



page 3 GAO agrees with Navy: no ice-hardened ships needed for defense

## ASX company enters North Slope; former AOGCC comm. Babcock steps up as Dunleavy chief of staff

PAUL CRAIG, VETERAN OIL AND GAS INVESTOR and independent in Alaska, has closed a deal with the small, publicly traded Australian oil company Elixir Petroleum Ltd. for the South Nanushuk prospect.

Elixir, which Craig first hinted at in the July 3 edition of Petroleum News, has purchased 100 percent working interest in the 35,423-acre parcel, which lies about 20 miles south of Armstrong's Nanushuk discovery at Horseshoe, west of the central North Slope.

Elixir renamed the prospect Project Peregrine.

see INSIDER page 11



## Oil price tumbles amid uncertainty over Iran, global demand growth

Having in early October attained levels in the mid \$80s, the price per barrel of Brent crude has fallen again, dropping to just over \$70 at the beginning of November. And within that overall trend, there has been price instability, in response to geopolitical developments and the related potential impacts on oil supply and demand. In the latest twist, the Organization of the Petroleum Exporting Countries' oil market report for November has predicted that the rate of increase in global oil demand will slow in the coming months, a prediction that has put further downward pressure on the oil price.

### Up and then down

After climbing steadily in the spring and early summer, the

see OIL PRICES page 10

## BLM sets Dec. 12 sale date for NPR-A; 2.85M acres, 254 tracts

The federal Bureau of Land Management has set Dec. 12 as the sale date for its National Petroleum Reserve-Alaska 2018 sale, with 2.85 million acres to be offered in 254 tracts.

As in the last couple of years, the bid opening will be via video livestream available at [www.blm.gov/alaska](http://www.blm.gov/alaska), with bid opening to begin at 10 a.m. Alaska standard time. Sealed bids must be received by 4 p.m. Alaska standard time on Dec. 10.

"The tracts offered support the Secretary's goal to strengthen our energy development," said BLM Alaska Acting State Director Ted Murphy. He said the sale demonstrates the agency's commitment to continue energy production in NPR-A "and create jobs and revenue for the State."

This sale will be the 14th in NPR-A since 1999, BLM said.

see BLM SALE page 10

## Big plans, big challenges for Canadian oil plays, market access

Two of Canada's biggest oil plays have received a long-range vote of confidence at the same time efforts to access new markets for Canadian oil have suffered more setbacks.

Imperial Oil announced a C\$2.6 billion plan to proceed with a 75,000 barrels per day oil sands operation in Alberta, while the Newfoundland government's regulatory board, for the first time in two years, has approved winning bids of C\$1.38 billion for prospective offshore exploration blocks.

Imperial said it intends to build the Aspen project, which would boost its output from the region to 300,000 bpd after a scheduled startup in 2022.

see OIL PLAYS page 8

### NATURAL GAS

# Managing the risk

RCA hears testimony on CINGSA's proposed gas storage reliability upgrades

By ALAN BAILEY  
Petroleum News

During a five-day hearing the week of Oct. 22 the Regulatory Commission of Alaska gathered testimony on proposed upgrades to the Cook Inlet Natural Gas Storage Alaska facility on the Kenai Peninsula.

CINGSA has expressed concern about its vulnerability to the failure of single items of equipment in its facility, a failure that the company says could jeopardize its ability to support high rates of gas delivery during periods of high winter utility gas demand in Southcentral Alaska. Natural gas is a vital fuel in Southcentral for heating buildings

**Enstar Natural Gas Co. is CINGSA's biggest customer and is critically dependent on CINGSA's services.**

and generating electricity.

As the Cook Inlet gas industry has matured, gas production capacity has declined. Continuing gas field development has maintained annual gas production volumes at required levels to meet the utilities' needs. But peak gas deliverability from the gas fields, the rate at which gas can be delivered to the utilities, has dropped below peak winter demand. Hence storage facilities, in particular

see CINGSA UPGRADES page 12

### GOVERNMENT

# Trudeau under fire

Encana founder: 'disastrous' carbon tax underlies Newfield Exploration purchase

By GARY PARK  
For Petroleum News

Canada is fast becoming "irrelevant" in the global energy industry under the disastrous climate-change policies of Prime Minister Justin Trudeau — a trend that has been accelerated by a US\$7.7 billion acquisition of Houston-based Newfield Exploration by Calgary-based Encana.

That blunt assessment comes from Gwyn Morgan, the founder and former chief executive officer of Encana which he had groomed to join the "biggest and the best" world energy companies.

"I'm deeply saddened that, as a result of the dis-



DOUG SUTTLES

astrous policies of the Trudeau government, what was once the largest Canadian-headquartered energy producer now sees both its CEO (Doug Suttles) and the core of its asset base located in the U.S.," he said.

### Unconventional focus

Under the blockbuster corporate deal, Encana will acquire Newfield for US\$5.5 billion in an all-share arrangement and assume US\$2.2 billion of Newfield's debt, boosting Encana's production to 577,000 barrels of oil equivalent per day, making it the second largest producer of unconventional resources after Suncor

see TAX POLICIES page 10

### GOVERNMENT

# Permitting moratorium

Dunleavy chooses Corri Feige for DNR commissioner; receives standing ovation

By KAY CASHMAN  
Petroleum News

Receiving a standing ovation at the end of his announcements, Gov.-elect Mike Dunleavy named former Division of Oil and Gas Director Corri Feige to head the Alaska Department of Natural Resources and said he would ask outgoing Gov. Bill Walker to put a freeze on the creation of any new state permitting regulations until the new administration is in place.

Dunleavy, a Republican, made the announcements during a Resource Development Council conference in Anchorage on Nov. 14 in which he repeated that Alaska would be "open for business" under "our administration," crediting his win to people in the room and Alaskans who cast their votes in the



CORRI FEIGE

Nov. 6 general election, which gave him 52 percent of the vote, 8 percent more than his lead contender.

Dunleavy said he would ask Gov. Bill Walker's administration to halt the creation of any new regulations across state departments until he takes office on Dec. 3.

He said Walker indicated he was willing to work with Dunleavy on the transition and was hopeful about Walker's response.

A Walker spokesman told the Associated Press following Dunleavy's RDC speech that the outgoing administration had had no plans to implement new regulations that would restrict resource development.

Dunleavy closed by reiterating his desire to fur-

see DUNLEAVY MOVES page 8

## ALTERNATIVE ENERGY

# Renewable energy costs continue to fall

Lazard has reported wind and solar are now cost competitive with coal and gas for power generation; energy storage costs falling

By ALAN BAILEY  
Petroleum News

Financial consulting and asset management firm Lazard has published a report indicating that renewable energy sources, in particular solar photovoltaic, or PV, and onshore wind, have become cost competitive, and in some cases cheaper, than power generated from natural gas or coal fuel. Another Lazard report shows that the cost of energy storage, primarily in the form of batteries, has also fallen significantly. Energy storage can be used to smooth out the fluctuations in energy output from intermittent energy sources such as solar and wind.

