CINGSA plans upgrades

Requests RCA approval of facility changes to assure gas storage reliability

By ALAN BAILEY
Petroleum News

Cook Inlet Natural Gas Storage Alaska LLC, or CINGSA, is concerned that its gas storage facility on the Kenai Peninsula is vulnerable to the failure of single item of equipment or of a storage well, a failure that would jeopardize the ability of the facility to support utility gas deliverability needs during cold winter weather. As a consequence, the company has asked the Regulatory Commission of Alaska for approval of some upgrades to the storage facility, to add some redundant features that would guard against single points of failure at times when the facility plays a vital role in underpinning gas supplies for heating buildings and generating power in Southeastern Alaska.

However, the manner in which customers use the storage facility has turned out to be different from what CINGSA had anticipated when the facility was designed.

State extends Great Bear leases in exchange for drilling commitments

Having applied for and been granted three-year extensions to a number of North Slope leases that had been due to expire on April 30, Great Bear Petroleum has decided to focus its future efforts on two blocks of leases: one straddling the Dalton Highway south of Prudhoe Bay and one south of the Colville River unit, Pat Galvin, the company’s chief commercial officer and general counsel, told Petroleum News in a May 14 email. The company anticipates re-entering and testing its Alkaid No. 1 well, to the west of the Dalton Highway, drilling two new exploration wells by June 2019 and an additional exploration well by June 2020, Galvin said.

Applied for extensions

In October 2017 Great Bear applied to Alaska’s Division of Oil and Gas for three-year extensions to four blocks of leases, all of which had been issued in 2011 with seven-year terms — these leases had been due to expire on April 30 of this year. In March and early April the division agreed to extend all of the leases, which do not now expire until April 30, 2021. The State approves temporary facility installation for production this year

By ALAN BAILEY
Petroleum News

Alaska’s Division of Oil and Gas has approved a plan filed by Brooks Range Petroleum Corp. to install a temporary production facility in the Mustang field, to allow some early oil production to start, potentially in late October of this year, before permanent production facilities go into operation. The idea would be to truck the produced oil to a designated point of sale or processing facility, until the permanent pipeline from Mustang to the nearby Alpine pipeline has been completed. Brooks Range has been planning on first oil from Mustang in the first quarter of 2019, following installation of permanent facilities and the hookup of the pipeline by the end of this year. However, the company’s application for early production facility approval indicates that the tie-in of the field to the Alpine line has not yet been scheduled.

Pipeline factions dig in

Canadian government likely to boost powers to advance Trans Mountain project

By GARY PARK
For Petroleum News

Warring factions are fast becoming more entrenched as the battle over the Trans Mountain pipeline project approaches a May 31 drop-deadline date set by Kinder Morgan.

Other than Kinder Morgan, which says the protests present an “unquantifiable risk” to the project, the most key player is the Canadian government, whose Natural Resources Minister Jim Carr has promised early federal legislation that is designed to crush the British Columbia government’s court case to control the flow of crude oil through the province. "We think that federal jurisdiction is clear; we’re looking at legislation to see how we can enhance that," Carr said.

The most significant development is the emergence of professional protesters, who are setting up a permanent camp on public land near the Burnaby tanker terminal in the port of Greater Vancouver.

He would not comment on the exact nature of the legislation, but Bruce Ryder, a law professor at Toronto’s York University, said the government can use legislation to signal that it will not allow provinces or municipalities to frustrate the pipeline construction.

Although Kinder Morgan has yet to disclose exactly what will happen if the government fails to...
Syrian Kurds build a ramshackle industry

By HUSSEIN MALLA
Associated Press

Driving along the roads of northeastern Syria, one would imagine there is a massive economic boom in the war-eroded area.

Convoys of oil trucks, as many as 50 trucks in each, line the highways. They haul oil extracted from fields held by the U.S.-backed Kurds, transporting it across the territory they control since driving out the Islamic State group.

But the oil industry is in shambles. After seven years of war, infrastructure is broken down and antiquated, there is no investment in the fields and the fight over control of oil resources is far from over.

Along the roads, old-style pumpjacks bob up and down on wells. Miles away on the landscape, dark pillars of smoke rise from primitive, ramshackle refineries that look like giant piles of scrap metal. At one, workers covered in sludge operated burners to separate oil components. Large puddles of leaked crude dot the area.

The workers are locals, many of them farmers who can no longer earn a living from their fields. Kurdish authorities sell crude to private refiners, who then sell fuel and diesel back to them.

For maintenance, workers use spare parts that often date back to the 1960s, piled up in nearby warehouses. No new exploration is possible, so old wells are drying up, they say.

Control seized in 2012

The Kurdish self-rule administration seized control of these oil fields in northeastern Hassakeh province after the government pulled out of most of the Kurdish-majority regions in 2012 to fight rebels elsewhere.

Abdul-Karim Malak, the Kurdish oil minister, said oil and gas are the self-rule administration’s main revenue source, though he wouldn’t divulge figures.

The Syrian government has vowed to eventually retake all the oil fields, but for the time being there is a quiet arrangement between it and the Kurds. Damascus buys much of the surplus oil that the Kurdish-run areas don’t use. Also, many employees of the government oil company have returned to work, still receiving their salaries from Damascus.

Malak pointed to the lack of investment. Without modern refineries, “we are polluting the air here, we are polluting the environment,” he said. “But we are forced to do this.” If developed, he said, oil fields they control can produce more than half of Syria’s needs.

