Petroleum news

page 6 Shell brings extensive technical expertise to W. Harrison Bay unit

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Not just 'No' but 'Hell No' on 1; well bonding levels remain high

THE TWO MAJOR CHALLENGES facing Alaska's oil and natural gas industry from government are the proposed increase in oil taxes under Ballot Measure 1 and the surety well bonding increase by the Alaska Oil and Gas Conservation Commission.

If Ballot Measure 1 is approved by Alaskans in the Nov. 3 election the increase in oil taxes is expected to negatively impact Alaska jobs and the industry's contributions to state coffers and the Alaska Permanent Fund. (In 2019 nearly 104,000 Alaska jobs were directly and indirectly attributable to oil and gas investment and activity and the industry had cumulatively con-

see INSIDER page 8

Great Bear applies for two units: Borealis Alaska partner in Talitha

The Alaska Department of Natural Resources, Division of Oil and Gas, has received applications for the formation of two adjacent units on the North Slope south of Prudhoe Bay.

The applications are from Great Bear Petroleum Ventures I for the Alkaid unit and from a partnership of Great Bear Ventures II and Borealis Alaska to form the larger Talitha unit.

In its application Great Bear said the area around and including the two proposed units has had only sparse drilling, with fewer than 10 wells "penetrating the primary zones of interest at Alkaid and Talitha."

Early activity included two wells drilled by ARCO "proximal to the Alkaid and Talitha projects," the Toolik No. 1 and No. 2 wells drilled in 1969, both plugged and abandoned after reaching

see GREAT BEAR page 8

Looking to geothermal energy resources from Alaska volcanoes

The potential for new geothermal development in Alaska has surfaced again. Ounalashka Corp. and Chena Power have signed a 30-year power purchase agreement with the City of Unalaska in the Aleutian Islands for geothermal energy from the Makushin Volcano on Unalaska Island. And the Alaska Department of Natural Resources Division of Oil and Gas is issuing a call for applications for geothermal exploration on land tracts at Mount Spurr volcano, to the northwest of the upper Cook Inlet.

Ounalashka Corp. is the Alaska Native village corporation for Unalaska. Chena Power installed and operates the Chena Hot Springs geothermal power plant in the Alaska Interior. In 2019 Ounalashka and Chena Power formed OCCP LLC, a partnership designed to establish a sustainable geothermal energy system

see GEOTHERMAL ENERGY page 12

Flurry of Canada consolidations could raise status of 2 companies

Canada is entering a round of petroleum industry consolidation as the weak get picked off by the strong, though the only nastiness at present involves an Alberta-Texas power struggle for control of a Calgary-based oilfield services company.

With the pandemic-driven downturn having started to overpower some of the shakier players, the latest round of deal-making has been dominated by a move towards the ranks of medium-sized players as Obsidian Energy (previously Penn West Petroleum) has launched a bid to swallow Bonterra Energy and Whitecap Resources has offered C$155 million in shares to take over NAL Resources from Manulife Financial.

see CONSOLIDATIONS page 10

FINANCE & ECONOMY

Oil downdraft

Brent, ANS test $30s as renewed supply swamps fragile demand recovery

By STEVE SUTHERLIN
Petroleum News

If oil prices are range bound in the low to mid $40s, then trading action around the Labor Day weekend sent major crude benchmarks into the muck at the bottom of the channel.

Brent crude, sinking after a long stretch of reliably hugging the $45 level, dove briefly to $39.41 Sept. 8 for the October contract, while West Texas Intermediate went to $36.30. It was the first time Brent had crossed below $40 since June. Alaska North Slope crude closed at $37.65, down $2.96 for the day.

As Petroleum News went to press Sept. 9, prices were rebounding. Brent emerged above $40, WTI hit $38, and ANS rose to $38.83.

Gasoline demand has driven the recovery of oil prices from COVID-19 induced lows, leveling recently at 90% of 2019 levels.

The swoon and recovery in oil prices coincided with broad volatility in financial markets. High flying tech stocks sold off sharply leading into the weekend and continued lower on Sept. 8 before rebounding Sept. 9.

see OIL PRICES page 11

GOVERNMENT

HB 331 unconstitutional

Alaska Supreme Court rules oil credit bonding prohibited under section 8

By KRISTEN NELSON
Petroleum News

In a lengthy decision, issued Sept. 4, the Alaska Supreme Court found House Bill 331 unconstitutional.

The court ruled that the financing scheme under HB 331 "is the kind of constitutional 'debt' that the framers sought to prohibit under article IX, section 8 of the Alaska Constitution."

The court said, "HB 331 violates the limitation placed on contracting debt," and reversed the decision of the superior court which had granted a state motion to dismiss.

The bill, proposed by Gov. Bill Walker in 2018, would have allowed the state to pay off cashable oil and gas credits it held through issuance of up to $1 billion in bonds. Those bonds would have been paid off through legislative appropriations.

HB 331 allowed payment, at a discounted rate, of cashable credits which have been earned by small oil and gas companies — the state's major oil producers were never eligible for cashable credits.

The constitutionality of the proposal was questioned when the bill was in the Legislature.

When the Legislative Legal Division was asked about the constitutionality of the Senate version of the bill, Senate Bill 176, Emily Nauman, the division's deputy director, said in a legal memo that

see CREDIT BONDING page 10

GOVERNMENT

Taking pandemic pounding

Alberta faces record deficit of C$24.2B, compared with Saskatchewan's C$2.1B

By GARY PARK
For Petroleum News

Over recent weeks, Alberta Premier Jason Kenney has been bracing his 4.4 million residents for a "great fiscal reckoning."

JASON KENNEY

Having been proven right on that score, he is now faced with the daunting, maybe impossible task of cleaning up the mess that has landed on his table and starting the search for an economic recovery plan.

Kenney had repeatedly forecast a first quarter deficit of more than C$20 billion, which he warned would be "the biggest deficit in the history of Alberta by a country mile" and could set the stage for even worse to come.

TRAVIS TOEWS

In fact, he missed the mark by a wide margin. The red ink turned out to be C$24.2 billion, or C$16.8 billion higher than the pre-COVID-19 budget target announced in February. That could result in the largest deficit in percentage terms for any of Canada's 10 provinces over the past 35 years.

If Ontario, with 3.5 times Alberta's population, had posted a comparable fiscal update it would be forecasting a budget deficit for 2020-21 of C$88

see PANDEMIC POUNDING page 9

● EXPLORATION & PRODUCTION

US drilling rig count gains 2, reaches 256

By KRISTEN NELSON

Petroleum News

The Baker Hughes U.S. rotary rig count was at 256 the week ending Sept. 4, up by two from the previous week, continuing a slow gain from Aug. 14 when the count reached a low for the year of 244. The count was down 642 from a year ago when it stood at 898.

At the beginning of the year the count was in the low 790s, where it remained through mid-March, when it began to drop, reaching a new historic low in early May of 374 rigs and continuing to drop through the third week of August when it gained back 10 rigs.

Houston oilfield services company Baker Hughes has issued a weekly rig count for the U.S. since 1944. Prior to this year, the low was 404 rigs in May 2016.

This week's count includes 181 rigs targeting oil, up by one from the previous week and down 557 from a year ago, 72 rigs targeting gas, unchanged from the previous week and down 88 from a year ago and three miscellaneous rigs, up one from the previous week and up three from a year ago.

Twenty of the holes were directional, 220 were horizontal and 16 were vertical.

Alaska count unchanged

The rig count in Louisiana (37) was up by three from the previous week and the count in New Mexico (47) was up by one.

North Dakota (9) and Texas (106) were each down by one rig.

Counts in all other states remained unchanged from the previous week: Alaska (3), California (4), Colorado (5), Ohio (5), Oklahoma (11), Pennsylvania (18), West Virginia (8) and Wyoming (1).

Baker Hughes shows Alaska with three active rigs Sept. 4, unchanged from the previous week and down by five from a year ago.

The rig count in the nation's most active basin, the Permian (125), unchanged from the previous week.

Baker Hughes has issued weekly rig counts for the U.S. and Canada since 1944 and began issuing international rig counts in 1975.

The U.S. rig count peaked at 4,530 in 1981. The new low, 244, was set the week ending Aug. 14; the previous low was 404 rigs in May 2016.

International count up by four

Baker Hughes' monthly international rig count, released Sept. 4, was up by four to 747 from August, with land rigs up three to 563 and offshore rigs up one to 184. The international rig count excludes U.S. and Canadian rig activity.

