



## BLM NPR-A sale brings in \$1.5 million; 3 bidders take 16 tracts

The federal Bureau of Land Management received 16 bids on 174,044 acres from three bidders at its Dec. 12 National Petroleum Reserve-Alaska lease sale, taking in \$1,533,705 in apparent high bids. Three current leaseholders, ConocoPhillips Alaska Inc., Emerald House LLC (Elixir Petroleum) and Nordaq Energy Inc., submitted bids.



JOE BALASH

Emerald House took 10 tracts; ConocoPhillips Alaska took five; Nordaq Energy took a single tract. There were no competing bids.

Fifty percent of the bid receipts, \$766,852, goes to the state

see NPR-A SALE page 10

## New WOTUS definition clarifies waterbodies requiring CWA permits

The U.S. Environmental Protection Agency and the Department of the Army have published a proposed new specification of the waters of the United States, a specification that they say will bring clarity to what waterbodies are subject to federal regulation under the terms of the Clean Water Act. The new proposal will go through a public comment period.

The WOTUS definition is of critical importance in the permitting of projects that impact wetlands and waterways, because the definition determines which projects become subject to federal jurisdiction and federal permitting. The definition tends to be controversial because it raises issues regarding the extent of federal jurisdiction within states and the relative rights of federal, state and

see WOTUS DEFINITION page 9

## Oil price holds following OPEC's commitment to production drop

Oil prices have remained somewhat level following a decision by the Organization of the Petroleum Exporting Countries to cut oil production rates. During OPEC's conference on Dec. 7 OPEC and some non-OPEC countries, in particular Russia, agreed to cut production by 1.2 million barrels per day, in view of what the organization said was "a growing imbalance between global oil supply and demand in 2019." In November OPEC commented that it expected that, going into 2019, oil demand will fall in response to an anticipated slowdown in the growth of the global economy.

That November prediction led to downward pressure on the oil price, thus continuing a downward trend that began in early October. However, the new announcement about planned production cuts caused an immediate jump in the oil

see OIL PRICE page 7

## State approves 2nd CD-5 expansion; ConocoPhillips plans 10 new wells

Alaska's Division of Oil and Gas has approved a request by ConocoPhillips for authorization to drill up to 10 new wells from the CD-5 pad, in the northeastern National Petroleum Reserve-Alaska. The so-called CD5X2 project, the second expansion at CD-5, will enable the continued development of the Alpine oil resource without any expansion to the existing gravel drill site, the company told the division. CD-5 is the farthest west of the drill site in the Alpine field and accesses oil in reservoirs in the Alpine sands.

**CD-5 is the farthest west of the drill site in the Alpine field and accesses oil in reservoirs in the Alpine sands.**

see CD-5 EXPANSION page 8

### FINANCE & ECONOMY

# Increasing investment

ConocoPhillips announces plan for heightened capital expenditure for Alaska

By ALAN BAILEY  
Petroleum News

ConocoPhillips anticipates upping its capital expenditure in Alaska to around \$1.2 billion in 2018, the company has announced. This figure, amounting to about 20 percent of the company's planned worldwide expenditure, compares with an expected capital expenditure level of \$900 million, excluding acquisition costs, in 2018.

The increase in expenditure reflects the development of Greater Mooses Tooth 2; higher activity levels and higher working interests in existing fields; and further exploration activity on the North Slope, the company says.

The reference to higher working interests in

**The investor presentation says that ConocoPhillips estimates that it now has somewhere in the range of 500 million to 1.1 billion barrels of discovered oil resource in its new North Slope finds, but that 75 percent of its exploration prospect portfolio in the region remains undrilled.**

Alaska refers to the acquisition of Anadarko Petroleum's interests in lease holdings in the western North Slope, and the acquisition of BP's interests in the Kuparuk River field — the company's increased working interests in these fields will

see CONOCO INVESTMENT page 8

### LAND & LEASING

# Challenge dismissed

District Court rejects appeals against 2016 and 2017 NPR-A lease sales

By ALAN BAILEY  
Petroleum News

The federal District Court in Alaska has rejected two appeals challenging the legality of recent Bureau of Land Management oil and gas lease sales for the National Petroleum Reserve-Alaska. In a Dec. 6 court order Judge Sharon Gleason upheld a motion by BLM and ConocoPhillips Alaska to dismiss the appeal. ConocoPhillips had purchased leases in the sales. One lawsuit challenged the lease sales conducted in 2016 and 2017, while the other challenged the 2017 lease sale.

### Individual lease sale EIS?

The lawsuit challenging the 2017 lease sale

see APPEALS DISMISSED page 10

**Judge Gleason rejected this appeal because the appeal had been essentially directed against the adequacy of the integrated activity plan published in 2013 and had been filed too late to have legal standing.**

claimed that the sale contravened the National Environmental Policy Act, because BLM did not carry out an adequate assessment of the potential environmental impacts of the sale prior to conducting the sale. Under the terms of NEPA, any significant federal action that could impact the environment

### PIPELINES & DOWNSTREAM

# Battling the odds

Backers of First Nations-led Eagle Spirit pipeline rally aboriginal support

By GARY PARK  
For Petroleum News

Support is quietly gathering momentum among indigenous communities in British Columbia and Alberta for a First Nations-led pipeline project to move crude bitumen from the oil sands to an export terminal in the northern B.C. coast, but formidable obstacles have yet to be cleared.

Calvin Helin, president of Eagle Spirit Holdings, told the Globe and Mail he has 100 percent backing from chiefs along the British Columbia right of way after three years of talks with 35 of those leaders, along with solid backing from those communities in Alberta, plus the endorsement of Alberta Premier Rachel Notley.

Support for the initial C\$12 billion phase that



RACHEL NOTLEY

would carry 2 million barrels per day for export to Asia is especially strong among communities in the B.C. interior that have no other viable economic industries.

Those who have shaped the project say it is "a leading example of achieving reconciliation through economic empowerment" by opening the door to the first large-scale indigenous-led infrastructure undertaking in Canadian history.

It would terminate at a new export terminal about 20 miles north of Prince Rupert and just a few miles from the Alaska border.

For now, Helin will not say whether he has secured any funding or marketing commitments, although Eagle Spirit may have an opening to acquire a storage facility near Fort McMurray in the oil sands

see EAGLE SPIRIT page 10

FINANCE & ECONOMY

# Brent drops \$16 from October to November

EIA reduces price forecast; US crude oil production up; 2018 average of nearly 11 million bpd expected, making US largest producer

By KRISTEN NELSON  
Petroleum News



DR. LINDA CAPUANO

Crude oil production was up and oil prices were down in November, the U.S. Energy Information Administration said in its December Short-Term Energy Outlook, released Dec. 11.

