Petroleum news

page 2 Hilcorp to drill North Trading Bay from Monopod platform

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Eni drops E. North Slope; Feige reports; Oil Search secures RCF

ENI HAS SURRENDERED its remaining 42 leases on Alaska's eastern North Slope; leases that were adjacent to acreage held by Oil Search and Bill Armstrong's Lagniappe Alaska.

Eni surrendered the leases to the state of Alaska in July, which means a rumor reported in Petroleum News about the company planning an exploration project on its eastern North Slope acreage was false.

When asked why Eni relinquished the leases, the company told Petroleum News: "Eni completed its exploration studies on the area the leases covered and the prospectivity of the area

see **INSIDER** *page 7*

Asia oil demand back; price little changed; demand checks delta fears

Alaska North Slope crude gained 71 cents Sept. 8 to close at $72.17 per barrel, while West Texas Intermediate leapt 95 cents to close at $69.30, and Brent was up 91 cents to close at $72.60.

For the three indexes, the climb was a claw back from two days of losses. ANS lost 90 cents Sept. 7 to close at $71.46, while WTI lost 94 cents to close at $68.35, and Brent lost 92 cents to close at $71.69.

There was no trading Monday Sept. 6.

The prior week closed with losses. ANS shed 47 cents to close at $72.36 on Sept. 3. WTI closed 70 cents lower at $69.29 and Brent closed 42 cents lower at $72.61.

see **OIL PRICES** *page 11*

88E's Yukon leases on state land, unleased acreage nearby

88 Energy Ltd. said Sept. 2 that it has raised about $17.7 million ($24M Australian) in a share placing to finance its first quarter Merlin 2 appraisal well in the National Petroleum Reserve-Alaska. The company, which is the owner of four Alaska operating subsidiaries — Emerald House, Regenerate Alaska, Accumulate Energy Alaska and Captivate Energy Alaska — also said that after completion of the share placing, it will have enough cash to fund its working capital requirements and general and administrative overheads for at least 12 months.

"Completion of this placing positions 88 Energy strongly as planning and preparations continue for drilling of the Merlin 2 appraisal well," said chief executive Ashley Gilbert.

While the executive branch of the Biden administration has

see **YUKON LEASES** *page 5*

Imperial Oil to convert vegetable oil into feedstock for diesel fuel

Imperial Oil, ExxonMobil's 70% owned Canadian branch plant, is planning to build a renewable diesel facility at its refinery complex near Edmonton.

The company said the unit would be the largest of its kind in Canada, processing 23,000 barrels per day in addition to the 200,000 bpd already handled at Imperial's adjacent Strathcona Refinery.

Imperial said its renewable diesel will use canola, soy or sunflower oils as feedstock in combination with hydrogen.

The end product would be usable year-round in any type of engine that uses diesel for combustion. It differs from biodiesel, which converts used cooking and other oils into fuel.

Subject to a final investment decision in mid-2022, Imperial

see **RENEWABLE DIESEL** *page 11*

GOVERNMENT

French wins in court

Supreme Court reverses lower court, finds AOGCC has broad waste authority

By KRISTEN NELSON
Petroleum News

In a Sept. 3 decision the Alaska Supreme Court reversed a decision by the Alaska Superior Court in a case brought by Hollis French against the Alaska Oil and Gas Conservation Commission and remanded the matter to AOGCC "for further proceedings consistent with this opinion."

French, a commissioner from 2016 to early 2019, had petitioned AOGCC for a hearing on a complaint of waste, arguing that the commission was taking too narrow a view of its statutory authority.

In an April 2019 letter to the commission protesting its order denying his request for a hearing on his complaint of waste, French said: "It is a little frustrating dealing with a so-called conservation commission that refuses to see what is directly in front of it," referring to the 2017 gas leak in Cook Inlet.

He said in that letter that the commission's position "is not supported by Alaska law; indeed, the agency's position is contrary to the law."

The Supreme Court appeared to agree with French's view of the extent of AOGCC authority.

2017 fuel gas leak

The issue arose from a 2017 fuel gas leak from an 8-inch line carrying fuel gas to Hilcorp Alaska's Platform A in Cook Inlet.

see **FRENCH RULING** *page 8*

LAND & LEASING

Last piece in place

Hilcorp assigns Jade remaining 5% of E. North Slope Sourdough oil prospect

By KAY CASHMAN
Petroleum News

Jade Energy's proposed Sourdough prospect well, Jade 1, is a big step closer to reality for early winter 2022-23. On July 27, Hilcorp North Slope assigned to Jade its 5% working interest in the Sourdough prospect, which is portions of state oil and gas lease ADL 343112, Area F, in the Point Thomson unit. (Jade already held a 95% interest per a farmout agreement with Point Thomson operator ExxonMobil and the other working interest owners.)


ERIK OPSTAD

Hilcorp, like the other assignees, kept a small overriding interest in the acreage.

Transfer of the final 5% assignment had been delayed after BP approved it, but then sold its Alaska assets to Hilcorp, delaying Jade's plans to drill in the winter of 2021-22.

Tom Stokes, director of Alaska's Division of Oil and Gas under the Department of Natural Resources, told Petroleum News that Hilcorp's lease assignment to Jade will be issued by his agency in the next week.

That action should allow the Alaska-based Jade to assume the development account balance for Sourdough carried by the division. The balance

see **JADE 1 WELL** *page 9*

GOVERNMENT

Dueling election claims

Canada's governing Liberals commit to cap emissions by 45%; Conservatives by 30%

By GARY PARK
For Petroleum News

Canadian voters are being given two stark choices on the future of oil sands development as they prepare to cast their ballots on Sept. 20.


JUSTIN TRUDEAU


ERIN O'TOOLE

Prime Minister Justin Trudeau, faced with a tightening contest that could thwart his hopes of a third term in office, has pledged to impose an emissions cap on the petroleum sector.

His chief rival, Conservative leader Erin O'Toole, has stunned the industry by endorsing the revival of Enbridge's Northern Gateway pipeline, which Trudeau cancelled in 2016.

In a new series of climate proposals, Trudeau outlined proposals to eliminate greenhouse gas emissions in the oil sands, starting in 2025 and moving in five-year increments to net-zero in 2050. His first phase would cut emissions by 45% below 2005 levels over the next nine years.

He said a Liberal government would pay for 50,000 more zero-emissions vehicle charging stations, mandating that half of all car sales be net-zero by 2030 and ensuring the electricity grid would achieve net-zero by 2035.

see **ELECTION CLAIMS** *page 7*

● EXPLORATION & PRODUCTION

Hilcorp to drill North Trading Bay unit

Production from Spark, Spur, stopped in 2005; company plans to drill sidetrack from Monopod; goal to return field to production

By KRISTEN NELSON
Petroleum News

Alaska Oil and Gas Division Director Tom Stokes has approved Hilcorp Alaska's 2021 plan of development for the North Trading Bay unit. This follows a 2019 termination of the unit by the division for lack of "diligent operations to restore production."

Hilcorp appealed that decision, and in 2020, Department of Natural Resources Commissioner Corri Feige reversed denial of the 2019 POD and termination of the unit and invited Hilcorp to submit a new POD. That POD would allow Hilcorp 16 months to identify drill targets which it would have until the end of the subsequent POD period to drill. If that drilling was not done, the NTBU would automatically terminate.

The company has now identified drilling targets within NTBU.

Lighthoused platforms

North Trading Bay is one of the original offshore Cook Inlet field developments.

Stokes said in his Sept. 7 decision that Marathon Oil Co. built the Spur and Spark platforms in the NTBU in 1967, but the unit has not been in production since 2005, when Marathon was the operator.


TOM STOKES

In 2008 Marathon proposed a long-term conceptual abandonment plan, but no plan was implemented.

Hilcorp became operator in 2013.

"The platforms are currently maintained in 'lighthouse' mode," Stokes said. "The crane and helidecks are functional; however, crew facilities are not functional, and no wells are currently active."

In 2017 Hilcorp told the division it would not be economic or technically feasible to return the platforms to production and said it had no plans to restore either Spark or Spur to production.

In 2017 Hilcorp's plan was to restore NTBU production by drilling the A-04RD well from the Monopod in the Trading Bay unit. That well, proposed for the 2018 POD period, was not drilled.