The international rig count is down 391 from last year's count of 1,138, the company said, with land rigs down 331 and offshore rigs down 60.

The largest month-over-month change was in the Middle East (301), down 14 rigs from August. All other areas were up month over month: Asia Pacific (200) by seven, Africa (62) by six, Europe (109) by four and Latin America (75) by one.

The U.S. count averaged 250 in August, down by five from July, while Canada, averaging 53 rigs, was up by 21. Overall, North America averaged 303 rigs in August, up 16 from July.

Worldwide there were 1,050 rigs active, up 20 from August, but down from 2,206 in August 2019. ●

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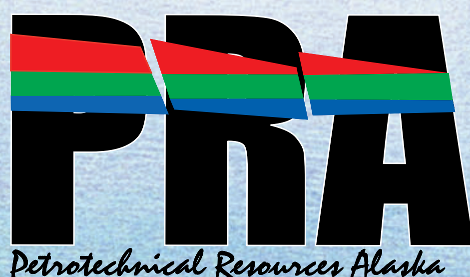

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● FINANCE & ECONOMY

EIA: US crude production rose in August

Agency expects rise to continue through September, then decline slightly as new drilling won't offset declines from existing wells

By KRISTEN NELSON
Petroleum News

U.S. crude oil production has been rising, the U.S. Energy Information Administration said Sept. 9 in its Short-Term Energy Outlook, with August production estimated at 10.8 million barrels per day.

In the first quarter production averaged 12.7 million bpd, then dropped to 10 million bpd in May.

LINDA CAPUANO

"We expect U.S. crude oil production will rise to 11.2 million barrels per day in September, however, after September, EIA forecasts a general decline through May 2021 because new drilling activity is not forecast to offset production declines from existing wells," EIA Administrator Dr. Linda Capuano said in a statement accompanying the outlook release.

The agency said production increased because tight oil operators brought wells back into production as crude prices rose, with the August production increase occurring despite Gulf of Mexico shut-ins as a result of Hurricane Laura.

EIA said recently released data show June U.S. crude oil production was 10.4 million bpd, 700,000 bpd more than the agency estimated in August, with the higher-than-expected production level indicating a faster return of curtailed production than the agency previously assumed.

U.S. crude production is expected to average just under 11 million bpd for the first half of 2021, then, as drilling activity rises, production is expected to average 11.3 million bpd in the fourth quarter of 2021.

EIA cautioned, as it has with recent outlooks, that there are "heightened levels of uncertainty because mitigation and reopening efforts" related to COVID-19 are evolving, with reduced economic activity causing changes in energy demand and supply patterns.

This outlook "assumes U.S. gross domestic product declined by 4.6% in the first half of 2020 from the same period a year ago and will rise beginning in the third quarter of 2020, with year-over-year growth of 3.1% in 2021," the agency said.

> *"EIA expects Brent crude prices to average $44 per barrel during the fourth quarter of 2020 and rise to an average of $49 per barrel in 2021 as markets become more balanced." —EIA Administrator Dr. Linda Capuano*

Crude oil prices

"Daily Brent crude oil prices increased for the fourth consecutive month, averaging $45 per barrel in August. EIA expects Brent crude prices to average $44 per barrel during the fourth quarter of 2020 and rise to an average of $49 per barrel in 2021 as markets become more balanced," Capuano said.

The August average for Brent crude is an increase of $2 per barrel from the July average, and Brent August prices were up by $26 per barrel from "the multiyear low monthly average price in April," EIA said.

The agency said it estimates that global oil markets have shifted from the second quarter, when liquid fuels inventories were building at a rate of 7.2 million barrels per day, to a third quarter situation with inventories being drawn at some 3.7 million bpd, and said it expects inventory draws of 3.1 million bpd in the fourth quarter before markets become relatively balanced in 2021, with forecast draws of 300,000 bpd.

"Despite expected inventory draws in the coming months, EIA expects high inventory levels and surplus crude oil production capacity will limit upward pressure on oil prices," the agency said.

Natural gas

"Henry Hub natural gas spot prices averaged $2.30 per million British thermal units in August, up 53 cents from July," Capuano said. "Higher prices reflect warmer-than-normal temperatures in August and higher demand for U.S. LNG exports amid declining U.S. natural gas production."

EIA said the higher spot prices reflect rising demand from the U.S. electric power sector and rising demand for U.S. liquefied natural gas exports amid decline U.S. production.

By January, EIA expects to see Henry Hub spot prices average $3.40 per million Btu pushed up by rising domestic and export demand combined with reduced production.

U.S. LNG exports are estimated to have averaged 3.7 billion cubic feet per day in August, up 19% from July, and are forecast to return to pre-COVID levels by November and average more than 9 bcf per day from December through February.

Global production, consumption

"Global liquid fuels production in August was down 9.7 million barrels per day compared with a year ago," Capuano said. "The decline reflects the voluntary production cuts by OPEC producers and partner countries and reduction in drilling activity and production in the United States resulting from low oil prices," she said.

EIA said it expects global consumption of petroleum and other liquid fuels to average 99.6 million bpd in 2021, down 600,000 bpd from its August forecast, with the revising primarily reflecting lower expected growth in China.

"The revised petroleum consumption reflects a more plausible assessment of the country's energy intensity of economic growth," the agency said.

On jet fuel usage EIA noted that data they examined indicated demand for jet fuel in the U.S. is rising faster than in most other major aviation markets, based on commercial passenger flights, which accounted for 73% of U.S. jet fuel consumption in January 2020. The agency said it is projecting that U.S. jet fuel demand will rise from 1.1 million bpd in August to 1.5 million bpd in December, amounts which EIA said are 59% and 85%, respectively of the amounts in August and December of 2019. ●

Contact Kristen Nelson at knelson@petroleumnews.com

PIPELINES & DOWNSTREAM

EA issued for Kenai LNG cool down project

The Federal Energy Regulatory Commission has issued an environmental assessment for the proposed Kenai LNG cool down project.

FERC said the EA is not a decision document but presents staff analysis of environmental issues for the commission to consider.

The EA, released Sept. 3, has a 90-day federal authorization decision deadline of Dec. 2.

Comments are due Oct. 5 by 5 p.m. eastern time.

The cool down project was proposed by Trans-Foreland Pipeline Co., which wants to bring parts of the Kenai liquefied natural gas plant out of warm idle to allow for import of LNG with the goal of providing up to 7 million standard cubic feet per day of natural gas to Trans-Foreland's affiliated Kenai Refinery.

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

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

—KRISTEN NELSON

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● EXPLORATION & PRODUCTION

Hilcorp files for Seaview unit formation

Company says goal to put Kenai Peninsula gas field into production this fall; plans second gas development well in fourth quarter

By KRISTEN NELSON
Petroleum News

Hilcorp Alaska began exploring in the Seaview area south of Anchor Point on the Kenai Peninsula in 2015, the company told the Alaska Department of Natural Resources' Division of Oil and Gas in the plan of exploration which accompanied its July 31 application for formation of the Seaview unit.

The company now has a successful gas well and is working on a gas pipeline linking the Seaview pad site to the Enstar-operated Bailey Street Station some 2 miles away as to moves toward putting the Seaview No. 8 well on production this fall.

The company has already applied to the Alaska Oil and Gas Conservation Commission (see story in Aug. 30 issue of Petroleum News) to put the field into production, as well as applying to the division for a participating area at the field.

Exploration plan

In the exploration plan filed as part of its unit application Hilcorp provided a synopsis of pre-unit exploration activities, beginning with its acquisition of an aerial gravity and magnetics survey in 2015 "in order to understand dry holes in the area"; 20.54 miles of 2D seismic shot in 2016; seven shallow stratigraphic test holes in 2017; and the 2018 Seaview No. 8 exploration well, "which resulted in a Tyonek gas discovery."

This year the company has applied to the division for both unit and participating area formation.

Work is underway on the pipeline which will connect the drill site with the Enstar line.

Hilcorp plans to drill the Seaview No. 9 well in the fourth quarter of this year or possibly the first quarter of 2021. The well will be drilled to a depth of 6,685 feet measured depth.

Unit proposal

The division said comments on the proposed unit must be received by 4:30 p.m., Oct. 2, with a written decision on the unit to be issued after the close of the comment period.

Hilcorp said the proposed Seaview unit agreement is the state unit agreement, with the addition of an article which makes clear that any future changes to the allocation of production within a unit participating area will be prospective only, with no retroactive adjustments.

