



page 4 Chugach Electric Association names Arthur Miller chief executive officer

## Mull scholarship funds wanted; lease action on North Slope

THE GROUP DOESN'T HAVE an official name but is best described as friends, admirers and colleagues of veteran Alaska North Slope geologist Charles "Gil" Mull, who passed away Oct. 4, 2021.

The group of some 85 individuals is seeking meaningful ways to honor Gil. One of its first major accomplishments was the June placement of a remembrance plaque in front of the Arctic Interagency Visitor Center in Coldfoot, on the southern slopes of the Brooks Range.

The group includes USGS geologist Dave Houseknecht who is co-chairing a session dedicated to Gil at the October Geological Society of America conference in Denver, in which he and his colleagues have 12 talks and six posters. He is working with Justin Strauss (Dartmouth College) and Marwan Wartes (Alaska's Division of Geological and Geophysical Surveys).

Initially the group was meeting monthly but have cut back to quarterly, having formed several subcommittees to tackle various projects.

see INSIDER page 5

## RCA issues order transferring North Fork pipeline to Gardes

Effective July 27, the Regulatory Commission of Alaska issued a final order transferring Cook Inlet Energy's controlling interest in Anchor Point Energy, owner of the North Fork unit pipeline, to Gardes Holdings, which essentially owns the North Fork unit leases and assets via Vision Resources and Vision Operating.

Cook Inlet Energy is a Glacier Oil and Gas company. On May 1, 2021, Vision Operating took over as operator of the 2,602-acre North Fork unit, which consists of five state leases on the southern Kenai Peninsula.

Unlike every other hydrocarbon producer that has entered Alaska, Lafayette, Louisiana-based Robert "Bob" Gardes is first and foremost looking for natural gas, not oil.

see PIPELINE TRANSFER page 9

## AOGCC amends Deep Creek unit Happy Valley Beluga Tyonek rules

The Alaska Oil and Gas Conservation Commission has amended its pool rules for the Happy Valley Beluga Tyonek gas pool in the Deep Creek unit to eliminate a previous 10-acre well spacing requirement. Wells still cannot be drilled within 1,500 feet of the external boundary.

Hilcorp Alaska is the working interest owner and operator at Deep Creek, one of Cook Inlet's smaller gas fields.

In June, the most recent month for which AOGCC production data is available, Deep Creek averaged 3.2 million cubic feet per day, 1.5% of inlet natural gas production in that month. AOGCC pool statistics on Deep Creek provide background on the field, which Union Oil Company of California brought into commercial production in late 2004. Production peaked at 13.5 million cubic feet per day in early 2005. Hilcorp became owner and operator Jan. 1, 2012.

In an Aug. 2 administrative approval, the commission said current spacing in the pool is 10 acres — along with the min-

see POOL RULES page 7

### FINANCE & ECONOMY

# ANS still +\$100

Prices tumble as US crude stock builds, GDP falls 2 consecutive quarters

By STEVE SUTHERLIN

Petroleum News

Alaska North Slope crude hung precariously on the edge of \$100 per barrel Aug. 3, as a price swoon continued to dominate worldwide trading of the commodity.

ANS slid \$3.96 to close at \$100.34 per barrel. West Texas Intermediate flirted with the \$90 line, closing \$3.76 lower at \$90.66. Brent also fell by \$3.76, closing at \$96.78.

A surprise swelling of U.S. inventory weighed on the markets.

For the week ending July 29, U.S. commercial crude oil inventories — excluding the Strategic Petroleum Reserve — jumped 4.5 million barrels

The national average for regular gasoline fell 3 cents to \$4.16 per gallon Aug. 3, according to AAA. It was the 50th consecutive day of falling prices.

from the previous week, the U.S. Energy Information Administration said in its Aug. 3 report. At 426.6 million barrels, inventories are 7% below the five-year average for the time of year.

The SPR, in contrast, was drawn down by 4.6 million barrels on the week, taking its level from 474.5 million barrels on July 22 to 469.9 million barrels on July 29, the EIA said.

see OIL PRICES page 6

### EXPLORATION & PRODUCTION

# HEX CI and Furie update

John Hendrix talks about Sterling tests and evaluations, ongoing tax battle

By KAY CASHMAN

Petroleum News

John Hendrix is the owner of the only Alaskan-owned natural gas producing company in Alaska, Furie Operating Alaska. Hendrix became a Cook Inlet natural gas producer in July 2020 when his newly formed company, HEX Cook Inlet LLC, acquired Furie Operating Alaska LLC and its partners Cornucopia Oil & Gas Company LLC and Corsair Oil & Gas LLC in bankruptcy proceedings.

The centerpiece of the purchase was the offshore Kitchen Lights unit, its Julius R. production platform, a 15-mile subsea gathering line and an onshore natural gas processing facility at Nikiski.



JOHN HENDRIX

The Kitchen Lights unit, or KLU, is the largest unit in Cook Inlet by acreage and has been seen as a source of growth for the basin.

Hendrix was raised in Homer, Alaska, and is an engineer. He has close to four decades of experience in the energy industry in Alaska, the Lower 48 and internationally with Apache, BP and Schlumberger.

That experience included managing Apache's Cook Inlet operations from 2012 until 2016, when the company let its leases drop because of some of the same challenges HEX faces today.

see COMPANY UPDATES page 10

### UTILITIES

# IGU seeks more LNG

Fairbanks gas utility needs additional supplies for expanding customer base

By ALAN BAILEY

For Petroleum News

Fairbanks based Interior Gas Utility has taken note of recent announcements regarding potential future limitations in gas supplies from the Cook Inlet and is "exploring all available options" for future supplies for its increasing number of customers, according to the latest quarterly report from the Interior Energy Project to the Alaska Legislature.

"A solution will likely come from a combination of Cook Inlet gas, North Slope gas and imported LNG," the report says.

The Interior Energy Project, or IEP, is a project

In 2021 the board authorized a contract for backup LNG supplies from Cryopeak LNG Solutions in Nelson, British Columbia. In 2022 IGU is purchasing approximately 250,000 gallons of LNG under this contract to bolster its supplies and may purchase additional volumes, the report says.

sponsored by the Alaska Industrial Development and Export Authority and authorized by the Legislature that has the objective of bringing supplies of affordable natural gas to the Fairbanks

see IGU SUPPLIES page 7



## EXPLORATION &amp; PRODUCTION

# Pearl production facilities, well, OK'd

Hilcorp Alaska's Ninilchik unit plan of operations amendments cover work to bring Pearl pad wells online as natural gas producers

By **KRISTEN NELSON**  
Petroleum News

Hilcorp Alaska received approvals of plan of operations amendments from the Alaska Division of Oil and Gas July 29 for its Ninilchik unit on the Kenai Peninsula. The company plans to develop natural gas from the Pearl Pad, bringing wells into production this year.

The approval for production facilities includes adding a pipeline and gas production facilities to the Pearl Pad. The division said in its approval that the production infrastructure to be added includes produced water tanks, heater separator unit skids, compressor skids, glycol dehydration nodules and a vent scrubber. The pipeline will connect the Pearl Pad to the existing Kenai Kachemak Pipeline.

