Petroleum news

page 5 EIA forecasts are up for Brent price, US crude oil production

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Malamute de-risking Umiat; Hendrix signs on with NANA

Oil Patch Insider

MALAMUTE ENERGY, NEW OPERATOR of the 1 billion-barrel Umiat oil field on the eastern side of NPR-A, is working with researchers and technical experts to develop solutions to the challenges of producing light oil from the very shallow permafrost-hosted reservoir.

Umiat's reservoir lies within the Nanushuk formation, a rock unit that has attracted much interest of late because of major oil discoveries in the formation north of Umiat by partners Armstrong/Repsol and ConocoPhillips.

Company President Leonard Sojka told Petroleum News May 8 that in late 2017, "Malamute convened a multi-disciplinary technical workshop to evaluate the past work, technical assumptions, and open questions concerning production of the Umiat oil field. As a result … Malamute is now working with University of Alaska researchers and third party

see **INSIDER** *page 11*

Hilcorp only bidder on 8 tracts in state areawide Cook Inlet sale

Hilcorp Alaska was the only bidder in the state's May 9 areawide Cook Inlet oil and gas lease sale, bidding on eight tracts, some 16,636 acres, for an apparent high bid total of $298,799.76, the Alaska Division of Oil and Gas said after the public bid opening.

Hilcorp was also the only bidder in last year's Cook Inlet areawide sale, bidding on six tracts in that sale for a total of $836,502.

The division received no bids in the Alaska Peninsula areawide sale.

Hilcorp was also the only bidder in last year's Cook Inlet areawide sale, bidding on six tracts in that sale for a total of $836,502.

Division Director Chantal Walsh said after the sale that Hilcorp's bids indicated the company was still exploring and looking for both oil and gas. The company is the inlet's largest producer and operates the majority of Cook Inlet units.

Hilcorp appeared to be picking up tracts adjacent to or in the vicinity of units which it operates.

see **LEASE SALE** *page 12*

Enbridge faces US hurdle

Doubts now hang over market plans for another 760,000 barrels per day of Alberta oil sands crude on top of the 590,000 bpd of additional shipments planned for Trans Mountain.

The latest setback occurred when a Minnesota administrative law judge rejected Enbridge's preferred route for its Line 3 replacement covering 1,097 miles from Alberta to Superior, Wisconsin, leaving the Minnesota Public Utilities Commission to make a final decision in June.

Judge Ann O'Reilly agreed there was a need for the largest project Enbridge has ever undertaken, but also cited shifting energy demands and concerns over the company's plan to leave its existing line in the ground. Enbridge had previously said any suggestion of replacing the old line was impractical and cost prohibitive.

O'Reilly said that approval of the new routing across northern Minnesota and Wisconsin would leave open the possibility of two lines being abandoned when they were no longer economically useful.

She said the argument against new oil pipelines is valid "in a carbon-conscious world moving away from fossil fuels, a move

see **ENBRIDGE HURDLE** *page 8*

NATURAL GAS

Gas sales agreement

BP signs with AGDC to provide Prudhoe, Thomson gas to Alaska LNG project

By KRISTEN NELSON
Petroleum News

BOB DUDLEY

JANET WEISS

The Alaska Gasline Development Corp. has taken another step in its quest to commercialize North Slope natural gas, a plan which involves moving the gas to Southcentral Alaska on a proposed 800-mile pipeline, liquefying it and shipping it to buyers in the Far East as LNG.

BP Alaska and AGDC said May 7 that they have agreed to key terms of a gas sales agreement, including price and volume, with terms captured in a gas sales precedent agreement signed May 4.

The parties said in a joint press release that they anticipate finalizing a long-term gas sales agreement this year, under which AGDC would purchase BP Alaska's share of 30 trillion cubic feet of natural gas from the Prudhoe Bay and Point Thomson units.

The terms of the agreement were not released, but AGDC has said that it must be able to sell gas in Asia at $8 per million British thermal units to be

see **SALES AGREEMENT** *page 12*

PIPELINES & DOWNSTREAM

No traction on rails

Public, government support lacking for two Canadian plans to move crude to Valdez

By GARY PARK
For Petroleum News

Alaska and an electrified railroad are the key elements being held out as an answer to the pipeline impasse stonewalling Canada's search for a way to ship its oil sands crude to global markets.

That hope is also bogged down in what is viewed by the proponents as an apparent lukewarm response from within government circles in Alaska and Alberta.

Generating for Seven Generations, G7G, which has been advancing the idea of connecting the Alberta oil sands and Valdez for the past eight years, and a relative newcomer, Alberta Alaska Rail Development Corp., A2A, are competing for

The scheme currently involves shipping 1 million bpd of undiluted bitumen (which limits the environmental impact of a spill) at Delta Junction, where it would be unloaded, diluted and moved through the trans-Alaska oil pipeline to Valdez.

government, industry and First Nations support and financing.

Now that Enbridge's Northern Gateway plan to transport 525,000 barrels per day of crude to a British Columbia port at Kitimat has collapsed, after C$600 million of investment, and Kinder

see **RAIL PLANS** *page 11*

UTILITIES

Released for comments

GDS draft report on Railbelt Reliability Council circulated to stakeholders

By ALAN BAILEY
Petroleum News

GDS Associates Inc. has distributed its draft findings and recommendations on a proposed Railbelt Reliability Council for the Alaska Railbelt electricity grid — GDS is gathering comments on the draft report prior to making final revisions to the document. The Alaska Railbelt Cooperative Transmission and Electric Co., or ARCTEC, will then file the completed report with the Regulatory Commission of Alaska.

ARCTEC had commissioned GDS to facilitate the development of an RRC, an organization that would adopt and enforce reliability standards for the grid, with the possibility of eventually fulfilling the role of an independent or unified system operator for the grid.

The challenge in the Railbelt is a lack of consensus among stakeholders over what electricity cost savings might be achieved from the implementation of a single electricity load balancing area and economic dispatch across the entire Railbelt grid.

Unified management

The ARCTEC commissioned project has come as part of moves to achieve more unified management and operation of the Railbelt electrical system. The GDS draft report recommends the formation of an RRC as a nonprofit, member-based

see **RAILBELT GRID** *page 10*

● FINANCE & ECONOMY

AEA publishes draft VW settlement plan

Agency proposes five-years disbursement program, with specific funding for electric vehicle infrastructure and rural power supplies

By **ALAN BAILEY**
Petroleum News

The Alaska Energy Authority has published a draft plan for the distribution of the $8.1 million that Alaska will receive from the class action lawsuit against Volkswagen for the company's illegal defeating of emissions tests on its diesel engine vehicles. The funds must be spent by October 2027 on projects that result in the replacement of diesel engines in specific types of vehicles or equipment, or for equipment that supports zero emission vehicles such as electric cars.

The Alaska Energy Authority has been tasked as the lead agency in administering the distribution of the funds in the state.

AEA wants public comments on its draft plan, called the Beneficiary Mitigation Plan, by July 1. The plan sees the goals for use of the funds in the state to be the cost-effective reduction of nitrogen oxides emissions; the improvement of air quality and protection of human health; the leveraging of further funds that can increase benefits to Alaskans; and the targeting of actions that can benefit communities disproportionately impacted by air quality issues.

