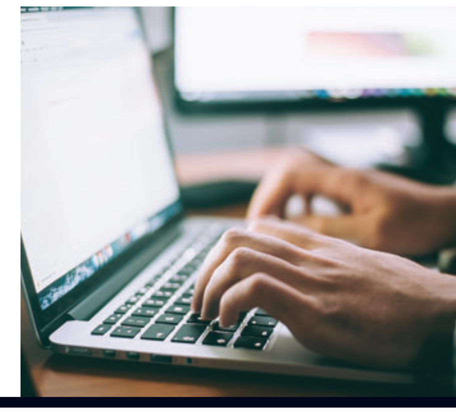
Petroleum news



page 3 State releases dates for spring lease sales, first it will hold online

Vol. 25, No. 16 • www.PetroleumNews.com *A weekly oil & gas newspaper based in Anchorage, Alaska* Week of April 19, 2020 • $2.50

Stayin' alive: XCD, small company with NPR-A acreage hunkers down

During the first quarter of 2020, XCD Energy Ltd has taken steps to prepare the company to weather the low price environment and uncertainties thrust upon oil and gas markets by falling demand due to the COVID-19 pandemic, coupled with breakdowns of supply restraints by OPEC and related parties.

XCD — which is publicly traded on the Australian Securities Exchange, ASX — is the owner of Project Peregrine, a Nanushuk play within an area of 195,373 acres made up of 17 leases within the National Petroleum Reserve-Alaska.

XCD "immediately reacted to the change in circumstances that have been the result of recent global macro events," the

see **XCD STEPS** *page 11*

Mustang financial situation discussed at AIDEA board meet

A three and a half hour executive session at the April 15 board meeting of the Alaska Industrial Development and Export Authority that included the Mustang development loan did not produce a resolution the board could vote on in the public session that followed.

"We're not taking action on the matters discussed in the executive session," AIDEA Board Chairman Dana Pruhs said after the confidential conference.

Mustang, the first oil field on Alaska's North Slope to have been developed and brought online by a small independent oil company, began production in early November under operator Brooks Range Petroleum Corp., or BRPC.

see **MUSTANG FINANCING** *page 10*

Alberta feels chokehold with storage at limit, more crude cuts

JASON KENNEY

Jason Kenney is having to rearrange his world — like everyone else — only a year after a landslide victory propelled him into the Alberta premier's office and only weeks after boldly forecasting that his oil-dependent province might be close to turning the corner.

The only problem was his inability to foresee that the turn was into a dead-end street.

Now his greatest challenge is to contain COVID-19 which Alberta's latest modeling has estimated could see up to 800,000 of 4.4 million Albertans infected with the virus

see **ALBERTA CHALLENGES** *page 11*

Open Alaska seismic 3D permits: Narwhal, Kuukpik; Staines delayed

As of April 14, two of the open state seismic permits in Alaska were issued to SAExploration and two were issued to Oil Search, per Division of Oil and Gas records.

SAE's permits were for the Narwhal 3D and the Kuukpik 3D surveys.

Oil Search was issued permits for vertical seismic profiles, or VSPs, for the Stirrup 1 and the Mitquq 1 exploration wells,

There was a public notice for SAE's proposed Staines 3D survey posted by the division Dec. 3, saying the agency intended to approve the geophysical exploration permit and initiating a 30 day public comment process.

A division official told Petroleum News that the agency

see **SEISMIC PERMITS** *page 10*

FINANCE & ECONOMY

Alaska lucks out

Conoco makes small 2020 capex cut; Exxon's Pt Thomson output rising

By KAY CASHMAN

Petroleum News

RYAN LANCE

In ConocoPhillips' second round of spending cuts announced April 16, Alaska once again lucked out with only $200 million of the company-wide $1.6 billion capex reduction coming from the state. Alaska spending for 2020 spending was reduced March 18 from approximately $3.4 billion to $3.2 billion; the most recent announcement brings it down to about $3 billion.

Some of the reductions will come from drilling — cutting short the exploration season, such as drilling only one well at Harpoon (Harpoon 2) instead of three this winter and not starting up Doyon 26, the big extended reach drilling rig that just arrived at the CD2 pad for assembly and testing.

ConocoPhillips said it was voluntarily reducing oil production in May in the Lower 48 and Canada by about 225,000 barrels a day gross but was not curtailing output in Alaska. But that could change in future months, per company executives CEO Ryan Lance, COO Matt Fox and CFOs Don Wallette Jr., who participated in the April 16 webcast.

see **CONOCO CUTS** *page 9*

FINANCE & ECONOMY

HEX inks KLU deal

AIDEA backs Alaskan startup to acquire Cook Inlet natural gas project

By STEVE SUTHERLIN

Petroleum News

JOHN HENDRIX

Anchorage-based HEX LLC said it has entered into a binding term sheet with the debtors and key creditors in the Chapter 11 bankruptcy of Furie Operating Alaska LLC, moving closer to its goal to acquire Furie's Cook Inlet assets.

HEX President and CEO John Hendrix confirmed the deal in an appearance at an April 15 board meeting of the Alaska Industrial Development and Export Authority in Anchorage.

At the meeting, the AIDEA board unanimously approved a resolution allowing modifications to a previously approved AIDEA development-project finance loan to HEX not to exceed $7.5 million for the acquisition of the limited liability companies that own the natural gas leases and the natural gas production infrastructure of the Kitchen Lights unit.

The April 15 resolution allows a debtor in possession loan subordinated to the AIDEA loan, as agreed to in the debtor's term sheet. The first source of repayment for the DIP loan is State of Alaska tax credits already earned but unpaid to date, subordinated to an ING tax credit debt in the tax credit

see **KLU DEAL** *page 6*

FINANCE & ECONOMY

Oil market still uncertain

Production and demand slump forecasts decrease, but prices remain jittery

By ALAN BAILEY

For Petroleum News

Following a few weeks of worldwide turmoil in response to the potential collapse of the global oil market because of grossly excessive oil supplies, on April 12 the Organization of Petroleum Exporting Countries and Russia finally signed an agreement to cut about 9.7 million barrels per day of production in May and June. The production cuts come in response to a collapse in oil demand as a consequence of the Covid-19 pandemic. An oil price war between Saudi Arabia and Russia had greatly exacerbated the problem. President Donald Trump was strongly involved in persuading the relevant parties to restore stability to the market.

see **OIL MARKET** *page 8*

ANS oil disconnects

One feature of the recent turmoil in the global oil market is the disconnection of the price of North Slope crude oil from the benchmark Brent Crude price. The North Slope oil price has dropped below the Brent price to track more closely to the West Texas Intermediate benchmark — for years Alaska North Slope oil has tracked close to the Brent index. And this price adjustment matters for the economics of the North Slope oil industry and Alaska state revenues, since WTI typically tracks at a lower price than Brent.

see **ANS PRICING** *page 8*

● EXPLORATION & PRODUCTION

State approves 2 Cook Inlet Energy PODs

Division of Oil & Gas approves plans for Redoubt; on West McArthur River, wants action on items that have been in planning stage

By **KRISTEN NELSON**

Petroleum News

The Alaska Division of Oil and Gas has approved Cook Inlet Energy's plan of development for Redoubt Shoal but warned in approving the West McArthur River plan that it wants to see the company move ahead with projects that have been in the planning stage, including the Sabre project. Cook Inlet Energy is a Glacier Oil and Gas company.

The plans for both units cover May 2020 through April 2021.

Redoubt

In calendar year 2019 Redoubt produced 435,350 barrels of oil and 92.218 million cubic feet of natural gas, the division said. The field is produced from the Osprey platform.

In its plan the company lists four wells which are producing oil, two wells used for waterflood and one well used for disposal. Two wells are shut-in, one for water loading issues and one for electronic submersible pump failure.

During the 2019 POD the company drilled and completed a sidetrack of the RU-6 well to the RU-6A well and is using it as a water injection well to enhance field production and expand water handling capacity. The company also replaced the ESP in RU-2A and added additional perforations.

The division said the company's plans for the new POD, the 20th for the field, include: adding perforations and re-stimulating the RU-6A water injection well to enhance injection capacity; examining results of current and planned enhanced recovery waterflood efforts and where appropriate sidetrack or drill additional wells for water injection; and replacing existing 8-inch three-phase subsea line pig launcher and add a pig receiver on the 8-inch produced water line enabling inline inspections during the summer.

The division said that, as indicated in the approved 2019 POD, the company is deferring change out of the failed ESP in the RU-9 and possible hydraulic fracturing until the third quarter of 2020.

The division approved the POD for Redoubt.

West McArthur River

The division had reservations about the POD for West McArthur River, but did approve it.