The Pearl Pad is some 4 miles northeast of Ninilchik on privately owned surface and subsurface. Hilcorp built the pad in 2017 to support a delineation program targeting

an area south of the existing Susan Dionne-Paxton participating area. Hilcorp drilled seven Pearl stratigraphic tests in 2017, two of which are being used as water supply wells; the other five were plugged and abandoned.

## Connection approval required

The division's State Pipeline Coordinator's Section reviewed the plan. The Kenai Beluga Pipeline has a right of way in the vicinity of the proposed action and SPCS is requesting that Hilcorp receive a letter of non-objection from Kenai Beluga Pipeline since the proposed activity will cross the pipeline right of way and affect pipeline related activities.

SPCS is also requiring that the Kenai Beluga Pipeline provide information regarding the tie-in that would connect Pearl Pad infrastructure to the existing Kenai Kachemak Pipeline right-of-way lease. "Once adequate information is provided, the SPCS will be issuing a written authorization to Kenai Beluga Pipeline, LLC for the tie-in," the division said.

In response to the SPCS comments, Hilcorp said an interconnection agreement is in place between Kenai Beluga Pipeline and Hilcorp Alaska and will serve as a letter of non-objection for the project.

SPCS said it would accept the interconnection agreement as a letter of non-objection for the project.

## Well authorized

The division also authorized the drilling of a well on the Pearl Pad to produce from a state oil and gas subsurface lease. The division noted that a second well is planned, but since it is located entirely on privately owned surface and subsurface it was not included in the decision.

The well, Pearl 8, will be drilled from the onshore Pearl Pad to a bottomhole location in Cook Inlet.

AOGCC permitted Pearl 8 on July 27 as an exploratory well in the Ninilchik field. ●

Contact Kristen Nelson  
at knelson@petroleumnews.com

## contents

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### ON THE COVER

#### ANS still +\$100

Prices fall as US crude stock builds, GDP falls 2 consecutive quarters

#### HEX CI and Furie update

Hendrix talks about Sterling tests, evaluations, ongoing tax battle

#### IGU seeks more LNG

Gas utility needs additional supplies for expanding customer base

#### Oil Patch Insider: Mull scholarship funds wanted; lease action on North Slope

#### RCA issues order transferring North Fork pipeline to Gardes

#### AOGCC amends Deep Creek unit Happy Valley Beluga Tyonek rules

### EXPLORATION & PRODUCTION

2 Pearl production facilities, well, OK'd

4 US rotary drilling rig count up 9 to 767

### INTERNATIONAL

5 Kuwait oil veteran named new OPEC secretary general

### PIPELINES & DOWNSTREAM

4 Trans-Foreland files for 3-year extension

### UTILITIES

4 Chugach Electric names Miller CEO

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# Alaska-Mackenzie Rig Report

Rig Owner/Rig Type      Rig No.      Rig Location/Activity      Operator or Status

## Alaska Rig Status

### North Slope - Onshore

<b>All American Oilfield LLC</b> IDECO H-37	AAO 111	Deadhorse, Stacked in Cruz Yard	Available
<b>Doyon Drilling</b> Dreco 1250 UE Dreco 1000 UE Dreco D2000 Uebd AC Mobile OIME 2000 TSM 700 ERD	14 (SCR/TD) 16 (SCR/TD) 19 (SCR/TD) 25 141 (SCR/TD) 142 (SCR/TD) Arctic Fox #1 26	Milne Point, MPU B-31 Standby Kuparuk, 3S Pad Modification Alpine, MT7-07 Maintenance Standby Alpine, CD4-597 Maintenance Standby Alpine, CD2-361 Warm Stack	Hilcorp Alaska LLC Available ConocoPhillips ConocoPhillips Available ConocoPhillips ConocoPhillips
<b>Hilcorp Alaska LLC</b> Rotary Drilling	Innovation	Milne Point, S Pad	Hilcorp Alaska LLC
<b>Nabors Alaska Drilling</b> AC Coil Hybrid AC Coil Ideco 900 Dreco 1000 UE Mid-Continental U36A Oilwell 700 E Dreco 1000 UE Oilwell 2000 Hercules Oilwell 2000 Hercules Emsco Electro-hoist Oilwell 2000 Canrig 1050E Oilwell 2000 Academy AC Electric CANRIG OIME 2000 Academy AC electric CANRIG Academy AC electric Heli-Rig	CDR-2 (CTD) CDR-3 (CTD) 3 (SCR/TD) 7-ES (SCR-TD) 3-S 4-ES (SCR) 9-ES (SCR/TD) 14-E (SCR) 16-E (SCR/TD) 27-E (SCR-TD) 33-E 99AC (AC-TD) 245-E (SCR-ACTD) 105AC (AC-TD) 106AC (AC-TD)	Prudhoe Bay Kuparuk Deadhorse, Stacked Kuparuk Stacked Stacked Stacked Deadhorse Stacked Stacked Stacked 12 Acre Pad, stacked Alkaid 2 Stacked	Hilcorp Alaska LLC ConocoPhillips Available ConocoPhillips Available Available Available Available Brooks Range Petroleum Available Available Available Available Greatbear/Pantheon Available
<b>Nordic Calista Services</b> Superior 700 UE Superior 700 UE Ideco 900 Rig Master 1500AC	1 (SCR/CTD) 2 (SCR/CTD/TD) 3 (SCR/TD) 4 (AC/TD)	Deadhorse Deadhorse Deadhorse Oliktok Point	Available Available ASRC ENI
<b>Parker Drilling Arctic Operating LLC</b> NOV ADS-10SD NOV ADS-10SD	272 273	Deadhorse, Stacked Deadhorse, Stacked	Available Available

### North Slope - Offshore

<b>Doyon Drilling</b> Sky top Brewster NE-12	15 (SCR/TD)	Spy Island, S141-E3	ENI
<b>Nabors Alaska Drilling</b> OIME 1000	19AC (AC-TD)	Oooguruk	ENI

### Cook Inlet Basin – Onshore

<b>BlueCrest Alaska Operating LLC</b> Land Rig	BlueCrest Rig #1	Stacked	BlueCrest Alaska Operating LLC
<b>Glacier Oil &amp; Gas</b>	Rig 37	West McArthur River Unit Workover	Glacier Oil & Gas
<b>Hilcorp Alaska LLC</b> TSM-850 TSM-850	147 169	Stacked Seaview	Hilcorp Alaska LLC Hilcorp Alaska LLC

### Cook Inlet Basin – Offshore

<b>Hilcorp Alaska LLC</b> National 110	C (TD) Rig 51 Rig 56	Platform C, Stacked Steelhead Platform, Stacked Monopod A-13, stacked	Hilcorp Alaska LLC Hilcorp Alaska LLC Hilcorp Alaska LLC
<b>Nordic Calista Services</b> Land Rig	36 (TD)	Kenai, stacked	Available
<b>Spartan Drilling</b> Baker Marine LLC-Skidoff, jack-up		Spartan 151, Tyonek Platform	Hilcorp Alaska LLC
<b>Furie Operating Alaska</b> Randolf Yost jack-up		Nikiski, OSK dock	Available
<b>Glacier Oil &amp; Gas</b> National 1320	35	Osprey Platform, activated	Glacier Oil & Gas

