Petroleum news

page 2 FERC gets rehearing requests for May 21 Alaska LNG Project order

Vol. 25, No. 26 • www.PetroleumNews.com A weekly oil & gas newspaper based in Anchorage, Alaska Week of June 28, 2020 • $2.50

DNR to complete its BP-Hilcorp upstream review prior to June 30

CORRI FEIGE

Alaska Department of Natural Resources Commissioner Corri Feige told a June 19 meeting of the Governor's Oversight Committee on BP-Hilcorp Transaction that the department expects an affirmative completion of its review and due diligence the week of June 22, allowing for a June 30 close on the upstream portion of the transaction.

The Regulatory Commission of Alaska is working on the midstream portion and has set a Sept. 28 target for its decision.

As announced by the companies last August, Hilcorp is in

see **SALE REVIEW** page 8

Oil Search files belt and suspenders Pikka amendment

BRUCE DINGEMAN

On June 17 Alaska's Division of Oil and Gas posted the first amendment to the Pikka unit agreement from operator Oil Search (Alaska) LLC. The amendment, dated June 1, appears to be a "belt and suspenders" move, which is a colloquialism used to describe conservative lending practices and is based on the idea that wearing a belt and suspenders gives the user two redundant methods for holding up their pants.

A working interest owner in the North Slope unit, Oil Search filed the amendment on behalf of itself and the other

see **PIKKA AMENDMENT** page 5

Court sides with AOGCC on appeal of its Cook Inlet gas leak order

Alaska Superior Court Judge Eric A. Aarseth has affirmed the Alaska Oil and Gas Conservation Commission's Other Order 150, which denied a petition from Hollis French for a hearing on a complaint of waste for gas leakage from an 8-inch line carrying fuel gas to Platform A in Cook Inlet.

French, formerly an AOGCC commissioner, has filed a motion for reconsideration with the court.

The leak occurred in the winter of 2017.

In its Other Order 150, the commission said it investigated the leak at the time it occurred, and initially believed the source was upstream gas, which is an AOGCC-regulated resource. Had the gas leak been from an upstream source, the

see **COURT RULING** page 6

Kenney on slippery slope, down 17% in approval since April 2019

JASON KENNEY

It was only 15 months ago that Jason Kenney romped to victory in an Alberta election that gave him the highest popularity rating of any government leader in Canada. Those heady days are fast becoming a distant memory.

He's now at the bottom of the heap among provincial premiers, having tumbled from 61% approval to 44% during his time in office, despite attracting high praise for his handling of COVID-19.

In his rush to implement election promises, Kenney rapidly

see **KENNEY APPROVAL** page 7

FINANCE & ECONOMY

Oil rally stalls

ANS prices retreat from 3-month high on COVID-19 fears; US gasoline use up

By STEVE SUTHERLIN
Petroleum News

Alaska North Slope crude prices dropped $2.13 to $41.94 per barrel June 24, according to the daily estimate from the Alaska Department of Revenue. Brent crude closed at $40.31, for a loss of $2.32.

Analysts said oil markets were spooked by spikes in COVID-19 cases, striking fears of a new round of coronavirus closures, while futures trading signaled concerns about storage capacity.

Futures in New York fell 5.9% to the lowest in a week June 24, Bloomberg reported.

U.S. crude inventories rose by 1.4 million barrels for the week ending June 19, to 540.7 million barrels, the U.S. Energy Information Administration said. Analysts in a Reuters poll had expected a 299,000 barrel rise.

The abruptly lower prices June 24 put a lid on a narrative of rising optimism for higher oil prices as economies around the world opened up and spurred demand increases from COVID-19 induced lows experienced earlier in the spring.

ANS prices hit $44.48 — a three month high — June 22 before beginning a slide on June 23 which broke a steady march upward from $41.91 on June 18.

On June 22 Bloomberg said physical crude oil

see **OIL RALLY** page 5

EXPLORATION & PRODUCTION

A steady drilling rate

North Slope development drilling in 2019 at a similar pace to previous years

By ALAN BAILEY
For Petroleum News

The drilling of development wells in the North Slope oil fields in 2019 continued at a very similar rate to that seen in the previous three years, according to data published by the Alaska Oil and Gas Conservation Commission.

Although this appears to indicate a continuing commitment by the oil companies to maintain oil production levels on the Slope, there will presumably be a significant drop in drilling in 2020, given the impact of the COVID-19 pandemic. However, complete data for 2020 will not become available until some time in the first quarter of 2021.

It is important to note that the well data do not include the non-rig well workovers that make a very significant contribution to maintaining oil production.

88 development wells

A total of 88 development wells designed for oil production were drilled in 2019. That compares with 98 wells in 2016, 92 in 2017 and 90 in 2018. A substantial number of the wells in 2019, particularly in the Prudhoe Bay and Kuparuk River units, were sidetracks to existing wells, seeking further

see **DRILLING RATE** page 5

PIPOELINES & DOWNSTREAM

Trans Mountain travails

Despite final government approval, construction proceeding, court ruling looms

By GARY PARK
For Petroleum News

It's been two years since the Canadian government stunned taxpayers by announcing its acquisition for C$4.5 billion of the Trans Mountain pipeline system, effectively taking control of the TMX project to triple capacity on the line to 890,000 barrels per day.

That was superficially a bold step by the administration of Prime Minister Justin Trudeau to relieve Kinder Morgan's of its troubled ownership and, for Alberta oil producers, a chance to assure them of gaining vital access to offshore markets, while overcoming constant interference from environmentalists and some First Nations, who defied regulatory approvals and court injunctions and threatened to blockade construction.