“Although diversified energy resources are still required

**“As alternative energy costs continue to decline, storage remains the key to solving the problem of intermittency and we are beginning to see a clearer path forward for economic viability in storage technologies.”**

—George Bilicic, Lazard’s Power, Energy & Infrastructure Group

for a modern grid, we have reached an inflection point where, in some cases, it is more cost effective to build and operate new alternative energy projects than to maintain existing conventional generation plants” said George Bilicic, vice chairman and global head of Lazard’s Power,

Energy & Infrastructure Group. “As alternative energy costs continue to decline, storage remains the key to solving the problem of intermittency and we are beginning to see a clearer path forward for economic viability in storage technologies.”

## An economic comparison

The economics of renewable energy operates in a different manner from that of conventional fuel-driven power generation. With very low operating costs, the cost of energy from a renewable energy system such as a wind farm consists mainly of the cost of amortizing the up-front cost of developing the facility. The cost of energy from a tradi-

see RENEWABLE ENERGY page 3

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● GOVERNMENT

# No ice-hardened ships for US Navy

GAO concurs with Navy report saying that US Arctic defense needs can be met using conventional warships, military aircraft

By **ALAN BAILEY**  
Petroleum News

The Government Accountability Office has issued a report concurring with a report published by the U.S. Navy, finding that the Navy does not require ice-hardened vessels in order to be able to execute the Department of Defense's Arctic strategy. The findings come in contrast to the strategy of the U.S. Coast Guard, which has identified the need for new polar ice-breakers, in support of the Coast Guard's Arctic mission.

The Arctic defense strategy aims to ensure the security of the Arctic region and promote defense cooperation, while also being prepared to respond to challenges, to maintain stability in the region. But the Department of Defense sees little military threat in the Arctic. And Arctic nations have made a commitment to work within a framework of diplomatic engagement.

The Navy sees itself as capable of responding to any credible military threat in the Arctic using the military assets that it already has at its disposal. The Navy's surface fleet is unsuitable for operations in sea-ice conditions, given inadequate hull strength for dealing with ice and the vulnerability of a vessel's top-side infrastructure becoming iced up. However, the Navy can operate submarines in the Arctic and could bring in military aircraft if necessary. In addition, the United States does

have Coast Guard vessels designed for Arctic operation, the Department of Defense says.

Navy officials have also commented that the features needed to make a vessel ice capable may compromise other performance characteristic of the ship, such as speed, range and motion. That in turn would impact the Navy's ability to meet its commitment to a global naval presence. The GAO also commented that the Navy has a history of facing challenges meeting shipbuilding goals and that building ice-capable surface ships would introduce new challenges in terms of cost and schedule risks.

In terms of the background to the Navy's strategy for defense in the Arctic, the GAO report comments that the extent of Arctic sea ice is on a downward trend as the region warms. Increased economic activity in the Arctic, as major sea lanes across the region open, could increase the need for military capabilities to protect U.S. interests. And there are vast undeveloped resources in the region, including oil, gas and various metals. But sea ice will remain a major challenge for decades to come, with large amounts of winter ice coupled with increased ice movement posing risks to ships operating in the region. Thus, the Navy has projected that the Arctic will remain impassable for most commercial ships for most of the year until at least 2030, the GAO says. ●

continued from page 2

## RENEWABLE ENERGY

tional power plant such as a gas-fired power station, on the other hand, is closely related to the cost of the fuel used to generate the power. To make an equitable comparison, Lazard has used the cost per kilowatt hour of electricity from a renewable source, and the marginal cost per kilowatt hour from a traditional power station. The marginal cost is the incremental cost of each kilowatt hour generated, on the assumption that the original development cost of the facility has already been recovered.

### Falls in renewable energy cost

The cost of onshore wind power now appears to have fallen to a range of \$29 to \$56 per megawatt hour, while the cost of thin film, utility scale solar PV is in the range \$36 to \$44. The cost of solar PV in a commercial or industrial rooftop application is in the range \$81 to \$170, while the cost of residential rooftop solar PV power is in the range \$160 to \$267 per megawatt hour. In some cases government subsidies for renewable energy further reduce the cost of power from these renewable sources.

By comparison, the marginal cost of power from an efficient, combined-cycle, gas fueled plant is in the range \$41 to \$74 per megawatt hour. Coal fueled power costs \$60 to \$143, nuclear power costs \$112 to \$189, and power from a gas peaking plant, designed to support peak power demand, has a marginal cost of \$152 to \$206 per megawatt hour.

The costs of solar and wind power have both fallen dramatically in the past decade, thus rendering renewable energy cost competitive with traditional sources of electricity, Lazard says.

However, the company does not suggest that this price convergence should necessarily result in all generation coming from renewable sources: Different

forms of electricity generation have different characteristics, with different advantages and disadvantage. Renewable energy for example tends to be intermittent, fluctuating with the strength of the wind or the sunlight. This intermittency typically requires counterbalancing power output from perhaps a gas-fired power generating facility that can also provide reliable, base load power.

### Energy storage

However, it is also possible to handle the intermittency of renewable energy through the use of energy storage technology, typically a battery. Essentially, a wind farm, for example, would feed its intermittent energy into a battery which can then be used as a steady source of power output — it is somewhat akin to the manner in which a car battery levels the car's electrical voltage regardless of the engine rpm. And, as Lazard now indicates in its second report, the cost of batteries has also been dropping steadily.

Lithium ion batteries, scaled up versions of batteries used in devices such as cell phones, are currently the cheapest battery option. Other options that Lazard evaluated included two different forms of lead-based battery. Lazard's report indicates that within a power generation, transmission and distribution network, the economics of battery use appear most advantageous in conjunction with a utility scale solar PV facility.

In "behind-the-meter" applications, where batteries are used in support of a commercial or residential electricity consumer's electricity supply arrangements, energy storage systems appear advantageous for commercial businesses with solar PV systems. The economics are more modest for use in conjunction with residential solar PV, the Lazard report says. ●

Contact Alan Bailey  
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## EXPLORATION & PRODUCTION

### National drilling rig count up 14 to 1,081

The number of rigs drilling for oil and natural gas in the U.S. was up by 14 the week ending Nov. 9 to 1,081. At this time last year there were 907 active rigs.

Houston oilfield services company Baker Hughes reported that 886 rigs targeted oil (up by 12 from the previous week) and 195 targeted natural gas (up by two).

The company said 74 of the U.S. holes were directional, 935 were horizontal and 72 were vertical.