"The proposed modification will prevent any potential overpayment to landowners, which would require back payments and reallocation of royalties," and would require Hilcorp to ask landowners to pay back royalty money already paid, potentially years earlier.

In addition to protecting private landowners from having to pay back overpaid royalties, Hilcorp said, the proposed modification "will also greatly reduce the potential administrative burdens for DNR, Hilcorp, private landowners, and other agencies involved." The company said the unit proposal also includes modifications proposed by DNR.

The proposed unit includes all or part of potential hydrocarbon accumulations in the Sterling, Beluga and Tyonek formations, Hilcorp said. The unit will include all or portions to two state leases and various unleased state, Kenai Peninsula Borough, Native and private interests.

Total unit acreage is some 2,975 acres. Hilcorp Alaska is the working interest owner in some 2,531 acres, 85.1%; some 443 acres, 14.9% of the unit, are uncommitted. ●

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● ENVIRONMENT & SAFETY

Oil sands under fire

North American free trade panel says toxins leaking into groundwater; Canada's environment minister taking findings 'to heart'

By GARY PARK
For Petroleum News

A global environmental watchdog culminated two years of research by declaring there is compelling proof that tailings ponds in Alberta's oil sands are contaminating groundwater.

The Commission for Environmental Cooperation, CEC, which is charged with implementing a side accord to the North American free-trade pact, said "there is strong scientifically valid evidence of oil sands processed water seepage into near-field groundwater ... when compared with the first peer-reviewed evidence published in 2009."

Tailings ponds, such as those used by oil sands mining operations north of Fort McMurray, collect byproducts from the operations, including a mixture of water, sands, residual bitumen and other hydrocarbons that the industry calls "processed" water.

Many of the products are toxic, including naphthenic acids and heavy metals, while the residual oil that covers the ponds can trap migratory birds.

For years a debate has raged over whether pollutants detected in rivers and creeks in the oil sands region came directly from plant operations or from bitumen already in the soil.

Environmental submission in 2017

The CEC started its probe after environmental groups filed a submission in 2017, accusing the Canadian government of failing to use its Fisheries Act to prosecute oil sands producers over the "alleged leaking of deleterious substances."

Federal Environmental Minister Jonathan Wilkinson said the CEC report was "troubling."

"The findings in the report cannot be

see **SANDS UNDER FIRE** *page 6*

U.S. BUREAU OF OCEAN ENERGY MANAGEMENT (BOEM)

Notice of Public Scoping

The U.S. Bureau of Ocean Energy Management is preparing an Environmental Impact Statement (EIS) to analyze the environmental effects of a potential 2021 oil and gas lease sale in the federal waters of Cook Inlet.

BOEM has opened a public comment period to help determine the scope of the issues to be addressed in the EIS, and to help identify significant issues related to the proposed action.

If you would like to learn more about what is being proposed and how you can participate in the process, go to:

www.boem.gov/CookInlet2021

The comment period closes Oct. 13, 2020.

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● EXPLORATION & PRODUCTION

Shell touts drilling experience in Alaska

Although not interested in operating in Alaska again, major brings extensive technical expertise to West Harrison Bay partner

By **KAY CASHMAN**
Petroleum News

As reported in the Sept. 6 issue of Petroleum News, Shell Offshore Inc. filed an application with the State of Alaska to form the West Harrison Bay unit in order to save 18 leases from expiration in 2022.

1 2 SERIES

The leases, totaling 86,400 acres, are in state nearshore waters in the vicinity of the two largest Nanushuk oil fields under development — directly north of ConocoPhillips' Willow project and northwest of Oil Search's Pikka project.

Shell is 100% holder of the leases but expects to bring in a partner in 2021 to share the risks of exploration and possible development, designating its unnamed partner as the unit's operator.

Shell's lack of interest in operating in Alaska again was confirmed in a Sept. 9 email to Petroleum News from company spokeswoman Cincy Babski: "Shell has applied for an extension and unitization of our 18 Alaska (shallow water) leases, referred to as West Harrison Bay, in order to preserve the option to further extend our ownership of our lease holdings. We have sold or relinquished all of our frontier licenses in Alaska. We have no further plans for frontier exploration offshore Alaska."

The application for the West Harrison Bay unit was filed Aug. 27 with the Alaska Department of Natural Resources' Division of Oil and Gas.

(See the non-confidential portions of Shell's application on the division's website at http://dog.dnr.alaska.gov/Library/, which include a map (figure 1) that shows

see **SHELL LEASES** *page 7*

PHOTO BY MARK FINK, COURTESY SHELL

The semi-submersible rig Transocean Polar Pioneer drilled the Burger J well as part of Shell's Chukchi Sea 2015 exploration program.

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continued from page 4

SANDS UNDER FIRE

ignored," he said. "I absolutely take these findings to heart."

Wilkinson said the Canadian and Alberta governments must work together on oil sands monitoring, insisting the tail ponds issue requires an "enhanced level of urgency."

Alberta's acting chief scientist Garry Scrimgeour said the province needs time to digest the report.

He said the two governments are working closely under a joint monitoring program, a claim the CEC challenged, arguing there has been a lack of communications between the two governments.

But CEC did note that the two regulatory systems overlap when it comes to environmental reviews for new oil sands projects.

Kearl shutdown

Release of the findings coincided with an announcement by Imperial Oil (owned 69.6% by ExxonMobil) that it had shut in all production at its 220,000 barrels per day Kearl oil sands operation, stemming partly from the failure of a diluent pipeline which delivers ultralight oil from Edmonton to be blended with bitumen and aid transportation of the product.

An Alberta Energy Regulator spokesman said the spill involved about 566 barrels from the Polaris pipeline which has capacity of 865,000 bpd.

He said the impact on fish and wildlife is unclear at this stage.

The Kearl outage will likely remove 240,000-270,000 bpd from the market for a few weeks, said Credit Suisse.

From 2009 to 2014, Environment Canada conducted sweeping water testing around oil sands sites, including operations run by Syncrude Canada, Canadian Natural Resources, Suncor Energy and Shell Canada.

Investigations have found at least 15 cases where levels of toxins have exceeded federal guidelines.

Environmental Canada told the CEC it did not pursue violations because it was unable to prove "beyond a reasonable doubt" that the elevated levels were caused by commercial operations. ●

Contact Gary Park through publisher@petroleumnews.com

● GOVERNMENT

AOGCC refuses reconsideration request

French, a former commissioner, wants gas release treated as waste; commission requires gas disposition reports, OK'd this release

By KRISTEN NELSON

Petroleum News

The Alaska Oil and Gas Conservation Commission has denied a reconsideration request from Hollis French on his complaint of waste from a Prudhoe Bay well which failed in 2017.

The commission had initially denied a petition from French, an attorney and former commissioner of AOGCC, for a hearing on waste from the well. French appealed the decision and an Alaska Superior Court judge ruled the commission must hold a hearing.

The hearing was held June 23.

On July 28, the commission, citing its enabling statute and regulations, ruled that French failed to demonstrate that waste occurred.

French filed for reconsideration, a request the commission denied in an Aug. 24 ruling.

The commission said that at the June 23 hearing "French stated that his waste petition was premised solely on his view that gas escaping into the air constitutes waste as a matter of strict liability"; he also argued the well failure created a dangerous situation.

"Because French's strict liability claim was contrary to the language of AOGCC's enabling act … and its regulations … AOGCC determined in Other Order 151 that French had failed to demonstrate waste occurred," the commission said.

The gas release

The commission said in its denial of reconsideration that shortly after the 2017 failure at the well, "AOGCC determined the gas which escaped was not waste under (its regulations). French was an AOGCC commissioner at the time."

In his reconsideration request French said the commission was ignoring evidence and "is not, to put it mildly, doing its job." He quoted a statement by Prudhoe Bay operator BP Exploration (Alaska) to the commission that an estimated 1.8 million standard cubic feet of natural gas were released from the well.

"That sentence is a confession," French said.

He disputed the commission's statement that it had made a determination that the gas was not waste.

"It is possible that a single commissioner took some action on the matter," and if that is the case, French said, AOGCC should publish its proof.

He said: "a single commissioner cannot bind the Commission."

Gas disposition reports

In denying the reconsideration, the commission said monthly gas disposition reports are required of all operators "accounting for the disposition of all gas at a production facility, including gas which was flared, vented or escaped." The commission can authorize "flaring/venting lasting over an hour under certain circumstances" which include emergencies threatening life or property.

"The well failure and its cause were the subject of numerous discussions among the commissioners, as well as AOGCC staff," the commission said.

