ConocoPhillips brings CDS online; field is NPR-A’s first production

ConocoPhillips Alaska’s CDS drill site in the National Petroleum Reserve-Alaska is in production, the company said Oct. 27. CDS is part of the Alpine field, and is the first commercial oil development on Alaska Native lands within the boundaries of NPR-A, the company said.

It is also the second new ConocoPhillips North Slope drill site to begin production in October: The company announced first oil at Kuparuk Drill Site 2S on Oct. 12. “First oil at CDS is a landmark for our company, Kukpik Corporation, Arctic Slope Regional Corporation and for the residents of the nearby village of Nuiqsut,” Joe Marshack, president of ConocoPhillips Alaska, said in a statement.

Walker withdraws gas reserves tax from call for special session

Citing a successful negotiation with the state’s producer partners in the Alaska LNG Project, Gov. Bill Walker has withdrawn the gas reserves tax from his call for a special session of the Alaska Legislature. He said in an Oct. 23 press availability that the change to the session’s agenda came following “constant negotiations” with the producers over that the governor called “must haves” for the state session’s agenda came following “constant negotiations” with the Alaska Legislature.

The first full-scale development program in the National Petroleum Reserve-Alaska came two big steps closer to realization on Oct. 22 when the U.S. Bureau of Land Management approved a drilling permit and an associated right-of-way grant for the GMT-1 project. The approvals allow operator ConocoPhillips Alaska Inc. to drill at the Greater Mooses Tooth unit, near the eastern edge of the federally managed land on the North Slope.

While ConocoPhillips and its working interest partners have yet to sanction the GMT-1 development program, the permitting decision clears a large hurdle toward construction of an 11.8-acre drilling pad and associated pipelines and power systems in the reserve. The permits are also the first major decision under an Integrated Activity Plan approved in 2013 to balance the twin desires to develop and conserve the 23 million acre reserve.

Following a string of worrisome news for the Alaska oil patch — including Shell’s decision to abandon exploration in the Chukchi Sea, the federal government’s decision to cancel upcoming Arctic lease sales and Repsol’s deferred exploration work (albeit amid talk of a big discovery) — the announcement brought sighs of relief from officials. “As Alaska grapples with a $3.5 billion deficit due in part to low oil prices and production, we applaud the hard work by ConocoPhillips to obtain this drilling permit and right-of-way grant.”

BLM approves drilling permit and right of way for NPR-A development

The Interior Energy Project moves toward best, final offers for supplying gas to Fairbanks

Petroleum News

By ALAN BAILEY
Petroleum News

With a required quarterly report having gone to the state Legislature, the Interior Energy Project, an Alaska Industrial Development and Export Authority project to bring affordable energy to Fairbanks and the surrounding Alaska Interior, is steadily moving towards a decision point in December over a gas supply for the city, the project team told the AIDEA board Oct. 22.

Shortlist

The team has narrowed down the list of contenders for implementing the gas supply to five vendors, each of which is working toward preparing its best and final offer for a supply proposal, Nick Szymoniak, AIDEA’s energy infrastructure development officer, told the board. Following three rounds of discussion with AIDEA, each proposer has been invited to a public forum on Nov. 4 in Fairbanks to present its final offer, after which the AIDEA evaluation team will meet to select a single finalist for presentation to the AIDEA board on Dec. 3. The intent is that on Dec. 17 the board will be able to decide whether to approve the selected finalist, Szymoniak explained.

All five shortlisted finalists have proposals for the supply of gas to Fairbanks in the form of liquefied natural gas. Systems in the reserve.

LNG no threat to gas

By GARY PARK
Petroleum News

British Columbia’s LNG industry lobby group has brushed off the claims of a geologist that large scale operations would pose a threat to Canada’s natural gas supplies.

David Keane, president of the B.C. LNG Alliance, said a report released by the Canadian Center for Policy Alternatives, arguing that known gas fields would be unable to meet the demand for feedstock by LNG operations, failed to take into account a number of factors.

He pointed out that gas supplies that are becoming surplus to needs because of shrinking exports to the United States and the continued pace of new gas discoveries should put those concerns at rest.

Keane told the Vancouver Sun that the report’s author, David Hughes, is “cherry-picking some of the facts. When you look at the amount of gas resources available in British Columbia, there is a tremendous amount available for production and export.”

Double current output

The B.C. LNG Alliance consists of seven major project proponents who have received National Energy Board permits to export more than 100 million metric tons a year of LNG. That could translate into gas demands of more than 23 billion cubic feet per day, or double Canada’s current output.
ON THE COVER

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BLM approves drilling permit and right of way for NPR-A development

**Scrutinizing proposals**
Interior Energy Project moves toward best, final offers for supplying gas to Fairbanks

**LNG no threat to gas**
BC’s LNG lobby group rejects geologist’s claims gas fields wouldn’t meet demands

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Administration recommending this to consolidate state’s voting position on AKLNG, save state money over ‘banking’ with TransCanada

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5701 Silverado Way, Ste. 1 Anchorage, AK 99518
# Alaska - Mackenzie Rig Status

## North Slope - Onshore

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<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
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<td>Doyen 1000 UE</td>
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| Alaska Rig Status |

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| Operator Status |

## Cook Inlet Basin – Onshore

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| Operator or Status |

## Baker Hughes North America rotary rig counts*

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<th>Oct. 16</th>
<th>Year Ago</th>
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<tr>
<td>United States</td>
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<tr>
<td>Canada</td>
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<td>161</td>
</tr>
<tr>
<td>Gulf of Mexico</td>
<td>34</td>
<td>32</td>
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</tbody>
</table>

| United States | 787 | 787 | 1,927 |
| Canada | 190 | 161 | 426 |
| Gulf of Mexico | 34 | 32 | 53 |

*Issued by Baker Hughes since 1944

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**The Alaska - Mackenzie Rig Report as of October 29, 2015.**

*Active drilling companies only listed.*

1D = rigs equipped with top drive units 90 = workover operations 
CT = called tubing operation  SCR = electric rig

This rig report was prepared by Marti Reeve

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**Mackenzie Rig Status**

### Canadian Beaufort Sea

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**Canadian Beaufort Sea**

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Battered oil patch uncertain

Two schools of thought emerge as Canada awaits energy policy from new government; unease spreading as industry layoffs increase

By GARY PARK
For Petroleum News

ow that Canada’s new Liberal govern- ment is immersed in giving shape and content to its myriad campaign promises, the petroleum industry finds itself being pulled in opposite directions.