Emissions in Alaska

The agency's plan says that, in part because of a high dependency on diesel engines for power generation in many parts of the state, Alaska produces more nitrogen oxides pollution in proportion to its power generation that any other state. Moreover, transportation, in particular road transportation and the operation of commercial marine vessels, accounts for a significant proportion of nitrogen oxides emissions in the state.

There has been discussion in Alaska about the potential for using some of the Volkswagen funds to support the construction of an electric vehicle charging infrastructure and to assist with the replacement of aging diesel engines used for power generation in rural communities.

"The VW fund offers a great opportunity to not only reduce emissions and improve air quality, but also a pressing reason to collaborate with our partners around Alaska, on projects such as the transition to more electric vehicles in our state," said AEA Executive Director Janet Reiser in commenting on the AEA plan. "Alaska is cold and the distances between communities is large; for those reasons there is often skepticism about electric vehicles. However, technology is improving and the market for electric vehicles is growing. We're most interested in hearing which projects, like these, Alaskans care most about when it comes to reducing pollution in our state."

Five-year program

AEA proposes that the funds be disbursed over a five-year period — under the rules of the settlement, the funds must be used within 10 years, with no more than one-third used in the first year and no more than two-thirds in the first three years.

Under the draft plan, AEA proposes an expenditure of up to $1.2 million over the first three years of plan

see **VW SETTLEMENT** *page 3*

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● LAND & LEASING

State approves Willow exploration license

Cade and Donkel application is for area north of Houston, east of Parks Highway; 5-year license granted for $750,000 work commitment

By KRISTEN NELSON
Petroleum News

The Alaska Division of Oil and Gas has offered an exploration license in the Houston area to Samuel H. Cade and Daniel E. Donkel. In a May 1 decision, division Director Chantal Walsh found that the license would be in the best interest of the state. The license would give the licensee the exclusive right to explore for oil and gas.

Exploration licenses require a work commitment. This license is for a $750,000 work commitment, covers some 18,698 acres and has a term of five years. If the licensee accepts the license and meets the work commitment, the license may be converted to a lease.

Cade and Donkel do not hold any other exploration licenses in the state, but according to the most recent data available from the division, Cade holds 39,299 acres of state oil and gas leases; Donkel holds 24,361 acres.

Initial applicants, in 2007, were Cade, Donkel and LAPP Resources Inc. A 10-year license covering some 21,240 acres, was requested at that time. The division said LAPP resources has been removed from the application because it was dissolved as a corporation in the state in 2012.

David Lappi, president of LAPP Resources, died in 2011. He had been working to develop natural gas in the Matanuska-Susitna area since the 1990s.

Walsh said the division contacted Donkel and Cade in 2012 and confirmed that they were still interested in the pursuing the application. In 2015, Donkel and Cade submitted a written request to amend the application to include oil — the original application had been for natural gas only.

The Willow Houston license area covers some 18,698 acres north of Houston and generally east of the Parks Highway, and consists of state-owned, unencumbered land.

Licensees have 30 days from issuance of the findings to accept or reject the license.

Exploration license terms

Exploration licenses require a one-time $1 per acre license fee and the posting of an annual bond equal to the work commitment, in this case $750,000, less the cumulative amount expended and divided by the years remaining in the license term.

Once the work commitment is fulfilled, the bond is released; if the work commitment is not fulfilled, the bond is forfeited to the state.

An annual report is due on the license showing direct expenditures.

By the fourth anniversary of the license, at least 25 percent of the total work commitment must be completed or the license will be terminated and the remainder of the security will be forfeited to the state.

If the licensee has completed less than 50 percent of the total work commitment by the fourth anniversary of the license, 25 percent of the licensed area would be relinquished, with an additional 10 percent relinquished each successive year until half of the original acreage has been relinquished.

Once the work commitment has been met, all or a portion of the license — at the licensee request — can be converted to a standard oil and gas lease.

License area

The Willow Houston license area covers some 18,698 acres north of Houston and generally east of the Parks Highway, and consists of state-owned, unencumbered land.

In its decision the division said this license area is near the southeast corner of the Susitna sedimentary basin. Some 22 exploratory wells, stratigraphic tests and core hole wells have been drilled in the Susitna basin, the division said, 13 clustered near Houston and Willow at the southeastern margin of the basin. Most of these were drilled to evaluate shallow gas and coalbed methane potential.

Exploration for energy resources began in the Houston-Willow area in 1917, when excavations for the Alaska Railroad exposed subbituminous coal, the division said, with coal mined intermittently and supplying military bases until at least 1955.

The U.S. Bureau of Mines drilled three Houston core holes in 1951-52, with reports of methane and brackish water. Anchorage Oil and Gas completed a fourth Houston core hole in 1955, but there is no information on what that well encountered.

Anchorage Gas and Oil Development and Hackathorn Drilling completed five Rosetta oil and gas exploration wells between 1956 and 1962.

Then between 1998 and 2004, Growth Resource International and Evergreen Resources completed six coalbed methane exploratory wells in the Houston area.

"To date," the division said, "drilling in the area has encountered no oil shows, and only noncommercial quantities of gas."

The division said that based on geological, geophysical and engineering information currently available "and considering the exploration history and proximity to known hydrocarbon accumulations," its resource evaluation staff "currently evaluate the Houston-Willow area of the Susitna basin as having minimal oil potential and moderate to low potential for commercial gas production." ●

Contact Kristen Nelson
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continued from page 2

VW SETTLEMENT

implementation on electric vehicle infrastructure. The agency also proposes $250,000 annually for five years as matching funds for state and federal funding of rural power house diesel engine upgrades.

In the first year of plan implementation, $1 million, subject to 10 percent matching funds from government entities, would be set aside for state and local government power supply projects and for projects eligible under federal diesel emissions reduction legislation. Remaining funds available in year one would be awarded to qualifying projects through a competitive bidding process.

A somewhat similar procedure would continue in years two and three. In each of years four and five, three percent of the total funding available to Alaska would be dedicated to power supply projects, with any remaining funding being made available to competitive bidding for qualifying projects. ●

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● PIPELINES & DOWNSTREAM

CIRCAC project assessing pipeline risk

The citizens group wants to evaluate the structural integrity of aging oil and fuel gas lines in and around the Cook Inlet basin

By ALAN BAILEY
Petroleum News

The Cook Inlet Regional Citizens Advisory Council has commissioned Nuna Research and Planning Group to conduct a risk assessment of the various pipelines that run under and around Alaska's Cook Inlet, Michael Munger, executive director of CIRCAC, has told Petroleum News.

In line with CIRCAC's mandate to promote safe marine transportation and oil facility operations in the Cook Inlet region, the assessment is addressing onshore and offshore oil pipelines and pipelines that carry wet gas, gas that includes natural gas liquids as well as methane. The assessment is also addressing lines that deliver fuel gas to offshore platforms. The assessment is not considering natural gas transmission lines that carry dry gas around the region, Munger said. Nor is the project considering the flow lines that are internal to the Swanson River oil field on the Kenai Peninsula.

