



## Oil Search/Armstrong deal might close sooner; Steve Quinn onto new venture; BP's Dudley rumored in Juneau meet with Walker

“At this stage it is planned for Oil Search to take operatorship in mid-February but that will be dependent on the closure of the transaction which is awaiting final regulatory approvals,” Oil Search’s executive general manager for exploration and new business, Keiran Wulff, told PN Jan. 9.

Oil Search, based in Papua New Guinea and with offices in Perth, Australia, bought into Armstrong Energy and GMT Exploration’s interests at Pikka and Horseshoe on Alaska’s North Slope in late October.

Oil Search said it paid \$400 million for a 25.5 percent interest in the Pikka unit and adjacent exploration acreage and 37.5 percent interest in the Horseshoe block and the Hue shale.

see **OIL PATCH INSIDER** page 16



## Utility merger needs RCA approval

The Alaska Industrial Development and Export Authority and the Interior Gas Utility have asked the Regulatory Commission of Alaska for expedited approval of the purchase of Fairbanks Natural Gas by the Interior Gas Utility, to form a single, consolidated gas utility for Fairbanks and its surrounds. The request comes as part of the Interior Energy Project, a project to bring affordable, clean energy to the Fairbanks region, with AIDEA funding assistance.

AIDEA owns Pentex Natural Gas Co., the owner of FNG. The idea is that IGU will purchase Pentex, which also owns the Titan liquefied natural gas plant near Point Mackenzie on Cook Inlet, and a trucking operation for shipping LNG to Fairbanks. AIDEA and IGU have signed purchase and financing agreements for the

*AIDEA and IGU have signed purchase and financing agreements for the Pentex sale, with a requirement to close the deal by May 31.*

see **UTILITY MERGER** page 16

## CIRI, Doyon partner at Nenana

Cook Inlet Region Inc. has announced that it plans to partner with Doyon Ltd. for the drilling of the Totchaket No. 1 exploration well in the Nenana basin in the coming summer. Doyon has previously announced the planned drilling of the well as part of the Native regional corporation’s search for oil and gas in the Interior basin southwest of Fairbanks. Doyon has already drilled three wells in the central part of the basin — the Totchaket well will be in the deep northern part of the basin, close to what may be the basin’s kitchen for oil and gas resources.

CIRI has previously partnered with Doyon in the drilling of the third of the Nenana basin wells, the Toghoththele well, in 2016.

“CIRI values its continued partnership with Doyon,” said Sophie Minich, CIRI president and CEO, when announcing the

*CIRI has previously partnered with Doyon in the drilling of the third of the Nenana basin wells, the Toghoththele well, in 2016.*

see **NENANA PARTNERSHIP** page 16

### EXPLORATION & PRODUCTION

# Exploration underway

Armstrong defers Pikka 2 wells, other operators drilling up to 10 wells

By **KAY CASHMAN**  
Petroleum News

The first exploration well has been spud and ice road construction is underway for as many as nine additional penetrations on Alaska’s North Slope. Warmer-than-usual weather has prevented access to the tundra until recently.

Two wells planned for this winter’s North Slope exploration drilling season were postponed until next winter by Armstrong Energy — the Pikka 2 and Pikka 2A sidetrack.

Last winter ConocoPhillips, which is drilling as many as seven penetrations this year, cancelled its Putu 1 drilling program after meeting with leaders

*The results of the Nikaitchuq North No. 1 well will determine whether Eni proceeds with a sidetrack this winter and a second well next winter, according to company officials.*

from the village of Nuiqsut. The company decided that due to delays in Alaska Department of Natural Resources permitting they “would not have adequate time to engage with the local community as part of the standard local permitting process,” a ConocoPhillips spokesperson told Petroleum

see **EXPLORATION SEASON** page 14

### LAND & LEASING

# Lease sales proposed

Interior wants expanded OCS program including 19 sales off coast of Alaska

By **ALAN BAILEY**  
Petroleum News

On Dec. 4 the Department of the Interior announced a draft new five year outer continental shelf oil and gas lease sale program that would greatly expand the availability of federal offshore lands for oil and gas activities. The proposed plan, which covers the years 2019 to 2024, includes 47 lease sales covering all OCS planning areas except the North Aleutian basin, which remains subject to a presidential withdrawal. The draft plan includes 19 lease sales off the coast of Alaska, with the first of the sales in



**RYAN ZINKE**

the program being in the Beaufort and Chukchi seas.

## Energy dominance

“This is a start in looking at American energy dominance and looking at our offshore assets, and the beginning of a dialogue of when, how, where and how fast offshore assets should be or could be developed,” said Interior Secretary Ryan Zinke during a press conference

announcing the proposed plan.

“This is the largest number of lease sales ever

see **LEASE SALES** page 15

### FINANCE & ECONOMY

# \$60 oil for '18, '19

EIA sees oil price flattening, US crude hitting record 10.3 million bpd this year

By **KRISTEN NELSON**  
Petroleum News

U.S. crude oil production is projected to hit an all-time high this year, with crude oil prices expected to flatten to the \$60-\$61 per barrel average range this year and next, the U.S. Energy Information Administration said Jan. 9 in its January Short-Term Energy Outlook, the first to include 2019.

On prices, the agency said Brent, the benchmark for North Sea crude oil spot prices, is forecast to average \$60 per barrel this year and \$61 per barrel in 2019, after experiencing a sharp run up last year. While Brent averaged \$54 per barrel in

2017, the December average was \$64, up \$2 per barrel from November, “the highest monthly average since November 2014,” and only the fourth time in the past 36 months that Brent has averaged more than \$60.

The 2017 Brent average of \$54 was an increase of \$10 over 2016 levels, EIA said, with prices increasing fairly steadily throughout the second half of 2017 and year-end prices higher than the annual average, ending the year at a daily price near \$67 per barrel, “the highest level since December 2014.”

The agency attributed most of the recent run-up

see **EIA OUTLOOK** page 13

## ● GOVERNMENT

# Seismic permitting timing data needed

GAO report assesses processes for dealing with OCS survey permit applications; says NMHS, FWS need to record application dates

By **ALAN BAILEY**

*Petroleum News*

The Government Accountability Office has recommended that the National Marine Fisheries Service and the U.S. Fish and Wildlife Service record their review dates for incidental take authorizations associated with outer continental shelf seismic survey permit applications. GAO also recommended that the two agencies analyze how long it takes to process applications. The recommendations follow a request from the House of Representatives Committee on Natural Resources for a GAO investigation into the seismic survey permitting process.

Geological and geophysical surveys, including seismic surveys, on the OCS require a permit from the Bureau of Ocean Energy Management. Offshore seismic surveys are critical in gaining insights into where to drill for oil and gas, and in understanding the structure of the subsurface below

the seafloor. And the time taken to obtain a permit can be critical in the viability of offshore industrial activities.

GAO reviewed data relating to seismic survey permit applications for the period 2011 to 2016 for Alaska, the Atlantic and Gulf of Mexico regions, there being no applications made for the Pacific region, the other OCS region, during that time period. During the six-year period, BOEM issued 264 permits, 250 of which were for the Gulf of Mexico. Eight permits were issued for the Alaska region, and six for the Atlantic.

## Two types of survey

The report considered two types of survey: shallow, high-resolution surveys that use high frequency sound sources, and deep penetration surveys involving seismic vessels towing air guns that generate relatively low frequency sound. Because the noise associated with the surveying operations can disturb ocean wildlife, a permit application

may require an authorization for the incidental take of marine mammals, under the terms of the Marine Mammal Protection Act. An incidental take involves the unintended, non-lethal, disturbance of the animals. An incidental take authorization typically includes mitigation measures that must be taken to prevent unacceptable wildlife disturbance.

The National Marine Fisheries Service, an agency within the Department of Commerce, issues incidental harassment authorizations for some species of marine mammal, while the U.S. Fish and Wildlife Service, within the Department of the Interior, issues authorizations for other species.

BOEM must also conduct an environmental review under the terms of the National Environmental Policy Act and the Endangered Species Act — the ESA review may in turn trigger a consultation, if the planned survey may impact an endangered species.

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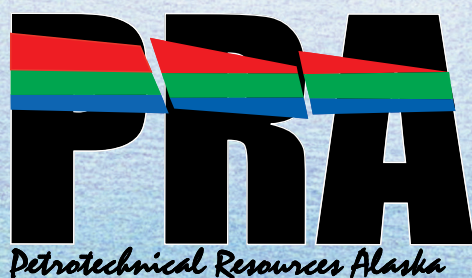
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● GOVERNMENT

# Giessel: AGDC, tax system study on table

Anchorage Republican, chair of Senate Resources, looks for more AKLNG detail; sees education as important for tax working group

By STEVE QUINN

For Petroleum News

Sen. Cathy Giessel won't likely be hearing an oil tax bill this session, but she still expects a busy docket that will feature updates on the prospects of marketing Alaska's North Slope natural gas, and a careful study of the state's tax system as co-chair of a working group created under last year's tax credit rewrite, House Bill 111. Giessel is also excited about advancements at the federal level that include the prospects of exploring the Arctic National Wildlife Refuge coastal plain, also known as the 1002 Area, and the opening of the outer continental shelf under the Trump administration's new five-year plan. The Anchorage Republican and Resources Committee chair spoke to Petroleum News about what she sees for the upcoming session that begins Jan. 16.



