billion.

The average price of U.S. crude oil in the second quarter fell by 44 percent compared to last year, and the U.S. natural gas price was down 40 percent, according to the Energy Department.

For the second straight quarter, Exxon's U.S. exploration and production operations posted a loss, a surprise to some analysts who had hoped that the company would be able to cut costs enough to stem losses.

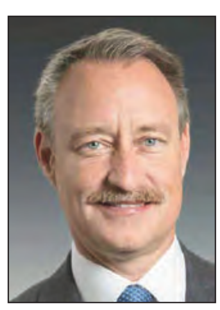
Exxon's refining and chemical operations, however, performed well, especially outside of the U.S. Together, the company's downstream and chemicals earnings rose 77 percent to $2.8 billion, led by a 5-fold increase in refining earnings abroad. Refining and chemical operations generally perform well when oil and gas prices fall because it lowers the cost of raw materials.

And Exxon's production of oil and gas, which has been declining in recent years, showed a strong gain for the second quarter in a row. Overall production rose 4 percent, and production of oil — which is generally more profitable than natural gas — rose 12 percent.

—ASSOCIATED PRESS

continued from page 16

OIL PATCH BITS


MIKE REED

pany as senior vice president, chief financial officer effective June 16.

Reed comes to AES with global management experience, most recently as the vice president of finance at National Oilwell Varco a worldwide provider of equipment and components used in oil and gas drilling and production operations, oil field services and supply chain integration services to the upstream oil and gas industry across six continents. In this position, Reed was responsible for financial oversight of the Africa, Middle East and India geographic regions including but not limited to cost controls, corporate governance, internal controls, process re-engineering, and other change management initiatives.

Reed has 26 years of finance and accounting experience with 20 years in the energy sector and an advanced skill set in all areas of financial management and reporting, information technology, corporate development and investor relations. He will be responsible for all corporate budgeting and forecasting working daily alongside the CEO, COO and group presidents to insure profitable growth and a disciplined financial approach.

Reed has a MBA from Rice University and achieved a BS in accounting from the University of Akron.

continued from page 1

CONOCO EARNINGS

ing its Cook Inlet properties later this year, as part of a companywide divestment effort. Asked during a quarterly earnings teleconference about managing operating costs, CEO Ryan Lance said the company was analyzing its portfolio to understand what ventures that made sense for an integrated company might no longer make sense now that ConocoPhillips is a large independent exploration and production company.

"We've done a pretty good job of building that model on our Lower 48 unconventional business. We're going to extend that across the whole company with less of a one-size-fits-all and more of a fit-for-purpose design, recognizing that an asset in the Lower 48 is different than an asset in the North Sea or up in Alaska or offshore Australia," he said.

Projects advancing

ConocoPhillips produced 174,000 barrels of oil equivalent per day in Alaska in the second quarter, down 19,000 barrels or nearly 10 percent from the same period in 2014.

The decline came from maturing fields and planned downtime related to maintenance work at the Prudhoe Bay and Kuparuk River units that will continue into the third quarter and was partially offset by improved well performance, according to the company.

In the second quarter, the company reached important milestones on two major North Slope projects by drilling the initial wells at the CD-5 satellite at the Colville River unit and the Drill Site 2S project at the Kuparuk River unit. Both should come online this year.

ConocoPhillips produced 154,000 barrels of oil per day in Alaska during the second quarter, down from 163,000 bpd in the first quarter and 170,000 bpd in the second quarter of 2014. The company also produced 13,000 barrels per day of natural gas liquids, down from 14,000 bpd in the first quarter and 16,000 bpd in the second quarter of 2014.

By comparison, in the second quarter, the company produced 209,000 bpd in the Lower 48, 13,000 bpd in Canada, 91,000 bpd in Norway and 29,000 bpd in the United Kingdom.

ConocoPhillips produced 41 million cubic feet per day of natural gas in Alaska

ConocoPhillips reported $379 million in capital spending in Alaska in the quarter, down from $402 million in the first quarter and $390 million in the second quarter of 2014.

during the second quarter, down from 52 mmcf per day in the first quarter and 45 mmcf per day in the second quarter of 2014. Those declines came even as ConocoPhillips restarted the Kenai liquefied natural gas terminal and exported two shipments during the quarter.

By comparison, in the second quarter, the company produced 1.5 billion cubic feet of natural gas per day in the Lower 48 and 768 mmcf per day in Canada.

Companywide, ConocoPhillips produced nearly 1.6 million barrels of oil equivalent per day in the second quarter, down slightly from the first quarter and nearly even with the second quarter of 2014. Alaska accounted for nearly 11 percent of total production.

Prices recovering some

Earnings certainly would have fallen farther without a bump in oil prices.

ConocoPhillips reported an average sales price of $61.51 per barrel during the second quarter for Alaska crude oil, which includes natural gas liquids. The average price was $50.74 per barrel in the first quarter and $108.93 per barrel in the second quarter of 2014.