Some say the regime of Prime Minister Justin Trudeau will reverse the previous Conservative government’s efforts to streamline regulatory processes by opening up hearings for projects such as oil sands pipelines, delaying final decisions and driving up industry costs in the process; apply greater pressure on the industry to reduce its greenhouse gas emissions; and show less desire to promote the oil sands in the global marketplace.

Others say it’s too soon to assume that Trudeau will start closing the door on fossil fuel development by introducing punitive costs on carbon emissions, showing favoritism to green energy ventures and putting environmental activists on the same footing as industry proponents. The result, they warn, could be a second round of layoffs for 500,000 Canadians who earn their living from the energy business.

Whatever the outcome, the current mood of unease is spreading through an industry that faces an almost daily round of payroll cuts on top of the 37,000 already announced, increasingly coming from powerhouse companies such as TransCanada which has announced a second layoff phase by eliminating 20 percent of its corporate directors on top of its ear- lier decision to reduce its ranks of senior managers by 20 percent.

Four pipelines in play

Attention is now concentrated on whether Trudeau will attempt to build exports of Canada’s energy resources.

Of the four major pipelines proposed to deliver increased production from the Alberta oil sands to North American and global markets, one stands out as the lead- ing candidate for the chopping block — Enbridge’s planned Northern Gateway system to deliver 252,000 barrels per day of crude bitumen to Asia.

But even that venture won’t be easily scuttled by the incoming Liberal administration.

Trudeau had, during the 11-week elec- tion campaign, pledged to scrap the earlier approval along with 209 conditions imposed on Northern Gateway by Canada’s National Energy Board and the federal cabinet, telling many organizations that his party opposed the pipeline on the grounds that regulators failed to fully con- sult stakeholders, notably local commu- nities and First Nations.

He also promised a moratorium on oil tankers operating in northern waters off the British Columbia coast, partly to pro- tect the highly prized Great Bear Rainforest, which covers 12,000 square miles of the central and northern coast.

At the same time, Trudeau told the Vancouver Sun that Vancouver and its sur- rounding waters have a long industrial past and are vital to the export of resources that are a vital element in Canada’s Gross Domestic Product.

Northern Gateway dead?

Newly elected Member of Parliament Jonathan Wilkinson of North Vancouver and a member of the Trudeau caucus said Canada must find a way to develop its economy and natural resources and protect the environment.

“We can’t say ‘No’ to everything. We need to find a path to ‘Yes,’ but in a man- ner that people are comfortable that we have addressed the fundamental issues,” he said.

Wilkinson, a former chief executive officer of an environmental technology company, noted that resource development is critical to helping fund education and health care.

But “in my mind — and I think Mr. Trudeau has been pretty explicit on this — Northern Gateway is dead,” he said.

The project could be delayed while the Liberal administration works on changes to the environmental assessment system that critics say was watered down by the Conservative government of Prime Minister Stephen Harper.

Under that act, the federal cabinet does not have the power to cancel the certificate of approval for Northern Gateway without amending the legislation, said Robert Janes, an attorney for the Victoria-based JFK Law Corp.

However, he said construction delays initiated by the government will give it time to rework the legislation, while courts could rule in favor of First Nations who are challenging the Northern Gateway approval.

Janes is the lawyer for a group of First Nations who have made legal arguments before the Federal Court of Appeal which he said is likely to deliver a verdict in six to eight months.

Enbridge confident

Alan Ross, a lawyer with the Calgary- based firm of Border Ladner Gervais said that “if there is an existing approval (for Northern Gateway) it becomes challeng- ing to unwind that approval. It will raise some legal concerns.”

A spokesman for Enbridge said it remains “confident in the rigor and thoroughness of the work completed by a review panel.

“We look forward to the opportunity to sit down with Prime Minister Trudeau and his government to provide an update on the progress of our project and our partner- ships with First Nations and Metis people in Alberta and British Columbia,” he said.

FirstEnergy Capital said it expects the incoming government to officially rescind the Northern Gateway permit.

TransCanada’s Energy East and Kinder Morgan’s planned expansion of its Trans Mountain system also face the prospect of having their projects sidelined as the Liberal government changes to environmen- tal regulations.

Normally projects that had already been submitted for approval would survive even if a new government changed regula- tory rules.

But Ross said a Liberal cabinet would...
Committee chair MacKinnon digging in

Anchorage Republican says Senate Finance Committee eager to determine if state can handle a larger stake in natural gas line project

By Steve Quinn
For Petroleum News

It’s a straightforward request. There was a lot of discussion to understand why the governor felt that particular tool was appropriate to advance a gas line project for Alaskans. I think that we are pleased those questions are off the table.

Petroleum News: So with that in mind, you don’t feel put off by the review of a 48-inch line versus a 42-inch line?

MacKinnon: I feel like the 42-inch line was already decided. This administration, at least it was said today by OMB Director Pat Pitney, believed that the 48-inch line was always something that was on the table for consideration. So they are pulling that lever, for lack of a better phrase, at what we heard today. I believe, and I’ll only speak for myself, that the decision was already made by our partners. In fact I think it was already made by AGDC.

I believe when we had the Denali project looking at a line and the TransCanada-Exxon group looking at a line going south under the AGIA proposal, that pipe was consistent with a 42-inch from two different pipeline projects. I could be wrong. That’s on Sen. MacKinnon. That’s my recollection that we had already been through this scientific journey.

But this is a new administration and a new team. They may know something that I don’t know right now. So there may be a reason why they are pushing to understand the dynamics of that decision as well as the complexities to see if there is value to the state of Alaska that is different from the other partners.

Petroleum News: So with that in mind and with some of the comments in the hearing, are you presenting in anyway a dismantling of SB 138?

MacKinnon: The Senate Finance Committee was very specific in that if the governor and his team would like to do something different, then the Senate Finance Committee, and I believe the Senate as a whole, is ready to understand what the project looks like and would like to see a blueprint of alternatives so we can be at the table, the ones who write the check, and we are prepared to understand his ideas. He may be surprised that we want a pipeline for Alaskans just like he does and we want energy for Alaskans. Sooner we can get the questions answered, the better for everyone.