In calendar year 2019 West McArthur River produced 183,338 barrels of oil and 34.801 million cubic feet of natural gas. the company shows two producing wells at the field, one disposal well and five wells shut-in, due to failed jet pump; water handling capacity issues; gas completion unsuccessful; water injection candidate; and failed ESP.

The division said that in its last POD the company conducted small optimization and well maintenance operations to prolong field life, obtained authorization from the Alaska Oil and Gas Conservation Commission

see **REDOUBT SHOAL** page 5

contents

Petroleum News *Alaska's source for oil and gas news*

● LAND & LEASING

State sets dates for online lease sales

2020 Alaska Peninsula, Cook Inlet areawide sales will be first under new system with bidding online through EnergyNet Services

By KRISTEN NELSON
Petroleum News

Last year the Alaska Department of Natural Resources' Division of Oil and Gas updated its regulations, and among the updates it added a provision to allow online bidding for oil and gas lease sales. Previously, "sealed bid or at public outcry auction" were the only methods allowed. The regulation updates added "including online bidding" to acceptable methods.

The regulation changes went into effect after last year's Beaufort Sea, North Slope and North Slope Foothills sales, which were held in the traditional method — bids were submitted on paper and opened and read in public.

With social distancing requirements and prohibitions of meetings of more than 10 people in place due to COVID-19, the division was already positioned for online bidding.

When the regulations were finalized in December, DNR Commissioner Corri Feige said the regulatory changes "will empower the Division of Oil and Gas to apply modern digital and technical solutions to provide efficient leasing services to the oil and gas industry."

The Alaska Peninsula and Cook Inlet areawide sales will be the first to use online bidding.

The division said in an April 10 notice that it has contracted with EnergyNet Services LLC to provide an online bidding system. Bidder registration and bid submission will be on the EnergyNet Government Listings site at www.energynet.com.

Bids open May 19

The division said the first day to submit bids with EnergyNet for the Cook Inlet and Alaska Peninsula areawide sales would be May 19, with the deadline to submit bids June 11 at 4 p.m. Alaska Daylight Time.

Bidding results will be available to the public on the division's website at 9 a.m. June 17.

The Alaska Peninsula sale includes some 5 million acres of state-owned land in 1,004 tracts, encompassing onshore and offshore acreage from the Nushagak Peninsula down the north side of the Alaska Peninsula to just north of Cold Bay. The Alaska Peninsula sale received bids in three lease sales since it was first offered in 2004, with the last three bids received in 2014. There are no active oil and gas leases in the Alaska Peninsula areawide.

The Cook Inlet Areawide includes some 3.3 million acres of state-owned land in 833 tracts encompassing onshore and offshore acreage from Wasilla in the north to Anchor Point in the southeast, then along Alaska's submerged lands act boundary in Cook Inlet to the Iniskin Peninsula. There were just three bids received in the Cook Inlet sale in 2019. In the division's annual report to the Legislature on the lease sale program, dated Jan. 29, Division Director Tom Stokes said the "rapid and significant" drop in oil and gas prices beginning in 2014, "combined with a relatively stable gas demand in southcentral Alaska are thought to be major factors contributing to ongoing low bidder activity in the Cook Inlet Areawide lease sales."

With social distancing requirements and prohibitions of meetings of more than 10 people in place due to COVID-19, the division was already positioned for online bidding.

The minimum bid for Alaska Peninsula tracts is $5 per acre. The royalty rate is 12.5%, and leases have a primary term of 10 years.

Rental is $1 per acre in the first year, $1.50 in the second year, $2 in the third year, $2.50 in the fourth year and $3 per acre in the fifth through 10th years.

The minimum bid for Cook Inlet tracts is $15 per acre. The royalty rate is 12.5% and leases have an eight-year term, although a onetime lease extension is possible under certain conditions. The rental rate is $5 per acre for years one through four and $10 per acre for years five through eight.

What will it look like?

The Alaska sales were not yet posted on the EnergyNet site when this item was written, but the posting for a federal Bureau of Land Management sale probably indicates how the Alaska sales will be shown.

The heading shows: BLM New Mexico and Texas Federal Lease Sale, May 20 and 21, 2020; 95 parcels covering 45,445.76 acres available for lease; open for bidding May 20th-May 21st, 2020.

This links to a map showing locations of the listings and there is a further link to individual listings, which are on a BLM website. ●

Contact Kristen Nelson at knelson@petroleumnews.com

EXPLORATION & PRODUCTION

US drilling rig count down by 62 to 602

Baker Hughes reports the number of rigs drilling for oil and natural gas in the U.S. April 9 was 602, down by 62 rigs from the previous week, and down by 420 rigs from 1,022 a year ago. The count has declined steeply in recent weeks, dropping by 64, 44 and 20 in each of the previous three weeks.

In its weekly rig count the Houston oilfield services company said 504 rigs targeted oil, down 58 from the previous week and down by 329 from a year ago, while 96 targeted natural gas, down four from the previous week and down 93 from a year ago. There were two miscellaneous rigs active, unchanged from the previous week and up by two from a year ago.

The company said 35 of the holes were directional, 545 were horizontal and 22 were vertical.

There were no states with an increase in drilling rigs from the previous week.

Rig counts were unchanged in Ohio (9) and Pennsylvania (24).

The rig count in Texas, the state with the most active rigs at 302, was down by 36 from the previous week, and down by 200 from a year ago.

New Mexico (93) was down by seven rigs; Wyoming (10) was down by four; and Oklahoma (26) was down by three.

Alaska (6), California (8), Colorado (16) and Utah (6) were each down by two rigs from the previous week.

Louisiana (43), North Dakota (41) and West Virginia (14) were each down by one rig from the previous week.

Baker Hughes shows Alaska with six active rigs, down two from a year ago, although both BP and ConocoPhillips are demobilizing their rig fleets on the North Slope, which will likely be fully reflected in next week's Baker Hughes count.

The largest rig count drop by basin was the Permian, which also has the most active rigs at 316. The count in that basin was down 35 from the previous week and down 148 from a year ago.

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

—KRISTEN NELSON

ENVIRONMENT & SAFETY

Cleanup underway at VMT oily water spill

The Alaska Department of Environmental Conservation's Division of Spill Prevention and Response said April 13 that Alyeska Pipeline Service Co. had reported an oily water spill at the Valdez Marine Terminal.

Alyeska personnel discovered the spill — they observed sheen near the VMT small boat harbor — and reported it to ADEC April 12.

Responders were on the scene within an hour of the sheen being reported at about 8 p.m. April 12, Alyeska said in an April 14 release, with response activities including deployment of sorbents sweeps, sausage boom and containment boom. The company said a team of vessels was dispatched and continue deploying current buster boom while another team of responders is performing on-land cleanup.

As of 4:30 p.m. April 14, ADEC said in its second situation report on the incident, some 423 barrels of oily water had been recovered.

A unified command was established April 14 to deal with the VMT incident, with representatives from Alyeska, ADEC and the U.S. Coast Guard.

As of 1 p.m. April 15, the unified command said some 610 barrels of water/oil mix had been recovered. "An overflight this morning confirmed there is no noticeable sheen outside of the boomed area," unified command said in a release.

Sump overflow

ADEC initially said that while the cause was under investigation, early indication was that the mixture of crude oil and water was leaking from a sump that overflowed.

The April 15 unified command release said the sump, uphill from the terminal, was the source of the discharge, and that there was no continuing discharge.

While the source is known, the unified command said the cause of the spill was still under investigation.

ADEC said April 14 that the sump had been emptied and a vac truck had been on site. The sump continues to be monitored, the company said, and the ballast water header which enters the sump was isolated at 10 p.m. April 13.

The oil traveled beneath the snow covered surface and came out near the head of Berth 4 into Port Valdez, ADEC said, with sheen seen east of Berth 4 to the VMT small

see **TERMINAL SPILL** *page 7*

● EXPLORATION & PRODUCTION

Conoco applies for expansion at Kuparuk

Small addition, 640 acres, would be to area covered by Alaska Oil and Gas Conservation Commission rules for Kuparuk oil pool

By KRISTEN NELSON
Petroleum News

ConocoPhillips Alaska has applied to the Alaska Oil and Gas Conservation Commission for a small expansion to the area covered by the commission's rules for the Kuparuk River oil pool.

The expansion request is for section 22 in township 13 north, range 3 east, Umiat Meridian, an area which is within the Kuparuk River unit and is already covered by the commission's area injection order for Kuparuk.

ConocoPhillips is the Kuparuk operator.

A section is an area of one square mile area containing 640 acres; Division of Oil and Gas records indicate the Kuparuk River unit includes more than 270,000 acres.

ConocoPhillips said the proposed addition to the pool rules area is northwest of existing Kuparuk River unit drill site 3M and "is in pressure communication with the main Kuparuk River Field."