Concerns about pipeline condition

CIRCAC is concerned about the condition of the pipelines, given the pipelines' ages and the fact that independent companies such as Hilcorp Alaska are now talking about operating the lines for at least another 20 years.

"Many pipelines have been operating since the mid '60s in an extremely harsh environment," Munger said.

CIRCAC had been considering the possibility of a pipeline risk assessment for many years — in 2000 the Alaska Department of Environmental Conservation had money for a risk assessment in its budget, but that project stalled, Munger said. He emphasized that the project is not a criticism of the oil companies.

"It's great that these oil fields are being revitalized as the independent companies move in, but we just have to ensure that these aged systems are operating structurally sound and that they will be for the foreseeable future," Munger said.

Cleaning up an oil spill in the Cook Inlet would be difficult in summer conditions and would be very, very hard in the winter, he said.

Munger said that CIRCAC had begun the project using $50,000 of its own funding, with the Kenai Peninsula Borough chipping in $15,000. There is a further $200,000 in funding in the Alaska Department of Environmental Conservation's capital budget request, although that request has not yet been approved by the Legislature. CIRCAC is also planning to apply for a technical assistance grant from the federal Pipeline and Hazardous Materials Safety Administration, Munger said.

The oil industry is involved and is being very cooperative, he said.

Two-phase program

Tim Robertson, a principal with Nuna Research, characterized the project has a two-phase program, using the methodology that his company had adopted for a North Slope risk assessment following some oil leaks on the Slope a few years ago. The first phase involves creating an inventory with all available information about the pipelines, including locations, construction materials, corrosion prevention programs and any past history of spills. The second phase involves assembling a panel of nationally recognized experts in corrosion, pipeline construction, pipeline leak detection and civil engineering. The panel will review the pipeline inventory — Nuna Research will provide forums in which the panel can talk to the pipeline operators and to members of the public. The panel will then deliberate what they have found and make recommendations for operators and regulators.

Assembling the inventory

The project team has been engaged in the first phase of the program, assembling the pipeline inventory, pulling information from a wide variety of sources, including the Alaska Department of Environmental Conservation, the Alaska Department of Natural Resources and from the Pipeline and Hazardous Materials Safety Administration, Robertson said. Some of the pipelines were built in the '60s when there were no digital records, and some are no longer in use, he said. The team has pulled the information together, including all that is known about each pipeline, and constructed pipeline maps. And, at this point, the project has engaged the pipeline operators, asking them to review the information and to provide any additional information that they may have, Robertson said. That process will likely take some time to complete, he said.

Following a review with the operators and the regulatory agencies, the information will become publicly available. The next step will be to initiate the panel review, a step that will require additional funding from the state, Robertson said. ●

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EXPLORATION & PRODUCTION

Tundra travel on state land ends for season

The Alaska Department of Natural Resources has closed all off-road tundra travel on Arctic state lands, thus bringing to an end this winter's off-road travel season. The agency closed the Lower Foothill area at 6:30 p.m. on May 6 and the Eastern and Western Coastal areas at 9:30 p.m. on May 8. In each case off-road travel already in progress had to be completed within 72 hours. There has been widespread deterioration of the snow pack and the emergence of large swaths of visible vegetation, DNR said.

DNR said that snow may still be adequate for tundra travel in some places but that, with forecast rising air temperatures and the potential for the sun to further compromise the snow pack, and with the highly variable snow conditions, the department had to order the tundra travel closure. The department said that it would consider granting travel extensions on a case-by-case basis in areas where the snow pack remains adequate.

The Upper Foothills area has not opened for tundra travel this winter.

Summer off-road travel may begin on or after 6 a.m. on July 15 for holders of valid permits for off-road operations using vehicles certified by the state for tundra travel.

—ALAN BAILEY

FINANCE & ECONOMY

EIA forecasts up for price, US production

Agency's May Short-Term Energy Outlook predicts Brent at $71 this year, US crude at 10.7 million bpd, up to 11.9 million next year

By KRISTEN NELSON
Petroleum News

The U.S. Energy Information Administration is forecasting higher Brent crude oil spot prices for this year and next, with the 2018 price now forecast to average $71 per barrel and the 2019 price averaging $66.

"The short-term outlook is revising its forecast for Brent crude oil spot prices, after April's average came in at $72 per barrel, which was the first time the average for Brent spot prices topped $70 per barrel since 2014," said EIA Administrator Linda Capuano in a May 8 statement. "Inventory draws and growing demand have offset production increases to push prices up. We can attribute strong demand to recent economic growth," she said.

The Brent 2018 forecast is an increase of $7 per barrel from the April forecast, she said.

"While this month's forecast also revises next year's spot price higher, EIA expects that prices will decrease to an average of $66 per barrel in 2019," Capuano said.

The 2019 forecast is up $3 per barrel from April.

EIA said it expects West Texas Intermediate crude oil prices to average $5 below Brent in both 2018 and 2019.

The agency said crude oil prices at the end of April reached their highest levels since 2014, "following five consecutive quarters of global oil inventory draws." Global petroleum inventories have declined at an average of more than 500,000 bpd since January 2017, the beginning of the crude oil production agreement by countries both in the Organization of the Petroleum Exporting Countries and outside that organization, EIA said. The agency said that excluding countries not subject to the production reductions — Libya, Nigeria and Equatorial Guinea — OPEC production is estimated to have been 29.3 million bpd in April, the lowest level since April 2014 and 400,000 bpd below agreed-upon production reductions.

Another factor in the oil price rise may have been anticipation of reinstitution of sanctions on Iran, which, EIA said, could contribute to reductions in that country's production.

DR. LINDA CAPUANO

The agency said it estimates that global oil demand also added to upward price pressures, with first quarter 2018 global consumption 1.9 million bpd, 2 percent, higher than in the first quarter of 2017.

US crude production rising

EIA said it estimates that U.S. crude oil production averaged 10.5 million barrels per day in April, up 120,000 bpd from March, and projects that the 2018 average will be 10.7 million bpd, up from 9.4 million bpd in 2017.

For 2019, EIA expects an average of 11.9 million bpd, an increase of 400,000 bpd from the April forecast, with production at the end of 2019 expected to be more than 12 million bpd, an increase the agency attributed to the higher price environment.

"The revised U.S. crude oil production growth forecast is the main contributor to increased global liquid fuels supply in 2018 and 2019," EIA said, with a growth of 600,000 bpd on average forecast for 2019, compared with growth of less than 200,000 bpd expected in 2018.

"EIA expects the higher forecast inventory growth in 2019 compared with 2018 will put downward pressure on oil prices toward the end of 2018 and into 2019," the agency said.

Natural gas

U.S. dry natural gas production averaged 73.6 billion cubic feet per day in 2017, EIA said, and is forecast to average 80.5 bcf per day this year, "establishing a new record." The agency expects natural gas production to rise again by 2.9 bcf in 2019 to 83.3 bcf per day.

The agency said growing U.S. production is expected to support increasing natural gas exports, with net exports forecast to increase from 0.4 bcf per day in 2017 to an annual average of 2 bcf per day this year and 4.6 bcf per day in 2019.