Among major oil and gas producing states, New Mexico and Oklahoma were each up by four rigs; Louisiana was up by three; Colorado and Pennsylvania were each up by two; and Alaska and North Dakota were each up by one.

Texas was down by one rig and Wyoming was unchanged.

Baker Hughes shows Alaska with six active rigs, unchanged from a year ago.

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

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## ● LAND &amp; LEASING

# Lawyer: Trump exceeded power by reversing ban

By MARK THIESSEN  
Associated Press

President Donald Trump exceeded his power when he signed an executive order reversing a ban on offshore drilling in vast parts of the Arctic Ocean and dozens of underwater canyons in the Atlantic Ocean, an attorney argued in federal court Nov. 9.

Erik Grafe, an Alaska-based attorney for the environmental group Earthjustice, said Trump acted without the authority of Congress or the Constitution when he reversed President Barack Obama's drilling ban.

Grafe, the lead attorney in a lawsuit backed by nearly a dozen environmental groups, contends the Outer Continental Shelf Lands Act only allows presidents to remove lands under consideration for development, not add them back in. Only Congress has that authority, he said.

"President Trump has attempted unilaterally to undo protections that President Obama put in place. And our argument is that that action is unlawful because he lacks constitutional authority and he lacks authority from Congress," Grafe told reporters outside the courtroom in U.S. District Court in Anchorage.

## View called misinterpretation

Acting Assistant U.S. Attorney General Jeffrey Wood countered that Grafe and others were misinterpreting the intent of the law, written in 1953. He said it is meant to be flexible and sensible and not intended to bind one president with decisions made by the previous one when determining offshore stewardship as needs and realities change over time.

He said the plaintiffs were "simply wrong." The U.S. Department of Justice declined to make Wood available for comment following the hearing.

In the government's response to the lawsuit, it said only allowing presidents to take land out of consideration for development "is one-way ratchet that broadly authorizes any one President to limit the national potential for leasing, exploration, and development in the OCS for all time while simultaneously tying the hands of that same President and all future presidents, even if those limits prove unwise or contrary to the critical national priorities that OCSLA advances, including energy development and national security."

## Key part of Obama legacy

The drilling ban was a key part of former Obama's environmental legacy. The ban was intended to protect polar bears, walrus, ice seals and Alaska Native villages that depend on the animals.

In 2015, Obama halted exploration in coastal areas of the Beaufort and Chukchi seas and the Hanna Shoal, an important area for walrus. In late December 2016, he withdrew most other potential Arctic Ocean lease areas — about 98 percent of the Arctic outer continental shelf.

In the Atlantic, Obama banned exploration in 5,937 square miles of underwater canyon complexes, citing their importance for marine mammals, deep-water corals, valuable fish populations and migratory whales, according to the lawsuit.

Trump reversed the bans in April 2017.

U.S. District Judge Sharon Gleason took the case under advisement and didn't indicate when she might rule. A lease sale tentatively planned next year in the Beaufort Sea off Alaska's north coast could be affected if she rules for the environmental groups. ●

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## LAND & LEASING

### State approves Kuparuk River unit transfer

The Alaska Division of Oil and Gas said Nov. 13 that it has approved lease assignments from BP Exploration (Alaska) Inc. to ConocoPhillips Alaska II Inc., a subsidiary of ConocoPhillips Alaska Inc., for the Kuparuk River unit.

The companies said July 3 that 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 Kuparuk area acquisition was subject to co-owner pre-emption rights and regulatory approval.

In the decision on the assignment of Kuparuk oil and gas leases Division Director Chantal Walsh said BP applied to assign its interests July 17 to ConocoPhillips Alaska II Inc., a wholly owned subsidiary of ConocoPhillips Alaska. Walsh said CPAI has agreed to certain conditions, set out in a guaranty agreement dated Nov. 8 and effective July 1, the effective date of the BP-CPAI purchase and sale agreement for acquisition of BPXA's "entire working interest in the Kuparuk River Unit and certain other non-unitized leases."

ConocoPhillips was already the majority working interest owner at Kuparuk, with 55.3 percent interest, and the operator. Other interest owners include Chevron at 4.9 percent and ExxonMobil at 0.6 percent. Acquisition of BP's interests gives ConocoPhillips a 94.5 percent interest in Kuparuk.

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. That purchase had an effective date of Oct. 1, 2017.

—KRISTEN NELSON

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# Congratulations

## Hats off to Hilcorp! *Congratulations on your latest investments in Alaska!*

As previously reported in Petroleum News, Hilcorp Alaska's new oil and gas transportation arrangements, enabling the movement of oil by pipeline west to east under Cook Inlet, have gone into operation. The new pipeline arrangements come as a result of the company's cross-inlet pipeline project, a project that also involved extending the Tyonek subsea gas pipeline.

In addition, Hilcorp's Cook Inlet exploration and development plans for the next five years range from seismic and exploration drilling to maintenance activities, beginning with a lower Cook Inlet 3-D seismic survey planned for April through June 2019, followed by a geohazard survey in the fall or the spring of 2020. That work would be preparatory to exploratory wells to be drilled in the federal offshore April through October of 2020-22.



David Wilkins, senior vice president , Hilcorp Alaska

- 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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- ARCTOS Alaska, Division of NORTECH
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- Unique Machine
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- Weston Solutions

## EXPLORATION & PRODUCTION

### BP plans 533 square miles of 3-D seismic

BP Exploration (Alaska) has applied to the Division of Oil and Gas for a land use permit for a 3-D seismic program in Prudhoe Bay unit; the survey will be performed by SAExploration.

BP said the work will begin in the first week of January or when the tundra opens for winter travel and continue until completion or conditions no longer support tundra travel.

The company said SAE will use “new recording methodology to image potential targets” employing “the best available technology to acquire better quality and higher resolution seismic data.” There will be one crew.

The survey will be primarily within the Prudhoe Bay unit, BP said, although it will include portions of the Beechey Point, Kuparuk River and Milne Point units, as well as some non-unit areas.

The survey will be primarily within Prudhoe, BP said, so a gravel pad may be used for staging the camp, although a mobile sled camp may also be used; that would be located on tundra or on an ice pad.

There will also be staging areas on gravel or ice pads separate from the base camp used for resupply, space for data downloading and recharging of recording equipment.

BP said that using the independent seismic source methodology means only a single vibrator is required to travel down any source line, reducing the risk of compaction or damage to the tundra. Willow shrub stands will be identified in advance and where they can be safely accessed, trails will be marked for crews to follow; in areas where the willows cannot be traversed with larger vehicles, crews will use snow machines or foot traffic to access receiver points.