TMX got a decisive lift a year ago when the federal government gave its final approval to the plans, subject to meeting 156 conditions enforced by the Canadian Energy Regulator.

Industry and Alberta government hopes of seeing completion of the expansion work for the C$12.6 billion TMX got a decisive lift a year ago when the federal government gave its final approval to the plans, subject to meeting 156 conditions enforced by the Canadian Energy Regulator.

see **TRANS MOUNTAIN** page 8

● NATURAL GAS

FERC gets Alaska LNG rehearing requests

Mat-Su Borough, Center for Biological Diversity, say FERC didn't properly evaluate Mat-Su option, harmful environmental impacts

By KRISTEN NELSON
Petroleum News

On May 21 the Federal Energy Regulatory Commission granted the Alaska Gasline Development Corp. authorization under Section 3 of the Natural Gas Act to construct the Alaska LNG Project, which includes a gas-handling facility on the North Slope, an 800-mile pipeline and a liquefaction facility at Nikiski on the Kenai Peninsula.

There was a 30-day appeal period for intervenors.

FERC now has requests for rehearing from the Matanuska-Susitna Borough and the Center for Biological Diversity and Earthjustice on behalf of Chickaloon Village Traditional Council, Northern Alaska Environmental Center and Sierra Club.

The Center for Biological Diversity request, with attachments, is more than 2,700 pages.

An introduction to the request calls the scale of the project unprecedented and says it is the first project of this size FERC has approved under the Natural Gas Act.

"Yet FERC approved the project without properly considering whether it is in the public interest and without properly examining its numerous harmful environmental impacts," the request states. It asks for withdrawal of what it calls a "deficient, unlawful Order authorizing the Alaska LNG Project" and the final environmental impact statement, asks for a redo of the "environmental analysis and public interest analysis in a manner that complies with FERC's obligations under the National Environmental Policy Act … and other statutes."

Location argument

"The Order is based on a procedurally and substantially deficient Final Environmental Impact Statement," the Matanuska-Susitna Borough says in its rehearing request. The FEIS "is in violation of the National Environmental Policy Act … and therefore does not provide the Commission or the public with all relevant information for the Alaska LNG project proposed in this docket." Mat-Su says it is requesting that FERC "issue a supplemental FEIS that complies with its NEPA obligation and issue an amended Order based on the updated FEIS."

In an initial statement of alleged errors Mat-Su says FERC "erred by defining the Project's objectives so narrowly that only the applicant's preferred site for the liquefaction facility could fulfill them."

The borough says FERC "did not take a 'hard look' at the Port MacKenzie Alternate or any other liquefaction facility site alternative," and also says what limited environmental analysis of the Port MacKenzie was done in the FEIS "contains substantive errors and selective data gaps."

"FERC unreasonably and artificially defined the Project objectives so narrowly that only ADGC's preferred alternative was viable" and "violated NEPA by failing to rigorously explore the Port MacKenzie Alternative and provide a reasoned explanation for finding it is not the preferred alternative liquefaction site."

The request said because FERC's order is based on a "FEIS that contains incomplete and inaccurate analysis of a viable alternative," FERC "has not complied with its NEPA obligations and the Order is not standing upon a solid foundation."

The borough is requesting that FERC "re-perform its comparative analysis of the Port MacKenzie Alternative, and amend the Order based on the corrected analysis." ●

contents

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

● EXPLORATION & PRODUCTION

US rig count continues to drop, hits 266

By KRISTEN NELSON
Petroleum News

Baker Hughes' weekly count of rotary rigs drilling for oil and natural gas in the U.S. continues to drop, hitting a new low of 266 for the week ending June 19, down 13 from the previous week and down 701 from a year ago.

Prior to this year, the low count by the Houston oilfield services company, which has issued the count since 1944, was 404 rigs in May 2016.

New low records have now been set for seven weeks in a row: 374 rigs on May 8 of this year; 339 rigs on May 15; 318 on May 22; 301 on May 29; 284 on June 5; 279 on June 12; and this week's new low of 266.

The count has been dropping steadily: down by 13, five, 17, 17, 21, 35, 34, 64, 73, 62, 64, 44 and 20 rigs respectively, a total of 469, over the previous 13 weeks.

The company said 189 rigs targeted oil, down 10 from the previous week and down 600 from a year ago, while 75 targeted gas, down three from the previous week and down 102 from a year ago. There were two miscellaneous rigs active, unchanged from the previous week and up by two from a year ago.

Eighteen of the holes were directional, 234 were horizontal and 14 were vertical.

Alaska count unchanged

Rig counts were unchanged for Alaska (3), California (4), Colorado (6), Ohio (9), Pennsylvania (22) and Wyoming (1).

North Dakota (10), Oklahoma (9) and West Virginia (5) were each down by one rig from the previous week.

Louisiana (32) was down by two rigs, Texas (111) was down by three rigs and New Mexico (51) was down by five rigs.

Baker Hughes shows Alaska with three active rigs for the week ending June 19, down by six from a year ago.

The largest rig count drop by basin was in the Permian, which has the most active rigs at 132 and was down five from the previous week and down 307 from a year ago.