He said discussions with the Americans about future investment are ongoing, adding, “Our contracts will go to those who support us politically.”

Race for more territory

But the two sides have been in fierce competition farther down the Euphrates River in eastern Syria. Over the past months, the Kurds and government forces raced to capture IS territory, both aiming for the country’s biggest oil fields, in Deir el-Zour province.

The Kurds got there first, seizing the fields from IS. But they haven’t been able to operate them, because they are still battling IS remnants and have come under attack from government forces just across the Euphrates.

The Kurds eventually may try to keep oil fields or use them as a bargaining chip in negotiations. In the meantime, they are exploiting them as best they can.
State approves, partially approves, 4 PODs

Hilcorp Granite Point, North Cook Inlet, Trading Bay plans OK’d; Middle Ground Shool OK’d for A, C platforms; not for Baker, Dillon

By KRISTEN NELSON
Petroleum News

The Alaska Department of Natural Resources, Division of Oil and Gas, has approved three Cook Inlet plans of development submitted by Hilcorp Alaska and partially approved a fourth.

In May 14 decisions, the division approved the company’s 2018 plans of development for the Granite Point unit, the North Cook Inlet unit and the Trading Bay unit.

It partially approved the POD for the Middle Ground Shool unit.

Middle Ground Shool

The Middle Ground Shool unit, formerly known as the South Middle Ground Shool unit, is a combination of the South Middle Ground Shool unit, the North Middle Ground Shool field and the Middle Ground Shool field. There are four platforms in the unit, A, C, Baker and Dillon. During the 2017 calendar year, production from the A platform averaged 165,000 standard cubic feet per day of natural gas and 562 barrels per day of oil, while C platform production averaged 63,000 cubic feet per day of natural gas and 264 bpd of oil, the division said.

The Baker and Dillon platforms did not produce in 2017.

The division said Hilcorp proposed to sidetrack three existing wells from the C platform in its 2017 POD, but no drilling was done due to a gas pipeline leak that shut down production from C platforms.

“Because of the leak, pipeline inspections were completed and repairs were made,” the division said, with production resuming in late 2017.

In its 2018 POD Hilcorp proposed continuing production from the A and C platforms, with maintenance inspection work planned for the A and Baker platforms.

The division said continued production from the A and C platforms will bring economic benefit to the state but said “Hilcorp’s lack of work for the Baker and Dillon platforms and lack of production” from those platforms does not support the best interests of the state.

Approval has been granted only for the Granite Point unit.

Granite Point

The Granite Point unit was formed in 2015 when the South Granite Point unit was expanded to include the Granite Point field and renamed the Granite Point unit.

There are six offshore state oil and gas leases in the unit, and two participating areas — the Hemlock Sands and Granite Point Sands — with operations from the Granite Point, Anna and Bruce platforms. Processing is at the Granite Point production facility.

Granite Point production began in 1967 and cumulative production through the end of 2017 was 137.13 billion cubic feet of natural gas and 153.26 million barrels of oil. The 2017 rate from the three platforms is an average of 2,408 bpd.

In its 2017 POD Hilcorp planned to maintain oil and gas production and sidetrack as many as three new wells from the Granite Point platform; the division said production was maintained and two sidetracks were drilled, in addition to various facility improvements and repairs to the platform.

Hilcorp plans to maintain production during its 2018 POD and to evaluate long-term options for drilling additional sidetracks.

In approving this POD the division said the maintenance of production will benefit the state.

North Cook Inlet

Hilcorp took over operation of North Cook Inlet from ConocoPhillips in late 2016. North Cook Inlet has been in production since 1969 and has produced 1,069 billion cubic feet of natural gas through the end of 2017, with 2017 production increasing from 16 million to 19 million cubic feet per day.

During the 2016 POD period Hilcorp continued to manage the field by optimizing life cycle depletion of the mature gas field and exploit under depleted gas sands.

During the 2017 POD Hilcorp planned to maintain production, which it accomplished with the addition of perforations in three wells, the division said, with structural engineering assessments also begun for future facilities work.

In its 2018 POD Hilcorp plans to continue evaluating future rig worker and drilling opportunities, the division said, and while the company plans to evaluate potential undeveloped accumulations it has no specific exploration plans.

“Work to update the platform for new crew quarters will be completed, as will pipeline work as part of the Cook Inlet Pipeline Cross Inlet Extension Project,” the division said.

In approving the plan the division said while Hilcorp does not propose to expand development or undertake new exploration, it continues production from existing facilities, protecting the state’s economic interests in the facilities.

Trading Bay

The Trading Bay unit was formed and began sustained production in 1967. It produces from four participating areas in the McArthur River field — the Hemlock oil pool, West Foreland oil pool, the Middle Kenai G oil pool and the Grayling Gas Sands.

The unit was expanded in 2013 to include the Trading Bay field.

Average daily oil production in calendar year 2017 was some 4,621 bpd; average natural gas production was 21 million cubic feet per day.

During the 2017 POD Hilcorp anticipated drilling up to four sidetracks from existing wells and three new wells, the division said. The company drilled three of the four sidetracks but no new wells.

Electric submersible pumps were replaced as needed and many workovers completed. An additional planned sidetrack from the Monopod platform was planned but not drilled.

The division said that during the 2018 POD, Hilcorp plans to drill two wells from the Steelhead platform and sidetrack a well from the Monopod platform, as well as replace electric submersible pumps as needed.

