Schlumberger sees tightening oil market, questions shale oil growth

During Schlumberger’s first quarter 2018 earnings call, Paul Kibsgaard, the company’s chairman and CEO, questioned how rapidly U.S. shale oil production may climb in response to a tight global oil market. Kibsgaard suggested that there are technical issues that may constrain shale oil growth below levels that many have been predicting.

“There are also emerging questions around whether the very bullish production growth outlook for U.S. shale oil can be fully met, as the industry is having to face challenges linked to well-to-well interference as more infill drilling takes place, and lower production per well as drilling increasingly steps out of the tier one acreage,” Kibsgaard said when commenting on limitations on world oil production increases. Moreover, shale oil operators need to overcome growing infrastructure constraints, while refineries are approaching current processing capacity for light oil, he said. Shale oil is typically relatively light.

see EARNINGS CALL page 11

Bonding for tax credit payments being heard in House Finance

The House Finance Committee is continuing hearings on two major oil and gas related bills, its own oil tax proposal, House Bill 411, and HB 331, the administration’s proposal to bond for payment of oil and gas tax credits. HB 411 is set for another hearing April 26, after this issue goes to press.

Amendments were due April 25 for HB 331. The constitutionality of the bonding proposal has been a big issue in committee deliberations. It was raised by Sen. Bill Wielechowski, D-Anchorage, in March hearings in the Senate Finance Committee on the Senate version of the bill and became a focal point for House Finance with memos from the Division of Legal and Research Services in the Legislative Affairs Agency and the Department of Law front and center.

At a lengthy hearing April 21 Jerry Luckhurst, revisor of statutes, reviewed concerns legislative attorneys have that bonds proposed in the bill, which would enable a quicker payoff of tax credits based on a discount to cover the cost of the bonding, would be found unconstitutional.

see BONDING PROPOSAL page 8

Employment in Alaska drops again

Employment in Alaska in March fell 0.8 percent relative to March 2017, a loss of about 2,600 jobs over the year, the Alaska Department of Labor and Workforce Development has reported.

Of various work sectors in the state, job losses were highest in the oil and gas industry, with losses in the retail industry also being relatively high. Job losses in the construction industry continued but flattened somewhat relative to previous months. Employment in federal, state and local government all saw modest declines, with job losses in local government mainly appearing in public education. Health care, on the other hand, saw a 2.7 percent increase in employment.

The year-on-year drop in employment during Alaska’s current recession peaked between September 2016 and May 2017, easing somewhat since then.

see ALASKA EMPLOYMENT page 8

The EIS scoping begins

BLM seeks comments on environmental issues relating to ANWR coastal plain lease sales in the ANWR coastal plain 1002 area by December 2024.

On April 20 the federal Bureau of Land Management published a notice in the Federal Register, announcing the start of a 60-day public scoping period for the preparation of an environmental impact statement for oil and gas activities on the coastal plain of the Arctic National Wildlife Refuge. The action results from a provision within the Tax Cuts and Jobs Act of 2017, requiring the Department of the Interior to conduct oil and gas lease sales for the coastal plain.

“Developing our resources on the coastal plain is an important facet for meeting our nation’s energy demands and achieving energy dominance,” said Joe Balash, assistant secretary for land and minerals management in the Department of the Interior. “This scoping process begins the first step in developing a responsible path forward. I look forward to personally visiting the communities most affected by this process and hearing their concerns.”

BLM requires comments on the scope of the EIS and on issues that the EIS should address by June 19.

Two lease sales

The tax statute requires at least two areawide lease sales in the ANWR coastal plain 1002 area.

see EIS SCOPING page 11

Trans Mountain to brink

Kinder Morgan intensifies pressure, warning events have reinforced concerns

Faced with a May 31 deadline set by Kinder Morgan, the Canadian government is under pressure to assure the company that it will not face further legal challenges to the Trans Mountain pipeline expansion, or any financial risks to its shareholders.

In case the government is inclined to drag its feet, Kinder Morgan’s Chief Executive Officer Steve Kean told a mid-April conference call that events earlier in the month have reinforced his concerns that the $7.4 billion project may be “untenable for a private party to undertake.”

Meanwhile, the Trudeau government has promised early legislation to reassess its authority over pipelines that cross interprovincial borders and are deemed to be in the “national interest.”

He said differences among the Canadian, Alberta and British Columbia governments “are outside of our ability to resolve,” even though the company issued a statement saying it was “actively engaged” with the federal and Alberta governments on a financing arrangement to ensure the

see TRANS MOUNTAIN page 8

Exciting possibilities

DOG scientist sheds light on recent exploration and finds in Namushuk/Torok

Alaska has seen mounting excitement over new major oil discoveries in the Namushuk and Torok formations in the more westerly region of the North Slope. On April 21 Josef Chmielowski, a geoscientist with Alaska’s Division of Oil and Gas, reviewed what is known publicly about these finds and their significance in terms of continuing exploration.

In part, Chmielowski’s insights come from modern seismic data, made public as a result of Alaska’s tax credit system and processed by the division. In particular the Nanuq South 3-D survey, released to

see OIL DISCOVERIES page 6

PIPLINES & DOWNSREAM

Kinder Morgan intensifies pressure, warning events have reinforced concerns

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see TRANS MOUNTAIN page 8
Those pondering the long-term security of investing in Canada’s natural gas industry are trying to solve two unexpected developments.

