



PWSRCAC pushes revised weather rules for PWS tanker operations

During its Jan. 18 meeting the board of the Prince William Sound Regional Citizens' Advisory Council unanimously passed a resolution stating that oil tankers and their escort tugs should not be permitted to cross Prince William Sound and enter the Gulf of Alaska in weather conditions deemed unsafe for tanker escort training. Either some training should take place in conditions close to the current weather limits or, presumably, the weather criteria should be lowered to a level where training can be conducted.

Tugs escort the tankers, to provide assistance should a tanker encounter difficulties during its passage of the sound. Escort tug training involves exercises such as attaching a tow line to a tanker while at sea and towing a tanker.

The weather limit

In the interests of safety, tankers are not currently permitted

see **WEATHER RULES** page 8

Furie asks DOG for corrections to Kitchen Lights plan approval

Furie Operating Alaska has written to Chantal Walsh, director of Alaska's Division of Oil and Gas, requesting corrections to what the company characterizes as factual errors in an approval notice the division issued for the new plan of development for Furie's Kitchen Lights unit. The unit includes Furie's producing Kitchen Lights gas field.

Furie says that the approval document incorrectly states that, although Furie has since 2015 committed to drilling two wells in the unit, the company has consistently failed to drill the wells. As previously reported in Petroleum News, the division has issued a notice of default to Furie but has said that Furie can cure the default by meeting drilling commitments in the new Kitchen Lights plan.

Failure to cure the default could result in unit contraction or termination.

Furie told Walsh that the division document incorrectly states that Furie's work commitments for 2018 are the same as

see **FURIE REQUEST** page 8

AGDC responds to Mat-Su Port McKenzie AKLNG FERC appeal

The Matanuska-Susitna Borough appealed to the Federal Energy Regulatory Commission in late December to be allowed to intervene in the agency's Alaska LNG project determination, telling FERC that the Alaska Gasline Development Corp. should have included Port MacKenzie in the screening analysis for alternate sites for the AKLNG liquefaction facility. The project selected Nikiski as the lead site for the LNG facility in 2013. The borough told FERC that AGDC improperly evaluated Point MacKenzie, some 3 miles north of Port MacKenzie, rather than Port MacKenzie (see story in Jan. 21 issue of Petroleum News).

In a Jan. 23 response, attorney Howard L. Nelson of Greenberg Traurig LLP, writing for AGDC, said the corporation did not object to the borough's motion to intervene out-of-time in the proceedings, but said that late intervention should not delay either FERC staff's issuance of a schedule for environmental review or an order on AGDC's application.

see **FERC APPEAL** page 8

PIPELINES & DOWNSTREAM

Progressing to plan

Valdez marine transition to Edison Chouest sees ship launching, crew training

By **ALAN BAILEY**

Petroleum News

The transition of marine services for Alyeska Pipeline Service Co.'s Valdez oil terminal from Crowley Marine Corp. to Edison Chouest Offshore is moving ahead steadily, Mike Day, Alyeska marine services transition manager, told the board of the Prince William Sound Regional Citizens' Advisory Council on Jan. 18. Five of 13 new vessels being built for the transition have now been launched, with three of these vessels now undergoing sea trials and commissioning, Day said. Training for Edison Chouest crews is also well underway, he said.

With new vessels and substantial new oil spill response equipment, the oil spill contingency plans both for the terminal and for the tanker traffic have to be changed and then approved by the Alaska Department of Environmental Conservation.

Alyeska's Ship Escort/Response Vessel System, known as SERVS, manages the marine services, which provide tug assistance for tankers berthing at the Valdez Marine Terminal, as well as support-

see **MARINE TRANSITION** page 10

PIPELINES & DOWNSTREAM

Kenai plant re-opening?

Agrium, Potash merge; natural gas supply key to re-opening Kenai facility

By **KAY CASHMAN**

Petroleum News

With the merger of two industry leaders in early January, Potash Corp. and Agrium, Alaska could see the re-opening of its North Kenai fertilizer facility, the new Alaska manager told Petroleum News Jan 23.

"A long-term natural gas supply in Cook Inlet is crucial to re-opening the facility," Fred Werth said in the interview. "Gas price is our biggest challenge," natural gas feedstock being the highest cost component in the man-



FRED WERTH

ufacturing process.

The former Agrium facility employed 400 well-paid Alaskans when in full operation. It closed in 2007, when the Cook Inlet gas fields were in significant decline and the facility was unable to secure enough supply to operate. The inlet gas industry has since experienced a resurgence of gas exploration and production.

What Canada-based Nutrien, which trades as NTR on the Toronto and New York stock exchanges, offers natural gas producers

see **KENAI PLANT** page 11

EXPLORATION & PRODUCTION

Hope for Nenana basin

Doyon's Mery sees potential for oil development if discovery made this summer

By **ALAN BAILEY**

Petroleum News

Especially given the proximity of the Nenana basin to the road and rail corridor between Southcentral Alaska and Fairbanks, Doyon Ltd. sees the potential for a viable oil development in the basin, Jim Mery, Doyon vice president for lands and natural resources, told a meeting of the Resource Development Council on Jan. 18.

If the Totchaket No. 1 exploration well that the corporation plans to drill in the coming summer



JIM MERY

finds a significant oil pool, a development would be viable at a \$50 per barrel oil price, even with a relatively small discovery, say around 40 million to 60 million barrels, Mery said. If Doyon discovers a viable oil resource this summer, production could begin by around 2023 to 2025, but potentially earlier if oil were to be shipped initially by truck or rail to the oil refinery at Fairbanks North Pole, or to a trans-Alaska oil pipeline pump station.

Natural gas from the basin could potentially be

see **NENANA BASIN** page 9

● NATURAL GAS

AOGCC OKs deeper Ninilchik definition

Hilcorp had been testing deeper Beluga/Tyonek gas targets; new pool definition adds some 250 feet of depth to natural gas pool

By KRISTEN NELSON

Petroleum News

The Alaska Oil and Gas Conservation Commission has approved a request by Hilcorp Alaska to redefine the vertical boundaries of the Ninilchik Beluga/Tyonek gas pool, deepening the lower gas pool boundary by some 250 vertical feet. In an August application Hilcorp said it had been testing deeper intervals in the Ninilchik Beluga/Tyonek gas pool, which was then defined as the gas-bearing intervals between measured depths of 1,480 feet in the Paxton No. 5 well and 9,600 feet in the Paxton No. 1 well. Hilcorp requested a change to gas-bearing intervals between measured depths of 1,555 and 9,035 feet in the Kalotsa No. 3 well.

In its findings the commission said recent test results from the Kalotsa No. 4 development well confirm potentially commercial quantities of natural gas in Tyonek for-

mation sands underlying the Ninilchik Beluga/Tyonek gas pool as it had been defined. The commission said Hilcorp's requested expansion of the pool's vertical boundaries and use of a different reference well log would not significantly change the upper boundary of the pool, but would "deepen the lower pool boundary by approximately 250 vertical feet."

In early October Hilcorp amended the application to include an expansion of the Beluga/Tyonek pool to include a small area which had previously been added to the unit but not to the AOGCC defined gas pool. That was also approved in the commission's Jan. 22 order.

The commission said that expansion would "conform the pool boundary to the current exterior boundary of the Ninilchik Unit."

Correlative rights issue

A spacing exception request in the application

required notification of all affected parties within 3,000 feet of the boundaries of the area, the commission said, requiring Hilcorp to notify all those parties and provide proof of that notification. A November hearing was continued for 30 days with the commission requiring Hilcorp to provide proof that all affected parties had been notified.