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. This week's count of 266 is a new low, surpassing lows set in the previous six weeks. Prior to that the previous low was 404 rigs in May 2016. ●

Contact Kristen Nelson at knelson@petroleumnews.com

ENVIRONMENT & SAFETY

ND to plug, reclaim abandoned oil wells

State regulators have approved a new program to plug North Dakota's abandoned oil wells. Work is set to begin July 16 under the program approved by the Industrial Commission June 19.

The Bismarck Tribune reports the state plans to use $66 million in federal coronavirus aid to plug and clean up at least 239 abandoned wells and other oilfield sites.

Regulators expect to return 2,200 acres to agricultural use, mainly in the older northern oilfields of Bottineau, Renville and Ward counties but also in western North Dakota.

"Our goal by the end of the year is to have topsoil on every one of these sites, either ready for crops to be seeded in spring or native grasses already seeded and ready for the fall rains," State Mineral Resources Director Lynn Helms told the commission. "It's going to be an enormous process."

The three-member commission, chaired by Gov. Doug Burgum, approved orders June 19 to plug the sites, which are operated by 50 oilfield companies.

Between the plugging and reclamation portions of the program, Helms said North Dakota officials hope to keep about 1,000 oilfield workers employed full time for six months. He added that about 9,500 workers in the oil and gas sector have filed for unemployment this spring. The state started accepting bids for the work June 22.

—ASSOCIATED PRESS

Petroleum news

www.PetroleumNews.com

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

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

NEWS
907.522.9469
publisher@petroleumnews.com

CIRCULATION
907.522.9469
circulation@petroleumnews.com

ADVERTISING
Susan Crane • 907.770.5592
scrane@petroleumnews.com

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

OWNER: Petroleum Newspapers of Alaska LLC (PNA)
Petroleum News (ISSN 1544-3612) • Vol. 25, No. 26 • Week of June 28, 2020
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518
(Please mail ALL correspondence to:
P.O. Box 231647 Anchorage, AK 99523-1647)
Subscription prices in U.S. — $118.00 1 year, $216.00 2 years
Canada — $206.00 1 year, $375.00 2 years
Overseas (sent air mail) — $240.00 1 year, $436.00 2 years
"Periodicals postage paid at Anchorage, AK 99502-9986."
POSTMASTER: Send address changes to Petroleum News, P.O. Box 231647 Anchorage, AK 99523-1647.

continued from page 1

PIKKA AMENDMENT

unit working interest owner, Repsol E&P USA Inc. Although the initial agreement declares Oil Search the operator, mentions of Repsol being the operator still appears in random documents.

The June 1 amendment, which was signed by both Oil Search (Alaska) President Bruce Dingeman and Repsol (signature illegible), removes all doubt about which company is the operator. It also updates relevant addresses and reflects the current working interest ownership of the Pikka unit.

The amendment was mailed to both Alaska Department of Natural Resources Commissioner Corri Feige and to Rex Rock Sr., president of Arctic Slope Regional Corp.

The North Slope Pikka unit was formed effective June 1, 2016, by then-working interest owner and operator Repsol, along with working interest owners Armstrong subsidiary 70&148 LLC, which brought Repsol into the play, and GMT Exploration Co. LLC.

DNR's Division of Oil and Gas approved the first expansion of the Pikka unit on Nov. 29, 2016, and ASRC approved it on Feb. 28, 2017.

In a March 7, 2018, letter to DNR and ASRC, Oil Search was designated as successor unit operator in accordance with an article in the agreement.

DNR and ASRC approved the change in operatorship on March 20 and 21, respectively.

A revised Pikka unit operating agreement between the working interest owners was filed with DNR and ASRC on Oct. 9, 2019. Then, a revised Exhibit A was provided as an attachment to that revised operating agreement.

Pikka is expected to produce as much as 150,000 barrels of oil per day at its peak, with production starting in 2024, and that is excluding output from what is anticipated to be Oil Search's next North Slope development from the nearby Horseshoe discovery.

—KAY CASHMAN

Contact Kay Cashman at publisher@petroleumnews.com

continued from page 1

DRILLING RATE

oil in these older legacy fields.

In the Colville River unit seven out of a total of eight wells were drilled from ConocoPhillips' CD-5 pad, a relatively new development in the northeastern National Petroleum Reserve-Alaska. ConocoPhillips also drilled 31 development wells in the Kuparuk River unit. In the Prudhoe Bay unit BP drilled 34 development wells. Hilcorp Alaska drilled 13 development wells in the Milne Point unit, while Eni US Operating Co. drilled two development wells in the Nikaitchuq unit.

29 injection wells

AOGCC also reports data for what it refers to as service wells — these are primarily injectors, used for enhanced oil recovery through the injection of various materials including water, gas and miscible injectant into oil reservoirs. Of the 32 service wells drilled in 2019, 29 were injectors. The remaining service wells were designed for water supplies and the disposal of waste. In 2016 38 injector wells were drilled, 19 in 2017 and 22 in 2018.

In 2019 the majority of the injection wells were drilled in the Kuparuk River and Milne Point units. ConocoPhillips drilled 14 injectors at Kuparuk: six of these were for the injection of water alternating gas, with the remainder for water injection. The company also drilled two water alternating gas injectors in its Greater Mooses Tooth development in the NPR-A.

At Milne Point Hilcorp drilled 10 injectors. These are all designated as water injection wells. However, Hilcorp has been using polymer injection to boost production at Milne Point.

BP drilled the other three injectors, all of them water alternating gas injectors, in the Prudhoe Bay unit.

It is important to note that the well data do not include the non-rig well workovers that make a very significant contribution to maintaining oil production.

