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page 4 Norway pushes for more Arctic drilling with incentives, leasing

More NPR-A leasing allowed; final IAP/EIS adds 7 million acres

The U.S. Department of the Interior has released a final environmental impact statement for a new National Petroleum Reserve Alaska integrated activity plan. Interior said in a press release that 7 million additional acres would be opened for energy development under the preferred alternative in the FEIS, a total of 18.7 million acres.

More than 4 million acres are closed to leasing under the FEIS, including the previously closed Kasegaluk Lagoon and Peard Bay special areas.

There would be no surface occupancy stipulations and timing limitations in the Teshekpuk Lake special area. That area has been completely closed to leasing under the current activity plan.

"We've looked to open up some additional areas to leasing

see **NPR-A LEASING** page 9

New cost estimate drops Alaska LNG project cost by $5.5B, 12.4%

FRANK RICHARDS

The Alaska Gasline Development Corp. released an updated $38.7 billion cost estimate for the Alaska LNG Project on June 25.

AGDC said the updated estimate reflects a $5.5 billion, 12.4%, cost reduction off the previous $44.2 billion cost estimate compiled in 2015 and said the decreased cost "will increase the project's ability to deliver natural gas to Alaskans and LNG to export markets at competitive prices."

AGDC said cost reductions capitalize on technology and

see **ALASKA LNG** page 10

RCA's initial focus certification for ERO; 3 dockets established

During its June 24 public meeting the Regulatory Commission of Alaska commissioners formally agreed to split the docket for establishing regulations for an electricity reliability organization, or ERO, into three separate dockets. The new regulations are needed to support new statutes enacted this year through the passage of Senate Bill 123, a bill mandating the formation of an ERO for the electrical system in the Alaska Railbelt, to achieve a more coordinated approach to managing the system. The system is owned and operated by six independent utilities and the state of Alaska.

In December 2019 the six utilities signed a memorandum of understanding for the formation of the Railbelt Reliability

see **RCA DOCKETS** page 10

ConocoPhillips restoring oil production as prices increase

RYAN LANCE

On June 30, Houston-based ConocoPhillips, parent of ConocoPhillips Alaska, said its global second quarter production curtailments were primarily related to oil and averaged approximately 225,000 barrels of oil equivalent net per day.

Approximately 65% of the curtailments were in the Lower 48, 15% were in Alaska and 15% were in the Surmont operation in Canada. The remainder of the second-quarter cuts were primarily in Malaysia.

Including impacts from curtailments and planned seasonal

see **CONOCO PRODUCTION** page 8

FINANCE & ECONOMY

Upstream done

With state approval, BP's North Slope assets now belong to Hilcorp

By KRISTEN NELSON
Petroleum News

It's a done deal — or at least a partially done deal.

The upstream portion of the Alaska oil and gas asset sale between BP and Hilcorp announced last August closed June 30.

BP, which has been a major Alaska player for more than 60 years, confirmed July 1 the completion of the sale of the upstream portion of its Alaska assets to Hilcorp, with Prudhoe Bay operations transferring to Hilcorp at midnight June 30. BP said the upstream assets comprise the vast majority of the value of the $5.6 billion deal.

A crucial step in the asset transfer happened June 29, when the Alaska Department of Natural Resources and the Alaska Department of Environmental Conservation approved transfer of BP's Alaska upstream assets to Hilcorp.

BP, an international major, was a crucial driver of North Slope development, working in Alaska for more than six decades. The torch now passes to

see **BP SALE** page 6

FINANCE & ECONOMY

HEX closes KLU sale

Closing on schedule with Ch. 11 reorg plan; AIDEA loan key to Alaska deal

By STEVE SUTHERLIN
Petroleum News

On June 30, Anchorage based HEX Cook Inlet LLC closed the deal to acquire the assets and existing equity interests of Chapter 11 debtor Furie Operating Alaska LLC and related debtor companies Cornucopia Oil & Gas Company LLC and Corsair Oil & Gas LLC.

JOHN HENDRIX

The sale closed as scheduled in a third amended plan of reorganization filed June 7 in the U.S. Bankruptcy Court for the District of Delaware.

HEX will take over at 12:01 am July 1.

A state source has confirmed that the oil and gas leases of the Kitchen Lights unit offshore Cook Inlet will be in HEX's name on July 1.