The company said no rule changes are proposed.

"Approval of the application would permit these operations to continue to be conducted within the existing Kuparuk River Field and Participating Area," the company said.

Issue identified in 2018

ConocoPhillips said AOGCC staff advised the company in May 2018 that an application for permit to drill northern laterals from the 3M-23 well, on section 27-T13N-R8E, crossed into the northern area of 22-T13N-R8E, the southeast quarter of which was outside the Kuparuk River oil pool. At that time it was also discovered that an adjacent well, 3M-27, permitted in 1995, was outside the pool rules area. That well, 3M-27, has been on production since that time, ConocoPhillips said.

The company noted that in 2017, permits were approved to redrill the existing 3M-27 development well as 3M-27A, with additional laterals also approved and four laterals drilled outside the existing pool rule area in 22-T13N-R8E.

When the company applied for a spacing exception waiver for 3M-23, it said a remedial action would be to apply to expand the affected area of the Kuparuk River oil pool to include section 22-T13N-R3E.

ConocoPhillips said its current application was an effort to fulfill that remedial action.

The commission has tentatively scheduled a hearing on the application for May 12 with written comments due May 10 but said if there is no timely request for a hearing it may consider issuance of an order without a hearing.

The commission said that because of COVID-19 related social distancing, if a request for hearing is filed and social distancing requirements are still in effect, it will make a determination on whether to schedule a hearing electronically or postpone the hearing until after social distancing requirements are eased. ●

Contact Kristen Nelson at knelson@petroleumnews.com

Petroleum news

www.PetroleumNews.com

Kay Cashman	PUBLISHER & FOUNDER
Mary Mack	CEO & GENERAL MANAGER
Kristen Nelson	EDITOR-IN-CHIEF
Susan Crane	ADVERTISING DIRECTOR
Heather Yates	BOOKKEEPER
Marti Reeve	SPECIAL PUBLICATIONS DIRECTOR
Steven Merritt	PRODUCTION DIRECTOR
Alan Bailey	CONTRIBUTING WRITER
Eric Lidji	CONTRIBUTING WRITER
Gary Park	CONTRIBUTING WRITER (CANADA)
Steve Sutherlin	CONTRIBUTING WRITER
Judy Patrick Photography	CONTRACT PHOTOGRAPHER
Forrest Crane	CONTRACT PHOTOGRAPHER
Renee Garbutt	CIRCULATION MANAGER

ADDRESS
P.O. Box 231647
Anchorage, AK 99523-1647

NEWS
907.522.9469
publisher@petroleumnews.com

CIRCULATION
907.522.9469
circulation@petroleumnews.com

ADVERTISING
Susan Crane • 907.770.5592
scrane@petroleumnews.com

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. 25, No. 16 • Week of April 19, 2020
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."
POSTMASTER: Send address changes to Petroleum News, P.O. Box 231647 Anchorage, AK 99523-1647.

● NATURAL GAS

AGDC: goal private sponsor by year end

As Alaska LNG moves toward final FERC approval, also moves toward new project sponsor; if insufficient interest, RFP for assets

By KRISTEN NELSON
Petroleum News

The Alaska Gasline Development Corp., the state entity which is the project sponsor for the Alaska LNG Project, got the final environmental impact statement for the project in March, and is scheduled to receive final approval from the Federal Energy Regulatory Commission in June.

AGDC's goal now is to move the project to a private sponsor.

Alaska Gov. Mike Dunleavy made clear after the final EIS was issued March 6 that the state did not intend to continue as project sponsor.

"The final EIS is a milestone in the Alaska LNG permitting process — a process still with significant hurdles. … FERC licensure is an important component in determining if Alaska LNG, which must be led by private enterprise, is competitive and economically advantageous for development," Dunleavy said.

According to the agenda for an April 9 AGDC board meeting, the board was briefed in executive session on a strategic plan outlining how AGDC would take the Alaska LNG project from state sponsorship to private sponsorship.

The state, through AGDC, took over the project in January 2017. It had previously been involved as a partner with ExxonMobil, the project lead, BP and ConocoPhillips.

In April 2017 AGDC filed an application with FERC covering authorization to construct and operate a new gas treatment plant on the North Slope; pipeline segments on the North Slope; a gas transmission line from Point Thomson; an 806.9-mile 42-inch diameter natural gas pipeline; and a 200 million metric ton per year liquefaction facility at Nikiski on Cook Inlet, including an LNG plant and a marine terminal.

The final FERC order is expected June 4, but while FERC is a crucial step, dozens of major permits for the project remain in process, according to a list included with the board presentation materials.

Strategic plan

A summary of AGDC plans from the April 9 board meeting says AGDC formed key relationships in 2019 with what it calls the "strategic parties" who have expressed interest in the project and with whom AGDC has been collaborating; extension of those strategic party agreements is planned.

Those parties have not been named.

AGDC has also been cost sharing with BP and ExxonMobil, which will continue through June, focused on completing work with FERC.

The board supports AGDC continuing as project sponsor through the end of the year, with transition to a new project sponsor planned to be underway by Jan. 1, 2021.

AGDC has legislative budget approval and the authority to accept up to $20 million in third-party monies which is good through June 30, 2021.

A resolution passed by the board at the April 9 meeting emphasizes maximizing the value of the state's investment in Alaska LNG and says "AGDC will work with strategic third parties to improve the economic viability and feasibility of Alaska LNG."

Moving forward

According to a summary of the strategic plan presented at the board meeting, results of regulatory de-risking, cost reduction and economic analysis indicate Alaska LNG "has a potential to deliver LNG to markets at a competitive price, and the Strategic Parties recommend moving forward with further development of the Alaska LNG Project."

The summary of plan assumptions further says that AGDC and the strategic parties "will continue to identify Alaska LNG Project interest from others, develop the optimal project structure, and identify a designated new Project Sponsor by December 31, 2020."

The board does not support AGDC continuing as project sponsor beyond Dec. 31, 2020.

"In the event there is not sufficient interest from Strategic Parties to lead the Alaska LNG Project, an open solicitation of interest will be made to other parties," the meeting materials said.

The board, administration and Legislature "will define an acceptable role, if any, in the Alaska LNG Project."

If there is insufficient interest by a new project sponsor, "AGDC will put the Alaska LNG Project assets up for sale in a formal RFP process."

Objectives

Objectives under the plan include maintaining maximum value of the state's investment in the Alaska LNG project, while minimizing AGDC's spend.

AGDC, as designated project sponsor, is responsible for improving the economic viability of the project through June 30, and, in conjunction with the strategic parties, determine the feasibility of project economics.

Assuming a new project sponsor has been designated by Dec. 31, AGDC's goal is to achieve a positive transition by June 30, 2021, based on a FEED, front-end engineering design, decision support package "including a defined equity structure, defined financing structure, transition to the new Project Sponsor(s) and funding for ongoing WP&B (work plan and budget), as appropriate."

Plan objectives also include managing alternative scenarios, including ongoing state equity participation, suspension and archiving of the project and/or winddown of AGDC.

Work being done by Fluor on cost estimate reduction under contract is progressing with a revised LNG plant layout review conducted with producers.

Issuance of draft deliverables for review from Fluor is underway and will continue through April. ●

Contact Kristen Nelson at knelson@petroleumnews.com

---

continued from page 2

REDOUBT SHOAL

to engage in disposal of Class II exempt waste fluids and implemented produced water gathering and disposal process.

For the 2020-21 POD, the 29th for West McArthur River, the company plans to continue evaluation of disposing produced water by converting currently shut-in wells at the field to produced water disposal wells and injecting excess produced water into the Hemlock formation; continue exploring ways to enhance production, manage production decline and increase total ultimate recovery from existing wells within the unit; and continue to permit drilling plans for the Sabre project.

The division said while the POD protects the public interest "by continuing and maintaining production from the WMRU," the company's commitments for the unit remain unchanged from the previous POD.

Sabre, free-water knockout

The division said permitting drilling plans for Sabre has been an ongoing commitment since the 2017 POD, and noted that it told the company in approving the last plan in April 2019 that it expected the company "to provide specific reasons either for deferring or discontinuing" the Sabre project and removing it from future proposed work commitments.

"Glacier has indicated that it means to pursue the project carefully, and continues to seek partners in the Sabre project all the while exploring the use of a jack-up drilling rig to drill the Sabre exploratory well," the division said, adding that under current market conditions it acknowledges the cautious approach "and anticipates periodic updates from Glacier during this POD period as to its progress regarding this project."