First, the shipping giant TransCanada has disclosed that the average contract term in its latest bidding open season was 107 years — a four-fold increase over similar contracts signed in the first three months of 2018.

Second, ConocoPhillips, after shedding the bulk of its oil sands stakes last year, has since unloaded land in the Texas Permian basin for US$250 million, almost half of which has been spent on acquiring 35,000 acres of land in the Montney gas and liquids play in northern British Columbia and Alberta. That coincided with a forecast by the ARC Energy Research Institute that C$30 billion will be invested in conventional and tight oil and gas formations in Canada this year, compared with only C$12 billion in the oil sands.

**Gas contracts**

TransCanada’s unheard-of gas contracts are cloaked in secrecy short of the company informing its clients that the successful open-season bids covered shipments of 260 million cubic feet per day on the Nova Gas Transmission system to an export point at Empress, Alberta, for eventual delivery to Canada’s largest consuming markets in Ontario and Quebec.

Access to Empress has been expanded over the last year following accusations by Alberta shippers that TransCanada was to blame for volatile Alberta benchmark prices in the second half of 2017.

A company spokesman told the Financial Post that the 107-year contracts are the “longest contracts presently on the (Nova) system.”

Analysts believe that ConocoPhillips has simply seized on a “buy low” opportunity at a time when Permian assets are fetching strong prices, but the Houston-based company was offering no clues.

**ON THE COVER**

Scientist sheds light on recent exploration, finds in Nanushuk/Torok

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By GARY PARK
For Petroleum News

**Pipes, Poles, and Points:**

**Telecommunications at Work in Alaska**

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The Alaska Oil and Gas Conservation Commission and Cook Inlet Energy have reached a resolution “without the necessity of additional litigation,” the commission said in an April 18 amended decision and order on violations at the Sword No. 1 well. The violations occurred in 2013 and 2014, and the well was completed and placed on production in late 2013.

After a final commission decision in February 2017, Cook Inlet Energy appealed in Alaska Superior Court, it is that appeal that the commission referenced in its April 1 amended decision and order on the same violations.

The process began in late 2014 when the commission noticed a pattern of enforcement actions, proposing corrective actions and civil penalties totaling $806,000, citing “numerous regulatory violations pertaining to” the safety valve system on the Sword No. 1 well, and CIE’s “failure to provide requested information about CIE’s SVS compliance policies,” the commission said in its April 18 amended order.

Cook Inlet Energy requested an infonnal review and in May 2015 the commission reduced the civil penalty to $446,000. The commission’s final decision and order, in February 2017, was for that amount.

Basis of objections

In a September 2016 hearing and in statements to the commission prior to the hearing, CIE told the commission it had made changes since the Sword well was drilled, acknowledged problems with the company’s communication with the commission and said key personnel responsible for the communication breakdown between CIE and the commission over the Sword No. 1 SVS had been replaced.

The company said in an early 2015 letter to the commission that it had updated its processes and its new production manager was using “an in-house regulatory compli-

ance-tracking program, which highlighted the status of compliance activities ... and provides email alerts to the responsible party for incoming actions required to maintain compliance.” It also said it was implementing “a rigorous training program with the help of a third-party consultant experience with AOGCC regulations.”

CIE argued that the fines were exces-
sive based on a lack of harm to the environment or individuals, and on a comparison to earlier smaller fines imposed on other operators.

The company also disagreed with how the commission figured the fines, arguing that the violations were related to a single incident and should not be broken out into separate violations and per-day fines for each day the violation was maintained.

The daily fines were $5,000 per day for three violations and $1,000 per day for fail-
ure to provide information.

In a pre-hearing brief for the 2016 hear-
ing, attorney Jonathan Katchen of Crowell & Moring said a fine of $5,000 per day was inconsistent with prior commission actions, citing examples of fines against other operators from 2004, 2005 and 2006.

Commissioner Cathy Fuerster asked in the hearing if Katchen was aware that the com-
misson updated its regulations after those fines. Katchen said he was aware of the 2007 changes.

Those changes raised the fine for an incident to $100,000 and the maximum fine per day to $10,000.

Amended order

In its amended decision and order the commission said that based on the agree-
ment reached with CIE it had reconsidered its final 2017 order and was replacing it with an amended order.

The commission reviewed CIE’s actions in the amended order and conclud-
ed: “The violations at issue here depict CIE’s lack of understanding of AOGCC regulatory requirements, incomplete appli-
cations, and a lack of communication. CIE’s documented history of regulatory noncompliance, acknowledged violations, and need to deter similar behavior warrant proceeding with the enforcement.”

“Regarding the need to deter, CIE has a history of noncompliance involving vari-
ous parts of its operation that fall under AOGCC jurisdiction,” the commission said, referring to an attached history of compliance issues from 2011 through 2014.

The commission also noted an issue which arose in 2015 at the Redoubt Unit No. 9 well, concluding that after commen-
tence of this enforcement action, CIE continues to demonstrate that regula-
tory compliance remains a challenge.”