Don Shaw, a private citizen owning land near the Ninilchik unit, submitted written comments at the November hearing and testified at the Dec. 14 hearing, claiming infringement of his correlative rights, the commission said, "based upon his belief Hilcorp's Frances 1 well is draining gas reserves beneath his property." Shaw told the commission that his property is "... within a 3,000-foot spacing exception radius of the Francis 1."

"This is incorrect," the commission said in its January order. "Frances 1 is an unsuccessful exploratory oil well

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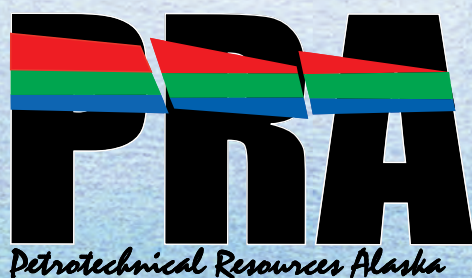
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● EXPLORATION & PRODUCTION

BP's Weiss talks oil incline benefits

Delivers on promise of shaved head if Prudhoe production above 280,000 bpd for 2017; marks 3rd level year of production at field

By **KRISTEN NELSON**
Petroleum News

Janet Weiss, president of BP Exploration (Alaska), had an upbeat message for the Alaska Support Industry Alliance's annual Meet Alaska conference in Anchorage Jan. 19.

In 2014, she said, oil production was on the incline in 12 out of the 13 U.S. oil producing states: Alaska was the exception. Senate Bill 21, passed in 2013 and ratified in 2014 with the defeat of a repeal initiative, was a great thing, Weiss said. It made the Alaska basin competitive again and Alaska got to join the incliners.

At the BP-operated Prudhoe Bay field, which celebrated 40 years of operation, there have been three years of no decline in production, Weiss said, acknowledging a focus on safety and recognizing three Alliance companies, Jacobs' (formerly CH2M) fire and gas team at Flow Station No. 1 for zero injuries in 2017, Conam for completing a project at Flow Station No. 2 and for a focus on safety and Parker Drilling Co., whose rig 272 had no first aid incidents in 2017 and three years without a recordable injury. She said Parker rig 272 is the number 1 ranked land rig across BP's fleet for both safety and operations.

She said safety is BP's priority, and the



JANET WEISS

JUDY PATRICK

company has more to do, but welcomes the continued partnership and focus on safety of its contractors.

Three years at Prudhoe

Prudhoe production was 281,800 barrels per day in 2015, 280,700 bpd in 2016 and 280,040 bpd in 2017. "In my book that's no decline," Weiss said, noting that Prudhoe was supposed to have a 30-year life and has now passed 40, and was supposed to produce 9.6 billion barrels, has passed 12.5 billion and is well on its way to producing more than 14 billion barrels.

So how did Prudhoe do it?

She said there's a real focus on doing base operations better, from 79 percent to more than 85 percent operating efficiency, a lot more plant reliability.

More than 500 well jobs were completed and the count of active wells is up by 100, she said.

And there's also been two years of incline in production down the trans-Alaska oil pipeline, Weiss said.

At the 6-8 percent decline in throughput the state saw in earlier years, by 2055 1.5 billion additional barrels would move down TAPS, worth \$11 billion to the state in taxes and royalties. But at a 1 percent decline, it's 5 billion barrels, and \$66 billion to the state.

It's about staying in the game, Weiss said, which takes a stable fiscal policy, innovation and true Alaskan grit.

Staying competitive

Teams across Prudhoe have been

see **WEISS** page 4

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NINILCHIK

that encountered gas in the Tyonek sands not found in other, nearby Falls Creek wells. To test, complete and produce these gas reserves, a spacing exception was required because Frances 1 is located within 1,500 feet of a property line where the owner and landowner are not the same on both sides of the line and because the well is located within the same governmental section as, and within 3,000 feet of, another well that is open to the same pool."

A spacing exception was granted, the commission said, noting that the Shaw property is not within the 1,500 feet required for a spacing exception, and said Shaw was notified because a small portion of his property lies within the 3,000-foot radius for required landowner notification.

"Notification is just that," the commission said, "and nothing more. It does not imply, or establish, a 3,000-foot drainage radius for the Frances 1 well."

Perforations within the Frances 1 well are some 2,750 feet from the nearest portion of Shaw's property, the commission

said.

Shaw told the commission his land is being drained by the Frances 1 well, and compared his property to a marsh surrounding a pond, with the marsh and pond interconnected.

"This is an inaccurate characterization," the commission said. "The structure of the Beluga and Tyonek Formation is not analogous to a pond. The Beluga and Tyonek are comprised of discontinuous sandstone lenses deposited in braided to meandering rivers and streams. Well-to-well correlations using logs recorded in the Falls Creek wells and Frances 1 demonstrate that there is little lateral continuity between individual sand layers in this area. As a result, absent high-quality seismic data, whether stratigraphic traps exist beneath the Shaw Property cannot be demonstrated without drilling."

"Testimony and evidence presented by Mr. Shaw does not demonstrate that gas exists beneath his property or that Hilcorp's Frances 1 well, located more than one-half mile to the north-northwest, is draining gas from his property," the commission said in its conclusions. ●

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● EXPLORATION & PRODUCTION

Keeping Alaska oil industry competitive

Marushack outlines active exploration and development on the North Slope but says investment in state depends on fiscal stability

By **ALAN BAILEY**
Petroleum News

likening the annual debate about oil taxes at the start of each Alaska legislative session to Groundhog Day, Joe Marushack, president of ConocoPhillips Alaska, said that fiscal stability is essential for continuing capital investment in the state's oil industry. And that capital expenditure is the key to growth in the state.

"We've got a lot of promise," Marushack said. "We've got a line of sight to a lot of really good things."

Fiscal stability

Marushack said that whenever he goes to Houston to argue the case for a new

Alaska project, the first question asked is whether the taxes will remain the same. That is a difficult question to answer, he said. Increasing the taxes increases the cost of the project, moving the project down the list of competing ventures and potentially dropping into a situation where investment will not be forthcoming, he said. And Alaska must compete with shale oil development in prolific plays such as the Eagle Ford, which are closer to market than Alaska and have thousands of drilling opportunities.

Moreover, the current ramp up in



JOE MARUSHACK

With the help of its contractors, ConocoPhillips has been able to reduce its North Slope costs substantially, Marushack said.

North Slope activity demonstrates that the current fiscal system is working, Marushack said.

Marushack also commented on the critical importance of workplace safety as ConocoPhillips' "license to operate" in the state. In addition to the maintenance of a stable fiscal framework, people must be safe and environmentally proactive, as well as continuing to maintain existing facilities, if further development is to move ahead, he said.

Five exploration wells

This winter ConocoPhillips is planning five exploration wells, the company's biggest exploration program since 2002. The drilling of three wells in the company's Willow prospect in the northeastern part of the National Petroleum Reserve-Alaska will enable the company to determine whether to do a standalone, \$4 billion to \$5 billion development in the prospect.

A well at Stony Hill, about six miles south of the village of Nuiqsut, will test that prospect. ConocoPhillips also plans to drill in the Putu prospect, about three miles east of Nuiqsut. The company is also conducting a major 3-D seismic program in 250 square miles of state leases that the company picked up south of the Alpine field.

Development projects

Marushack also reviewed development projects that ConocoPhillips is conducting on the North Slope.

The CD-5 project in northeastern NPR-A has significantly exceeded the company's expectations. The original 15-well project had anticipated oil production rates of around 16,000 barrels per day. The development was expanded to 23 wells and has now achieved production in excess of 26,000 barrels per day. The company is now going to drill 10 more wells at a cost of around \$30 million to further increase the production rate.