Petroleum News: Aren’t there expecta- tions of change with a new administration? Isn’t that the nature of the beast?

MacKinnon: I think everyone wants to make projects their own. Even as a bill travels through committee, there are different perspectives in each committee that add value to the conversation. So yes, anyone would want to test and make sure that Alaskans are getting the best value for our investment. I think Sen. Micciche was the one who spoke to it today when he said what should the Legislature do to make sure that a new administration might not come back and try to reshape a project again and set the project in a more neutral and idling position and cost time as well as project delay dollars.

I hope I’m being clear in that it’s entirely possible that there is a new administration in the future that may want to do the same thing and so how does the Legislature support this governor in moving our project along? — Alaska’s project forward — and then once we are past this preliminary engineering and design or past pre-FEED, that someone doesn’t try to take us backwards.

I think we are cautious that if you want something, please bring it to us. We believed in a 52-8 vote that SB 138 was the right way to go, but I’m sure that the Legislature, having a few more years under our belt, might do something differently too, so we understand the administration wanting to take a second look at some of the decisions that are outlined in the state statute. To that end, I’ll be asking the attorney general (Craig Richards) to come and go through SB 138 and the requirements of the project.

I think I was clear today (Sunday, Oct. 25) in saying that is how Senate Finance is measuring will this particular buyout the governor is proposing of TransCanada move the project forward. Senate Finance wants a pipeline. We believe the governor of the state of Alaska can get us a pipeline; we believe in the partners we currently have. It may include TransCanada. It may see MacKinnon Q&A page 13
Is this a new paradigm for oil prices?

BP chief economist reviews changing world oil market as shale oil upturns conventional thinking and global warming concerns grow

By ALAN BAILEY

Petroleum News

About the only predictable characteristics of the global oil price appear to be its volatility and unpredictability in the face of a complex world oil market. But that market, and hence its oil-price ramifications, now undergoing fundamental change? In a paper presented in mid-October at the Society of Business Economists Annual Conference, Spencer Dale, BP chief economist, suggested that dramatic changes are happening in the oil market, with these changes requiring a corresponding transformation in how to think about oil-price drivers. And the new economics of oil will have fundamental impacts on economies, financial markets, businesses and families across the world, Dale thinks.

Dale characterized conventional thinking about the oil market as revolving around four basic principles: upward price pressure as oil resources become increasingly scarce; price instability as a consequence of steep supply and demand curves; an overall flow of oil across the world from east to west; and the stabilization of the oil market by the Organization of Petroleum Exporting Countries, or OPEC.

But two fundamental changes in the oil market in recent years have upturned traditional oil economics, Dale thinks. Those changes consist of the shale oil revolution in the United States and the increasing level of concern about carbon emissions and global climate change.

Increasing oil reserves

The theory of increasing oil scarcity derives from the concept that there is a finite stock of recoverable oil resources, with oil prices rising as the scarcity of oil increases relative to the availability of other goods and services. But, in practice, with new oil discoveries and evolving oil production technologies, proven oil reserves have actually increased over the years, Dale wrote. In the past 35 years, while the world has consumed about 1 trillion barrels of oil, proved remaining reserves of oil have increased by at least double that amount. And total proved reserves are now almost two-and-a-half times greater than in 1980, he wrote.

As a prime example of technical progress, the U.S. shale oil industry, involving the production of oil from relatively impervious rocks using high-tech drilling and hydraulic fracturing, achieved an average annual productivity growth of 30 percent between 2007 and 2014, Dale commented.

Moreover, the burning of all known reserves of fossil fuels, including oil, would emit into the atmosphere an amount of carbon dioxide well in excess of double the amount considered to be a maximum for keeping global warming at an acceptable level. And that does not take into account the burning of fuel yet to be discovered or yet to be booked as reserves, Dale wrote.

Given all of these considerations, there is no underlying reason to anticipate long-term growth in the relative price of oil. And it is likely that world oil resources will never be exhausted, Dale suggested.

Dampening price volatility?

The traditional volatility of oil prices results from the historical fact that the rates of oil production and oil consumption have both been relatively insensitive to price, so that a change in either the available oil supply or the demand for oil can trigger quite a large price swing. Oil supply tends to be insensitive to price because conventional oil fields typically take several years to develop and then continue to produce oil for many years thereafter. Oil demand has been insensitive because of a lack of short-term substitutes for oil as a source of needed energy, Dale said.

Shale oil, however, involves the drilling of many relatively short-lived wells, a development characteristic that enables drilling and development decision time spans to be measured in weeks rather than years. Moreover, with most shale-oil development costs being variable, tied to production rates, rather than being the fixed, up-front costs of field development, shale oil production rates can respond flexibly to oil price signals. It is likely that shale oil will act as something of a buffer, dampening oil price volatility, Dale thinks.

However, the tendency of much U.S. shale oil development to be conducted by small companies with high levels of leveraged funding does make shale oil production vulnerable to the impacts of financial shocks in the economy, Dale wrote.

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Contact Gary Parker through pubisher@petroleumnews.com
Two sides of takeover battle digging in

Suncor Energy, Canadian Oil Sands in bitter battle; Suncor accused of ‘exploitive offer’; COS labeled as ‘single asset’ operation

By GARY PARK
For Petroleum News

Suncor Energy’s hostile bid to acquire the largest shareholder in Alberta’s Syncrude Canada oil sands operation is quickly evolving from a skirmish to a heavyweight slugfest.

Two weeks after Suncor’s initial offer of C$4.3 billion for Canadian Oil Sands, the two sides have opted for a no-holds-barred duel.

COS has a 37 percent share of Syncrude Canada, while Suncor already owns 12 percent of the seven-company consortium. To date, no competing offers have surfaced.

COS said its board had unanimously urged shareholders to reject the “undervalued, opportunistic and exploitive Suncor offer,” which it said “substantially undervalues” the asset.

COS laid out 15 “compelling reasons” for rejecting the all-share deal, saying the proposed transaction takes unfair advantage of current political, economic and regulatory uncertainty in the oil industry.

“It is no coincidence that the bid was made within six weeks of COS shares trading at their lowest price in 15 years,” COS said in a letter.

“It is clear that Suncor is attempting to add COS’s proved and probable reserves and 46-year production life without paying a fair price.”