SEN. CATHY GIESEL

*Petroleum News: We've heard how the west is more favorable for exploration right now, so do you have a sense there will be interest?*

Giessel: You make a good point about the western Prudhoe area and the NPR-A. They have been moving in that direction now for multiple years. Infrastructure has slowly been put into place moving westward. So to move eastward does create some infrastructure challenges. The farthest east we've gone is Point Thomson and there is one pipeline, one liquids line from the east. There would be more costly infrastructure needed. At the same time, oil prices are eking upward and so while this may not be a gold rush type stampede to ANWR, I do believe there will be interest in examining the potential there.

*Petroleum News: With this being federal land, should there be some state incentives put in place, say infrastructure?*

Giessel: That's also a good question. We have fallen behind in our infrastructure development of the state to begin with. The last substantial road we've built was the Parks Highway. You could argue the Haul Road as well. One of the initiatives for the budget in 2018 was looking at the ASTAR system that would be a network of roads up on the North Slope creating more connectivity not only for oil and gas but also for the communities. We are also looking at the Ambler Road, same scenario: infrastructure for resource development, which we know is significant in terms of minerals to the west, but also connectivity for the communities.

Just last year Northwest Territories completed a road to the northern coast of Canada. It is estimated that for every villager in communities along that road, they will see savings of \$25,000 per year in the cost of supplies, food and other items. For each villager. So roads are really impactful as far as community development and resource development.

The state of Alaska is a bit strapped right now, of course, for revenue, so we would have to look pretty hard at how to appropriate or how to incentivize more infrastructure.

*Petroleum News: Speaking of federal territory, Eni announced its directional drilling program in federal*

*waters. What does that tell you about the prospects for that area?*

Giessel: Obviously that means there is something out there. Directional drilling for that distance (about six miles) is certainly not inexpensive or risk free. So Eni obviously has some data that is indicating to them that this would be a prudent step. At the same time in Cook Inlet, BlueCrest is pretty confident of a pretty significant gas deposit offshore of their leases. But because the tax credits owed them have not yet been paid, they can't proceed with that development.

So we have a lot of potential offshore. It is costly. I'm pleased that Eni is going forward on the North Slope. I'm hoping we can come up with a resolution on the unpaid tax credits for the folks who work in Cook Inlet.

*Petroleum News: One last item with the feds. Talk a little about the appointment of Joe Balash to the Interior Department. What value does that bring Alaska?*

Giessel: I've worked with Joe Balash almost all of the seven years I've served in the Legislature and know him to be a very capable person. I'm excited to have him where he is with the Department of Interior. He certainly knows firsthand the challenges we face with the regulatory barriers as well the environmental challenges. As an Alaskan, I know he not only wants to help facilitate resource development, he also wants to ensure that it's done safely while protecting the environment. I think Alaska has a wonderful advocate at the federal level.

*Petroleum News: Going back to the tax credits, the governor has proposed an idea to pay off those credits by selling bonds. What are your thoughts on his idea?*

Giessel: I've certainly seen the proposal. I have not delved deeply into the financials and what kind of risks the state would be taking if any, what it would cost the state. So there is a lot of detail clearly missing from that proposal. But it's worth looking at.

*Petroleum News: I know the bill isn't out yet, but would you like to see that bill in your committee?*

Giessel: I would love to see that bill in my committee. I have two members now on my committee who



see GIESEL Q&A page 11



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## ● FINANCE &amp; ECONOMY

# Rate of Alaska job losses is slowing

State employment forecast points to flattening trend as job counts stabilize at lower levels especially in the oil industry

By **ALAN BAILEY**

Petroleum News

The state of Alaska's employment forecast for 2018, published by the Department of Labor and Workforce Development in the January edition of Alaska Economic Trends, points to a slowing rate of job losses in the state, as the current recession continues to work its way through the economy. The sharp fall in the price of oil in 2014 triggered a slowing of the economy, with the rate of job losses hitting a peak of 1.9 percent in 2016, driven mainly by cuts in expenditure by the oil industry and state government. Job losses slowed to 1.1 percent in 2017 — the state expects this slowing trend to continue, with losses running at perhaps 0.5 percent in 2018.

With the oil and gas industry, state government, professional and business services, and construction already having taken significant hits in the last couple of years, employment levels in these areas are now stabilizing at lower levels than previously. However, the knock-on effect of lower numbers of employees in these sectors of the economy will continue to impact services such as stores, bars and restaurants, and will also to make inroads into state spending, the economic forecast says.

## Further job losses

The forecast does anticipate further oil and gas industry job losses of about 500 in 2018, but this rate of loss would be much lower than the loss of 2,900 jobs in 2016 and would amount to one third of the losses in 2017. The industry does now see several new development projects

on the horizon, but these are long-term prospects that will likely have minimal impact on employment in 2018, the forecast suggests.

The downturn in state spending early in the recession had a major impact on construction employment, as state capital projects dried up. Similarly, professional and business services, which are closely tied to the oil industry and to construction, took a major hit. In 2016 1,400 jobs were lost in construction and 1,600 jobs were lost in professional and business services. But, as in the oil industry, job losses in these sectors slowed in 2017 and seem set to slow further in the coming year, the forecast says.

A third wave of the recession, the wave impacting businesses that rely on peoples' spending, is still underway. Service industries, including retail, wholesale, bars, restaurants and entertainment, are seeing sustained employment decline rates, albeit at much lower levels of loss than those seen in the primary industries. Retail trade, for example, saw job losses of 200 in 2016 and 500 in 2017. The forecast anticipates further job losses of some 200 in 2018. However, in Southeast Alaska in particular, the visitor industry provides support for retail businesses.

## Some sectors resilient

Some sectors of the economy have been weathering the recession unscathed, the forecast says. In particular, the healthcare industry has actually continued with robust growth that began about 30 years ago — increased health insurance coverage through Medicaid expansion,

for example, has driven increased demand for medical services, the forecast says. Between 2015 and 2017 healthcare employment in the state increased by 2,900. The forecast anticipates an additional 700 jobs in 2018.

Employment in manufacturing, the majority of which consists of seafood processing but which also includes breweries, bakeries, the manufacture of wood products and so on, has not been especially impacted by the recession. These industries tend to depend on demand and pricing external to the state.

Local government employment, with funding from a variety of sources, has been growing slightly. This sector includes tribal governments and the operation of public schools. In-state employment by the federal government has been fluctuating but is likely to remain flat in 2018, the forecast says.

## Comparison with other states

In comparison with other U.S. states, Alaska's resource dependent economy ranked 50th in terms of both the unemployment rate and job growth in November. However, rates of pay in the state remain relatively high, ranking eighth in terms of hourly earnings both for private industry and for the leisure and hospitality industries. Earnings for financial activities ranked 21st.

One positive indicator is growth in the state's domestic product during the second quarter of 2017, with that growth coming in above the state's 10-year average. The state's population has remained relatively stable, despite

see **JOB LOSSES** page 5



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*Petroleum News and its supplement, Petroleum Directory, are owned by Petroleum Newspapers of Alaska LLC. The newspaper is published weekly. Several of the individuals listed above work for independent companies that contract services to Petroleum Newspapers of Alaska LLC or are freelance writers.*



OWNER: Petroleum Newspapers of Alaska LLC (PNA)  
Petroleum News (ISSN 1544-3612) • Vol. 23, No. 2 • Week of January 14, 2018  
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518  
(Please mail ALL correspondence to:  
P.O. Box 231647 Anchorage, AK 99523-1647)  
Subscription prices in U.S. — \$118.00 1 year, \$216.00 2 years  
Canada — \$206.00 1 year, \$375.00 2 years  
Overseas (sent air mail) — \$240.00 1 year, \$436.00 2 years  
"Periodicals postage paid at Anchorage, AK 99502-9986."  
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## SEISMIC PERMITTING

Thus, depending on the circumstances, the total time to process and issue a permit and the authorizations required to conduct a seismic survey can involve time taken by up to three federal agencies: BOEM, NMFS and FWS.

### Impacted by public controversy

The total time taken tends to be influenced by the amount of public controversy over the planned survey, with surveys planned in regions where there is a history of similar operations typically being processed more quickly than in “frontier regions,” where many people may be uncomfortable with offshore development, the GAO report says.

In particular, several hundred seismic surveys have been issued over the years in the Gulf of Mexico. As a consequence, permitting in this region has become somewhat routine, with BOEM often not requiring an incidental take authorization. On the other hand, BOEM generally requires an incidental take authorization for a survey in the Alaska or Atlantic OCS, the report says.

However, in response to a court case in which environmental organizations sued Interior over BOEM policies for the permitting of seismic surveys in the Gulf of Mexico, NMFS is currently developing new incidental take regulations for the Gulf, the GAO report says.

### Time taken highly variable

There have been instances in which BOEM has issued a permit immediately on receipt of an application, for both the Gulf of Mexico and the Atlantic. However, permits have taken up to 287 days to process for the Gulf and up to 340 days for the Atlantic. Permits for the Alaska OCS have taken from 35 to 200 days to process. Deep penetration surveys tend to take longer to permit than shallow, high resolution surveys, the report says.

A particular issue in the Atlantic region is the fate of six permit applications for deep penetration surveys. BOEM deemed these applications complete in March to June 2014 and eventually denied the applications in January 2017. Unusually, the agency put these applications through a public review

period. In May the federal administration rescinded the permit denials and BOEM announced that it would reconsider the applications, the GAO report says

During the period under investigation, NMFS issued 16 incidental take authorizations for seismic surveys in the Alaska region, four for the Atlantic and one for the Gulf of Mexico. FWS issued seven authorizations for the Alaska region — marine species under FWS jurisdiction do not tend to be found in other regions, the report says.