Natural gas inventories in April ended the month 27 percent below the five-year average for the end of April.

"Last month was the coldest April in 21 years, which was likely why the month set the record for the smallest April U.S. natural gas injection on record, according to this month's forecast," Capuano said.

She said the May outlook "continues to expect that inventories will recover before the end of the year. The United States will likely set new natural gas production records this year, which will enable this injection season to push inventory closer to the five-year average by October."

EIA said it expects Henry Hub natural gas spot prices to average $3.01 per million British thermal units this year and $3.11 in 2019. The agency said prices remained relatively flat despite inventories falling more than 500 bcf below the five-year average, and said it expects that higher natural gas production during the injection season will offset low storage levels and keep price movements moderate. ●

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LAND & LEASING

State supplements Beaufort sale finding

The Alaska Division of Oil and Gas has supplemented the best interest finding for the Beaufort Sea areawide lease sale and issued no substantial new information decisions for both the Beaufort Sea and North Slope Foothills areawide lease sales.

Division Director Chantal Walsh said in a May 1 decision that information received warrants a revision to the description and boundary for the Beaufort Sea sale allowing the division to offer all state of Alaska and Arctic Slope Regional Corp. jointly owned tracts within a single areawide sale boundary.

Formerly those tracts were split between the Beaufort Sea and North Slope areawide lease sale areas.

This revision involves 21 640-acre tracts, a total of some 13,440 acres.

The Beaufort Sea final best interest finding was issued in 2009; it was supplemented in 2010 and 2011; decisions of no substantial new information were issued 2012-17.

The North Slope Foothills final BIF was issued in 2011; decisions of no substantial new information were issued 2012-17.

The director found that a supplement for revision to description and boundary for the Beaufort Sea areawide lease sale is warranted.

Tracts jointly owned by the state and ASRC within the 2009 Beaufort Sea areawide BIF boundary have been included in the 2018 North Slope areawide lease sale area. The tracts are on the northwestern edge of the North Slope areawide sale area.

—PETROLEUM NEWS

The director found that a supplement for revision to description and boundary for the Beaufort Sea areawide lease sale is warranted.

● GOVERNMENT

Legislature passes Permanent Fund bill

Bill authorizes state appropriation based on percent of fund's market value; permanent fund dividend calculation remains unaltered

By ALAN BAILEY
Petroleum News

In a move aimed at helping to close Alaska's fiscal gap, on May 8 the state Legislature passed Senate Bill 26, a bill limiting state appropriations from the Permanent Fund to a percentage of the fund's market value, or POMV. The concept is that, by capping the annual appropriation at an amount that represents the expected long-term average annual growth of the fund, adjusted for inflation, the value of the fund will be preserved for future use.

The bill does not impact the manner in which annual permanent fund dividends paid to state residents are calculated.

POMV calculation

Specifically, the legislation says that the amount of money available for appropriation equals 5.25 percent of the average market value of the fund for the first five of the preceding six fiscal years, including the fiscal year just ended. Presumably this method of calculation will dampen out annual swings in the fund's value. On July 21, 2021, the percentage available for appropriation will drop to 5 percent. The Permanent Fund statute will continue to require topping up of the fund's principle, if necessary, to account for inflation.

"This landmark legislation is a major step toward ensuring that the fund — and the dividend program — will remain permanent. By stabilizing revenues, we secure Permanent Fund dividends for our children and grandchildren, and ensure services provided by the Alaska State Troopers, road maintenance crews, and teachers will continue for generations," said Gov. Bill Walker in response to the passage of the bill. "SB 26 lays the foundation for our economy to grow and prosper. It provides for efficient investment of the Permanent Fund, improves the state's position in financial markets, and perhaps most importantly, allows Alaskans to be fully confident in the future of their households and their communities."

Under the state constitution only realized earnings, earnings that result from the sale of assets or the earning of interest, can be withdrawn from the fund. The fund's principle cannot be used for withdrawals or appropriations. Each year the realized earnings are added to the fund's earnings reserve account. The new legislation says that the appropriations based on the fund's market value will be drawn from the earnings reserve — Petroleum News understands that there are more than enough funds currently in the earnings reserve account to support percentage of market value appropriations for the foreseeable future.

A simplification

Although there has been some broad consensus among lawmakers on the need to use earnings from Alaska's Permanent Fund to help fill the continuing shortfall in the state's funding requirements, there has been lengthy debate over the last couple of years regarding the specifics of how this might be done. At the end of the 2017 legislative session the House and the Senate each had its own bill, each with different provisions relating to parameters such as the level of the permanent fund dividend, and provisions that would mandate a reduction in the maximum Permanent Fund appropriation when state oil and gas revenues are high.

The bill that has now passed represents a considerable simplification, merely setting a maximum annual appropriation based on market value, while retaining the existing permanent fund dividend calculation and the arrangements for fund inflation protection. ●

Contact Alan Bailey at abailey@petroleumnews.com

● EXPLORATION & PRODUCTION

Glacier has high hopes for Starfish

Company expects well to come onto pilot production by mid-year; results could drive future drilling and pad construction

By ERIC LIDJI
For Petroleum News

The results of the Starfish program will likely guide development work at the Badami unit for several years, according to a development plan for the eastern North Slope unit.

Glacier Oil & Gas Corp. expects to bring the B1-07 exploration well at the Badami unit into production by mid-July 2018. Through its subsidiary Savant Alaska LLC, the company began drilling the well earlier this year outside the existing Badami Sands participating area using Nabors Rig 27E. B1-07 is targeting the Starfish prospect.

According to the 15th plan of development for the Badami unit, filed with the state Division of Oil and Gas on April 18, Glacier expects to bring the B1-07 well "on pilot production" before the end of the current development year on July 16. If warranted by the results of the current well and economic conditions going forward, the company plans to drill as many as two additional wells at Badami during the winter of 2018-19. Glacier also said that it intends to apply for a new participating area covering Starfish oil production, if the well is successful. And the company noted that a new drilling pad "will likely be necessary" to fully explore and delineate beyond the existing participating areas.

The plan lends credence to a claim Glacier CEO Carl Giesler made to the Alaska Support Industry Alliance last year: "If this well works close to what we think it will, it should open five to seven more prospects similar to it." In its 2017 plan of development, Glacier described Starfish as one of "several new target 'pods' of interest" identified through a review of the Badami and Killian sands. Starfish is "southwest of the current development area within the Badami Sands" participating area in the middle of the unit.

The Alaska Oil and Gas Conservation Commission issued a permit on Jan. 12 for Savant to drill the Badami B1-07 well on ADL 367011. Although the company is describing the project as exploratory, the commission categorized B1-07 as a development well. (This discrepancy is why an article in the upcoming issue of The Explorers incorrectly stated that Glacier had yet to begin drilling the B1-07 well by the time the issue went to press.)

Badami is uniquely positioned to accommodate new development. The 38,500-barrel-per-day processing facilities at the unit currently handles approximately 1,000 barrels per day, a reminder of the ambitions of the original operator, BP Exploration (Alaska) Inc.