To the west of CD-5, a \$1 billion development is in progress at Greater Mooses Tooth 1, with ice roads in place for this winter's development season. This development is expected to result in 25,000 to 30,000 barrels per day of production, with first oil anticipated late this year. ConocoPhillips is also permitting

the next project, working west into NPR-A, the GMT-2 development — this is another 25,000 to 30,000 barrels per day project, with a cost around \$1.5 billion and first oil expected in 2021.

The Fiord West development in the Colville River unit will involve extreme extended reach drilling using a drilling rig that Doyon is building for the project. That will add around 20,000 barrels per day to North Slope oil production, with first oil expected in 2020, Marushack said. And a Willow development could maybe add another 100,000 barrels per day, perhaps starting in 2023, he said.

In addition to the three rigs being used for exploration drilling this winter, ConocoPhillips will have three rigs involved in field development work: one in the Alpine field and one in the Kuparuk River field, in addition to a coiled tubing rig.

A rosy picture

Looking more broadly across the North Slope and Beaufort Sea, Marushack outlined development plans by various companies including ConocoPhillips that could add 400,000 barrels per day of oil to the throughput in the trans-Alaska pipeline. And underpinning all of that is the continuing robust production of oil from the legacy fields of Prudhoe Bay, Kuparuk and Alpine.

But this whole rosy picture depends on the North Slope oil industry remaining competitive with other regions, in particular with the shale oil plays. With the help of its contractors, ConocoPhillips has been able to reduce its North Slope costs substantially, Marushack said.

In 2017 ConocoPhillips invested about \$200 million in maintaining its existing Alaska operations and another \$600 million in capital for exploration and development projects. Operating expenses totaled around \$1 billion. That amounted to about \$1.8 billion flowing into the Alaska economy, with that figure then boosted by multiplier effects within the economy.

But in 2018 total Alaska oil production is anticipated to constitute just 5 percent of the U.S. total, a level far below the 14 percent of production seen just 10 years ago.

"We've got to do better than that and we've got a lot of potential out there to do better. But we've got to have a stable, competitive fiscal policy," Marushack said. ●

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WEISS

working to stay competitive, Weiss said. She said that in 2017 she visited various teams and saw some inspiring leaders who helped get teams to a level they didn't think possible. One team leader promised early in the year to shave his head if his team met their goals.

Weiss said the Prudhoe production

forecast for 2017 was 266,000 bpd, which would have been a decline from 2016. She said she promised that if production was held flat she would shave her head. Well, she told Meet Alaska Jan. 19, "tomorrow is the day."

If you see me around town with a shaved head, she said, it's in honor of the great people with true grit innovation. ●

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● LAND & LEASING

Division denies Miluveach unit expansion

Says BRPC application describes generalized concept to develop area, no firm commitments; doesn't show it facilitates production

By **KRISTEN NELSON**
Petroleum News

Brooks Range Petroleum Corp. applied for an expansion of the Southern Miluveach unit last June. In a Jan. 24 decision the Alaska Division of Oil and Gas denied the expansion, which would have added 21,472 acres to the existing 8,960 acres, more than tripling the size of the unit to 30,432 acres. Of 12 leases in the proposed expansion area, eight have lease terms which expired at the end of last June.

The division's decision, signed by Deputy Director James Beckham, quoted the SMU unit agreement as saying the operator may apply to expand the unit "to include any additional lands determined to overlie a Reservoir that is at least partially within the Unit Area, or to include any additional lands that facilitate production." That requires, the division said, that BRPC show "that either there is a reservoir in the existing SMU that extends into the expansion area or BRPC has plans to use the expansion area to facilitate production from SMU."

The division's regulations require that the unit must be "the minimum area required to include all or part of one or more oil or gas reservoirs, or all or part of one or more potential hydrocarbon accumulations," requiring, the division said, that BRPC show that the expanded unit "would be no bigger than necessary to include all or part of a potential hydrocarbon accumulation or reservoir." The division must also find the expansion is in the state and public interest.

Formed in 2011

The unit, on the North Slope south of the Kuparuk River unit, was formed in March 2011. An initial plan of explo-

"BRPC is not currently producing, so the continuation of SMU hinges on BRPC conducting operations to achieve sustained production," the division said.

ration required BRPC to drill and evaluate at least three wells in the Kuparuk formation by May 2012. Two were drilled, the division extended the third to May 2014. BRPC failed to meet that deadline, but did drill the third well in 2015.

The unit had a five-year primary term, which the division extended through the end of 2017. In late 2017 BRPC reentered and tested one of the original wells, receiving certification that it is capable of producing in paying quantities, thus extending the unit so long as the company is continuously producing or conducting operations under an approved plan of development. "BRPC is not currently producing, so the continuation of SMU hinges on BRPC conducting operations to achieve sustained production," the division said.

Vague plans

The division said it acknowledges that based on data submitted by BRPC, there is a "chance of reservoir quality hydrocarbon accumulations existing within either the Torok Formation or Kuparuk C sand in the proposed expansion area. Both are reasonable prospective plays. Both have inherent risks that would require additional exploratory wells to evaluate."

But while the company identified "prospectivity within the expansion acreage," the division said, there are no specific exploration well locations or well plans.

"Accordingly, the prospects are not sufficiently delineated to qualify as potential hydrocarbon accumulations and therefore the unit, as expanded, would not be the minimum size necessary to encompass potential hydrocarbon accumulations. Nor has BRPC demonstrated a reservoir that extends from the existing unit into the proposed expansion area to qualify for a unit expansion under the terms of the unit agreement."

BRPC submitted a plan of development but the division said it describes a generalized idea for exploration but does not provide detail or make firm work commitments: "In this respect, it is more of a concept than a POD."

The company's short-term plans are limited to planning and studying existing data, and the division said those activities do not constitute exploration or development operations. 2019 is the earliest that BRPC might drill, but the division said the company offers no specific commitment, and because of the lack of detail and work commitment, the division said the POD does not demonstrate that the expansion would facilitate production as required under the unit agreement.

"The purpose of a unit is to conserve resources through joint development, not to warehouse acreage for a hypothetical development of unknown resource potential with no specific plans to timely pursue the resource," the division said.

Benefits

As to economic costs and benefits to the state, because BRPC has no firm commitment to drill, and with no evidence of a potential hydrocarbon accumulation, the econom-