### Records of dates

But, while BOEM maintains records of when it accepts permit applications as complete, neither NMFS nor FWS were able to provide accurate data regarding the dates on which the agencies started their formal processing of incidental take authorizations. In fact, neither agency has a formal procedure for recording the dates. Consequently, it is not possible to determine whether the agencies were meeting any statutory timelines that apply to the processing. In particular, by law the agency must process one type of authorization, an incidental harassment authorization, within 120 days of receiving an application, the GAO report says.

In June 2017 NMFS issued proposed incidental harassment authorizations for five of those proposed Atlantic surveys that BOEM had been considering since 2014. NMFS had received applications for these authorizations in 2014 and 2015.

Given the lack of data over the time when formal processing of applications to NMFS and FWS starts, GAO recommended that each of these agencies institute formal guidance, clarifying how and when staff should record the date on which the agency determines an application to be complete and ready for processing. The two agencies also need to analyze the times taken to process applications, particularly in relation to the statutory timeframes for agency reviews, GAO said.

For the most part both NMFS and FWS agreed with the GAO recommendations. But FWS said that it only plans to develop guidelines for recording dates for incidental harassment authorizations, the form of authorization to which a statutory timeline applies. ●

Contact Alan Bailey  
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## GOVERNMENT

### Bills to extend AIDEA's bonding authority

Bills included in the first batch of prefiled bills for the 2018 session of the 30th Alaska Legislature include bills to extend the bonding authority of the Alaska Industrial Development and Export Authority.

House Bill 261, by Rep. Steve Thompson, R-Fairbanks, and Senate Bill 125, by Senate President Pete Kelly, R-Fairbanks, are identical one-page bills which change the expiration date on AIDEA's authority to issue bonds from June 30, 2018, to June 30, 2023. The bonding authority would expire July 1, 2023. It currently expires July 1, 2018.

—PETROLEUM NEWS

## NATURAL GAS

### ML&P signs agreement for Furie gas

Municipal Light & Power has asked the Regulatory Commission of Alaska to add Furie Operating Alaska LLC to the list of gas suppliers in the ML&P tariff, following the signing of a gas supply agreement between ML&P and Furie. The gas would presumably come from Furie's Kitchen Lights field, offshore in Cook Inlet. Because the GSA covers a timespan of just under one year, RCA approval of the GSA is not required, although Furie's inclusion in ML&P's table of gas suppliers does need commission approval.

The supply agreement is for gas that ML&P may need from time to time to fill in any shortfalls in its other supply arrangements. There is no overall commitment by Furie or ML&P for gas delivery or use, and there is no specified price for the gas — if ML&P wants gas under the new contract it would form a short term agreement with Furie, spelling out the cost, volume and delivery point for that particular gas transaction. ML&P told the commission that the unit cost of gas associated with each transaction would depend on the market conditions at the time that the transaction agreement is made.

The requested tariff change will not adversely impact ML&P's customers, the utility told the commission.

Furie currently has two gas supply agreements for its Kitchen Lights field: an agreement with Homer Electric Association, and an agreement with Enstar Natural Gas Co. that starts this year. Furie has in the past commented that the gas field is capable of producing substantially more gas than the company has under contract.

The sale of gas by Cook Inlet producers at a workable price is challenging at present because of the small scale of the local power and gas utility market, and because of the mothballing of the ConocoPhillips' liquefied natural gas plant at Nikiski in response to low global LNG prices.

—ALAN BAILEY

*The supply agreement is for gas that ML&P may need from time to time to fill in any shortfalls in its other supply arrangements.*

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## JOB LOSSES

the job losses. And the third quarter of 2017 saw a slight year-on-year rise in the price of homes across the state, the forecast says.

But the forecast cautions that, although

the state has been able to absorb some of the initial blow from the fall in oil prices through spending from state savings, the lack a longer-term fix to the state's fiscal woes will create uncertainty and will hinder future growth. ●

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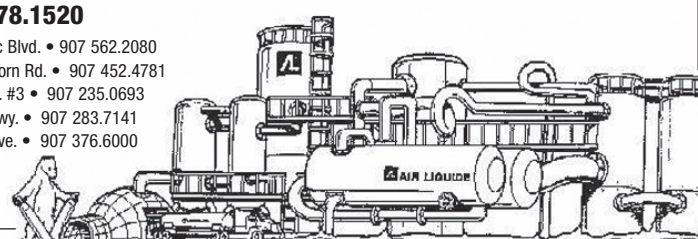
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## GOVERNMENT

### BSEE issues alert for offshore gas releases

Following a pilot inspection program for offshore oil and gas facilities in the Gulf of Mexico, the Bureau of Safety and Environmental Enforcement has issued a safety alert, warning of the dangers of gas release hazards. During the inspection program BSEE staff found a number of safety hazards, including documented oil or gas accumulations, and working practices that do not fully accommodate the use of pressurized welding enclosures. Eight of the 36 facilities inspected had defects such as a non-operable gas detector or no documentation on the frequency or results of inspections.

On the other hand, high temperature areas were found to be consistently well insulated and out of human reach.

The safety alert makes a number of recommendations, including the implementation of daily and weekly inspection protocols to check for common gas release situations, the implementation of regular inspections or tests of handheld gas detectors, and verification that all personnel and contractors have received the necessary safety training.

BSEE said that in August 2017 Scott Angelle, director of the bureau, had told the agency's Gulf of Mexico staff to carry out the pilot inspection program, following a 2016 review by the Government Accountability Office of BSEE's oversight of offshore oil and gas operations. GAO had found that the bureau had been unsuccessful in implementing a risk-based component of its inspection program, BSEE said. The idea behind the pilot program was to make progress towards the implementation of risk-based inspections in 2018.

"There are great safety benefits to having a full cadre of inspection protocols to manage operational risk," Angelle said. "I saw the critical need for the smart tools necessary to ensure an effective inspection strategy and this protocol helps deliver added safety for all offshore operators."

BSEE had targeted gas release hazards as an area that warranted closer review.

"Because gas releases can be significant safety risks, BSEE selected those incidents, developed a protocol for those inspections and conducted those targeted inspections during the pilot," said Lars Herbst, BSEE Gulf of Mexico region director.

—ALAN BAILEY

## GOVERNMENT

# Izembek land swap for road considered

By DAN JOLING

Associated Press

The Interior Department will explore a land exchange that could lead to construction of a road through a national wildlife refuge in Alaska.

An agreement expected to be signed this month calls for the King Cove Corp., an Alaska Native village corporation, to identify up to 0.8 square miles of its land that could be swapped for equal-value land within Izembek National Wildlife Refuge.

The refuge encompasses internationally recognized habitat for migrating waterfowl in southwest Alaska.

The road would connect the communities of King Cove and Cold Bay, which has an all-weather airport needed for emergency medical flights.

An evaluation of lands of equal value would "ideally" culminate with a land exchange and a road through the refuge, said Laura Tanis, spokeswoman for the Aleutians East Borough.

"As we've said before, this is about health, safety and quality of life for the King Cove residents," she said in an email response to questions.

*King Cove is a village of more than 900 people near the tip of the Alaska Peninsula, the body of land in Alaska's southwest corner that juts toward the Aleutian Islands.*

### Weather an issue

King Cove is a village of more than 900 people near the tip of the Alaska Peninsula, the body of land in Alaska's southwest corner that juts toward the Aleutian Islands. Strong winds and mountains frequently prompt cancellation of flights into the village.

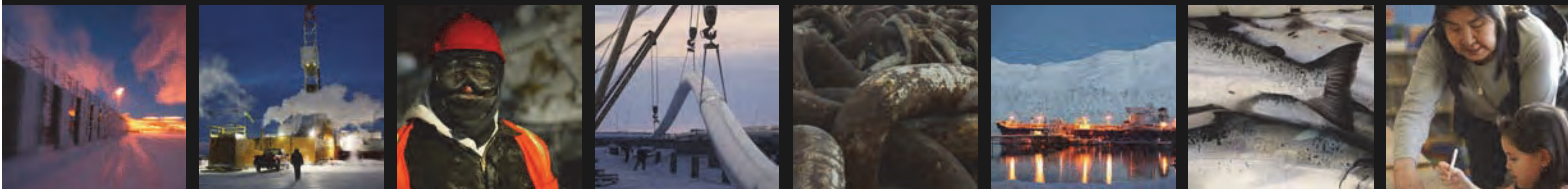
Residents for decades have sought a road link to Cold Bay, site of the airport built during World War II.

Supporters say the one-lane, gravel road would carry medical patients and private traffic but would be closed to commercial uses such as transporting fish.

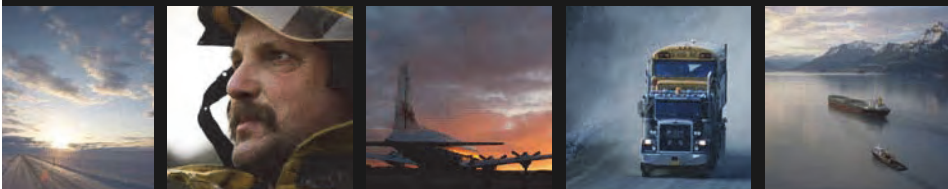
Congress in 1997 addressed the King Cove transportation issue with a \$37.5 million appropriation for water access to Cold Bay that included a \$9 million hovercraft. The Aleutians East Borough took it out of

see **LAND SWAP** page 8

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## LAND & LEASING

### Call for exploration license applications

The state has put out a call for proposals for oil and gas exploration licenses within the Nenana area, and a determination by the director of the Division of Oil and Gas on lands in the Nenana area subject to exploration licensing.