The Starfish project is the first new drilling at Badami since Savant completed the Badami Unit Red Wolf No. 2 well in April 2012, according to AOGCC well reports. In the intervening years, Savant devoted its resources to workover projects and was stalled by a bankruptcy proceeding involving its former owner Miller Energy Resources Inc.

Through those proceedings, Glacier assumed control of Savant in early 2016. The company initially took a cautious approach to its new properties by focusing on low-risk development projects but began announcing potential exploration work last summer. ●

Contact Eric Lidji at ericlidji@mac.com

GOVERNMENT

AOGCC removes sunset clauses

The Alaska Oil and Gas Conservation Commission voted unanimously at a May 2 public meeting to remove sunset clauses from 10 conservation orders issued in 2015 and 2016, the only orders to contain such sunsets. During that time the commission was proposing multiple changes to its regulations, including a five-year sunset for conservation orders, or a sunset when the operator for the property changed. The commission approved changes to its regulations late last year; the sunset was not included in those changes.

In 2016 comments on the proposed regulations, the Alaska Oil and Gas Association and ConocoPhillips Alaska objected to the sunset proposal. AOGA told the commission that sunsetting would create greater uncertainty, noted that the commission already had authority to alter orders and said the automatic sunset would place a large administrative burden on operators. ConocoPhillips said it strongly opposed the sunset proposal, calling it an "onerous rule" and saying the company saw "a high risk of new and unnecessary problems" with automatic expiration.

While the commission was considering the proposed regulatory changes it included sunsets in the 10 orders.

Dave Roby, AOGCC senior petroleum engineer, summarized the issue at the May 2 meeting. He said the sunset clauses were included at a time when the commission expected to make regulatory changes requiring sunsets. After putting out the proposed regulations the commission decided it didn't need the sunset clause, Roby said, as the commission has the authority to open an order at any time.

The 10 orders included a 2015 area injection order for the Thomson sand at the Point Thomson unit, along with orders covering various other North Slope oil pools and units, several orders for Cook Inlet oil pools and two Cook Inlet area disposal orders.

Roby said there had been opposition to including the sunset, but none to taking it out.

—KRISTEN NELSON

FINANCE & ECONOMY

US prices top $70 for first time since ’14

By DAVID KOENIG

Associated Press Business Writer

U.S. oil prices crashed through the $70-a-barrel mark on May 7 for the first time since late 2014, foreshadowing costlier gasoline and consumer goods.

It’s not clear that pricey crude will slow down the economy, however.

The stock market closed slightly higher as investors bet that companies and consumers can cope with the increase, although airlines — a big consumer of fuel — slipped.

Benchmark U.S. crude rose $1.01 to settle at $70.73 a barrel on the futures market in New York. The international standard, Brent crude, was up $1.30 to $76.17 in London.

Analysts said the recent rally in oil prices has been driven mostly by strong demand and limits on production. But, they said, a contributing factor is concern that Iranian oil exports will fall if the U.S. withdraws from a 2015 deal that eased sanctions on Iran in exchange for limits on its nuclear program. Also, U.S. stockpiles of crude are down from this time last year.

The national average for gasoline is now $2.81 a gallon, according to the auto club AAA, and it’s not even the peak driving season yet. Pump prices are up 15 cents from a month ago and 46 cents from a year ago.

Eventually fuel prices show up in the costs of all sorts of consumer goods that are hauled by plane, train or truck. Online shoppers could see fewer offers of free shipping, said Diane Swonk, chief economist for accounting firm Grant Thornton LLP.

Swonk believes that oil prices are not yet high enough to derail economic growth.

“We are still adding jobs, and that is helping us to absorb it,” she said. “Wages aren’t accelerating as rapidly as we would like, but we are hearing a lot of anecdotal reports of wages picking up and that should help.”

Others are less sanguine. Longtime energy economist Philip Verleger believes the run-up is enough to trim growth “because consumers are going to have to cut expenditures on stuff other than gasoline.” And he believes that oil prices are heading much higher.

Iran produces nearly 4 million barrels a day out of global total of about 98 million barrels per day. Analysts say that sanctions could cut Iran’s sales by between 200,000 and 600,000 barrels a day.

Verleger cited several other signs that could point to higher crude prices, including comments by Saudi energy minister Khalid al-Falih that current prices aren’t hurting demand, implying that they could go even higher. He also pointed to a report that U.S. oil company ConocoPhillips is trying to seize Caribbean assets of Venezuela’s state-run oil company to recover a $2 billion award for Venezuela’s nationalization of the company’s projects there. Throw in a proposal by a UN agency that wants ships to use less high-sulfur fuel, and he thinks oil might hit $200 — a level never seen — by the end of 2019.

U.S. oil production is up about 13 percent from a year ago, but demand has been strong too. The Energy Department’s latest tally put the U.S. stockpile of crude at 436 million barrels as of April 27. That was an increase from the week before and more than analysts expected, but the stockpile was down 17.4 percent from a year earlier.

Saudi Arabia has led a group including OPEC members and other producers to limit production since the start of 2017 in a bid to dry up the glut that caused global oil prices to collapse starting in mid-2014.

The strategy has worked, aided by rising global demand for energy. Saudi Arabia, OPEC’s most important member, is pushing to extend the production cuts beyond this year. ●

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ENBRIDGE HURDLE

that Minnesota aspires to follow.”

Enbridge spent US$5.3 million last year on lobbying efforts in Minnesota, “largely due to the intensity of the regulatory process” that included participating in 22 Department of Commerce public meetings and three weeks of evidentiary hearings, and countering arguments by two Ojibwa reservations, Greenpeace, the Sierra Club and Honor the Earth, some of whom have threatened to repeat the protests in North Dakota against the Dakota Access pipeline.

The Minnesota Department of Commerce has argued that the existing Enbridge line should be shut down entirely, while the Sierra Club said the pipeline “runs contrary to the interests” of Minnesotans by increasing capacity for “tar sands oil, the most carbon-intensive and polluting form of oil.”

Jobs for Minnesotans, an umbrella group representing business and labor interests, endorsed the construction of the “much safer” Line 3 that would have a direct economic impact on 6,500 jobs and C$20 million in annual tax revenue for municipalities.

Nancy Norr, co-founder of the group, said that even though Minnesota is moving forward with renewable energy, it must “ensure we still have reliable supplies of both electricity and transportation fuel.”

The Canadian government approved Line 3 in late 2016 and work has already started on the Canadian side of the border.

—GARY PARK

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EXPLORATION & PRODUCTION

US drilling rig count rises by 11 to 1,032

The number of rigs drilling for oil and natural gas in the U.S. increased by 11 the week ending May 4 to 1,032.

At this time a year ago there were 877 active rigs.

Houston oilfield services company Baker Hughes reported that 834 rigs drilled for oil (up nine from the previous week) and 196 for gas (up one). Two were listed as miscellaneous (up one).

Among major oil- and gas-producing states, New Mexico added six rigs and Oklahoma and Texas each gained two. Alaska, Louisiana and North Dakota added one apiece. Colorado declined by one.

Arkansas, California, Ohio, Pennsylvania, Utah, West Virginia and Wyoming were unchanged.