COS Chief Executive Officer Ryan Kubik added to the ill will by telling the Financial Post his board believes Suncor’s offer “undervalues” the asset.

“We have not announced the 2016 budget, but this is an example of some of the inside information Suncor was seeing at the joint venture table,” he said. “They are contributing to discussions about cost reductions, about reliability initiatives ... so they can take a view on that information before it is publicly disclosed and before COS shareholders and the market knows about it.”

Kubik noted that Suncor acquired an additional 10 percent of the Fort Hills oil sands mine from its joint-venture partner Total for C$56,000 per barrel of expected production at what was viewed as a discount price, before offering C$54,000 for the COS holding.

EXPLORATION & PRODUCTION

88 Energy spuds Icewine exploration well

The Icewine No. 1 exploration well on the southern North Slope was spud Oct. 22, 88 Energy Ltd. said in an Oct. 23 statement.

The well is being drilled from the Franklin Bluffs gravel pad adjacent to the Dalton Highway some 30 miles south of Deadhorse.

—KRISTEN NELSON

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‘Misery’ in Canadian service sector

CAPP forecasts drop of almost 50% in wells drilled; Peters & Co. says drilling slump could be longest, steepest of any since 1950s

By GARY PARK
For Petroleum News

Oilfield service companies have become the bellwether sector in Canada’s petroleum industry by pointing to a “brutal” market from which highly trusted investment banker Peters & Co. said recovery will first have to survive the steepest spending cuts in 60 years.

Precision Drilling which operates Canada largest drilling fleet and the all-purpose Mullen Group launched the third-quarter earnings season with an unvarnished grim outlook.

Mullen Chief Executive Officer Murray Mullen said “like many of our peers, we’re not having any fun right now.” He said his company is struggling through an “industry-wide state of depression” partly because it divided into two sections: oilfield services and trucking and logistics, unlike its rivals who are mostly trapped in a single business and are “pricing to survive.”

Mullen said his company will not invest in capital until there is a clear sign that the LNG industry will proceed and new pipeline takeaway capacity is approved.

Even with a boost from its trucking operations, Mullen reported that its revenue from the quarter dropped to C$305 million from C$357 million in the third quarter of 2014.

Loss at Precision

Precision reported an C$87 million net loss as revenue dropped to C$364 million from C$385.4 million a year earlier and took a C$74 million write-down of assets.

“The outlook is grim,” said Chief Executive Officer Kevin Neveu, predicting the weakest winter drilling season since the late 1990s as producers reduce their capital budget for 2016 by 30 percent to 50 percent.

The best he could offer was a prediction that the industry’s cyclical nature means a “rebound is inevitable. The downturn will persist in 2016 with visibility on a rebound non-existent at this point and rig activity will lag a price rebound.”

Precision said it retired five drilling rigs and 44 service rigs over the past year, trimming its fleet to 507 — 330 drilling and 177 service — while adding 18 rigs this year.

Neveu said producers have been sympathetic to the challenges facing their suppliers and “are not trying to put anybody out of business.” He insisted Precision, having seen a brief spring rally in oil prices evaporate, will not “underestimate the depth and voracity of this downturn.”

Wells predicted to be down almost 50%

The Canadian Association of Oilwell Drilling Contractors predicts 5,531 wells will be drilled in Western Canada this year, down almost 50 percent from 10,920 in 2014. It has yet to announce a forecast for 2016.

But Peters & Co. said the drilling slump could be the longest and steepest of any since the 1950s. It estimates operator spending in Canada will fall by 39 percent this year and 14 percent in 2016, marking only the third time the country has had back-to-back annual declines. The two previous occasions were 1986-87 (when the cumulative decline was 43 percent) and 1998-99 (which tallied a decline of 16 percent).

The firm said it anticipates lower Canadian drilling activity will stretch over seven quarters, with a cyclical recovery possible in the final quarter of 2016.

Peters said the low activity is translating into balance sheet deterioration as debt-to-cash-flow ratios move higher, predicting bank covenant relief will likely be needed by service companies such as Trican Well Service and Calfrac Well Services, while others review their dividend payments.

As these outlooks work their way to the bottom line, the Bank of Canada Gov. Stephen Poloz is warning that the oil price dive could act as a drag on the Canadian economy for another two years.

The bank downgraded its economic forecast for 2016 and 2017, citing a “complex” transition away from the once-thriving resource sector.

It has described the United States as being in “solid expansion” towards 2.5 percent growth this year, compared with Canada’s 1.1 percent.

Poloz said oil prices will continue to sap business investment and put a dent in the value of Canadian exports, wiping out some of the strong gains in the non-energy sector.

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ASRC permitting Placer infrastructure

ASRC Exploration LLC is requesting a land use permit for an upcoming oilwell exploration program at the Placer unit, just south of the Colville River Delta.

The permit would cover one exploration well and an associated ice road and pad infrastructure, as well as off-road thermistors installed before ice construction.

The company plans to use the Kukpik No. 5 drilling rig this coming winter to drill the Placer No. 3 well in the region between the Kuparuk River and Colville River units.

The well would delineate a reservoir previously encountered in 2004 by a group of companies led by ConocoPhillips Alaska Inc. with the Placer No. 1 and No. 2 wells.

ASRC Exploration is proposing to see Placer Permitting page 9
Legislature ponders TransCanada buyout

Administration recommending this to consolidate state’s voting position on AKLNG, save state money over ‘banking’ with TransCanada

By KRISTEN NELSON

The Alaska Legislature has been in session daily since the special session gavelied in Oct. 24, hearing Walker administration officials and experts on the issue of the state buying out TransCanada’s position in the Alaska LNG Project.

TransCanada, under a 2014 agreement with the Parnell administration, holds the state’s share of the project in the North Slope gas treatment plant and the pipeline, and is providing funding for the state’s share of work.

If TransCanada continues to hold the state’s share, it will repay TransCanada through a tariff once the project goes into operation.

The Alaska Gasline Development Corp. represents the state in the liquefied natural gas portion of the project and provides the state’s share of funding for work on the LNG plant, estimated to be about 15 percent of the total project cost.

The state holds an estimated overall 25 percent interest in the project, based on its expected 25 percent share of natural gas, through royalty and gas in lieu of production tax, but TransCanada acts in the state’s stead on 12.5 percent of that share.