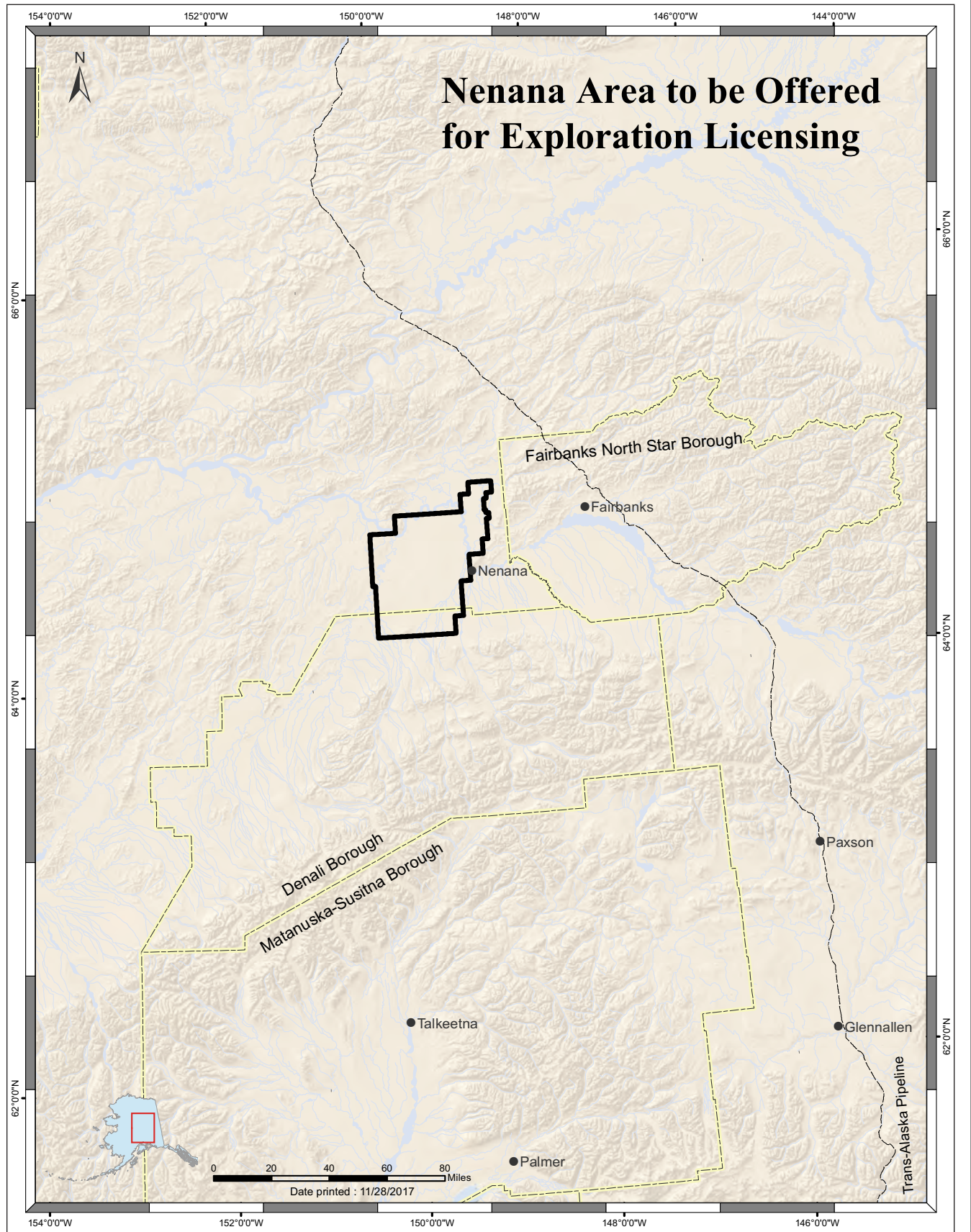
The determination follows publication of a preliminary determination Nov. 30, identifying acreage west of Nenana which would be available for exploration licensing. The division said then that “land within the Nenana determination area has unknown oil and gas potential and there is limited access to existing oil and gas infrastructure in much of the region.”

The division said the Alaska Mental Health Trust Land Office notified it that lands owned and managed by the Trust Authority were included in the proposed exploration license area and asked that those lands be excluded from Nenana area exploration licensing. The director’s response was that the determination was “not a sale, lease, license, or other disposal of interest in lands” nor a best interest finding, and said if an exploration license were issued in the area “the licensee will be required to seek additional permission from any land owner other than the state to gain access and proceed with any exploration activities,” and said the lands in the notice are subject to exploration licensing.

In the Jan. 5 determination the director found that state-owned oil and gas mineral estates within the Nenana determination area will be available for exploration licensing, and said that if the division receives an exploration license proposal the director will take a hard look at the specific proposal area through the public notice and best interest finding processes.

In a call for exploration license proposals, also issued Jan. 5, the division said notices of intent must be received by Feb. 6 and proposals must be received by March 8.

—KRISTEN NELSON



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## EXPLORATION & PRODUCTION

### Eastern coastal area open for tundra travel

The Alaska Department of Natural Resources has announced that on Jan. 9 it opened the eastern coastal area of state lands on the North Slope for off-road tundra travel. All other areas of state land in the region remain closed. Land in the eastern coastal area has met the required conditions for off-road vehicle operations: a six-inch snow depth and minus 5 C soil temperatures at a depth of 30 centimeters, DNR said.

Although the eastern area is now open, an operator wishing to use vehicles on state lands must obtain an off-road travel permit, DNR said. The department also cautioned that snow cover may be thin in some areas and that these areas should be avoided, or special construction methods should be used to avoid tundra damage. Approval of specific routes of travel is needed, DNR said.

—ALAN BAILEY

## GOVERNMENT

### EPA awards \$8 million for re-development

The Environmental Protection Agency has announced the award of more than \$8 million to states and tribes in the Pacific Northwest and Alaska for the re-development and remediation of brownfield sites. In Alaska the Tanana Chiefs Conference, a tribal corporation in the Interior, has an active brownfield sites program and defines a brownfield site as “an abandoned or underused property, with real or perceived contamination, that could be cleaned up and reused.” Examples include old tank farms, abandoned buildings containing hazardous materials, and mine-scarred lands.

“State and tribal response programs continue to be at the forefront of brownfields cleanup and redevelopment,” said EPA Administrator Scott Pruitt when announcing the EPA funding. “Both public and private markets recognize the opportunities created by these programs to lock-in protective and sustainable cleanups.”

EPA says that, by cleaning up previously contaminated properties, brownfield redevelopments result in the re-use of sites, revitalizing commercial property and local economies. The Tanana Chiefs Conference website cites a number of purposes for the redevelopment of sites in Alaska, including restored subsistence use, heavy equipment storage and housing or public infrastructure.

—ALAN BAILEY

## INTERNATIONAL

### Norway court clears way for Arctic drilling

A court in Norway said Jan. 4 that the government can hand out oil drilling licenses in the Arctic, dealing a blow to two environmental groups that had filed a lawsuit against further drilling in the Barents Sea.

The Oslo District Court acquitted the government against charges from Nature and Youth and Greenpeace Nordic that drilling for oil and gas in Arctic waters would violate with the Paris Agreement on climate change and the Norwegian constitution.

The court cited the constitution, saying “natural resources shall be managed on the basis of long-term considerations, which will safeguard this right for future generations as well.”

Activists decried the decision.

“Climate change is global. And climate scientists are freaking out. The Norwegian oil policy is letting down my generation and threatens my future,” said Ingrid Skjoldvaer, head of Nature and Youth.

The groups had sued Norway’s Ministry of Petroleum and Energy in an attempt to invalidate the latest round of 10 production licenses in the Barents Sea on the edge of the Arctic Ocean.

The oil ministry had said the licensing round was in compliance with the constitution and noted that it was backed by a large majority in Norway’s parliament.

The government said following the court ruling that it now “had a sound basis for its decision to award the production licenses.”

The court also said the groups should pay legal expenses worth 580,000 kroner (\$71,435).

Greenpeace spokesman Truls Gulowsen said the group is considering whether to appeal.

—ASSOCIATED PRESS

continued from page 6

## LAND SWAP

service after deciding it was too expensive and unreliable to operate.

### Environmental opposition

Environmental groups strongly oppose a road, which would split a narrow isthmus separating ocean lagoons that provide important habitat for hundreds of thousands of migrating birds.

The isthmus is the southern border of the 150-square-mile Izembek Lagoon, holding one of the world’s largest beds of eelgrass, a rich food source for Pacific brant, endangered Steller’s eiders and other migratory birds.

The U.S. Fish and Wildlife Service in 2013 concluded that a 22-mile road through the isthmus could cause irrevocable damage to the watershed. Former Interior Secretary Sally Jewell agreed with a Fish and Wildlife analysis that found a land exchange could not compensate for the special qualities of existing refuge lands.

Environmental groups vow to challenge

any road-building because of the harm and the precedent it would set in opening up other federal wild lands.

### Optimism under new administration

King Cove officials a year ago said they were optimistic that their request for a road would fare better under President Donald Trump than under the Obama administration. King Cove has the backing of the state of Alaska and its congressional delegation.

The new agreement of an exchange of up to 0.8 square miles, or 500 acres, of corporation land is far less than previous proposed exchanges.

In 2013, the proposal rejected by Jewell would have swapped 0.3 square miles from Izembek refuge and 2.5 sq. miles from a federal refuge south of Kodiak for 67 square miles of state land and 21 square miles of land belonging to King Cove Corp.