In approving the plan the division said Hilcorp is continuing drilling and workovers from the previous plan. “The projects and operations are helping to increase production in fields that have been producing for over 50 years,” and the 2018 POD will continue existing production “while conducting new drilling, well workovers, and evaluations of shut-in wells to further increase production.”

Contact Kristin Nelson at knelson@petroleumnews.com

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LAND & LEASING

Scoping period, meetings for coastal plain

The federal Bureau of Land Management has set a scoping period of April 20 to June 19 for a coastal plain oil and gas leasing environmental impact statement to implement leasing on the coastal plain of the Arctic National Wildlife Refuge. The 2017 Tax Act requires at least two lease sales. BLM said the leasing EIS “may also inform post-lease activities, including seismic and drilling exploration, development, and transportation of oil and gas in and from the Coastal Plain.”

The leasing EIS “will consider and analyze the potential environmental impacts of various leasing alternatives, including the areas to offer for sale, and the terms and conditions (i.e., lease stipulations and best management practices) to be applied to leases and associated oil and gas activities to properly balance oil and gas development with existing uses and conservation of surface resources, and to limit the footprint of production and support facilities on Federal lands to no more than 2,000 surface acres.” BLM said.

The public scoping meetings will be held May 22 in the Community Hall in Kaktovik beginning at 6 p.m.; in the Community Hall at Arctic Village May 24 beginning at 10 a.m.; at the Carlson Center in Fairbanks May 29 at 4:30 p.m.; in the Dená’ina Center in Anchorage May 30 at 4:30 p.m.; in the Innuit Heritage Center in Utqiagvik at 5 p.m.; May 31, in the Village of Venetie Tribal Hall in Venetie June 12 at 10 a.m.; and in the National Housing Center in Washington, D.C., June 15, at 4:30 p.m.

BLM said the Fairbanks and Anchorage meetings will be livestreamed at www.blm.gov/live.

The area comprising the Coastal Plain includes approximately 1.6 million acres within the approximately 19.3 million-acre Arctic National Wildlife Refuge.

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INTERNATIONAL

Curacao court OKs Conoco seizing assets

A court on the Dutch island of Curacao has authorized the local subsidiary of U.S. oil giant ConocoPhillips to seize $636 million worth of assets held on the island by Venezuela’s state oil company, PDVSA.

The move comes as Houston-based Conoco seeks to recoup $2 billion in a decade-old dispute over the expropriation of its Venezuelan oil projects by the OPEC nation’s socialist government, which is struggling with an economic crunch that has caused widespread shortages of food and medicine.

Curacao Economy Minister Steve Martina said at a news conference May 13 that Conoco already had taken control of some oil products at the Isla Curazao refinery, though he did not specify how much.

The Curacao court’s ruling of May 4 is a blow to Venezuela, which uses refineries on Curacao and elsewhere in the Netherlands Antilles to store a significant portion of the oil it exports to its three main foreign markets — China, the U.S. and India.

According to the ruling reviewed May 13 by The Associated Press, the company can seize all oil products stored at the Isla Curazao and the Di Korsou refineries on Curacao. The court also said Conoco can take over any crude oil shipments en route from Venezuela to the island that are within 19 kilometers (12 miles) of the Curacao coast.

Venezuela holds the world’s largest underground oil reserves but production has declined under nearly two decades of socialist leadership, casting the one-time wealthy nation deep into political and economic crisis.

An arbitration panel under the International Chamber of Commerce in late April found that Venezuela under the leadership of then-President Hugo Chavez in 2007 illegally expropriated joint venture operations with ConocoPhillips.

The firm turned to a local court to collect the award, but the petition spelling out its demands has not been made public. The $2 billion award represents the equivalent of more than 20 percent of the cash-strapped Venezuela’s foreign currency reserves.

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**EXPLORATION & PRODUCTION**

Conoco files BLM application for Willow

ConocoPhillips has begun the application process with the federal Bureau of Land Management for development of its Willow discovery in the National Petroleum Reserve-Alaska. The company has requested that BLM begin the process to develop an environmental impact statement for a development at its Willow discovery in the Bear Tooth unit in NPR-A and said it understands a notice of intent to initiate an EIS could be published in the Federal Register this July.

ConocoPhillips announced the Willow discovery in early 2017, based on results from its 2016 Timnaq Nos. 2 and 6 wells. The company said at that time that the discovery could hold 300 million barrels of recoverable oil.

Options for development at Willow include building new production facilities for Willow or tying the development back to production facilities at Alpine. In its first quarter 2018 earnings call on April 26, Al Hirshberg, the company’s executive vice president of production, drilling and projects, said positive results from Willow appraisal drilling suggest a standalone production facility can likely to justified.

**ISER estimates Liberty’s economic impact**

The University of Alaska Anchorage’s Institute of Social and Economic Research has done an analysis of the economic impact of Hilcorp Alaska’s proposed Liberty project, which would develop an estimated 120 million barrels of recoverable oil from a self-contained gravel island.

The draft environmental impact statement for the project, released last July, indicates that as many as 16 wells would produce up to 65,000 barrels per day of oil and 120 million cubic feet of natural gas.

The authors, Mouhcine Guettabi and Robert Loeffler, estimated in a study released late last year that employment would peak in 2020 at some 300 annualized jobs with direct wages at the peak at $40 million. Total employment from 2017 to 2023 would be 1,019 jobs, with total direct wages in 2017 dollars from the construction phase totaling $247 million.