Off ramp at end of year

The 2014 precedence agreement between the state and TransCanada provided what the Walker administration calls a “clean” off ramp for the state at the end of this year: If the state buys out TransCanada by reimbursing it for its expenses to date in the pre-front end engineering and design portion of the project by Dec. 31, the state can take over that role in the GTL and pipeline portions of the project.

The authority to make that decision lies with the administration, specifically the commissioner of the Department of Natural Resources, but the Legislature has to fund both the buyout and the state’s participation through the end of pre-FEED.

There is also a project deadline. The state has until Dec. 4 to provide funding for the state’s portion of AKLNG through the end of pre-FEED.

Pre-FEED, previously expected to wrap in early 2016, is now expected to wrap by the end of that year. At that point all parties would have to commit to move into FEED.

The administration said the change in schedule was due to a combination of factors, including some work being moved from FEED back into pre-FEED, more investigation for some issues and a response to the administration’s desire to see a 48-inch line, rather than the 42-inch line which is the current basis for planning.

Department of Natural Resources Commissioner Mark Myers told Senate Finance that the 42-inch line is optimal for just known Prudhoe Bay and Point Thomson natural gas, while the state wants to see the larger line to open the North Slope basin for more exploration.

Funding issue

The Legislature is being asked to vote on funding to buy out TransCanada, and to fund the state’s remaining share of work through the end of pre-FEED.

Office of Management and Budget Director Pat Pitney told Senate Finance that there are anticipated changes to the scope of pre-FEED work which increase the budget (for all parties) by $182 million to $694 million. The state’s share of the new total is $173 million, consisting of $66 million for the LNG plant and $107 million for midstream, the gas treatment plant and the pipe.

Scope changes include $57 million for optimization, work sometimes done in FEED which has been moved back to pre-FEED; $66 million to accelerate regulatory and pre-bid work on FEED contracting; $29 million to increase the scope of geotechnical and geohazard work at the GTP and LNG plant sites and to complete weather-delayed offshore field work; and $30 million to bring deliverables on the 48-inch pipe up to the level of $694 million.

Continued from page 8

PLACER PERMITTING

Build an ice road from an existing access road at the Mustang Pad to the south to the proposed 500-foot by 500-foot pad for Placer No. 3.

If the well is successful, the company plans to conduct a 30-day flow test, separate fluids on site, truck oil and water to existing North Slope facilities and flare natural gas.

The proposed exploration well was one of the requirements of an expansion of the Placer unit approved by state officials toward the end of 2014. ASRC Exploration had requested the expansion years earlier, although the matter was delayed by denials and appeals.

The justification ASRC Exploration gave for the expansion was the need to drill a third Placer well far enough from the previous two wells to make the results meaningful and not duplicative. A map included with the recent permitting papers shows the proposed Placer No. 3 well to be a little more than a mile to the west of Placer No. 1 and No. 2.

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By ALAN BAILEY

The U.S. Army Corps of Engineers has announced a 12-month pause in work on a feasibility study for deepening and expanding the Port of Nome. The decision comes as part of the fallout from Shell’s announcement that it is pulling out of Arctic offshore oil exploration for the foreseeable future.

Increasing marine traffic and offshore industrial activity in response to the shrinking extent of Arctic sea ice have triggered a long-standing debate over the need for an Alaska Arctic port that can handle deep-draft vessels. And early this year the Corps published a report selecting Nome as the preferred option among 14 possible port sites for the establishment of the first deep-draft port in Arctic Alaska.

Economics undermined

But in an Oct. 26 press release the Corps said that Shell’s Arctic withdrawal undermined both the economic assumptions for the Nome project and the overall justifi-

By GARY PARK

It took only three days for the incoming Canadian government of Prime Minister Justin Trudeau to draw a sharp distinction between its style and that of former national leader Stephen Harper. Encouraged by promises of a new rela-

New mood on climate front in Canada

Incoming government promises new relationship with provinces, territories; growing business support for lower emission levels

By ALAN BAILEY

Says economics of expanding and deepened port were based mainly on projected oil and gas industry activities in the Chukchi Sea

Says economics of expanding and deepened port were based mainly on projected oil and gas industry activities in the Chukchi Sea — by using Nome as a base port, vessels could save 1,600 miles per round trip, the Corps said. Currently, the near-
est deep-draft port to the Chukchi is in the Aleutian Islands.

Although, in general, the Corps would terminate a study that could not be economically justified, “because of the dynamic nature of the oil and gas industry and the strong interest in enhanced Arctic marine infrastructure the Corps and its partners have decided to pause the study, rather than terminate it,” the Corps said.

Continuous monitoring

During the 12-month suspension period the Corps and its partners will monitor Arctic activities to determine whether there is potential for continuing the study. Then, at the end of the period, the Corps, the state of Alaska and the city of Nome will assess whether to resume the study, either in its current form or with a changed scope, the Corps said. The Corps is also inviting comments on its action by email at AKRegPorts@usace.army.mil.

The concept that the Corps and its partners have been studying involves adding a 450-foot caisson dock to the existing Nome harbor, demolishing an existing spur breakwater, expanding the harbor’s causeway and dredg-
ing the floor of the harbor to a water depth of 28 feet, at an estimated cost of more than $200 million. The modi-

Deepening the harbor further, to say 35 feet, would entail dredging and disposing of a much larger volume of dredge material, an even higher cost and more and pose a greater environmental challenge.

During conferences and planning meetings conducted by the Corps and the state of Alaska a few years ago to identify Arctic infrastructure needs, Arctic stakeholders identified deep-draft vessel support as a top priority requirement.

Contact: alan@petroleumnews.com

New government promises new relationship with provinces, territories; growing business support for lower emission levels.

Although Harper’s administration had announced plans for a “framework to combat climate change,” with expectations that the Paris summit will draw much closer to putting a price on carbon.

Growing business support

The Canadian Chamber of Commerce provided indications of growing business support for action to lower emissions at a mid-October meeting when 98 percent of its members agreed on a resolution to “use economic instru-

That coincided with a call by the World Bank, International Monetary Fund and the Organization for Economic Co-operation and Development for coun-

In the absence of Harper’s refusal to take federal leadership on the issue, some provinces acted on their own. British Columbia instituted a carbon tax of C$30 per metric ton; Quebec entered a cap-and-trade pact with California, setting a price of C$12-CS15 per metric ton of carbon dioxide; and Ontario said it is open to joining; and Alberta imposed a C$15 per metric ton tax on excess carbon emissions by major industries, which its new Premier Rachel Notley wants to increase and expand.