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

—ASSOCIATED PRESS

● GOVERNMENT

Trump proposes easing leasing restrictions

By MATTHEW BROWN

Associated Press

The Trump administration wants to ease restrictions on oil and gas leasing and other activities across a huge swath of the American West that were put in place to protect an imperiled bird.

The move involves conservation plans for greater sage grouse approved in 2015 under former President Barack Obama. President Donald Trump has vowed to increase U.S. energy production and open more lands to drilling.

Conservation groups critical of Trump's energy policies warned the May 2 proposal could unravel a years-long effort to shore up the bird's struggling population.

Interior Department officials said the revisions to the Obama-era plans were aimed at increasing flexibility on public lands where the birds reside — not undoing protections outright. Colorado Gov. John Hickenlooper, a Democrat, was among elected officials in the region who voiced support for the move, saying it allowed for a "Colorado-specific approach."

Sage grouse are ground-dwelling, chicken-sized birds known for an elaborate mating ritual in which males strut around breeding grounds with large, puffed-out air sacs protruding from their chests. The species' population declined sharply in recent decades due in part to drilling, grazing and other human activities.

The May 2 proposal affects conservation plans for grouse in Wyoming, Idaho, Nevada, Colorado, Utah, California and Oregon. The birds also are found in portions of Montana, Washington state and the Dakotas.

A spokeswoman for Interior Secretary Ryan Zinke described proposed changes as largely technical in nature. They were made in response to feedback the agency received about the 2015 plans from governors in sage grouse states, spokeswoman Heather Swift said.

The changes could open some areas previously closed to leasing and allow waivers or exceptions to rules that prohibit drilling pads and wells in other areas.

"There's not a significant environmental impact," Swift said.

Kathleen Sgamma with the Western Energy Alliance said the industry lobbying group was pleased that Zinke was "moving forward with rewriting the sage grouse plans."

Environmental groups earlier in the week filed two lawsuits in federal court alleging the administration since taking office has sold energy leases on hundreds of thousands of acres in at least four states in violation of the Obama-era plans.

The groups asked the courts to reverse those lease sales and block several upcoming sales.

Michael Freeman with Earthjustice, the law firm representing environmentalists in one of the cases, said the administration's latest proposal doesn't mean it can ignore the conservation plans already in place.

"They were still in effect when the lease sales were held," Freeman said.

The proposed changes are expected to be finalized in October. ●

Petroleum news

Oil Patch Bits

No. 27 makes the rounds in Alaska and Washington

COURTESY LYNDEN

Lynden said May 3 that its restored tractor and trailer that began Alcan service in 1954 has undergone a refresh and update in preparation for a busy travel season. Each year, the iconic tractor-trailer is part of community events and parades throughout Alaska and Washington. A museum showcasing Lynden's history is inside the trailer and is open for tours during the events. Chairman Jim Jansen is often at the wheel in addition to other Lynden drivers. Events include the Colony Days parade in Palmer, Alaska, the Golden Days parade in Fairbanks and the Alaska Trucking Association's truck driving championships in Anchorage, as well as many others. Keep your eye out for No. 27 this summer and check out the museum!

Stork awarded Garamite additives expansion project

Fluor Corp. announced May 1 that Stork, part of Fluor's diversified services segment, was awarded a construction contract by BYK USA Inc. for its new Garamite additives process unit at its manufacturing plant in Gonzales, Texas. Fluor booked the undisclosed contract value in the first quarter of 2018.

"The new contract from BYK expands Stork's services at the Gonzales site where we are already providing engineering support for an existing process unit and a new wastewater treatment plant," said Taco de Haan, Stork's president. "This important new award validates Stork's commitment to building long-term relationships with our clients by providing an unremitting focus on safety, client satisfaction and delivering execution excellence."

"During the bid process, Stork developed the perfect fit for our project requirements and challenges by offering concrete solutions to optimize the project needs," said Arturo Nodal, project manager and project engineer at BYK. "I am impressed with Stork's remarkable perseverance and effectiveness to earn our business and to be part of BYK's future endeavors."

BYK is a world leading supplier of chemical additives and measuring instruments. Garamite products from BYK are natural rheology additives. They ensure, for example, that coatings have the right viscosity and contribute to the lightweight construction of automobiles.

Editor's note: Some of these news items will appear in the next Arctic Oil & Gas Directory, a full color magazine that serves as a marketing tool for Petroleum News' contracted advertisers. The next edition will be released in September.

Companies involved in Alaska's oil and gas industry

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

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RAILBELT GRID

organization, governed by a board of directors and regulated by the Regulatory Commission of Alaska.

In addition to the GDS recommendation, there are currently two other concepts being floated for an operator for the electrical system: a state authority being proposed in House Bill 382, a bill being considered by the state Legislature, and a proposal being put forward by the Alaska Energy Authority.

In its draft findings GDS says that, although there is a diverse range of views on an RRC's potential functions and effectiveness, there is near consensus among the stakeholders that the RRC should be responsible for system reliability, for open access to the transmission system, and for the wholesale market settlement for the delivery of electricity. However, there is debate over the potential role of the RRC in oversight of the Railbelt grid as a single electricity load balancing area, with the economic dispatch of power across the system. Economic dispatch refers to the continuous use of the cheapest available power generation.

Economic dispatch

In considering the economic dispatch question, the draft report references system operators in the Lower 48, in particular the Electricity Reliability Council of Texas, that oversee electrical systems massively larger than that of the Alaska Railbelt. Given the scale of the electrical systems in the Lower 48, many independent system operators, or ISOs, operate energy markets, matching bids and offers from a large numbers of electricity suppliers and transmission customers on a continuous basis, the draft report says.

But given the small scale of the Alaska Railbelt system and the lack of liquidity in the Railbelt power generation market, a coordinated energy spot market would likely be beyond what is necessary to achieve operational efficiencies in the Railbelt — achieving benefits from the optimum use of Railbelt generation facilities can be achieved through the economic stacking of generator use, based on the daily running costs of the generators, the draft report says. An ISO-managed economic dispatch system, on the other hand, tends to use energy pricing based on a bid schedule, rather than on a database of production costs, the report says.

The challenge in the Railbelt is a lack of consensus among stakeholders over what electricity cost savings might be achieved from the implementation of a single electricity load balancing area and economic dispatch across the entire Railbelt grid. To address this challenge, the RRC, once formed, should constitute a committee of its members to commission a simulation study that would conduct a cost/benefit analysis for implementing system-wide economic dispatch in the Railbelt. The ratio of the 10-year net present value of the cost benefits of economic dispatch needs to be at least 1.5 times the cost of operating the ISO, the draft report suggests. The analysis needs to take into account benefits that might be obtained from deferred transmission expenses, the reduction of reserve margins and improved reliability, the report says.

Reliability standards

The draft report recommends that the RRC should adopt, administer and enforce Railbelt electricity reliability standards. Those standards should incorporate cyber security and physical security, in compliance with a memorandum of understanding agreed between the Railbelt utilities and the Alaska Energy Authority in October 2017. The standards need to meet the requirements of the RCA. Enforcement of the standards should include the use of an appropriately experienced firm to conduct spot checks of standards compliance by transmission system owners, the draft report says.