The division also noted that the decrease in production at the WMRU (for oil, from 326,260 barrels in calendar year 2018 to 183,338 barrels in 2019), is due in part to ESP failure. "WMRU production entails a balancing of well service costs against the value of the oil production and ESP repair would boost the amount of water that must be handled at the WMRU," the division said, noting that the company in its previous plan referred to evaluating a free-water knockout at WMRU and selecting that option over a pipeline to the Kustatan processing facility, with evaluation and design of a free-water knockout system also included in the current plan.

The division said it was its view "that Glacier's commitment to enhancing production from the WMRU is in keeping with repairing the ESP in a well that produces approximately 25% of the production from the unit," and the division is therefore requesting that "Glacier complete an analysis of the free-water knockout system and ESP repair on the Sword well as stated in its proposed 29th POD for the 2020-21 POD period and present the results of its evaluation within the last quarter of the 2020-21 POD period." The division said the analysis should include a complete evaluation of the unit's current status and options for proceeding under a proposed plan.

The division also requested that the company "create a projection that models production from all serviceable shut-in wells, including incremental unit production rates after installation of increased fluid handling capacity," which should be provided when the company submits its 2021-22 POD, "and should be reflected in the proposed 2021-22 POD." ●

Contact Kristen Nelson at knelson@petroleumnews.com

continued from page 1

KLU DEAL

waterfall, AIDEA said.

The addition of the subordinated debt obligation "does not, in our view, affect the material terms of our arrangement as a first priority lender to HEX LLC in the structure that we put in place, as we're not requesting to have any change in those terms and conditions," Alan Weitzner, AIDEA chief investment officer, told the board.

In the event that tax credits don't satisfy the DIP loan by the fifth anniversary of the purchase date, a contingent liability lien on the assets of Furie will spring to an actual liability, subordinated to any AIDEA senior debt then outstanding in the order of claims, according to the memorandum to the board.

The subordinated loan is interest free for the first two years, then interest "accretes at 7% to the extent interest is not paid in cash from tax credits. Usual and customary loan terms will control the waterfall flow of funds in AIDEA's favor and protect its security interest and repayment as the senior lender."

Deal scheduled to close June 30

HEX aims to close the transaction by June 30, but that will be subject to resolving issues with working interest owners.

"We're moving diligently to an effective date of June 30 for closure," Hendrix told the AIDEA board.

"How we're going to get there is, this week we will sign and file the acquisition agreement, the disclosure agreement, and the plan."

Hendrix said that by May 4, HEX go in front of the bankruptcy judge — Judge Laurie Selber Silverstein in the U.S. Bankruptcy Court for the District of Delaware — where the judge will hear if any parties have complaints with what was filed.

"June 9 is the plan documentation hearing that we will be basically ratifying," he said. "We can take possession by June 30 — basically a good date to basically just draw a line because there's a lot of payments due — and take over."

Hendrix said that the term sheet is an agreement with the debtors and creditors. The working interest owners have yet to sign off on the deal.

"The working interest owners, we're still working that out; as you know right now they have an agreement that's in place that we're going to continue to work with them and get a resolution," Hendrix said. "There's another working interest party in place that's 20%, which they basically forfeited to Furie years ago — so Furie, until they pay back the $800 million these creditors have spent, they don't come back at 20%."

"The working interest owners have no say in the bankruptcy court?" asked AIDEA Board Chair J. Dana Pruhs.

"No," Hendrix said. "They could still come in and talk and the judge will rule on what they say. We're hoping between now and then they come back and they agree to the agreements that were previously agreed."

"So there's already been one agreement with them?" Pruhs asked.

"More than one," Hendrix said.

"It will be defined," Weitzner said. "For it to come out of bankruptcy, they have the ability to object in the process, but the closing that we're focusing on for June 30 would be in structuring our loan that enables John (Hendrix) to have the capital to acquire the company and one of the conditions is ultimately that this is being sold with those issues fully defined to John for his operation."

"So, you sign off on the agreement with the working interest owners if there is one?" Pruhs said.

"That will be part of what we're looking at," Weitzner said. "We need it to be defined."

"Or we could just do it here and say, 'look, we understand that this is the agreement, and we're going to work with the best resolution possible' ... I mean they're not going to get more than 20%, and then that way, they also have to — if we go to that — as a full working interest owner you have to pay your costs," Hendrix said. "Under the current one that we looked at, they didn't have to pay costs; now they have to pay costs if they revert ... which some people think is very valuable."

When asked by Pruhs to identify the working interest owners for the record, Hendrix said he would have to refer to his files to name them all, but he said they were known as the RWIO group.

According to Feb. 18 court filings related to a now defunct acquisition by foreclosure agreement between the debtors and Kachemak Exploration as acquirer, the RWIO parties are Giza Holdings LLC; Taylor Minerals LLC; Allen Lawrence Berry; the 2007 Allen Lawrence Berry Trust; and Danny Davis. There was a related settlement agreement and mutual release filed, but the Kachemak transaction subsequently fell through.

State royalties, Alaskan jobs

Pruhs asked if there were production royalties in place.

"Yeah, there's overrides ... they haven't changed at all," Hendrix said. "There's 12 and a half percent the state has a royalty interest on, and 12% which a number of parties have interest in."

"Does the state and those private parties have to sign off?" Pruhs asked.

"The state has to sign off," Hendrix said.

"Any feedback from the state?" Pruhs asked.

"The initial conversations I've had is that they're supporting seeing an Alaskan operator come in on that field," Weitzner said.

Pruhs asked about out of state workers.

"We do have Peak, which is owned by Bristol Bay Native Corp. has a number of workers there under contract," Hendrix said. "As I've stated, I want to have an Alaskan owned company. I have to be mindful of the transition when you take over a company, to bring people on board on HEX and our values, and the current players out there right now have done a superb job, managing it this past winter without freezing that flowline up."

Pruhs asked if HEX will increase the number of jobs.

"We see a great opportunity to ... it's called studying the rocks and getting back to base management," Hendrix said. "If we look at the base of the assets that we have, the reserves, we can grow there."

"If we study the rocks, we can grow and look at growing opportunities and provide more gas and possibly oil," he said. "Right now this is a gas only play; there's no condensate oil; it's very clean; if there's a rupture in the line there's nothing that's going to get in the environment or anything."

"But the sad thing of it is that if HEX does not move forward, this could go into Chapter 7 and it would be mothballed, and it would be shut-in, and then whoever has to pick up the crumbs has to come up again at a greater cost," Hendrix said. "Might get it for a cheaper price, but it's going to be a greater cost to humans and Alaska's economy and the project." ●

Contact Steve Sutherlin at ssutherlin@petroleumnews.com

● PIPELINES & DOWNSTREAM

FERC issues 2nd delay for Trans-Foreland

Proposal would bring Kenai LNG Plant out of warm shutdown to provide natural gas for use at adjacent refinery, using imported LNG

By KRISTEN NELSON

Petroleum News

The Federal Energy Regulatory Commission issued a notice April 8 suspending the environmental review schedule for Trans-Foreland Pipeline Co.'s application for the Kenai LNG Cool Down Project in Nikiski.

FERC said a revised schedule, issued Dec. 12, identified an April 24 environmental assessment issuance date, based on Trans-Foreland providing complete and timely responses to data requests.

FERC's original schedule called for release of an EA for the project Dec. 13, with the 90-day federal authorization decision deadline March 12.

FERC said that in a March 18 response to a data request from FERC staff, Trans-Foreland said it was pursuing an equivalency determination from the U.S. Department of Transportation's Pipeline and Hazardous Material Safety Administration pertaining to the trim vaporizer the company proposes to locate within the liquefied natural gas storage tank impoundment area.

"Because the PHMSA equivalency determination is necessary for completion of the EA, the Commission will suspend the environmental review schedule for the project," FERC said, with an additional revised EA schedule to be issued once staff has reviewed the PHMSA equivalency determination.

This is not a suspension of staff work on the EA, FERC said; review will continue based on information filed to date.

PHMSA did issue a letter of determination in late March, but that determination was for project siting. FERC said it did not address the issue of the trim vaporizer.

Goal fuel gas for refinery

In an April 2019 project description, the company said Trans-Foreland Pipeline Co. owns the Kenai LNG Plant, which is operated by Trans-Foreland's affiliate Tesoro Logistics GP. Trans-Foreland is a wholly owned subsidiary of Tesoro Alaska Co., formerly Andeavor, and since 2018 part of Marathon Petroleum Corp.

This is not a suspension of staff work on the EA, FERC said; review will continue based on information filed to date.

The project includes installation, construction and operation of a new boil-off-gas booster compressor unit, trim vaporizers, ancillary facilities, additional LNG transfer system valves and equipment to manage existing BOG facilities.

The project will allow the Kenai LNG facility to provide up to 7 million standard cubic feet per day of natural gas to the adjacent Kenai refinery.