“The December outlook reports that U.S. crude oil production increased between October and November, following the resumption of operations affected by recent hurricanes,” EIA Administrator Dr. Linda Capuano said. “EIA now forecasts U.S. crude oil production will average nearly 11

million barrels per day in 2018, and the United States will conclude 2018 as the world’s largest producer of crude oil,” she said.

EIA said U.S. crude oil production is estimated to have averaged 11.5 million barrels per day in November, up 150,000 bpd from October. U.S. production is expected to average 10.9 million bpd this year, up from 9.4 million bpd in 2017, and to average 12.1 million bpd in 2019.

Brent crude oil spot prices averaged \$65 per barrel in November, EIA said, down \$16 from October and the largest monthly average price decline since December 2014.

**“Market uncertainty during November appears to have contributed to levels of price volatility for Brent and West Texas Intermediate crude oils not seen in several years.”**

—EIA Administrator Dr. Linda Capuano

### Forecast changes

Capuano said the December forecast “specifically revises downward last month’s forecast for crude oil spot prices. EIA now expects the spot price for Brent to average \$61 per barrel in 2019. Market uncertainty during November

see EIA OUTLOOK page 3

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## ENVIRONMENT & SAFETY

### Hilcorp contractor employee dies in accident

An employee working for Hilcorp contractor Kuukpik Drilling died in an accident in the Milne Point unit on the North Slope on Dec. 7, Hilcorp has confirmed. No information has been released regarding the circumstances and cause of the accident.

“With deep regret, Hilcorp Alaska confirms that an employee of Kuukpik Drilling was fatally injured at Milne Point overnight,” said Hilcorp spokeswoman Lori Nelson. “We are deeply saddened by this news and our thoughts and prayers are with their family and loved ones. The cause of the incident is not known at this time but Hilcorp, together with Kuukpik and the appropriate regulatory agencies, will be conducting a full investigation. The safety and protection of our personnel and communities where we operate is our top priority. Drilling operations have been suspended at the incident location and we are fully cooperating with the appropriate regulatory agencies to determine the cause of the accident.”

—ALAN BAILEY

## EXPLORATION & PRODUCTION

### National drilling rig count down 1 at 1,075

The number of rigs drilling for oil and natural gas in the U.S. was down up by one Dec. 7 to 1,075.

At this time last year there were 931 active rigs.

Houston oilfield services company Baker Hughes reported that 877 rigs targeted oil (down 10 from the previous week) and 198 targeted natural gas (up nine).

The company said 72 of the U.S. holes were directional, 933 were horizontal and 70 were vertical.

Among major oil and gas producing states, New Mexico was up two rigs; Alaska and Pennsylvania were each up one rig.

California, Colorado, North Dakota and Wyoming were unchanged.

Louisiana was down by one rig; Texas was down two rigs; Oklahoma was down three rigs.

Baker Hughes shows Alaska with seven active rigs, up two from a year ago.

The U.S. rig count peaked at 4,530 in 1981. It bottomed out in May 2016 at 404.

—PETROLEUM NEWS

continued from page 2

## EIA OUTLOOK

appears to have contributed to levels of price volatility for Brent and West Texas Intermediate crude oils not seen in several years,” she said, with the recent decline in Brent largely attributable “to record production among the world’s largest crude oil producers and concerns about weaker global oil demand.”

The agency said WTI prices had three “rare and large price declines” over 10 days in mid-November, with WTI prices down by more than 33 percent from a four-year high in early October.

EIA said it is now forecasting that Brent and West Texas Intermediate crude oil spot prices will average \$61 and \$54 per barrel, respectively, next year — forecasts \$11 lower than the agency forecast in November.

Crude oil prices declined significantly in November, the agency said, but increased the first week in December “amid heightened price volatility.” EIA said that while it had been forecasting downward price pressures, the price drop was faster and the magnitude greater than expected. “Prices have likely declined to a level that EIA believes will contribute to a roughly balanced market in 2019, which EIA expects will keep prices close to current levels on average,” the agency said.

The Organization of the Petroleum Exporting Countries and several non-OPEC nations said Dec. 7 that they would reduce production by 1.2 million bpd from October levels for the first six months of 2019. EIA said this was in response to increasing evidence that oil

**U.S. dry natural gas production is projected to average 83.3 billion cubic feet per day this year, up 8.5 bcf from 2017.**

markets could become oversupplied next year.

### Natural gas

EIA said the Henry Hub natural gas spot price averaged \$4.15 per million British thermal units in November, up 87 cents per million Btu from October.

“The December outlook continues to forecast new record U.S. annual natural gas production in both 2018 and 2018,” Capuano said, “which will likely put downward pressure on prices in 2019.” She said U.S. natural gas prices increased in November in response to inventory levels and cold weather.

The agency said it expects strong growth in U.S. natural gas production to put downward pressure on prices, which are forecast to average \$3.11 per million Btu next year, down 6 cents from the 2018 average and down from a forecast average price of \$3.88 in the fourth quarter.

U.S. dry natural gas production is projected to average 83.3 billion cubic feet per day this year, up 8.5 bcf from 2017.

“Both the level and volume growth of natural gas production in 2018 would establish new records,” EIA said. The agency expects production to continue to rise next year to an average of 90 bcf per day. ●

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## ● PIPELINES & DOWNSTREAM

# Mexico starts ‘rescue’ with refinery overhaul

ASSOCIATED PRESS

Mexico’s new government detailed plans Dec. 9 to build an \$8 billion oil refinery in the home state of President Andres Manuel Lopez Obrador and to renovate six others as the oil-producing country attempts to lower its dependence on imported fuel.

Speaking from the Dos Bocas port in the Gulf Coast state of Tabasco, Lopez Obrador blasted the neglect that has fallen on Mexico’s oil infrastructure and the idea that Mexico is better off buying fuel from abroad.

“How do we respond to that absurdity that we are dedicated to selling crude oil and buying gasoline, as if we sold oranges and bought orange juice?” he asked the crowd.

Lopez Obrador, who took office Dec. 1, plans to direct 75 billion pesos (\$3.65 billion) of savings from a government austerity program into the state oil company, Pemex, which has struggled to come up with extra funds for expansion amid mounting pension obligations, high tax rates, rampant fuel theft and declining output.