see **UNIT EXPANSION** page 7

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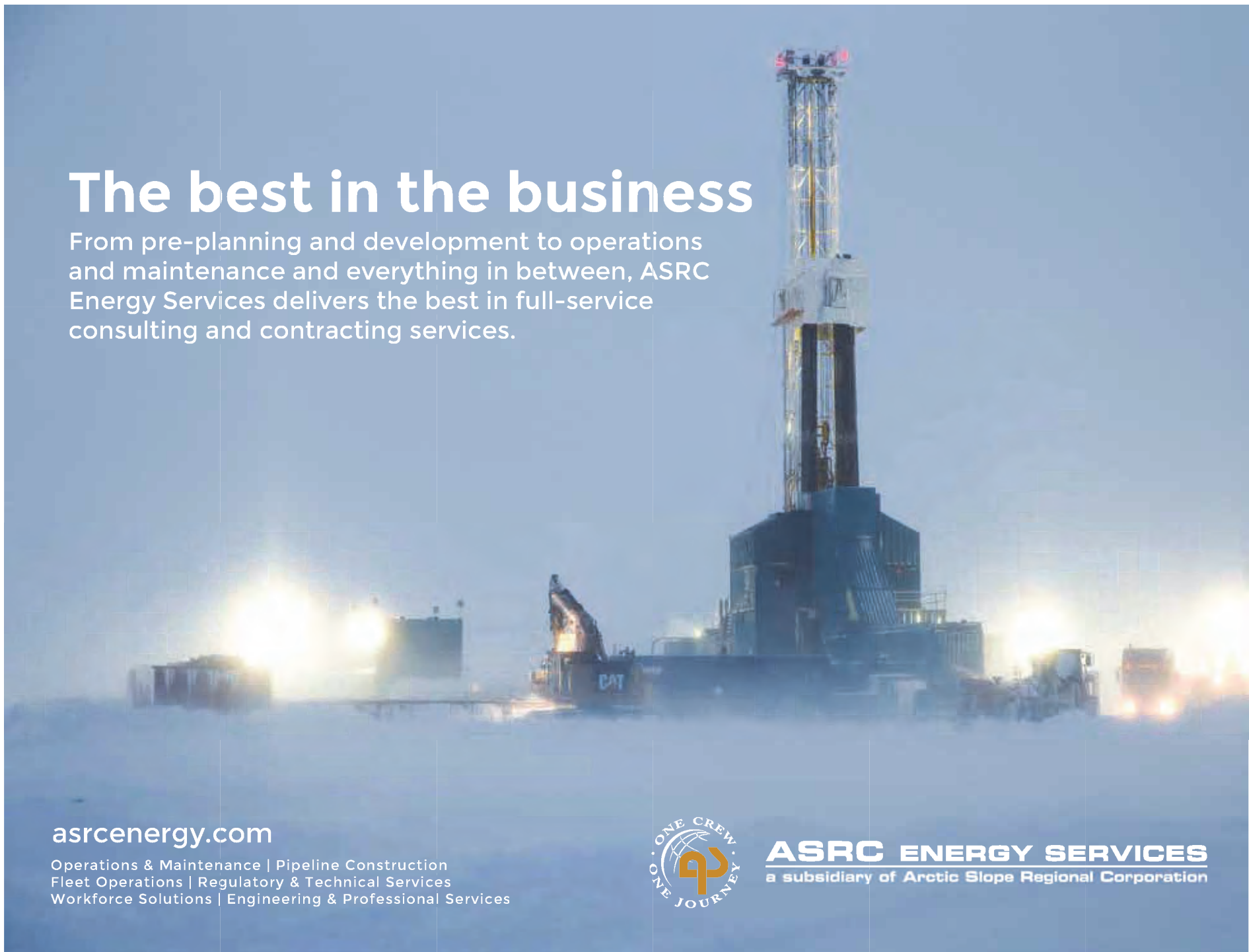
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EXPLORATION & PRODUCTION

Hilcorp plans Cook Inlet airborne surveys

Hilcorp Alaska has applied to the federal Bureau of Ocean Energy Management to collect airborne gravity and magnetic data in lower Cook Inlet this May.

BOEM said it received the application Dec. 28 for a permit to conduct geophysical exploration for mineral resources on the outer continental shelf and said the permit application shows a survey area which generally overlaps the federal OCS waters of the BOEM Cook Inlet planning area in lower Cook Inlet. The agency said Hilcorp also planned to have the surveys run over the Iniskin Peninsula.

BOEM said Hilcorp planned to hire CGG Multi-Physics to acquire and process the data. Fixed-wing aircraft will be used offshore and rotor-wing aircraft onshore, with data collection expected to take two to three weeks. May 1 is the preferred start date because of typical optimum weather conditions.

Hilcorp acquired 14 lease blocks in the BOEM 2017 OCS lease sale, BOEM said, and the lower Cook Inlet geophysical program includes an aerial gravity and magnetic survey of all 14 lease blocks.

Onshore, Hilcorp already has some information: SAExploration did a 41-mile 2-D seismic shoot for the company between Chinitna Bay and Iniskin Bay in the summer of 2013. According to the application for that survey, 3.1 miles were to be on state land with local land use permits required for other areas from Tyonek Native Corp., Cook Inlet Region Inc., Salamatof Native Association Inc., Seldovia Native Corp. Inc. and Ninilchik Natives Association, Inc., as well as private permits from landowners for staging areas.

—KRISTEN NELSON

LAND & LEASING

Official: Excluding Florida not final

BOEM head notes no formal decision yet on 5-year drilling plan for outer continental shelf; Zinke has said Florida 'off the table'

By MATTHEW DALY

Associated Press

The Trump administration's promise to exempt Florida from an offshore drilling plan is not a formal action, an Interior Department official said Jan. 19 in a statement that Democrats said contradicted a high-profile announcement by Interior Secretary Ryan Zinke.

Zinke has proposed opening nearly all U.S. coastline to offshore oil and gas drilling, but said soon after announcing the plan that he will keep Florida "off the table" when it comes to offshore drilling.

Zinke's Jan. 9 statement about Florida "stands on its own," said Walter Cruickshank, the acting director of the Bureau of Ocean Energy Management, but there's been no formal decision on the five-year drilling plan.

"We have no formal decision yet on what's in, or out, of the five-year program," Cruickshank told the House Natural Resources Committee at a hearing Friday.

Zinke's announcement about keeping Florida off the table, made during a Tallahassee news conference with Florida Gov. Rick Scott, will be part of the department's analysis as it completes the five-year plan, Cruickshank said.

Political reaction

Democrats seized on the comment to accuse Zinke of playing politics by granting the Republican governor's request to exempt Florida while ignoring nearly a dozen other states that made similar requests.

Florida Sen. Bill Nelson called Cruickshank's comments "stunning" and said they confirm what he and other Democrats had suspected — that Zinke's statement was "nothing more than a political stunt" to help Scott run for Nelson's Senate seat.

Scott is a friend and ally of President Donald Trump, and Trump has urged him to run for the Senate.

Zinke's promise to take Florida off the table was "just empty words" until he takes formal steps needed to publish a new draft plan that excludes Florida, Nelson said.

Heather Swift, a spokeswoman for Zinke, called the claims by Nelson and other Democrats false. "Cruickshank simply said BOEM will finish the legally-required analysis of the planning areas, as is always done for all planning areas," she said in an email.

Scott said he did not see Cruickshank's comments but was confident the Trump administration will not allow drilling in Florida.

The plan has drawn bipartisan opposition by coastal state governors from California to New Hampshire, with at least 11 governors formally asking Zinke to remove their states from the plan.

"Secretary Zinke is a man of his word. He's a Navy Seal. He promised me that Florida would be off the table, and I believe Florida is off the table," Scott told reporters Jan. 19.

Expansion plan

Zinke announced plans two weeks ago to vastly expand offshore oil drilling from the Atlantic to the Arctic and Pacific oceans, including more than a dozen states where drilling is now blocked. The five-year plan would open 90 percent of the nation's offshore reserves to development by private companies.

The plan has drawn bipartisan opposition by coastal state governors from California to New Hampshire, with at least 11 governors formally asking Zinke to remove their states from the plan. Seven governors from Massachusetts to North Carolina submitted a joint request for exemptions this week.

"Like Florida, each of our states has unique natural resources and an economy that is reliant on tourism as an essential driver," the governors wrote. The letter was signed by Republican leaders of Massachusetts and Maryland and Democrats from Rhode Island, Connecticut, Delaware, Virginia and North Carolina.

By exempting Florida but not other states, Zinke showed he is "more concerned with politics than proper process when it comes to making key decisions that affect our coastal communities," said Sen. Maria Cantwell of Washington state, the top Democrat on the Senate Energy and Natural Resources Committee.

Zinke's action may violate the Outer Continental Shelf Lands Act, which governs drilling in U.S. coastal waters, Cantwell said. The law requires formal notice and a comment period before taking regulatory action.