Exploratory drilling

The AOGCC "exploratory" well category includes both exploration wells, testing new oil prospects, and appraisal wells, used to evaluate an oil or gas discovery. And in 2019 one of the wells designated as "exploratory" consisted of the Hydrate 1 well, drilled by BP in support of a methane hydrate production test project planned by the National Energy Technology Laboratory, Japan Oil, Gas and Metals National Corp., the U.S. Geological Survey, and Petrotechnical Resources of Alaska.

There were 13 other exploratory wells, most of them appraisal wells associated with recent oil discoveries in the Nanushuk formation near and to the west of the Colville River delta. This represented a significant uptick in drilling activity: In 2016 there were six exploratory wells drilled, three in 2017 and nine in 2018.

In 2019 ConocoPhillips drilled five appraisal wells to test its Willow oil discovery in the NPR-A, while Oil Search (Alaska) drilled four appraisal wells, testing its Pikka discovery on the east of the Colville River Delta. On the exploration front, ConocoPhillips drilled two wells into its Putu prospect south of Pikka, and one into the West Willow prospect in the NPR-A. Great Bear Petroleum Operating drilled the Winx 1 exploration well, seeking oil in a Nanushuk prospect to the east of the Colville River. ●

Contact Alan Bailey at abailey@petroleumnews.com

continued from page 1

OIL RALLY

prices were on the rise across Europe because Russia was ratcheting its exports to multi-year lows, increasing demand for other European grades.

Combined shipments of Urals crude from Russia's Baltic and Black Sea ports ran about 880,000 barrels per day in early June, according to Bloomberg calculations from loading programs, on pace for the lowest since at least 2008.

Russia agreed June 6 with the Organization of the Petroleum Exporting Countries and other producers to continue cutting 9.7 million barrels a day through July, removing 10% of normal global production.

Bloomberg said June 22 that traders in London were bidding up prices for North Sea oil during the recurring 4 p.m. half hour trading window which sets the price of Brent crude.

"Two months ago, every trader wanted to sell cargoes and none were keen to buy," it said. "Now the window has transformed into a bull market, where bids outnumber offers 10 to one and prices are surging."

Oil prices have generally been in recovery mode since the week of May 18, when oil futures prices plunged into the negative for the first time in history.

Gasoline consumption in the United States hit a major milestone in June, more than halfway back to pre-COVID-19 levels, Oil Price Information Service, OPIS, by IHS Markit said June 24.

A recent OPIS survey showed that in the second week of June demand was off 22%, compared to the same week in 2019.

Consumption tanked in the second week of April, down 49% from 2019 volumes, as the shutdown of the economy and stay-at-home orders demobilized the nation.

"Although people talk about 'demand destruction', it's actually been 'demand contraction' in response to the economic shutdown," said Daniel Yergin, vice chairman, IHS Markit. "And now we're seeing demand 'uncontracting' as people get back into their cars."

"Gasoline sales have been rising at an average of 6.4% per week since the low point in April when demand was sliced in half," OPIS President Fred Rozell said.

Some analysts are confident in gasoline's comeback.

"We see a V-shape recovery for gasoline," said Chris Midgley, head of analytics at S&P Global Platts.

But OPIS cautioned that the journey back to 2019 consumption levels may hit some bumps in the road.

"We can see a new preference for driving your car instead of public transportation or a short-range flight, and people do want to get out," said Tom Kloza, OPIS global head of energy analysis. "But that will be offset by less commuting and more working from home, the cancellation of sporting events, still-high unemployment levels and possibly a second wave of the virus in the autumn."

COVID-19 may expedite peak demand, slash world's recoverable oil

Rystad Energy's 2020 annual global energy outlook said the COVID-19 downturn will expedite peak oil demand, retard exploration in remote offshore areas, and as a result reduce the world's recoverable oil by 282 billion barrels.

Global total expected remaining recoverable oil resources will decrease to 1,903 billion barrels, 42% of which are in OPEC territory, with the remaining 58% located outside the alliance, Rystad said.

"Non-OPEC countries account for the lion's share of lost recoverable resources with more than 260 billion barrels of undiscovered oil now more likely to be left untouched, especially in remote exploratory areas," said Per Magnus Nysveen, Rystad head of analysis.

OPEC countries are much more resilient to the current crisis and will only lose a fraction compared to their non-OPEC counterparts such as the U.S. (down 49 billion barrels) and Russia (down 31 billion barrels), the report said.

"OPEC countries are expected to lose 21 billion barrels of reserves potential as the negative developments in Venezuela and Iran outweigh the increased strength and reserves potential of core OPEC countries in the Arab Gulf region," Nysveen said.

In the United States, Rystad expects lower upstream activity in shale acreage, less exploration in the Gulf of Mexico and a reduced number of licensing rounds on the Atlantic Coast.

Russia will see more of estimated Arctic offshore oil reserves left in the ground due to peak oil demand coming sooner, Rystad said. ●

Contact Steve Sutherlin at ssutherlin@petroleumnews.com

continued from page 1

COURT RULING

commission said, it would have constituted waste and AOGCC would have instituted an enforcement action against Hilcorp, which is the operator.

"However, AOGCC's investigation ultimately revealed the leaking gas had been purchased by Hilcorp from a third-party provider, Harvest Pipeline (Harvest), and was being shipped back to Platform A," the commission said.