## Mackenzie Rig Status

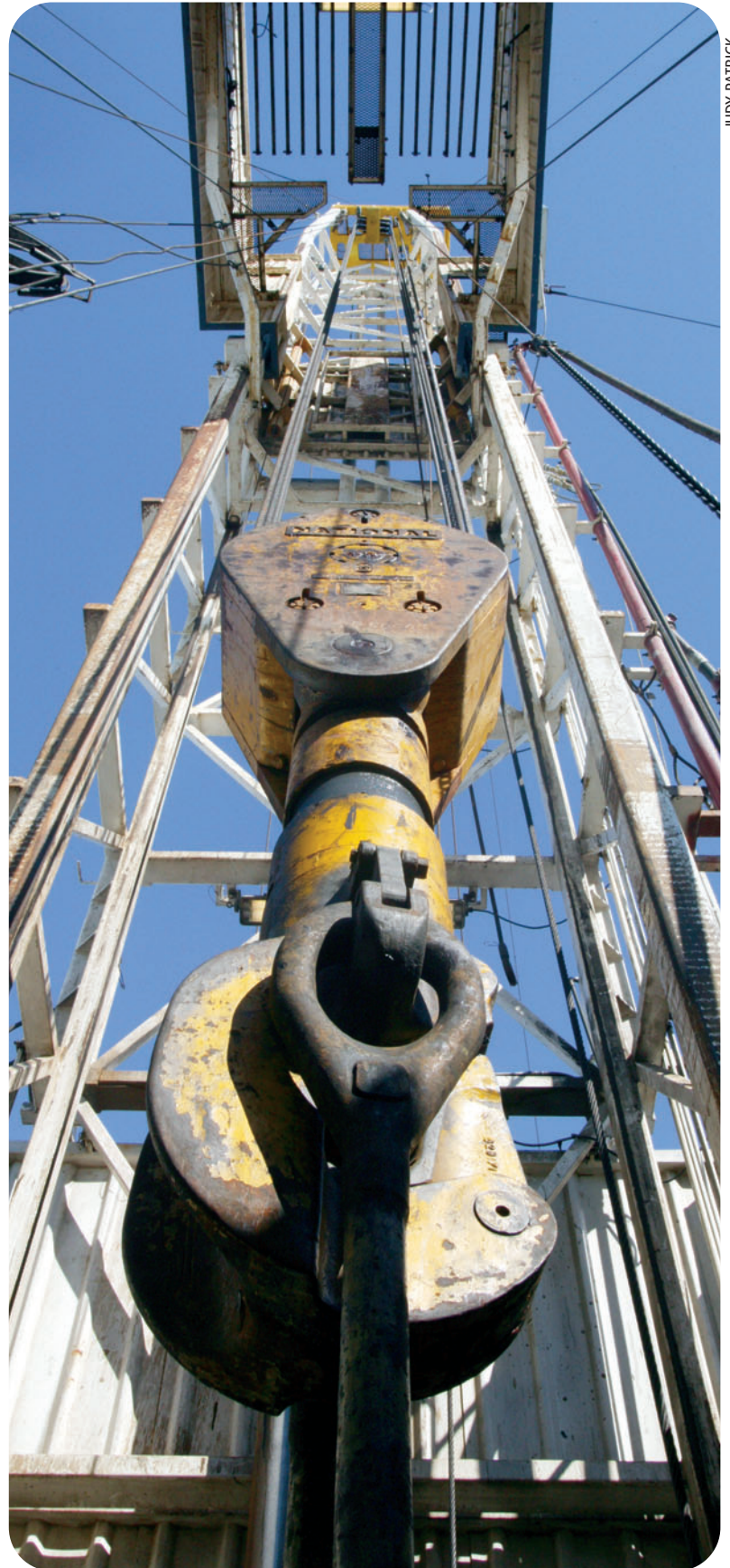
### Canadian Beaufort Sea

<b>SDC Drilling Inc.</b> SDC Mobile Offshore Drilling Unit Rig #2		Set down at Roland Bay	Available
--	--	------------------------	-----------

The Alaska-Mackenzie Rig Report as of August 3, 2022.  
Active drilling companies only listed.

TD = rigs equipped with top drive units WO = workover operations  
CT = coiled tubing operation SCR = electric rig

This rig report was prepared by Marti Reeve



JUDY PATRICK

### Baker Hughes North America rotary rig counts\*

	July 29	July 22	Year Ago
United States	767	758	488
Canada	204	195	153
Gulf of Mexico	15	14	14

### Highest/Lowest

US/Highest	4530	December 1981
US/Lowest	244	August 2020

\*Issued by Baker Hughes since 1944

The Alaska-Mackenzie Rig Report  
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## PIPELINES & DOWNSTREAM

### Trans-Foreland files for 3-year extension

In mid-July the Federal Energy Regulatory Commission posted a notice saying Trans-Foreland Pipeline Co. had filed for a three-year extension of time, until Dec. 17, 2025, to construct, modify, and operate new facilities for the import of liquefied natural gas at its existing Kenai LNG terminal in Nikiski, the Kenai LNG Cool Down Project, and make the project available for service as authorized in the Dec. 17, 2020, order Granting Authorization Under Section 3 of the Natural Gas Act.

Per the FERC notice Trans-Foreland does not anticipate being able to place the project into service by Dec. 17, "despite good faith efforts to do so."

Trans-Foreland said that the onset and duration of the COVID-19 contagion and the war in the Ukraine have generated adverse economic and logistical conditions that slowed commercial progress and precluded Trans-Foreland from making its final investment decision, or FID, for the project.

Uncertainty and volatility in the global LNG market have made it difficult for the company to secure a suitable supply arrangement that would provide the financial certainty necessary for the project.

Trans-Foreland said that the Kenai LNG Cool Down Project remains commercially viable, and all permits and authorizations received are in good standing.

In addition to publishing the full text of public notice in the Federal Register, FERC provides all interested persons an opportunity to view and/or print the contents of its document via the Internet through FERC's home page (<http://www.ferc.gov>) using the "eLibrary" link. Enter the docket number (CP19-118-000) excluding the last three digits to access the document.

—KAY CASHMAN

*Trans-Foreland said that the Kenai LNG Cool Down Project remains commercially viable, and all permits and authorizations received are in good standing.*

## UTILITIES

### Chugach Electric names Miller CEO

Chugach Electric Association said July 29 that its board of directors has named Arthur Miller as chief executive officer, effective July 29. Miller, who has been serving as acting CEO, has been with Chugach for 32 years, the association said. He replaces Lee Thibert who retired from Chugach earlier this year.

"Arthur is the right person at the right time to lead Chugach," said Board Chair Bettina Chastain. "He brings a tremendous amount of experience and knowledge, and has the steady hand and vision to continue to advance Chugach as a leader in the Railbelt."

"I am honored to serve as CEO of Chugach and appreciate the board's trust in naming me CEO," Miller said. "The future is full of opportunity in the electric utility industry, and I'm excited to work with our talented workforce to keep the organization moving forward."