Export from the Kenai LNG facility ceased in 2015 as Cook Inlet natural gas supplies declined and the international LNG industry grew.

The Kenai LNG plant was the first in the nation to export LNG when it began operation in the late 1960s.

In 2018 ConocoPhillips, then the sole owner of the LNG plant, sold it to Andeavor, formerly called Tesoro, operator of the nearby oil refinery. Andeavor merged with Marathon Petroleum Corp. in 2018 under the Marathon Petroleum name.

Trans-Foreland or an affiliate will apply to the Department of Energy's Office of Fossil Energy for authorization to import LNG before the project enters service.

A year ago, the company said that pending regulatory approval it expected to begin construction in the third quarter of 2019 and have the project in-service in the fourth quarter of 2020. ●

Contact Kristen Nelson at knelson@petroleumnews.com

LAND & LEASING

Hilcorp surrenders 5 Cook Inlet leases

ALASKA LEASE REPORT

The Alaska Division of Oil and Gas March lease report had activity on only five leases, all surrendered by Hilcorp Alaska on March 2. All five are on the southern portion of the Kenai Peninsula in Southcentral Alaska; none are adjacent to existing production.

The most southerly, ADL 392254, is southeast of the North Fork field, on the southern border of the Cook Inlet lease sale area.

A block of three surrendered leases, ADL 392244, 392246 and 392247, are east of the Deep Creek field, with one abutting the eastern border of the Cook Inlet sale area. The fifth lease, ADL 392249, is the most easterly of a group of leases southeast of Deep Creek and abuts the edge of the Cook Inlet lease sale area on the northern edge of the sale area's most easterly block.

Hilcorp acquired the leases in a May 2012 state oil and gas lease sale; all had expiration dates of April 30, 2023. Hilcorp's per-acre bids on these leases ranged from $29.75 to $60 per acre.

—KRISTEN NELSON

continued from page 4

TERMINAL SPILL

boat harbor.

The unified command said April 15 that engineers, inspectors and operations technicians were working to identify the flow route for the spill, with resources arriving at the terminal to excavate the area around the sump.

Most of the sheen is contained behind the Berth 4 area with sorbent boom and sweeps, and two layers of hard yellow boom, ADEC said, with oily water being skimmed from a corralled 30-foot by 30-foot area inside the boom, with boom systems being deployed outside the boomed area and trained fishing vessels deployed to catch any escapement.

The unified command said April 15 that 14 vessels of opportunity and a number of Alyeska workboats were conducting response activities on the water, placing boom, operating skimmers, providing surveillance, swapping out boom when needed and providing logistical support.

As of 1 p.m. April 15, the unified command said some 610 barrels of water/oil mix had been recovered. "An overflight this morning confirmed there is no noticeable sheen outside of the boomed area," unified command said in a release.

More than 180 people are involved including personnel in the field, at the command post and remotely.

Unified command said there were no operational impacts to the trans-Alaska oil pipeline.

—KRISTEN NELSON

Contact Kristen Nelson at knelson@petroleumnews.com

continued from page 1

OIL MARKET

"The people whose lives depend on this vital industry, many of whom work in our home countries, are waiting on us; the entire oil sector is expectant; the whole world is watching us," said OPEC Secretary General HE Mohammad Sanusi Barkindo during the April 12 meeting.

Other non-OPEC oil producing countries, including Norway, Canada and the United States, also envisage significant production cuts, in response to the dramatic lowering of oil prices following a sharp fall in oil consuming activities. On April 13 Roger Diwan, vice president, financial services, for IHS Markit, commented that the total overall supply drop could amount to as much as 14 million barrels per day in May and June. An April 13 article in the Financial Times indicated that a drop of more than 15 million barrels per day is possible, and that OPEC delegates had suggested that the purchase of oil for filling various strategic national reserves could cause the overall global supply to drop by as much as 20 million barrels per day.

Uncertain impact

The impact of the production cuts on the oil market is subject to significant uncertainty, both because of uncertainty over the total production cuts that will emerge, and over the ultimate impact of Covid-19 on oil demand. The demand drop has been estimated to potentially be as high as 35 million barrels per day. However, on April 12 Diwan indicated that the drop might be 20 million barrels per day. Wood Mackenzie has predicted a fall in demand of 15 million barrels per day in April, with demand recovering somewhat later in the year. The Financial Times has reported that oil traders have considered a demand drop of up to 30% — according to the Energy Information Administration, global oil demand in 2019 was around 100 million barrels per day.

And, presumably in anticipation of oil demand starting to recover as countries "flatten the curve" of Covid-19 infections, OPEC and Russia agreed to gradually relax the production cuts. From July 1 to Dec. 31 the cuts will fall to 7.7 million barrels per day, then dropping further to 5.8 million barrels per day over the subsequent 16 months. Thus, the agreement will end on April 30, 2022, albeit with a review in December 2021 over whether to extend the agreement.

Given the uncertainties in the data and questions over whether the production cuts will be sufficient, the oil market remained jittery following the April 12 OPEC and Russian agreement. After a short rise in the price after the announcement of the agreement, the price juddered downwards. By April 15 Brent Crude had slipped to $27 per barrel, while West Texas Intermediate had dropped to $20 per barrel.

Production quotas

Since the beginning of 2017 OPEC and some non-OPEC countries, in particular Russia, have been operating a system of oil production quotas, holding down oil production to try to stabilize the global oil price at a level that is both profitable and maintains the countries' economies. In early March, as the Covid-19 pandemic was crushing oil demand, Saudi Arabia proposed additional production cuts of 1.5 million barrels per day. Russia, however, refused to cooperate. In retaliation for Russia's response, on March 8 Saudi Crown Prince Mohammad bin Salman bin Abdulaziz Al Saud ordered Saudi Arabia's oil production to increase by 2.5 million barrels per day, starting in April. The impending flood of oil, coupled with elevated marine transportation pricing, triggered a collapse in the global oil price, with the specter of negative oil pricing as available oil storage fills. Both Russia and Saudi Arabia claimed that they could sustain the low price scenario for an extended period of time.

According to a CNBC report, Russia said that it could increase its oil production by 200,000 to 300,000 barrels per day in the short term, and by 500,000 barrels per day in the long term. The United Arab Emirates said that it could increase its production by 1 million barrels per day, the CNBC report said.

Reaction to price war

On March 20 a group of U.S. senators, including Alaska's Sens. Lisa Murkowski and Dan Sullivan, sent a letter to U.S. Secretary of Commerce Wilbur Ross, urging an investigation of the flooding of the oil market by Saudi Arabia and Russia.

On April 1 the global oil price hit an 18 year low. Thus, with prices falling below viable levels in many major oil producing regions, much of the global oil industry came under threat.

President Trump became involved in the debacle, stepping in to push Russia and Saudi Arabia into making production cuts. At one point Russia indicated that it would agree to reduce its oil production if the United States would do the same.

A new agreement

Then, on April 10, OPEC and most of its allies agreed on a total production cut of 10 million barrels per day. However, Mexico declined to contribute its share of the proposed cuts. On that same day an online meeting of energy ministers from the G20 countries supported the OPEC proposal by emphasizing the need to stabilize the energy market through international cooperation.

"The impacts on energy markets, in turn, further deepen the global economic crisis and hinder sustainable development," the ministers said, reflecting on the ramification of the Covid-19 pandemic on the those energy markets. "We agree that ensuring energy market stability and ensuring affordable and secure energy are key in addressing the health, well-being and resilience of all countries throughout the crisis response and recovery phases."

And on April 11 a group of U.S. senators, include Sullivan, conducted a call with Saudi Arabia Energy Minister Prince Abdulaziz bin Salman Al Saud and Deputy Defense Minister Khalid bin Salman bin Abdulaziz Al Saud, urging the importance of stopping the oil price war. In late March Sens. Sullivan and Cramer had introduced legislation to relocate U.S. troops away from Saudi Arabia, in response to Saudi Arabia's destabilization of energy markets.

On April 12 a meeting of OPEC and its allies finally made the agreement over production cuts. A compromise agreement with Mexico resulted in cuts of 9.7 million barrels per day, a little below the 10 million barrels per day that had originally been envisaged. ●

Contact Alan Bailey at abailey@petroleumnews.com

PIPELINES & DOWNSTREAM

TMX faces new court test

Forget the distractions of coping with a pandemic, four First Nations in British Columbia have demonstrated they are not ready to give up their legal fight against the Trans Mountain pipeline expansion, TMX.

They have each filed applications with the Supreme Court of Canada in a bid to overturn a Feb. 4 Federal Court of Appeal verdict that found the Canadian government cabinet's approval of the work to increase capacity to 890,000 barrels per day of oil sands bitumen from the current 300,000 bpd.