The commission acknowledged “develop-
ing efforts” which CIE discussed with the commission in the informal 2015 review, “including improvements to CIE’s Regulatory Compliance Tracking Program, revised Management of Change procedure that includes a Chain of Command for pro-
duction practices, and a Well SVS Training Program for personnel responsible for SVS installations.”

Mitigating circumstances

Citing mitigating circumstances, the commission said it has reduced but not eliminated the monetary penalty.

continued from page 2

GAS SECTOR

He said the signed contracts demonstr-
ate the “high value shippers are placing on having firm transportation access to the Nova system.”

For outside observers the deals are a source of mystery at a time when so many LNG export ventures have stalled and none have entered the construction phase.

Jeremy McCrea, an analyst with Raymond James, said he did not under-
standing how a business could be run on such a long-time horizon.

Gas producers have been left to specu-
late on who among their peers or utility companies have struck the deals.

But they did point out that shippers needing pipeline capacity will often bid for terms longer than 30 years, noting that bids are tied to volumes, not prices, because Canada’s National Energy Board regulates the tolls to move gas.

Some believe producers may be inclined to resort to “irrational” shipping terms to overcome the difficulties that sometimes exist in trying to secure space on pipelines.

Montney, Duvernay moves

ConocoPhillips’ move into the Montney contrasts with sales of Canadian assets over recent years by BP, Total and Shell, while Imperial Oil and its parent company ExxonMobil have put for sale signs on their Horn River gas properties in northern British Columbia, hoping to conclude deals by late May for 228,000 acres, eight produc-
ing wells and a gas processing facility. Analysts believe that ConocoPhillips has simply seized on a “buy low” oppor-
tunity at a time when Permian assets are fetching strong prices, but the Houston-based company was offering no clues.

Calgary-based Crescent Point Energy also confirmed it is assembling a land portfolio in the Duvernay formation of northern Alberta, spending CS112 mil-
lion to buy 335,000 acres with deposits of light oil, natural gas and liquids such as butane, propane and pentane.

Thomas Matthews, an analyst with AltaCorp Capital, said the holding “has the potential to rival any of the large oil plays in Western Canada,” suggesting that companies need the big stakes if they are to meaningfully raise produc-
tion. Other gas-processing deals announced in April involve Encana and Keyera and BirchCreek Energy with AltaGas, freeing producers to drill more wells targeting high-value gas liquids and associated gas in the Montney and Duvernay.

Contact Kristen Nelson at knelson@petroleumnews.com

By KRISTEN NELSON

Petroleum News

AOGCC, Cook Inlet Energy agree on fines

Resolution reached on violations at Sword No. 1 well dating from 2013, 2014; agreement comes to reduction in civil penalties

Citing mitigating circumstances, the commission said it has reduced but not eliminated the monetary penalty.

The proposed corrective actions are deemed appropriate to address and prevent recurrence of the non-compliance.

With a total of $116,500 in civil penalties. That includes $66,000 for the defeated and non-operable safety valve system ($25,000 for the initial violation and $1,000 per day for 41 days of operation after the initial violation); $40,000 for con-

tinued production after subsurface safety valve failure ($25,000 for the initial viola-
tion and $1,000 per day for 15 days of operation after the initial violation); $10,500 for failure to respond to the com-
misson’s request for information (zero for the initial violation and $50 per day for 21 days for failure to respond after the initial violation).

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Appeals court allows necessity defense

By STEVE KARNOWSKI
Associated Press

Four protesters can present an unusual “necessity defense” against criminal charges stemming from efforts to shut down two Enbridge Energy oil pipelines, the Minnesota Court of Appeals ruled April 23.

Emily Johnston and Annette Klapstein acknowledge that they turned the emergency shut-off valves on two pipelines on Oct. 11, in Clearwater County of northwestern Minnesota. It was part of a coordinated action by Climate Direct Action activists to shut down five pipelines that carry tar sands crude from Canada to the United States in Minnesota, North Dakota, Montana and Washington state. A total of 11 activists were charged.

Will argue climate change

But the two Seattle-area women, as well as two defendants who filmed them, are the only ones who have been given permission to present a full necessity defense. They want to tell jurors that the threat of climate change from Canadian tar sands crude — which contains more climate-damaging carbon than other forms of oil — is so imminent that they believe allowing the necessity defense will have a “critical impact” on the outcome of the protesters’ trials.

Klapstein said in a statement. “As a retired attorney, I am encouraged to see that courts across the country seem increasingly willing to allow the necessity defense in climate cases.”

Appeals Judge Francis Connolly dis- sented.

“This case is about whether respondents have committed the crimes of dam- age to property and trespass. It is not about global warming,” he wrote. Johnston and Klapstein face felony charges of criminal damage to critical public service facilities and other counts. Prosecutors have said the most likely penalty is up to a year in jail. The two other defendants face a separate trial on lesser charges. Authorities expect the judge to set trial dates for sometime this summer.

While District Judge Robert Tiffany allowed the necessity defense, he also warned in ruling in October that the four must clear a high legal bar to suc- ceed. Another hurdle is that the jury will come from a sparsely populated county where Imbridge is a major employer and the largest property taxpayer.

Clearwater County Attorney Alan Rogalla was out of the office April 23 and did not immediately reply to a mes- sage asking whether he planned a further appeal.