In June 2017 BP provided the commission a 14-page update on the cause of the well failure, and after receipt of that report Commissioner Cathy Foerster "signed the gas disposition report authorizing the venting of the gas.

At the time French neither voiced objection to nor disagreement with that authorization, the commission said. "AOGCC also decided to take no enforcement action against BPXA. French neither voiced disagreement with nor objection to that decision."

The commission's denial of reconsideration is its final order.

French can appeal the decision in superior court. He has 33 days to appeal. ●

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SHELL LEASES

the proposed unit's location and Pikka-Horseshoe and Willow, as well as a "North Slope chronostratigraphic diagram indicating the reservoirs of interest and the LCu" (figure 2)).

Drilling commitment

A unit plan of exploration attached to the application asked for a five-year term given the current uncertain market conditions related to the Covid-19 pandemic and the resulting collapse in oil prices allowing Shell "the time necessary to secure a partner, develop additional information regarding the hydrocarbon potential of the West Harrison Bay leases."

In its exploration plan for the unit Shell said the operator will drill the first well in the 2023-24 winter drilling season and, assuming success, drill a sidetrack well to evaluate the Nanushuk.

During the 2024-25 winter drilling season, the unit operator will complete another exploration well and possible sidetrack.

After evaluating the results of the completed well(s) Shell said the operator will submit either a further plan of exploration for the unit or a plan of development no later than Dec. 31, 2025.

Unit area history

In its application Shell provided a background and description of the area it wants unitized, an abbreviation of which follows.

Shell's first exploration programs in Alaska were conducted in the Cook Inlet basin in the 1950s.

The company's investment expanded in the early 1980s when it acquired leases in the Beaufort and Chukchi seas and drilled seven wells in the Beaufort from 1982 to 1985 and four wells in the Chukchi from 1989 to 1991.

Shell renewed its investment with the purchase of a block of offshore leases at the 2005 Beaufort Sea sale. The company conducted seismic acquisition programs in the Chukchi and Beaufort seas in 2006 and initiated a two-rig program in the Beaufort in 2007.

The federal permitting process was challenging, followed by lengthy litigation from environmental NGOs. However, both Shell and ConocoPhillips received federal permits to conduct a joint 3D seismic program in the Chukchi Sea and a Shell-only 3D survey in the Beaufort.

Shell purchased additional Beaufort Sea acreage in 2007 and the 18 West Harrison Bay leases in 2012 for $2.6 million. (At end of 2007 Shell owned 139 leases in the Beaufort Sea, assimilated at a cost of about $80 million.)

In 2008 Shell picked up leases in the federal Chukchi Sea Lease Sale 193 for approximately $2.1 billion.

Foiled by complex, evolving regs

During the 2015 open-water season Shell executed an exploration drilling operation in the Chukchi Sea. The company safely drilled into targeted zones 134 miles northwest of Utqiagvik on the Burger prospect in a single season. This was accomplished with no significant downtime events, no major HSEE incidents, and no environmentally significant issues.

Shell's team safely managed two drill rigs and three ice management/anchor handling vessels, with a well-integrated relationship among all supporting contractors.

Environmental challenges were managed successfully but were complicated by a complex and evolving regulatory framework, including regulator imposed limited drilling season length and severe restrictions associated with distance between drill ships and limiting ice reconnaissance that could have resulted in an unintended safety issue. There were many unsupported restrictive regulatory requirements from federal agencies following the 2010 Deepwater Horizon Gulf of Mexico incident.

One positive stakeholder development was the formation of Alaska Inupiat Offshore LLC, which Shell believes resulted in a paradigm shift in how North Slope communities, Native corporations, and the North Slope Borough Municipality and Wildlife Department viewed offshore drilling. This was accomplished in part by the establishment of a science collaboration between the North Slope Borough and Shell, which created a common basis for evaluating environmental issues and analysis.

Following the 2015 Chukchi drilling season, Shell withdrew from its federal lease position due to discouraging well results, high logistic and technical costs, and a challenging and unpredictable federal regulatory environment.

Large seismic, well database

The technical risk associated with Shell's West Harrison Bay leases decreased due to a string of discoveries in the vicinity, including five standalone Nanushuk reservoirs and multiple leads in both the Torok formation and Jurassic Alpine-like plays.

Starting in 2013 with the Qugruk No. 3 well (Pikka unit), efforts in the Nanushuk dominated exploration activity on the North Slope and resulted in the discovery of billions of barrels of recoverable light oil.

To support the West Harrison Bay effort, the company purchased all available 2D seismic data in the area and five 3D seismic surveys.

Although no wells have been drilled on Shell's leases, several were drilled in close proximity as part of the multi-decade U.S. Navy NPR-A drilling program, and these wells, notably Atigaru Pt. No. 1, North Kalilkpik No. 1, and Cape Halkett No. 1, contributed to Shell's interpretation, providing excellent geologic control regarding the reservoir, source, and seal characteristics of the rocks they penetrated.

Shell's work at West Harrison Bay included the creation of a robust regional geological model (extending from the Mackenzie delta area in the east to the Russia/U.S. border in the west), a thorough "dry-hole" analysis of why the Nanushuk was overlooked for so long, and investigations into the petroleum systems that could yield light oil at anomalously shallow depths.

This work, together with ongoing discoveries, indicated attractive leads on the West Harrison Bay acreage and justified more comprehensive multi-disciplinary analyses there. Detailed geological, petrophysical, and geophysical work included the integration of new well data and discoveries into a sequence stratigraphically based, and geophysically supported, holistic interpretation that ultimately led to designation of Shell's prospects. ●

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INSIDER

tributed more than $150 billion to the state of Alaska through royalties and taxes, as well as provided the largest cash contribution to the permanent fund.)

While AOGCC's new bonding levels are uncompetitive with those in Lower 48 oil states, they are seemingly a done deal without legislative or judicial intervention. However, a proposed bonding regulation amendment that would lengthen the amount of time a well operator has to pay the retroactive bonding increase MIGHT soon face a vote by AOGCC commissioners, offering the promise of some relief.

Expert analysis of BM 1

IHS MARKIT RECENTLY RELEASED an expert analysis of Alaska's competitiveness in oil and gas markets, including an assessment of the impact of the tax increase proposed in Ballot Measure 1.

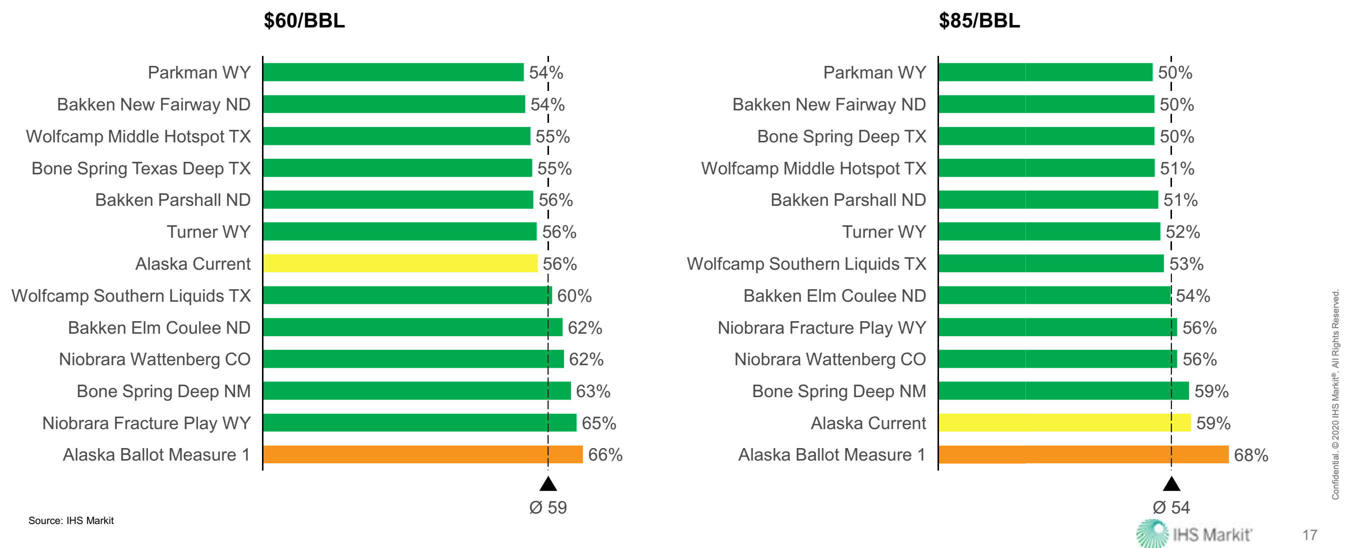
The analysis team was headed by Irena Agalliu, IHS Markit vice president of upstream energy, and an expert in international energy law and economics.