In July, the U.S. House approved legislation proposing a swap of 0.3 square miles in Izembek for 67 square miles of state land.

An Interior Department spokeswoman did not return an email request for comment. ●



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## ENVIRONMENT & SAFETY

### Cook Inlet council studies pipeline leaks

The Cook Inlet Regional Citizen's Advisory Council is finishing a pair of reports surveying regional pipelines and the state and federal authorities that oversee them.

The Peninsula Clarion reported Jan. 2 that the council's surveying efforts were spurred by last year's natural gas leak in Cook Inlet.

The council said its reports will ultimately lead to a set of recommendations from industry and government experts about how to reduce the risk of future leaks.

Researcher Tim Robertson, who works for the consultancy group that the council commissioned, said the survey results will be a "win-win."

Robertson said making sure infrastructure is in good shape is a goal that everyone has. He said there does not seem to be any controversy involved in the reports.

—ASSOCIATED PRESS

## FACILITIES

### Kuparuk moving from diesel to gasoline

The state has approved plans by ConocoPhillips Alaska, the Kuparuk River unit operator, to install two new gasoline tank skids and other equipment at the field.

The division said the tanks will provide gasoline fuel for vehicles as ConocoPhillips "transitions away from diesel-powered pickup trucks in the Kuparuk Field."

Facilities approved include two new gasoline tank skids, four tanker truck loading area containment skids and an attendant shack all at the Kuparuk operations center pad on the east side of Central Processing Facility No. 1.

ConocoPhillips Alaska has also received authorization for a sleeve repair on a section of infield pipeline at Drill Site 3B at Kuparuk, work which requires an ice road of some 325 feet to enable access for work which involves cutting out a corroded section of pipe and welding a new section in place, with construction scheduled to begin Jan. 1 or as soon as snow conditions allow and will be completed by April 15.

—PETROLEUM NEWS

## ● PIPELINES & DOWNSTREAM

# Proposed line could move ND natural gas

ASSOCIATED PRESS

Company officials say a \$1.2 billion natural gas liquids pipeline proposed from Montana to Kansas will help accommodate increasing production in North Dakota and reduce wasteful flaring of excess gas.

Oneok's 900-mile Elk Creek Pipeline would be able to transport up to 240,000 barrels per day of natural gas liquids from a terminal near Sidney, Montana, to Bushton, Kansas.

CEO Terry Spencer said the proposed pipeline is "critical to meeting the needs of producers who are increasing production and are required to meet natural gas capture targets in the Williston Basin."

The project still needs regulatory approvals from federal, state and local agencies, the Bismarck Tribune reported.

The pipeline wouldn't cross North Dakota but would connect to existing pipelines in the northwestern part of the state. It will cross Montana, Wyoming, Colorado and Kansas, and move natural gas liquids from the Rocky Mountain region.

Justin Kringstad, director of the North Dakota Pipeline Authority, said more

pipelines are needed to transport growing volumes of natural gas liquids, such as ethane, propane and butane. He estimates that about 40,000 to 60,000 barrels of natural gas liquids per day are transported by rail from North Dakota due to insufficient pipeline capacity.

The Elk Creek Pipeline will be designed to allow for expansion to 400,000 barrels a day with the creation of additional pumping facilities.

Kringstad also said that additional pipeline capacity can help reduce flaring by providing a cost-effective transportation option.

Energy companies "flare," or burn off, vast amounts of natural gas at drilling sites because it earns less money than oil. Methane, the primary gas burned off during flaring, is a contributor to climate change. Environmental groups have said the practice increases the risk of ozone formation in the air and ozone-related health problems.

"This is just one piece of that larger flaring puzzle," Kringstad said.

If approval is received, officials aim to complete the pipeline by end of 2019. ●

## GOVERNMENT

### BOEM seeking environmental study ideas

The Bureau of Ocean Energy Management is seeking study ideas for inclusion in the agency's environmental studies program in fiscal year 2019. The agency says that it is starting to formulate its 2019 environmental studies development plan and is looking for ideas relevant to BOEM's information requirements relating to biological, oceanographic and social sciences, including economic and cultural research.

The bureau oversees energy and mineral exploration and development on the U.S. outer continental shelf and uses environmental, cultural and other data to assess the impacts of planned activities on the environment and communities.

Study ideas may apply to any of the major OCS regions: Alaska, the Atlantic, the Gulf of Mexico and the Pacific.

BOEM requires suggestions for studies in short paragraph form by Feb. 5. Information about how to submit suggestions is available on the BOEM website at [www.boem.gov/inviting-study-ideas-for-FY-2019](http://www.boem.gov/inviting-study-ideas-for-FY-2019).

—ALAN BAILEY



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## LAND & LEASING

### ConocoPhillips, Savant release leases

ConocoPhillips Alaska surrendered 22 state oil and gas leases on the eastern side of the North Slope in December, according to the Alaska Department of Natural Resources' Division of Oil and Gas monthly lease administration report. Twenty of the leases are in a block the company held south/southwest of Badami, south of and adjacent to leases held by Caelus Alaska. The remaining two are south of the main block of relinquished leases.

Savant Alaska, a subsidiary of Glacier Oil and Gas, surrendered a single east side North Slope lease bordering the Arctic National Wildlife Refuge and the Point Thomson unit.

In Cook Inlet, the U.S. Bankruptcy Court granted a motion to terminate a lease held by Aurora Gas northeast of Kasilof on the Kenai Peninsula. Five Aurora Gas leases at Nicolai Creek on the west side of Cook Inlet were transferred to Aurora Exploration, which has taken over the Nicolai Creek unit.

One lease northeast of Nikolaevsk on the Kenai Peninsula, held by Woodstone Resources, was terminated for failure to pay rent.

The division also issued six Cook Inlet leases which Hilcorp Alaska won in the state's 2017 Cook Inlet areawide lease sale, two west side onshore leases between Pretty Creek and the Beluga River field; three offshore leases at Kalgin Island; and one shoreline Kenai Peninsula lease between Ninilchik and Cosmopolitan.

The division also approved numerous secondary override transfers of varying percentages, with six overriding royalty interests transferred from Proak LLC to Royal Delaware Prospect JV; 19 from Alaska ORRI LLC to Kuukpik Corp.; and six from Brooks Range Petroleum Corp. to Kuukpik Corp.

—KRISTEN NELSON

## GOVERNMENT

### DOE funds unconventional oil & gas research

The U.S. Department of Energy has announced a total of \$30 million in cost-share funding for six projects researching the improved recovery of unconventional oil and gas. DOE selected field projects involving unconventional plays with less than 50,000 barrels per day of current production. The idea is to help master the development of these types of plays, and to help position the United States as a global leader in unconventional oil and gas development technologies, while also protecting air and water quality, DOE said.

One project involves research into new high-tech cement for preventing offshore spills and leakages at extreme high temperatures, high pressures and in corrosive conditions.

Another project will conduct experiments in a hydraulic fracture test site in the Delaware basin portion of the Permian basin of western Texas. The idea is to evaluate well completions, design optimization and environmental impacts.

One project will evaluate techniques for enhanced oil recovery through the refracturing of wells.

A fourth project will investigate robust pipeline coatings for the prevention of gas hydrate deposits in subsea oil pipelines.

Another project will investigate how to improve oil recovery from the Tuscaloosa Marine Shale in eastern Louisiana, a clay-rich unconventional resource holding an estimated 7 billion barrels of oil but subject to poor production performance.

The sixth project will investigate various well completion strategies for a shale formation in the Nora gas field in southwest Virginia — part of the objective is to characterize the geology and potential of deep pay zones of Cambrian formations in Central Appalachia.

Under the cost-share arrangements, a total of \$24.4 million in non-DOE funding will be contributed to the projects.

—ALAN BAILEY

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continued from page 3

## GIESSEL Q&A

also serve on finance (Sens. Natasha von Imhof and Click Bishop) so I think we could have a really robust discussion in the Resources Committee about not only development of resources but the finances that support it.

*Petroleum News: Talk about that a little. How do you believe that (having two members in both committees) helps both committees?*

Giessel: It is very valuable to have at least one resource person who sits on both Finance and Resources. The Resources Committee of course works for the main financial drivers for the state of Alaska. Not just the public sector for Alaska but the private sector as well. So having at least one Finance member allows at least one member of Finance to have heard the bill, which inevitably goes on to the Finance Committee. They carry with them the discussion we had in Resources. It also enriches the discussion in the Resources Committee itself. Having Sen. Stedman there as a past co-chair of Senate Finance is exceedingly helpful as well. Plus, currently we have Sen. Meyer who co-chaired the House and Senate Finance committees in the past.

That kind of experience really broadens the discussion. Not just the where a well might need to be drilled but the cost of it, the implications for state revenue. All of those discussions.

*Petroleum News: Do you think the bill comes to your committee first, it can assist in the efficiency with Finance, especially with Finance zeroed in on the budgets as they have been these past several years?*

Giessel: Well you know when I call an Alaska LNG project update meeting, the Finance Committee is invited to join the Resources Committee. When I put together the membership of the HB 111 working group, I made sure to include not only resource members but finance members. The two subjects — resource development and financial management of our state's revenues — go hand in hand. So this simply helps inform a broader spectrum of the Senate and the two committees who most deal with the subject matter.