Quebec has set the most ambitious tar-

target, committing itself to cut emissions from its hydroelectric sector to 37.5 percent below 1990 levels by 2030.

Contact: gary.park@petroleumnews.com

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Contact: gary.park@petroleumnews.com
OK to drill Nova Scotia deepwater

Shell gets approval after plan revised; capping stack required in 12-13 days, would come from Norway, backup stack from Brazil

By GARY PARK
For Petroleum News

A Canadian regulator has authorized exploratory drilling offshore Nova Scotia after accepting a revised plan by operator Shell Canada to cap any subsea blowouts.

But how far Shell will proceed with its C$970 million program depends partly on whether environmentalists and the fishing industry seek a court injunction.

The Canada-Nova Scotia Offshore Petroleum Board accepted Shell’s commitment to have a capping system on site in 12 or 15 days compared with its original plan of 21 days, but neither came close to the United States requirement of 24 hours for waters off Alaska.

Shell is also required to deploy a second capping stack as a contingency plan.

The company, in an environmental assessment for the project, said the capping equipment would be brought from Stavanger, Norway, with the backup stack coming from Brazil.

The offshore board said that before Shell can move to its planned second well it must receive a separate approval, which the regulator anticipates could be issued within a few days.

Stuart Pinks, chief executive officer of the CNSOPB, said the board decided that the previously proposed 21-day window for delivering equipment to the site was too long.

He also said a “number of the principal safety concerns were taken care of through the authorization process.”

“With the stringent requirements now in place for blowout preventers, independent well examiners, real time monitoring and CNSOPB’s deepwater drilling oversight plan … we are confident that all reasonable precautions to protect safety and the environment have been taken,” he said.

Pinks said Shell must report its activities daily, while regular audits and inspections will be conducted by CNSOPB staff.

The Canadian Environmental Assessment Agency said a blowout in the wells that are planned is unlikely.

Shell acquisition also involved $31 million and allowance for TransCanada would provide it with a vessel and $15 million, for a total to the state of $144 million, for a total of the state’s AKLNG team.

Senate Finance concerns

Legislators have expressed concerns over who heads the project for the state and on the availability of information.

Both of those issues boiled over in Senate Finance Oct. 28 when an AGDC presentation didn’t include its president, Dan Fauske.

Co-Chair Anna MacKinnon, R-Anchorage, begin the hearing by asking: “Where’s Dan Fauske?”

Joe Dubler, AGDC vice president of commercial operations, said he and Frank Richards, vice president of engineering and program development, had been asked to present.

Dubler said he wasn’t given a reason, but that Fauske was asked not to present.

Fauske had been online for an AGDC presentation and referred the committee to an Oct. 14 letter from Gov. Bill Walker asking the attorney general “to manage all written communications with the legislation until the conclusion of the special session.”

The attorney general

Attorney General Craig Richards told the committee he had been asked to coordinate presentations and referred the committee to “please send any written correspondence, presentations, or other materials to the Attorney General for approval before they are shared outside of the State AKLNG Team.”

The governor also said in the letter that all members of the state’s AKLNG team would be testifying at the special session should plan to be in Juneau by Oct. 21. “We will use this time prior to the start of the special session for team planning and preparation,” the governor said.

Richards said that in his role as legal counsel to the administration he had recommended that those who did the presentations to the Legislature be present in person, and that presenters be those technically prepared to go through the PowerPoint presentations.

But, he said, there were no restrictions on answering questions.

He told the committee that AKLNG required the state to act more like a commercial entity and said he thought it would be fairly irresponsible if the governor didn’t direct that materials to be presented at the special session go through an attorney before presentation.

He said the governor’s decision to have attorneys review materials was appropriate and said he’d fulfilled that role for hundreds of witnesses during his career.

‘Legalistic administration’

Sen. Peter Micciche, R-Soldotna, asked Richards if he asked some individuals not to testify. Richards said that fell under attorney-client privilege, but that he’d been told he could go into it. He said those to be presenting were requested to be in Juneau Oct. 21 and stay in Juneau during the session.

Micciche said he suddenly sees “a very legalistic administration” with a firewall between legislators and the people they’ve had access to. He said he didn’t want an attorney in the way of getting non-confidential information.

Fauske and other members of AGDC management were available online to answer questions when the AGDC presentation was given.

Contact Gary Park through publisher@petroleumnews.com

Contact Kristen Nelson at knelson@petroleumnews.com

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PND selects Wade Lundberg as new principal

PND Engineers Inc. has selected Wade Lundberg, P.E., to be a principal in the firm. Lundberg has 15 years of professional engineering experience, joining PND’s Anchorage office in 2000 and transitioning to its Seattle office in 2007. This summer, he relocated to Houston to help establish PND’s newest branch office. Lundberg has been involved in multiple infrastructure projects in both Alaska and the Lower 48 for resource development and aviation facilities, with particular expertise in design of facilities on perennial in Arctic Alaska.

PND, founded in Anchorage in 1979, is a full-service engineering firm that provides civil, structural, marine, geotechnical, and coastal engineering; hydrology; surveying; environmental permitting; project management; and construction inspection services for a range of projects.

Lam Q. Nguyen-Bull welcomed to Foss Maritime team

Foss Maritime announced that Lam Q. Nguyen-Bull has joined the company as the vice president, general counsel and chief ethics officer. Based in Seattle, Washington, Nguyen-Bull will lead Foss’s legal and risk management group, where in addition to providing counsel on legal issues and business strategies and practices, she will head up the company’s ethics and compliance programs and work to safeguard the values and reputation of Foss.

Nguyen-Bull came to Foss from parent company Saltchuk, where she served as associate general counsel and compliance officer. Prior to joining the Saltchuk family of companies, Lam was senior corporate counsel at Univar Inc., where she managed the company’s global litigation portfolio. Before going in-house, she clerked for the Honorable John C. Coughenour, and was a private practice litigator at Garvey Schubert Barer.