Rep. Jared Huffman, D-Calif., a member of the natural resources panel, told Cruickshank that the Interior Department has not offered "a single reason why Florida is more unique than California or Virginia or South Carolina or other coastal states."

Oil industry groups have praised Zinke's plan, while environmental groups say it would harm America's oceans, coastal economies, public health and marine life.

Nelson said he is blocking three Trump nominees for high-level Interior jobs to protest the drilling proposal. ●



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● GOVERNMENT

HB 288 intended as conversation starter

Rep. Tarr tells House Resources bill moves just one lever in oil tax system, offered because broad revenue measures off the table

By **KRISTEN NELSON**
Petroleum News

House Bill 288, an increase in the state's minimum oil and gas tax from 4 percent to 7 percent, was introduced in House Resources Jan. 22 by sponsor Rep. Geran Tarr, D-Anchorage, co-chair of the committee.

Tarr suggested members think of the bill as a conversation starter, not as something set in stone. She noted that House Bill 111, passed last year, established an oil and gas tax working group, and said she remains very committed to that process.



REP. GERAN TARR

Asked by Rep. DeLena Johnson, R-Palmer, if the bill shouldn't go to the working group for review, Tarr said that HB 288 was not changing anything fundamental to the oil tax structure, including the 35 percent base rate, the per-barrel credit, gross value reduction, minimum tax or lease expenditure deductions. She also said that the working group was set up to provide recommendations to the Legislature, and did not have committee authority to hear bills.

Tarr said HB 288 just changes one of the calculations for the minimum tax, whereas the working group is looking at the fundamental structure of the state's oil and gas tax system, assisted by consultants the Legislature has hired.

The oil price

Tarr said she believes based on Senate Bill 21 discussions that if oil had been \$60 when that bill was discussed the Legislature might have developed a different tax system. When SB 21 was being discussed, \$60 seemed the low mark.

Tarr said she has three questions: how much is profit per barrel; how many total barrels are there; and how much revenue goes to the state.

At \$60 per barrel, under the minimum tax, the state gets \$2.03 per barrel, she said.

Asked by Rep. George Rauscher, R-Sutton, how the bill fits in with curing instability in the state's fiscal system, a topic he said he has heard raised repeatedly, Tarr said the committee will hear from

industry at its Jan. 26 meeting, and said she imagines that industry will want to see the state diversify its revenue sources so the finger isn't always pointed at them.

Tarr said the state has few other options, and by suggesting an increase from 4 percent to 7 percent in the minimum tax, she hopes people will consider all options and ask whether there is a bit of room to push up the minimum tax without threatening investment and leading to job losses.

No one expects the oil price to go above \$80, she said, and industry has suggested it may dip below where it is currently, so, she asked, what can the Legislature do in the \$50-\$60 price range while the working group looks at the state's underlying tax structure.

Focus on the math

Rep. Chris Birch, R-Anchorage, said it appeared from the sponsor statement that Tarr wouldn't have introduced this bill if a broad-based tax had passed last year.

Tarr said that would have changed the deficit outlook, and from her perspective would change things because the math would be different.

Birch said it seems like the Legislature is back at the well again, and said he was concerned this would impact production.

Tarr said she shared that concern, but was focused on solving the math problem. If the state diversified revenue sources it would change the pieces. She said she didn't think this was the only option but thinks it has to be part of the conversation.

Tarr said she had no interest in turning this into an oil tax session, which is why the bill is limited to changing one lever. She also said that her constituents think \$2 a barrel is too low, and noted that the specter of a citizens' initiative on oil taxes had been raised last year, adding that she doesn't think that's the right way to go, as she doesn't think tax policy should be done by initiative.

In the House Majority Coalition press availability on Jan. 23 Tarr again said that she views HB 288 as a conversation starter, noting that Senate leadership has said new revenue measures are off the table, which is why they're looking at the minimum tax (co-sponsors of the bill include Tarr, Resources co-Chair Andy Josephson, D-Anchorage, and Finance co-Chair Paul Seaton, R-Homer, all members of the House Majority Coalition). ●

continued from page 5

UNIT EXPANSION

ic benefit to the state "is little different from the potential economic benefit inherent in any oil and gas lease."

While expansion would protect the interests of the working interest owners by expanding leases beyond their primary term, "lease extension is a side-effect of unitization, not its purpose," the division

said. The division concluded that there are so many unknowns in BRPC's application that it does not demonstrate that unit expansion would prevent economic waste.

There is a 20-day appeal period to the commissioner of the Department of Natural Resources from the date of the decision. ●

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UTILITIES

ARCTEC selects Railbelt council facilitator

The Alaska Railbelt Cooperative Transmission and Electric Co. has selected Georgia-based consultancy firm GDS Associates Inc. to act as facilitator for the formation of a Railbelt Reliability Council for the Alaska Railbelt electricity transmission grid. The idea is that the RRC would become responsible for the oversight of reliability standards, planning and open access for the grid. Six independent utilities and the state of Alaska own and operate different grid sectors.

"GDS stood out to the selection committee due to their extensive experience working with other utility groups throughout the U.S. on collaborative and innovative solutions," said David Glines, chair of the ARCTEC board and president of the Matanuska Electric Association board of directors. "They will be a catalyst for developing a model that can serve Alaskan ratepayers for years to come."

"GDS is honored to be selected by ARCTEC to facilitate a model for a more effective and reliable electric grid with lower long-term costs," said Seth Brown, partner and vice president of GDS's transmission services.

The idea is that GDS will involve the Railbelt utilities, the Regulatory Commission of Alaska and other stakeholders in discussions and public forums, with the objective of recommending an organizational and leadership structure for the RRC, together with a proposed scope of responsibilities and specification of authority for the organization. The plan is to complete the work within six months. ARCTEC, with four of the Railbelt utilities as members, was originally formed to advance the concept of having a system operator for the Railbelt grid.

The proposal for the formation of the RRC comes in conjunction with moves towards a more unified and hence more cost effective electrical system in the Railbelt, including the pooling between utilities of the cheapest sources of electrical power and the possible formation of a transmission company to operate the transmission grid as a single entity.

—ALAN BAILEY

ARCTEC, with four of the Railbelt utilities as members, was originally formed to advance the concept of having a system operator for the Railbelt grid.

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ENVIRONMENT & SAFETY

Supreme Court declines bearded seal appeal

In a decision published on Jan. 22, the Supreme Court of the United States declined to hear a petition to review the result of the appeal against the National Marine Fisheries Service's listing of the Beringia population of bearded seals as threatened under the terms of the Endangered Species Act. The court decision, in effect, brings the appeal to an end, with the listing still in place.

The request to the Supreme Court followed a decision in October 2016 by the U.S. Court of Appeals for the 9th Circuit to uphold the listing of the seals, a decision that overturned an earlier order by the federal District Court in Alaska that had rejected the listing on the grounds that the listing decision had been arbitrary and capricious.

The listing of the bearded seals has come as one of a number of wildlife listings related to the projected loss of Arctic sea ice as a consequence of global warming. Bearded seals live around the sea ice, which they use for resting, feeding and rearing their young. Worried about the potential impact of the listing on economic activity in the Arctic and questioning the listing of an apparently healthy species based on long-term climate projections, several entities, including the Alaska Oil and Gas Association, the American Petroleum Institute, the state of Alaska, the North Slope Borough and other local government and Alaska Native organizations appealed the listing decision in District Court.