—PETROLEUM NEWS

## PIPELINES & DOWNSTREAM

# New environmental review for Keystone XL

By MATTHEW DALY  
Associated Press

In a setback for the Trump administration, a federal judge has blocked a permit for construction of the Keystone XL oil pipeline from Canada and ordered officials to conduct a new environmental review.

Environmentalists and tribal groups cheered the ruling by a U.S. district judge in Montana, while President Donald Trump called it “a political decision” and “a disgrace.”

The 1,184-mile pipeline would begin in Alberta and shuttle as much as 830,000 barrels a day of crude through a half dozen states to terminals on the Gulf Coast.

Trump has touted the \$8 billion pipeline as part of his pledge to achieve North American “energy dominance” and has contrasted his administration’s quick approval of the project with years of delay under President Barack Obama.

The Trump administration has not said whether it would appeal the new ruling. The State Department said it was reviewing the decision, but declined further comment, citing ongoing litigation.

### First proposed in 2008

The pipeline was first proposed by Calgary-based TransCanada in 2008. It has become the focal point of a decade-long dispute that pits Democrats, environmental groups and Native American tribes who warn of pollution and increased greenhouse gas emissions against business groups and Republicans who cheer the project’s jobs

and potential energy production.

U.S. District Judge Brian Morris put a hold on the project Nov. 8, ruling that the State Department had not fully considered potential oil spills and other impacts as required by federal law. He ordered the department to complete a new review that addresses issues that have emerged since the last environmental review was completed in 2014.

New topics include the cumulative effects on greenhouse gas emissions of Keystone XL and a related pipeline that brings oil from Canada; the effects of current oil prices on the pipeline’s viability; updated modeling of potential oil spills; and the project’s effect on cultural resources of native tribes and other groups along the pipeline’s route.

The review could take up to a year to complete.

### Groups had sued

Environmentalists and Native American groups had sued to stop the project, citing property rights and possible spills.

Becky Mitchell, chairwoman of the Northern Plains Resource Council, a plaintiff in the case, said her organization is thrilled with the ruling.

“This decision sends TransCanada back to the drawing board,” Mitchell said, calling the ruling “the results of grassroots democracy in action, winning for water and people.”

TransCanada said in a statement that it was reviewing the judge’s 54-page decision. “We remain committed to building this important energy infrastructure project,” TransCanada spokesman Terry Cunha said.

Environmental groups declared victory and predicted the long-delayed project will never be built.

The court ruling “makes it clear once and for all that it’s time for TransCanada to give up on their Keystone XL pipe dream,” said Doug Hayes, a senior attorney with the Sierra Club, the nation’s largest environmental group.

### Fight spans presidencies

The fight over the project has spanned several presidencies and involved standoffs between protesters and law enforcement.

After years of legal wrangling, Obama rejected a permit for the pipeline in 2015. The company responded by seeking \$15 billion in damages.

Trump signed executive actions to again advance construction of the project in 2017.

TransCanada had recently announced plans to start construction next year, after a State Department review ordered by Morris concluded that major environmental damage from a leak is unlikely and could quickly be mitigated. Morris said that review was inadequate.

TransCanada has promised continuous monitoring and says automatic shut-off valves would help officials quickly identify a leak or rupture.

Tom Goldtooth, executive director for the Indigenous Environmental Network, a Minnesota-based advocacy group that also is a plaintiff in the case, said the ruling was a win for tribes, water “and for the sacredness of Mother Earth.”

He called the pipeline “the enemy of the people, the climate and life as we know it. It must be stopped.” ●



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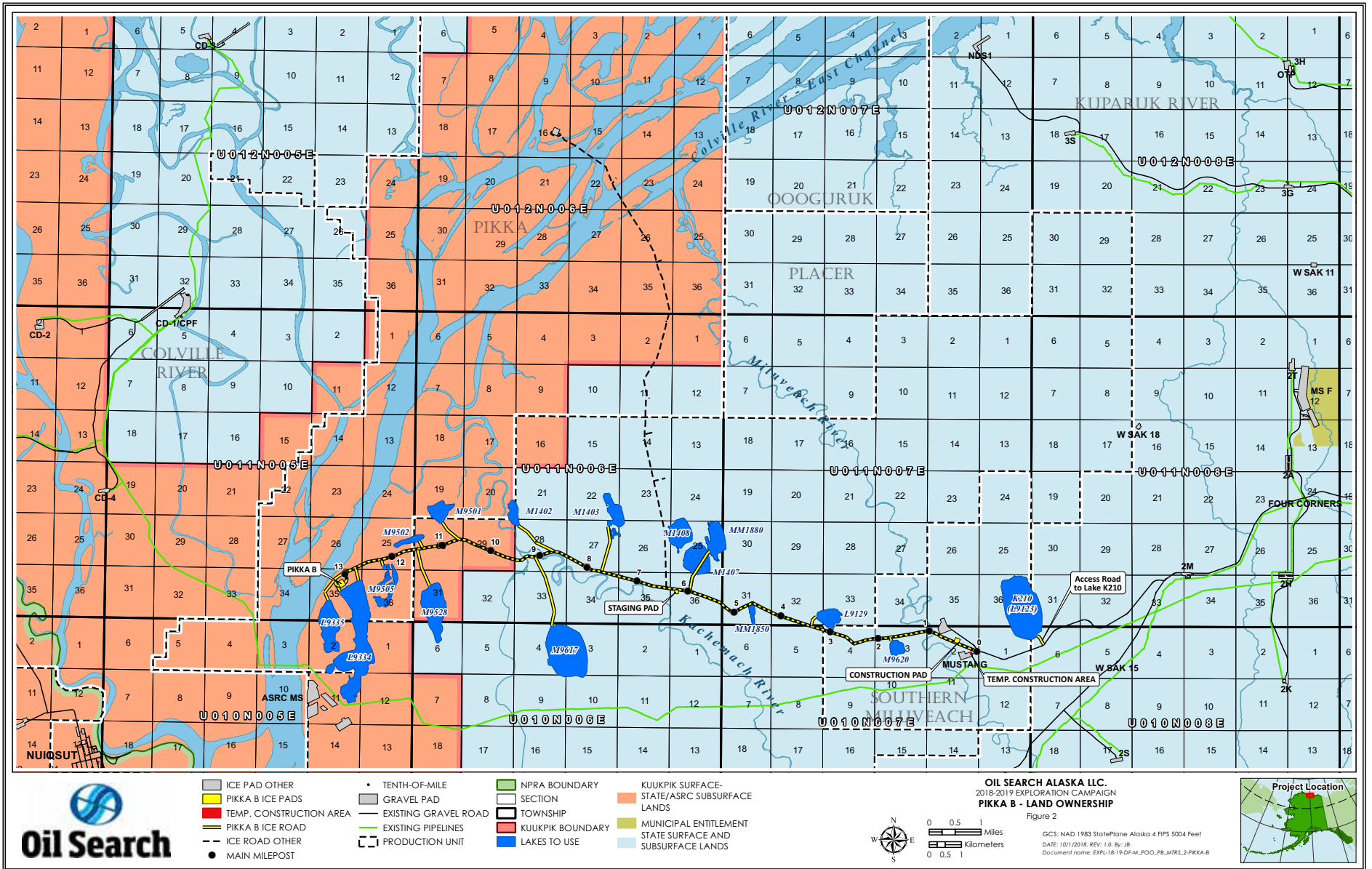
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Oil Search's plan for the drilling of the Pikka B well involves the construction of a 13-mile ice road, west from the gravel road to Brooks Range Petroleum's Mustang field gravel pad.