French appealed to Alaska Superior Court, citing three points: he said AOGCC erred in ruling that it had no jurisdiction over gas sold by a vendor; erred in ruling it had no jurisdiction over gas metered and severed from a property; and erred in ruling that it had no jurisdiction over gas Hilcorp purchased from Harvest Pipeline.

Judge's ruling

The judge ruled that it is within AOGCC's expertise to determine whether waste exists under Alaska statute. "AOGCC's interpretation is reasonable and therefore this Court must defer to it."

French argued AOGCC improperly found it did not have jurisdiction over the 2017 Cook Inlet gas leak and asked the court to rule the commission did have jurisdiction and order the commission to assert that jurisdiction. He requested the court "independently review the merits of the AOGCC's decision and rule that the Cook Inlet gas leak constituted 'waste'" under Alaska statute and was within the agency's jurisdiction.

The judge said AOGCC requested that the court "apply the rational basis" in reviewing its determination that the 2017 gas leak did not constitute waste and affirm Other Order 150.

Separate case required AOGCC hearing

On April 7, Alaska Superior Court Judge Herman Walker Jr. remanded Other Order 151 to the Alaska Oil and Gas Conservation Commission, ordering it to fix a date for a hearing on Hollis French's petition on waste.

This case involved a petition by French for a hearing on a case of waste from BP well DS02-03B, where there was a gas release following mechanical failure. The commission denied French's request for a hearing and he appealed to Superior Court.

The judge sided with French, saying that by statute the commission is required to fix a date for a hearing, provide notice of the hearing, hold the hearing and issue an order.

The commission held the hearing June 23.

French reviewed the legal issues around the hearing and said he didn't think there was any doubt that there was an uncontrolled gas release at the well and said waste should have been the first thing the commission dealt with, not the last.

The issue arises out of mechanical integrity issues at Prudhoe Bay wells, the subject of the commission's Other Order 149.

The order, as amended April 1, 2019, noted that over 18 months BP Exploration (Alaska), the Prudhoe Bay field operator, "experienced sudden well head rise on two Drillsite 2 wells — DS 02-03B (April 2017) and DS 02-02A (December 2018). Each incident resulted in permanent damage to surface casing and the flow tree assembly when the wellhead rose abruptly and impacted the well house. In a third incident on March 30, 2017, an injection well, L5-13, failed during a mechanical integrity test resulting in permanent damage to the casing strings. In all three incidents well bore fluids were released at the surface."

Other Order 149, as amended, is the commission's instructions to BPXA on dealing with the mechanical integrity issues.

A situation report issued by the Alaska Department of Environmental Conservation on the 2017 incident said the team responding to the venting of gas from a well on Drill Site 2 of the Prudhoe Bay oil field succeeded in killing the well and thus achieving control of hydrocarbons escaping from the wellhead. The team killed the well by pumping salt water containing potassium chloride and mixed with methanol into the well, thus offsetting the upward pressure that had been driving gas from the well (see story in April 23, 2017, issue of Petroleum News).

—KRISTEN NELSON

Background

Hilcorp discovered a leak in February 2017 in a pipeline transporting gas from shore to Cook Inlet, the judge said in his ruling, and "determined that the leaking gas was purchased by Hilcorp and passed through a custody transfer meter. French was an AOGCC commissioner at the time," and shortly after his removal from the commission, he petitioned the commission to hold a hearing on the gas leak, alleging that the leak constituted waste and the commission had jurisdiction over the leak based on its statutory duty to prevent waste.

The commission denied a hearing and entered Other Order 150, which stated that its investigation found the leak did not constitute waste "because the gas passed through a custody transfer meter and was metered and severed from the property," making it no longer a recoverable natural resource.

In its decision the commission said that it initially believed the leak was from upstream gas, and if that had been the case, it would have constituted waste and AOGCC would have begun an enforcement action against Hilcorp.

AOGCC said its "investigation ultimately revealed the leaking gas had been purchased by Hilcorp from a third-party provider, Harvest Pipeline (Harvest), and was being shipped back to Platform A."

Citing its primary purpose as maximizing resource recovery, AOGCC said in its decision that "like every other state's oil and gas conservation regulatory authority, AOGCC regulates waste occurring upstream (occurring before oil or gas is metered and severed from the property) in connection with drilling, exploration, and production activities. 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.

Legal standards

The judge said the Alaska Supreme Court reviews agency interpretations of statutes using either reasonable review or independent judgement review, with the parties in this case disagreeing as to 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 Alaska Supreme Court gives more deference to agency interpretations that are 'longstanding and continuous,'" the judge said.

"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.

Independent judgment review is applied where specialized agency knowledge isn't so crucial, the judge said, with the Alaska Supreme Court citing issues which turn on statutory interpretation rather than policy consideration and agency knowledge and expertise.

Agency expertise

"AOGCC argues that because its duties include the obligation to determine whether or not waste exists, a waste determination is squarely within its expertise," the judge said, while "French argues that AOGCC's expertise is 'directed towards questions of well engineering and geology'," and "argues that because this case concerns the extent of AOGCC's jurisdiction, 'the knowledge and expertise of AOGCC 'affords little guidance' on this question.'"

"French does not further specify how AOGCC does not have direct expertise to make a waste determination," the judge said.

"This Court agrees with AOGCC that a waste determination is within its expertise," the judge said, and therefore defers to "AOGCC's waste determination if it is reasonable pursuant to the rational basis standard."