The draft environmental impact statement for the project, released last July, indicates that as many as 16 wells would produce up to 65,000 barrels per day of oil and 120 million cubic feet of natural gas.

The authors said estimates were based on inputs from Hilcorp.

**ENVIRONMENT & SAFETY**

DEC makes improvements to spill drill program

The Alaska Department of Environmental Conservation has announced improvements to its program for the oversight of oil spill response drills and has published a new manual for planning, conducting and evaluating oil spill response exercises.

DEC requires entities that handle oil to maintain approved oil spill prevention and contingency plans, and to conduct regular exercises to test the plans. The exercises are intended to ensure the effectiveness of the plans and to demonstrate the response capabilities of oil facility operators and other organizations involved in spill response procedures.

The exercises are intended to ensure the effectiveness of the plans and to demonstrate the response capabilities of oil facility operators and other organizations involved in spill response procedures.

Kristin Ryan, DEC spill prevention and response director, when announcing the program changes. “Over the last few years, we have worked to improve our program to better ensure the response community is able to prevent, prepare for, and respond to spills.”

Improvements to the exercise program included clarification of the state’s oil spill exercise requirements and of DEC’s role in exercises, both as a partner in the spill response activities and as an evaluator of what is being done. The new procedures better align the requirements of the state and federal agencies, thus removing some redundancies and improving efficiency. Guidance on the design of drills and exercises is now more reflective of realistic incidents while also preparing response teams to deal with the unexpected, DEC says.

The revised program provides consistency between Alaska and other areas of the United States by incorporating the Federal Emergency Management Administration’s response exercise methodology, based on national and international best practices, DEC says.

“We worked closely with the response community and reviewed guidance from the Department of Homeland Security before making changes to the Oil Spill Response Exercise Program,” Ryan said. “With the recent updates, we believe that the program provides a number of benefits over the previous version, including increasing the value of response exercises, making them more cost effective, and improving the community’s level of response readiness.”
ENVIRONMENT & SAFETY
Conoco Kuparuk recertified for VPP

ConocoPhillips Kuparuk has been renewed for the Alaska Occupational Safety and Health Voluntary Protection Program at the “Star” level, the Alaska Department of Labor and Workforce Development said May 15.

The VPP recognizes “exemplary safety and health programs,” the department said.

“Employers who participate in the Voluntary Protection Program show a remarkably strong commitment to protecting the health and safety of their employees,” said Alaska Labor and Workforce Development Commissioner Heidi Drygas. “The department is pleased to recognize ConocoPhillips Kuparuk for their outstanding efforts in managing workplace safety and health.”

“We are proud to be recertified in the AKOSH VPP program as it provides independent assurance that we have an efficient safety and health management program that meets rigorous performance-based criteria,” Ty Macey, Greater Kuparuk Area operations manager, said in a statement. “More importantly, achieving this level of safety and health excellence benefits all our workers who return home safer and healthier to their families and friends after completing their rotational assignments.”

Enforcement regulations remain in effect, but as a VPP Star recipient, ConocoPhillips is not subject to random enforcement inspections for five years. VPP is a cooperative program between a company’s management, employees and AKOSH. Fewer than 2,300 U.S. worksites out of some 8 million covered by the Occupational Safety and Health Administration have achieved VPP status, the department said.

There are nine sites in Alaska with the AKOSH VPP designation: Alaska Clean Seas; Arctic Slope Regional Corp. Energy Services group and inject and plant and oily water injection facility; BP Exploration (Alaska) — central power station; BP Exploration Alaska gas plants — central compresses plant and gas facility; ConocoPhillips Alaska Alpine field — Alp 15 — Alpine operations; ConocoPhillips Alaska Kuparuk Area; Fairbanks Memorial Hospital; Insulfoam Inc. (Premier Industries); and Utilities Inc.

—PETROLEUM NEWS

Draft climate policy out; feedback sought

A draft climate policy has been released by Alaska Gov. Bill Walker and Lt. Gov. Byron Mallott. The work was done by the Climate Action for Alaska Leadership Team which began work in December.

A joint statement from the governor and lieutenant governor released May 9 said: “The Alaskans who serve on the climate team have worked hard to create a draft policy that reflects our priorities for health, culture, safety, and the economic future of our state. While this group represents a diversity of regions and perspectives across Alaska, it’s necessary to hear from members of the public to ensure this policy and our future climate action plan reflect the needs and interests of all Alaskans.”

The draft document and a link for online comments are available at: http://climate-change.gov.alaska.gov/policy/. Comments are requested by June 4.

The administration said the climate action team “is composed of experts and community leaders with backgrounds in science, industry, entrepreneurship, community planning, energy development, environmental protection, and policymaking.”

The team, chaired by Mallott, “is focusing on climate change mitigation and adaptation through economic opportunity, renewable energy and energy efficiency, coastal resilience, science communication, and technological innovation.”

An initial climate action plan will be presented to Walker in September.

—PETROLEUM NEWS

UTILITIES
RCA expectations for transmission meetings

The Regulatory Commission of Alaska has issued an order inviting presentations at a series of commission public meetings designed to review the status of voluntary efforts towards a more unified approach to the management and operation of the Alaska Railbelt electricity transmission system. As previously reported in Petroleum News, the commission plans to hold meetings on May 23, June 13 and June 27. In its order the commission said that it is inviting electric public utilities and people affected or potentially affected by changes to the system to present reports or comments at the meetings.