• EXPLORATION & PRODUCTION

# Oil Search changes plan for Pikka B well

By ALAN BAILEY  
Petroleum News

According to a revised plan of operations approved by Alaska's Division of Oil and Gas, Oil Search has changed its plan for the drilling of the Pikka B well, in its North Slope Pikka unit this winter. The Pikka B well is one of two exploration wells that Oil Search plans to drill this winter. The other well is the Pikka C well. Oil Search plans to drill sidetracks to each well, in addition to drilling the main well bore. The Pikka B location is on the east side of the Colville River, towards the southern end of the Pikka Unit. Pikka C will be drilled in a more central location in the unit.

The revised plan of operations places the Pikka B well-

*The revised plan of operations places the Pikka B wellhead 375 feet farther from the river than previously anticipated.*

head 375 feet farther from the river than previously anticipated. Revisions to the plan also include some updated environmental mitigation measures. Oil Search has also made some changes to land status specifications in the plan, to reflect some changes in lease ownership.

A 13-mile ice road will connect the planned Pikka B ice drilling pad to an all-season gravel road that leads to Brooks Range Petroleum's Mustang field gravel pad. The well and sidetrack will be drilled to vertical depths of some 7,000 feet and will be plugged and abandoned following comple-

tion and flow testing, Oil Search's revised plan says. The well surface location is about 5.5 miles northeast of the village of Nuiqsut.

Oil Search is in the process of planning a major oil field development in the Pikka unit, mainly developing a large oil resource in the Nanushuk formation. The company has indicated that the drilling planned for this winter is intended to further appraise the subsurface reservoir, prior to the start of front-end engineering and design for the development project. The U.S. Army Corps of Engineers recently published the final environmental impact statement for the Pikka development but the Corps has yet to issue a record of decision authorizing a development option. ●

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## DUNLEAVY MOVES

ther develop the state's natural resources as a way to create jobs and boost the economy. He said the focus would be to "reform" regulations in a way to help streamline the process for developers of all resources, including oil and gas, mining, tourism and fishing.

Speaking to reporters, Feige mentioned looking at regulations and existing programs as the new administration seeks to maximize resource development.

Feige has spent her 34-year career, 21 of those in Alaska, working in the energy sector. A geophysicist and engineer, she has more than 20 years of management-level experience. During her 21 years in Alaska she has worked for and on behalf of small and mid-size independents, looking to level the playing field with the major oil companies in the state and advancing conventional and non-conventional energy projects on the North Slope, Cook Inlet and Southwest

Alaska. In April 2015 when Walker appointed her director of the Division of Oil and Gas, which falls under DNR, the agency said her company management positions had been with Pioneer Natural Resources and Linc Energy.

Feige also owned a consulting group involved in energy projects such as independent Malamute Energy's Umiat prospect and Evergreen Resources Alaska's coalbed project.

DNR said her skills included project management, permitting, government and regulatory affairs, stakeholder relations and remote Alaska logistics.

Before coming to Alaska, Feige worked as a geophysicist on exploration programs around the world.

### Brain drain: Myers, Rutherford, Feige walk

Feige resigned as director of the division in October 2016 following in the footsteps of two of her superiors, DNR Commissioner Mark Myers and Deputy

Commissioner Marty Rutherford, who served briefly as interim commissioner.

At the time several legislators, Democrats and Republicans alike, such as Andy Josephson and Mike Chenault referred the three resignations as serious talent losses for the state of Alaska.

In an October 2016 interview, chair of the Arctic Council and former two-term Senate President Drue Pearce spoke to Petroleum News about the resignations of Myers, Rutherford and Feige. A former member of the Alaska Gasline Development Corp. board, Pearce said "I think all of these losses are indicative of what concerns me with the administration and the governor's approach ... to the gas line. He has world-class people and then he doesn't listen to them. I do know Mark Myers, I know Marty and I know Corri, and I know others who have not been allowed to stay including my fellow board members who were thrown out when the governor threw me out. ... He dismantled a world-class team, and like I said, that

team had made tremendous progress. ... He's had five or six different people in charge of AKLNG since he came into office and he hasn't been in office more than two years. It seems that the governor is single minded, laser focused on building a pipeline."

During Feige's tenure at the division, the state maintained its push for more information from top North Slope companies on plans to support a future potential major gas sale.

Walker has been pursuing a liquefied natural gas project and state-sanctioned AGDC has been courting Chinese partners as part of that effort. Most recently AGDC created the holding company 8-Star Alaska LLC. The state owns AGDC, which in turn owns 8-Star Alaska, where it will keep any equity investments it gets and remain a tax-exempt entity.

Feige's appointment is subject to legislative confirmation. ●

Contact Kay Cashman  
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## OIL PLAYS

The company has based its plans on gaining access to new pipeline capacity, which observers predict will ease export bottlenecks and restore the balance between bitumen and conventional crude.

But those hopes coincided with another in the string of delays over the past 11 years for TransCanada's 800,000 bpd Keystone XL pipeline connecting to the Texas Gulf Coast.

This time a Montana court judge ordered a halt to XL construction, ruling that consultation with state landowners and indigenous tribes had been inadequate.

At the same time, Michigan's newly elected Gov. Gretchen Whitmer promised

she would take immediate action to "decommission" Enbridge's 540,000 bpd Line 5, which is designed to run between Lake Michigan and Lake Huron to Imperial's refinery and petrochemical complex in Ontario.

Enbridge would not say whether it believes Whitmer can scuttle the C\$500 million project.

Imperial Chief Executive Officer Rich Kruger told reporters his company believes the "dust will settle" on transportation issues during the three and a-half year construction period for Aspen.

"We're confident it will be a globally competitive investment," he said, while acknowledging that Imperial is counting heavily on governments to ensure pipelines are built.

Kruger also noted that the Aspen operation will reduce carbon emissions and water use by up to 25 percent by deploying "pace-setting or new technologies" that creating a "place for those select projects to compete in the global energy world."