Miller has held several key positions at Chugach, including senior vice president, regulatory and external affairs; vice president, regulatory and external affairs; executive manager, regulatory and external affairs; director, regulatory affairs and pricing; as well as manager and analyst positions.

Chugach said Miller has extensive experience in the electric utility industry and played a crucial role in the recent acquisition of Municipal Light & Power.

Miller has an M.S. in Economics from the University of Wyoming and a B.S. in Business from Colorado State University, Fort Collins.



ARTHUR MILLER

—PETROLEUM NEWS

## EXPLORATION & PRODUCTION

### US rotary drilling rig count up 9 to 767

The Baker Hughes' U.S. rotary drilling rig count was 767 on July 29, up by nine from the previous week and up by 279 from 488 a year ago.

When the count dropped to 244 in mid-August 2020 it was the lowest the domestic rotary rig count has been since the Houston based oilfield services company began issuing weekly U.S. numbers in 1944.

Prior to 2020, the low was 404 rigs in May 2016. The count peaked at 4,530 in 1981.

The count was in the low 790s at the beginning of 2020, where it remained through mid-March, when it began to fall, dropping below what had been the historic low in early May with a count of 374 and continuing to drop through the third week of August 2020 when it gained back 10 rigs.

The July 29 count includes 605 rigs targeting oil, up by six from the previous week and up 220 from 385 a year ago, with 157 rigs targeting natural gas, up by two from the previous week and up 54 from 103 a year ago, and five miscellaneous rigs, up by one from the previous week and up by five from a year ago.

Thirty-eight of the rigs reported July 29 were drilling directional wells, 697 were drilling horizontal wells and 32 were drilling vertical wells.

#### Alaska rig count unchanged

Texas (371) was up by six rigs from the previous week.

Louisiana (65), New Mexico (110), Oklahoma (64) and Pennsylvania (25) were each up by a single rig.

West Virginia (12) was down two rigs week over week.

Rig counts in other states were unchanged week over week: Alaska (10), California (7), Colorado (19), North Dakota (36), Ohio (11), Utah (12) and Wyoming (19).

Baker Hughes shows Alaska with 10 rotary rigs active July 29, unchanged from the previous week and up by five from a year ago, when the state's rig count stood at five. Eight of the rigs in Alaska were onshore, two were offshore — also unchanged from the previous week.

The rig count in the Permian, the most active basin in the country, was up by two from the previous week at 351 and up by 108 from 243 a year ago.

—KRISTEN NELSON





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continued from page 1

## INSIDER

For example, the Charles Gilbert Mull Field Camp Scholarship for geology students at the University of Alaska Fairbanks that will allow students to attend a field geology course of their choice.

The goal is to build a minimum endowment of \$25,000. This project is spearheaded by UAF Geosciences Professor Michael Whalen.

If you'd like to contribute to the scholarship fund, please contact Whalen at this email address:

mtwhalen@alaska.edu

Some members are working on archiving Gil's unpublished work and/or rock/map collection. This subcommittee includes Wartes, Ellie Harris, D. van der Kolk and Bob Spicer. Robert Blodgett has offered to help.

Jen Athey at DGGs is working with Wartes to access funds and launch the digital access part via DGGs. Kurt Johnson, curator of the Alaska Geologic Materials Center, has volunteered to work with DGGs.

And there are several more projects.

If you would like to join the group's email list, contact Tom Homza at Thomas.Homza@Shell.com

## Action from DOG's monthly lease report

**ALTHOUGH IT IS UNCLEAR** which Great Bear company is actually making the 164 royalty interest assignments in approximately 82 North Slope state leases, initially Alaska's Division of Oil and Gas said it's Great Bear Petroleum Ventures.

But it doesn't say which of the three companies with that name are doing it — Great Bear Petroleum Ventures I, LLC, Great Bear Petroleum

Ventures II, LLC or Great Bear Petroleum Ventures III, LLC.

But, in the summaries of each transaction the "assignor" as of Aug. 3 is Great Bear Pantheon, LLC.

The amount of the assignments is between 0.2 and 0.7 percent. The two corporations that received the royalty interests are LAPADANCO, INC. and eSeis Inc., both in good standing with the Alaska Department of Commerce's Division of Corporations.

The two LAPADANCO officials listed in Commerce's records are Daniel W. Hughes, president, shareholder and treasurer, and Patricia J. Hughes, secretary, shareholder and vice president, each with a 50% stake in the Houston, Texas-based company.

Its NAICS code is 213112 — support activities for oil and gas operations.

LAPADANCO was created Jan. 8, 2021, with the state of Alaska. Its date of incorporation in Texas was June 13, 2007.

Also Houston-based, eSeis was registered in Alaska on Jan. 7, 2021. Its NAICS code is also 213112.

Its date of incorporation in Texas was Nov. 4, 1999.

eSeis's officials are listed as Jason Marshall, president, Roger Young, director, shareholder and Steven Cole, secretary, treasurer. Of the three Young is the only one with shares in the company.

The other notable lease-related transfers in June were done by ASRC Exploration LLC, which had 16 working and royalty interest assignments on eight leases transferred to Repsol E&P (49% working interest), and Oil Search (Alaska) LLC (51% working interest).

These actions are likely related to Oil Search's formation of the Quokka unit (check Petroleum News' online archive for more background information).

—Oil Patch Insider is compiled by Kay Cashman

Contact Kay Cashman at publisher@petroleumnews.com



GIL MULL

## INTERNATIONAL

### Kuwait oil veteran named new OPEC secretary general

A veteran of Kuwait's national oil company took over Aug. 1 as secretary general of the OPEC oil cartel, just three weeks after his Nigerian predecessor died, only hours after giving a speech in defense of the energy industry.

Haitham al-Ghais was selected as the incoming secretary general back in January and it was known he would be assuming the post on Aug. 1.

Al-Ghais will serve a three-year term, succeeding Mohammad Sanusi Barkindo, who died aged 63 in his home country of Nigeria in July. Al-Ghais is a veteran of the Kuwait Petroleum Corp. who advised six Kuwaiti oil ministers.

He is well known to OPEC, having chaired technical meetings of OPEC and non-OPEC oil producers, spearheaded by Saudi Arabia and Russia, to curtail production in order to keep oil prices from plummeting during the coronavirus pandemic. The agreement's production caps are set to expire the end of August.

The group, known as OPEC+, is meeting on Aug. 3 to discuss its future production quotas.

U.S. and European nations have been pressing OPEC producers, namely Saudi Arabia and the United Arab Emirates, to deploy what is left of their spare capacity to pump more oil in the hope it can bring prices down.

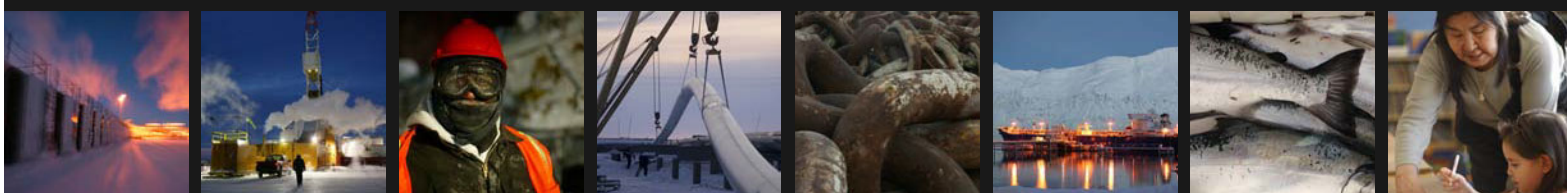
OPEC policy is expected to remain unaffected by his appointment. His comments about an inclusive energy transition mirror Barkindo's full-throttle defense of the role of oil and gas amid global efforts to tackle climate change and pivot to cleaner sources of energy.