> *The 2021 POD is approved for Oct. 15, 2021, through June 30, 2023, and, Stokes said, if targets described in the POD are not drilled by the end of the POD period, "the NTBU will automatically terminate."*

In its 2019 POD, Hilcorp proposed to sidetrack the A-10 well from the Monopod, rather than the A-04RD.

The A-10 would have delineated acreage geologically connected to but outside NTBU. If that well was successful, Hilcorp would have petitioned to have the NTBU expanded to include that acreage.

It was at that point that the division denied that proposed POD and administratively terminated the unit.

Current plan

Under the new POD submitted after the commissioner reversed the division's denial and termination decision, Hilcorp has identified Tyonek reservoir drilling targets,

see **HILCORP DRILLING** *page 4*

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● EXPLORATION & PRODUCTION

US rotary rig count drops by 11 to 497

Decrease week ending Sept. 3 driven by Hurricane Ida in Gulf of Mexico, with rigs there down to zero from 14 the previous week

By KRISTEN NELSON
Petroleum News

The Baker Hughes U.S. rotary drilling rig count was 497 the week ending Sept. 3, down 11 from 508 the previous week, with that drop driven by rigs in the Gulf of Mexico, where the count went from 14 the previous week to zero as Hurricane Ida closed down activity. The U.S. count was up from 241 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.

U.S. offshore rigs, a count which includes the Gulf of Mexico, stood at two Sept. 3, down by 13 from 15 the previous week and down by 13 from 15 rigs a year ago.

The Sept. 3 count includes 394 rigs targeting oil, down by 16 from the previous week and up 213 from 181 a year ago, with 102 rigs targeting gas, up by five from the previous week and up by 30 from 72 a year ago, and one miscellaneous rig, unchanged from the previous week and down by two from a year ago.

Eleven of the rigs reported Sept. 3 were drilling directional wells, 463 were drilling horizontal wells and 23 were drilling vertical wells.

Alaska rig count up by one

The most significant week-over-week change in state counts was Louisiana (35), down by 14 from the previous week on Hurricane Ida.

Alaska (5), New Mexico (82) and Oklahoma (32) were each up by a single rig. Counts in all other states were unchanged, week-over-week: California (6), Colorado (11), North Dakota (22), Ohio (12), Pennsylvania (19), Texas (232), Utah (11), West Virginia (9) and Wyoming (18).

Baker Hughes shows Alaska with five rigs active Sept. 3, up by one from the previous week and up two from a year ago, when the state's count stood at three.

Baker Hughes shows Alaska with five rigs active Sept. 3, up by one from the previous week and up two from a year ago, when the state's count stood at three.

The rig count in the Permian, the most active basin in the country, was up by two one the previous week at 250 and up by 125 from a count of 125 a year ago.

International rig count up by 26

Baker Hughes has reported the international rig count monthly since 1975. International rigs exclude North America, a count included in the company's worldwide figures.

The international rig count for August, 777, was up by 26 rigs from a July count of 751, with land rigs up by 15 to 590 and offshore rigs up 11 to 187. The international count is up 30 rigs from 747 a year ago, with land rigs up 27 and offshore rigs up three.

For August, the U.S. rig count averaged 501, up 17 from July's average of 484 and up 251 year-over-year.

The average rig count for Canada was 156 in August, up 11 from July's average of 145 and up 103 year-over-year.

The worldwide count, international and North America combined, was 1,434 in August, up 54 from 1,380 in July and up 384 from 1,050 in August 2020. The U.S. accounts for the largest number of rigs worldwide, 501 in August, followed by the Middle East at 261, Asia Pacific at 198, Canada at 156, Latin America at 138, Europe at 105 and Africa at 75. ●

Contact Kristen Nelson at knelson@petroleumnews.com

EXPLORATION & PRODUCTION

Hilcorp permits Happy Creek strat tests

Hilcorp Alaska has permitted seven stratigraphic tests with the Alaska Oil and Gas Conservation Commission, Happy Valley Nos. 1, 4-6 and 8-10. The stratigraphic tests are on the Kenai Peninsula in townships 1 and 2 south, range 14 west, Seward Meridian, an area at or near the southern end of the company's Ninilchik unit.

The commission approved the permits Sept. 1 and Sept. 3.

Hilcorp, Cook Inlet's largest oil and gas producer, has been exploring on the more southerly portion of the peninsula and brought the Seaview gas field at Anchor Point online this summer.

At a prospect north of Seaview, Whiskey Gulch, Hilcorp drilled a dozen 600-foot stratigraphic tests in 2019 and 2020 and has a permit from AOGCC to drill the Whiskey Gulch No. 1 oil and gas exploration well.

The company, which took over BP's North Slope assets and operates a number of fields there, including Prudhoe Bay, is also becoming active in Interior Alaska.

Earlier this year Hilcorp received permits from AOGCC for stratigraphic tests in the Yukon Flats basin in the Alaska Interior and plans to drill up to 15 stratigraphic tests, all on a block of Doyon Ltd. subsurface around the villages of Birch Creek and Fort Yukon. In late 2019 Hilcorp entered into an oil and gas exploration agreement with Doyon for the basin. Hilcorp conducted an aerial gravity survey of the Yukon Flats basin in the summer of 2020.

—KRISTEN NELSON

GOVERNMENT

Hilcorp requests AOGCC hearing

The Alaska Oil and Gas Conservation Commission said Sept. 1 that Hilcorp Alaska has requested a hearing to discuss the commission's denial of a request by the company to use a 60/40 blend of methanol and water and/or a brine solution to test the BOPE, blowout prevention equipment, on the Thunderbird Rig 1.

The Thunderbird is a workover rig being used on the North Slope.

The commission has scheduled the hearing for Oct. 13 at 10 a.m. in its Anchorage offices and said that while the hearing will be held in person, the public may participate remotely via MS Teams, and to do so, needs to contact the commission's executive secretary, Samantha Carlisle, at samantha.carlisle@alaska.gov at least two business days before the scheduled hearing.

The commission only allows water to be used in BOPE testing.

In email correspondence on the issue, Hilcorp said it has requested the use of 60/40 MEOH/water or 9.8 ppg brine rather than fresh water as BOPE test fluid.

Hilcorp said it is worried about water freezing during BOPE operations. While the Thunderbird will only be operated from about April through October, weather permitting, the company said, it is not a fully enclosed winterized rig.

The company said that during normal operations fluids are moving between areas where heat can be added but during BOPE testing, fluid lines do not benefit from the heat sources which keep fluids from freezing during normal operations.

The company said the commission's regulations cite a specific edition of API Standards or Recommended Practices which are superseded by current API Standards or Recommended Practices. The edition of API referenced in AOGCC regulations is the 1997 edition, Hilcorp said, whereas the latest version is 2018.

—KRISTEN NELSON

● FINANCE & ECONOMY

EIA sees higher natural gas prices on Ida

In September Short-Term Energy Outlook, agency says Henry Hub spot price averaged $4 per million Btu, up 16% from August forecast

By KRISTEN NELSON
Petroleum News

The U.S. Energy Information Administration said in its September Short-Term Energy Outlook, released Sept. 8, that it expects U.S. natural gas prices to remain higher for the coming months based on Gulf of Mexico production shut-ins related to Hurricane Ida, which had landfall in Louisiana Aug. 29.


STEVE NALLEY

The fourth-quarter Henry Hub spot price is forecast to average $4 per million British thermal units, up 16% from EIA's August forecast.

"Hurricane Ida affected natural gas production at a time that the United States was already experiencing higher natural gas prices due to growth in exports, strong domestic natural gas consumption, and relatively flat natural gas production," said EIA Acting Administrator Steve Nalley. "Lost production from the storm combined with these current market conditions has limited our ability to build up natural gas inventories, and we expect that will keep prices higher in the short term than we had previously thought."

Producers shut-in some 90% of Gulf of Mexico natural gas and crude oil production due to Hurricane Ida. EIA said significant capacity — both in production and refining — remains offline, although the agency said it expects production and refining to gradually come back online through September.

Brent averages $71

EIA said Brent crude oil spot prices averaged $71 per barrel in August, down $4 per barrel from July, but up $26 per barrel from August 2020. "Brent prices have risen over the last year as a result of steady draws on global oil inventories, which averaged 1.8 million barrels per day" in the first half of the year, the agency said.