### Aspen called 'watershed moment'

Kevin Birn, IHS Markit's director of Canadian oil sands, said the Aspen plan is "a watershed moment in terms of sanctioning of a greenfield project (and) the promise of emissions intensity reductions."

He said the cost of adding new production from Aspen is about 30-40 percent lower than industry averages seen during the boom times in 2014.

Newfoundland's Natural Resources Minister Siobhan Coady said the successful

bids in her province include a record single offering of C\$621 million from Australian-based BHP Billiton Petroleum.

However, she cautioned that the investment spending, assuming the proposals resolve environmental, safety and resource-based concerns and further exploration drilling in the deepwater prospect, would be extended over nine years.

One observer, Rob Strong, underscored that aspect by noting that six drilling projects are currently waiting for approval from the Canadian Environmental Assessment Agency, estimating the latest bids could take three years to get their approvals in place.

—GARY PARK

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## INTERNATIONAL

### Iran oil minister: US waivers not enough

Iran's oil minister on Nov. 7 predicted a painful time ahead for international oil customers as U.S. sanctions take hold, saying waivers that Washington granted to eight major oil-importing countries are not enough for market demands.

Iranian state TV quoted the minister, Bijan Zanganeh, as saying he sees the months ahead as "painful months for oil consumers."

Zanganeh claimed the Trump administration may have been able to "superficially" bring fuel prices down ahead of the U.S. mid-term elections but that there's bound to be a hike in prices in the future.

The United States on Nov. 5 re-imposed oil and banking sanctions on Iran that were lifted under the 2015 nuclear deal but granted waivers to eight major importers to continue buying Iranian petroleum products without penalty for another six months.

#### Increases cited

Also Nov. 7, Iran's representative to OPEC, Hossein Kazempour Ardebili, claimed that Russia and Saudi Arabia were helping Trump by increasing their own production to keep oil prices low. Trump repeatedly has asked oil producers to pump more crude to lower prices.

The latest batch of U.S. sanctions severely impacts Iran's oil industry, the major source of the country's foreign revenue. Tehran worries OPEC and non-OPEC countries such as Russia will increase their production to fill the gap in response.

On Nov. 6, Zanganeh, the oil minister, wrote a letter to the OPEC chief, saying that some members of the so-called Joint Ministerial Monitoring Committee — which consists of all OPEC and non-OPEC countries — "openly" take sides with the United States on the matter of sanctions on Iran.

The committee is due to hold a meeting the week of Nov. 12 in Abu Dhabi, the capital of the United Arab Emirates, an ally of Iran's regional rival Saudi Arabia.

—ASSOCIATED PRESS

## GOVERNMENT

### AOGCC receives petition on gas flaring

The Alaska Oil and Gas Conservation Commission has received a petition for a hearing to bar all non-emergency venting and flaring and has scheduled a public hearing for Dec. 18 at 10 a.m. at its Anchorage offices.

The petition request came from Kate Troll who told the commission she collected signatures at the Rise for Climate Rally in Anchorage Sept. 8.

The petition asks the commission to prevent all non-emergency venting and flaring from Alaska oil and gas wells, noting that "methane is a potent greenhouse gas, roughly 30 times more potent than carbon dioxide."

The commission's existing policies, the petition says, call for minimizing waste, but "Stopping the venting and flaring of methane on the North Slope and Cook Inlet is considered to be the low-hanging fruit for Alaska to take a meaningful step in reducing harmful greenhouse gas emissions."

The commission revised its flaring regulations effective Jan. 1, 1995. "The goal of the flaring oversight program is the elimination of unnecessary flaring whenever possible," the commission says on its website.

Under the revised regulations, operators must report all flaring events in excess of one hour.

Those events are analyzed and investigated if necessary, the commission said, and operators may be penalized if it is determined waste has occurred.

The commission's current regulations allow no gas release except for up to an hour for emergencies or operational upsets or for planned lease operations authorized for safety; to purge or test a safety flare system; and de minimus venting incidental to normal operations. The regulations also say the commission can authorize flaring for more than an hour under specific circumstances.

Prior to the 1995 revisions the commission penalized facilities for exceeding set daily limits in flaring.

—KRISTEN NELSON

# Petroleum

## Oil Patch Bits

### NORTECH announces addition of Foltmar

NORTECH Inc. said Nov. 11 that it is pleased to announce Mikkel S. Foltmar has joined to its team in the position of environmental engineer in training for NORTECH in the state of Alaska. Foltmar graduated from the Technical University of Denmark in 2014 with a MSc. Eng. in environmental engineering. He has gained experience with environmental monitoring, marine terminal operations, and oil spill prevention and response. Foltmar has increased his expertise with SPCC plans, oil discharge prevention and contingency plans, water and wastewater systems and hazardous materials sampling. He has been directly involved in SPCC related tank inspections and has also worked on projects involving oily

ballast water treatment systems and secondary containment through committee meetings and site visits to the Alyeska Valdez Marine Terminal. He has attended the AMOP Technical Seminar since 2015. NORTECH is pleased to have him on board and looks forward to incorporating his skills and knowledge as he pursues his professional engineering license with the company.

NORTECH Inc. is a multi-disciplined consulting firm with registered professional engineers, certified industrial hygienists, and certified tank and piping inspectors who are available to provide environmental, engineering, oil spill contingency planning, water and wastewater, regulatory compliance, industrial hygiene, inspection, and health and safety professional consulting services throughout Alaska.



MIKKEL S. FOLTMAR

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

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## BLM SALE

There are 199 currently leases covering 1.38 million acres in NPR-A. Bids received in the previous 13 sales generated more than \$282 million, half of which was paid to the state of Alaska.

For high potential tracts, with a tract size of some 5,760 acres, the minimum bid is \$25 per acre or fraction

thereof and the fixed royalty rate is 16.67 percent, with a rental rate of \$5 per acre or fraction thereof. For low potential tracts, with tract sizes of some 11,500 acres, the minimum bid is \$5 per acre or fraction thereof, the fixed royalty rate is 12.5 percent and the rental rate is \$3 per acre or fraction thereof.

BLM said in its detailed statement of sale that while it has established minimum bids: "To ensure that the Government receives fair market value for the conveyance of lease rights in this sale, each Tract receiving

a bid will be evaluated to determine its fair market value. Any bid which does not meet or exceed the fair market value may be rejected."

Details on the sale, including where to submit bids and a map showing tract locations, are available on BLM's Alaska website: [www.blm.gov/alaska](http://www.blm.gov/alaska).

—KRISTEN NELSON

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## TAX POLICIES

Energy on the continent.

Analysts estimate the transaction will flip Encana's production profile from being 59 percent weighted in Canada to about 62 percent in the U.S. led by prized shale holdings in the Anadarko Basin.