Barkindo had used his platform to advocate in favor of a bigger role for the energy industry in conversations about energy transition. This positioned him firmly on the side of fossil fuel producers who say more investments in oil and gas are needed until the world is able to run on alternative forms of energy.

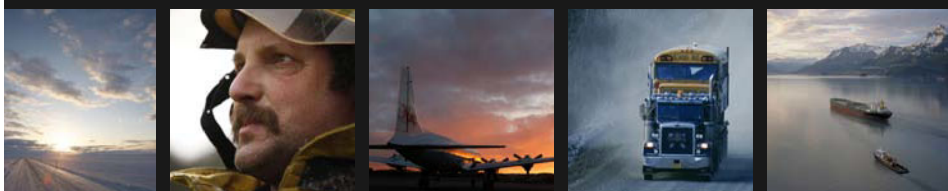
Scientists and independent researchers, however, say investments in oil and gas must stop and be rerouted to cleaner forms of energy in order to stand a chance of keeping global warming from reaching dangerous levels.

—ASSOCIATED PRESS

# WHATEVER



# WHENEVER



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continued from page 1

## OIL PRICES

Total motor gasoline inventories increased by 0.2 million barrels on the week and are 3% below the five-year average for the time of year, it said.

Prices rose initially Aug. 3 with the announcement by the Organization of the Petroleum Exporting Countries and its allied oil exporting nations that the group would add only 100,000 barrels per day of production starting in September, just 25% of the 400,000 bpd the group has added routinely to the market as it unwinds supply constrictions put in place when prices tanked due to the COVID-19 pandemic in April 2020.

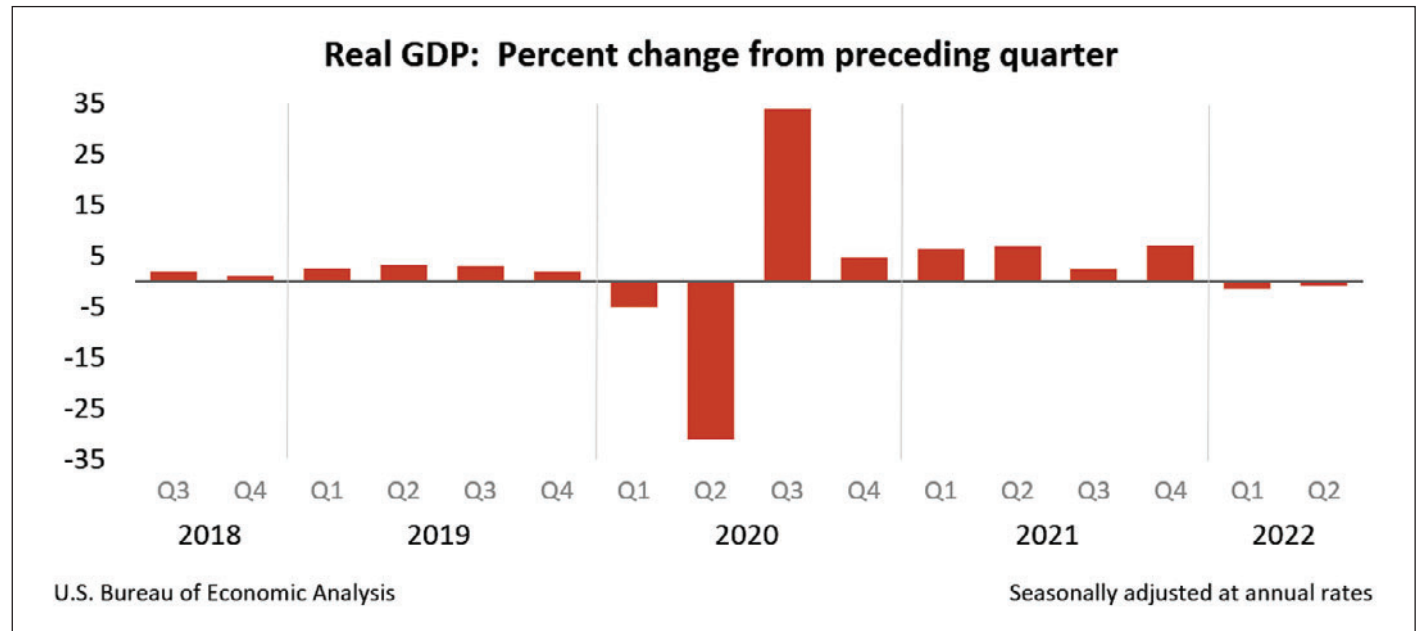
Aug. 2 saw the indexes modestly higher: ANS was up 33 cents to close at \$104.30, while WTI jumped 53 cents to \$94.42 and Brent gained 51 cents to close at \$100.54.

But the gains came one day after ANS jolted downward by \$4.80 Aug. 1 to close at \$104.30, WTI dropped \$4.73 to close at \$93.89 and Brent plummeted \$9.98 to close at \$100.03.

The red ink may have been set up by the release of the latest U.S. Gross Domestic Product estimate from the Bureau of Economic Analysis July 28, which showed that GDP declined at an annual rate of 0.9% during the second quarter after declining at an annualized rate of 1.6% in the first quarter.

The GDP shrank for two quarters in a row — meeting the unofficial definition of a recession — which likely led traders to conclude that the economy has been slowing down.

And despite the economic slowdown, the U.S. Federal Reserve moved forward with its expected interest rate increase of



***The U.S. Senate Democrat-proposed \$430 billion spending bill, if it passes, would effectively guarantee continued drilling rights auctions on federal lands and waters for at least another decade, according to an Aug. 1 Hart Energy report.***

0.75%, which threw additional water on the economy.

The BEA said the decrease in real GDP reflected decreases in private inventory investment, residential fixed investment, federal government spending, state and local government spending and nonresidential fixed investment which were partially offset by increases in exports and personal consumption expenditures imports, which are a subtraction in the calculation of GDP.

The decrease in federal government spending reflected a decrease in nondefense spending which was partially offset by an increase in defense spending, it said.

The strategy of the Biden administration to lower gasoline prices by flooding government oil reserves into the market added to the malaise.

“The decrease in nondefense spending reflected the sale of crude oil from the Strategic Petroleum Reserve, which results in a corresponding decrease in consumption expenditures,” the BEA said. “Because the oil sold by the government enters private inventories, there is no direct net effect on GDP.”

The national average for regular gasoline fell 3 cents to \$4.16 per gallon Aug. 3, according to AAA. It was the 50th consecutive day of falling prices.

Gasoline prices have shed 86 cents since hitting a record average high of \$5.02 on June 14, and the national average is down

by 65 cents over the past month.