EIA expects Brent to remain near current levels for the remainder of the year, averaging $71 per barrel in the fourth quarter, but next year, "growth in production from OPEC+, tight U.S. oil, and other non-OPEC countries" is expected to "outpace slowing growth in global oil consumption and contribute" to a decline in Brent to an average of $66 per barrel.

"Brent prices have risen over the last year as a result of steady draws on global oil inventories, which averaged 1.8 million barrels per day" in the first half of the year, the agency said.

With some 90% of crude oil production in the federal offshore Gulf of Mexico offline in in late August following Hurricane Ida, GOM production averaged 1.5 million barrels per day in August, down 300,000 bpd from July. EIA said it expects production to resume in September, averaging 1.2 million bpd in that month, and then returning to an average of 1.7 million bpd in the fourth quarter.

In June, the most recent month for which historic data is available, U.S. crude oil production averaged 11.3 million bpd, EIA said. The agency is forecasting production to remain near that level through the end of the year and then increase to an average of 11.7 million bpd in 2022, "driven by growth in onshore tight oil production," with growth expected to "result from operators beginning to increase rig additions, offsetting production decline rates."

OPEC crude oil production is forecast to average 26.4 million bpd this year, and to average 28.3 million bpd in 2022.

Natural gas

EIA said the August increase in the Henry Hub spot price for natural gas to an average of $4.07 per million Btu, up from a July average of $3.84 per million Btu, "reflects hotter temperatures in August on average across the United States compared with July, which caused demand for natural gas in the electric power sector to be higher than expected. Prices rose further in late August when Hurricane Ida caused a decline in natural gas production in the GOM."

The Henry Hub average this August, up $1.77 per million Btu from August 2020, reflected steadily rising gas prices this year, EIA said, due to factors including growth in liquefied natural gas exports, rising gas consumption in sectors other than electric power and relatively flat production.

As factors which drove prices higher in August lessen, EIA said, it expects Henry Hub to average $4 per million Btu in the fourth quarter.

Prices this winter are forecast to peak at $4.25 per million Btu in January and then decline, averaging $3.47 per million Btu in 2022 "amid rising U.S. natural gas production and slowing growth in LNG exports."

Dry natural gas production is expected to average 92.7 billion cubic feet per day in the United States during the second quarter, EIA said, up from 91.7 bcf per day in the first quarter, and then rise to 95.4 bcf per day next year, "driven by natural gas and crude oil prices, which we expect to remain at levels that will support enough drilling to sustain production growth."

EIA said U.S. dry natural gas production has been almost flat this year after a brief decline in February caused by severely cold weather in Texas and the agency expects production to remain relatively flat for the remainder of the year. ●

Contact Kristen Nelson at knelson@petroleumnews.com

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Kay Cashman	PUBLISHER & FOUNDER
Mary Mack	CEO & GENERAL MANAGER
Kristen Nelson	EDITOR-IN-CHIEF
Susan Crane	ADVERTISING DIRECTOR
Heather Yates	BOOKKEEPER
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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

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HILCORP DRILLING

Stokes said, and identified the A-10RD and A-09RD wells as the best candidates for sidetracking.

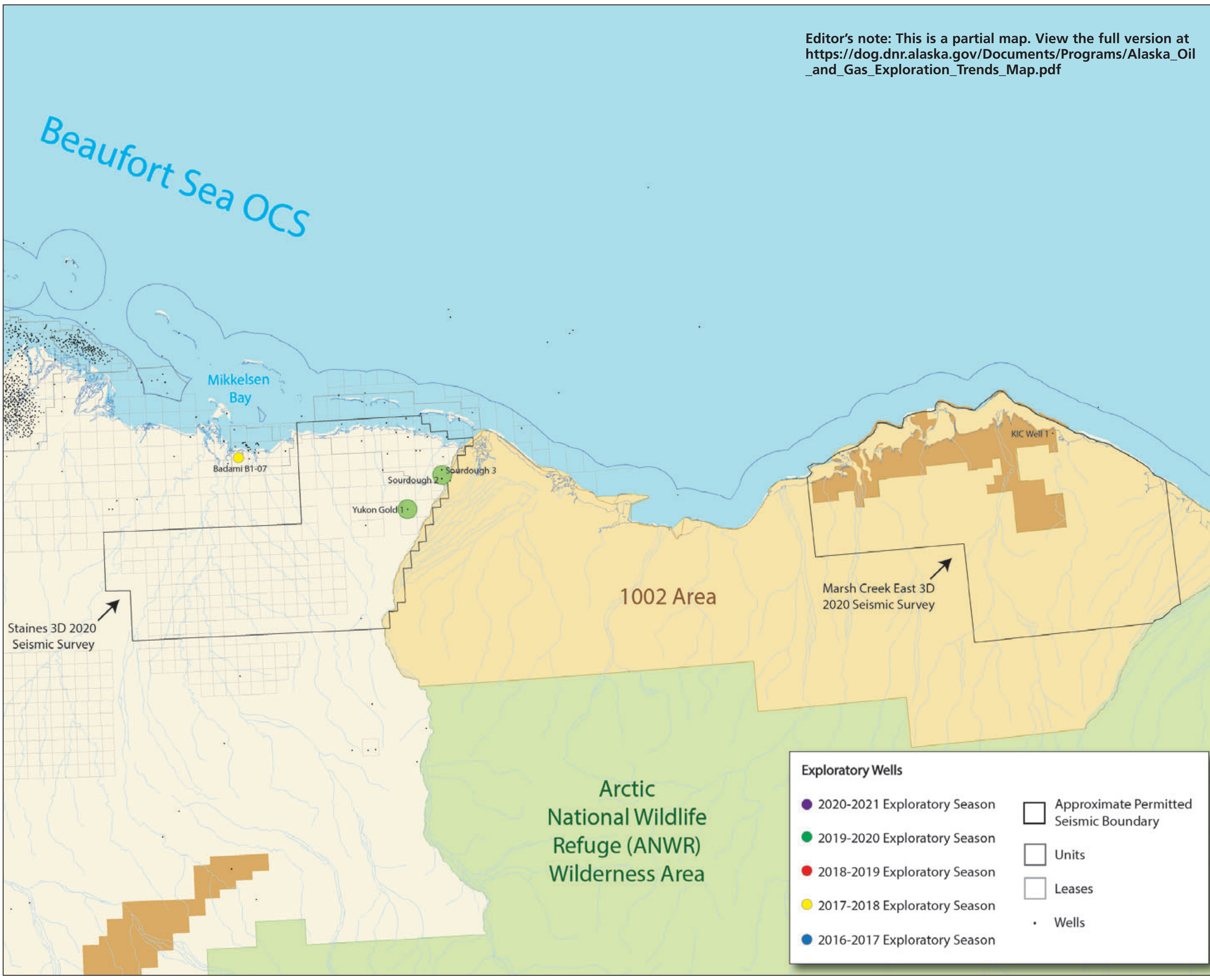
For the 2021 POD, Hilcorp "proposes to sidetrack the A-10RD well into the Tyonek Gas Sands inside the NTBU boundary," he said. If that drilling is successful, the company would return NTBU to production.

The company proposed a 20-month POD period for 2021, aligning the NTBU POD with other Cook Inlet units.

Stokes said that because of the longer than usual POD period, the division was requiring the company to submit quarterly reports on its progress in drilling and returning the unit to production.

The 2021 POD is approved for Oct. 15, 2021, through June 30, 2023, and, Stokes said, if targets described in the POD are not drilled by the end of the POD period, "the NTBU will automatically terminate." ●

Contact Kristen Nelson at knelson@petroleumnews.com



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YUKON LEASES

allowed NPR-A exploration and appraisal drilling by 88 Energy Alaska subsidiary Accumulate and ConocoPhillips, the judicial branch recently shut down development work in ConocoPhillips' nearby Willow project, a blow to companies looking to develop oil discoveries on federal land in Alaska.

The Merlin prospect in 88 Energy's 195,000-acre Peregrine project and the company's adjacent undeveloped Umiat oil field are both in NPR-A. Of course, there could be a new U.S. president in two years whose administration might support oil and gas activities on federal land, but today's uncertainties and problems with the feds in all branches of the U.S. government have prompted stronger interest in state of Alaska acreage where leasing, exploration, development and production are encouraged.