Pemex is producing less than 1.8 billion barrels a day of crude, putting Mexico on track for its 14th consecutive year of declines in oil output.

President Lazaro Cardenas nationalized the industry in 1938, kicking out 17 foreign oil companies that Mexicans believed to be looting the country’s wealth. But Mexico’s constitution was amended in 2013 to allow greater private investment in oil and gas.

Lopez Obrador dismissed the energy sector opening as a failure, saying that foreign investment over four years has amounted to just 2.5 percent of what Pemex invested during the same time period.

He also hinted that the planned refinery expansions would be taken on by Mexican companies, saying: “We’re going to place our trust in Mexican entrepreneurialism.”

Energy Minister Rocio Nahle said Mexico will import 80 percent of its gasoline needs this year because the country’s refineries work, on average, at 38 percent of capacity due to a lack of maintenance and investment. She said the refinery overhaul should enable Pemex to meet 70 percent of Mexico’s gasoline needs. ●

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## GOVERNMENT

### Comment period extended for Beaufort EIS

The federal Bureau of Ocean Energy Management has extended the public scoping period for the upcoming environmental impact statement for the proposed 2019 Beaufort Sea oil and gas lease sale.

BOEM said due to disruptions caused by the Nov. 30 Anchorage area earthquake, the comment period, formerly scheduled to end Dec. 17, will now end Jan. 4.

A public scoping meeting has already been held in Anchorage. Three other scoping meetings have been rescheduled as follows: Utqiagvik, Dec. 17, 7-9 p.m., Inupiat Heritage Center; Nuiqsut, Dec. 18, 7-9 p.m., Kisik Community Center; and Kaktovik, Dec. 19, 7-9 p.m., Community Center.

More information about the proposed sale is available at [www.boem.gov/beaufort2019](http://www.boem.gov/beaufort2019).

—PETROLEUM NEWS

## ENVIRONMENT & SAFETY

# BC makes leap forward

Rolls out plan to tackle climate change, aiming to cut 40% off carbon emissions by 2030 over 2007 levels, sticks with LNG approval

By GARY PARK

For Petroleum News

The socialist New Democratic Party government of British Columbia is targeting a 40 percent reduction in greenhouse gas emissions by 2030 over 2007 levels by aggressively targeting the oil and gas industry, transportation and housing.

While setting its sights squarely on the fossil fuel sector, aiming to lower methane emissions from natural gas operations by 45 percent by 2025, and dropping fossil fuel

use for transportation by 20 percent over the next 12 years, the administration of Premier John Horgan is still finding room to embrace the energy-intensive C\$40 billion LNG Canada project and promising to deal with any other LNG proposals on a case-by-case basis.

The government estimates the plan will enable it to meet 75 percent of its 2030 goal, with plans for the remaining 25 percent to be rolled out over the next 18 to 24 months.

If it succeeds, the province will reduce GHG emissions by 40 percent by 2030 (over 2007 levels), 60 percent by 2040 and 80 percent by 2050.

Horgan told Postmedia that “big investments like LNG Canada, although it has an impact on our GHG numbers, gives us an opportunity to be bold on government-directed innovation on things like transit.”

The overall objective is a decrease of 25.4 million metric tons of carbon dioxide equivalents annually, compared with

the government’s estimate of 63.3 million mt of emissions in 2015.

### Electrifying extraction, production

The largest portion of reductions in the plan that will be included in next year’s provincial budget is directed at industry, including electrifying extraction and production of natural gas and oil in north-eastern British Columbia, which accounts for 20 percent of methane emissions.

Natural gas extraction and production operations will be able to switch from natural gas to clean electricity to power its operations.

Although British Columbia’s C\$10.7 billion Site C hydroelectric project is not due for completion until the latter half of the next decade, Horgan said there should be enough electricity available to meet demands until after 2030, when more sources will be needed.

The plan includes a previously announced increase in British Columbia’s carbon tax from C\$35 a metric ton to C\$50 by 2021.

Peter McCartney, a spokesman for the Wilderness Committee, insisted there can be no more LNG projects if the government is to meet its lofty goals.

“I haven’t heard an answer to what their plan is to make sure these (LNG) proposals don’t blow their targets out of the water completely,” he said.

McCartney said the government’s ambitious LNG plans may be the reason it is unable to fully meet its 2030 target at this stage.

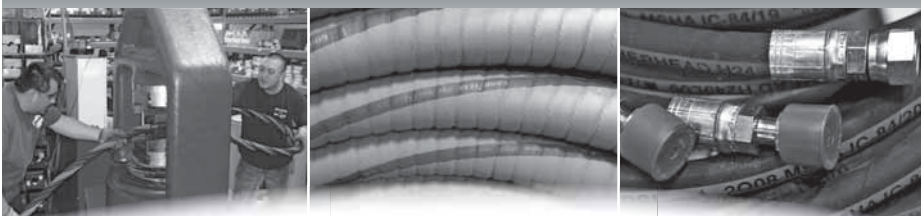
Climate Change Minister George Heyman said “we are already reaching agreements” to electrify industry, notably the oil and gas sector, citing plans for a major transmission line to gas fields. ●

Contact Gary Park through [publisher@petroleumnews.com](mailto:publisher@petroleumnews.com)



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## CORRECTION

### Anderson with AEA, not AIDEA

A story in the Dec. 9 issue of Petroleum News about appointments to Gov. Mike Dunleavy’s administration incorrectly described a position previously held by Commissioner of the Department of Commerce and Economic Development designee Julie Anderson.

Anderson was previously stakeholder manager for the Alaska Energy Authority on the Susitna-Watana project; she was not with the Alaska Industrial Development and Export Authority as indicated in the story.

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# Congratulations

## *Congratulations Lagniappe AK, North Slope's newest player*

Hats off to Lagniappe AK, a newly formed limited liability company that successfully submitted winning bids on a 195,000-acre block of leases on the eastern North Slope, spending a whopping \$14.1 million at the latest state of Alaska lease sale. The company, whose registered agent is in Louisiana, is committed to an aggressive exploration program in an area that is vastly under-explored.



Founder of Lagniappe has not yet revealed himself to the general public.