IHS concluded that Alaska's oil and gas fiscal system will become one of the least competitive in the United States under Ballot Measure 1, coming at a time when other states have either introduced or are considering actions to incentivize industry investment.

IHS Markit, headquartered in London, has more than 5,000 analysts, data scientists, financial experts and industry specialists. Its global information expertise spans numerous capital-intensive industries and markets, including finance, energy and transportation.

Agalliu's major projects include a comparative analysis of fiscal systems for the U.S. Department of the Interior.

Her team's Ballot Measure 1 analysis was done for the Washington, D.C.-based American Petroleum Institute, which supports public policy that engenders a strong, viable U.S. oil and gas industry.



According to IHS Markit the competitiveness of Alaska's oil fields is poor at lower oil prices and deteriorates under Ballot Measure 1 as commodity prices rise.

The passage of Ballot Measure 1 would increase Alaskan government take by 18 percentage points in the low oil price environment, making it even less likely for new project sanction.

And while Ballot Measure 1 is likely to have a devastating impact to oil and gas investment in the state in the current low oil price environment, the measure is not sustainable even under a long-term base case scenario of $60 per barrel, IHS Markit reported, noting at prices above $60 the net present value of Alaska projects suffers a loss of $450-$700 million per project.

In fact, IHS concluded, Alaska's current and proposed fiscal systems are the least competitive within its international and U.S. peer groups in terms of per barrel net present value.

Furthermore, the analysis indicated, Alaska has one of the most unstable oil and gas fiscal systems in the world.

Bonding hearing uncertain

THE PRIMARY CHANGE in AOGCC's proposed amendment of its well bonding regulation would increases the number of annual installments an operator can make from 4 years to 7 years. These payments are for amounts the commission billed operators for the retroactive bonding increases it enacted in spring 2019 — increases that particularly impacted small and mid-size companies.

The cutoff date for written public comments on the amendment is Sept. 10.

Asked when a hearing on bonding will be held, AOGCC Chair Jeremy Price told Petroleum News in a Sept. 9 email, "If we decide to take up (the) proposed bonding regulation amendment, we can do that at the public meeting on October 7th."

Prior to the new bonding regulation enactment in April 2019, AOGCC generally required bonding at the statutory minimum level of $100,000 for a single well and $200,000 for blanket coverage of all an operator's wells in Alaska. Under the new regulation the bonding is $400,000 per well for one to 10 wells; $6 million for 11 to 40 wells; $10 million for 41 to 100 wells; $20 million for 101 to 1,000 wells; and $30 million for more than 1,000 wells.

Current Alaska bonding requirements already parallel or exceed other states. For example, New Mexico's counterpart to AOGCC has a law like Alaska's which allows producers to provide a blanket plugging financial assurance not to exceed $250,000. Texas is also like Alaska. It has a three-tiered bonding schedule which is capped at $250,000 for producers with more than 100 wells. North Dakota requires a blanket bond for all wells of $100,000, a Department of Natural Resources official told Petroleum News last year.

—**KAY CASHMAN**

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GREAT BEAR

the targeted depth, which was equivalent to Kuparuk.

Great Bear said the early activity, from 1969-74, was "post Prudhoe discovery stepout drilling" dominated by ARCO "with tests that focused on expanding the Kuparuk River Unit play to the south and east."

A second phase, driven by increased 2D seismic acquisition in the late 1970s through the early 1990ss in the central Slope area south of Kuparuk and Prudhoe, saw "continued focus on the Kuparuk and emerging interest in Brookian reservoirs." Wells drilled included ARCO's Pipeline State No. 1 in 1988, Conoco's Sequoia No. 1 in 1992 and Eni's Magiorre No. 1 in 2007.

Great Bear Petroleum said it "brought renewed focus to the Central North Slope area" beginning in 2010, and including five years of 3D data acquisition beginning in 2012, and two stratigraphic test wells in 2012, Alcor No. 1 and Merak No. 1, both drilled into the Ivishak formation with whole core samples taken from the Hue shale, GRZ-HRZ, Kingak, Shublik and Ivishak formations.

"Oil shows were recorded in Campanian and Kuparuk strata correlative to the reservoir zones at Alkaid and Talitha," the company said.

By mid-2014, Great Bear said it had acquired, merged and uniformly processed three modern 3D datasets.

In the winter of 2014-15 the Alkaid No. 1 was drilled, targeting a Campanian age conventional reservoir. The plan was to go to total depth through the Kuparuk formation, but operational challenges and Sag River flooding of the Dalton Highway forced an end to drilling and the well was suspended.

The company said it continued expanding the 3D seismic dataset through 2015 and 2016 and in early 2019 Alkaid was reentered and flow tested, with a limited zone perforated and a sustained flow of 35 API oil.

The application for the Talitha unit includes 16 leases, 44,463 acres, close to a square in shape with the Dalton Highway and the trans-Alaska oil pipeline at the eastern edge of the two most easterly leases. Great Bear holds an 89.2% working interest in the Talitha leases; Borealis Alaska holds a 10.8% interest. Five of the leases expire in April 2021, seven expire in November 2022 and four expire in January 2025.

Non-drilling activities planned over the next three years it plans include reprocessing some 50 square miles of 3D seismic, including pre-stack depth migration for the Talitha area, followed by drilling of Talitha A and Talitha B, winter drilling using ice roads and pads.

"They will be vertical wells drilled to the base of the Kuparuk sand."

Great Bear said that based on results the wells could be suspended for potential use as producers.

Talitha A is scheduled for the winter of 2021, "pending fundraising," spudding in February, with Talitha B scheduled for the winter of 2022, "pending fundraising," Great Bear said.

A $3.3 million performance bond would be posted, no later than one year from the effective date of the agreement, or Sept. 15, whichever is earlier. "If the bond is not posted by the deadline, the unit automatically terminates."

"One well must be drilled within two years, or two wells within four years to maintain the unit," Great Bear said, with the bond to be surrendered if the wells are not drilled as proposed.

In its public notice the division said comments were due on the proposal by 4:30 p.m., Oct. 12.

The application for the Alkaid unit includes four leases, ADL 391701, 391704, 391706 and 391707, total of 22,804 acres. The leases form a block with the Dalton Highway running through three and the trans-Alaska oil pipeline running through two. Great Bear is 100% working interest owner in the leases, all of which have expiration dates of April 30, 2021.

The application was filed Aug. 26; comments are due by 4:30 p.m., Oct. 12.

Great Bear said it is reprocessing some 50 square miles of merged 2012-16 3D

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PANDEMIC POUNDING

billion, instead of its projected C$38.5 billion.

Finance Minister Travis Toews rated the number as "incredibly sobering."

He told Albertans they face a "grim reality" that will force the Kenney government to "deliver the most cost-effective government services possible" when the next fiscal update is issued in November followed by a new budget in February 2021.

Toews said taxpayer-supported debt could soon reach C$99.6 billion, or C$22,400 per Albertan, by next March — compared with the province's debt-free status for the early years of the 21st century and a modest C$11 billion in 2015.

More than 176,000 jobs have been lost since February and Alberta's unemployment rate is expected to average 11.6% for 2020, compared with 4.6% in 2019.

Forecast revenue is C$38.4 billion, down from almost C$50 billion in the original 2020-2021 budget.

There is no need to dig very deep for an explanation in a province that has relied for decades on energy royalties to generate huge government and personal wealth.

Alberta now expects non-renewable resource revenue to bottom out at C$1.22 billion, or 3% of the total forecast revenue compared with 10% targeted in the February budget and 18% in 2014-15 when energy prices went into a nosedive.

The previous low for royalty revenue was set in 1974-75 when Alberta collected C$1.32 billion.

What is no longer realistic is the February prediction of C$5 billion, although there has been a recovery in the West Texas Intermediate benchmark and, more importantly, a gain in Western Canada Select prices for oil sands production to a steady US$33 a barrel.

Toews said the government will tackle the deficit by cutting costs and trying to jump-start the economy but was adamant that the revenue void will not be filled through fees or joining Canada's other nine provinces by imposing a sales tax.

However, he did suggest that over the longer term Albertans need to discuss their revenue and tax structures, whether diversification is attainable and what role infrastructure projects will play.