Soaring prices in July put a chill on demand as Americans entered the second half of the busy summer driving season.

ANS rose \$1.57 July 29 to close at \$108.77, as WTI jumped \$2.20 to close at \$98.62, and Brent leapt \$2.87 to close at \$110.01.

Prices were mixed July 28, ANS fell 41 cents to close at \$107.20, WTI fell 84 cents to close at \$96.42, and Brent rose 52 cents to close at \$107.14.

From Wednesday to Wednesday the ANS price fell by \$6.86, taking it from \$107.20 July 28 to \$100.34 Aug. 3.

### Spending bill may preserve federal lease sales

The U.S. Senate Democrat-proposed \$430 billion spending bill, if it passes, would effectively guarantee continued drilling rights auctions on federal lands and waters for at least another decade, according to an Aug. 1 Hart Energy report.

The bill was agreed on after more than a year of intense negotiations between Senate Majority Leader Chuck Schumer and fellow Democrat Sen. Joe Manchin. It would be a win for President Biden and fellow Democrats hoping to retain control of Congress after midterm elections in November.

The bill would defang Biden’s vows during his 2020 election campaign to end federal oil and gas drilling — a key component of his strategy to fight climate change. ●

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*continued from page 1*  
**IGU SUPPLIES**

region, to reduce the cost of energy in the Alaska Interior while also improving air quality in the region. Businesses and residents in the region have traditionally used oil fired and wood fired stoves for heating buildings, with the consequence of severely poor winter air quality.

**Cook Inlet LNG shipped to Fairbanks**

IGU currently purchases Cook Inlet basin natural gas from Hilcorp Alaska and liquefies the gas at the Titan LNG plant near Point Mackenzie on the inlet. The LNG is shipped to Fairbanks by road tanker for storage in central Fairbanks and North Pole, for subsequent delivery to customers over a gas pipeline network. IGU had been planning to expand the Titan plant to support its expanding customer base. However, following a major drop in the price of fuel oil at the onset of the COVID pandemic in 2020, the utility indefinitely postponed a final decision on the plant expansion, pending more clarity over future energy pricing.

Meanwhile, at the end of 2019 IGU completed a new 5.25 million gallon liquefied natural gas storage facility in central Fairbanks. And in early 2021 the utility completed a smaller LNG storage facility at North Pole. The greatly increased LNG storage capacity in the Fairbanks region is enabling IGU to expand its customer base by warehousing excess LNG produced during the summer when there is little demand for gas for heating. The utility can connect new customers using extensions to the gas distribution network made in 2015 as part of the IEP, and through recent further additions to the network.

However, at some point the increasing demand for gas will require additional gas supplies.

“The IGU board of directors is expected to make a decision in 2022 regarding additional LNG capacity,” the new quarterly report says.

**Backup LNG supplies**

In 2021 the board authorized a contract for backup LNG supplies from Cryopeak LNG Solutions in Nelson, British Columbia. In 2022 IGU is purchasing approximately 250,000 gallons of LNG under this contract to bolster its supplies and may purchase additional volumes, the report says. According to information previously made available about this contract, the LNG would be purchased at a negotiated price and could be transported to Alaska from Canada by barge using LNG trailers.

Any expansion to the Titan plant

**IGU currently purchases Cook Inlet basin natural gas from Hilcorp Alaska and liquefies the gas at the Titan LNG plant near Point Mackenzie on the inlet.**

would require access to AIDEA bond funding — during this year’s legislative session the Legislature extended the sunset date for the issuance of these bonds through to July 1, 2028. AIDEA has previously issued bonds for the funding of expansions to the gas supply infrastructure in Fairbanks North Star Borough, and for design work associated with the expansion of LNG production facilities.

**Extending the distribution system**

The new report says that IGU has budgeted \$1 million for the construction of short extensions to the gas distribution main lines in the borough during the 2022 construction season. And the utility also anticipates installing 600 new service lines during the construction season, the report says. By comparison, IGU installed about 200 service lines in 2020 and 312 service lines in 2021.

By the end of the second quarter of this year, the utility had approved about 450 applications for service lines for this year: 100 of these service lines have now been installed, the report says. Commercial customers account for 18% of the applications, while the remainder are for residential properties. Of the applications, 35% are in North Pole and 65% are in Fairbanks.

IGU now serves a total of about 1,650 residential and commercial customers in Fairbanks, with an expansion in natural gas mains pipelines capable of serving up to about 8,500 properties. In North Pole, gas distribution lines now serve 125 customers, while the mains could serve up to about 3,000 properties, the report says.

**Encouraging gas conversions**

Consumers have been encouraged to convert to the use of natural gas through the availability of favorable financing mechanisms, including the potential availability of low-cost loans. Improved boiler technologies may also reduce the conversion costs. In addition, Fairbanks North Slope Borough has been able to appropriate about \$1 million in funding associated with the federal coronavirus America Rescue Plan to assist with natural gas conversions, the report says.

Funding support for the conversion of solid fuel and oil burning equipment to natural gas technology is also expected to start becoming available in October through a \$5.6 million Environmental Protection Agency award designed to

help Fairbanks North Star Borough improve air quality within its jurisdiction. Also, under the state’s approved budget for the current fiscal year, \$1.25 million has been allocated for the oil to gas changeout program, the report says.

For commercial consumers, low cost funding may be available through the state-approved Property Assessed Clean Energy, or PACE, program, designed to improve the energy efficiency of commercial buildings.

The state Legislature has previously passed legislation enabling the on-bill financing of gas conversions, to ease the pain of the conversion costs. An on-bill financing arrangement enables the payment of the conversion costs through installments added to a consumer’s monthly gas bills. However, IGU has encountered complications in this arrangement because of issues related to the utility’s debt coverage ratio and liability for any loan defaults, the report says.

Total bond financing to date for the

IEP has amounted to about \$150.8 million, with \$139 million of this coming from AIDEA Sustainable Energy Transmission and Supply, or SETS, bonding, and the remainder from other bonding, the report says. In addition, the Legislature originally approved a \$57.5 million capital appropriation for the project, \$15 million of which was subsequently spent investigating an initial concept involving the manufacture of LNG on the North Slope. Much of the remainder of the appropriation was used for part of the purchase cost of Pentex Natural Gas Co., which IGU purchased in 2018. Pentex owned the Titan plant, the trucking operation for shipping LNG to Fairbanks and gas utility Fairbanks Natural Gas — the purchase allowed IGU and FNG to combine as a single Fairbanks gas utility and hence achieve efficiencies of scale.●

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*continued from page 1*  
**POOL RULES**

imum offset from the external boundary of 1,500 feet.

“The Pool is nearly 8,000 feet thick and is developed with directionally drilled wells,” the commission said. The “10-acre spacing imposes constraints on development of the field that will make it more difficult to achieve ultimate recovery.”

Because of the 8,000-foot thickness of the pool, wells could cross each other with several thousand feet of separation and “won’t be producing from the same sand lenses and won’t be impacting each other,” the commission said, but the 10-acre spacing would prevent more than one well from being completed in the same quarter-quarter section.

The thickness of the Deep Creek

field and “discontinuous nature of the sand lenses” in the pool mean “the operator needs maximum flexibility when it comes to drilling and completing wells in order to maximize ultimate recovery.”