Alaska Department of Natural Resources Commissioner Corri Feige said DNR's booth and involvement at Summer NAPE in mid-August garnered a lot of seemingly solid interest in oil and gas investment in the state.

"Alaska's endowment and the recent discovery success rate in the Brookian play type are extremely exciting, and widely recognized as one of the hottest onshore plays out there," she told Petroleum News Sept. 7. (See Oil Patch Insider column in this issue for more from Feige.)

Yukon leases on state land

88 Energy's portfolio contains four key project areas — Project Peregrine, Yukon

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YUKON LEASES

leases, Project Icewine and the Umiat oil field.

88 Energy puts its eastern North Slope Yukon leases at the end of its list of Alaska projects — and very little changes in what the company says about Yukon from release to release.

But the acreage, which is 100% held by 88 Energy subsidiary Regenerate, is leased from the state of Alaska, not the federal government, and it includes the mid-1990s BP Yukon Gold discovery well on ADL 393657 that contains some 90 million recoverable barrels of oil.

88 Energy picked up its eight Yukon leases in the 2017 and 2018 state areawide lease sales. They encompass 15,234.71 contiguous acres on the eastern North Slope along the border of the ANWR 1002 area.

In addition to its Yukon state leases on the eastern North Slope, Regenerate was named high bidder on Tract 29 in the U.S. Bureau of Land Management's 2021 Coastal Plain (ANWR 1002 area) Lease Sale.

Tract 29 contains 23,446 acres and is adjacent to 88 Energy's existing Yukon leases.

Talks w. neighbors continue

In its Sept. 2 presentation, 88 Energy again said its Yukon drilling plans are "ongoing and subject to farm-out and other discussions" including continuing talks "with nearby lease owners for joint development" in the area.

The only nearby leaseholders are to the north: the Jade Energy-operated Sourdough prospect lease in the southeastern corner of the ExxonMobil-operated Point Thomson unit, which contains two 1990's BP oil discovery wells, and two other Point Thomson unit leases directly west of Jade's lease (see Jade story on page 1 of this issue).

All the rest of the acreage surrounding 88 Energy's Yukon leases is unleased by the state (see map in pdf and print versions of this story).

3D over Yukon, Sourdough

In early 2018, SAExploration acquired 3D seismic over both the Yukon leases and the Sourdough lease.

For 88 Energy the data allowed an assessment of the volumetric potential of the untapped Yukon Gold oil discovery, as well as Regenerate's broader lease position.

Processing and mapping were done to assess the resource associated with three sand bodies. The largest of these was the Cascade prospect, which 88 Energy said contained approximately 92% of the "preliminary mapped resource" on the Yukon leases. The up-dip portion of the prospect was clearly identified as a channelized feature and is likely to contain thicker sands of higher quality, the company said.

Cascade was "interpreted to have been intersected in a down-dip distal location by the vintage Yukon Gold 1 oil discovery well." That well also "discovered two oil saturated sands in the Canning formation with porosities exceeding 18 percent," 88 Energy said, noting a Brookian turbidite fan play, with additional prospectivity mapped with 3D seismic within the Staines tongue topset play.

"Up until the recent commissioning of infrastructure at the nearby Point Thomson gas/condensate/oil field in 2016, an accumulation of this size and location would have been considered stranded," 88 Energy said in 2018.

Another Sourdough well, Jade 1, is scheduled to be drilled in early 2023.

Merlin 2 appraisal well

88 Energy said it has selected three potential Merlin 2 appraisal well sites to the east of Merlin 1, "closer to the shelf break, where enhanced reservoir thickness and quality are expected."

Merlin 2 will target a gross mean prospective resource of 652 million barrels of oil in the N20, N19 and N18 Nanushuk horizons.

Permitting and rig selection are underway.

Merlin 1 did not penetrate the targeted deeper N14 horizon which is anticipated to be 600 feet deeper than drilled.

The company said Sept. 2 that it still has an opportunity to drill Merlin 1A to a depth of 6,000-plus feet to intersect N14, but it does not appear to be something that will happen this coming winter. Merlin 1A's N14 horizon has a gross mean prospective resource of 132 million barrels, 88 Energy said.

The other Peregrine project prospect is Harrier.

Harrier 1, the company said, would be drilled sometime in the future, and would be designed to "intersect two stacked reservoir targets, the N15 and N14 North." It would target a gross mean prospective resource of 353 million barrels.

Talitha A results for Icewine

Icewine is another 88 Energy project (held and operated by Accumulate) on state lands. The company has a 75% interest in Icewine, which encompasses 193,000 net acres.

On Sept. 2, 88 Energy reported that Icewine is being reassessed by an internal geoscience team well ahead of a potential farm-out due to Pantheon Resources' "encouraging" findings at the neighboring Talitha well.

Talitha A, which Pantheon said had a flow of light oil from the Kuparuk formation, is close to Icewine's northern border.

Additional insights into the wettability of the Kuparuk formation may have positive ramifications for 88 Energy's previous interpretation of this horizon, 88 Energy said.

All three wells drilled by Accumulate at Icewine have encountered good quality reservoir in the Kuparuk, with indications of hydrocarbons. These had previously been interpreted as likely gas condensate or residual oil with no mapped targets being identified, as this was not a play pursued by 88 Energy.

—KAY CASHMAN

Contact Kay Cashman at publisher@petroleumnews.com

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ELECTION CLAIMS

"The biggest concern that people have around pipelines is 'Oh, we're going to see oil sands expansion,'" Trudeau said. "No, we're not. We're not going to see an increase in emissions (from the oil sands)."

Government-owned pipeline

But questions still hover over the impact of emissions linked to the government-owned Trans Mountain pipeline, which the Trudeau administration acquired in 2018 to keep alive construction work that is designed to boost capacity on the system to 890,000 barrels per day from the current 300,000 bpd.

Although Trudeau has refused to publicly discuss that apparent conflict, he also knows Trans Mountain was a drag on his 2019 campaign, especially among green-conscious voters, especially in Quebec.

The latest Liberal policy would apply pressure to upstream companies who would — under a Trudeau administration — have to meet their first emissions target in less than five years, said Richard Masson, an executive fellow at the University of Calgary who consults with companies in the petroleum industry.

"There is great concern that the move (by Trudeau) to a 'just transition' is code for shutting down the oil and gas sector, rather than allowing the sector to innovate and reduce emissions, which is what needs to happen to address climate change," he told the Globe and Mail.

Masson said that if Canada cuts the size of the petroleum industry while there is still demand for the product such strategy would only benefit other oil-producing countries.

The major focus over the next decade should be to achieve clean electricity and transportation and phasing out fossil fuels "with accountable milestones," said Merran Smith, executive director of Clean Energy Canada.

Rolling back reduction

O'Toole was quick to fly in the face of Trudeau's plan, defending his policy to roll back Canada's climate reduction targets and arguing he has a credible plan to lower emissions, contrary to the Trudeau government's failure to act on its promises during six years in power and offering nothing new in this campaign.

If elected, O'Toole said he will push the reset button on Trudeau's proposal, returning to the previous national target of lowering emissions by 30% below 2005 levels by 2030, giving Canada the room to balance environmental action and a strong economy.

His one commitment that caught pro-petroleum factions off guard was his promise to restart work the Northern Gateway system to deliver 525,000 bpd of crude bitumen to the British Columbia coast near Prince Rupert for export to Asia and importing on a separate line 193,000 bpd of condensate for blending with bitumen to improve pipeline flow.

O'Toole said Northern Gateway would provide economic opportunities for Indigenous communities along its 735-mile right of way by offering them the chance for 33% ownership.

"I would like to see a transfer of wealth (to First Nations) and opportunity after generations of trauma transfer," he said.

The Conservatives also said they would repeal Bill C-48, which has imposed a moratorium on oil tanker traffic off the northern B.C. coast.

Enbridge and the British Columbia government said they would not comment on promises made during an election campaign.

O'Toole said "pipelines in Western Canada (such as Trans Mountain and Northern Gateway) are important. We need to re-establish the confidence of Western Canadians in our country. After six years of Trudeau all we have is greater division in our country."

He said that once a Conservative government achieved its 2030 target for carbon emissions "then we can work on ambitions" past that level but was emphatic that he wants a "made-in-Canada solution for net zero by 2050."