—ALAN BAILEY

continued from page 1

FURIE REQUEST

those for 2015, while also incorrectly saying that Furie did not drill any wells in 2016. In fact, the division had approved the deferral of Furie's planned 2015 drilling into 2016 and the company actually drilled three wells in 2016, one more well than required in the approved Kitchen Lights plan. The three wells drilled in 2016 consisted of the KLU No. A2-A, that is now producing gas, the KLU No. A1 well, and the KLU No. A2 well, Furie says. The KLU No. A1 well was drilled into productive zones but has not yet been completed, the company says.

Furie did not drill in 2017 — the company has said that the failure by the state

to pay tax credits owed to the company, coupled with financial uncertainty associated with state budget negotiations, had compromised the funding for the drilling.

Furie also objects to statements in the division's plan authorization, implying that the company is not actively exploring and developing the Kitchen Lights unit. The company, in its letter to Walsh, lists its exploration and development accomplishments in the Kitchen Lights unit since 2011.

"Furie's track record shows diligent exploration and development of the KLU as a reasonably prudent operator," Furie's letter says.

—ALAN BAILEY

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FERC APPEAL

As to the borough's characterization of the evaluation former project lead ExxonMobil and AGDC have done on a site for the LNG facility, he said that while the site selection was made prior to AGDC becoming the prior owner of AKLNG, "AGDC does, however, have an understanding of the screening process used by the former project manager, ExxonMobil, to identify and evaluate alternate sites."

Port evaluation

Nelson told FERC the former joint owners of AKLNG initiated pre-filing in September 2014, and said the borough "was well aware of the project and the preferred site for the liquefaction at Nikiski." The director of Port MacKenzie participated in open houses and scoping meetings "and supported the siting of the liquefaction facility at Nikiski," he said. "There are no inaccuracies in the site selection process used by the project to evaluate the alternatives."

The evaluation of Point MacKenzie, rather than Port MacKenzie, was not, as the borough asserted, a mistake, Nelson said.

The site analysis was performed in 2012 and the Master Plan for Port MacKenzie "indicated a number of planned uses at the Port other than LNG facilities that made the Port incompatible as a site for the Alaska LNG facilities," he said. Uses cited by the master plan included significant increases in local and national businesses expressing interest in business operations at the port "and a dramatic increase in bulk commodity exports upon completion of a rail extension linking Port MacKenzie to the Railbelt." The master plan also cited a need for a second trestle and expansion of the deep-draft dock to accommodate two vessels.

"Given the plan for these other operations at the port, Port MacKenzie was not included in the site-selection screening analysis," Nelson said. A minimum of 800 to 1,200 acres are required for the LNG facility and safety zones.

"It is not possible to integrate a world class 20 mpta LNG plant and marine terminal within an existing port complex without constraining either existing or planned uses of the complex or the proposed LNG facility and its marine terminal," he said. Based on a review of the port's current master plan, "if the Alaska LNG plant and marine terminal were

Nelson said AGDC does not oppose the borough's intervention in the case, "but would oppose any effort to require AGDC to perform additional site analyses at this stage of the proceeding. The Borough's allegations of inaccuracies, mistakes and misrepresentations, as well as its claims of NEPA and CWA violations, should be rejected and disregarded."

placed on this site, the entire southern half of the site would need to be dedicated to these facilities, which would require the relocation of existing facilities to the north."

Point MacKenzie

Since the project determined that Port MacKenzie was not a feasible site, a separate site 3 miles to the north was identified as a potential site and evaluated as part of the site-selection screening analysis. The Point MacKenzie site did not have conflicting planned uses, Nelson said, but was eliminated because it was on Native village lands, there was conflict with vessels using Port MacKenzie and the Port of Anchorage, the Point MacKenzie site had high bluffs and erosion rates, shallow water would require extensive dredging, there would be impacts on Beluga whales within a restricted critical habitat area and heavy ice concentrations combined with strong currents and rock outcroppings.

AGDC's response also included notes and transcripts of meetings at which the port director acknowledged Nikiski as the LNG facility site and focused on alternatives for the pipeline route, with a preference for a route on the east side of the Susitna River, allowing the port to tap into the line.

Nelson said AGDC does not oppose the borough's intervention in the case, "but would oppose any effort to require AGDC to perform additional site analyses at this stage of the proceeding. The Borough's allegations of inaccuracies, mistakes and misrepresentations, as well as its claims of NEPA and CWA violations, should be rejected and disregarded."

—KRISTEN NELSON

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WEATHER RULES

to cross the sound in wind strengths in excess of 45 knots and seas of more than 15 feet. However, Alyeska Pipeline Service Co., operator of the Valdez Marine Terminal, does not conduct training exercises for the tanker escort tugs in conditions of this severity — the company's perspective is that, while tankers and their escorts can safely ply the waters of the sound in conditions up to the prescribed limit, conducting training drills in these conditions poses an unwarranted safety risk.

But PWSRCAC argues that escort vessels need training and experience in the complete range of weather conditions that may be encountered during a tanker transit emergency.

"If it is unsafe to train personnel, it is unsafe to transport oil," said PWSRCAC board President Amanda Bauer. "This position does not just apply to the incoming contractor, but sets the standard to which the council feels all future new contractors, equipment and crews should be held. We believe strongly that these standards are needed to ensure the economic and environmental safety of the communities and groups we represent."

PWSRCAC Executive Director

Donna Schantz also argued that training exercises can be stopped, if crews and vessels are judged to be in danger.

"We agree with industry and regulators that crew safety is the first priority," said Schantz. "We believe that drills and exercises, including in adverse weather, are controlled events, as they can be stopped at any time that the risk to crews or vessels becomes unacceptably high."

Alyeska response

Michelle Egan, Alyeska's corporate communications director, told Petroleum News in a Jan. 22 email that Alyeska shares the PWSRCAC's commitment to protecting the environment but strongly disagrees with requiring demonstrations of escort tug tasks in uncontrolled and potentially dangerous conditions.

"It is entirely inconsistent with a strong safety and risk management culture and not an accepted or proven training method for operational proficiency," Egan wrote. "There are many ways to demonstrate the competency and proficiency of crews and vessels that don't create the level of risk to human life and the environment that the RCAC is promoting."

—ALAN BAILEY

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NENANA BASIN

brought on line earlier than oil — the Nenana basin is prospective for gas as well as for oil. However, Doyon does not currently see any market for gas, especially given current plans to ramp up deliveries of liquefied natural gas to Fairbanks under the Alaska Industrial Development and Export Authority's Interior Energy Project. Gas from the Nenana basin, if a significant resource is found, could be delivered to Fairbanks at a city-gate price significantly lower than the price anticipated by the IEP, Mery said.

Moreover, it appears unlikely that Doyon would be able to sell gas at a viable price through a future gas export line from the North Slope, if that pipeline comes to fruition, Mery suggested.

Cook Inlet Region Inc. is partnering with Doyon for the drilling of the Totchaket well. State tax credits also support Doyon's exploration program.

Petroleum system

While the planned well will be located in the relatively deep northerly part of the Nenana basin, Doyon has previously drilled three wells in the basin's shallower, more cen-

tral saddle. Those earlier wells provided tantalizing evidence for an active petroleum system, with the discovery of oil shows and so-called wet gas that must have been generated thermally at considerable depth. Two of the wells provided evidence of breached hydrocarbon reservoirs — geologists have suggested that the breaching resulted from uplift of the rock strata in the basin's central section. The wells did not encounter any commercially viable oil or gas pools.

Oil and gas in the basin is understood to be sourced from coal and coaly shales in the relatively hot, deeper sections of the basin. There are abundant potential hydrocarbon reservoirs formed from porous sand units, and there are also impervious horizons that can act as reservoir seals. But Doyon's drilling endeavors to date have clearly revealed issues with the trapping of hydrocarbons in some sections of the basin.