*Petroleum News: Speaking of the working group, did you or Rep. (Andy) Josephson have a chance to go to Texas and meet with industry personnel?*

Giessel: We had planned a trip with a very small number of members potentially of the working group. Unfortunately, a hurricane occurred at the time we were going to go. We had to abruptly cancel the trip. It's my understanding that Sen. Stedman who is the chair of the Legislative Budget and Audit Committee did arrange a trip to Houston and he took with him Rep. Josephson, who is the vice chair of Legislative Budget and Audit. They met with the three consultants LB&A has engaged with the Legislature.

*Petroleum News: So what would you like to see the working group accomplish in coming months?*

Giessel: When Rep. (Geran) Tarr and I sat down to discuss the future of this working group, one of the goals we discussed was the concept of raising the level of understanding and in-depth knowledge of our oil and gas policy for the state of Alaska. It is very difficult when very two years new members join the Legislature — this is part of our elective process — but what happens is new people come in and have no background in this very complex subject. So the first thing the working group did was convene an oil tax policy 101 course. We actually had it on Alaska Day, so it was unfortunate scheduling, but it was when people were available. We had two consultants present to us on the concepts of oil tax fiscal policy and touch a little bit on what we currently have in our law. The main part of it was the underlying economic fundamentals. It was an all-day course. It was attended by legislators, staff, the administration — departments of Revenue and Natural Resources attended — the public as well as the press.

It was very well received. In fact, we had nearly 100 people online because we were live streaming it as well as presenting it in person and in the class room. We are going to offer that course again. That is in my opinion, a fundamental value the working group can bring to this whole process, raising understanding of our policy as it is now and what are the best practices in terms of fiscal policy for oil and gas.

Secondly, we are going to be working with an advisory group. You'll notice in HB 111 there is very detailed description of an advisory group to the working group. As I look at this description, what occurred to me, actually we have a group that fits this description perfectly. It's called the Oil and Gas Competitiveness Review Board. This was established back in 2013 as a part of SB 21, the idea being we always want to be aware of where we are falling in worldwide competitiveness in terms of oil and gas. In realizing this group already existed, we approached Wyche Ford — he is currently the chair of the competitiveness review board — and asked him if his group would be willing to join us as the advisory group.

He said the group would be very interested in doing that. We now have a group of people who come from industry, economics, and different companies who will be able to provide us with subject matter expertise on different issues. That will be very valuable. We are connecting with the private sector. Those are the two values I see the working group bringing to the whole legislative process.

*Petroleum News: Talk about the makeup of this working group. In the past you've noted how you like how it's geographically and politically diverse.*

Giessel: It really is. For the Senate side there is myself, Sen. Stedman, Sen. von Imhof, Sen. Wielechowski and Sen. Micciche. On the House side they have Resources co-chairs Rep. Tarr and Rep. Josephson, plus Rep. (Jason) Grenn and Rep. (David)

Talerico and they are still looking for a replacement for Rep. Westlake.

But, again, we have a diverse group and with geographic distribution with people like Sen. Stedman (of Sitka) having been involved in this subject matter for a very long time and Sen. Micciche having worked in the industry in the past.

*Petroleum News: What are your goals and objectives for the committee?*

Giessel: We have some hearings coming up that will look at our regulatory process. One of the things I hear about frequently, related particularly with mineral development, is how some of the regulations are rather egregious and is there a way to make them more workable in real life for the private sector minor. We'll be looking at that. Of course we'll have an LNG update. Fisheries is always a topic. Our timber industry is always a discussion point. We'll be having meetings with our federal agencies. We had one a couple of years ago with Department of Interior, BLM and National Park Service. We'll be doing that again to see how we can better work together.

*Petroleum News: Speaking of AKLNG, what are your thoughts on where things stand right now?*

Giessel: I think that right now we are in an interesting waiting period. We certainly have a wide variety of memorandums of understanding. We could probably paper a room with them. Now we are waiting to see what actually becomes real. In terms of the Senate Resources Committee, we will continually be asking for detail. Up until now we've gotten very broad numbers. We've been told there is a \$43 billion cost estimate. Yet we see no high or low estimates for best case and worst case as you would typically see in an estimate presented.

I'm also interested in hearing from the administration as far as what consultants they have engaged. In the past, Black & Veatch have worked for the administration and have provided detailed fiscal analysis to the Legislature. We haven't seen anything like that during this administration. Those are the kinds of things I'm looking for in this project. I've been following closely media reports about China. I see they are engaging with multiple countries in resourcing LNG. I'm also watching the Yamal project in Russia. They are exporting directly off of their north coast. They sent one shipment in an ice breaking capable LNG vessel. I'm very interested in how that project is evolving.

One of the things I've been asked about frequently is why the state of Alaska is not looking more carefully at the prospect of exporting directly off of our North Slope. So this is a subject I hope to look more into during the Resources Committee hearings. It probably will be busy. There is always lots going on with resources in Alaska. ●

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**Foss ships utility trucks to aid in Puerto Rico**

Foss Maritime said Jan. 4 that at the Port of Virginia in Norfolk and the Port of Lake Charles in Louisiana, that it was loading hundreds of utility trucks onto barges bound for Puerto Rico. It's all part of the on-going effort to restore power to nearly half of the population who are without electricity.

As part of the on-going power restoration effort, Foss is working with a coalition of 19 U.S. electric companies to deliver between 500 and 600 utility trucks, including bucket trucks, line trucks, pickups, aerial lifts, CAT skid-steer loaders, digger derricks and pull trailers.

The electric companies are members of the Edison Electric Institute that have pledged mutual assistance to support the Puerto Rico Electric Power Authority and the U.S. Army Corps of Engineers to restore power throughout the island.

The voyage from the U.S. mainland to Port of Ponce in Puerto Rico will take roughly 10 days, with the trucks scheduled to arrive between Jan. 16 and Jan. 18. Hundreds of line workers and other personnel from participating electric companies will fly to meet the trucks and work on restoring power.

"This movement of hundreds of utility trucks is part of a comprehensive mobilization effort to get needed equipment to the island so utility crews can begin restoring power for the people of Puerto Rico," said Will Roberts, Foss chief commercial officer, "Foss is proud to be part of those efforts and continues to be at the ready as needs arise."

In addition to the company's current project shipping utility trucks, Foss has been help-



COURTESY FOSS

ing support relief and rebuilding efforts in Puerto Rico and the U.S. Virgin Islands for several months.

**Fluor completes transmission lines in Puerto Rico**

Fluor Corp. said Jan. 8 that working under its contract with the U.S. Army Corps of Engineers in support of a Federal Emergency Management Agency mission to help repair and restore the power grid in Puerto Rico, it has completed work on two 115kv transmission lines between substations in Sabana Llana and Canóvanas in Puerto Rico.

Transmission lines move large amounts of electricity over long distances. Fluor has previously completed work on multiple distribution lines, which connect to the transmission system and are part of the last stage in getting power to homes and businesses.

The completion allows the Puerto Rico Electric Power Authority to re-energize lines in a major urban center that will carry electricity to large neighborhoods, churches, pharmacies, a retirement home and The Outlet Mall 66 in Canóvanas.

"We have a long history in Puerto Rico and the proven ability to respond to urgent needs," said Matt Hunt, Fluor's executive program director, Puerto Rico power restoration project. "As a result, we have significant numbers of crews and equipment in place. Working at the direction of the Corps and in coordination with PREPA, we are proud to be delivering results to the people of Puerto Rico."

Fluor has more than 1,800 people on the island dedicated to the restoration of power.



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

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## EIA OUTLOOK

in price to continuing draws on global inventory levels, and it estimates that global petroleum and other liquid fuels inventories fell an average of 400,000 barrels per day last year, “the first year of annual average draws since 2013.”

The decision in November by the Organization of the Oil Exporting Countries to extend the crude oil reduction agreement through the end of 2018 also provided price support, EIA said, as did a year-end disruption in the North Sea’s Forties crude oil pipeline system which forced fields feeding the line to be shut-in, resulting in a short-term curtailment of supply.

The agency said its forecast of \$60 Brent this year and \$61 in 2019 is based on an expectation that global oil inventories will rise this year and next, contributing to a decline in Brent prices in the first quarter of the year, with prices expected to remain relatively flat thereafter through 2019.

West Texas Intermediate is expected to average \$4 below Brent this year and next, EIA said, down from the \$6 price differential in the fourth quarter of last year as current constraints on transportation capacity between Cushing, Oklahoma, and the Gulf Coast are expected to lessen.

### US production

“EIA estimates that OPEC countries cut crude oil production output in 2017, but those cuts were offset by increased production in non-OPEC countries, especially the United States and Canada,” EIA Acting Administrator John Conti said in a Jan. 9 statement.

“EIA forecasts U.S. crude oil production to grow by 980,000 barrels per day in 2018, and we expect most of that growth to come from tight rock formations in Texas and North Dakota,” he said.

Non-OPEC production, led by the U.S. and Canadian oil sands projects, “is forecast to continue growing through the end of 2019,” Conti said, with growth of 2 million bpd of non-OPEC production in 2018 and 1.3 million bpd in 2019.

U.S. production for 2017 averaged an estimated 9.3 million bpd, and is estimated to have averaged 9.9 million bpd in December, EIA said.

U.S. crude production is forecast to average 10.3 million bpd in 2018, which would be the highest annual average U.S. production, surpassing a previous record of 9.6 million bpd in 1970. 2019 U.S. production is forecast to average 10.8 million bpd, and to top 11 million bpd in November 2019, the agency said.

U.S. production growth is estimated at 1.5 million bpd in 2018 and 1 million bpd in 2019, with Canada and Brazil expected to contribute combined growth in both years of some 400,000 bpd.