Reasonableness

The judge found AOGCC's interpretation of waste to be consistent with statute and said the statutory language "provides a reasonable construction that the legislature intended to give AOGCC broad authority to employ its expertise and determine what constitutes waste."

Referring to the Alaska Supreme Court's deference to "longstanding and continuous" agency interpretation, the judge said AOGCC's finding in this case "is consistent with its past regulation of waste 'upstream (occurring before oil or gas is metered and severed from the property) in connection with drilling, exploration, and production activities.'"

"Other Order 150 complies with AOGCC's waste determination duty," he said.

Independent judgment

French argues that the definition of waste "is a question of statutory construction, and therefore the Court should analyze the state independent of the agency's interpretation," based on the Union Oil Co. of California v. Department of Revenue case, in which there were two statutes and the court had to decide whether those statutes were consistent with one another.

The judge said the situation in this case is not the same.

"Instead, we are presented with reviewing AOGCC's investigation and determination of whether or not waste existed. A waste determination requires specialized agency judgment, and thus the independent judgment standard is inapplicable," the judge said.

—KRISTEN NELSON

Contact Kristen Nelson at knelson@petroleumnews.com

continued from page 1

KENNEY APPROVAL

lost favor among Albertans with his budget plans to cut spending by C$4 billion, undermining health care and education in the process, while taking a US$1.1 billion equity stake and offering a US$4.2 billion loan guarantee to secure completion of TC Energy's high-risk Keystone XL pipeline.

There is little doubt that his United Conservative Party government has gambled heavily on its political capital in a frantic effort to rescue and revive Alberta from its economic plight that now seems destined for historic jobless rates of more than 20%, largely the result of COVID-19.

Push for jobs, revenue

Kenney's answer is to try almost anything to create jobs and revenue.

His latest ploy is an omnibus bill that involves a sweeping reform of approval procedures for new oil sands projects by slashing 10 months off the regulatory process through 14 changes to legislation that affect six government ministries.

It is accompanied by a proposal to remove the requirement for cabinet to approve royalty rates, turning that responsibility over to the minister of energy.

Former Premier Rachel Notley, who leads the New Democratic Party opposition in the Legislature, said the proposed royalty change is "jaw-dropping," given that those revenues are "how Albertans get value from the resources that we all own."

"We cannot have them slip backwards into a situation where we can have backroom deals and backroom conversations with the minister who can, with the flick of a pen, make allowances for different folks," she said.

Kenney avoided answering Notley's challenge in the Legislature, but a spokesman for Energy Minister Sonya Savage insisted the minister will "always be accountable to the premier, cabinet and most importantly Albertans" on royalty matters.

He said the new legislation is "not intended to make changes to our royalty structures for oil and gas."

Reducing red tape

Grant Hunter, associate minister charged with reducing red tape, said legislative overhaul is targeted at improving efficiency and restoring jobs as the government works on regaining economic momentum after the COVID-19 shutdown.

"Unneeded red tape has been stifling Albertans for far too long and it's put us at a competitive disadvantage to other jurisdictions," he said. "Now more than ever it's time to get control of red tape in this province. Our economy needs this boost.

"Time is money, so being able to decrease the time that it takes to get approvals ... is always a good thing for getting Albertans back to work," he said.

Hunter said the Alberta Energy Regulator, an unelected government agency that controls most aspects of natural resource development, will continue to have responsibilities, including making sure that First Nations are appropriately consulted.

"The duty to consult is still the law and we still have that responsibility," he said.

Beyond that he floundered when asked by reporters to explain the details of his legislation, deferring instead to the ministers of energy and the environment.

Hunter also said there will no longer be any need for Energy Efficiency Alberta, which was created in 2017 by the New Democratic Party government of Premier Rachel Notley and is now scheduled to close on Sept. 30.

The role of the EEA will be rolled into Emissions Reduction Alberta, which will be shaped by new government ideas to reduce emissions.

AER under fire

The AER recently came under fire from three Northern Alberta First Nations for temporarily suspending a swath of soil, water, emissions and wildlife monitoring in the oil patch.

The First Nations have appealed that action, claiming the regulator's move was made at the urging of the industry without any attempt to hear from other parties.

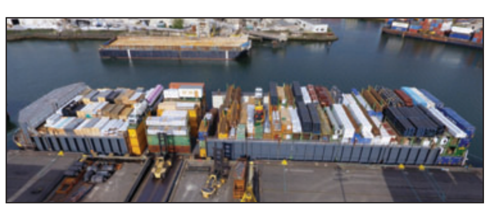
Seven environmental and indigenous groups have asked the Kenney government to restart monitoring.

—GARY PARK

Contact Gary Park through publisher@petroleumnews.com

Petroleum news — Oil Patch Bits

Alaska Marine Lines expands fleet with two big barges



As reported by Lynden News June 22, Alaska Marine Lines (dba Aloha Marine Lines in Hawaii) expanded its fleet with the purchase of two cargo barges, the Kamakani and Namakani, from Oregon based Sause Bros. Sause terminated its Hawaii service in March and Alaska Marine Lines is now serving its customers.

The Kamakani and the Namakani are now the largest of all Alaska Marine Lines vessels — each with a 438-foot overall length and 105 feet of width and a payload of 16,869 tons. "For comparison, our railbarges are 420 feet long and 100 feet wide with a payload of 15,300 tons," explains Tom Crescenzi, Seattle service center manager. The Kamakani was constructed by Gunderson Marine in 2008 and the Namakani in 2016. Both are fitted with 22-foot-high cargo binwalls and an internal ballast system.