Afognak Leasing LLC  
 Airgas, an Air Liquide company  
 Alaska Energy Services, LLC  
 Alaska Dreams  
 Alaska Frac Consulting LLC  
 Alaska Frontier Constructors (AFC)  
 Alaska Marine Lines  
 Alaska Materials  
 Alaska Railroad  
 Alaska Rubber & Rigging Supply Inc.  
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GMW Fire Protection has offices in Anchorage and Deadhorse



## PIPELINES & DOWNSTREAM

### RCA approves Kuparuk Pipeline transfer

The Regulatory Commission of Alaska has approved the transfer of BP Transportation (Alaska)'s interest in the Kuparuk Transportation Co. to the Kuparuk Pipeline Co. The KTC ownership has been KPC 57 percent, BPTA 38 percent and Unocal Pipeline Co. 5 percent. KTC is wholly owned by ConocoPhillips.

The pipeline is part of an acquisition by ConocoPhillips of BP's interests at Kuparuk announced in July. The companies said ConocoPhillips was acquiring BP's 39.2 percent interest in the Greater Kuparuk area and BP's 38 percent interest in the Kuparuk Transportation Co. for an undisclosed price and was selling BP a subsidiary with a 16.5 percent interest in the Clair field in the United Kingdom.

The Alaska Division of Oil and Gas approved Kuparuk River unit lease assignments from BP Exploration (Alaska) to ConocoPhillips Alaska in November.

ConocoPhillips was already the majority working interest owner at Kuparuk, with 55.3 percent, and the operator. Other interest owners include Chevron at 4.9 percent and ExxonMobil at 0.6 percent.

Earlier in the year ConocoPhillips closed on a \$400 million acquisition of Anadarko Petroleum's 22 percent interests in western North Slope properties, including the Colville River unit and Greater Mooses Tooth.

—KRISTEN NELSON

### Tariff from Alpine drops based on volume

The Alpine Transportation Co. has filed a revised tariff rate with the Regulatory Commission of Alaska which drops the rate for transporting crude oil from the Alpine field to the Kuparuk River field from 67 cents per barrel to 41 cents per barrel. A Dec. 5 tariff filing also included an initial rate of 12 cents per barrel from a new receipt point at the Southern Miluveach unit.

In a revised Dec. 7 filing the company told RCA that based on discussions with commission staff it was withdrawing the tariff proposal for transportation from the Southern Miluveach unit and would seek approval of that rate in a separate tariff filing.

In its original filing the company said the reduction in rate for the line is "due primarily to projected throughput for 2019 being higher than the 2018 projected throughput used in setting the 2018 rates."

The Alpine line carries production from that field and also from ConocoPhillips Alaska's Greater Mooses Tooth 1 field in the National Petroleum Reserve-Alaska. GMT1 came online in October with production for that month (the most recent for which data is available) averaging 7,754 barrels per day. Production from that field is expected to peak at 25,000 to 30,000 bpd.

Alpine Transportation Co. filed to establish an initial rate from the Southern Miluveach unit on Dec. 10, for 12 cents per barrel.

Brooks Range Petroleum Corp. is in the process of developing the Southern Miluveach unit, estimated to hold 33 million barrels of proven and probable light oil reserves, with peak production estimated at some 15,000 barrels per day, ATC told RCA when it filed for approval of a connection agreement and permit between ATC and Brooks Range Petroleum Corp.

—KRISTEN NELSON

## EXPLORATION & PRODUCTION

### Largest continuous oil assessment by USGS

The U.S. Geological Survey has announced its largest ever assessment of undiscovered, technically recoverable, unconventional oil resources. The agency has estimated that the Wolfcamp shale and Bone Spring formation in the Delaware basin portion of the Permian basin in Texas and New Mexico contain a mean of 46.3 billion barrels of oil, 281 trillion cubic feet of natural gas, and 20 billion cubic feet of natural gas liquids.

The Permian basin holds a particularly prolific unconventional oil and gas resource, although production from the basin is currently somewhat constrained by limitations in the pipeline systems used to transport products to market. A 2016 USGS assessment of the Wolfcamp shale in the Midland basin portion of the Permian basin was the second highest assessment of continuous, unconventional oil at that time.

USGS says that companies are using both traditional vertical wells and horizontal wells involving hydraulic fracturing to develop oil and gas in the region.

"The results we've released today demonstrate the impact that improved technologies such as hydraulic fracturing and directional drilling have had on increasing the estimates of undiscovered, technically recoverable continuous (i.e. unconventional) resources," said Walter Guidroz, program coordinator of the USGS Energy Resources Program, when the new assessment was published.

—ALAN BAILEY

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GOVERNMENT

# Oil sector boosts NM government fortunes

By MORGAN LEE  
Associated Press

New Mexico state economists on Dec. 10 affirmed forecasts for a major financial windfall to state government linked to a booming oil sector despite recent fluctuations in energy prices, as the governor's office passes from Republican to Democratic control.

Democratic Gov.-elect Michelle Lujan Grisham has set as top priorities an increase in resources for public education and universal access to preschool, as she prepares to succeed term-out Republican Gov. Susana Martinez on Jan. 1.

The state is expected to finish this fiscal year with \$1.4 billion in excess revenue and the forecast calls for revenues to outpace spending obligations again next fiscal year, resulting in a \$1.1 billion surplus, according to economists at three state agencies and the Legislature.

Financial reserves are expected to swell to \$2.5 billion by June 2019, equal to 40 percent of annual general fund spending.

Budget analysts for the Legislature trace about 80 percent of growth in state income during the current fiscal year directly to the oil and gas industry through severance taxes, rent, royalties and secondary taxes on sales and business-to-business transactions.

"You can see oil production has just been skyrocketing every month," said Jon Clark, economist to the Legislative Finance Committee.

When the Democrat-led Legislature convenes in January, lawmakers will confront a court order to expand resources to struggling public schools — and in particular to students from low-income and minority families, including Native Americans.

Democratic House Speaker Brian Egolf

said Dec. 10 lawmakers are working toward an education reform package that phases in new spending over several years, gradually expanding preschools education and increasing teacher pay among, among other measures.

Financial analysts for the state and leading lawmakers cautioned that New Mexico remains heavily reliant on fickle oil and natural gas markets.

"Revenue could drop just as quickly as it boomed," said state Rep. Patricia Lundstrom, D-Gallup, the chairwoman of the budget-writing Legislative Finance Committee in a newsletter published Dec. 10. "Any expansion should be cautious."

At the same time, she described pent-up demands for money at short-staffed state agencies, a multi-year waiting list for services to the disabled and plans to build a new workforce for early childhood education.