By comparison, the company reported average sales prices of $52.01 per barrel for oil and $15.29 per barrel for natural gas liquids in the Lower 48 and $46.58 per barrel for oil and $19.23 per barrel for natural gas liquids in Canada during the second quarter.

ConocoPhillips reported an average sales price of $4.50 per thousand cubic feet for natural gas in Alaska during the quarter, up from $4.29 per mcf in the first quarter and down from $6.03 per mcf in the second quarter of 2014. Alaska gas prices are set on long-term contracts using indices tied to Lower 48 markers and approved by regulators.

By comparison, the company reported an average sales price of $2.38 per mcf in the Lower 48 and $1.88 per mcf in Canada, where natural gas is traded on a sport market.

Spending down

With CD-5 and DS-2S under way, Alaska spending is down.

ConocoPhillips reported $379 million in capital spending in Alaska in the quarter, down from $402 million in the first quarter and $390 million in the second quarter of 2014.

By comparison, the company spent $882 million in the Lower 48, $432 million in the Asia Pacific and the Middle East, $367 million in Europe and $272 million in Canada.

Companywide, ConocoPhillips spent $2.4 billion on capital expenses during the quarter.

The company also reported $158 million in depreciation, depletion and amortization expenses from its aging Alaska operations in the first quarter of this year, up from $140 million in the fourth quarter of last year and $135 million in the first quarter of last year.

ConocoPhillips reported an effective income tax rate of 36.3 percent for its Alaska operations during the second quarter — up from 35.2 percent in the first quarter and up from 35.6 percent in the second quarter of 2014. The Alaska tax rate was lower than the companywide effective income tax rate of 54.9 percent across all operating regions. ●

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continued from page 1

PLATFORM COMPLETED


FURIE OPERATING ALASKA LLC

The MV Svenja positions the topside deck on the monopod caisson of Furie Operating Alaska's Kitchen Lights gas production platform.

team installing the platform had to insert pilings into the seafloor and cement the seafloor assembly to hold the caisson in place. With the cement having hardened, the Svenja could then place the topside decks onto the caisson, an operation that has now been completed (see photo).

Furie had already finished the laying of a pipeline that will carry gas from the platform to an onshore processing facility, from where utility-grade gas will be delivered into the Kenai Peninsula gas pipeline network. Construction of the facility has also been completed. And, on July 29 the Regulatory Commission of Alaska approved the connection of Furie's facility to the nearby Kenai Beluga Pipeline.

Furie has now to hook up the subsea pipeline to the platform, Webb said.

The company has then to test all of the equipment needed to operate the field. That testing will include pressure testing of the pipeline. However, before starting the subsequent commissioning of the field, probably in November, the company must install a workover rig on the platform and then tie the production well to the gas pipeline. Production will start from the Kitchen Lights No. 3 well that Furie drilled in 2013.

Furie anticipates gas production starting at the beginning of January 2016, when the first of the company's gas supply contracts with its customers comes into play. The company hopes for an initial production rate of 85 million cubic feet of gas, depending on what supply contracts the company has in place by field startup.

—ALAN BAILEY

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continued from page 1

BORDER RELATIONS

which will determine whether Harper secures his fourth election victory.

If he loses, where Canada's next prime minister will stand on Keystone XL is a head scratcher. Liberal leader Justin Trudeau has endorsed the project, but not the point of offering to lobby in Washington, D.C., while New Democratic Party leader Tom Mulcair has argued the decision should be "up to the Americans."

Harper, who has previously said that issuing a green light to Keystone XL should be a "no brainer," has also qualified his hard line by suggesting he does not want to interfere with an internal U.S. decision beyond stating Canada's position.

On verge of rejecting

The only break in a long silence in Washington came in late July when North Dakota Republican Sen. John Hoeven, who would normally be an unlikely candidate to speak for the Obama administration, said he had been heard from sources close to Obama that the president was on the verge of rejecting Keystone XL.

Hoeven said he understood Obama would make an announcement during the August congressional break in the hopes of using the summer lull to stifle criticism.

He said rejection of the pipeline would make no sense on environmental grounds and would disadvantage the oil industry in Canada, which has been the major external source of crude for the U.S., at the same time sanctions on Iran could be lifted, freeing that country to rebuild its oil exports.

Obama has questioned the benefits of Keystone XL to the U.S. and has vetoed a Republican-backed bill that would have bypassed a State Department review of the pipeline and allowed construction to go ahead.

"Even after all the objective analyses said that the project is better from an economic standpoint, an energy standpoint, even an environmental standpoint — it's certainly preferable to rail — even after all those things, a decision hasn't been rendered," Harper said.

He said opinion polls have consistently shown American support for the pipeline, while the State Department has concluded it would not significantly add to global warming by displacing another 800,000 barrels per day of crude including 100,000 bpd from North Dakota — from outside North America and shipping them to the U.S. Gulf Coast where refineries are configured to handle heavy crude.