Two of the leaders said they are challenging the adequacy of Indigenous consultation which they argue would "change the way consultation and consultation cases happen in Canada," removing their efforts to protect aboriginal rights.

They also argue that the Canadian government, which owns the Trans Mountain system, is unable to objectively assess the "adequacy of their own consultation."

In the midst the latest legal skirmish, construction continues on the C$12.6 billion TMX project, while Prime Minister Justin Trudeau said he has no intention of halting the work.

Trudeau and British Columbia government health officials say they will ensure that all necessary steps are taken to protect the workers from exposure to COVID-19.

—GARY PARK

continued from page 1

ANS PRICING

According to the Alaska Department of Revenue, the average spot price of Alaska North Slope crude was $65 in January, $54 in February and $33 in March. In January and February ANS crude tracked closely with Brent Crude, with WTI following a similar trajectory, but at a lower level. In March all three prices somewhat converged as global oil prices slumped. Then, starting in early April, Brent moved higher than the other two prices, while ANS tracked close to WTI. As of April 14, ANS West Coast was trading at $19, WTI at $20, and Brent at $29.

On April 7 the Department of Revenue reported a particularly low ANS crude price of $18 per barrel. However, the department later corrected this to $24 per barrel.

The West Coast market

Most North Slope crude is delivered by tanker to refineries on the U.S. West Coast. And the West Coast oil market is disconnected, and hence distinct from, the oil market to the east of the Rocky Mountains where the WTI pricing prevails. In an interview with Juneau news outlet KTOO, Alaska Chief Economist Dan Stickel commented that ANS crude has similar qualities to Brent crude and is traded in a similar manner.

Economist Ed King told Petroleum News that he thinks the relative lowering of the ANS crude price may reflect a reduction of imported oil into the West Coast market, as refinery throughput drops. Rather than there being some link between WTI and ANS, it is likely that both are being impacted similarly by an oversupply of oil — the ANS may return to the Brent level once California lifts its travel restrictions, King suggested.

Larry Persily, a former state and federal official who follows the Alaska oil and gas industry, also thinks that the current ANS pricing trend reflects a major drop in demand for refined oil products on the West Coast. A significant portion of the crude oil used on the West Coast is imported, rather than being shipped from Alaska — the price of the Alaska oil, a minority feedstock, has been protected by oil imported at a higher price than that of oil in the WTI market. Now the Alaska oil has to compete on price with that imported oil at a time when the global oil price is dropping in response to a global fall in oil demand — West Coast refineries have cut back on imports, but those imports have dropped in price, Persily said.

—ALAN BAILEY

Contact Alan Bailey at abailey@petroleumnews.com

continued from page 1

CONOCO CUTS

They said production curtailment decisions would be made on a month by month basis, subject to operating agreements and contractual obligations,

The reason the Alaska North Slope didn't see any production reductions in May was because trading for ANS crude begins a little earlier than it does for Lower 48 and Canadian crude, and the ANS price at the time was acceptable.

A Petroleum News source in the company said there will be natural attrition in production from the North Slope due to the reduction in development drilling that was previously announced, although ConocoPhillips expects output to stay relatively flat for 2020.

Thomson condensate production rising

Perhaps Point Thomson can help to mitigate some of the future decline from ConocoPhillips operated fields.

According to a Petroleum News source close to ExxonMobil "two trains are now operating" at the company's eastern North Slope Point Thomson unit. The company, he said, will soon see an increase in daily production of condensate from around 5,000 barrels per day to 10,000, as each train is supposed to be capable of 5,000-6,000 bpd.

Since the term train is usually associated with future LNG production from Point Thomson, it likely means the company is keeping two compressors working — over the years ExxonMobil has told the state that production has been impacted by gas injection compressor availability and reliability.

Each compressor allows the field to produce 5,000-6,000 barrels a day. In its most recent plan of development for Point Thomson, ExxonMobil told the state that it is addressing issues in its gas injection equipment, has begun installing upgraded components and expects to receive and install the remaining equipment during the 2020-21 period.

The source also said much of that equipment "has been installed and is running really well."

Responding to falling prices, demand

The actions ConocoPhillips is taking on the North Slope and elsewhere are in response to the global oil market downturn.

ExxonMobil recently announced 15% cuts in operations spending worldwide, including Alaska.

Lance said ConocoPhillips was deferring production "where we have a compelling economic reason to do so. These actions reflect our view that near-term oil prices will remain weak, largely due to demand impacts from COVID-19 and continued oil oversupply. We are well-positioned with flexibility to take actions that we believe maintain our relative competitive advantages, as well as our ability to resume programs depending on the timing and path of a recovery."

At Surmont, the company is currently cutting back production due to low Western Canada Select prices. By May, it expects to reduce production by approximately 100,000 barrels of oil per day gross to 35,000 barrels a day gross.

In the Lower 48 beginning in May, ConocoPhillips plans to begin curtailing oil production across the region, initially cutting about 125,000 barrels a day gross.

Significant flexibility

"Over the past few years, we worked very hard to position our company with significant flexibility across our capital, operating, distribution and balance sheet channels," Lance said. "We entered this downturn with several competitive advantages, including a very strong balance sheet with over $14 billion of liquidity, a diverse portfolio with low capital intensity, and significant financial and operating flexibility. We believe this puts us in an advantaged position to take rational, economic actions, including voluntary curtailments that align with reasoned views of the market."

With the actions announced April 16, "we have exercised a total of over $5 billion of flexibility compared to our 2020 plan, while retaining additional flexibility, if needed. We're doing the right things to protect shareholder value during this downturn, while maintaining our ability to create long-term value for shareholders when market conditions recover," he said.

"Importantly, I want to recognize our employees, contractors and other stakeholders for their continued support," Lance added. "The combination of COVID-19 and the oil market downturn has been difficult on industry and on stakeholders everywhere. As we manage through this unprecedented event, ConocoPhillips' priorities are to protect the health and safety of our stakeholders, help mitigate the spread of COVID-19, and safely execute our business plans." ●

Contact Kay Cashman at publisher@petroleumnews.com

Petroleum news

Advertiser Index

Companies involved in Alaska's oil and gas industry

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

continued from page 1

SEISMIC PERMITS

was notified that the project was delayed so a decision won't be issued. SAE will have to reapply for next season.

In SAE's application, the project was located solely on state lands approximately 20-50 miles east of Deadhorse and 55-plus miles west of Kaktovik. The area of the proposed seismic survey boundary was west of the Staines River encompassing up to 891 square miles. SAE had planned to conduct operations during the winter 2019-2020 tundra travel season with an anticipated acquisition start date of Jan. 10.

Narwhal 3D survey

The North Slope Narwhal 3D program was described in the division's approval letter for the miscellaneous land use permit to conduct geophysical exploration on state of Alaska, Kuukpik Inc. and federal lands south of the village of Nuiqsut "in an area west of the Kuparuk River unit including portions of the Colville River unit and Greater Moose's Tooth unit." The division's approval was only for the portion of the survey, 65.7 square miles, to be done on state lands.

Although SAE did not say which oil company the Narwhal survey was being done for, it encompasses a chunk of ConocoPhillips' named and operated Narwhal prospect, which contains a portion of the Nanushuk reservoir and adjoins Oil Search's Nanushuk project in the Pikka unit on the east.

The permit was effective Jan. 6 and ended at tundra closing.

Kuukpik 3D survey

Effective Oct. 24, the division approved a modification of SAE's Kuukpik 3D seismic survey that expanded the North Slope project from a 490 square mile acquisition to a 514 square mile program.

One-third of the survey was completed last winter, and the rest was expected to be finished in the winter that is just ending.

The survey was on the east side of the Colville River, extending south from the Horseshoe No. 1 well where Armstrong Energy discovered oil in the Nanushuk formation in 2017.

Armstrong has since sold its interests in the area to the current operator, Oil Search.

The leases involved are on state land held by Oil Search, Repsol, ConocoPhillips, Pantheon/Great Bear and SAE.

The miscellaneous land use permit to conduct geophysical exploration was issued March 15, 2019, with an ending date of 2020 tundra closure.

Concerned with the safety of its staff and of people on the North Slope, on March 26 in the face of the COVID-19 pandemic, the Alaska Department of Natural Resources cancelled the remainder of its 2019-20 field season for monitoring snow conditions for off road winter tundra travel, relying instead on information from people conducting off-road operations, the use of webcams and the monitoring of weather forecasts to make tundra closure decisions.

Oil Search's VSP permits

On Dec. 24, the division approved two miscellaneous land use permit applications from Oil Search for the Mitquq 1 and Stirrup 1 North Slope exploration wells to conduct walkaway vertical seismic profiles and microdeformation fracture mapping, more commonly known as a tiltmeter survey, at each of the wells.