Republican Senate minority leader Stuart Ingle of Portales stressed the need to repair roads, particularly deteriorating infrastructure in the state's southeast corner.

Officials with the departing Martinez administration urged lawmakers to maintain 25 percent reserves to guard against future economic recession and gyrations of the oil industry. That still would leave the state with about \$950 million in unspent money by June 2019, said Finance and Administration Department Secretary Duffy Rodriguez.

Lundstrom and Egolf said the state is in a position to pay for construction projects directly from savings without issuing bonds to creditors to avoid future interest payments.

The state's creditworthiness recently was downgraded by a major credit ratings agency because of mounting, unfunded public pension obligations. ●

## PIPELINES & DOWNSTREAM

### Only non-mechanical recovery for VMT plan

Alyeska Pipeline Service Co. has filed a revised version of the oil spill prevention and contingency plan for the Valdez Marine Terminal with the Alaska Department of Environmental Conservation for state approval. The revisions include the removal of spill response tactics that include the use of oil dispersants and the in-situ burning of oil. Presumably the plan indicates that any foreseeable spill can be dealt with using mechanical recovery techniques involving the use of technologies such as booms and skimmers.

The terminal is used to load oil from the trans-Alaska pipeline into tankers for shipment to the U.S. West Coast and is located on the shore of Port Valdez, a fiord-like water body that connects to Prince William Sound through the Valdez Narrows. There is a separate and distinct spill contingency plan for tankers transiting between the terminal and the Gulf of Alaska across Prince William Sound.

Michelle Egan, Alyeska corporate communications director, has told Petroleum News that Alyeska is committed to the mechanical clean up of any spills, and that this is a regulatory requirement. Alyeska does retain the capability to use non-mechanical techniques such as dispersant use or in-situ burning — the use of these techniques would require regulatory approval, Egan said.

Brook Taylor, director of external communications for Prince William Sound Regional Citizens' Advisory Council, commented that the non-mechanical techniques have been removed from the plan because they cannot be used in Port of Valdez.

—ALAN BAILEY

## INTERNATIONAL

### 3-year hiatus on oil auctions promised

Mexico's new president says he will take a three-year break from awarding new oil exploration contracts in order to judge the results of contracts already awarded.

President Andres Manuel Lopez Obrador says he wants more investment from private firms that have been awarded concessionary exploration contracts under reforms enacted by his predecessor, Enrique Pena Nieto.

Lopez Obrador said Dec. 5 he will use the three-year break to evaluate how much investment and production are actually produced by the foreign firms that bid on offshore blocks of oil fields. He complained the firms haven't invested much and haven't produced any oil. He pledged not to cancel existing contracts.

Falling production forced the previous government to loosen the grip of Mexico's state-owned oil company, which doesn't have enough money to develop deep-water fields.

—ASSOCIATED PRESS

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### OIL PRICE

price. The price then fell back before stabilizing somewhat. According to the Financial Times, reports of falls in U.S. crude oil inventories have helped support the oil price in recent days.

The price of Brent crude, which tends to track quite close to the market

price of Alaska North Slope crude, jumped from around \$60 to around \$63 on Dec. 7, when OPEC made its announcement. Over the next few days the price sank back to around \$60. Since then it has been bouncing around the \$60 to \$61 level.

—ALAN BAILEY

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## CONOCO INVESTMENT

increase the company's share of field capital expenditure. The capital expenditure projection assumes that the Kuparuk River field acquisition will complete by the end of this year.

ConocoPhillips expects its worldwide capital expenditure in 2019 to be about \$6.1 billion, around the same level as in 2018. So, the announced boost to Alaska expenditure represents an increased share of the company's worldwide expenditure, a factor that presumably reflects the company's confidence in its Alaska ventures.

### Focus on Willow

ConocoPhillips says that its projected expenditure on Alaska exploration in 2019 will particularly focus on the further appraisal of the company's Willow discovery in the northeastern National Petroleum Reserve-Alaska. The company plans to drill four to six appraisal wells in the prospect this winter.

According to an investor presentation on the capital budget, the company also anticipates further appraisal of oil discoveries in the Narwhal trend on the east side of the Colville River, the prospective trend that includes the Pikka discovery in the Nanushuk formation that Oil Search plans to develop. However, ConocoPhillips has previously announced the it planned to

drill into the Putu prospect in the Narwhal trend in November of this year — there is no word yet on the status of that drilling project.

The investor presentation says that ConocoPhillips estimates that it now has somewhere in the range of 500 million to 1.1 billion barrels of discovered oil resource in its new North Slope finds, but that 75 percent of its exploration prospect portfolio in the region remains undrilled.

### Assuming low oil prices

For some time ConocoPhillips has been following a strategy of basing its business planning on an assumption of relatively low oil prices, with higher prices becoming a bonus for the company. The investor presentation says that the company is assuming a West Texas Intermediate price of below \$40 per barrel. At \$40 per barrel, the company's cash flow would exceed the level of sustaining capital investment and dividend payments, the company says. More than 90 percent of the company's planned 2019 capital investment is directed at projects involving a cost of supply of oil below that \$40 level. About 55 percent of the projects involve unconventional oil in the Lower 48 and Canada, with most of the remainder, including projects in Alaska, involving conventional oil. ●

Contact Alan Bailey  
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## ENVIRONMENT & SAFETY

# Splits deepening at UN climate talks

By FRANK JORDANS  
Associated Press

Divisions deepened at the U.N. climate talks Dec. 6, pitting rich nations against poor ones, oil exporters against vulnerable island nations, and those governments prepared to act on global warming against those who want to wait and see.

The stakes were raised by a scientific report that warned achieving the most ambitious target in the 2015 Paris climate accord to limit emissions is getting increasingly difficult. Fresh figures released the week of Dec. 3 showed that emissions of heat-trapping carbon dioxide jumped the highest in seven years, making the task of cutting those emissions one day to zero even more challenging.

Negotiators at the climate talks in Katowice, Poland, still disagree on the way forward but have just a few days to finish their technical talks before ministers take over.

"It's going to be a big challenge," said Amjad Abdulla, the chief negotiator for the Alliance of Small Island States. "We are going to forward the sticky issues to next week."

Among the splits that need to be overcome before the conference ends on Dec. 14 are:

—The question of what kind of flexibility developing countries will have when it comes to reporting their emissions and efforts to curb them.