The Conservatives have startled Canadians by edging ahead in the polls, but the margin is so slim that it's viewed as far from conclusive. ●

Contact Gary Park through publisher@petroleumnews.com

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INSIDER

didn't meet Eni's economic metrics."

Still Eni remains active farther west on the North Slope. And even without the company's involvement, the future of the eastern North Slope looks promising.

A few months ago, Armstrong told Petroleum News that he was very excited about the Lagniappe play.

Armstrong and partner Oil Search "are essentially taking our learnings" from their Pikka, Horseshoe, Mitquq and Stirrup Nanushuk oil discoveries west of the central North Slope to east of Prudhoe Bay.

The Lagniappe play concept "is very similar. Multiple zones, onshore, good gravity oil, reasonably close to infrastructure," he said.

"The targeted objectives are slightly younger than what we have at Pikka et al but with better reservoir qualities — porosity and permeability — even though they are slightly deeper," Armstrong said.

There have been very few wells drilled in the Lagniappe area, he continued, "and the few wells that have been drilled were not pursuing the zones that we are. Yet almost all wells had good oil and gas shows. We are using 3D seismic. We know what we are looking for due to our big success to the west."

Armstrong said Lagniappe and Oil Search "are pursuing stratigraphic traps, which are subtle, but now that we know what they look like, they are identifiable on 3D seismic. Real big targets."

Plus, all the Lagniappe acreage is on state leases, he noted more than once.

Feige: Strong interest at NAPE

ATTENDEES OF SUMMER NAPE in mid-August showed "a lot of interest" in Alaska oil and gas investment, Corri Feige, commissioner of the Alaska Department of Natural Resources, told Petroleum News in a Sept. 7 email.

CORRI FEIGE

"Alaska's endowment and the recent discovery success rate in the Brookian play type are extremely exciting, and widely recognized as one of the hottest onshore plays out there," Feige said.

"But we also heard a lot of concerns about lack of funding for 'arctic' projects. Capital is currently 'politically constrained' — my term — due to the federal administration's push to thwart hydrocarbon investment and development," she said.

Feige and Alaska Department of Revenue Commissioner Lucinda Mahoney are "planning some direct face time with banks running this mantra under the guise of ESG — which Alaska has been satisfying for decades. (Even before it was trendy!)," Feige said.

ESG is environmental, social and governance performance.

Oil Search secures $565M RCF

ON SEPT. 9, OIL SEARCH LTD. said it has signed documentation for a new US$565 million non-amortizing revolving credit facility to replace the $600 million non-amortizing credit facility that expires in June 2022.

The company refinanced through a banking group made up of banks from Papua New Guinea, Australia, Asia and the United States. The credit facility has an expiration date of Dec. 31, 2026.

Commenting on the new corporate facility, Oil Search Vice President of Treasury Chelsea McGregor said: "We are pleased to see support from both existing and new relationship banks, which signals their recognition that Papua New Guinea continues to be an attractive country to invest in."

The new facility, he said, "extends the group's weighted average debt maturity profile, maintains liquidity above US$1 billion and is a key component of Oil Search's capital management strategy for the next five years."

A few days earlier, Oil Search and Santos Ltd. extended the due diligence period on their proposed merger for another week until Sept. 13.

The $6.26 billion offer tentatively agreed to consists of Oil Search shareholders receiving 0.6275 new Santos shares for each Oil Search share held.

If the deal goes forward, Santos and Oil Search will become the largest oil and gas company on the ASX and one of the top 20 global oil and gas companies.

—KAY CASHMAN

Contact Kay Cashman at publisher@petroleumnews.com

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FRENCH RULING

In a March 2019 order the commission said it investigated the leak when it occurred and found the gas was purchased by Hilcorp from a third party.

Had the source of the gas been upstream gas, "gas which remained an AOGCC-regulated resource and had not been metered and severed from the property … the gas leak would have constituted waste and AOGCC would have instituted an enforcement action against Hilcorp," the commission said in its 2019 order.

But, the commission said, the leaking gas had been purchased by Hilcorp and was being shipped back to Platform A.

"The primary purpose behind the prohibition against waste is to maximize resource recovery," the commission said, and "like every other state's oil and gas conservation regulatory authority, AOGCC regulates waste occurring upstream," that is, the commission said, before the oil or gas is "metered and severed from the property."

"Neither AOGCC nor any of its counterparts in other states has ever attempted to extend its jurisdiction over waste to gas which has been sold by a vendor," the commission said.

Appeal to Superior Court

In appealing the commission's order to the Alaska Superior Court in April 2019, French listed three points on appeal. He said AOGCC erred by ruling it "had no jurisdiction over gas sold by a vendor," in ruling it "had no jurisdiction over gas metered and severed from a property" and in ruling that it "had no jurisdiction over gas Hilcorp purchased from Harvest Pipeline."

In an April 2019 letter to the commission asking for reconsideration of the agency's March 2019 ruling, French reviewed the 2017 events, which resulted in gas being released for several months.

"That is waste," French said. "The lack of gas led to the platform shutting down, which resulted in a loss of oil production. That is bad. The waste led to a loss of production."

French said AOGCC's ruling that it did not have jurisdiction over the leak is based on the commission's authority ending after "oil or gas is metered and severed from the property."

He said the commission's position "is not supported by Alaska law; indeed, the agency's position is contrary to the law. The law says that the agency's authority extends statewide" and cited the commission's statutory authority over "all land in the state lawfully subject to its police powers" and its "jurisdiction and authority over all persons and property, public and private, necessary to carry out the purposes and intent of this chapter."

"If the Legislature had wanted the agency's jurisdiction to end at the meter, it would have said so in a statute," French said.

And on the issue of preventing waste, French said, if maximizing resource recovery is the primary reason for prohibiting waste, then "the commission should be exerting jurisdiction over this fuel gas leak, as it without question led to lesser recovery of the resource."

French referred to letter from the Department of Natural Resources which cited the 2017 production platform shutdown caused by the fuel leak as impacting the flow capacity of existing wells, causing production to return at a lower rate than that the reservoir was capable of once the leak was repaired and production resumed.

Superior Court decision

In its June 2020 ruling in favor of the commission, the Alaska Superior Court said French asked the court to rule that AOGCC had jurisdiction over the gas leak and asked the court to "independently review the merits of the AOGCC's decision and rule that the Cook Inlet gas leak constituted 'waste'" under state statute and was under the commission's jurisdiction.

AOGCC requested the court to apply the rational basis standard, find the gas leak did not constitute waste and affirm the commission's order.

The court said the Alaska Supreme Court reviews agency interpretations of statute based on one of two standards — reasonable basis review or independent judgment review.

The parties, the Superior Court said, disagree on which standard applies.

"When the interpretation at issue implicates agency expertise or the determination of fundamental policies within the scope of the agency's statutory functions, Alaska courts apply the rational basis standard, where the Court gives deference to the agency's interpretation so long as it is reasonable," the Superior Court said.

"A reviewing court applies the independent judgment standard 'where the agency's specialized knowledge and expertise would not be particularly probative on the meaning of the statue,'" the Superior Court said.

"This Court agrees with AOGCC that a waste determination is within its expertise," the Superior Court said. "AOGCC complied with the statute by investigating the gas leak and determining the leak did not constitute 'waste' under the statute. Therefore, this Court will defer to AOGCC's waste determination if it is reasonable pursuant to the rational basis standard."

The Superior Court said the statutory reference to waste includes the words "unless the context otherwise requires," thus, the court said, the statute "presupposes situations where 'waste' may have different meanings in different contexts."

"Further, this language provides a reasonable construction that the legislature intended to give AOGCC broad authority to employ its expertise and determine what constitutes waste," the Superior Court said, and concluded that the commission's "determination that the Cook Inlet gas leak did not constitute 'waste' is reasonable under" the statute.

The Superior Court also said this finding was consistent with AOGCC's previous regulations of waste upstream, prior to metering and severing from the property.

On the issue of "whether proper procedures were observed," the Superior Court said the commission's decision in Other Order 150 (denying French's petition for a hearing on waste) "complies with AOGCC's waste determination duty."