The geophysical exploration surveys, the company told the division, will allow it "to obtain a better understanding of fracture geometry and reservoir characteristics in the exploration area," which was all east of the Colville River.

The Mitquq permit was effective Dec. 6; the Stirrup permit Dec. 20. Both were in effect to tundra closure.

All drilling, testing and geophysical work was completed, and the crews were expected to be off location by mid-April.

—KAY CASHMAN

Contact Kay Cashman at publisher@petroleumnews.com

continued from page 1

MUSTANG FINANCING

The field was offline for December, January and February per the Alaska Oil and Gas Conservation Commission's most recent North Slope oil production numbers.

Latest agreement

In a board resolution passed on Jan. 16, AIDEA agreed to change the terms of financing for Mustang to accommodate delayed loan payments by Caracol Petroleum, the field's majority owner.

"I want to thank the AIDEA Board and Gov. Dunleavy for assigning a high priority to fixing this problem," BRPC CEO Majid Jourabchi said after that resolution passed. "Brooks Range and our contractors on the North Slope are completely aligned in what needs to be done, and the urgency to have it be so."

Caracol is owned by Singapore-based Alpha Energy Holdings Ltd.

"The AIDEA mission to advance economic development and create job opportunities can sometimes run into delays, disappointments, and missed production deadlines," Pruhs said when announcing the revised financing terms Jan. 16. "Brooks Range startup problems and the oil tax credits veto three years ago, along with other factors, created the largest workout situation at AIDEA as identified by the Dunleavy transition team in early 2019. Producing from these state oil leases in 2020 requires better understanding of North Slope challenges, reserve base lending, and capital requirements."

AIDEA was originally involved in Mustang as an investor. However, in 2019 its investment was restructured into a loan: $64 million for field development plus $6 million in interest, totaling about $70 million. The gross expected value of oil production from Mustang was $1.3 billion.

Loan payments were scheduled to begin Oct. 1, 2019, several months after planned startup. Interest rate on the loan was 8%, to be paid in 29 level quarterly installments,

Under the terms of the January agreement, the interest rate was reduced to 6%, with the first interest payment deferred until three months after closing. The loan principal was effectively reduced to $63.6 million.

Initial payments were interest only, with principal plus interest payments starting in the seventh quarter of the schedule. Principal payments were accelerated, starting in the 14th quarter.

AIDEA also committed to make up to an additional $35 million in loan financing available after July 1 to support Mustang development drilling, contingent on oil production targets being met and the establishment of a debt service reserve fund.

Alpha investment required

The new loan was also contingent upon Alpha investing $60 million in Mustang in the first quarter of this year and advancing at least $15 million to Caracol in the form of equity or a senior secured loan.

Alpha also had to strengthen management and management oversight of the Mustang project.

Final agreement was needed by all BRPC creditors by the end of January, AIDEA said in January.

No additional public announcements have been made by BRPC, in part because of the current crisis with low oil prices and the coronavirus, a source close to the company told Petroleum News April 15.

BRPC drilled the Mustang discovery well in January 2012 in the Southern Miluveach unit, adjacent to the southwest edge of the Kuparuk River unit.

—KAY CASHMAN

Contact Kay Cashman at publisher@petroleumnews.com

continued from page 1

XCD STEPS

company said in an April 9 quarterly activities report for the period ended March 31 which was filed with the ASX.

"Although the short term impact to the company of these events has not had a material effect on the business, the changes to the investment environment and global energy demand and therefore energy prices has necessitated the company to review its exploration programme and expenditure over the intervening period," the company said.

XCD said its most significant expenditures for the year — being the balance payable for four additional leases it acquired late last year and its 2020 annual lease rental fees — have already been made, adding, "the assets of the company are now secured through to March 2021 with no further expenditure commitments."

The company said it remains focused on cost discipline and will continue to closely monitor and reduce its cost base.

XCD's non-executive directors have agreed to defer 50% of their fees effective from April 1, and the managing director has agreed to use accrued annual leave equating to approximately a 50% net deferment of salary over the next two months.

The company said its board is committed to re-assessing the situation prior to May 31, "in what is a rapidly changing environment."

"All other non-essential costs have or are being eliminated from the business over the coming months," it said.

Farmout campaign suspended

XCD said it has decided to temporarily suspend its current farmout effort for its Alaska prospects until there is further visibility on the direction of both oil prices and capital markets.

The company commenced its farmout campaign in February, in Houston at winter NAPE.

It said its offering was "well received with several significant oil and gas companies not currently exposed to the Nanushuk play in Alaska visiting XCD's booth."

"Clearly however, the investment climate for all oil companies has changed significantly over the last month," the company said.

XCD said it has decided to temporarily suspend its current farmout effort for its Alaska prospects until there is further visibility on the direction of both oil prices and capital markets.

XCD maintains that the circumstances it is currently facing are temporary, and that the company may likely emerge in a stronger position.

"The longer-term outlook for oil prices and the potential shift away from unconventional shale drilling in the United States over a sustained period of low energy prices may ultimately be to the company's advantage, however the current environment is dynamic and there is little visibility at present on what will be the long term effect on the company," XCD said.

Regional drilling activity engenders optimism

XCD has been closely watching drilling activity in the region by Oil Search and ConocoPhillips, for clues to the prospectivity of the Nanushuk formation.

On March 31 Oil Search announced it had completed the testing of the Mitquq ST1 and the Stirrup 1 exploration wells, both targeting the Nanushuk formation.

XCD said: "the headline flow rates of 1,730 barrels of oil per day and 3,520 bopd respectively from single stimulated zones is highly encouraging and is a further validation of the prospectivity of the Nanushuk play in Alaska."

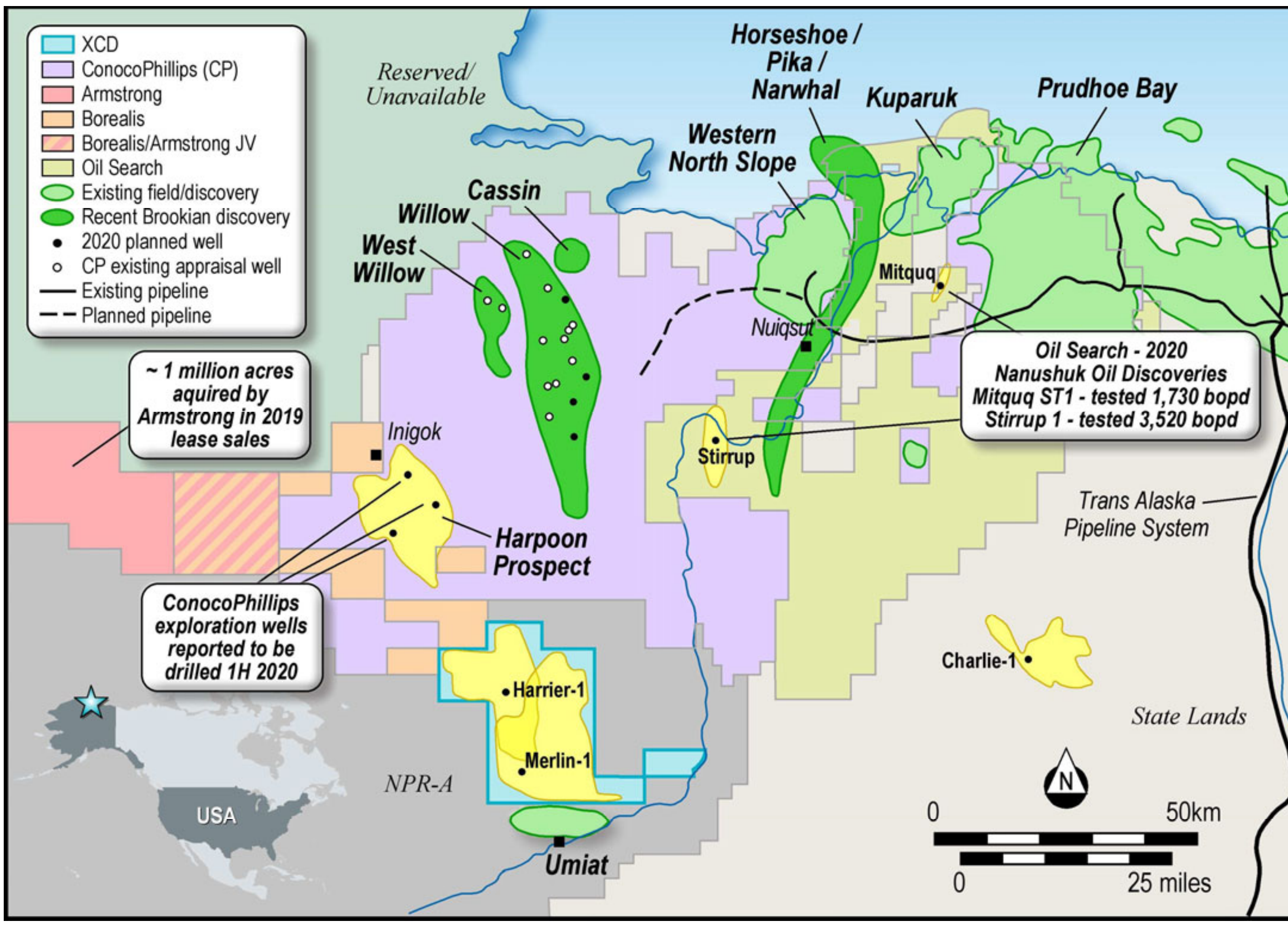
XCD said that drilling by ConocoPhillips in NPR-A will provide further insight into XCD prospects. "Of most relevance to XCD is ConocoPhillips' previously announced intention to drill up to three exploration wells on its Harpoon prospect which lies approximately 15 km to the north west of XCD's Harrier prospect," the company said. "XCD interprets the Harpoon Prospect (based on USGS 2D seismic data) to be on the same sequence boundaries as the Harrier Prospect and success at Harpoon would likely materially upgrade XCD's Harrier prospect."