Encana got an immediate chilly reception on the markets, with its shares falling 12 percent.

"Investors will struggle, at least initially, just accepting that shift, because they really haven't talked about having to add a core play," said Jennifer Rowland, an analyst with Edward Jones.

She said that the portfolio repositioning that Suttles launching when he joined Encana in 2013 points to the Newfield deal as "an acquisition from strength."

### Encana had been on hunt

Robert Morris, a Citi Research analyst, said his firm was aware that Encana was on the hunt for another core North American oil play, but wasn't expecting what occurred, although he suggested Encana's experience in Alberta and Texas would "drive better performance and more efficient development" of the Anadarko play.

Suttles said Encana will continue to further narrow its focus to three core areas

— Montney in Western Canada, Permian and Anadarko — after it closes the Newfield takeover, while the Eagle Ford (in Texas), Duvernay (in Western Canada) and North Dakota Williston formation would be used to "support value by generating significant free operating cash flow."

Not everyone shares Morgan's bleak assessment, with Rowland doubting Encana will engage in a wholesale relocation of its headquarters, even though it will double its U.S. payroll to about 2,200, leaving about 1,100 employees in Canada.

"I'm not sure what they would gain versus what they would lose by burning that bridge," she said.

### High-tech drilling technology

Suttles said Encana will be able to

employ the same high-tech drilling technology on Newfield properties that it has successfully used in its other operations.

"If you go back to our strategy work in 2013, we identified (Anadarko) ... as a premium basin. We think it's ready to take off," he said.

Although he relocated to Denver earlier this year, Suttles did not get drawn into debate over Morgan's claim of a drain on Canada's oil patch presence.

He described the imminent transformation of Encana as a "headquarterless model ... we'll have three locations: Calgary, Denver and Houston. Actually, the work will happen where the people area, as opposed to the opposite." ●

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## OIL PRICES

oil price took a tumble, beginning around the beginning of May, with OPEC subsequently pledging to increase its production levels. The price began to climb again in mid-August, reaching a peak of around \$85 in early October. One issue that appears to have driven this rise was the U.S. plan to re-impose sanctions on Iran. When that threat was softened, with some Iranian oil exports exempted from sanctions, the price dropped again, especially as Saudi Arabia and Russia maintained high production rates.

OPEC's November oil market report says that, while global economic growth is forecast to remain at around 3.7 percent this year, the forecast for 2019 has dropped slightly to 3.5 percent. OPEC attributes the predicted slowdown to rising trade tensions, monetary tightening (especially in the United States), and rising challenges faced by developing

**An OPEC graph of world oil supply and demand levels suggests that supply and demand have remained close to being in balance for much of this year.**

economies. Forecast growth rates of 7.5 percent and 6.5 percent in 2019 in India and China are expected to be offset by lower growth rates elsewhere: 2.6 percent in the United States and 1.7 percent in the Eurozone, for example.

So, in parallel with that softening of economic growth, OPEC now anticipates a slight downturn in the global demand for oil.

### Growing supply

On the supply side of the oil market, OPEC anticipates growth at a slightly higher rate than had previously been expected. The United States, Canada, Kazakhstan and Russia are all expected to increase production for the remainder of 2018. And OPEC increased its production rate in October. In 2019, with the United States, Brazil, Canada and the United Kingdom all expected to increase oil production, non-OPEC production is expected to rise from an average of 59.86 million barrels per day in 2018 to 62.09 million barrels per day, the OPEC report says.

An OPEC graph of world oil supply and demand levels suggests that supply and demand have remained close to being in balance for much of this year. The balancing of the market has also resulted in a drawdown of oil stocks to more normal levels, following the major overhang in stocks that accompanied the oil price crash of 2014 and thereafter.

The Alaska oil industry and state oil revenues have been benefiting from this year's buoyant oil prices. However, the major oil companies are not making assumptions about future pricing trends: Both ConocoPhillips and BP have said that their investment planning is based on relatively low oil prices, with higher prices being viewed as a bonus, should the global oil market tighten.

—ALAN BAILEY

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**INSIDER**

Armstrong and Repsol's Nanushuk leases at Horseshoe and north in the Pikka unit are now operated by Oil Search, another Australian company and Armstrong and Repsol's partner.



PAUL CRAIG

According to a Nov. 14 statement by Elixir, the price for the parcel was US\$653,859, which has been placed in escrow awaiting confirmation that the lease assignments have been approved by the U.S. Bureau of Land Management. Elixir has posted a US\$300,000 cash backed bond with the agency.

"With the acquisition of the Alaskan leases now completed, work has begun on interpretation of all the existing data with significant progress being made on our Alaskan exploration strategy over the last two months," said Elixir's chief executive, Managing Director Dougal Ferguson.

—KAY CASHMAN

**Babcock takes 2nd most powerful spot in Dunleavy admin**

AT THE RECENT ALASKA MINERS CONVENTION in Anchorage, Gov-elect Mike Dunleavy announced, "Alaska is open for business."

The pro-development Republican, who takes office Dec. 3, is well-known for his knowledge and support of mining, as well as his advocacy for resource development of all kinds, including oil and gas.

But this edition of Oil Patch Insider is devoted to a key member of his team, Tuckerman



TUCKERMAN BABCOCK

**Babcock, head of the Republican Party in Alaska until resigning after Dunleavy named him head of the transition team, has an oil and gas background, being a former commissioner of the Alaska Oil and Gas Conservation Commission, or AOGCC.**

Babcock, who Dunleavy named Nov. 8 as his chief of staff, which is considered the most powerful position in any administration, second only to the governor.

Babcock, head of the Republican Party in Alaska until resigning after Dunleavy named him head of the transition team, has an oil and gas background, being a former commissioner of the Alaska Oil and Gas Conservation Commission, or AOGCC.

The governor-elect's "goal" for resource investors to view Alaska as "a serious player in this country and this world" will likely be well served by Babcock's knowledge of the petroleum industry, as will Dunleavy's desire of *not* making the transition to one of the globe's top players "a slow climb."

A Republican-led House and Senate should make the task even easier.

**Babcock appointed to AOGCC by then-Gov. Frank Murkowski**

Babcock was appointed as the public member of the three-person AOGCC board in 1993 by then-Gov. Frank Murkowski and served for three and a half years.

Although Babcock currently lives on the Kenai Peninsula and plans to move to Juneau, he has also lived in the Matanuska-Susitna Borough communities of Palmer and Wasilla. His time on the commission was best summed up in a recent article in the local newspaper, the Mat-Su Valley Frontiersman:

"The choice of Babcock for chief of staff is raising eyebrows even among Republicans ... because of Babcock's often-combative style as the GOP's chief political operator. However, in interviews no one has discounted Babcock's

ability in political strategy, intelligence and hard work."