### Multiple basin growth

Some 800,000 bpd of the projected 1.2 million U.S. increase from December 2017 to December 2019 is expected to come from tight rock formations in the Permian region in Texas and New Mexico, the agency said.

Production from the Permian is expected to be 3.6 million bpd by the end of 2019, an increase of roughly 900,000 bpd from December 2017, and 32 percent of U.S. crude oil production in 2019.

Eagle Ford production is expected to

be from 1.2 million bpd to 1.3 million bpd this year and next, which EIA said is slightly above the 2017 level.

In the Bakken production is expected to average 1.2 million bpd this year and 1.3 million bpd in 2019, up from 1.1 million bpd in 2017.

Gulf of Mexico production is expected to average 1.7 million bpd in 2018, relatively unchanged from 2017, and then increase to 1.8 million bpd with the anticipated start of production from the Appomattox project in the Rydberg field and the Mars project in the Kaikias field, along with other projects expected to begin operations this year and next.

EIA said Alaska crude oil production is expected to remain flat at some 500,000

bpd in 2018 and 2019, with ongoing exploration and development drilling and the start of production from the IH NEWS Tooth in 2018 expected to keep production from declining in the state as it has in recent years.

### Natural gas

EIA said growth in crude oil production, especially in the Permian, is expected to result in increased associated natural gas production and processing.

Overall, dry natural gas production averaged 73.6 billion cubic feet per day in 2017, up 1 percent from 2016. The agency expects production to rise by 6.9 bcf per day, 9.3 percent, in 2018, and by 2.6 bcf,

3.2 percent, in 2019. EIA said if the 6.9 bcf increase is achieved in 2018, it would be the highest on record.

Liquefied natural gas gross exports are forecast to average 3 bcf per day in 2018, up from 1.9 bcf in 2017.

The U.S. exports natural gas by pipeline to Mexico and imports by pipeline from Canada, with imports averaging 8.2 bcf per day in 2017.

The U.S. was a net exporter of natural gas for the first time in 2017 on an annual basis, with net exports averaging 0.4 bcf per day, and expected to average 2.3 bcf per day in 2018 and 4.6 bcf in 2019. ●

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COURTESY ARMSTRONG

The Horseshoe wildcat drilled by operator Armstrong in early 2017 sits almost directly across the Colville River from ConocoPhillips Alaska's Stony Hill prospect that is being drilled this winter.

continued from page 1

## EXPLORATION SEASON

News. Postponing the exploration program allowed the company to work with the local community of Nuiqsut and “to address their concerns over drilling within three miles.”

In the interim ConocoPhillips “actively engaged the Nuiqsut community ahead of the exploration season to ensure that the Putu drilling project is well understood, and questions from the community are addressed,” a company spokesperson told Petroleum News Jan. 9. “With that in mind, we have developed a robust mitigation plan related to the drilling program (see sidebar to this story for details).

### Armstrong on track for development

Armstrong has an information sharing agreement with ConocoPhillips for Putu, a short distance from Pikka 2, and according to a company official continues to move ahead with its plans for the Nanushuk development in the Pikka unit.

The Pikka 2 and 2A well locations are in the southern tip of the Pikka unit, immediately north of the Pikka No. 1 well that Armstrong cancelled last year at the request of the village. The purpose of the delineation program was to obtain more

subsurface information about the southern half of the proposed Nanushuk development area, which has been explored less than the northern half. (See more about Armstrong and partner Oil Search in this edition's page 1 Oil Patch Insider.)

### Company-by-company drilling plans

Following is the status of the seven to 10 exploration wells (including three possible sidetracks) being drilled on the North Slope this winter:

#### • ConocoPhillips (5-7 wells, 3 rigs)

With ice road construction underway, the major says it is drilling five exploration wells this winter, with a potential of seven separate bottomhole targets that include sidetracks.

Doyon Rig 141 is being used for drilling ConocoPhillips Alaska's Willow wells (three penetrations), Arctic Fox will be at Stony Hill (two penetrations) and Kuukpik 5 is being used at Putu 2 (two penetrations). All but the Putu 2 well and possible sidetrack are in the National Petroleum Reserve-Alaska.

The Stony Hill prospect, a Willow lookalike which holds some 300 million barrels of recoverable oil in the Nanushuk formation, is almost directly across the Colville River in NPR-A from Armstrong's successful 2017 wildcat,

## Putu 2 mitigation

Per the Putu 2 drilling program this winter on the North Slope outlined in this issue's page 1 exploration story, operator ConocoPhillips Alaska has actively engaged the village of Nuiqsut ahead of the winter exploration season to ensure that the Putu project was well understood and questions from the community were addressed.

As a result of this process, ConocoPhillips has developed a “robust mitigation plan related to the drilling program,” a company spokesperson told Petroleum News Jan. 9 and Kuukpik Corp. official Lanston Chinn confirmed. (Established in 1973 as an Alaska Native village corporation, Kuukpik is the village corporation for Nuiqsut.)

ConocoPhillips' new well location is farther from Nuiqsut than the Putu 1 well planned and then cancelled early in 2017 — 2.5 miles from the village versus 3.5 miles.

The new Putu drilling program will have a single surface location with two subsurface targets (one primary well and one sidetrack well.)

Mitigation measures include, but are not limited to, the following:

- The rig will run off electrical power which will be generated about one mile away from the drilling location (and farther from the village) using state of the art, low emission generators.
- Numerous light and noise mitigation measures are being implemented.
- Air, water and noise monitoring has been expanded.

—KAY CASHMAN, PUBLISHER

*Note: Learn more details in subsequent January editions of Petroleum News.*



ConocoPhillips Alaska President Joe Marushack

Horseshoe, which was drilled on state land.

ConocoPhillips is also conducting a 250 square mile, 3-D seismic program on the state acreage they picked up in the December 2016 lease sale.

#### • Eni (1-2 wells, 1 rig)

Eni US Operating Co. spud its Nikaitchuq North 1 well on Beaufort Sea outer continental shelf leases in late December. The federal Bureau of Safety and Environmental Enforcement said in a Dec. 27 statement that its inspectors were on site Dec. 25 and that the well had been spud.

Whitney Grande, Eni U.S. vice president, environment and quality, said Nov. 15 that Eni was making modifications to the Doyon Rig 15 that the company uses in its Nikaitchuq field to enable the rig to conduct the exceptionally long extended reach wells from Spy Island needed for the exploration well.

The Alaska Oil and Gas Conservation Commission drilling permit issued Dec. 8 covers the directional exploration well heading north and involving four state leases — ADL 388571, ADL 388574, ADL 388583 and ADL 391283 — plus the federally managed waters of the Arctic outer continental shelf. The federal Nikaitchuq North leases lie in the Harrison Bay Block 6423 to the north.

The 35,000-foot extended-reach well being drilled from the existing drill site on Spy Island is expected to take between 70 and 80 days to drill.

The results of the Nikaitchuq North No. 1 well will determine whether Eni proceeds with a sidetrack this winter and a second well next winter, according to company officials.

The Nikaitchuq North prospect lies immediately north of the state leases in Eni's producing Nikaitchuq field, offshore the central North Slope, and west of Prudhoe Bay.

#### • Glacier/Savant (1 well, 1 rig)

Glacier Oil & Gas (Savant) plans to drill the Starfish exploration well on undeveloped leases near the Badami field, exploring a formation behind a fault block that hasn't been drilled before, and using Nabors Rig 27E. (That's the same rig ExxonMobil used at Point Thompson.)

Glacier is waiting on its final drilling permit and building a 27-mile ice road from the Endicott road to the Badami pad in support of Starfish drilling, the company's new drilling manager, Steven Ratcliff, told Petroleum News Jan. 8. (Conrad Perry has left to re-open his consulting firm, The Perry Group.)

On Feb. 1, the company plans to move 27E onto the ice road.

This year's North Slope winter exploration drilling season is the busiest since 2014. ConocoPhillips Alaska President Joe Marushack said Oct. 12 this winter will be the biggest exploration drilling program that ConocoPhillips, formerly Alaska's top explorer, has conducted on the North Slope since 2002.

—KAY CASHMAN, PUBLISHER



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## LEASE SALES

proposed for a national outer continental shelf program,” Zinke said.

“By proposing to open up nearly the entire OCS for potential oil and gas exploration, the United States can advance the goal of moving from aspiring for energy independence to attaining energy dominance,” said Vincent DeVito, counselor for energy policy in the Department of the Interior. “This decision could bring unprecedented access to America’s extensive offshore oil and gas resources and allows us to better compete with other oil-rich nations.”

### Public review

Zinke emphasized the draft nature of the plan, saying that the administration will consult with states, local communities and congressional delegations over the proposal.

“Nothing is final and our department is continuing to engage the American people for our final product,” Zinke said.

An Interior press release commented that the inclusion of broad areas of the OCS in the proposed plan will encourage public input, to inform future decisions on the OCS program. There will be a 60-day public comment period following publication of the draft plan in the Federal Register. And individual lease sales will be subject to environmental review.

“Inclusion of an area in the draft proposed plan is not a final indication that it will be included in the approved program or offered in a lease sale, because many decision points still remain,” the press release said.

“American energy production can be competitive while remaining safe and environmentally sound,” said Walter Cruickshank, acting director of the Bureau of Ocean Energy Management. “Public input is a crucial part of this process, and we hope to hear from industry groups, elected officials, other government agencies, concerned citizens and others as we move forward with developing the 2019-2024 national OCS program.”