_trials of other pipeline protesters in other states have yielded mixed results. Most have not been allowed to present full necessity defenses. One activist con- victed in Montana in March was ordered to pay $3,775 in restitution but avoided jail time. A North Dakota case resulted in a one-year prison sentence for one activist in February. Appeals are pending in North Dakota and Washington state, and a trial is pending in Montana.

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CORRECTIONS

Snow road bypasses Nuiqsut

The article titled “Work proceeds on NS roads project” in the April 22 issue of Petroleum News incorrectly stated that a proof of concept snow road constructed this year on the North Slope ran from Nuiqsut to Utqiagvik. In fact, the snow road connected Utqiagvik to the gravel road system in the central North Slope, bypass- ing Nuiqsut. Petroleum News apologizes for any confusion.

Eni’s OCS leases less than reported

In the April 22 issue of Petroleum News, Oil Patch Insider carried a piece titled “Eni looking to expand in Alaska.” It reported there were 75 Eni leases in the Chukchi and Beaufort offshore. That information came from Eni’s website, but the numbers were outdated.

In fact, as of April 13, Eni has no leases in the Chukchi Sea and only 13 in the Beaufort Sea, and those are shared 50-50 with Shell. The Bureau of Ocean Energy Management’s website names the leases by number and can be viewed on a BOEM map titled “Beaufort Sea Outer Continental Shelf April 13, 2018” at https://www.boem.gov/Alaska-Leasing/.

---KAY CASHMAN
North Slope areawide BIF for 2018-27

The Alaska Department of Natural Resources, Division of Oil and Gas, has issued a final written best interest finding for North Slope areawide oil and gas lease sales from 2018-27.

In the decision, issued April 18, the director of the Division of Oil and Gas determined that the benefits of North Slope areawide oil and gas lease sales outweigh possible adverse impacts and will best serve the interests of the state.

The best interest finding covers sales from 2018 through 2027. Supplements to the BIF will be issued each year if necessary.

The final finding is available on the division’s website.

A person affected by the finding may appeal it. Appeals must be received within 20 days after the issuance of the finding.

—PETROLEUM NEWS

BOEM extends Beaufort comment period

The federal Bureau of Ocean Energy Management has announced that it is extending by 30 days the comment period for a planned Beaufort Sea oil and gas lease sale.

With the lease sale program still being in draft form, a lease sale cannot be held until the program is finalized and approved. BOEM has said that, meanwhile, it wants to start the planning process for the proposed Beaufort Sea sale.

As part of the pre-sale process BOEM is seeking information relevant to the planning of the sale, including comments from industry on areas that may be of interest for leasing.

The proposed lease sale forms part of a draft outer continental shelf lease sale program for the years 2019 to 2024. As part of the pre-sale process BOEM is seeking information relevant to the planning of the sale, including comments from industry on areas that may be of interest for leasing.

The agency also wants comments on any relevant information, including geological, environmental, biological, archaeological and socio-economic parameters, relating to a lease sale.

With the lease sale program still being in draft form, a lease sale cannot be held until the program is finalized and approved. BOEM has said that, meanwhile, it wants to start the planning process for the proposed Beaufort Sea sale.

Information received will enable blocks to be identified for potential leasing, prioritize areas with oil and gas potential, develop potential lease conditions, and identify potential use conflicts and mitigation measures. In addition to identifying areas to offer in a lease sale, the next step would be to conduct an environmental analysis.

—ALAN BAILEY

State OKs connection of Tyonek oil line

Alaska’s Division of Oil and Gas has approved a change in the plan of operations for Hilcorp Alaska’s North Cook Inlet unit, allowing Hilcorp to tie a planned subsea oil pipeline into the Tyonek platform.

As part of a project to enable the shipment of crude oil west to east under the Cook Inlet, Hilcorp plans to lay a new subsea gas pipeline between the offshore Tyonek platform and Ladd landing on the west side of the inlet. The idea is to ship oil under the inlet using one of the twin gas lines that form the existing Cook Inlet Gas a Gathering System, or CIGGS. The new gas line from the Tyonek platform, in conjunction with an existing gas line between the platform and Nikiski, will replace the gas transportation capacity across the inlet that will be lost when one of the CIGGS lines switches to the carriage of oil.

The Tyonek platform is the production platform for the North Cook Inlet gas field. However, there is a known oil pool known as Tyonek Deep under the gas accumulation. With an eye to the possibility of the future development of this oil resource, Hilcorp wants to lay an oil line from the platform to Ladd Landing concurrently with laying the new gas line.

The planned oil line will not be used unless Hilcorp makes an oil development decision, the laying of the oil line at the same time as the gas line will presumably save significant pipe laying cost relative to laying the oil line separately. The planned oil line is designated the Tyonek W 8 pipeline, in reference to the pipeline’s eight-inch diameter.

The state’s approval of the tie in of the oil pipeline to the Tyonek platform only applies to work conducted inside the North Cook Inlet unit. On March 30 Alaska’s Division of Mining, Land and Water issued an approval decision for an easement for the complete pipeline.
The publicly available 2-D seismic line USGS 1981-16 runs east to west from the Colville River area across the northeastern National Petroleum Reserve-Alaska. A series of sigmoidal shaped “clinoforms” can clearly be seen in the subsurface. The upper parts of these clinoforms are in the Nanushuk formation, while the lower parts are in the Torok. The Horseshoe well targeted a clinoform associated with the Pikka discovery. The Tinmiaq wells were drilled this year to test the Willow discovery. The total depths of these wells have not yet been made public.