Mery characterized the strategy behind drilling the Totchaket well as, in part, the mitigation of risk associated with the hydrocarbon traps. Seismic data indicate that there has been relatively little movement of the strata in the northern section of the basin where the drilling is planned, he said. Moreover, the seismic data, in particular 3-D data gathered in 2017, exhibit amplitude anomalies, suggesting the presence of natural gas or light oil at multiple horizons.

Drill to around 13,000 feet

Doyon plans to use the Nabors 105 rig to drill the new well to a depth of around 13,000 feet, depending on what the well encounters. There are hydrocarbon indicators between depths of around 4,500 feet and 9,500 feet, Mery said.

The Totchaket East prospect, where the well will be drilled, is one of five prospects identified from the 3-D seismic data, with all of the prospects showing hydrocarbon indicators. So success in the drilling, in particular an oil find, could lead to a multiyear drilling program, Mery said.

Currently Doyon is building a winter road out to the drill site, to enable the winter construction of both the drill pad and an access road to the pad from the Tanana River. The idea is to move the drilling rig to the pad in March, to enable mobilization of the drilling operation in late May, after breakup. A fleet of barges and crew boats on the Tanana will service the operation, with the main personnel camp being located in the nearby town of Nenana. By allowing plenty of time for the drilling over the course of the summer, Doyon is preparing for the possibility of well testing, should a discovery be made, and for the possibility of drilling a sidetrack or a second well, should that be appropriate, Mery said. ●



Oil Patch Bits



Fluor named a Fortune world's most admired company

Fluor Corp. announced Jan. 22 that it was named to Fortune magazine's 2018 world's most admired companies list for the 18th consecutive year.

"Fluor's 60,000 global employees embody our core values of safety, integrity, teamwork and excellence on a daily basis," said David Seaton, Fluor's chairman and chief executive officer. "Fortune's recognition of the importance of these core values is a testament to the outstanding work of our employees on projects around the world."

Now in its 35th year, Fortune's world's most admired companies list is considered a definitive report card on corporate reputations. Fortune collaborates with Korn Ferry to

identify and rank the world's most admired companies. The rankings are compiled by querying thousands of executives, directors and analysts to measure corporate reputation and performance.

Companies are evaluated against nine key attributes: ability to attract and retain talented people, quality of management, social responsibility to the community and the environment, innovativeness, quality of products or services, wise use of corporate assets, financial soundness, long-term investment value and effectiveness in doing business globally.

The 2018 world's most admired companies list will be featured in Fortune's February issue. More details can be found at <http://fortune.com/worlds-most-admired-companies>.

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

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ALYESKA PIPELINE SERVICE CO.

OSRB-2, a large, purpose-built open water oil spill response barge, in Portland, Oregon, before being launched in December. Edison Chouest is building four such barges for service out of Valdez.

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MARINE TRANSITION

ing oil spill prevention and contingency plans for the terminal and the tanker operations. As part of the spill prevention program, tugs escort tankers through the Valdez Narrows at the entrance to Port Valdez, and across Prince William Sound between Port Valdez and the Gulf of Alaska. Edison Chouest is scheduled to take over the services on July 1.

The marine terminal is located at the southern terminus of the trans-Alaska pipeline and is the facility through which

North Slope oil is loaded onto tankers for export from Alaska.

A major project

The marine transition is a huge, complex project: Edison Chouest is building five new tugs, purpose designed for escorting tankers; four general purpose tugs; and four new barges, purpose built for oil spill response. The company is also going to bring one of its existing general purpose tugs to Valdez. The project requires training for the Edison Chouest crews, and demonstrations that the new vessels can perform their required tasks in the challenging sea conditions of Prince William Sound and the Port of Valdez.

With new vessels and substantial new oil spill response equipment, the oil spill contingency plans both for the terminal and for the tanker traffic have to be changed and then approved by the Alaska Department of Environmental Conservation. ADEC will

also need to verify that the new vessels can meet required performance standards, in conjunction with plan approval.

SERVS anticipates the end result being the implementation of modern vessels and equipment as replacements for the current aging inventory. The new barges, for example, will be equipped with new oil skimming systems and, unlike the current barges, will have sufficient flat deck space to fully inflate boom before deploying the boom into the water.

Edison Chouest is building most of the vessels in Louisiana and Mississippi, while three of the new barges are being built in Portland, Oregon.

Two escort tugs launched

Day said that two of the new escort tugs were launched in November and that one of these tugs is now undergoing sea trials. The first of the general purpose tugs has also been launched. Two of the

three barges being built in Portland have been launched, with the third of these barges due to be launched in the next six to eight weeks. Edison Chouest tugs will tow the barges to Alaska as part of the deployment of the vessels to Valdez.

The first of the general purpose tugs should arrive in Alaska in late February or early March, Day said. And three of five new workboats that will be carried by the escort tugs have been completed in Homer, Alaska, he said.

The PWSRCAC has previously questioned the designs of the new Edison Chouest tugs: A report commissioned by the organization particularly questioned why tests of scale models of the tugs had not been conducted, to demonstrate seaworthiness in Prince William Sound conditions. During his Jan. 18 presentation Day said that model testing of the tug designs had now been carried out and that, although a report on the testing has not yet been published, he understood that the testing had proved successful.

Once vessels arrive in Alaska, Edison Chouest will need to demonstrate both to Alyeska and to ADEC that the vessels can meet the performance requirements for their tasks. This testing of the vessels will come in addition to seaworthiness testing for the American Bureau of Shipping and sea trials for the U.S. Coast Guard. The idea then will be to progressively move the Edison Chouest vessels into the SERVS operations during June, to meet the July target for the transition, Day explained. Day also commented that, as a contingency arrangement, Alyeska has an agreement with Crowley to extend the deadline for the handover, if necessary.

Crew training

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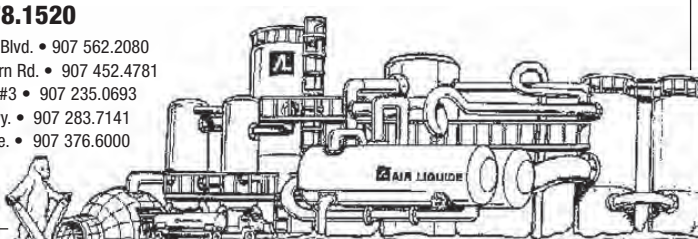
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KENAI PLANT

in the Cook Inlet basin is a stable, long-term gas contract. Although the price Nutrien can justify would be under current market value, which is currently high compared to other markets, it will not be subject to the fluctuations of consumer demand and thus allow producers to make long-term development plans, Werth said.

Starting as manager of the former Agrium facility in June, he has lived in a home between Nikiski and Sterling for 35 years, 21 with Agrium. When the facility closed 11 years ago he went to the North Slope to work for BP, followed by Gazprom in the Soviet Union.

"I've worked all over the world, but my time off is spent in Alaska," he said. "This is my home."

Agrium's North Kenai facility had been the second largest producer of ammonia and urea in the United States, most of which was sold overseas to South Korea, Mexico and Taiwan.

Urea popular in developing countries

"The greatest advantage the merger was that it brought together Potash Corp. and Agrium's marketing and production strengths, making products more readily available across North America," Werth said, noting the merged company trades all over the world.

The Alaska facility, consisting of two utility, two ammonia and two urea plants, "is strategically located in North Kenai on a deepwater port to distribute to the Pacific Rim," he said.

Unocal, which sold the North Kenai facility to Agrium in 2000 as it was divesting all its inlet oil and gas assets, "picked the location with distribution to the Pacific Rim in mind, including the western coast of North America and Asia," Werth said.