The Superior Court disagreed with French's argument that "the definition of 'waste' is a question of statutory construction, and therefore the Court should analyze the statute independent of the agency's interpretation," finding, instead that: "A waste determination requires specialized agency judgment, and thus the independent judgment standard is inapplicable."

Supreme Court ruling

The Alaska Supreme Court reversed the Superior Court's decision.

In discussion of its decision the Supreme Court said the parties appeared to agree that French is an interested party. "The only issue thus is whether French's petition contained a matter within the Commission's broad jurisdiction."

The Supreme Court said French argues the requirement that the commission "investigate whether waste exists" gives it "jurisdiction over waste determination."

While AOGCC concedes its statewide jurisdiction includes waste, the Supreme Court said the commission argues it was first required to determine whether waste exists before exercising jurisdiction, because without waste it has no jurisdiction.

"The Commission's jurisdiction argument puts the cart before the horse," the Supreme Court said.

AOGCC's mission is investigating and identifying oil and gas waste, and it "had jurisdiction over the leak at issue. If we accepted the Commission's understanding of jurisdiction, the Commission could always undermine AS 31.05.060(a)'s hearing requirement by deciding the substantive issue behind closed doors and then disclaiming jurisdiction."

AOGCC said it had investigated the leak and made a waste determination, the Supreme Court said, but even if it could deny a hearing because it had investigated waste, "the factual assertion that it has done so must be supported by substantial evidence. The Commission's statements about having investigated whether the leak was waste are wholly unsupported. The Commission's dismissal order contains several factual statements about the alleged investigation and waste determination, but there is no supporting evidence in the administrative record."

The Supreme Court said AOGCC improperly denied French's request for a hearing.

"The Commission has jurisdiction over waste determination, and substantial evidence does not support its assertion that it investigated and concluded this leak was not waste," the Supreme Court said, reversing the Superior Court decision and remanding the matter to the commission "for further proceedings consistent with this opinion."

Grace Salazar, AOGCC special assistant, told Petroleum News in a Sept. 9 email that the commission "is still reviewing the decision and has no comment at this time." ●

Contact Kristen Nelson at knelson@petroleumnews.com

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JADE 1 WELL

could be used by Jade to offset the impact of a 40% net profit share lease burden currently assigned to the Jade property.

Previous analysis by the Alaska Department of Revenue has shown that development of Sourdough would not be economic (a negative net present value) with a 40% NPSL burden in addition to the normal 12.5% royalty and other North Slope taxes to be carried by the project given the expected range of future crude oil prices, facilities construction costs and other related development cost elements. Mitigating much of the NPSL impact by applying the development account balance to future tax obligations would allow the project to become commercially viable.

Successful bathymetric survey

Jade recently finished its third helicopter supported bathymetric survey of the Point Thomson service pier, per its top executive Erik Opstad.

The survey was "very successful," he told Petroleum News Sept. 2.

The survey showed there is enough water depth to allow a large barge of the type typically used to mobilize drilling rigs access the PTU Service Pier.

The company is considering using Nordic Rig 3 or Nabors 27E for the work. Nabors 27E is a powerful rig that has been used at Point Thomson several times in the past to drill its deeper condensate reservoir, while Nordic Rig 3 is viewed as a nimble alternative suitable for drilling the somewhat shallower Sourdough turbidites.

Rig mobilization by barge to Point Thomson is expected to occur in September 2022.

Pursuing the Brookian

The primary target, Jade told the division, is the "Point Thomson Brookian resource, which is 25 API gravity oil." Opstad said the oil is contained within the over-pressured reservoir sands found throughout the Point Thomson unit and nearby Badami oil field, which is 22 air miles west of PTU.

Jade has also told the agency that the deployment of horizontal production wells is a critical element in commercializing the Point Thomson unit's Brookian opportunity in Area F, "as well as its adjoining areas."

The Sourdough lease, the most southeasterly in Point Thomson and adjacent to the western border of the ANWR 1002 area, holds two mid-1990's Sourdough oil discovery wells in the Brookian that were drilled by BP (at the time partnered with Chevron).

In a 1997 press release BP estimated Sourdough held 100 million barrels of recoverable oil.

Jade told the division that the Brookian reservoir in Area F has been delineated and characterized by several wells that were drilled in and around the Point Thomson unit since the mid-1970s.

The two wells drilled in the Sourdough prospect itself were summarized by Jade as:

- BP drilled Sourdough 2 to 12,562 feet TVD (true vertical depth) in March 1994 and the well was plugged and abandoned.
- In 1996, BP drilled Sourdough 3, reaching 12,475 feet TVD in March. The well was suspended. The Alaska Oil and Gas Conservation Commission, or AOGCC, granted both wells extended confidentiality.

EXXONMOBIL ALASKA

By building a 70,000 barrel per day liquids export pipeline at Point Thomson that connects to the Badami unit and thus moves oil and condensate to Pump Station 1 of the 800-mile trans Alaska oil pipeline, ExxonMobil improved the development economics of other oil prospects to the east, including Sourdough and Yukon Gold. Production from Point Thomson continues to remain around 10,000 bpd.

Connecting infrastructure

By building a 70,000 barrel a day liquids export pipeline at Point Thomson that connects to the Badami unit and thus moves oil and condensate to Pump Station 1 of the 800-mile trans Alaska oil pipeline, ExxonMobil improved the development economics of other oil prospects to the east.

Included in those prospects are Sourdough and Yukon Gold, its leases held by Regenerate Alaska, a subsidiary of 88 Energy. Yukon Gold is about 10 miles to the south of Sourdough; it's also adjacent to the ANWR 1002 Area.

The Arctic National Wildlife Refuge, or ANWR, spans 19.3 million acres — roughly equal in size to South Carolina — in northeast Alaska. In 1980, Congress (and President Jimmy Carter) designated more than 8 million acres within ANWR as federal wilderness as part of the Alaska National Interest Lands Conservation Act, or ANILCA. That same legislation set aside the 1.57 million-acre ANWR 1002 Area for petroleum exploration and potential future development. ●

Note: Area F consists of approximately 7,647 non-adjacent acres in the northeastern and southeastern corners of the Point Thomson unit, but Jade is owner and operator of PTU Tract 32, ADL 343112 in the southeastern portion of Area F.

Contact Kay Cashman at publisher@petroleumnews.com

Petroleum news — Oil Patch Bits

Nordic Calista announces new Anchorage location

Nordic Calista Services, a drilling and workover contractor owned by Calista Corp., has strategically relocated its office to 375 West 36th Avenue, Suite 300.

The larger office space facilitates Nordic's plans for growth in providing oilfield workover, sidetrack drilling services and grass root drilling of wells, and remote camp rentals. It recently added coiled tubing services in the Cook Inlet, Alaska region.

The expansion enhances Nordic's ability to provide flexibility, efficiency, and supply value-added services to its customers. The new office space will be shared with Calista affiliate E3 Alaska, which specializes in community outreach services to engage stakeholders, recruit, and promote local hire, and to train and develop a targeted resident workforce. The team plans to organize an open house to welcome its customers and vendors to visit their new facilities, once restrictions surrounding the pandemic subside.

For more information visit www.nordic-calista.com.

COURTESY NORDIC CALISTA

Non-binding Solicitation of Interest North Slope Royalty In-Kind Oil Supply

The Department of Natural Resources (DNR) is inquiring whether there is interest among commercial refiners or other parties to acquire some or all of the State's North Slope royalty in-kind (RIK) oil that may become available for sale when the current RIK supply contract obligations terminate in the third and fourth quarters of 2022 or any additional North Slope royalty volumes that the State chooses to take as RIK oil. If there is substantiated interest expressed by more than one potential buyer for RIK oil, DNR may issue an Invitation to Bid and conduct a sealed-bid auction for the RIK oil consequently.

DNR has received inquiries from potential buyers for multi-year RIK contracts. Under AS 38.05.183, the sale of the state's royalty oil must be by competitive bid except when the Commissioner determines that the best interest of the state does not require competitive bidding or that no competition exists.

We would like to know if your company might be interested in purchasing RIK oil and participating in an auction via a competitive sealed bid mechanism for a contract. We would also like to know the approximate volumetric range (in barrels per day per year) you would require, and the preferred length of the contract term (preferably, not less than three years). **This is an informal, non-binding inquiry and your response will not create any kind of commitment by you or your company/organization.** Your response, and those of other potentially interested parties, will be used only to gauge whether sufficient competition exists for RIK oil, and to determine whether the state will engage in a competitive disposition in the sale of RIK oil.