Response to one immediate concern came quickly: On Jan. 9 Zinke announced that he was withdrawing waters around Florida from the lease plans, following objections from Florida Gov. Rick Scott, given concerns in particular about the importance of tourism

*The first Alaska lease sale is planned for the Beaufort Sea in 2019. The draft plan then schedules a Chukchi Sea sale as the first sale in 2020.*

along the Florida coast.

### Reversing withdrawals

In April President Trump opened the door for the proposed lease sale program by canceling an order by President Obama, withdrawing large areas of the OCS from future oil and gas leasing. Those withdrawals included virtually all of the Chukchi Sea and much of the Beaufort Sea. Environmental groups have challenged the legality of Trump’s action. A resulting lawsuit is moving through federal District Court in Alaska — oral arguments were held in the case in early November.

Zinke said that the Obama administration had taken 94 percent of the OCS offline for energy exploration and development, and that Interior’s offshore revenues had dropped from \$18 billion in 2008 to \$2.6 billion 2016. He said that there are three key benefits to developing energy in the United States rather than elsewhere: reasonable regulation that ensures clean and responsible development; the production of affordable energy that drives the economy and supports quality lifestyles for American families; and the avoidance of risks to the U.S. associated with dependence on energy from foreign entities.

### Planned Alaska sales

The first Alaska lease sale is planned for the Beaufort Sea in 2019. The draft plan then schedules a Chukchi Sea sale as the first sale in 2020. The first sale in 2021 would then be another Beaufort Sea sale, to be immediately followed by a Cook Inlet sale. The first sale in 2022 would be another Chukchi Sea sale — another Beaufort Sea sale would be the first sale in 2023, again followed by a Cook Inlet sale. These sales would be followed in 2023 by a series of sales for the less prominent Alaska OCS basins: the Hope basin, the Norton basin, the St. Matthew-Hall basin, the Navarin basin, Bowers basin, the Aleutian Arc, the Shumagin basin, Kodiak and the Gulf of Alaska. The final Alaska sale would be another Chukchi Sea sale, the first sale in 2024.

The less well known basins targeted for sales in 2023 have geology that is prospective for hydrocarbons. However, these basins have seen little previous exploration and they are mostly thought to be gas prone.

The only Alaska basin not included in the plan is the North Aleutian basin, in the Bristol Bay region. This basin is prospective for both oil and gas but is in an area of important fisheries, in particular a wild salmon fishery. In response in particular to concerns about potential impacts to those fisheries, in 2010 President Obama temporarily withdrew the basin from oil and gas leasing, and in 2014 he made that withdrawal permanent.

### Welcomed by lawmakers

Alaska lawmakers, who see OCS development as important to the state’s economy, welcomed the Interior announcement.

“The Department of Interior’s draft five-year offshore leasing plan is an important step toward allowing Alaskans to responsibly develop our natural resources as we see fit,” said Gov. Bill Walker. “My administration is committed to responsible resource development, and has established a pattern of working successfully with our congressional delegation and federal agencies to unleash Alaska’s energy potential.”

“This draft program is another positive step as we seek to reinforce our nation’s status as a global energy leader,” said Sen. Lisa Murkowski. “Secretary Zinke’s ‘blank slate’ approach launches a new discussion with local stakeholders to determine where responsible energy development should take place. While nothing in this proposal is final, it is good to see the administration seeking to expand access in places like Alaska, rather than limiting our opportunities. This is more good news as we seek to create jobs, keep energy affordable, and strengthen our long-term security.”

“This administration continues to take

important and necessary steps to reverse a series of misguided attempts to shut down responsible resource development across Alaska and the Arctic,” said Sen. Dan Sullivan. “Today’s action, combined with efforts to create a more stable regulatory environment, sends a powerful message that the United States is serious about unleashing its energy potential in an expeditious and broad based manner. With the input and support of local communities, this is an important step to begin collectively working towards new, safe and responsible development from Alaska and America’s offshore energy resources.”

### Environmentalist objections

Environmental organizations, however, have expressed horror at the specter of increased offshore oil and gas development, especially in the Arctic. They see the likelihood of disturbance to the delicate offshore ecosystem and, especially, the possibility of a major offshore oil spill as a significant environmental threat.

“Re-doing the five-year program reflects this administration’s eagerness to sellout our public lands and waters and pursue fossil fuel energy development everywhere,” said Lois Epstein, Arctic program director for the Wilderness Society. “This is part of a wholesale assault on Alaska’s Arctic, with Congress opening the Arctic National Wildlife Refuge’s coastal plain to oil drilling and the Trump administration seeking to revise the scientifically sound National Petroleum Reserve-Alaska management plan, so it allows drilling even in currently protected, sensitive habitat ... drilling in the Arctic Ocean is extremely difficult and dangerous, and a major oil spill would pose a grave threat to marine life, sensitive coastal habitat and subsistence resources that are vital to Alaska’s Native communities.” ●

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## NENANA PARTNERSHIP

proposed partnership. “We believe our continued investment at Nenana offers the potential for a basin-opening oil and gas discovery in Alaska.”

Although Doyon has yet to discover a commercial hydrocarbon pool from its Nenana drilling program, the wells drilled thus far have provided tantalizing evidence for an active oil and gas system in the basin. And amplitude anomalies in the data from a 3-D seismic survey conducted last year in the northern part of the basin suggest the presence of hydrocarbons in sub-

surface prospects.

“The presence of direct hydrocarbon indicators in the 2017 seismic data represents a significant and new step toward the confirmation of a commercially viable oil or gas discovery by the Totchaket No. 1 well,” said Ethan Schutt, CIRI senior vice president, land and energy development. “We see seismic data anomalies at multiple horizons spanning thousands of feet of sedimentary section that will be intersected by the Totchaket No. 1 well path.”

—ALAN BAILEY

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## UTILITY MERGER

Pentex sale, with a requirement to close the deal by May 31. RCA approval of the utility consolidation is required before the deal can close. IGU operates under the terms of an RCA certificate, although the utility is a public corporation wholly owned by the Fairbanks North Star Borough. FNG also has a certificate issued by the RCA.

Key objectives of the utility consolidation are the avoidance of duplication of the gas infrastructure and the development of a fully integrated gas distribution system in and around Fairbanks. Construction of an expanded LNG storage facility in Fairbanks began in December.

As publicly owned utilities, neither FNG nor IGU is subject to economic regulation

by the RCA — currently AIDEA oversees FNG while FNSB oversees IGU.

IGU plans to purchase Pentex using Interior Energy Project financing approved by the state Legislature and available through AIDEA. AIDEA will use the funds that it receives from the deal to restore money to the revolving fund that it used for its purchase of Pentex in 2015. The money restored to the fund will cover the original purchase cost of Pentex, plus a return on AIDEA's investment in the company. The IEP financing that IGU will use involves 50-year loans, interest free for 15 years and with a subsequent interest rate of 0.15 percent.

—ALAN BAILEY

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## OIL PATCH INSIDER

The company has the option, exercisable until June 30, 2019, to purchase all of Armstrong and GMT's remaining interest in the Pikka unit and the Horseshoe block (another 25.5 percent and 37.5 percent respectively) as well as an additional 25.5 percent interest in adjacent exploration acreage and 37.5 percent in the Hue shale, for \$450 million. Repsol holds the remaining interest.

Oil Search said Nov. 1 it will carry Armstrong and GMT's share of the 2018-19 appraisal program (drilling since cancelled, seismic work on schedule), estimated at \$25-\$30 million, if the purchase option is not exercised by June 1, 2018, and will assume operatorship on June 1, 2018.

The ASX-listed publicly traded Oil Search is a partner with ExxonMobil and Repsol in Papua New Guinea.

Wulff will head up Oil Search's Alaska operation, based in Anchorage.



KEIRAN WULFF

## Steve Quinn leaves PN

Sad to say, Steve Quinn, the Juneau-based freelancer who has penned PN's Q&As with political figures about oil and gas issues, is leaving PN to move to a full-time position with KTVA as an editor.

Quinn's Jan. 9 farewell to PN readers: “I've enjoyed producing stories nearly six years for Petroleum News, capturing unique thoughts mostly for state lawmakers on resource development issues, be it the state's ever changing oil tax regime, new directions for marketing North Slope natural gas reserves and federal policy decisions that keep the state of Alaska off balance. I've accepted a News Content Editor position with KTVA which means relocating from Juneau to Anchorage. First, however, I'll cover the Legislature (for KTVA) in the upcoming session while remaining in Juneau.”

Best wishes in your new venture, Steve.



STEVE QUINN

## BP's Bob Dudley met with gov?

The latest rumor is BP's Bob Dudley was in Juneau Jan. 5 to meet with Alaska Gov. Bill Walker about the state's oil and gas policies, in particular Walker's actions toward BP.

A Jan. 8 call from PN to Jonathan Taylor, deputy press secretary for the governor, yielded no comment. Not an actual “no comment;” just no comment at all.

Taylor checked with no one. He simply, and courteously, recommended a public records request for the Governor's personal calendar for Jan. 5 under the freedom of information act. Done.

But Angela Hull, constituent services coordinator and public records specialist in Walker's office who handles such filings, warned the governor only releases his calendar every 60 days or so.

However, she did say that under the Alaska Public Records Act (AS 40.25.100-40.25.350) when her office receives a request, they are “processed in the order they are received. There is a 10-working-day (does not include holidays and/or weekends) time frame for response, and there is a 10-working-day extension period that can be exercised under particular parameters.”

So, anyone out there talking? Call 907 229-7057 or email [publisher@petroleum-news.com](mailto:publisher@petroleum-news.com), please.

—KAY CASHMAN, PUBLISHER



BOB DUDLEY

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