Potash and urea ammonia are used in caring for crops. Potash adds potassium, while urea ammonia supplies nitrogen.

The fastest developing markets for urea are Southeast Asia and East Asia, chiefly China, Latin America, Turkey and Russia.

Urea is the most popular form of solid nitrogen fertilizer, particularly in the developing regions of the world. Currently, the Southwest Asian region along with China consumes more than 55 percent of the urea produced worldwide.

"They don't need any special equipment to put urea on their fields, so it really appeals to Asian farmers — they can put it on with a gunny sack and a coffee can," Werth said.

Liquid nitrogen, which the North Kenai Nutrien facility would also produce, is primarily used in North America, as it is sprayed on. Before U.S. farmers used nitrogen, their average yield was 100 bushels an acre for corn; today production is 250 bushels per acre, Werth said.

Majority control of NA's potash biz

The merger of Saskatoon-based Potash Corp. and Calgary's Agrium required U.S. regulatory approval because Nutrien would control the majority of North America's potash capacity as well as a large farm retail business. That approval came at the end of December; the merger closed the first

"A long-term natural gas supply in Cook Inlet is crucial to re-opening the facility," Fred Werth said in the interview. "Gas price is our biggest challenge," natural gas feedstock being the highest cost component in the manufacturing process.

week of January.

"This final clearance marks a significant milestone in bringing two industry leaders together," said Chuck Magro, president and chief executive officer of Agrium, who now heads up Nutrien. "Given our extensive integration planning work, we expect to move quickly upon closing to begin delivering on the many strategic benefits and synergy potential of this combination."

Potash Corp. was the world's largest crop nutrient company and played an integral role in global food production as the largest producer, by capacity, of potash and one of the largest producers of nitrogen and phosphate.

Agrium was a major global producer and distributor of agricultural products, services and solutions, producing nitrogen, potash and phosphate fertilizers. The company supplied key products and services directly to growers, including crop nutrients, crop protection, seed and agronomic and application services.

Agrium brought to the merger its retail distribution, which had an unmatched network of approximately 1,500 facilities and more than 3,300 crop consultants who provide advice and products to its grower customers to help them increase their yields and returns on hundreds of different crops.

With a focus on sustainability that carries over to Nutrien's philosophy, the company strove to improve the communities in which it operated through safety, education, environmental improvement and new technologies such as the development of precision agriculture and controlled release nutrient products.

Favorable Alaska tax law

If Cook Inlet gas producers can meet Nutrien's gas supply and price needs for the North Kenai facility, a 2016 Alaska law should also help the operation, although in a much smaller way as former Agrium spokespeople have said natural gas feedstock represents 80-90 percent of the cost of producing fertilizer.

House Bill 100 grants credits against corporate income tax for an in-state facility that manufactures ammonia or urea from natural gas produced from state oil and gas leases.

The bill clearly targeted the potential re-opening of Agrium's mothballed fertilizer facility on the Kenai Peninsula, which could provide a significant economic boost for the region.

Agrium executives said at the time that rehabilitating the plant for a restart would cost about \$275 million; and that a restart would depend on the long-term availability of Cook Inlet basin gas, as well as on the commodity's price.

Werth did not provide such details but he did emphasize the need for a long-term, affordable natural gas contract as crucial to re-opening the facility. ●

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Valdez transition is a regulatory challenge

The transition of the marine services for Alyeska Pipeline Service Co.'s oil terminal in Valdez from Crowley Marine Corp to Edison Chouest Offshore is not just a challenge for Alyeska and Edison Chouest. The Alaska Department of Environmental Conservation also faces the complex task of ensuring that the new services meet the state's requirements for safe oil transportation in Prince William Sound and the Port of Valdez.

During a talk to the board of the Prince William Sound Regional Citizens' Advisory Council on Jan. 18 Geoff Merrell, ADEC's central region manager, likened his agency's task to fixing an airplane while it is still in flight. Essentially, ADEC must ensure that a near completely new fleet of vessels, with new crews and much new spill response equipment, meets regulatory requirements, while at the same time transportation of oil from Valdez continues uninterrupted.

Crunch in June

The crunch will come in June, when the Edison Chouest fleet progressively takes over the Crowley operations. ADEC personnel must assure that the new vessels have been appropriately demonstrated and that the new services meet the required parameters. For example, new equipment must meet or exceed the capabilities of the equipment it is replacing.

"We may be looking at a very intensive period during the June timeframe," Merrell said. He said that ADEC is in the process of hiring contractors to ensure sufficient agency personnel are available. One concern is the possibility that ADEC might have to redirect some of its staff, thus impacting the marine transition, if there is an oil spill somewhere in the state in June, he said.

Essentially, both the marine terminal and the tanker operations from the terminal will require modified oil spill prevention and contingency plans approved by ADEC, taking into account the new vessels, equipment and personnel that Edison Chouest will bring to the operations. And ADEC must determine that Edison Chouest has the capability to undertake what is specified in the plans.

Currently the plans themselves have been filed with ADEC and the agency has requested additional information. The agency is currently reviewing answers to its questions regarding the terminal plan. The holders of the tanker plan have yet to respond to ADEC's questions. Merrell commented that dealing with the tanker plan is much more complex than dealing with the terminal plan, given factors such as the greater resource requirements for the tanker plan and the fact that the tanker plan has multiple holders, including all of the shipping companies that use the Valdez terminal.

Ensuring safe oil transportation

But much more difficult than dealing with the plan documents is the question of really assuring safe oil transportation, Merrell commented.

"We have lots of questions about that," he said. "We are engaged in lots of discussions with lots of different parties."

Among other activities, ADEC staff are monitoring the training of Edison Chouest personnel.

Merrell said that one issue has been a realization that ADEC and the industry had made different assumptions about the management of the marine transition, with some of the industry assumptions being out of compliance with state regulations. This realization has caused much work and some of the questions raised have yet to be resolved. However, it was important to have the required discussions early, rather than try to deal with the various issues at the eleventh hour, Merrell commented.

Merrell also commented that, from ADEC's perspective, the marine transition will not actually be complete in July, when Edison Chouest has taken over the Valdez and Prince William Sound operations. In fact, there will be a continuing schedule of announced and unannounced drills and exercises, he said.

—ALAN BAILEY

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MARINE TRANSITION

SERVS has already conducted 10,000 hours of crew training and plans a further 25,000 hours of training in the coming months, Day said. Training for Edison Chouest crews has included classroom sessions and the use of a marine simulator in Valdez.

Especially successful has been a program in which Edison Chouest captains ride on Crowley escort tugs, during the escort of tankers across Prince William Sound, Day said. This program, which began in October and will continue through March, has given the captains experience of escort duties in some of the most severe winter conditions in which tanker traffic can operate. The captains are all very experienced, having operated vessels in different regions around the world, Day said.

And Day particularly praised Crowley for its help. Crowley crew members have

remained professional throughout the transition process, being generous in imparting their knowledge of what is involved in providing the marine services, and demonstrating that they really care about Prince William Sound, he said.

During the Jan. 18 meeting there was discussion of the fact that, under the terms of the trans-Alaska pipeline right of way, Alyeska and its contractors must maintain a Native hire level of at least 20 percent. Alyeska says that will require Edison Chouest to maintain this Native hire level.

In terms of regulatory approval for the new oil spill contingency plans, SERVS and the tanker operators have filed the revised plans with ADEC. The agency has submitted requests for further information as part of its review process. ADEC has also provided the state's expectations for the capabilities of the new Edison Chouest vessels, Day said. ●

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