Profile Products acquires Central Fiber LLC

Profile Products LLC, a provider of environmentally friendly soil, water and vegetation management solutions, has announced the acquisition of the erosion control and landfill cover businesses of Central Fiber LLC, a manufacturer of cellulose and wood fiber products. The transaction includes all Central Fiber erosion control and landfill cover businesses as well as the company’s Canton, Ohio, production plant/distribution center, employees and sales team, strengthening Profile’s ability to meet a wide variety of customer product and service needs.

The acquisition augments Profile’s product portfolio with Central Fiber’s Second Nature and Enviro Fiber hydraulic mulches, complementing Profile’s broad range of products including Flexterra HP, ProMatrix and base mulch hydroseeding solutions for erosion control; and Central Fiber’s Topcoat and Waste-Coat landfill cover products, offering non-toxic and biodegradable solutions to comply with government landfill daily cover regulations.

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“PND is very happy to have Lam on the Foss team,” said Paul Stevens, president and CEO of Foss. “Her time at Saltchuk and her previous experience in both law and business makes her an exceptional addition to our executive team.”

Nguyen-Bull graduated from Harvard University magna cum laude and from Yale Law School, where she was an editor of the Yale Law Journal and editor-in-chief of the Yale Law & Technology Journal. She serves on the board of PeaceTrees Vietnam, a humanitarian organization working in central Vietnam and co-chaired the Joint Asian Judicial Evaluation Committee for 2015. Nguyen-Bull is the former president of the Vietnamese American Bar Association of Washington and is a current board member of the Asian Bar Association of Washington.

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

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not. But we have a project that is viable and this discussion can get over that line and into that construction. That's what Senate Finance and the Senate is ready to do.

Petroleum News: The schedules for your committee are pretty well laid out, but what is your objective with this bill?

MacKinnon: There are multiple branches of government. The administration — or the governor's office and his team — is one branch. The Legislature is another. Inside the Legislature, there are two independent bodies that have the fiduciary responsibility to review how we are spending money. The constitution of Alaska provides us that authority. So as we go through this, we are trying to make sure we ask the best questions that we know how. We expect and anticipate that the administration should be able to answer the questions. There are no gotcha questions that we are trying to put out there. They are questions that find relevance for the people of Alaska so they believe we have a project that is viable and can go to construction and can compete with other projects around the world.

Petroleum News: Is there anything that you want to learn from the administration that may be outside the scope of SB 3001, but can still help you lay some groundwork for the future?

MacKinnon: All of us are a bit anxious. We want a pipeline. I think it was apparent that we were asking OMB Director (Pat) Primey questions that others might have the answers for and she didn't have the answers.

As far as the partners go, we are asking AGDC concerning the marketing committee to offer their perspective or the governor's office regarding marketing. I believe a joint-venture marketing provides the state the best possibility of reaching markets we may not be familiar with and with certainty and from people who have been in those markets for years.

For example, ConocoPhillips for over 30 years exported to I believe Tokyo Electric, so we have a partner producer that has had a marketing agreement that has been successful and always with on-time deliveries. So I've heard that Alaska is talked about favorably in markets because of ConocoPhillips, a positive relationship in that market. So I think potential buyers in the Asian market are looking to that, so ConocoPhillips and a joint marketing venture with them seems to help with the state of Alaska. That may be a possibility with BP and it may be a possibility with ExxonMobil.

Phillips: It would be helpful to specifically what do we expect to receive from that marketing team? I'm just not sure what that $10 million holds. I'm sure we'll learn more from the attorney general and his budget advisors what do we get for our $10 million? Marketing is a concern because currently under SB 138, the constitution of the state of Alaska has DNR in charge of ensuring for the people of Alaska the wellhead value, so there is a rate of return on our capital investment available to us and TransCanada right now in our partnership on the gas pipeline and the gas treatment plant.

I've always said we should own more of the pipe because if we own the pipe, then we have a project and we have firm shipment commitments. So you have a project if you own the pipe — period. So I don't see the pipe as much of a risk as developing an LNG plant at the end of the chain. We've watched Australia and other LNG facilities have huge cost escalations.

We are partners in that, global partners, were actually in those projects that had cost overruns. So we have the benefit of that expertise and that experience. We have a special session being more cordial with the local points being narrowed.

MacKinnon: There would be a lot longer conversation so I think it’s less contentious. I hope people saw today that the Senate is genuinely trying to support the governor. He is the one who can deliver a project to Alaskans. We are not trying to gotcha anything. We want a gas line project. We want to monetize that. We want a pipeline to energize Alaska. We hope we're here for a shorter amount of time with the gas reserves tax off the table.

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Hughes said that if the projects associated with those licenses go ahead they would require a massive increase in exploration and production.

He estimated that there is enough gas in Western Canada to support only one large-scale LNG export facility, compared to the three to five the industry is counting on.

Hughes has also challenged reports published by the British Columbia Oil and Gas Commission that the province has 2,933 trillion cubic feet of resources, far surpassing the 2013 estimate of 42 tcf of proved reserves and 442 tcf of estimated reserves.

Not all economically recoverable

Keane said the 2,933 tcf figure is one that the commission and the energy board believe reflects British Columbia's gas storehouse although "probably not all of it is economically recoverable. But when you look at the reserves in British Columbia, they continue to grow year after year."

He said it would be illogical for companies to propose and start designing liquefaction plants costing the C$11.4 billion price tag of the Pacific NorthWest LNG terminal if there are no pipelines from the reserves that have turned LNG into a buyers' market, said Woodside President and CEO Peter Coleman.

"Unless those costs can be sharply lowered, it will not be possible to be competitive against supplies of natural gas that have turned LNG into a buyers' market," he told reporters at British Columbia's third annual LNG summit that Asian buyers will only pay a maximum US$10-US$11 per million British thermal units for long-term LNG.

The situation facing world LNG is currently similar to the late 1990s when there was a supply glut. As of September 2015, the prevailing value had fallen to $48.83 per barrel. Although the price of Alaska North Slope crude climbed through the spring, it fell over the summer. As of September 2015, the prevailing value had fallen to $48.83 per barrel.

When ConocoPhillips delayed the project earlier this year, it cited "permitting delays and requirements, as well as the current lower oil price environment." Around that same time, the U.S. Army Corps of Engineers announced it had issued a decision of record for the project that matched the alternative preferred by ConocoPhillips and also denied a permit. While BLM initially preferred a different approach, it ultimately sided with ConocoPhillips.