**Large finds**

The new finds are very large. Pikka, discovered through the drilling of the Qugruk No. 3 well by Repsol in 2013, has subsequently been linked with oil discovered to the south by the drilling of the Horseshoe well and sidetracks by Armstrong Energy in 2017 — the entire prospect extends some 40 miles north to south, Chmielowski said. The Willow prospect, which apparently was discovered by Phillips Petroleum, later to become ConocoPhillips, in 2002 through the drilling of the Hunter A well, is about 25 miles in length.

ConocoPhillips drilled the Tin miaq Nos. 2 and 6 wells in 2016, and the Tin miaq Nos. 7, 8 and 9 wells this year, to prove out and appraise the Willow discovery. The company has not said why it did not decide to develop the find following the original discovery in 2002. However, it is likely that at that time the company was fully occupied in developing the Colville River unit, Chmielowski suggested, adding that in 2002 there was no infrastructure extending into northeast NPR-A to support a Willow development — nowadays ConocoPhillips is extending the infrastructure west through the Greater Mooses Tooth 1 and planned Greater Mooses Tooth 2 developments.

Caelus Energy made the Smith Bay discovery in 2016 through the drilling of two wells in the bay. The discovery is in the Torok formation.

Net thicknesses of oil bearing sands are some 200 feet for Pikka, 40 to 70 feet for Willow, and perhaps 200 feet for Smith Bay, Chmielowski said.

**Stratigraphic traps**

Oil in these discoveries is caught in what are called stratigraphic traps, traps formed as a consequence of the manner in which the sediments that constitute the rocks were deposited, rather than the way in which the rock strata have been folded and faulted.

Oil gravity is light and well flow tests have produced excellent results. A vertical well flow test at Pikka showed a flow rate of 2,000 barrels per day, and an estimated horizontal well test flowing at 4,600 bpd. Willow tested last year at 3,200 bpd in a vertical well — ConocoPhillips has yet to release the results of Willow flow testing carried out in this year’s exploration season. Caelus has not yet conducted any flow testing at Smith Bay, Chmielowski said.

Reservoir depths are typically a little over 4,000 feet — Chmielowski commented that there is an interesting question regarding why light oil at such shallow depths has not been degraded by microbes, as might be expected. Pikka/Horseshoe presents another enigma concerning the route whereby oil flowed into the reservoir — the oil was sourced from the Shublik formation, now at a depth of 10,000 feet, some 6,000 feet below the Nanushuk, Chmielowski commented.

Production from Pikka/Horseshoe, once developed, is expected to be some 120,000 bpd; 40,000 to 100,000 bpd for Willow; and perhaps 200,000 bpd for Smith Bay. These projected production rates are very significant in comparison to the current throughput of around 500,000 bpd for the trans-Alaska pipeline. Bringing any of these new discoveries onstream would present an economic challenge to the oil industry given the soft oil price environment, Chmielowski said.
The Tofkat and Putu puzzle

During an April 21 presentation to the Alaska Geological Society on the recent Nanushuk and Torok oil discoveries, Josef Chmielowski, a geoscientist with Alaska’s Division of Oil and Gas, commented on the drilling of the Tofkat No. 1 well and seismic tracks by Brooks Range Petroleum in 2008 and the drilling of the nearby Putu No. 2 well and sidetrack by ConocoPhillips this winter. Chmielowski has been using seismic data recently released to the public to assess the strategies for drilling various wells associated with the Nanushuk/Torok play.

Brooks Range reported oil at several horizons in the Tofkat wells. However, although a Tofkat unit was formed, the company conducted no further drilling in the prospect and ConocoPhillips eventually acquired the leases, adding the leases to the Colville River unit.

Chmielowski showed a seismic section for the Putu/Tofkat area. There is a clear, relatively shallow seismic amplitude anomaly that Conoco appears to have targeted with the Putu wells. That anomaly seems associated with a Nanushuk trend linked with the Pikka/Horseshoe oil discovery. And ConocoPhillips has announced an oil find with the Putu well.

A plot of the trajectory of the Tofkat well shows the well missing the seismic anomaly by a horizontal distance of about 800 feet. So, did Brooks Range fail to identify what could have been a large oil find?

Not so, Chmielowski said. He understands that Brooks Range was aware of the seismic anomaly but had to drill from a location on the east side of the Colville River, a location that prevented directional drilling into the relatively shallow Brookian target. The Tofkat well was, in fact, targeting deeper prospects in Alpine and Kuparuk sands. The company had intended to return to drill into the shallow prospect but, following funding and unirritation issues, that drilling never happened, Chmielowski said.

The link to dinofurms

The new oil discoveries are associated with specific clinoforms. Pikka/Horseshoe

with Nanushuk 3, and the Horseshoe wells with Nanushuk 2 and Nanushuk 3. The Putu exploration well that ConocoPhillips drilled this winter appears to have targeted Nanushuk 3, with the Stony Hill No. 1 well that ConocoPhillips also drilled this winter appearing to target a seismic amplitude anomaly along the same trend as the Putu and Horseshoe wells. Willow is associated with other clinoforms farther west.