HEX Cook Inlet LLC is an Alaska limited liability company formed May 11, owned 80% by HEX LLC and 20% by Rogue Wave AK LLC.

HEX filed a notice required under treasury regulations June 30, describing its $5 million acquisition of all the issued and outstanding equity interests in the companies pursuant to a foreclosure under an amended credit agreement between the debtors and debtor's lenders dated April 12, 2018.

In addition to the Kitchen Lights unit, the assets consist primarily of an offshore natural gas produc-

see **HEX TAKEOVER** page 7

FINANCE & ECONOMY

A case for higher oil

A recent downturn in oil prices is likely just a blip in a rising market

By STEVE SUTHERLIN
Petroleum News

Fear is an emotion that can move markets. Fears of new COVID-19 spikes spooked oil markets the week ending June 26, contributing to a 3.4% decline in the West Texas Intermediate oil price.

WTI slid another 2.2% Monday June 29, and it fell another 1.1% June 30, to settle at $39.27 a barrel on the New York Mercantile Exchange. Reuters cited continued COVID-19 demand concerns and a potential resurgence of Libyan oil production as factors in June 30's price action.

The other factor that moves markets, emotionally speaking, is greed. Greed is thought to move markets up, but the week ending June 26, it may have contributed in a roundabout way to oil price declines.

Concerns about rising inventories and storage capacity formed the other major issue which analysts widely blamed for that week's price haircut.

Indeed, commercial crude oil inventories in the United States hit an all-time high of 541 million barrels as of the week ending June 19, which was 5 million barrels higher than the previous record set in late March 2017, according to data from the U.S. Energy Information Administration

Inventories have increased by 64 million barrels since March 13, and as of June 19, were at 62% of total available storage capacity, according to the EIA.

Greed encourages oil traders to store oil — if traders think oil prices will be higher later — and many traders are storing oil now. That trading exerted

see **OIL MARKET** page 8

● EXPLORATION & PRODUCTION

US rig count drop slows, only down by one

EIA: 2019 US production records with fewer rigs, wells; fewer, longer, horizontal wells; from 3.5 wells to 1.5 per month per rig

By KRISTEN NELSON
Petroleum News

Baker Hughes' weekly U.S. oil and gas drilling rig count continues to drop, but only marginally the week ending June 26, down only one rig from the previous week to 265 from 266, although down 702 from a total of 967 a year ago.

Each week in the last eight has set a new record for low numbers of rigs, a count which the Houston oilfield services company has issued since 1944. Prior to this year, the low count was 404 rigs in May 2016.

New low records have now been set for eight 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; 266 on June 19; and this week's new low of 265.

The count has been dropping steadily: down by one, 13, five, 17, 17, 21, 35, 34, 64, 73, 62, 64, 44 and 20 rigs respectively, a total of 469, over the previous 14 weeks.

The company said 188 rigs targeted oil, down one from the previous week and down 605 from a year ago, while 75 targeted gas, unchanged from the previous week and down 98 from a year ago. There were two miscellaneous rigs active, unchanged from the previous week and up by two from a year ago.

Twenty of the holes were directional, 230 were horizontal and 15 were vertical.

Alaska count unchanged

Oklahoma (10) and Texas (112) were each up by one rig from the previous week.

Rig counts were unchanged for Alaska (3), California (4), Louisiana (32), North Dakota (10), Ohio (9), Pennsylvania (22) and West Virginia (5).

Colorado (5), New Mexico (50) and Wyoming (0) were each down by one rig from the previous week.

Baker Hughes shows Alaska with three active rigs for the week ending June 26, down by four from a year ago.

The rig count in the nation's most active basin, the Permian (131), was down by one rig from the previous week, and down by 310 from a count of 441 last year; the DJ-Niobrara basin (4) was also down by one rig; rig counts in all other Lower 48 basins were unchanged.

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.

EIA: Drilling efficiency

While supply and demand and the COVID-19 pandemic have been factors in the recent steep drop in active rigs, increased drilling efficiency has played an important role, with U.S. crude oil and natural gas production records in 2019 involving fewer rigs and fewer wells, the U.S. Energy Information Administration said in "Today in Energy" published online June 25.

The 2019 U.S. records of 12.2 million barrels per day of crude oil and 111.5 billion cubic feet per day of natural gas were pushed by increases in drilling efficiency, EIA said.