The commission said the requirement that wells be completed more than 1,500 feet from the external boundary will continue to protect correlative rights.

Another change in these pool rules is the elimination of a sunset clause.

The commission said it voted at a public meeting in 2018 to eliminate the sunset clauses that had been included in several orders issued in the preceding couple of years, so the sunset clause in this pool rule is eliminated.

—KRISTEN NELSON

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continued from page 1

## PIPELINE TRANSFER

RCA's transfer approval is contingent on the following:

- By Aug. 26, Gardes Holdings must file an original, paper copy of its corporate guaranty as a "compliance filing in this docket."

- Anchor Point Energy has to attach proof of insurance meeting the requirements of the order to each annual report.

- By Aug. 26, Gardes Holdings must file tariff revisions on behalf of Anchor Point Energy as a compliance filing.

The transfer application was jointly filed on April 1, 2021, by Cook Inlet Energy and Gardes Holdings and supplemented May 14, 2021, July 23, 2021, Sept. 8, 2021, Jan. 13, 2022, March 25, and July 11.

### Production stable

The most recent Alaska Oil and Gas Conservation Commission data for June shows the North Fork unit averaged 3,058 thousand cubic feet per day, down 22 mcf per day from a May average of 3,080 mcf per day, and up 1% from a June 2021 average of 3,028 mcf per day.

In late January the Alaska Department of Natural Resources issued the Acknowledgement of Transfer of Interest of Right-of-Way Lease for the North Fork pipeline, ADL 230928.

The joint applicants provided a copy of the right-of-way lease to RCA for the pipeline and supplemented the

application with documentation that resolves any issues related to the interests of Apollo Investment Corp. and Highbridge Principal Strategies in the right-of-way lease, RCA noted in its recent order.

DNR also approved the transfer of controlling interest in Anchor Point Energy from Cook Inlet Energy to Gardes Holdings.

### Few changes, more gas

In its filings with RCA, Gardes Holdings said that it does not intend to change the manner in which the North Fork Pipeline is operated by Anchor Point Energy and that Anchor Point Energy will continue to operate the North Fork pipeline as a regulated common carrier pipeline, accessible to all shippers on nondiscriminatory terms and conditions and in accordance with applicable safety and environmental practices, statutes, and regulations.

Gardes Holdings said that approval of the transfer of controlling interest in Anchor Point Energy will have no substantive effect on Anchor Point Energy's rates or terms and conditions of service and that no substantive changes will be required to Anchor Point Energy's tariff.

In conclusion, Gardes Holdings said that its "investments, including the acquisition of Anchor Point Energy, will have the potential to benefit gas consumers and to benefit the greater economy of Southcentral Alaska by developing and delivering additional energy resources, creating jobs, and stimulating economic activity."

By delivering additional energy resources, Gardes Holdings was likely referring to its plan to increase natu-

ral gas production from North Fork.

To increase gas production Vision Operating has to be able to deal with water produced along with natural gas. In April the company got AOGCC approval to use an existing, but non-producing well, for Class II oil field waste fluids underground disposal (see story titled "Vision Operating gets AOGCC OK for North Fork aquifer exemption" in July 31, 2022, issue of Petroleum News).

### As many as 23 prospects

Stephen Hennigan, president of Vision Operating, told AOGCC in a February hearing that the company has identified as many as 23 prospects in the area.

He said he had been involved at North Fork since Armstrong Cook Inlet brought the field online and said a lot of zones were left because they started to produce water. There was significant gas in those zones, he said, and if the water could be disposed of, the company could go back and produce the gas.

The North Fork discovery well was drilled in 1965 by Standard Oil Company of California, but the field was not brought online until 2011, after Armstrong Cook Inlet, a subsidiary of Armstrong Oil and Gas, took over the field in 2007, drilled new wells, built a 7.4-mile pipeline and began delivering gas.

—KAY CASHMAN

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## Oil Patch Bits

### Lynden moves ROV from Chile to Gulf of Alaska

As reported by Lynden News Aug. 1, this spring, researchers spent eight days circumnavigating Kodiak Island exploring 23 different sites in search of deep-sea corals and other seafloor habitat areas. "The expedition's goal was to expand our knowledge of the Gulf of Alaska seafloor to support Oceana's ongoing campaign to protect coral, sponges and other sensitive sea life," explains Cheryl Eldemar, Pacific business manager for the nonprofit conservation group Oceana.

The star of the expedition was Deep Discoverer, an 1,800-pound remotely operated vehicle which captures undersea images with a sensitive camera. Getting the ROV and its four crates of batteries and accessories from Santiago, Chile, to the island of Kodiak fell to Lynden Logistics. "We Alaskans are keenly aware of Lynden's long-term dedication and reputation for providing goods and transportation to Alaska," Cheryl says. "This international shipping project was another example of Lynden's flexibility, patience, persistence and professionalism."

Lynden moved the ROV once before from Chile to Portland, Oregon, in 2013 for Oceana's Oregon coast expedition. According to Ahmad Abed Rabuh, general manager at Lynden's Portland service center, things have changed dramatically in the decade since the last move.

The pandemic, supply chain disruptions and changes in rules and regulations for transporting batteries and other sensitive goods all affected this year's journey of the ROV from continent to continent.

"We excel at unusual international shipments, but this one required special customs declaration, custom-built crates made from a specific heat-treated wood, separate air freighter transport to Miami for the battery, and a lack of wide-body lift in the South American lane," Ahmad explains. "International Regional Operations Manager Elodie Gergov was instrumental in helping me navigate the South America complications for this shipment." Lynden's John Dill and Fernando and Chanelle Hernandez also worked diligently on the project in Portland along with Matt Kelly in Anchorage. For more information visit <https://info.lynden.com/blog/lynden-moves-rov-from-chile-to-gulf-of-alaska>.



Oceana's Jon Warrenchuk (left) and Matthias Gorny with the ROV onboard the research vessel Island C in Kodiak.

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# Companies involved in Alaska's oil and gas industry

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HEX COOK INLET LLC

Onshore natural gas processing facility at Nikiski.

continued from page 1

## COMPANY UPDATES

In a recent interview with Petroleum News, Hendrix talked about Furie's successes along with the challenges the company has faced in the last two years. He is concerned about the focus on renewables such as solar and wind, believing there needs to be an orderly planned transition but doesn't see anyone taking the lead. Without an orderly transition, Hendrix says Alaskans will be put at risk.

After attending the Alaska Sustainability Conference in May, he pointed out that renewable energy project companies get grants and low interest loans. None of these grants and low interest loans are available to local oil and gas companies.

Rather, Hendrix secured a loan from the Alaska Industrial Development Export and Authority to acquire the Furie assets.

According to Hendrix, the state of Alaska is also at a defining moment. On the one hand the state is collaborating with utilities to reduce the use of hydrocarbons while on the other side offering competitive

oil and gas lease sales in Cook Inlet and the North Slope.

While not opposed to renewable energy, Hendrix said, "Why would I want to put myself out of business?"

### A few bad apples

Although Hendrix thinks the commissioners of Alaska's Department of Revenue and Department of Natural Resources are doing a good job to improve the business climate for oil and gas companies working in the state, he said there remain some obstacles to achieving balance between government and local businesses.