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Columbia (needs to come down by between 25 and 30 percent)."

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natural gas, thus eliminating the options of supplying gas to the city by small diameter pipeline or of supplying energy in the form of propane. LNG might come from the North Slope or from the Cook Inlet region, although there is one proposal involving importing LNG from Canada. The project team has also entered into discussions with gas producers who responded to a request for information about a possible source of Cook Inlet gas. The plan to get a gas supply in place, he added, was an important part of the gas supply plan that AIDEA is now considering options for in support of the supply of LNG to the region. The company said four wells are complete at CD5, with development plans calling for 11 more wells by early 2017. According to an annual status update, all wells will be horizontal, beginning with 13 wells into the Alpine A sand, six production wells and seven injection wells. A producer and injector are also planned for the Namaq Kuparuk sand. The company said four wells are complete at CD5, with development plans calling for 11 more wells by early 2017. According to an annual status update, all wells will be horizontal, beginning with 13 wells into the Alpine A sand, six production wells and seven injection wells. A producer and injector are also planned for the Namaq Kuparuk sand. The company said four wells are complete at CD5, with development plans calling for 11 more wells by early 2017. According to an annual status update, all wells will be horizontal, beginning with 13 wells into the Alpine A sand, six production wells and seven injection wells. A producer and injector are also planned for the Namaq Kuparuk sand. The company said four wells are complete at CD5, with development plans calling for 11 more wells by early 2017. According to an annual status update, all wells will be horizontal, beginning with 13 wells into the Alpine A sand, six production wells and seven injection wells. A producer and injector are also planned for the Namaq Kuparuk sand. The company said four wells are complete at CD5, with development plans calling for 11 more wells by early 2017. According to an annual status update, all wells will be horizontal, beginning with 13 wells into the Alpine A sand, six production wells and seven injection wells. A producer and injector are also planned for the Namaq Kuparuk sand. The company said four wells are complete at CD5, with development plans calling for 11 more wells by early 2017. According to an annual status update, all wells will be horizontal, beginning with 13 wells into the Alpine A sand, six production wells and seven injection wells. A producer and injector are also planned for the Namaq Kuparuk sand.
First Oil

ConocoPhillips Alaska predecessor Phillips Alaska brought the original Alpine field online in November 2000 from the field’s first drill site which also contains processing facilities. Alpine developed a 1994 discovery by Phillips Alaska predecessor ARCO Alaska. Initial development from the first two drill sites was completed by November 2005 and activity then shifted to satellites at Ford, Nunaq, and Qannik, which ConocoPhillips and its partner Anadarko brought on in August 2006 (Fiord), December 2006 (Nunaq) and 2008 (Qannik).

CDS develops Alpine West. Alpine is the farthest west producing field on the North Slope — and CDS is the farthest west production at Alpine and the fifth drill site serving the field.

Delays for CDS

Regulatory issues related primarily to a bridge crossing of the Nigliq Channel of the Colville River, which ConocoPhillips began permitting in 2005, delayed CDS, with the original application withdrawn in 2008 after officials in Nuiqsut and the North Slope Borough questioned the proposed bridge location. With agreement from the parties on a new bridge location, ConocoPhillips resubmitted its application in 2009, but the U.S. Army Corps of Engineers denied the permit in early 2010, suggesting instead that pipelines for the project be buried beneath the channel, using horizontal directional drilling. ConocoPhillips appealed the ruling and in late 2011 the Corps approved the bridge. The project was sanctioned in 2012 and construction began with ice roads, gravel haul and bridge construction in 2014. 2015 work included the Nigliq bridge, pipelines, power and facilities at the drill site.

Letters received

Walker said he received letters from the presidents of ConocoPhillips Alaska and BP Exploration (Alaska) Oct. 23 committing to a process to make their share of North Slope natural gas available to a future project.

He said he hadn’t received a letter from ExxonMobil, but had been talking to ExxonMobil and was hopeful that company would join BP and ConocoPhillips in the commitment, which will give the state assurance that if someone withdraws, the gas is committed to the project.

Walker said the companies asked him if he would stand down on the reserves tax in response, and the governor said as a result of the assurances he had received he would be taking that off the table for the special session beginning Oct. 24.

He said the big hurdle will be Dec. 4, the date Alaska must sign up for another year, providing funding for its share of additional AKLNG project work.

BP Exploration (Alaska) President Janet Weiss said “in the unfortunate event that the Alaska LNG Project does not progress, or BP does not participate in this project, BP has and continues to be willing to commit its Prudhoe Bay and Point Thomson natural gas to the Alaska LNG Project, or a substantially similar project that commercializes North Slope natural gas, on terms that are mutually and commercially reasonable.”

ConocoPhillips Alaska President Joe Marushack said “ConocoPhillips has been and would continue to be willing to enable a natural gas project by working with the State to make our share of Prudhoe Bay Unit and Pt. Thomson Unit natural gas that would have been available for AKLNG available to another project on mutually agreeable and commercially reasonable terms.”

Both letters say the companies are focused on the Alaska LNG Project, and both say will work with the state to “incorporate these terms into withdrawal and gas sales agreements” by Dec. 4.

Walker said in a statement that the goal was that a gas commitment to an Alaska project would endure should either producer withdraw from the current AKLNG project or should the AKLNG project fail to move ahead.

Walker called the reserves tax proposal “appropriate leverage for Alaska in response to a situation where known, producible gas could be withheld from a state project because it does not meet the commercial strategy of a particular producer.”

In addition to the withdrawal agreement, the governor said the state, BP and ConocoPhillips have agreed to complete project continuity and gas sale terms by early December.

“The continuity agreement will contain specific dates for the completion of the various commercial agreements that will enable this project to move forward,” Walker said.

The governor thanked ConocoPhillips and BP “for their commitment to address the state’s legitimate concerns regarding the assurance of a gas supply. I look forward to achieving the completion of the commercial agreements that will underpin the state’s fiscal commitments. Based on a call I received today from ExxonMobil, I am hopeful they will join ConocoPhillips and BP with a similar commitment,” Walker said.

Reserves Tax

for the administration. With the producers asking for fiscal certainty, it’s only fair that the state should have some asks as well, Walker said. And the state is asking that gas be available for the project.

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