In June 2015 the commission made a series of recommendations for the reform of the electrical system and, since then, has been monitoring voluntary efforts by the six Railbelt electric utilities to meet the commission’s requirements. The utilities have been reporting on the commission on the progress that they have been making.

However, the commission, Alaska legislators and other interested parties are concerned whether adequate progress is being made toward the timely meeting of the commission’s expectations, the commission said in its new order. The upcoming meetings are designed to enable up-to-date reporting on the specifics of progress made and work remaining to be carried out.

The May 23 meeting will review the status of the formation of an independent transmission company to operate the electricity transmission grid. The commission will require specific dates and benchmarks for determining adequate timely progress.

The June 13 meeting will require a status report on the development and implementation of mandatory economic dispatch through Chugach Electric Association, Matanuska Electric Association and Municipal Light & Power, and a report on how that arrangement is expected to be extended to encompass the other Railbelt utilities. The commission will be seeking specific dates and benchmarks. Economic dispatch entails the continuous use of the cheapest available electrical generation.

The June 27 meeting will require a status report on the adoption of mandatory electric utility standards that include standards for financial obligations and cyber security, and the specification of enforcement mechanisms. The report must also address the question adopting the reliability standards as regulations.

—ALAN BAILEY

PIPLINES & DOWNSTREAM

UAF to test drone surveillance of TAPS

Researchers from the University of Alaska Fairbanks are partnering with Alyeska Pipeline Service Co. to test the use of unmanned aerial vehicles, commonly known as drones, for the surveillance of the trans-Alaska oil pipeline. The project will involve flying drones beyond the pilot’s line of sight.

The Federal Aviation Administration has selected UAF as one of 10 organizations nationwide to participate in the agency’s Unmanned Aircraft Systems Integrated Pilot Program, a program aimed at establishing a regulatory framework for the safe integration of drones into the national airspace.

UAF’s Alaska Center for Unmanned Aircraft Systems Integration has been conducting drone research for a number of years and operates one of seven FAA unmanned aircraft test centers. Alyeska has been partnering with the UAF center since 2014. The company currently uses drones for the mapping of gravel pits and the inspection of difficult-to-access equipment such as 100-foot high tank vapor flare tips. This current use involves operating the drones within the pilot’s visual line of sight — the new project will presumably enable the inspection of elements of the pipeline system at a greater distance from the pilot.

Alyeska says that drone use supports the safety of pipeline workers, reducing the need to deploy people by helicopter or other means in inclement weather.

“Using unmanned aircraft on TAPS provides tremendous safety and pipeline integrity benefits,” said Jacques Clauser, civil survey support engineer and liaison to the UAF pilot program. “If we can fly UAS out of line-of-sight, we will improve our surveillance and more rapidly gather data on the health of the pipeline system.”

“We look forward to working with UAF Alaska Center for Unmanned Aerial System Integration to expand the use of this important technology in our industry and others,” said Alyeska President Tom Barrett. “I applaud Jacques for bringing his expertise to this partnership. He is an excellent example of the commitment to innovation displayed across the pipeline system.”

—ALAN BAILEY

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trends and forecasts for gas producing units in the basin, and the production rates and decline curves of individual gas wells.

**Crisis averted**

At the time of the original PRA study there was talk of having to import liquefied natural gas to bolster local gas supplies. However, significant gas development in the Cook Inlet basin, supported by a state tax credit program, subsequently alleviated the gas supply situation. In particular Hilcorp Alaska has been pursuing an active development program. Furie Operating Alaska has brought on line its offshore Kitchen Lights gas field. And the development of the Cook Inlet Natural Gas Storage facility on the Kenai Peninsula has enabled the use of stored gas to support high gas deliverability needs during the winter.

The original 2010 study had found that, in the absence of new gas development, gas supplies would fall short of demand as early as 2013. That shortfall could be delayed until after 2018 by the sustained delayed until after 2018 by the sustained

**GREAT BEAR LEASES**

lease extension approvals were based on drilling com-
mitments by Great Bear. The company has also been operating quite a few other leases. Most of those leases were granted in 2011 and 2012 with 10-year terms, with expiry dates in 2021 and 2022.

However, while the division was reviewing the lease extension applications, Great Bear continued to evaluate the potential of its other leases, using seismic data that the company had collected from annual surveys conducted from 2012 to 2016, Galvin said. As a consequence, the company has decided to drop the leases in two of the blocks that were granted extensions, now focusing its efforts on the two blocks that it has elected to keep. The company is also dropping some of its more remote acreage, he said.

**Major lease fairway**

Great Bear bought a major fairway of leases, strad-
dling the Dalton Highway and mostly to the south of the Prudhoe Bay and Kuparuk River units in 2010 and 2011, with plans to investigate the potential for shale oil develop-
ment in the North Slope’s prolific oil source rocks.

The company’s program has since morphed into a search for both conventional and unconventional oil opportuni-
ties.

As part of its shale oil investigations, in 2012 the company drilled the Alcor No. 1 and Merak No. 1 wells to the east of the highway and proceeded with a program of rock and geologic evaluations. The company also conducted a multi-year program of 3-D seismic surveying in its acreage.

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BONDING PLAY

Wiedelchowski, D-Anchorage, when the Senate Resources Committee heard Senate Bill 176, the companion to HB 331. The issue was extensively discussed in House Finance, with the Legislature’s Legal Services telling the committee it had doubts about the constitutionality of the bonding proposal.