Alaska is an expensive place to operate, he said, likening the regulatory regime to a field spiked with land mines: "Yes, you can get across the field but you don't know what kind of regulatory land mine you're going to step on along the way that might cause your investment to go up in smoke," he said, noting most of those 'mines' involve required federal permitting on federal and state acreage.

One of the mines HEX has run into was a property tax valuation that was "more than four times what the IRS allowed the

KLU assets to be depreciated from," Hendrix said. "How can the state turn around and value it four times more than the IRS will allow me to depreciate? And it's been audited. This is the kind of stuff that kills you. I must pay \$1.6 million every year in property taxes until this is settled.

"It is going to take about three years to reach final decision on this matter in the courts. This means that I will have more than \$5 million tied up in this matter, not including attorney fees."

The company appealed the decision by the department to the State Assessment Review Board. SARB upheld the department's decision so now the issue is headed to court.

Hendrix says this is "unfair and excessive," and money that should be used for well work to produce more natural gas for Southcentral Alaska's residents that rely on gas to heat and electrify their homes and businesses.

Until the lawsuit is settled, in or out of court, HEX cannot afford to invest in any major capital improvements at Kitchen Lights.

"We'd hoped for a settlement, which

would have saved everyone, including the state of Alaska money, but that hasn't happened," Hendrix said.

In the meantime, the company is trying to keep gas production level instead of investing major money to make significant improvements designed to increase output.

Production data from the Alaska Oil and Gas Conservation Commission for May shows output from KLU averaged 12,479 thousand cubic feet per day, representing 5.8% of Cook Inlet gas production in that month.

KLU is one of the seven current gas producers in the inlet.

### Court in October

How long until the lawsuit is resolved?

"We had hoped the state of Alaska would come to the table and settle this, through mediation that was recommended by the judge, but as of now they remain uncommitted. The Kenai Peninsula Borough is in favor of mediation.

"We remain optimistic that mediation will come about before the case is set to be

see **COMPANY UPDATES** page 11

# INSPIRATIONS

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continued from page 10

## COMPANY UPDATES

heard by the judge in October,” Hendrix said July 22. This, he says, could save a lot of time and money for all the parties involved.

“We are an Alaskan company. Out of every \$100 made, we spend \$30 in paying for royalties and property tax. On top of that we have payroll, daily operating expenses, so it is a challenge,” Hendrix says.

### Had to fix everything

At the time HEX acquired Furie, KLU was an underperforming field in need of fixing, but with considerable potential.

In a Dec. 18, 2020, presentation in Anchorage to Commonwealth North, Hendrix said, “When we took over Kitchen Lights, we basically had to go in and fix everything.” This statement was confirmed by DNR’s Division of Oil and Gas.

“I took a gamble on buying KLU; I know that. But I figured I should be able to trust my state government to treat me fairly and help me navigate through the challenges of operating in the Cook Inlet,” he told PN. “Obviously, that’s not what’s happening at this time. The state agencies need to quit operating in silos and better cooperate and work with each other.”

### Most active bidder

Hendrix has been the most active bidder in the Cook Inlet basin lease rounds for the last two years.

Hendrix was one of two companies in the 2021 lease bid round. In the most recent state Cook Inlet basin lease sale in May, Furie Operating was the only bidder, winning two leases.

“Our predecessor had already relinquished those. I decided we needed to pick them up because they are close enough to where we want to produce in the future. It’s all about shoring up acreage surrounding our platform,” Hendrix said.

### Sterling opportunities

Furie under its previous owners brought the unit into production from a single well in November of 2015 and subsequently drilled three more production wells, with the last being the KLU A-4 well in October 2018.

By the time HEX took control, one of the four wells was offline, awaiting upgrades and repairs. And the three other producing wells were underperforming.

HEX’s goal was, and continues to be, having all four existing wells producing natural gas from both the Beluga and Sterling formations, with much of the upside in the unproved Sterling. Currently two of the four wells are producing from the Beluga formation.

A produced water handling system was installed last year primarily for the Sterling formation. Furie had to first obtain the appropriate permits to allow production of gas zones with higher water content. This may result in increased gas recovery once the formation is brought on production, Hendrix said.

“We view the Sterling as a great opportunity; that is if we get this right and get it producing natural gas year-round, we might be able to add a year to the life to the field,” he said.

“The big thing is, proved reserves have to be economical and right now we’re testing to see if we can get it to that point.”



Julius R. production platform with Denali in the background.

The Sterling is what cost the previous Furie owners \$17 million when they froze the flowline in the winter of 2019 due to excess water production.

To remediate this issue, a produced water handling system was installed primarily for the Sterling formation, and appropriate permits obtained to allow production of gas zones with higher water content.

“We spent about \$1.8 million on it,” Hendrix said. “Udelhoven installed it about a year ago.”

Furie first applied for the permit in March 2019. The permit was finally approved with an effective date of April 2021, another example of permitting hurdles required for Cook Inlet production.

“About two months ago we put the A-1 Sterling well into test. The test has been encouraging,” Hendrix said.

Since then, KLU A-2A and KLU A-4 have also been tested and evaluations are ongoing. The water handling equipment is currently processing about 2,100 barrels of produced water per day and is performing to spec, Hendrix said.

Because of the inability to comingle Beluga and Sterling production, HEX is strategically placing individual zones in test to minimize any disruptions to overall production, he said.

### No hype involved

“Our company isn’t about hype. We’re not going to hype our reserve numbers,” Hendrix said.

Unlike many smaller oil and gas companies that are looking to raise money, he said HEX is not trying to attract investment money.

“A lot of people out there try to hype their so-called proved reserves in order to attract buyers or investors. ... Our reputation is to be a good honest player and tell people how it is ... We’re just going to show them the facts,” Hendrix said.

“Alaskans need to know there is a difference between a

non-SEC company stating what is proved reserves and a SEC stock listed company. Even though we are not a publicly listed company we strive to provide SEC proved reserves,” he said.

“We’ll continue to work with all the state agencies. We have regular meetings and they’re trying to work with us on how we can maximize our production.

“We’re having a lot of conversations with the Division of Oil and Gas and want to continue to learn from the state about our reservoir because it’s important to move away from hype and have actual data. Data that is technically viable, provable.”

“You must have science that backs up your data,” Hendrix said, likely referring to statements by previous KLU operators that declared what appeared to be high reserve numbers.

Hendrix said the state wants HEX to be competitive “and we’d like to be competitive, but our world isn’t an easy world.”

“And that’s probably why you don’t see more Cook Inlet lease sale bidders,” he said.

“The state of Alaska makes how many billions off oil and gas, yet the Department of Revenue has no definition for proved or proven or proved reserves. ... we’re hoping to help them get there some day,” he said.

### Alternative Investments

Hendrix noted that Furie is “a small company with limited capital and must decide on the best investments for our capital.”

“And where am I going to put my money in the future? I want to continue putting it in Alaska, but even I have to look at alternative places. I have to diversify my portfolio. My allegiance is to Alaska, but Alaska’s got to have allegiance to us,” Hendrix said. ●

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