The issue is central to the Paris rulebook, which countries have committed to finalizing this year. Environmental activists insist that countries such as Brazil, with its vast Amazon rainforest, and China, the world's biggest polluter, should have to provide hard data on emissions and not be treated like poorer nations who don't have the ability to do a precise greenhouse tally.

Complicating matters, a group of rich countries that includes the United States and Australia is seeking similar leeway as developing nations.

—Several oil exporting countries have objected to the idea of explicitly mentioning ways in which global warming can be kept at 1.5 degrees Celsius (2.7 degrees Fahrenheit). The Intergovernmental Panel on Climate Change, a body made up of scientists from around the world, recently proposed "policy pathways" that would achieve this goal, which foresee phasing out

almost all use of coal, oil and gas by 2050.

But Saudi Arabia and some of its allies say it would be wrong to cite those pathways in a text about future ambitions.

—Developing countries are frustrated that rich nations won't commit themselves to providing greater assurances on financial support for poor nations facing hefty costs to fight the effects of climate change. European governments argue that they are bound by budget rules that limit their ability to allocate money more than a few years in advance.

What's clear is that few countries are moving in the right direction to halt global warming.

"The first data for this year point to a strong rise in the global CO2 emissions, almost all countries are contributing to this rise," said Corinne Le Quere, who led the team that published the emissions study the week of Nov. 3.

"In China, it's boosted by economic stimulation in construction. In the U.S., an unusual year, cold winter and hot summer, both boosting the energy demand. In Europe, the emissions are down but less than they used to be, and that's because of growing emissions in transport that are offsetting benefits elsewhere," she told the meeting in Katowice.

Le Quere, the director of the Tyndall Centre for Climate Change Research at the University of East Anglia in England, noted some positive news.

"We have renewable energy," she said. "It is displacing coal in the U.S. and in Europe, and it is expanding elsewhere."

"It's not enough to meet the growing energy demand in developing countries in particular," she said. "But the industry is growing."

Host nation Poland, which depends on coal for 80 percent of its energy needs, is among those demanding help for workers in coal and gas industries who could lose their jobs as nations shift to cleaner energy.

In light of the deep divisions over how to best fight climate change, U.N. Secretary-General Antonio Guterres considering returning to Katowice to push for a strong declaration.

"It very much remains a possibility," U.N. spokesman Stephane Dujarric said Dec. 6. "If he feels his presence will be useful, he will go back. But no decision has yet been made." ●

continued from page 1

## CD-5 EXPANSION

ConocoPhillips told the division that the new development is expected to involve the installation of 33 new vertical support members for carrying pipeline, two pipe racks, new well houses and other infrastructure components. Drilling would start

in February 2019 and the development would be completed by April 30, 2024.

The CD-5 development has proved particularly successful for ConocoPhillips, with oil production significantly exceeding initial estimates.

—ALAN BAILEY

Contact Alan Bailey  
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## WOTUS DEFINITION

tribal authorities to manage lands within the borders of the United States. The situation is particularly touchy in Alaska because of the state's myriad rivers, streams, lakes and wetlands.

### Simple in principle, complex in practice

Federal jurisdiction over waterways is simple in principle in that most people agree that the federal government can regulate navigable waters that are capable of supporting interstate commerce. But where do the waters of the U.S. end and local or state waters begin? Water flowing into those more obvious U.S. waters can carry contaminants from other waterbodies that are less clearly federal.

In 2015 the Obama administration introduced a controversial new WOTUS rule that made tributaries to the more obvious U.S. water bodies, as well as wetlands adjacent to these tributaries and navigable waters impounded behind dams, all subject to federal jurisdiction. The Trump administration now says that its new rule will bring needed clarity to the WOTUS definition. The new rule will place limits on waterways subject to federal jurisdiction, giving states and tribes more flexibility to manage waters within their borders, the agencies say.

### Scope of the new definition

The new WOTUS definition continues to encompass traditional navigable waters, including large rivers, large lakes, tidal waters and territorial seas. Added to this would be tributaries flowing into these waters, either directly or via some other tributary. These tributaries are naturally flowing waterways that flow more than just when it rains.

A ditch, defined as an artificial channel used to convey water, would be subject to federal jurisdiction if it is a traditional navigable water, such as a navigable canal, or if it is subject to the ebb and flow of the tide. A ditch may also be jurisdictional if it fits within the definition of a tributary, or if it is built in a tributary or adjacent wetland.

Certain lakes and ponds would be considered WOTUS if they form traditional navigable waterways, if they contribute to the flow of water through a traditional navigable waterway, or if they are commonly flooded by a water of the United States. Water impoundments, presumably constrained by dams, would also be considered WOTUS.

Some wetlands would be viewed as jurisdictional, if they connect in certain ways to WOTUS waterbodies.

The WOTUS definition also includes a list of waterbodies that would not be considered jurisdictional. These include groundwater, certain stormwater control features, wastewater recycling structures and waste treatment systems.

### Praise from delegation

Alaska's U.S. senators have praised the federal administration's efforts to bring clarity to the WOTUS confusion.

"This is a big deal for Alaska that should help end years of concern, frustration, and uncertainty over a costly regulation that would have halted construction projects and other economic opportunities," said Sen. Lisa Murkowski. "This new proposal will protect water quality while providing clarity on the scope of regulation and restoring balance to the state and federal relationship. I look forward to working with EPA and the Army Corps to make sure it is effective and workable for Alaskans."

"I welcome the EPA's long awaited proposal to restore power to states and protect land owners — and hardworking Alaskans — from the confusing and burdensome federal overreach of the last administration's WOTUS rule," said Sen. Dan Sullivan. "If a landowner or a farmer has to hire a lawyer for months of work against an impenetrable and glacial bureaucracy — at the cost of thousands of dollars — just to understand whether they can fill in a ditch or build a structure, it doesn't take a genius to figure out that doesn't work, especially in Alaska. The EPA's proposal offers a path for a more reasonable, statutory based interpretation of the Clean Water Act."

—ALAN BAILEY

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# Petroleum news

## Oil Patch Bits



### Basil Gerard Stewart (1957-2018)

Basil Gerard Stewart has left us way to soon because Heaven was short on "Kind Gentle Giants" and called Basil home to fill the need and end his battle with cancer on the morning of Nov. 24, 2018, at home in Chugiak, Alaska, with his true love by his side. Born on Nov. 14, 1957, to Jerry and Sharon Stewart, in Milwaukee, Wisconsin, Basil was big brother to Jodi Chamberlain and Scott Stewart; uncle to Stephen and Andrew Rohrer; nephew to Carol Thompson; and special cousin to Peggy Theil and all the rest the Lutzow/Stewart family; and Poppa Bear to Heather and Dillon Henneman, Joshua, Kira and Kamary Young; and soulmate to Regina Henneman for more than 21 years.