"It is a long road to recovery, said Mike Holden, chief economist for the Business Council of Alberta, while tossing a sprinkling of hope into the mix by suggesting there is reason for Alberta to be positive.

It is not clear whether he has an insight into what the government has in mind for a multi-billion dollar recovery program that sources say will be laid out in two stages: short term investments centered on infrastructure spending of C$500 million for shovel ready jobs and longer-term efforts to diversify

For those inclined to peer over the fence into Saskatchewan, Canada's second largest producer of oil and natural gas, provides a source of envy.

Based on first-quarter results, Saskatchewan Finance Minister Donna Harpauer has lowered her province's estimate of red ink for 2020-21 to C$2.1 billion, down C$300 million from June.

With a population of 1.2 million, Saskatchewan says most business have reopened after the COVID closures and employment has recovered 56,000 jobs, boosting revenue forecasts to C$14 billion, a gain of nearly C$400 million since the original budget. ●

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GREAT BEAR

seismic datasets, work which will include pre-stack depth migration, something which has not previously been done for the Alkaid area.

In an exploration plan included with the unit application the company said: "This methodology, when combined with the logging while drilling data will reveal areas of better reservoir quality and assist in selecting the interval for the lateral drilling," with the processing work to be completed prior to spudding the Alkaid No. 2 well, proposed for 2021.

Among other nondrilling activities, Great Bear said it would engage an outside engineering firm to study "a conceptual 'hot tap' of TAPS within or near the Alkaid and Talitha Units, working in close consultation with Alyeska Pipeline Service Company."

Great Bear is owned by Pantheon Resources.

Pat Galvin, chief commercial officer for the companies in Alaska, told Petroleum News in July: "Pantheon is speaking to a number of parties about partnering to jointly exploit and develop both of these projects," referring to Alkaid and Talitha.

The plan in the unit application calls for construction of a gravel driveway and pad for the Alkaid No. 2 next June, mobilizing a rig to the well site in July, drilling in July and August, moving hydraulic fracturing equipment to the site in August, with fracture stimulation in August and September and a pilot production test from September to mid-2022.

The unit plan said the Alkaid No. 2 is expected to be a vertical well with long laterals and true vertical depth approximately 8,000 feet to the basin floor of the Brookian. The laterals will be some 10,000 feet and will be fracture stimulated.

Subject to results from the Alkaid No. 2 well, Alkaid No. 3 would be drilled in 2022, with gravel driveway and pad construction beginning in February, rig mobilization in March and April, drilling in April and May, mobilization of hydraulic fracturing equipment and hydraulic fracturing stimulation in May and June and a pilot production test beginning in June and running through late 2022.

In addition to results from the Alkaid No. 2, the company said "oil price expectations and anticipated fiscal and commercial terms" would also play a role in determining whether Alkaid No. 3 is drilled.

The true vertical depth of Alkaid No. 3 would also be some 8,000 feet to the basin floor of the Brookian; laterals will be some 10,000 feet in length, as with the Alkaid No. 2.

Unlike the Talitha unit application, the Alkaid unit application does not discuss bonding.

As with the Talitha application, comments were due on the proposal by 4:30 p.m., Oct. 12.

—KRISTEN NELSON

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CREDIT BONDING

"there is substantial risk that a court may determine that SB 176 is unconstitutional."

The Alaska Department of Law disagreed.

"The proposed tax credit bonds in SB 176 are not general obligation bonds under the Alaska Constitution," Alaska Attorney General Jahna Lindemuth said in an April 2018 press release. "We've carefully reviewed the legal issues and are confident that these bonds are lawful under Alaska law."

Sen. Bill Wielechowski, D-Anchorage, who raised the constitutionality issue, said in 2018 that the Legislature is prohibited under the Constitution from "bonding for state debt, and the two instances that are allowable must be approved by the voters."

The bill created the Alaska Tax Credit Certificate Bond Corp. allowing the state to pay off its tax credit liability in a lump sum, the Department of Law said in 2018.

The alternative to the bonding proposal is for the state to continue to pay off the credits on an annual basis.

A Sept. 4 statement from the office of Gov. Mike Dunleavy on the Supreme Court ruling said the departments of Revenue and Law were reviewing the decision to understand its impacts and said the Department of Revenue shows $743 million in outstanding tax credits eligible for the bonding program.

Discounting

HB 331 allowed payment, at a discounted rate, of cashable credits which have been earned by small oil and gas companies — the state's major oil producers were never eligible for cashable credits.

The program offering cashable tax credits ended in 2017.

The cost of the bonding for the HB 331 program would have been borne by the companies, which would have received payment at a discount of about 10% to cover the state's costs and interest on the bonding. The bill contained provisions which allowed a discount closer to 5%, provided the companies met one of four conditions: agreed to provide the state an overriding royalty interest; committed to reinvest the money in Alaska within 24 months; agreed to an early waiver of confidentiality on seismic data; or had refinery or gas storage credits.

To qualify for the program a company had to commit all its cashable credits to the program.

The House added a 45-day time limit for constitutional challenges to the bond program; reduced the calculation of future appropriations to the tax credit fund — the source of current payments — for companies not participating in the bond program, with the effect of extending out the period over which payments would be made; added conditions and information related to the reinvestment provision including maximizing Alaska hire and use of Alaska contractors, moving a project toward production and clawback of incremental payment if investment targets not met.

Goals of bill

In his February 2018 transmittal letter, Walker said the state's ability to purchase oil and gas tax credits was ended by passage of a bill in 2017.

"These credits were earned by small producers and explorers; major producers have always been ineligible to participate," Walker said, noting that since the program began in 2007 the state had purchased more than $3.5 billion of the credits.

But after the downturn in oil prices, the state could no longer purchase the credits as quickly as they were submitted, and since 2016 purchase funds were based on a statutory formula, he said, "resulting in large accrued balances."

"The payment delay has resulted in significant uncertainty for Alaska's small producers, some of whom have had a difficult time borrowing additional money to complete their projects," he said. The end of the program in 2017 was necessary to restore the state "to a more stable fiscal foundation. This bill would allow the State to take the next vital step in resolving the State's oil and gas tax credit obligation," Walker said.

In a fiscal note accompanying the 2018 bill the Department of Revenue's Tax Division said that for several years appropriation language in the annual budget was open-ended, so the state repurchased all certificates that were presented. That ended with the fiscal year 2016 budget, which capped repurchase of the certificates based on statutory calculation.

"The net result of this has been delay and uncertainty for these companies, as well as in some cases their inability to borrow additional funds." ●

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CONSOLIDATIONS

Obsidian, with current production of about 30,000 barrels of oil equivalent per day, would gain 12,305 boe per day most of it drawn from the Pembina Cardium play in Alberta, rated as the largest reservoir in Canada, plus some minor stakes in British Columbia and Saskatchewan.

Whitecap would bolster its output of 70,000 boe per day, including 54,000 bpd of oil, with NAL's 40,000 boe per day, 60% of which is crude oil and natural gas liquids.

Those two deals come closely on the heels of Canadian Natural Resources, one of Canada's biggest and best-financed energy companies, snapping up debt-laden natural gas producer Painted Puny Energy, and ConocoPhillips acquiring British Columbia properties from Kelt Exploration for C$510 million.

Bare-knuckles scrap

While the forays by Obsidian and Whitecap proceed in what seems an orderly fashion, a bare-knuckles scrap has broken out as Wilks Brothers of Texas makes its second attempt to acquire Calfrac Well Services, despite getting a thumbs down from a United States court.

Wilks was rebuffed in its efforts to prevent Calfrac from gaining bankruptcy protection, which would have given Calfrac a chance to hold a vote of its shareholders and noteholders to recapitalize the company and try to save it from insolvency.

With 3,900 employees in Western Canada, 10 U.S. states, Western Siberia and Argentina, Calfrac is ranked fifth among its 10 hydraulic fracturing competitors.

Calfrac said it has the backing of 78% of holders of senior unsecured notes, while Wilks, which owns almost 20% of Calfrac's shares, has urged those investors to reject the company's strategy.

Calfrac has called Wilks, which owns U.S. oilfield services company ProFrac services, a "wolf in sheep's clothing."

The proposed reorganization, which faces separate votes by shareholders and debtholders on Sept. 17, is being tested under the Canada Business Corporations Act and must be supported by two-thirds of debtholders to proceed.

Wilks said Sept. 1 it would offer C18 cents per share, or C$26.13 million in total, for the shares it does not already own.