Rock properties, in particular the permeability, change between the toptop Nanushuk rocks down through the Torok in the deeper foreset and bottom set regions. Essentially, the permeability worsens with depth, in part because higher burial pressures have compressed the rocks more, and in part because the deeper rocks tend to have become clogged by mud. In the Nanushuk, deposited in relatively shallow water, wave action may have winnowed dirt out of the sands, Chmielowski suggested.

However, although in the past the poor quality of the Torok reservoir rocks has deterred oil development, the emergence of techniques such as horizontal drilling and hydraulic fracturing from shale oil development has opened up the possibility of future Torok developments, Chmielowski commented.

But the variations in rock properties with the Nanushuk/Horseshoe oil discovery, for example, will have important implications for fluid communications through the reservoir, a consideration that will impact strategies for field development and oil production, Chmielowski suggested. Details matter, with those rock variations impacting factors such as well spacing, oil production strategies and estimates of ultimate oil recovery, he said.

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somewhat higher than the national unemployment rate of 4.1 percent. When not seasonally adjusted, the unemployment rate fell by 0.3 percentage points between February and March to 7.9 percent. In the past few years the seasonally adjusted unemployment rate in Alaska has remained relatively constant, while the unemployment rate in the United States as a whole has dropped significantly. Since the unemployment rate represents the num-ber of unemployed people as a percentage of the population in work or seeking work, the Alaska unemployment rate presumably does not reflect the number of people who have left the state or stopped seeking work after losing their jobs.

In Alaska, the unemployment rate has increased slightly in Petersburg and Kusilvak, while remaining steady in the Aleutians West. In all other 26 boroughs around the state the unemployment rate has dropped. Unemployment is particularly high in rural areas with limited year-round employment opportunities, and low in the Aleutians West and East, where there are winter fisheries, the depart-ment reported.

—ALAN BAILEY

The year-on-year loss of jobs in Alaska peaked between September 2016 and May 2017.

Wage and Salary Employment
Percent change from same month of the previous year

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Contact Alan Bailey at aballey@petroleumnews.com

continued from page 1

ALASKA EMPLOYMENT

pipeline gets built.

Other parties?

At the same time senior federal offi-cials told the Canadian Broadcasting Corp. the government is willing to offer political and financial support to other companies if Kinder Morgan abandons the project.

One official expressed confidence that either a single major company, or a con-sortium, might be interested in acquiring and developing the Trans Mountain plan to ship 590,000 barrels per day of diluted bitumen to the shipping terminal at Burnaby in the Port of Vancouver.

“There’s no advantage to be gained in saying you don’t want an asset after you’ve sunk a billion dollars into it,” the official said, effectively echoing Prime Minister Justin Trudeau’s insistence that “this pipeline will get built.”

But Greg Stringham, an energy indus-try analyst and former vice-president of the Canadian Association of Petroleum Producers, told the CBC he doubted that any company would be ready to pick up where Kinder Morgan left off.

He said that even involving a consor-tium would only diversify the risk with-out removing the “political problem.”

Martin Pelletier, chief investment offi-cer with TriVest Wealth Management, agreed with Stringham’s view that the industry mostly wants “concrete action by the federal government to ensure there are no further delays.”

Early legislation promised

Meanwhile, the Trudeau government has promised early legislation to reassert its authority over pipelines that cross provincial boundaries and are deemed to be in the “national interest.”

But that could result in a backlash from Quebec, which used political and regulatory roadblocks to force TransCanada to drop its plans for Energy East, a proposal to ship 1.1 million barrels per day of bitumen from Alberta for refin-ning in Ontario, Quebec and New Brunswick, as well as overseas shipment.

Concerning the legal aspects of its own project, the British Columbia government said it will file a case by April 30 in the B.C. Court of Appeal to determine if it has jurisdiction over Trans Mountain.

Attorney General David Eby said the province’s goal is “to ensure we are actu-ally exercising the full extent of our jurisdic-tion, the full extent of our authority.”

B.C. Environment Minister George Heyman said the appeal case is designed to determine his province’s right under the Canadian Constitution “to regulate against deleterious impacts on the envi-ronment, on the economy, on the provin-cial interests” regardless of the Canadian government’s claim that it has sole authority over major interprovincial proj-ects.

However, Heyman weakened his gov-ernment’s stand earlier in April in the B.C. legislature when he said that during the transition of power last July to the New Democratic Party the decision of Premier John Horgan “it became clear, through listening to legal advice, that we did not have the authority to stop a project that had been approved by the federal government.”

Heyman said he was told by Horgan that stopping progress on Trans Mountain “would be inappropriate and unlawful.”

Contact Gary Park through publinfo@petroleumnews.com

continued from page 1

BONDING PROPOSAL

Assistant Attorney General Bill Milks told the commit-tee that the Department of Law sees the debt proposed as the Department of Law, while that the Legislative’s attorneys are not prepared to say the bonds are legal, is clear to the department that they are.

AG opinion

If the bill passes the Department of Law would have to issue an opinion certifying that the bonds are lawful, Milks said. And the state’s bond counsel has to look at Alaska law independently and certify that the bonds are lawful.