BASIL STEWART

Basil graduated from Mukwonago High School and Lincoln School of Auto Body in Denver, Colorado, and then following his parents to Alaska, Basil opened Bear's Automotive in Peters Creek. For many years he was fixing and painting cars and helping everyone. Then he joined his father and brother in their business in 1988, with Arctic Control Inc., making it a true family business for the last 30 years.

A quiet man, with a large presence by just walking into the room, Basil was a kind soul, a well-respected businessman, with a huge giving heart ... you may have known Basil by one of his many, many names — Base (nickname by Dad), BG in the younger years by Jodi and Scott, Bear by all of his friends, Poppa Bear by Heather and Dillon, "Bagel" by little Joe, sweet Basil and my gentle giant by Regina, and an occasional Bazil, Beezal and Parsley used, too! A smile came to his face hearing Poppa Bear and Bagel.

From playing Santa Claus for years at the Petroleum Club, to hours of time for the Eagle River Lions and the Eagle River Elks Lodge, to buying Girl Scout cookies from one little troop at one door and then the other, or the same with the Boy Scouts, Basil gave to all.

Basil was fearless in his fight with cancer and took the challenge straight on, never once complaining. Many thanks for all the thoughts and prayers for Basil, and the help from the kind staff of both Alaska Oncology and Surgical Specialists of Alaska.

A special "thank you" to the angels on earth disguised as nurses at Alaska Regional Hospital — the SPCU 3 Team with Pam and the entire 6th Floor Med Oncology Team.

As per Basil's wishes, there will be no services. A Celebration of Life was held Dec. 9 at the Eagle River Lions Club. In lieu of flowers, donations may be made to any of Basil's favorite organizations and would be appreciated: Blood Bank of Alaska, Eagle River Lions Club, American Cancer Society or the American Diabetes Association.

## Companies involved in Alaska's oil and gas industry

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## EAGLE SPIRIT

region, which is backed by a C\$545 million bond issue led by the Fort McKay and Mikisew Cree First Nations.

### Edge over other projects

Eagle Spirit's edge over other pipeline ventures such as Enbridge's Northern Gateway, TransCanada's Energy East and the expansions of the Keystone and Trans Mountain systems is the time it has invested in winning over First Nations.

"You can't build a project like this without the First Nations on side," Helin told the Globe and Mail. "Even our so-called reconciliation Prime Minister (Justin Trudeau) is learning that with Trans Mountain."

Chief Isaac Laboucan-Avirom from the Woodland Cree First Nation in Alberta reinforced that thinking by making a

case for improving environmental standards on traditional aboriginal lands.

"We don't need to kill all of our economic opportunities," he said. "We just need to be more innovative."

### Proposed federal legislation

Helin and Laboucan-Avirom both say they will file complaints under the United Nations Declaration of Rights of Indigenous Peoples if federal legislation to ban tankers capable of carrying 12,500 metric tons from an area that extends from northern Vancouver Island to the Alaska border becomes law.

Bill C-48, which has already been ratified by the House of Commons, is now before the Canadian Senate in what would normally be the final stage of the legislative process.

A spokeswoman for federal Transport Minister Marc Garneau said the minister has already gained endorsement for Bill C-48 from political leaders and First Nations chiefs.

But Laboucan-Avirom is planning a pre-Christmas visit

to Ottawa along with several other chiefs, to register their concerns with the government, undeterred by the failure of their coalition to mount a legal challenge against the tanker ban.

Notley has also called on Trudeau to stall the tanker ban and amend another piece of legislation, Bill C-69, which will drastically rework the regulatory process for handling pipeline applications.

"The federal government is telling First Nations to park their plans and park their economic ambitions. Really, is that the message we want to send?" she told a business audience in Ottawa in late November.

Having failed to obtain federal money for her plan to buy 80 new locomotives and 7,000 tanker cars to boost crude shipments from Alberta, Notley has stepped up her opposition to the planned tanker ban. ●

Contact Gary Park through publisher@petroleumnews.com

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## NPR-A SALE

of Alaska.

### Encouraging results

Interior's Assistant Secretary for Land and Minerals Joe Balash, a former Alaska state official, said after the sale that the results were encouraging — an improvement over the 2017 sale when BLM received only seven bids. He noted that Interior believes the petroleum reserve has much more potential and has much more to offer the American people, hence the need to take a look at the integrated plan. A significant portion of NPR-A is not available for leasing under the current plan, Balash said, including the Teshekpuk Lake area and farther north. He said it's not much of a secret that under the current plan much of the area in which industry is interested near the Barrow Arch is not available for leasing.

Balash said they have heard from operators and lessees that the current plan presents challenges in terms of infrastructure access, particularly for state waters in Smith Bay. He also said many of the geologic features supporting that particular hydrocarbon system are thought to extend farther toward shore.

Interior said in November that it intended to prepare a new integrated activity plan and associated environmental impact statement for NPR-A.

### Southeastern interest

BLM Alaska Acting State Director Ted Murphy said after the sale that all of the interest was in the very southeastern portion of the reserve, with ConocoPhillips taking leases south of its existing holdings and Emerald House moving to the south.

Current leasing in NPR-A began in 1999, with a \$104.6 million sale, followed by a \$63.8 million sale in 2002 and a \$53.9 million sale in 2004. Annual sales began in

2010, with the most interest at the 2016 sale, which brought in \$18.8 million.

Prior to the sale there were 199 active leases in NPR-A, 162 of which are held by ConocoPhillips Alaska, which is the only company operating there — production from Greater Mooses Tooth 1 began in October. Nordaq holds 18 leases and interests in two others. Emerald House LLC, an Australian-based company, has three existing leases which it acquired from Paul Craig.

### Building out

Emerald House, with 10 bids on 114,167 acres for \$1,120,424, averaged \$9.81 per acre. The Emerald House bids were the most southerly in the sale, running south toward the southeastern boundary of NPR-A and appear to be north and northwest of the company's existing NPR-A leases. Prior to this sale the company had 35,423 acres.