The administration — both the Department of Law and the Department of Revenue — told the committee the proposal was constitutional and said Alaska has been doing this type of bonding since it was a territory. The state’s bond counsel told both House Finance and Senate Finance that it expected to issue an opinion confirming that the bonds were constitutional.

Discounting

The bill allows payment, at a discounted rate, of cashable credits which have been earned by small oil and gas companies — the state’s major oil producers were never eligible for these credits.

“I’m pleased the Legislature is fulfilling Alaska’s past promises to pay tax credits to small independent explorers in exchange for investing in our state,” Walker said after the Senate passage. “This will close out old debts to oil and gas entities, help companies invest in their operations, and put money back in Alaska’s worker’s pockets.”

The program offering cashable tax credits was ended in 2015, but some $800 million currently remains to be paid and state officials have said they believe another $200 million will eventually be approved for payment.

The bill authorizes issuance of bonds up to $1 billion.

One item which didn’t make it through the Legislature was authority for the Alaska Gasline Development Corp. to accept third-party money for the Alaska liquefied natural gas project.

The cost of the bonding will be borne by the companies, which will receive payment at a discount of about 10 percent to cover the state’s costs and interest on the bonding. There are provisions which would allow a discount closer to 5 percent, provided the companies qualified for one of the following: agreeing to provide the state an overriding royalty interest; committing to reinvest in the money in Alaska within 24 months; agreeing to an early waiver of confidential sensitive data; or have refinery or gas storage credits.

To qualify, a company must commit all of its cashable credits to the program.

House changes

Commissioner of Revenue Sheldon Fisher reviewed changes made in the House Finance Committee and on the House Floor for Senate Finance May 8.

The House added a 45-day time limit for constitutional challenges to the bond program; reduced the calculation of future appropriations to the tax credit fund — the source of current payments — for companies not participating in the bond program, with the effect of extending out the period over which those payments would be made; added conditions and information related to the reinvestment provision including maximizing Alaska hire and use of Alaska contractors, moving a project toward production and clawback of incremental payment if investment targets not met.

The bill authorizes issuance of bonds up to $1 billion.

Saltchuk Supports Junior Achievement of Alaska

The Saltchuk family of companies recently announced that it has contributed $20,000 and staff time to Junior Achievement of Alaska.

On May 15 at Kusilvak Elementary in Anchorage, more than 20 business professionals teamed up with Saltchuk staff to teach K-6th grade students about the basics. The Junior Achievement in a Day program allows companies to present an intensive and innovative program that inspires and empowers students to believe in themselves, showing them that they can make a difference.

Junior Achievement is the world’s largest organization dedicated to educating students about workforce readiness, entrepreneurship and financial literacy through experiential, hands-on programs.

“Junior Achievement programs help kids get a head start in the business world,” said Flora Tye, president of Junior Achievement of Alaska. “By learning some basic skills early, our young people can become entrepreneurs and business leaders in Alaska and across the country.”

“It’s an honor to be part of Junior Achievement’s programs and educate students to succeed in a global economy with hands-on learning that takes place in the classroom,” she added. “We would like to thank Saltchuk for bringing this opportunity to Alaska’s students through the JA in a Day program at Kusilvak Elementary School.”

Companies involved in Alaska’s oil and gas industry

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Alaska Rubber & Rigging Supply Inc.
Alaska Steel Co.
Alaska Textiles
Alaska West Express .............................. 12
Alpha Seismic Compressors
American Maritime .............................. 8
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Inspirations ........................................... 3
Judy Patrick Photography ......................... 5
Kuuskpil Arctic Services
Last Frontier Air Ventures
Little Red Services, Inc. (LRM)
Louin Associates
Lynden Air Cargo .............................. 12
Lynden Air Freight
Lynden Inc. .............................. 12
Lynden International .............................. 12
Lynden Logistics .............................. 12

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Nordic Calista
North Slope Telecom .............................. 11
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PENCO ........................................... 8
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PRA (Petrotechnical Resources of Alaska)
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The early production facility contractor would provide most of the equipment and personnel required for the temporary arrangements. The anticipated production capacity would be 6,000 barrels per day of oil, with a gas-to-oil ratio of 1,000 and a maximum production of 1,500 barrels per day of water. Produced water will be pumped down a designated injection well or trucked out for disposal. Gas will be compressed and dehydrated for use as fuel gas or for injection into a designated gas injection well, or would be flared, Brooks Range’s plan says.

Although some of the temporary equipment would already be in the form of modules that could be trucked to the site, the contractor would have to determine what fabrication would be needed of electrical, instrumentation and separator modules. It is possible that fabrication could take place in Alaska, Brooks Range’s plan says.

Construction activities for the early production facilities will require the installation on the Mustang pad of infrastructure such as a camp, communications tower and support facilities — these items are part of Brooks Range’s existing plan of operations and will be needed in support of long term production arrangements.

Completion delay

The Mustang field is in the Southern Mhlveach unit, immediately west of the Kuparuk River unit. The gravel pad and road, and some of the pipeline vertical support bodies for the project were completed some time ago, as were many of the modules for the field’s facilities. However, following technical issues with a development well and funding issues associated with low oil prices, completion of the project was delayed.