Clinton sidesteps

Democratic presidential candidate Hillary Clinton, who was Secretary of State during most of the Keystone XL review by her department, has sidestepped questions on the project, including one in New Hampshire in July.

Clinton said she did not want to second-guess Obama on the file, while Jeb Bush, one of the Republican presidential hopefuls, tweeted that a decision on Keystone XL is an "easy" one.

Whatever happens in Washington on the pipeline, one of the key talking points in the Canadian election campaign is expected to see the opposition leaders attack Harper for mishandling the Keystone XL file and failing to resolve disputes with the U.S. on Canada's supply-managed agricultural sectors that are the major sticking point in Trans Pacific Partnership trade talks.

For now, the mood between Harper and Obama has dragged Canada-U.S. relations at the top level to the lowest point since the 1950s and 1960s when Prime Minister John Diefenbaker had a series of spats with U.S. presidents Dwight Eisenhower and John Kennedy. ●

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continued from page 1

SHELL DRILLING

northwest of the Chukchi coastal village of Wainwright. The company is drilling the Burger J well in the southwest quadrant of the prospect. In 2012 the company drilled the top hole section of the Burger A well a few miles to the north. However, an analysis of some recently reprocessed seismic data has indicated that the Burger J is more likely to prove out oil, Shell has said. The Burger prospect is a huge geologic structure about 25 miles in diameter. The prospect is known to hold a major pool of natural gas — Shell hopes to find oil below the gas (see photo).

PHOTO BY JUDY PATRICK, COURTESY SHELL

The semi-submersible drilling rig Transocean Polar Pioneer staged in Dutch Harbor on its way to the Chukchi Sea.

One well

Shell had planned to drill two wells in the Burger prospect during this year's Arctic open water season. In addition to the Polar Pioneer, the company has the drill ship Noble Discoverer on site in the Chukchi. However, during an analyst call on July 30 following the announcement of Shell's second quarter results, Shell CEO Ben van Beurden said that the company only anticipates drilling one Chukchi well this year.

"We have one well planned for this season over the next weeks, months, so expect results somewhere in September or so," van Beurden said.

Shell's authorization from the U.S. Fish and Wildlife Service for the unintended minor disturbance of walruses and polar bears prohibits the concurrent drilling of wells less than 15 miles apart, a restriction that would appear to rule out the simultaneous drilling of multiple wells in the Burger prospect. But, regardless of how many wells Shell drills, the company needs access to two drilling rigs in order to meet regulatory requirements for the capability to drill a relief well, should a well blowout incapacitate one of the rigs.

And van Beurden expressed his company's determination to carry out its Chukchi Sea exploration program.

"In Alaska … we are planning to drill the Burger prospect in the Chukchi Sea in 2015 and '16 to test what could be a multibillion-barrel oil field for Shell, with further exploration potential in the more general acreage that we hold there," van Beurden said.

Fennica returning

The icebreaker M/V Fennica, under contract to Shell, has departed Portland, Oregon, en route for the Chukchi, having been repaired following an incident near Dutch Harbor in which the vessel's hull was gashed by what appears to have been an uncharted subsea shoal. The Fennica is carrying Shell's well capping stack, a piece of equipment that the company will need to have stationed in the Chukchi before the drilling reaches a potential hydrocarbon bearing zone.

Environmental activist organization Greenpeace had attempted to block the departure of the Fennica from Portland by suspending protestors from a bridge across the Willamette River. However, this protest was dispersed following an order from the federal District Court in Alaska, telling Greenpeace that it was in civil contempt of a preliminary injunction banning Greenpeace from interfering with any of the vessels in Shell's drilling fleet.

The District Court had ordered fines on Greenpeace for each hour that activists remained in place, with those fines escalating from $2,500 to $10,000 per hour, depending on how long the protest lasted. According to media reports the U.S. Coast Guard was involved in clearing the demonstration, which apparently infringed a safety zone that the Coast Guard had mandated around vessels in Shell's exploration fleet.

Seattle lawsuit

According to an Associated Press report, on July 31 a Washington state judge rejected a lawsuit challenging the lease of a terminal in the Port of Seattle to Shell for staging vessels engaged in the company's Arctic offshore drilling program. Environmental groups, opposed to Shell's Arctic activities, have tried to block Shell's use of the terminal, arguing that Shell's use of the port does not comply with the terms of the port's land use permit. The court found that terminal is properly permitted for Shell's intended use, the Associated Press report says. The report also says that the plaintiffs in the case are considering an appeal.

—ALAN BAILEY

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continued from page 1

QUARLES

operations technical engineering manager for ExxonMobil's subsidiary in eastern Canada where he oversaw a multidisciplined technical organization

Quarles was appointed global facilities engineering manager of ExxonMobil Production Co. in 2014, with responsibility for providing specialized engineering support to producing oil and gas facilities worldwide.

He is a native of Houston, Texas, and holds a chemical engineering degree from Texas A&M University.

Quarles succeeds Karen Hagedorn, who has taken an assignment in the United Kingdom.

—PETROLEUM NEWS