"While the initial sailing of the Kamakani on April 18 was definitely the heaviest Hawaii single barge sailing to depart from Terminal 115 in Seattle, she also had the least amount of lashing," Crescenzi said. "Between the walls and the rod lashings we dropped close to 90 percent of the lashing compared to a regular Hawaiian sailing. We still have a number of things to learn and improve on, but Hawaii Barge Master Brad Hughes did a great job on the first round. Everyone has put in a lot of work and, considering the size of this sailing and the short time we've had to handle the switch-over from Sause, everyone really stepped up."

Companies involved in Alaska's oil and gas industry

ADVERTISER	PAGE AD APPEARS
A	
ABR Inc.	
Acuren	
AES Electric Supply, Inc	
Afognak Leasing LLC	
Airgas, an Air Liquide company	
Airport Equipment Rental	5
Alaska Dreams	
Alaska Frontier Constructors (AFC)	
Alaska Marine Lines	
Alaska Materials	
Alaska Railroad	
Alaska Steel Co.	
Alaska Tent & Tarp	
Alaska Textiles	
Alaska West Express	
American Marine	
Arctic Controls	
ARCTOS Alaska, Division of NORTECH	
Armstrong	
AT&T	
Avalon Development	
B-F	
Bombay Deluxe	
BrandSafway Services	
Brooks Range Supply	
C & R Pipe and Steel	
Calista Corp.	
Carlile	
ChampionX	
Chosen Construction	6
Colville Inc.	8
Computing Alternatives	
CONAM Construction	
Cruz Construction	
Denali Universal Services (DUS)	
Doyon Anvil	
Doyon Associated	
Doyon Drilling	
Doyon, Limited	
EEIS Consulting Engineers, Inc.	
Egli Air Haul	
exp Energy Services	
F. R. Bell & Associates, Inc.	
Fairweather	
Flowline Alaska	
Fluor	
Frost Engineering Service Co. – NW	
Fugro	
G-M	
GCI	
GMW Fire Protection	4
Greer Tank & Welding	
Guess & Rudd, PC	
HDR Engineering, Inc.	
ICE Services, Inc.	
Inlet Energy	
Inspirations	
Judy Patrick Photography	
Little Red Services, Inc. (LRS)	
LONG Building Technologies	
Lounsbury & Associates	
Lynden Air Cargo	4
Lynden Air Freight	4
Lynden Inc.	4
Lynden International	4
Lynden Logistics	4
Lynden Transport	4
M-W Drilling	
Maritime Helicopters	
Matson	
N-P	
Nabors Alaska Drilling	
NANA WorleyParsons	
Nature Conservancy, The	3
NEI Fluid Technology	
Nordic Calista	
North Slope Telecom	
Northern Air Cargo	
Northern Solutions	
NRC Alaska, a US Ecology Co.	
Oil Search	
Pacific Power Group	
PND Engineers, Inc.	
PENCO	
Petroleum Equipment & Services, Inc.	
PRA (Petrotechnical Resources of Alaska)	2
Price Gregory International	
Q-Z	
Raven Alaska – Jon Adler	
Resource Development Council	
SALA Remote Medics	
Security Aviation	
Shoreside Petroleum	
Soloy Helicopters	
Sourdough Express	
Strategic Action Associates	
Summit ESP, A Halliburton Service	
Tanks-A-Lot	
The Local Pages	
TOTE – Totem Ocean Trailer Express	
Weston Solutions	
Wolfpack Land Co.	

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

continued from page 1

SALE REVIEW

the process of acquiring BP's Alaska assets.

Feige said the most pivotal action over the last couple of months related to changes in the purchase and sale agreement.

BP and Hilcorp notified DNR in early April that they were adjusting terms of the transaction to reflect the global economic shutdown and oil price collapse related to the COVID-19 pandemic. The Division of Oil and Gas had a teleconference with Hilcorp April 28 on the changes and received the amended PSA May 6.

In announcing the changes, BP said the $5.6 billion sale price remains unchanged, while "the structure of the consideration and phasing of payments has been modified." (See story in May 3 issue of Petroleum News.) BP said changes adjust "the structure and phasing" of remaining payments (Hilcorp has made a $500 million deposit), with lower payments in 2020, "new cash flow sharing arrangements over the near-term, interest-bearing vendor financing and potentially, an increase in the proportion of the consideration subject to earnout arrangements." BP said the revisions maintain the majority of the value of the transaction.

Leases, permits

DNR has continued to work with a third-party outside consultant, National Economic Research Associates, for financial stress testing. NERA looked at the new terms and had a chance to fold those terms into their final report.

The Division of Oil and Gas, DOG, has undertaken an independent analysis of Hilcorp's financial model and has completed stress testing based on the amended terms. The focus of the DOG analysis is debt structure and possible impacts to future capital investments. Feige said that under the new terms Hilcorp is somewhat incentivized to invest in North Slope assets. That, she said, gave DNR a certain amount of confidence from the public perspective.

On May 20 DOG received applications for change of control of all oil and gas leases and working interest ownership for assets associated with the transaction. Feige said some 176 leases were involved.

DOG's Leasing Section has completed its review of the applications and has paperwork ready to proceed once the transaction is approved.

On June 4, DOG received an application for transfer of BP Exploration (Alaska)'s 50% working interest in the Milne Point leases to Hilcorp Alaska LLC, effective July 1. Hilcorp already holds the other 50% interest and is the Milne Point unit operator.