The field has been reported as likely to hold 20.8 million barrels of proven oil reserves. Development would involve drilling horizontal production wells and vertical injectors in the 11 fault blocks of the field reservoir. The concept is to build facilities that can act as a fulcrum for oil developments in the immediate neighborhood.

Brooks Range Petroleum operates the Mustang project on behalf of CarlaCol Petroleum LLC, TP North Slope Development LLC, MEP Alaska LLC, Nabors Drilling Technologies USA Inc., AVCG LLC, Mustang Road LLC and MOC1 LLC. Mustang Road and MOC1 are subsidiaries of the Alaska Industrial Development and Export Authority, which helped finance the road, pad and processing facilities projects.

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continued from page 8

GREAT BEAR LEASES

of the Dalton Highway and another group of six leases to the east of the highway. According to the division’s lease extension approval document Great Bear had demonstrated that it had previously spent more than $16.3 million on field work and data processing for these leases. Geological, geophysical and engineering data describe several oil prospects in the leases, the approval document says.

The second block of leases that Great Bear is dropping consists of 18 contiguous leases, to the west of the Dalton Highway, north and northwest of the leases that include the Alkaid well. Great Bear told the division that it had expended more than $11.3 million on the exploration of these leases, including expenditures on 3-D seismic surveys collected in 2013, 2014 and 2015. Work conducted added to an understanding of prospective targets in the leases, the division’s approval document said.

—ALAN BAILEY

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continued from page 9

BONDING PLAY

munitions manager, in a May 15 email, AGDC said it would continue to work with “Goldman Sachs and Bank of China to arrange third-party funding” and continue to keep the Legislature up to date on the project, providing information which legislators need to make “appropriate decisions for the responsible development of Alaska’s vast amounts of proven, stranded, North Slope natural gas.”

AGDC said it estimates that it will have some $34 million remaining in the ACLKNG fund at the end of this year and is continuing to work the regulatory process for ACLKNG with the goal of reaching a final investment decision and an in-service date of 2024.

Legislators did agree to an AGDC request to move remaining monies from the in-state gas line project, ASAP, which is also under the AGDC umbrella, to the ACLKNG project.

—KRISTEN NELSON

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Petroleum News
PIPETLINE FACeATIONS

take action allowing work on the pipeline to proceed unhindered, the general consensus is that the company will not let the issue drag into the summer construction season.

Professional protesters

The most significant development is the emergence of professional protesters, who are setting up a permanent camp on public land near the Burnaby tanker terminal in the port of Greater Vancouver. Vancouver Mayor Gregor Robertson, who will not seek re-election in October, told Bloomberg News that he doubts “resistance on the West Coast is going to fade. I think it will only intensify. Escalation looks likely.”

But the more resistance to the C$7.4 billion project builds, with television crews facing threats of violence, the more the public mood shifts to Kinder Morgan’s side. The latest surveys show 54 percent of British Columbians support the pipeline, reflecting steady growth from 40 percent over the past seven months.

Gary Mason, a columnist in The Globe and Mail, said the ranks of protesters are no longer made up of retired professors, nurses and “ordinary folk.”

Instead, he wrote, the main purpose of the activists “is to cause trouble and bully and intimidate people,” while refusing to hear pro-pipeline arguments.

Prosecution issues

Now that the protests have taken a nasty turn, Mason said B.C. Premier John Horgan and Robertson need to start demonstrating some leadership, given that a B.C. Supreme Court judge has suggested Kinder Morgan should not have to carry the burden of prosecuting the more than 170 people who have been arrested for violating a civil injunction obtained by the company.

He said anyone thwarting the injunction, including politicians who have knowingly violated the law, should be tried for criminal, not the much softer civil contempt charges.

Countering that viewpoint, Burnaby city manager Lambert Chu told the Vancouver Sun that protest camp facilities are allowed to occupy land under a B.C. Supreme Court order that superseded a city bylaw prohibiting the use of a public right of way.

The Royal Canadian Mounted Police are taking a low-key approach so far, acting on a case-by-case basis that has included arrests of four individuals for incidents deemed to be unrelated to pipeline protests.

Meantime, many First Nations have declared projects such as the Trans Mountain expansion on their traditional territories must obtain their consent to get built.

A spokesperson for Kinder Morgan told Bloomberg News that he doubts any attempt at “a wake up call” to management and demonstrating a growing democratization movement.

He said more than 1,000 shareholder proposals are filed in the U.S. every year, but only about 500 or 600 make it to the ballot.

However, the level of support generally for these proposals is growing across North America, as indicated by two similar resolutions at Kinder Morgan’s annual meeting last year which attracted 34.1 percent of shareholder support.

Alberta annoyed

What annoys pipeline supporters such as the Alberta government is the continued outside interference, led by people such as former U.S. Vice President Al Gore, who issued a tweet earlier in May declaring his support for Horgan, Robertson and all Canadians opposed to expanding Trans Mountain to 890,000 barrels per day from 360,000 bpd.

“The Kinder Morgan pipeline carrying dark tar sands oil would be a step backward in our efforts to solve the climate crisis,” he wrote, along with the #stopKM hashtag.

Alberta Premier Rachel Notley told a public gathering that Gore’s comments “clearly demonstrate a lack of understanding about the overall issue and all the facts. I just think it’s starting to fall on a larger and larger number of deaf ears.”

“We’re also seeing... previously less vocal people come forward” to express the importance of the pipeline to generating jobs and revenue for health care, education and public services.