RRC oversight of transmission system access should ensure non-discriminatory generator connection and use of the transmission service. And the organization needs to administer a consolidated tariff for the use of the system. The RRC needs to establish and administer a study process for the connection of single generators to the system, taking into account the technical, physical and financial requirements for generators, the draft report says.

In terms of planning for the modification and expansion of the Railbelt electrical system, the RRC should adopt a process that develops an integrated resource plan addressing future energy needs in the entire region, the report says. The integrated resource plan needs to take into account a range of issues including supply reliability; the efficient siting of generation facilities; the efficient, economic integration of renewable resources; the minimization of electricity production costs; and the need for local planning by individual utilities within the system. As part of its planning role, the RRC would, subject to RCA approval, issue notices for the construction of facilities specified in the integrated resource plan.

The draft report recommends a 10-member board to govern the RRC, with eight voting members plus the RRC chief executive officer and the chair of the RCA.

10-member board

The draft report recommends a 10-member board to govern the RRC, with eight voting members plus the RRC chief executive officer and the chair of the RCA. The voting members would consist of four representatives of Railbelt transmission system owners and four non-owners. The four owner representatives would consist of a representative from the Alaska Energy Authority, and one utility representative from each of the south, Anchorage and north regions of the grid. Non-owner board members would consist of someone from the state's Regulatory Affairs and Public Advocacy section, two representatives of independent power and renewable energy producers, and one non-affiliated member. The RRC CEO would chair the board and cast the deciding vote in the event of a four-four split.

Full members of the RRC, with rights such as the election of directors, would have financial interests or a regulatory function in the Railbelt electricity market.

The draft report suggests that the RCC should initially have five employees, with much of organization's work being conducted through a committee structure. The annual cost of operating the RRC is estimated at about $1.5 million. Costs would be recovered through an administration fee collected from system users. Implementation of the RRC would involve the signing of an appropriate memorandum of understanding by the Railbelt utilities. The MOU would create an initial funding obligation by the utilities and would trigger the development of articles of incorporation and the formation of the board.

The draft report says that efficiencies gained from the RRC-led integrated resource plan would lower electricity rates; that the RRC would achieve enhanced reliability for the system; and that the use and pricing of the transmission system and generator interconnection would become more transparent and consistent under RRC management. ●

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RCA sets meeting schedule for Railbelt grid

During its public meeting on May 9 the Regulatory Commission of Alaska set a schedule of further meetings for reviews of the status of voluntary efforts by the Alaska Railbelt electricity utilities for a more unified approach to the management and operation of the Railbelt electrical system.

Commissioner Robert Pickett announced that in a May 23 meeting the utilities would be asked to provide a status report on moves to form a single transmission company to operate the transmission grid; a June 13 meeting will review the status of efforts towards the economic dispatch on the electrical system of the cheapest available power generation; and a June 27 meeting will address the status of implementing unified and enforced reliability standards on the grid.

Since 2015, when the RCA issued an opinion stating that unification of the electrical grid management and operation should proceed, the commission has been encouraging the utilities to proceed toward unification on a voluntary basis.

Commission Chair Stephen McAlpine commented that he is concerned that the unification process is moving very slowly, and that he has heard comments from legislators and from members of the public that the process is taking too long.

Commissioner Antony Scott commented that there is a credibility issue in relation to public perceptions, given the need to see something definitive come out of what is happening. It is necessary at this point to be clear about what has been achieved, what still needs to be done, what the issues are, and what the anticipated timeline is, Scott commented.

—ALAN BAILEY

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RAIL PLANS

Morgan's 590,000 bpd Trans Mountain expansion is teetering on the brink of defeat, G7G and A2A see an opening for the crude-by-rail option.

But G7G Chief Executive Officer Matt Vickers is frustrated by his inability to generate serious attention from the Alberta government, which has so far confined itself to endorsing the concept to build a double-tracked railroad covering about 1,500 miles from Fort McMurray, Alberta, to Delta Junction, Alaska.

1 million bpd

The scheme currently involves shipping 1 million bpd of undiluted bitumen (which limits the environmental impact of a spill) at Delta Junction, where it would be unloaded, diluted and moved through the trans-Alaska oil pipeline to Valdez.

In addition, the proponents envisage carrying iron ore and other minerals from Yukon mines, which are landlocked and hamstrung by a lack of transportation.

So far the capital outlay and financing plans for both projects — with G7G estimated at C$27 billion and A2A at C$15 billion — remain sketchy.

However, Vickers has told reporters he spent time in China last summer, talking to a number of state-owned enterprises and returned with a memorandum of understanding tied to joint-ventures with First Nations.

He said talks have also been held with a number of big Canadian pension funds.

In addition, Vickers was in the United Kingdom earlier this year to meet with an investor who agreed to backstop the G7G project if it received a non-sovereign guarantee from the Canadian government.

Overtures to First Nations

Both G7G and A2A have been making overtures to First Nations in Canada, with offers of ownership stakes.

Vickers, a business consultant with the Tsimshian-Heiltsuk and Haida aboriginal communities, has been working over the past three years gathering approval from all First Nations along the proposed rail route and seeking a resolution of support from Canada's National Assembly of First Nations.

He is counting on an early announcement from the chiefs of 25 First Nations along the line that they have secured funding to take an equity stake in G7G.

Vickers said that although G7G is not opposed to pipelines it is against supertankers on the Pacific Coast, leaving rail as the only practical alternative.

Alberta Trader and Economic Development Minister Deron Bilous, following a meeting with Vickers in February, said Kinder Morgan's Trans Mountain expansion is not the only proposal the government favors for getting Alberta products to market.

The province is "working simultaneously on a number of different fronts. We're not putting all our eggs in one basket," he said, without offering any further clues.

Vickers is looking for governments to "take a chance" and is shocked by the slow pace of progress.

Jim Dodson, president of the Fairbanks Economic Development Corp, told Business in Vancouver that despite the efforts of G7G and A2A to gain attention neither is generating much interest or gathering public support in Alaska. ●

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INSIDER

technical specialists to develop solutions" to Umiat's "specific challenges."

Among other things, the independent is "fully defining the controls on seal and compartmentalization, determining the best drive mechanism required to produce from the low-energy shallow reservoir, and optimal orientation and configuration of production and injection wells are all part of Malamute's current work to de-risk and advance the Umiat field toward production," Sojka said.

One of the individuals involved in the company is Corri Feige, former director of the state of Alaska's Division of Oil and Gas.

Petroleum News sources say once the work to re-risk and advance Umiat is completed, Malamute will look for investors or a buyer for the prospect.

In Dec. 11 correspondence with the Alaska Department of Environmental Conservation in response to its request for additional information regarding a revised oil discharge prevention and contingency plan filed mid-2017, Sojka wrote that Malamute "expects to remain non-operational with no plans for drilling-related exploration or disturbance activity on the Umiat leases through the end of 2018 or 2019."

The contingency plan was filed after Malamute took over from previous operator Linc Energy. The plan envisaged the possibility of drilling up to nine new wells in the field.

Although the Umiat field was discovered by the U.S. Navy in 1946, it has yet to be developed, primarily because of its remote location, although infrastructure has been drawing closer with Armstrong/Repsol and ConocoPhillips discoveries to the north.