Feige said DOG's Permitting Section is working to compile a list of all assets associated with the Prudhoe Bay field — pipes, pumps, etc. — all of which need to be catalogued and tied to the associated permit. BP worked closely with DNR and provided a GIS-based inventory of facilities and pipelines associated with the upstream assets at the Prudhoe Bay unit, an inventory which was confirmed against DNR's permit and facilities inventory list. BP and Hilcorp are now sharing those lists, she said.

Feige also said BP and Hilcorp will be overlapping experienced personnel at Prudhoe for 90 days to ensure a seamless and safe transitions of operations at Prudhoe.

Separate names

BP's Prudhoe assets will transfer to Hilcorp as Hilcorp North Slope LLC, with other assets carrying the existing Hilcorp Alaska LLC name.

Feige said that upon closing of the transaction, Hilcorp North Slope and Hilcorp Alaska will each carry a $500,000 statewide bond.

DNR and Hilcorp have agreed to amend Hilcorp's existing financial assurances agreement to include the BPXA assets and increase the financial assurances for dismantlement, removal and restoration, contingent on transaction approval.

DNR has compiled and confirmed a list of transaction-related permits required by DOG and the Division of Mining, Land and Water.

Commissioner Julie Anderson of the Department of Commerce, Community and Economic Development provided an update on behalf of the Alaska Oil and Gas Conservation Commission. She said a $7.65 million bond for Hilcorp North Slope LLC, replacing BXPA's bond, has already been received.

After July 1, Hilcorp North Slope will provide AOGCC with proof of operator name change, signatories, contact information, etc., to update the commission's records. And after July 1, Milne Point becomes 100% Hilcorp Alaska LLC (it is currently 50/50 Hilcorp Alaska/BPXA).

DNR actions underway include finalizing agreement to have BP Corporation North America hold the secondary liability for BPXA's upstream contaminated sites and dismantlement, removal and restoration obligations as they exist at the time of transfer.

DEC requirements

Department of Environmental Conservation approvals are required for changes to oil spill contingency plans and proof of financial responsibility to respond to a spill; for water discharge permits; for air permits; and for solid waste management permits and proof of financial responsibility for monitoring requirements.

DEC Commissioner Jason Brune said there are no anticipated issues on Hilcorp's oil spill contingency plan and proof of financial responsibility. He said Hilcorp proposes to incorporate new facilities into their existing North Slope plan, with June 30 targeted for plan approval. An initial 45-day public comment closed March 23; a subsequent 10-day comment period closed June 19. He said DEC staff are targeting June 30 for a decision.

A request to cover acquired facilities under associated proof of financial responsibility was submitted June 16 and is under review, Brune said.

—KRISTEN NELSON

Contact Kristen Nelson at knelson@petroleumnews.com

continued from page 1

TRANS MOUNTAIN

All the signs pointed to completion of the pipeline by mid-2022 and construction of a new Westridge Marine Terminal in the Port of Vancouver within three years.

A further lift came from a proposal by New Brunswick's Irving Oil to ship crude by tanker from Westridge along the Pacific Coast, through the Panama Canal and north to the company's Atlantic refinery — a hedge against doubts that Trans Mountain crude would ever find a market in China.

Work on the 710-mile line has started to gather pace in the last month, with completion of the Alberta leg on track, followed in June by a start on the British Columbia section.

Ian Anderson, chief executive officer of Trans Mountain, called the British Columbia development "another key milestone ... on the path to building this critical piece of infrastructure."

Not quite 'all systems go'

The message being whispered among Trans Mountain supporters was "all systems go." Not quite.

Three British Columbia First Nations voiced their unhappiness that construction was being rammed through in the midst of COVID-19 health measures limiting the size of any protests, although the TMX opponents made final submissions to the Supreme Court of Canada in mid-May, arguing consultations with Trans Mountain had fallen short of pledges. The court is not expected to decide until late summer or early fall whether it will hear the case.

Countering the dissenting First Nations, Trans Mountain has reached agreements on land access, jobs and economic benefits with 19 British Columbia communities covering 95% of the pipeline route.

But Trans Mountain never seems able to overcome its obstacles.

Take mid-June as the latest example when the existing 300,000 bpd pipeline was forced to shut down after an oil spill was discovered at the Abbotsford pumping station just east of Vancouver.

Trans Mountain said the spill estimated at 940 to 1,195 barrels of light crude was traced to a one-inch piece of pipe and lasted 36 hours until the system was returned to full operating capacity.

The company said free-standing oil was recovered and disposed of at an approved facility, while monitoring did not identify any risk to ground water or the community.

British Columbia Environment Minister George Heyman, once a resolute opponent of the Trans Mountain plan, said only that his government would insist that the CER ensure Trans Mountain took full responsibility for "negative environmental or other impacts."

First Nation frustration

Sumas First Nation Chief Dalton Silver, who said the system has had four spills in 15 years, was frustrated that he had not be able to get accurate information on the incident and was not told that the pipeline had restarted.

The Coldwater First Nation, which is concerned about the impact of increased oil tankers on endangered killer whales, said the spill "brings a little bit more concern" to the issues his community has with the pipeline.

Even if this event turns into a minor footnote, tensions are likely to build as pipeline construction moves closer to the Vancouver region, when the chances of illegal protests are likely to gather strength. That could rapidly turn into Trans Mountain's ultimate test. ●

Contact Gary Park through publisher@petroleumnews.com