Jason Kenney, leader of Alberta’s opposition United Conservative Party called Gore’s remarks “an inconvenient lie from a jet-setting millionaire.”

He said while the United States and OPEC ship more oil “this hypocrite who owns multiple mansions and flies private jets wants to landlock Canadian oil.

Canadians have had enough of (his) campaign of double standards and defama-

Original content

But the more resistance to the C$7.4 billion project builds, with television crews facing threats of violence, the more the public mood shifts to Kinder Morgan’s side. The latest surveys show 54 percent of British Columbians support the pipeline, reflecting steady growth from 40 percent over the past seven months.

The law in Canada does not insist on projects gaining First Nations consent, even as governments in Canada, including British Columbia, adopt a United Nations Declaration on the Rights of Indigenous Peoples that calls for free and informed consent before approval of any project affecting aboriginal territories or resources.

That claim was bolstered in the first week of May when institutional investors obtained more than 50 percent of shareholder votes for two resolutions at Kinder Morgan’s annual general meeting pressing the company to publish an annual sustainability report that better reflects issues which pose a risk to business.

Proponents of the investor activism declared the vote was a victory for “democratization” inside a company.

One resolution, tabled by New York state’s US$237 billion pension fund, was a “resounding victory for shareholders and others concerned about the company’s lack of reporting on environmental, social and corporate governance issues,” said fund trustee Thomas DiNapoli, who urged Kinder Morgan to be more “accountable (about) risks in its operations” including the Trans Mountain expansion.

A second motion from a Boston investment firm asked how the company was preparing for a rise in global warming resulting from fossil fuel development while it advances projects that face strong community and First Nations opposition.

A spokesperson for Kinder Morgan confirmed the two resolutions obtained the required majority vote but remain non-binding.

Peter Chapman, of the Vancouver-based Shareholder Association for Research and Education, said such resolutions rarely attract more than a fraction of shareholder support in the range of 10 to 20 percent, serving as “a wake up call” to management and demonstrating a growing democratization movement.

Meantime, many First Nations have declared projects such as the Trans Mountain expansion on their traditional territories must obtain their consent to get built.

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Content
two new storage wells, the addition of a string for water management, installation of a new turbine gas compressor. The estimated total cost is $4.1 million.

Seeking certainty

Under state statutes, CINGSA does not require RCA approval for the upgrades. However, the company is seeking some level of certainty that it will be able to recover the cost of the upgrades from the fees that it charges its customers. Rate changes resulting from the upgrades will require commission approval and it is possible that the changes could be challenged on the grounds that the upgrades were imprudent.

The commission has issued an order granting CINGSA’s request for an RCA review, with a deadline of Oct. 24 for a decision. Commissioner Paul Linsky dissented from the commission’s order, saying that there is no statutory authority or clearly defined regulatory process for determining the prudence of a project prior to construction. Commissioner Antony Scott commented that there is no statutory deadline for completing the review but that the commission will endeavor to meet an October target for a decision.

CINGSA told the commission that there is a precedent for this type of review, given that in 2010 the commission had granted a request by Chugach Electric Association for cost recovery assurance for the construction of the Southcentral Power Project power generation facility in Anchorage.

In operation since 2012

The CINGSA facility, to the south of the city of Kenai, went into operation in 2012 in response to challenges associated with field production from the gas fields in the Cook Inlet basin. The facility injects gas for storage into the depleted Sterling C reservoir sands of the Cannery Loop gas field.

Since starting up, the facility has played a vital role in ensuring adequate year-round gas supplies for Southcentral Alaska. Over the years, although on an annual basis Cook Inlet gas production has remained sufficient to support utility gas demand, the maximum flow rate from gas wells has fallen below the levels needed during peak winter demand, when cold weather drives up the use of gas. However, by storing excess gas during the summer and then releasing that gas from storage during the winter it is possible to maintain adequate winter supplies.

Unpredicted usage pattern

However, the manner in which customers use the storage facility has turned out to be different from what CINGSA anticipated when the facility was designed. John Sims, president and managing director of CINGSA, told the commission that at the time that CINGSA was implemented the expectation was that customers would operate on a predictable, seasonal basis, simply injecting excess gas into the facility during the summer and then retrieving the gas during the winter. Instead, injections and withdrawals of gas take place on a daily basis throughout the year, with the injection and withdrawal rates varying greatly.

John Lau, vice president of operations for CINGSA and for Enstar Natural Gas Co., told the commission that CINGSA’s customers use the storage facilities for many purposes, to fit their business needs. Sometimes they switch from injection and withdrawal and back again on a daily basis, and even during the course of a day, Lau said.

This usage pattern impacts the operation and efficiency of the storage facilities, in particular the gas compression equipment, and increases the wear and tear on the equipment. At the same time CINGSA’s customers have become increasingly reliant on the storage facility in meeting Cook Inlet gas demand, Sims said.

Concerns about technical failure

In part because of the varying and unpredictable nature of the use of the CINGSA facilities, CINGSA has become concerned about the potential impact of some technical failures at the storage site. As a consequence, the company commissioned an update by Petroleum Resources of Alaska Inc. to a previously published study into Cook Inlet gas supply and demand until at least 2021. In the absence of new drilling activity, there could be a shortfall in supplies as early as 2019.

Concerning technical failure

A consequence of declining production rates from Cook Inlet gas production wells would be an increase in the short-fall in deliverability of the wells during periods of peak gas demand. This would require higher flow rates from storage wells. Under this scenario any equip-