Below we have described some of the bidding and contractual terms that might apply to such a sale. Of course, they are subject to change depending on circumstances at the time DNR issues an Invitation to Bid, and we invite you to comment on proposed bidding and contractual term.

Proposed Bidding Terms (subject to change):

· **Priority Bidders.** The Department proposes to create a class of priority RIK bidders who will have preference over the general class of RIK bidders. This priority class of RIK bidders will consist of in-state commercial petroleum processors, as defined under 11 AAC 03.190, that will (1) provide financial guarantees in the form of a stand-by letter of credit, a surety bond, or a parent guarantee from a parent with an investment grade credit rating from one or more recognized credit rating companies (presuming that the Buyer is not the parent), combined with an Opinion Letter provided by a Financial Analyst that is independent from the Buyer, the parent, and the credit rating company, and (2) propose effective, viable Special Commitments that, if implemented, would have an impact on lowering in-state energy costs for consumers and addressing the need for a greater supply of crude oil for use in the state. The requirement for proposing Special Commitments is discussed further below.

· **Sealed Bid Auction of RIK Oil Lots.** RIK oil may be auctioned under fixed or variable lots of no less than 3,000 bpd/year, with an estimated total available amount for sale of 40,000 bpd/year, and potentially varying year by year. Each of these lots would be offered independently for each year, with deliveries likely beginning in the second half of 2022 through the life of the desired contract. As such, a bidder may be able to tailor their RIK oil bids in a manner that comports with its forward-looking expectations concerning demand for RIK oil. The winner of each lot will be the highest responsible bidder, and such a winner may be determined by a procedure that considers, among other potential factors, the lowest "RIK Differential" offered (possibly subject to a reservation price). The RIK Differential is a reducing element in the netback pricing method described below. You are invited to comment on this broad auction framework and bidding approach presented and define your volumetric range requirements for RIK oil.

· **Reservation Fee.** During the term of the contract, and within certain timing and volumetric limits, a buyer may change their monthly nomination to a quantity less than the maximum volume defined in a lot. This provides operational flexibility for a buyer to match its monthly RIK oil supply to its refinery's requirements. Such flexibility, however, comes at a cost to the State by preventing the sale of the remainder of the lot as RIK. To compensate for this cost, the State proposes to institute a per-barrel reservation fee assessed on those barrels below the RIK lot maximum not nominated by the buyer. You are invited to comment on your preferred mechanism for implementing such a reservation fee.

· **Bid Process.** Upon evaluating responses to this Non-Binding Solicitation of Interest, the Department may distribute a public notice and a formal Invitation to Bid to all potential buyers and the public outlining the auction process in more detail, if a competitive disposition is selected. Bidders will have at least 30 days after the Invitation to Bid is published to submit bids and documentation.

Proposed Contractual Terms for RIK Disposition (subject to change):

· **Sale Oil Quantity.** The contract will specify the volume, or "Sale Oil Quantity," awarded as a result of the nomination or auction. For example, if RIK oil is auctioned in different lots, and a buyer successfully bids on several of them, a single RIK Contract would include the total Sale Oil Quantity from all the lots. The State expects each nomination or bid to be for at least 3,000 bpd/year. Proposals are sought for nomination ranges from potential buyers.

· **State's RIK Nomination**. Because the State must nominate with at least 90 days in advance to take its royalty oil in-kind, all contracts will provide that DNR will make commercially reasonable efforts to nominate, in accordance with applicable Unit Agreements, percentages of the State's estimated royalty oil from one or more Units that will equal the Sale Oil Quantity nominated by the buyer. The nomination procedures are basically unchanged from every RIK contract offered by the Department since the first production of oil at the Prudhoe Bay Unit. Any former or current buyer of RIK oil should be familiar with these procedures.

· **Volumetric Limits and Proration**. The actual Sale Oil Quantity delivered to all RIK oil buyers may be lower than their total initial nominations. DNR reserves the right to limit total Sale Oil Quantity delivered to all RIK oil buyers to a maximum of 95% of the State's estimated royalty oil. Whenever total initial nominations by all buyers exceed 95% of the State's estimated royalty oil, proration takes effect and affects RIK buyers' initial nominations. DNR is considering several proration mechanisms. You are invited to provide thoughts concerning an appropriate proration mechanism.

· **Price.** The price for the Sale Oil is calculated as a simple netback price. The formula starts with a destination value for the State's royalty oil on the US West Coast minus the RIK Differential. The RIK Differential is a numeric variable that may be used as the bid variable in the case of a competitive disposition. The ownership-weighted average interstate tariff for TAPS and tariffs for pipelines upstream of TAPS Pump Station No. 1 are also subtracted depending on the source of the RIK that will be supplied to the buyer. The price formula also includes a Quality Bank Adjustment and an allowance for line loss. The price provision in the contract will stipulate that the value of RIK is bounded below by zero. DNR is open to suggestions for a constant or variable RIK Differential value and process. Your thoughts concerning the appropriate pricing indexes to value ANS on the US West Coast are also welcome.

· **Contract term.** The contract will supply RIK oil for at least three years, based on disposition preferences and terms.

· **Security Arrangements**. The security arrangements protect the State from the risk of default by requiring a stand-by letter of credit, a surety bond, or a parent guarantee, if the buyer is not the parent, combined with an Opinion Letter provided by a Financial Analyst that is independent from the Buyer, the parent, and the credit-rating company.

· **Special Commitments.** Bidders may be required to propose Special Commitments that will be incorporated into the RIK contract. The Special Commitments should propose means to mitigate the high cost of consumer petroleum products in Alaska and address the need for a greater supply of crude oil for use in the state. Examples of a Special Commitments might be a commitment to make a substantial capital investment to support in-state processing, a commitment to lowering the cost of petroleum products to the consumer and others, etc. You are invited to comment on how Special Commitments might affect your interest in RIK oil and offer alternatives.

I will appreciate a written response to this informal solicitation by September 30, 2021. In the meantime, I invite you to contact Jhonny Meza at jhonny.meza@alaska.gov to discuss this letter. As stated above, this is an informal, non-binding inquiry and your response will not create any commitment by you or your company.

Tom Stokes, Director, Division of Oil and Gas
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OIL PRICES

The losses, however, were preceded by strong gains on Sept. 2, with ANS gaining over 2% — up $1.48 to close at $72.83. WTI rose by $1.04 to close at $69.99 and Brent jumped $1.44 to close at $73.03.

For all the volatility on the week of trading, the Sept. 8 closing prices of ANS, Brent and WTI were only pennies away from Sept. 1 closing prices.

At $71.59 on Sept. 1, Brent, in fact, closed just a penny away from its $72.60 close of Sept. 8.

The delta variant is still out there to spook prices lower, but once again, demand has proven resilient in the face of COVID uncertainty, and price recovery was the result. Once again, the market churns, but countervailing forces achieve a tenuous balance. Again, ANS and Brent occupied the lower $70s for a week, while WTI flirts with the $70 mark.

US still motoring, Asia rising

Even as the delta variant wreaks havoc on reopening plans in the United States, its citizens haven't stopped motoring, driving fuel prices higher in the face of delta downdrafts. That strength is ongoing.

And now, new puffs of optimism out of Asia add additional lift to demand. India is rising out of the COVID-19 chaos that disrupted its economy over the summer, and China appears to have shut down a surge of infections that locked down a large swath of the Chinese economy over recent months.

Demand for gasoline has reached pre-COVID levels in India, amid expectations that diesel demand will hit pre-pandemic levels soon, although the outlook for jet fuel remains subdued, according to a S&P Global Platts report.

Analysts said the country is seeing a resurgence of the coronavirus in some pockets, but it's not deep enough to make a large dent in overall demand.

Some refiners already plan to lift runs to 100% of their capacities for the rest of the year.

According to S&P Global Platts Analytics, India's refinery runs in the first seven months averaged 4.8 million barrels per day, projected to rise to 5 million bpd for the remaining months, as demand improves in both domestic and export markets.

"With the recovery in the overall demand, refining and other related operational parameters have demonstrated an even more pronounced turnaround compared to the previous year," said Shrikant Madhav Vaidya, chairman of state-run Indian Oil Corp. the country's biggest refiner.