ConocoPhillips Alaska said April 8 that it terminated its off-road winter drilling season in NPR-A early — after completing Tinmiaq 18 and 20 exploration wells, as well as a rank exploration well in its Harpoon prospect, Harpoon 2.

ConocoPhillips had hoped to complete up to three wells at Harpoon and four Tinmiaq wells this season.

—STEVE SUTHERLIN

Contact Steve Sutherlin at ssutherlin@petroleumnews.com



XCD's Peregrine prospect is a Nanushuk play within NPR-A. (Map correction: ConocoPhillips completed only one well at Harpoon this season.)

continued from page 1

ALBERTA CHALLENGES

and between 400 and 3,100 dying from the disease by the end of summer — both estimates that many think have been overstated.

Add to that the latest unemployment numbers showing a loss of 117,000 jobs (mostly in the service sector after tens of thousands in the oil patch had already been laid off), combined with the collapse of oil prices and the failure of Prime Minister Justin Trudeau's Canadian government to deliver on Finance Minister Bill Morneau's March 25 promise that an aid package would be coming in "hours, potentially days."

Jobless rate could hit 25%

Faced with such a bleak employment outlook, which Kenney said could see the jobless rate soar from 8.2% to 25%, Kenney seized the controls on April 10 by adding C$1 billion to a budget he has warned could end in a C$20 billion deficit to create work for thousands to repair roads, schools, bridges and potholes.

"We cannot afford to lose a day when we need this money spent in the economy now," he said, adding the extra cash means a total of C$13 billion has been directed to help Albertans during the pandemic, either through direct subsidies or deferrals on taxes and other payments.

SONYA SAVAGE

Although Alberta is still rated as the wealthiest of Canada's 10 provinces with access to even more financial aid, Kenney noted "our economy is still in contraction so it doesn't make sense to blow all of our fiscal power ... right now."

Impact of cutbacks

He gives no indication of gambling on an end to the torrent of negative economic news stemming from whatever good might emerge from the deal reached by OPEC and its allies on April 12 to cut 9.7 million barrels per day from their production, followed by a gradual scaling back until April 2022.

A majority of international observers were quick to express doubt that, given their past record, the OPEC+ group will even achieve a cutback that amounts to very little given the collapse of global demand.

Alberta Energy Minister Sonya Savage said her government will make no move to further curtail production which is already 400,000 bpd below the 3.18 million bpd allowed under mandated limits set at the start of 2019.

Raymond James analyst Jeremy McCrea said the market's best hope of a modest price recovery now rests with the Group of 20 developed nations.

"What you need to see is a G20 cooperative action plan that is not just words, but action," he said.

However, Canada's Natural Resources Minister Seamus O'Regan said Canada promised no production cuts during a G20 virtual meeting on April 10, telling reporters that the G20 call was "about finding the mechanisms to achieve price stability."

Alberta Energy Minister Sonya Savage said her government will make no move to further curtail production which is already 400,000 bpd below the 3.18 million bpd allowed under mandated limits set at the start of 2019.

She said that by May Alberta is likely to see another 1 million bpd shut in as Canada's storage facilities reach their projected limit of 40 million barrels (compared with the U.S. Strategic Petroleum Reserve limits of almost 800 million barrels).

With North American storage nearing capacity and refineries already shrinking their crude intakes, Savage noted "it will take a while to clear the glut," though she clings to hope that the OPEC+ deal will go a "long way" towards reaching a point of production-and-demand balance.

She also hopes the pact will end the month-long price war between Saudi Arabia and Russia, which prompted Kenney to accuse OPEC of engaging in "predatory dumping" of their crude in North America.

But Kenney has reason to question whether Canadian Prime Minister Justin Trudeau is on his side in attacking Saudi Arabia. Earlier in April the Trudeau administration lifted a moratorium on approving new permits for military exports to Saudi Arabia after renegotiating some terms of a controversial C$14 billion deal to sell light-armored vehicles to Riyadh which critics said could easily be used to suppress human rights.

—GARY PARK

Contact Gary Park through publisher@petroleumnews.com

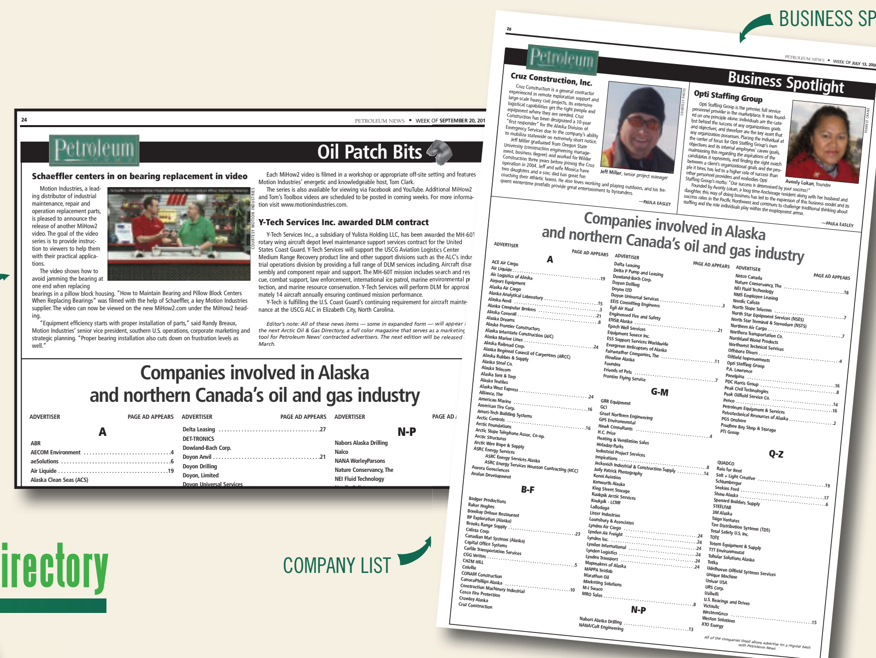
NEED TO STRETCH YOUR DOLLAR?

Becoming a contracted advertiser

To become a Petroleum News 'contracted advertiser' you simply have to agree to run **12 ads of any size over a 12-month period. In return we'll give you this additional marketing exposure:**

Exposure in the weekly Petroleum News

- You make the List
- Your employees are spotlighted
- Your news gets in Oil Patch Bits



BUSINESS SPOTLIGHT

OIL PATCH BITS

COMPANY LIST

Exposure in the semiannual Arctic Oil & Gas Directory

STANDLAONE PHOTOS

- Your news gets featured
- Company photos promote your business
- You're included in the buyer's guide

LISTINGS SECTION

NEWS ITEMS

PHOTO FEATURES

CO-OP ADVERTISEMENTS

Exposure in co-op ads for your customers

As a contracted advertiser your company would be listed in the co-op ads that run at least 12 times a year in Petroleum News, congratulating oil companies for new discoveries, field start-ups, entering Alaska, and welcoming new oil company presidents or managers to the state.

COMPANY PROFILES

WEB ADS

If your annual contract exceeds $7,100

We'll profile your company We'll work with you on a two-page Q&A company profile that will appear in the Arctic Oil & Gas Directory. Afterwards, you can frame it or use it as a company brochure or flyer.

We'll give you free online advertising When Petroleum News readers click on articles each week they will see your ad, which will appear in rotation on the current story pages. The size of your annual contract determines the size of your online ad.

Contact | Renee Garbutt, Phone 281-978-2771 | Susan Crane, Phone 907-770-5592