Alternative to restructuring

Matt Wilks, vice president of investment, told the Globe and Mail his company is launching its bid to give Calfrac shareholders an alternative path to fiscal recovery if they reject Calfrac's proposed restructuring.

"We have continuously pushed to get a fair deal on the table," he said. "We're not the big, bad wolf."

Wilks rejected claims that a takeover would pit Calfrac against ProFrac, noting that anti-trust laws in the U.S. and Canada would prevent anti-competitive behavior.

In 2014 Calfrac shares were holding at around C$20, but two years later had plunged to C$1.25 and are now hovering around C15 cents. The company reported a net loss of C$277 million in the second quarter after revenues slumped by 79% and is dragged down by long-term debt of C$947 million.

Wilks has proposed to buy up a large chunk of the Calfrac debt, swap the debt for shares and pump C$80 million into the floundering company, in return for a 60% equity stake in Calfrac.

"We are patient and thoughtful and persistent and we're not done here," said Wilks.

He believes Calfrac, if its balance sheet can be cleaned up, would be well positioned to spur industry consolidation through acquisitions in both Canada and the U.S.

However, Calfrac Executive Chairman John Mathison, who believes consolidation in the oil patch is overdue, said Wilks has been unable to demonstrate how it would run two companies that would be in direct competition.

George Armoyan, founder of Armco Capital, described the tussle between Calfrac and Wilks as "dirty and nasty," though Mathison and Wilks insist it is not as ugly as it may appear, despite a C$100 million lawsuit Calfrac launched in 2018.

The legal action accused Wilks Brothers of attempting to drive up Calfrac's financing costs in its attempt to acquire Calfrac's U.S. operations.

Effectiveness questioned

While a surge in takeover activity is welcomed by many sectors in the oil patch, there are doubts that consolidation can help services firms, whose activity has nosedived since March.

Vladislav Vlad, an analyst with Scotia Capital, said recovery in the services sector "will be prolonged and disproportionately impacted compared to exploration and production companies."

He said E&P companies' priority will be to "resume shut-in production rather than firing up machines."

—GARY PARK

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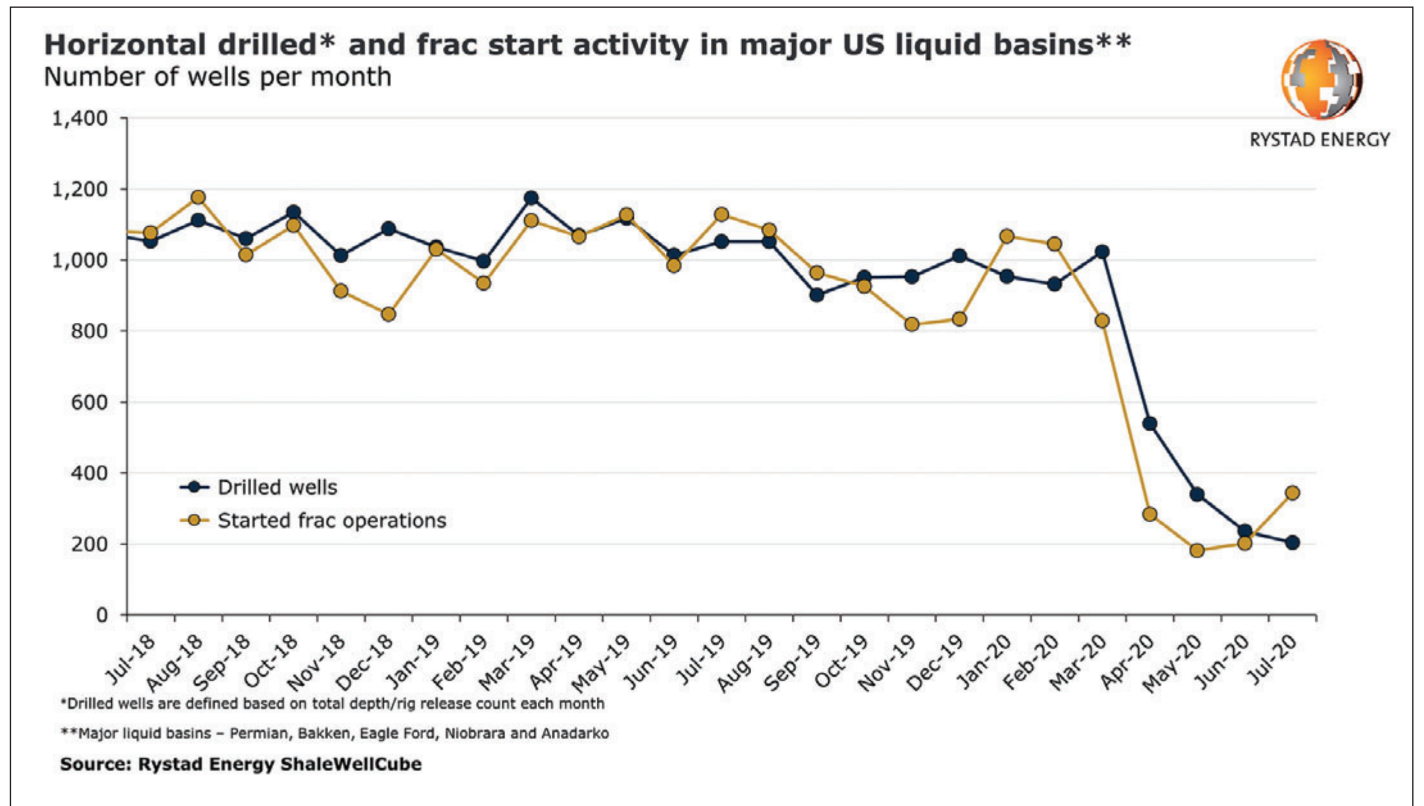
OIL PRICES

Gold slipped to $19.14 Sept. 8, but recovered to $19.58 on Sept. 9.

Compounding the general risk-off sentiment in markets, Labor Day marked the end of the summer driving season, historically a bearish turning point for gasoline demand.

Gasoline demand has driven the recovery of oil prices from COVID-19 induced lows, leveling recently at 90% of 2019 levels. Jet fuel demand has been much slower to recover, with passenger demand stalled at half of 2019 levels.

Sentiment around transportation fuels is muted as coronavirus cases flare in India, Great Britain, Spain and several parts of the United States. Global COVID-19 infections have risen to more than 200,000 infections per day, while global deaths approached 900,000, according to John Hopkins University data.



The recovery of fracking operations in the United States is happening largely thanks to an unusually high inventory of drilled but uncompleted wells, enough to sustain current levels without adding more rigs until deep into 2021, a Rystad survey released Sept. 4 said.

The outbreaks threaten global economic recovery and raise concerns about continued improvement in demand for fuels.

Oil futures in New York began the downward drift Sept. 6 following a Saudi Aramco announcement that it had deepened price cuts on its key Arab Light grade for shipments to Asia, indicating weaker fuel demand. Aramco also lowered its prices to the United States for the first time in six months.

Only four of 10 Asian refiners said they would be trying to buy more Saudi crude after the Aramco price cut, according to a Bloomberg survey. Abu Dhabi National Oil Co. echoed the price cuts for Asia Sept. 8.

Supply

The Organization of the Petroleum Exporting Countries and its allies helped to boost oil prices above $40 earlier in 2020 with an agreement to undertake record production cuts of 9.7 million barrels per day.

Citing improving demand, OPEC+ reduced its curtailment to 7.7 million bpd starting in August.

Production by the group rose by 1.71 million bpd to 34.63 million bpd in August from July levels, according to an S&P Global Platts survey released Sept. 9.

OPEC+ achieved compliance of 97% in August, Platts said.

U.S. onshore production is moving higher as well, as operators move to largely restore shut-in oil volumes by the end of the third quarter, according to a Rystad Energy analysis of 25 public oil operators' second-quarter earnings released Aug. 14.

May curtailments at the companies peaked at 772,500 barrels per day, but cuts are expected to fall to a net 74,300 bpd in August, with nearly all production to be reactivated by September.

Despite a Baker Hughes survey showing a U.S. rig count of only 256 on Sept. 4, down 642 rigs from September 2019, U.S. shale operators are well positioned to maintain production going forward.

The recovery of fracking operations in the United States is happening largely thanks to an unusually high inventory of drilled but uncompleted wells, enough to sustain current levels without adding more rigs until deep into 2021, a Rystad survey released Sept. 4 said.