India's quarter-on-quarter oil demand is expected to increase by 185,000 bpd in Q3 and by as high as 525,000 bpd in Q4, driven by a more broad-based pick-up in economic activity amid widening vaccination rollout, Platts Analytics said.

"Indian refiners processed 19.38 million metric tons of crude oil in July, an average of 4.6 million bpd, up 9.6% on the year, and 5.35% higher from June levels," Platts Analytics said, adding that analysts said refinery runs in August could improve for the second month in a row as local oil demand recovers.

China lockdowns recede

Chinese authorities meanwhile are in the process of lifting massive lockdowns that curtailed public transport and taxi services in delta variant hotspots nationwide, while slashing train service and subway use in Beijing. China airlines are resuming some previously suspended flights, lifting domestic jet fuel demand.

China likely will contribute to international flight recovery this year, an Aug. 25 Argus report said, adding that China Eastern led major China airlines adding back seat capacity, with over 23% capacity growth from a week earlier, according to a report by flight data provider OAG.

The Civil Aviation Administration of China, however, is likely to keep the current tight caps on international flights into the first half of 2022, Air China is quoted as saying in a Sept. 2 Reuters report.

The CAAC said in August that weekly international flights were at only 2% of 2019 levels, as flights were suspended amid a rising number of imported COVID-19 cases.

"Air China management told analysts that the recovery of China's outbound travel would be slower than that in the United States and Europe, adding that the vast majority of developing countries have not achieved high vaccination rates," Reuters said.

—STEVE SUTHERLIN

Contact Steve Sutherlin at ssutherlin@petroleumnews.com

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RENEWABLE DIESEL

expects the project will reduce emissions by 3 million metric tons a year, which is the equivalent of taking 650,000 cars off the road.

The Calgary-based company, which operates refineries in Ontario as well as Alberta, expects the facility to come on-stream in 2024, well ahead of the Canadian government's 2030 deadline to meet more stringent carbon-intensity targets for fuels.

Clean Fuel Standard

The 2030 target date, part of the new rules contained in a draft of Canada's Clean Fuel Standard, was supposed to be implemented by the end of this year, but likely faces a delay because of the current federal election campaign.

However, many refineries in Canada are starting to use renewable diesel in a bid to put themselves ahead of the regulations.

Imperial Vice President Jon Wetmore said that had it not been for the revised clean fuel policy "we probably wouldn't find value in the (planned renewable diesel project)."

The new federal standards will require suppliers, such as refineries, to reduce the lifecycle carbon intensity of the fossil fuels they supply.

However, Wetmore said the shift to renewable diesel is unlikely to make much of a dent in his company's fossil fuel output.

While the fuel Imperial expects to produce is called renewable, it will not be emissions free, because it will be made using blue hydrogen, which is derived from natural gas.

Although Imperial has not disclosed the price tag of the project, Wetmore said it will be in the "hundreds of millions of dollars" and will spur parallel investment in a carbon-neutral hydrogen facility.

A recent analysis by the U.S. government's National Renewable Energy Laboratory found that on average renewable diesel lowers carbon-dioxide emissions by 4.2% compared with petroleum diesel.

Similar plans

Similar plans have been rolled out across Canada in the last few months, including a proposal by Calgary-based Tidewater Midstream and Infrastructure for a C$150 million initial public offering to pay for a 300 bpd renewable diesel facility at its refinery in Prince George, British Columbia.

In July, Dallas-based private equity firm Cresta Fund Management bought a controlling stake in the 135,000 bpd Come by Chance refinery in Newfoundland, with the goal of converting the facility to produce renewable fuels.

Calgary-based Parkland Industries is working on "co-processing" or blending renewable fuel directly into its diesel production at its Burnaby, B.C. refinery.

By year's end it expects the change to yield more than 100 million liters of "bio-feedstock," which the company says will be the equivalent of removing 80,000 cars from the road.

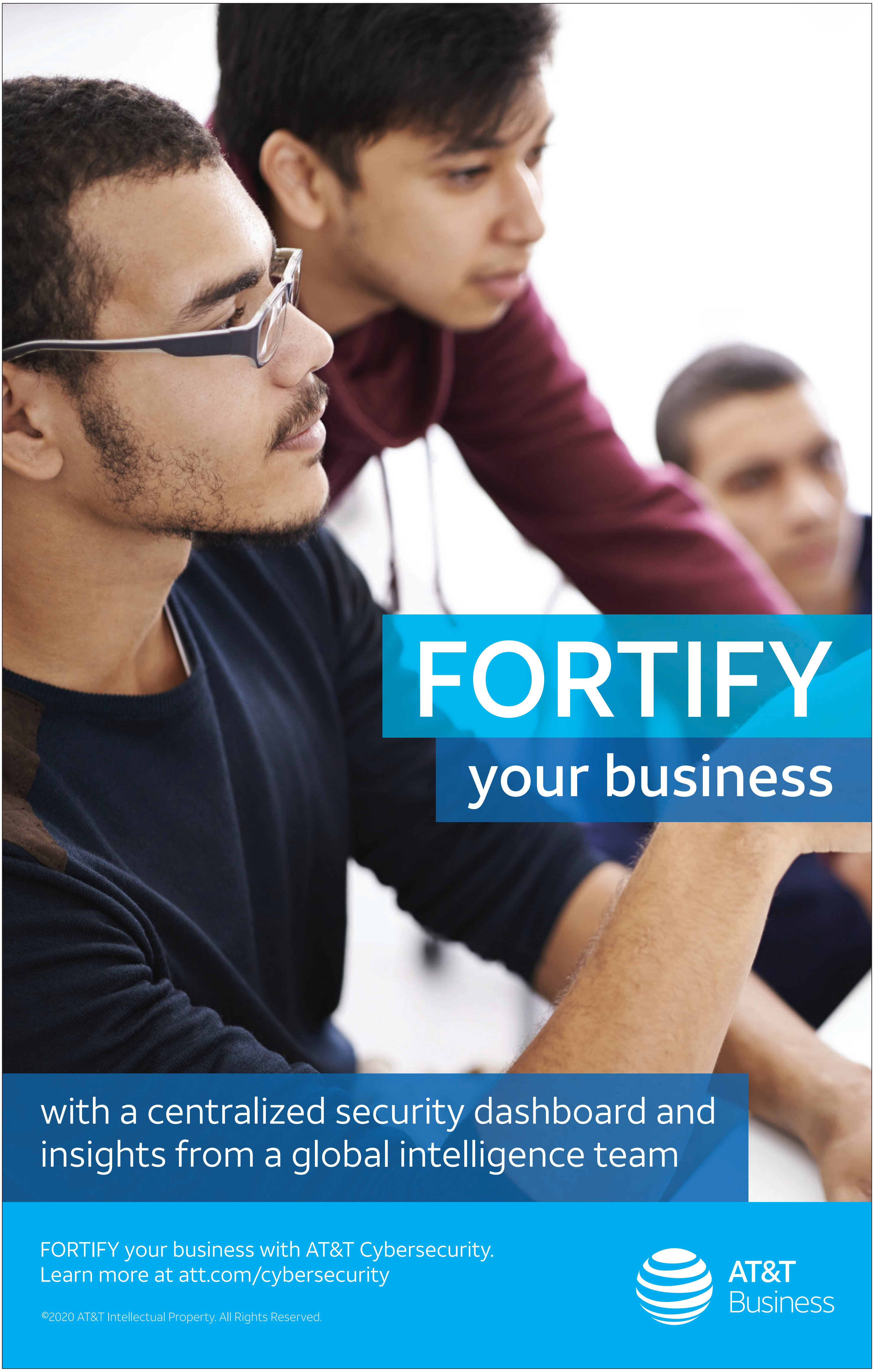
Susan Bell, director of Americas refining and marketing at IHS Markit, said "clean technology is going to get much more important to the sector … because globally that's the way governments are moving."

She said that if the Canadian government maintains its commitment to achieve net zero emissions by 2050 "then we have to do something to lur transportation fuel supply."

National Bank analyst Travis Wood said further plans are likely to be announced as the "oil and gas sector in Canada continues to adapt … and lead the ongoing energy transition in North America."

—GARY PARK

Contact Gary Park through publisher@petroleumnews.com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