Douglas Gough of Orrick, Herrington & Sutcliffe, the state’s bond counsel, said without bond counsel’s unqual-ified opinion that the bonds are lawful they won’t be pur-chased. He said his firm worked closely with the Department of Law on the constitutional issue. Gough said that as a firm Orrick earns its reputation on its unqual-ified opinions and takes them very seriously. Based on Alaska Supreme Court precedent he said the firm is com-fortable that the bill is constitutional and if it is enacted, expect to be able to render to the state and the bond market our opinion that the bonds would be debt of the bond cor-poration established in the bill, not of the state of Alaska.

Deven Mitchell of the Department of Revenue, the state’s debt manager, noted that when the state gets ready to sell bonds established in this legislation, buyers will ask about the dissertation and may decide they need to be paid a lit-tle extra for the bonds.

Revenue Commissioner Sheldon Fisher, answering committee questions in an April 24 hearing, said the bond documents will say multiple times that payment of the bonds is subject to appropriation because securities laws require facts to be disclosed. He also noted the subject to appropriation bonds are typically a little more expensive. But, he noted, payment would be a very serious commit-ment. It is subject to appropriation, but failure to pay would impact the state’s credit rating and ability to access capital.

Fisher said he didn’t think constitutionality was an issue. Alaska issued this kind of debt as a territory, he said, and as a state, and the Department of Law has viewed this type of debt as constitutional under many governors.

The late Attorney General’s opinion, Fisher said it couldn’t be provided to legislators immediately because of the process the attorney general has to go through to issue an opinion, which has almost a quasi-effect of law. He also noted that bond counsel will require an AG opinion to be able to issue bonds.

HB 411

HB 411, the Finance Committee’s oil and gas tax bill, is on the committee’s schedule for April 26, after this issue of Petroleum News closes.

A letter of intent from Rep. Paul Seaton, R-Homer, and Rep. Neal Foster, D-Nome, the committee’s co-chairs, said the intent of the committee is to forward HB 411 to the Legislative Oil and Gas Working Group established last year with the passage of HB 111. The letter, posted in advance of the hearing, requests the working group to use the three consultants available to the Legislative for an array of perspectives, and to submit a report and “pro-posed legislation for an effective long-term tax regime” for the state to the Legislative by Jan. 1, 2019.

“We request that the working group consider HB 411 as a basis for a proposed taxation system and considera-tion separation of oil and gas for expense and tax calcula-tion,” the letter says.

—KRISTEN NELSON

Contact Kristen Nelson at knelson@petroleumnews.com

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APRIL 29, 2018
PETROLEUM NEWS
Fluor executive honored by Coast Guard

Foss Maritime said that the U.S. Coast Guard recently awarded Grant Johnson, Foss Maritime’s vice president for health, safety, quality and environment, with a Meritorious Public Service Award in recognition of his achievements as a member and vice chair of the National Offshore Safety Advisory Committee.

The award is the Coast Guard’s second highest service award and was presented at a meeting of the National Offshore Safety Advisory Committee on March 28, in New Orleans. Johnson joined the committee in 2011 and has served as vice chair for the last five years.

Johnson was applauded in a citation accompanying the award for his direction on the committee, and for his ability to produce invaluable recommendations and provide unique technical insight to the Coast Guard on critical matters affecting the safety and security of the offshore oil and gas industries.

Under Johnson’s guidance, the committee submitted more than 300 safety and security recommendations that directly enhanced Coast Guard regulatory and policy initiatives for outer continental shelf operations.

Johnson graduated from the U.S. Merchant Marine Academy with a degree in marine engineering, holds an MBA from Rice University, served 20 years in the U.S. Navy Reserve achieving the rank of commander, and worked in the oil and gas industry for 16 years before joining Foss. At Foss, Johnson is responsible for overseeing, growing and strengthening HSEQ performance in support of Foss Maritime’s culture of safety.

Fluor awarded contract at Galveston Bay refinery

Fluor Corp. announced April 18 that it was selected by a division of Marathon Petroleum Corp. to execute the engineering and procurement scope for Marathon’s South Texas asset repositioning program at its Galveston Bay refinery in Texas City, Texas. Fluor booked the undisclosed contract value into backlog in the first quarter of 2018.

“Fluor and MPC have a proven track record of delivering similar projects, most recently in Detroit and Garyville, Louisiana. Fluor values its strong working relationship with MPC and is excited to be part of the STAR program.”

The STAR program further integrates MPC’s former Texas City refinery into the adjacent Galveston Bay refinery, which is now the second largest refinery in the U.S. It will improve the refinery’s efficiency and reliability by increasing the residual oil processing capabilities, upgrading the crude unit and integrating facility logistics.

Fluor has been engaged in the STAR program since 2013, performing the feasibility studies and early engineering work. The program is scheduled to be completed in 2022. Fluor is also currently providing engineering, procurement and construction management services on the reconfiguration that will enable the Galveston Bay refinery to achieve updated U.S. Environmental Protection Agency Tier 3 gasoline sulfur standards.