"Fracking activity for the rest of this year and early 2021 will be supported by the existing, abnormally high level of DUCs, though not all DUCs will be brought online quickly," said Artem Abramov, Rystad Energy head of shale research. "Large, well-established operators will stay committed to capital discipline, only increasing their completion spend gradually in the current price environment."

Rystad said that the Permian Basin — where the recovery in fracking has been most pronounced — can still accommodate 13 months of activity at last month's pace.

The normal DUC-to-fracking ratio is about five months, which indicates that Permian operators are carrying an inventory equivalent to eight months of fracking at the current pace, Rystad said, adding that even if drilling operations in the basin stop completely, Permian fracking can be maintained at about 200-250 wells per month through the first half of 2021 before inventory returns to normal.

Drilling declined across major oil basins — Permian, Eagle Ford, Bakken, Niobrara and Anadarko — in the March to May period, Rystad said. Fracking bottomed in May and June before recovering sharply in July.

After DUCs run out, rig activity in the five regions will need 280-300 active rigs to maintain flat oil output, Rystad said, adding that while rig activity today is 50% lower than that requirement, the industry still has two to three quarters of leverage to achieve a smooth transition from a DUC-driven activity phase to a regular operations mode. ●

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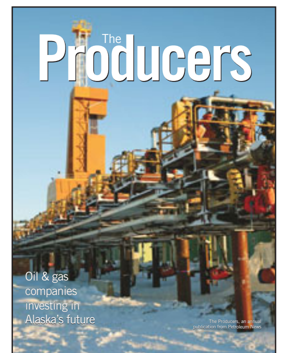

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GEOTHERMAL ENERGY

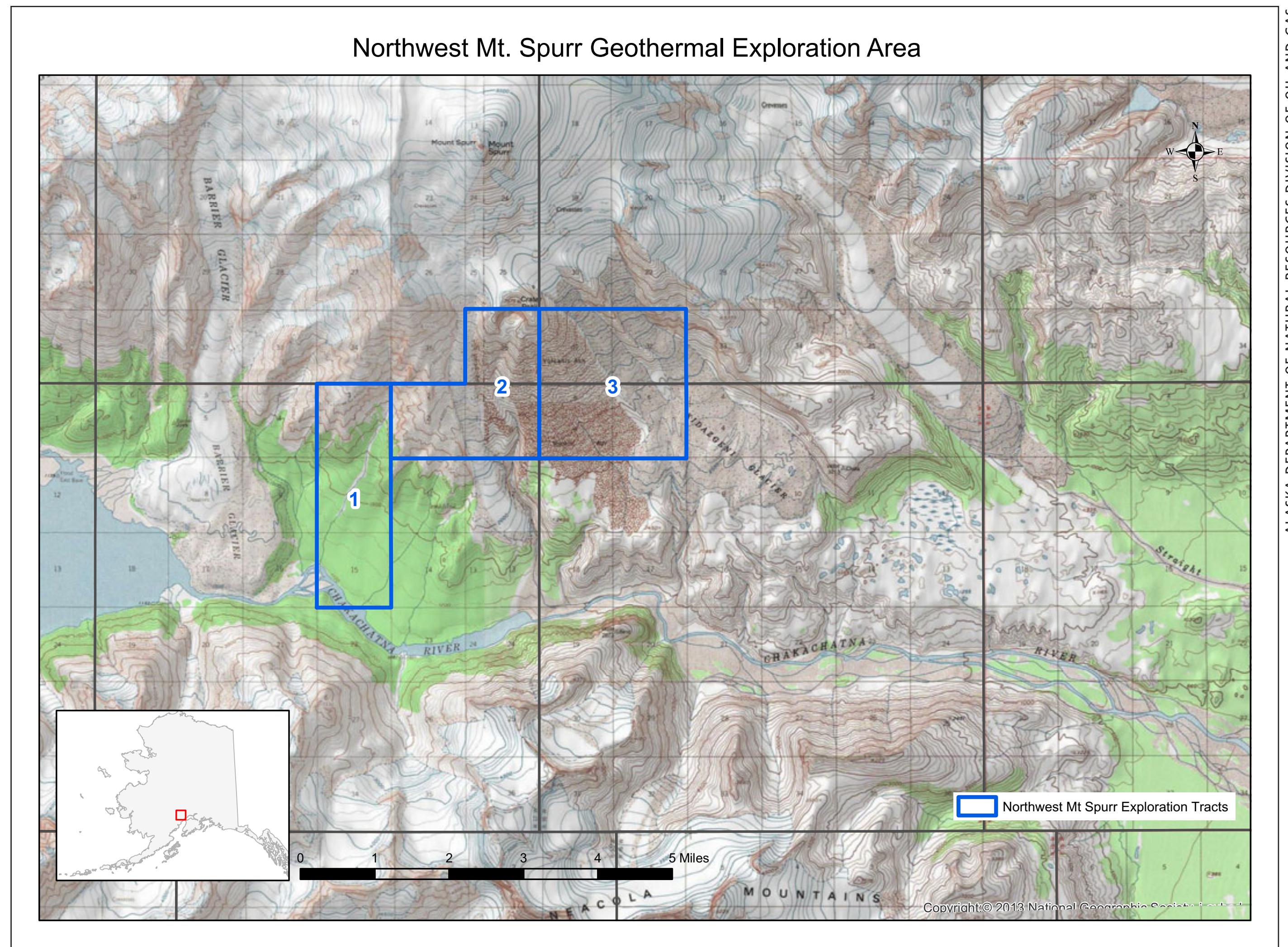
using the Makushin Volcano.

Geothermal systems

Alaska has geothermal systems associated with the cooling of subsurface granite bodies and with the volcanoes that occur along the Alaska Peninsula and the Aleutian Islands. The volcanic systems tend have near-surface magma, with the potential to generate large volumes of hot water.

The challenge, however, is to site a geothermal power plant at a location where the electrical power can be viably delivered to places where there is sufficient demand for electricity — most of Alaska's volcanoes are positioned at very remote locations. However, a Makushin power plant could supply electricity for the City of Unalaska, Dutch Harbor and local fish processing facilities. Mount Spurr, on the other hand, is about 40 miles from the Beluga gas-fired power station on the Railbelt electricity grid.

Interest in the geothermal potential of the Makushin Volcano goes back several decades. In 1981 an exploration drilling project discovered an excellent geothermal resource on the eastern flank of the volcano, about 13 miles from the City of Unalaska.



The State of Alaska is offering three land tracts on the southern flanks of Mount Spurr for geothermal exploration.

Makushin Volcano

Interest in the geothermal potential of the Makushin Volcano goes back several decades. In 1981 an exploration drilling project discovered an excellent geothermal resource on the eastern flank of the volcano, about 13 miles from the City of Unalaska. Over the years since then there have been multiple initiatives aimed at developing the resource, but none of these efforts have come to fruition. However, the parties to this new development agreement feel confident that they will now see success.

"What makes this different is that we've put together a team of Alaskans with a common vision and proven local, national and international business and technical leadership," said Chris Salts, CEO of Ounalashka Corp. "We know this can be transformational for our community and our future role in the world and we're all pulling in the same direction to see it realized."

The development of the planned 18 to 30 megawatt plant will involve the installation of roads, pads and facilities. Power transmission and communications lines will be buried along much of the route from the power plant to the City of Unalaska power grid, with the lines running subsea along about 3.2 miles of the route. The developers envisage the drilling of three production wells and two injection wells to depths of about 2,000 feet.

The parties to the new agreement say that the agreement will enable the geothermal project to proceed to financing, with initial commercial operation anticipated to begin in the fourth quarter of 2023. The capacity of the planned facility will be sufficient to accommodate all of Unalaska's current electricity customers, as well as known potential future customers, the parties say.

Mount Spurr

At Mount Spurr the state is offering three land tracts with a total area of 6,400 acres for geothermal exploration. Two of the tracts are on the southern flank of the volcano's currently active crater, to the south of the mountain's summit. The other tract encompasses an adjacent area on the southwest side of the other tracts.

Exploration applications must be filed by Oct. 5. The division issues non-competitive prospecting permits for a primary term of two years, with the potential for renewal for an additional year. The division also issues competitive geothermal leases for primary terms of 10 years, with the possibility of a five-year extension if drilling operations are active.

Starting in 2009 geothermal company Ormat Technologies conducted geothermal exploration in 15 state leases covering a fairway on the south side of Mount Spurr. The company drilled three boreholes, on the southeastern side of the mountain some distance from the crater but failed to find a hot water source. The company formally discontinued its exploration program in 2015.

—ALAN BAILEY

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