Consultancy firm Ryder Scott conducted several Umiat field assessments, the latest in 2015. The consultancy estimated a 50 percent probability of nearly 99 million barrels of oil being economically recoverable and a 10 percent chance of more than 154 million recoverable barrels. Based on previous assessments, the total volume of oil in place in the field appears to be substantially higher than these recoverable volumes — as much as 1 billion barrels.

Linc completed two wells at Umiat as part of its evaluation of the field's potential. The second of these wells, a horizontal well completed in early 2014, achieved a sustained flow rate of 250 barrels per day of oil and a peak rate of 800 barrels per day. Linc said that the use of gas drive could push the production rate as high as 2,000 barrels per day.

At various times Linc proposed different development plans for the field, the latest published in October 2015, involving 35 wells from five pads.

Editor's note: Leonard Sojka email is leonard@malamuteenergy.com

Hendrix NANA's new Commercial Group chief

NANA, AN ALASKA REGIONAL CORPORATION, SAID MAY 8 that John Hendrix will join NANA as president of its growing Commercial Group, which is made up of subsidiaries that support resource development projects, as well as other industries throughout Alaska and in the Lower 48.

JOHN HENDRIX

Hendrix brings almost four decades of experience in the energy industry — in Alaska, the Lower 48 and internationally. Currently, he is on Gov. Bill Walker's cabinet as chief oil and gas advisor. Before that he was general manager of Apache Oil in the state.

"I am pleased to welcome John to our team at NANA. He is a respected voice in the energy industry and committed to Alaska's future," said Wayne Westlake, NANA president and CEO. "John … sees opportunities for NANA and believes in our mission to provide opportunities for shareholders, the region and Alaska."

Hendrix, who told Petroleum News May 8 that he is very excited about his new job, will step into his new role on May 21. His energy background includes leadership roles at Apache and BP. He has also consulted for energy executives, corporate boards and government leaders, including the U.S. Interior Secretary.

"I have the deepest respect for the work done by NANA to advocate for shareholders and economic development in the region and the state," Hendrix said. "NANA leads the way in representing and advocating for opportunities in the Arctic, and this is an opportunity to help further that mission, and to grow the Commercial Group's presence in Alaska and beyond." The Commercial Group employs more than 2,500 Alaskans.

—KAY CASHMAN

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SALES AGREEMENT

competitive and with shipping to Asia estimated at 80 cents per million Btu, financing costs at $4.75 and system operations costs at $1.45, that leaves $1 per million Btu for resource owners.

The BP view

BP is the Prudhoe Bay operator and owns a 26 percent share of that field as well as a 32 percent share of the Point Thomson field.

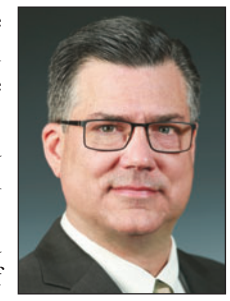
"BP has a long history in Alaska and Prudhoe Bay," BP Chief Executive Bob Dudley said in the joint statement. "We are very pleased to be part of the State's vision to bring Alaskan natural gas to new and expanding markets globally. We think this is good for the State, good for BP and good for the environment."

"The Alaska LNG project has made significant progress over the past year, and BP is pleased to sign this agreement," said Janet Weiss, BP Alaska president. "This is an important project for the future of the Alaska oil and gas industry."

AGDC

AGDC President Keith Meyer called the agreement "a significant factor in progressing the Alaska LNG Project. We have secured the customers, we have progressed on the pipeline build with regulators and the finance community and now we have a commitment that there will be gas to sell and put through the pipeline.

"I look forward to continued negotiations to secure supply from the other North Slope producers."



KEITH MEYER

In November, President Donald Trump and President Xi Jinping of China witnessed the signing in Beijing of the five-party joint development agreement to monetize Alaska's natural gas.

The five parties are AGDC, the state of Alaska, China Petrochemical Corp. or Sinopec, CIC Capital Corp. and the Bank of China. Meyer said in a Nov. 9 press release that the joint development agreement brought together "the potential customer, lender, equity investor, and developer" with a goal of "crafting mutually beneficial agreements leading to increased LNG trade between Alaska and China." One of the goals in the agreement is for the parties to work together on the opportunity of delivering 75 percent of the LNG produced in Alaska to China.

The first timeline in the agreement is May 31, by which time the parties hope to be able to determine the Chinese disposition of 75 percent of the LNG; identify how much involvement Sinopec will have in engineering and construction; develop "the general framework and indicative pricing for potential and customary strategic financing and international project financing for Alaska LNG"; and explore the feasibility for the parties to invest in the project.

"I look forward to continued negotiations to secure supply from the other North Slope producers." —AGDC President Keith Meyer

The goal for definitive agreements is the end of the year, which is when the agreement expires unless the parties agree to extend it.

The state

"During my call last week with BP's chief executive officer, Bob Dudley, I thanked BP for its commitment to the Alaska LNG Project. I also commend Keith Meyer and his team at AGDC that worked to make this historic deal happen," Alaska Gov. Bill Walker said in a May 7 statement.

"This agreement means Alaskans are one step closer to finally monetizing the vast reserves of natural gas on the North Slope. The end result will be thousands of jobs, a significant reduction in energy costs to power homes and businesses, and cleaner air. Having BP — one of our longtime participants in this project — commit its share for the gas on the sale underscores the progress we continue to make to build a stronger Alaska." ●

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LEASE SALE

Two of the tracts receiving bids are in Cook Inlet, east of the Trading Bay unit. Walsh said those tracts were an extension of the Middle Ground Shoal anticlinal trend and an offset to Trading Bay.

One of those tracts, 292, received the highest bid in the sale, $25 per acre, for a total of $64,000. The average high bid per acre in the sale was $17.96. Tract 292 is adjacent on the east to the Trading Bay unit, which Hilcorp operates. The other offshore Cook Inlet tract on which Hilcorp bid, 288, is southeast of tract 292, between Trading Bay and the Kitchen Lights unit, operated by Furie.

Onshore, Hilcorp bid on six tracts on the lower Kenai Peninsula, two west and one east of Deep Creek, one between the Nikolaevsk and North Fork units, and two east of and adjacent to the Cosmopolitan unit. Hilcorp is the operator at Deep Creek and Nikolaevsk; Glacier Oil & Gas is the North Fork operator; BlueCrest is the Cosmopolitan operator.

Walsh noted after the sale that 3-D seismic of Cosmopolitan was recently made available after the 10-year confidentiality period expired.

Some 2.6 million acres were available in the sale, the division said, with some 500,000 acres currently under lease in Cook Inlet.

Interest in Cook Inlet areawide sales has varied widely in the last 10 years, with no bids in 2016, a low of $80,678 for 5,733 acres in 2009 and a high of $8.2 million for 449,164 acres in 2011.

Alaska Peninsula areawide sales began in 2005. That sale drew more than $1.1 million in high bids on 190,494 acres. Interest since then been sparse, with only one sale since, in 2014, drawing bids, and those totaling only $47,807 on 9,561 acres, three tracts.

—KRISTEN NELSON

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