"Babcock also got high performance marks for one job in state government he held, as one of three commissioners on the Alaska Oil and Gas Conservation Commission, according to people familiar with his work," the newspaper reported.

"AOGCC's function in regulation of oil and gas development is highly technical and Babcock is credited with working hard to understand and deal with complex industry issues. He played a key role in resolving a highly contentious issue before the commission that involved a rare dispute between the two major North Slope operators, BP and ARCO Alaska (now ConocoPhillips) over the handling of natural gas liquids in the Prudhoe Bay oilfield," the Frontiersman reported.

Babcock also knows how to steer clear of conflict of interest positions as evidenced in a Nov. 16, 2003, article in Petroleum News in which he urged then-AOGCC member Randy Ruedrich, who was chairman of the Republican Party in Alaska at the time, to choose between the two positions and resign from one, which he himself had done in 1993 when he was appointed to the commission.

Being party chairman is all about taking partisan positions, pushing candidates into office and raising money — sometimes from oil companies, Babcock said, noting that work cannot be separated from the commissioner's job as a quasi-judicial officer who regulates the activities of oil and gas companies.

Ruedrich resigned from the commission after meeting with Murkowski.

**Other professional experience, personal life**

Babcock has been involved in Alaska

politics since 1978, beginning with his first job as a clerk in the Division of Elections.

He has served as party precinct officer, district chairman, SCC bonus vote, state vice chairman and briefly as state chairman (2000).

He was co-chairman with U.S. Senator Frank Murkowski of Victory '96 (Dole Presidential campaign in Alaska) and was part of the state leadership team for the Steve Forbes Presidential campaign in 1996 and 2000.

Babcock has been actively involved in campaigns for school board, assembly, state House, state Senate, U.S. Senate and governor.

He served as executive director of the governor's reapportionment board during the 1991-92 redistricting cycle. He also served as special assistant-constituent relations and director of boards and commissions for former Gov. Walter J. Hickel. He has worked as a legislative aide in the Alaska Legislature for three representatives and two senators.

His other professional experience included working as manager of government and strategic affairs, human resources director, and assistant manager at Matanuska Electric Association (1999-2009).

Babcock earned a B.S. in government from Wesleyan University in Middletown, Connecticut, in 1983.

He is married to Kristie Babcock and together they have eight children. Kristie has been a State Farm agent and for a few years starting in 2009 Tuckerman was a full-time parent.

—KAY CASHMAN

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## CINGSA UPGRADES

CINGSA, play a vital role, warehousing summer produced gas that can be used to boost gas deliverability during the winter.

CINGSA wants to drill two new wells, to reduce dependence on a single well that now accounts for about 44 percent of the deliverability of the facility's five wells. The company also wants to add technology for water management in one existing well, the installation of an additional dehydration train and the installation of a new turbine gas compressor.

### Pre-approval of project prudence

Worried about obtaining eventual RCA approval of recovering the estimated project cost of \$41 million from the rates that it charges customers for storage usage, CINGSA has asked the commis-

**CINGSA wants to drill two new wells, to reduce dependence on a single well that now accounts for about 44 percent of the deliverability of the facility's five wells.**

sion for pre-approval of the prudence of the project — a utility such as CINGSA does not need approval for a project of this type, but the company will require RCA approval of the resulting changes to gas storage rates. If the RCA were then to determine that the project had not been prudent, CINGSA and its parent company would end up saddled with the upgrade costs.

The gas storage fees that CINGSA charges become a factor in the prices that Southcentral residents and businesses pay for gas and electricity.

An RCA pre-authorization request of this type is very unusual. However, there was a somewhat similar case a few years ago when Chugach Electric Association and Municipal Light & Power sought and obtained pre-approval of the prudence of building a major new power generation plant in Anchorage.

### Questions of legality

There was discussion during the CINGSA hearing about whether it is appropriate or legally necessary for the RCA to adjudicate in a case of this type. It appears that, in its deliberations, the commission could opt to issue a decision, or could simply decide not to make a ruling.

There was also discussion around the scope of any decision that the commission may make. There appeared to be general agreement that the decision

needs to relate to the prudence of carrying out the project, and not to the prudence of how the project may be managed and how much it ends up costing. In other words, when the recovery of the cost of the project inevitably appears in a CINGSA rate case, the commission could at that stage decline to allow CINGSA to recover all or part of the project cost from storage rates, on the grounds that the costs are unreasonable. But, if the commission has pre-ruled that the project is prudent, the commission would not be able to reject rate recovery on the basis that the project should not have been carried out.

### Importance to Enstar

Enstar Natural Gas Co. is CINGSA's biggest customer and is critically dependent on CINGSA's services. The two companies are affiliates with shared management. Enstar says that it strongly supports the upgrade project, to ensure the reliability of gas supplies to its customers. During the hearing Lindsay Hobson, Enstar communications manager, cited as an example of the critical importance of the storage facility the gas supply situation on Jan. 19, 2017, when demand for Enstar gas hit an all-time high of 253 million cubic feet for the day. Enstar had made upgrades to its facilities to boost its gas deliverability capabilities. Nevertheless, on that particular day 107 million cubic feet of that 253 million cubic feet total had to come from CINGSA's facility. And, in the event, Enstar succeeded in maintaining gas supplies to its customers without interruption, Hobson said.

Hobson commented that if there were to be an interruption to gas supplies to Enstar's customers it would take days and perhaps weeks to restore services, given the need to purge the gas lines and manually restart the gas supply at each impacted home.

Anchorage electricity utilities Chugach Electric Association and Municipal Light & Power both expressed views that they do not object to CINGSA's request for approval of the prudence of the storage facility upgrade. Tara Kaushik, attorney representing Chugach Electric, told the commission that Chugach Electric recognizes that Enstar is CINGSA's largest customer and that Chugach Electric cannot say whether the project is required to meet Enstar's needs.

### Opposition from Homer Electric

Homer Electric Association, however, opposes RCA approval of the project. Attorney Pamela Anderson, representing Homer Electric, said that CINGSA's track record of reliable and uninterrupted service demonstrates that upgrades to the facility are not necessary. Even on that peak day in January 2017, the rate of delivery of gas from the facility was well below its design maximum of 150 million cubic feet per day, she said. Anderson also claimed that, even if the top delivering well in the CINGSA facility were to go out of action, the facility could continue to operate up to its design capacity for up to 21 days, using its four remaining wells.

CINGSA has said that its upgrade plan in part results from patterns of storage facility usage that have differed from what was originally expected and from an assessment of the risks that the facility faces. The company argues that, regardless of the reliability of the service in the past, it is prudent to take steps to guard against future problems. ●

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