Companies involved in Alaska’s oil and gas industry

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Oil Patch Bits

NAC launches 767-300 freighter service out of Miami

Northern Air Cargo Inc. said April 24 that it has acquired and been granted operating authority for its first 767-300 wide-body aircraft. NAC flight crews and maintenance technicians will be operating and maintaining a total of three newly converted 767-300 freighters by the end of 2018.

The three aircraft will be branded for NAC and its sister air cargo brands, Aloha Air Cargo in Hawaii and Stratair in Florida and will be flying domestically as well as to the international and Pacific markets.

NAC’s President and CEO David Karp said, “Our recent experience has given us the confidence to move ahead with investing in newer, larger aircraft. With this new capacity, we look forward to enhancing our services to our existing customers and expanding our operational footprint by servicing customers in new markets.”

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.

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EIS SCOPING

by December 2024. However, the EIS may step inform post-lease activities, including seismic surveying, drilling, exploration, development, and the transport of oil and gas, the Federal Register notice says. The EIS will consider the environmental impacts of various leasing alternatives, including areas to be offered and the stipulations that would be specified for lease operations. BLM will also consider potential impacts on subsis
ture resources and users. The tax statute says that the surface footprint of any pro-
troduction and support infrastructure within the 1.6 million-acre 1002 area must be limited to 2,000 acres.

Following publication of the EIS, BLM would conduct additional environmental analysis for specific activities such as seismic surveying and the filing of exploration plans, the Federal Register notice says.

Divergent opinions

Predictably, the announcement has prompted widely divergent opinions.

“Alaskans have long supported leasing as a responsible development in the coastal plain, which was set aside for oil and gas development,” said Kara Moriarty, president and CEO of the Alaska Oil and Gas Association. “We are encouraged that the Department of Interior wants to hear from Alaskans across the state about this important issue. AOGA looks forward to participating in this public process.”

“The Department of the Interior is purs-
ing an irresponsibly aggressive timeline for Arctic Refuge drilling that reflects the Trump administration’s eagerness to turn over America’s public lands to private industry for development,” said Jamie Williams, president of the Wilderness Society. “They are taking reckless short- cuts that are a terrible violation of public trust … the Wilderness Society remains opposed to opening the Arctic Refuge coastal plain to drilling.”

Support from lawmakers

The Alaska Congressional delegation expressed its support for the BLM action.

“We welcome this scoping announce-
ment and the department’s continued work to implement our legislation open-
ing the coastal plain to responsible energy development,” the delegation said. “We appreciate the department following the law, planning multiple public meetings with Alaskans, and moving forward on this important program to help ensure the energy and economic security of our nation.”


“Opening the 1002 Area of the Arctic National Wildlife Refuge to oil leasing is a historic opportunity for Alaska,” Walker said. “This is an important priority for my administration given the potential for sig-
nificant new revenues from lease sales and production. The State of Alaska will work with the U.S. Department of Interior to support their efforts to prepare for these lease sales and ensure that local input is taken into consideration. Alaska has a long history of safe development on the North Slope, and new technology is mak-
ing the footprint of development even smaller.”

BLM lead agency

Although the U.S. Fish and Wildlife Service manages ANWR, the tax statute says that oil and gas leasing in the ANWR 1002 area will be conducted under the regulations that apply to oil and gas leasing in the National Petroleum Reserve-Alaska. Presumably because BLM man-
ages the NPR-A, BLM is the lead agency for the ANWR lease sale program.

Fish and Wildlife maintains a conserv-

ation plan for ANWR, including the 1002 area, that spells out what activities can be carried out in the refuge and stipu-
lates environmental protection measures required for those activities. The current conservation plan does not consider oil and gas activities because these activities were illegal anywhere in ANWR at the
time the plan was published. The plan says that Congress has reserved the authority to make final decisions on whether to allow oil and gas development in the refuge. That authority comes from

the Alaska National Interest Lands Conservation Act, which set aside the 1002 area for possible future oil and gas develop-
ment, subject to Congressional approval. In last year’s tax act, Congress granted that approval.

Earnings Call

Kibsgaard said that he sees global oil inventory levels as key indicators of the dynamics of the global oil markets. “The absence of the normal seasonal stock builds in the first quarter clearly demonstrates that supply and demand is now in balance, which, combined with increased geopolitical risk, is what has driven oil prices up by more than 10 per-
cent over the past months,” Kibsgaard said.

Meanwhile strong oil demand appears set to continue, despite current tensions around trade between the United States and China. Under investment

On the supply side of the oil market, after three consecutive years of dramatic underinvestment in exploration and pro-
duction activities, year-on-year produc-
tion declines have been noted in several countries. This trend is expected to spread and accelerated as the impact of earlier investments fades. At the same time, with Libya and Nigeria already pro-
ducing at full capacity, Venezuelan pro-
duction in free fall, and the possibility of new sanctions against Iran, the only potential sources of production growth are Saudi Arabia, Kuwait, the UAE, Russia and U.S. shale oil, Kibsgaard said. It is likely that, with these supply con-
straints, the industry will face supply challenges over the coming year and that a significant increase in investment will be needed, he said. Kibsgaard also commented that Schlumberger expects drilling activity in North America to grow both in volume and in complexity, with more of his com-
pany’s customers moving towards the drilling of longer, horizontal lateral wells.

--ALAN BAILEY

Patent Number: 9662597

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