ConocoPhillips bid \$355,823 for 48,492 acres in five tracts, an average of \$7.34 per acre. Those five tracts are contiguous and

run south from existing Conoco acreage along the eastern boundary of NPR-A. Prior to this sale the company had 1,033,275 acres in NPR-A.

The single Nordaq tract, for which the company bid \$57,494 on 11,385 acres, averaged \$5.05 an acre. Prior to this sale Nordaq had 206,039 acres and an interest in an additional 22,771 acres.

Total leased acreage in NPR-A was 1,384,352 acres prior to this sale.

Other current leaseholders include Renaissance Umiat with two leases, 17,633 acres.

A partnership of Armstrong Energy, Repsol E&P, GMT Exploration Co. and Oil Search (Alaska) holds 11 leases, 62,044 acres; and a partnership of Armstrong, Repsol and Oil Search holds one lease, 7,167 acres.

—KRISTEN NELSON

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## APPEALS DISMISSED

requires an environmental evaluation, potentially leading to a formal environmental assessment or the development of an environmental impact statement.

Defendants in the case have countered that BLM conducted an environmental impact statement for the NPR-A integrated activity plan that the agency published in 2013. That plan envisaged the conducting of lease sales in specific areas of the reserve, including the area encompassing the 2017 sale. BLM has argued that the EIS for the plan was sufficient to cover the lease sale itself.

In agency challenges of this type courts adopt a position, as required under the federal Administrative Procedures Act, that

they will defer to an agency's technical expertise in its decision making. The court will, on the other hand, rule on whether an agency decision complies with the relevant laws.

### Legal precedent

In this particular case Judge Gleason cited the legal precedent from a previous similar case, involving an appeal against an earlier lease sale held for the northwestern NPR-A. In that case judges in the Court of Appeals for the 9th Circuit had found that no additional EIS was required for the lease sale, because the EIS for the opening of the northwestern area had satisfied the NEPA requirements for conducting lease sales in the area. Moreover, the 9th Circuit court judges commented that the lease sale itself did not trigger any physical activity on leased land — any subsequent proposal for

exploration and development on leased acreage would require environmental review and potentially the development of an EIS.

Gleason did comment that, given the time lag between the publication of the NPR-A integrated activity plan EIS and the conducting of the lease sale now being challenged, there could be a question of new circumstances arising that could impact the findings of the EIS. But plaintiffs have not asserted that a supplemental EIS for the plan is needed but have, instead, argued for the development of a completely new lease sale EIS, she wrote.

The appeal against the 2016 and 2017 lease sales was launched in 2018 and argued that BLM had not adequately considered the potential greenhouse gas emissions impacts of the lease sales, and that the agency had also not adequately considered

a range of lease sale configurations when evaluating the potential environmental impacts of the sales.

Judge Gleason rejected this appeal because the appeal had been essentially directed against the adequacy of the integrated activity plan published in 2013 and had been filed too late to have legal standing. Under the terms of the National Petroleum Reserves Production Act, the statute governing actions in the NPR-A, any appeal against the EIS for the plan had to be filed within 60 days of the EIS being published, she wrote. She added that any challenge to the individual lease sales, rather than the lease sale plan, was invalid, for the same reasons that she had found in the appeal against the 2017 lease sale. ●

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# Thank you Alaskans

## Thank you to all Alaskans

There has been, and continues to be, an amazing response to Alaska's Nov. 30 earthquake and its many aftershocks, by city, state and federal offices, as well as utility companies, charities, businesses and individual citizens. Thank You from Petroleum News and Alaska's oil and gas industry for your amazing emergency response efforts. We have a lot to be thankful for — and proud of — in this great state.



Top right: Nov. 30, 8:29 a.m.: Minnesota Drive on-ramp to International Airport Road in Anchorage collapsed in the 7.0 earthquake. Bottom right: A few days later, the ramp was reopened between 1:30 and 3:30 a.m. on Dec. 4, said the Alaska Department of Transportation and Public Facilities.

*Photos courtesy AK DOTPF*

Afognak Leasing LLC	Cruz Construction	Motion & Flow Control Products
Airgas, an Air Liquide company	Denali Universal Services (DUS)	Nabors Alaska Drilling
Alaska Energy Services, LLC	Dowland-Bach Corp.	Nalco Champion
Alaska Dreams	Doyon Anvil	NANA
Alaska Frac Consulting LLC	Doyon Associated	NANA WorleyParsons
Alaska Frontier Constructors (AFC)	Doyon Drilling	NEI Fluid Technology
Alaska Marine Lines	Doyon, Limited	Nordic Calista
Alaska Materials	ExxonMobil	North Slope Telecom
Alaska Railroad	exp Energy Services	Northern Air Cargo
Alaska Rubber & Rigging Supply Inc.	F. R. Bell & Associates, Inc.	NRC Alaska
Alaska Steel Co.	Fairweather	Nutrien
Alaska Tent & Tarp	Flowline Alaska	Oil Search
Alaska Textiles	Fluor	Opti Staffing
Alaska West Express	Foss Maritime	PENCO
Alpha Seismic Compressors	Fugro	Petro Star Lubricants
American Marine	Geotemps	Petroleum Equipment & Services, Inc.
Arctic Catering & Support Services	GMW Fire Protection	PRA (Petrotechnical Resources of Alaska)
Arctic Controls	Greer Tank & Welding	Price Gregory International
Arctic Fox Environmental	Guess & Rudd, PC	Raven Alaska – Jon Adler
Arctic Wire Rope & Supply	ICE Services, Inc.	Resource Development Council
ARCTOS Alaska, Division of NORTECH	Inspirations	SAExploration
Armstrong	Judy Patrick Photography	Security Aviation
ASRC Energy Services	Kuukpik Arctic Services	Sourdough Express
AT&T	Last Frontier Air Ventures	Strategic Action Associates
Avalon Development	Little Red Services, Inc. (LRS)	TTT Environmental
Aviator Hotel	LONG Building Technologies, Inc.	Instruments and Supplies
Bombay Deluxe	Lounsbury & Associates	Tanks-A-Lot
BP	Lynden Air Cargo	The Local Pages
BrandSafway Services	Lynden Air Freight	Unique Machine
Brooks Range Supply	Lynden Inc.	VION Investments
Calista Corp.	Lynden International	Volant Products
Chosen Construction	Lynden Logistics	Waste Management
CMS, Inc./Hepworth Agency	Lynden Transport	Weston Solutions
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Computing Alternatives	MAPPA Testlab	
CONAM Construction	Maritime Helicopters	