Preliminary data for last year shows an average active rig count per month of 943, and an average of 1,400 new wells drilled per month, the agency said, citing data from Baker Hughes and IHS Markit, with both rigs and wells "at the lower end of the range during the past 45 years, despite

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contents

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Alaska-Mackenzie Rig Report

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Milne Point, L-59	Hilcorp
Dreco 1000 UE	16 (SCR/TD)	Standby	
Dreco D2000 Uebd	19 (SCR/TD)	Standby	
AC Mobile	25	Standby	
OIME 2000	141 (SCR/TD)	Standby	
	142 (SCR/TD)	Standby	
TSM 700	Arctic Fox #1	Standby	
Hilcorp Alaska LLC			
Rotary Drilling	Innovation	Milne Point, I Pad	Hilcorp Alaska LLC
Kuukpik Drilling	5	Deadhorse	Available
Nabors Alaska Drilling			
AC Coil Hybrid	CDR-2 (CTD)	Deadhorse, Cold Stacked at Nabors Deadhorse Yard	BP
AC Coil	CDR-3 (CTD)	Kuparuk, Cold Stacked at 12 Acre Pad	ConocoPhillips
Ideco 900	3 (SCR/TD)	Deadhorse, Stacked	Available
Dreco 1000 UE	7-ES (SCR-TD)	Kuparuk, Cold Stacked	Oil Search
Mid-Continental U36A	3-S	Stacked	Available
Oilwell 700 E	4-ES (SCR)	Stacked	Available
Dreco 1000 UE	9-ES (SCR/TD)	Stacked	ConocoPhillips
Oilwell 2000 Hercules	14-E (SCR)	Deadhorse	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked	Brooks Range Petroleum
Oilwell 2000 Canrig 1050E	27-E (SCR-TD)	Stacked	Glacier Oil & Gas
Oilwell 2000	33-E	Deadhorse	Available
Academy AC Electric CANRIG	99AC (AC-TD)	Stacked	Repsol
OIME 2000	245-E (SCR-ACTD)	12 Acre Pad, stacked	ENI
Academy AC electric CANRIG	105AC (AC-TD)	Stacked	Oil Search
Academy AC electric Heli-Rig	106AC (AC-TD)	Stacked	Great Bear Petroleum
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Deadhorse	Available
Superior 700 UE	2 (SCR/CTD)	Deadhorse, stacked	Available
Ideco 900	3 (SCR/TD)	Deadhorse, Stacked	Available
Rig Master 1500AC	4 (AC/TD)	Oliktok Point	ENI
Parker Drilling Arctic Operating LLC			
NOV ADS-10SD	272	Deadhorse, Stacked	Available
NOV ADS-10SD	273	Deadhorse, Stacked	Available

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
BP			
Top Drive, supersized	Liberty rig	Inactive	BP
Doyon Drilling			
Sky top Brewster NE-12	15 (SCR/TD)	Standby	
Nabors Alaska Drilling			
OIME 1000	19AC (AC-TD)	Oooguruk, Stacked	ENI

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
BlueCrest Alaska Operating LLC			
Land Rig	BlueCrest Rig #1	Stacked	BlueCrest Alaska Operating LLC
Glacier Oil & Gas	Rig 37	West McArthur River Unit Workover	Glacier Oil & Gas
All American Oilfield LLC			
IDECO H-37	AAO 111	Stacked in the Peak yard	Available
Hilcorp Alaska LLC			
TSM-850	147	Stacked	Hilcorp Alaska LLC
TSM-850	169	Beluga River, 224-22	Hilcorp Alaska LLC

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Hilcorp Alaska LLC			
National 110	C (TD)	Platform C, Stacked	Hilcorp Alaska LLC
	Rig 51	Steelhead Platform, Stacked	Hilcorp Alaska LLC
	Rig 56	Monopod A-13, stacked	Hilcorp Alaska LLC
Nordic Calista Services			
Land Rig	36 (TD)	Kenai, stacked	Available
Spartan Drilling			
Baker Marine ILC-Skidoff, jack-up		Spartan 151, stacked at Rig Tenders where pre mobilization work is being performed	Hilcorp Alaska LLC
Furie Operating Alaska			
Randolf Yost jack-up		Nikiski, OSK dock	Available
Glacier Oil & Gas			
National 1320	35	Osprey Platform, activated	Glacier Oil & Gas

Mackenzie Rig Status

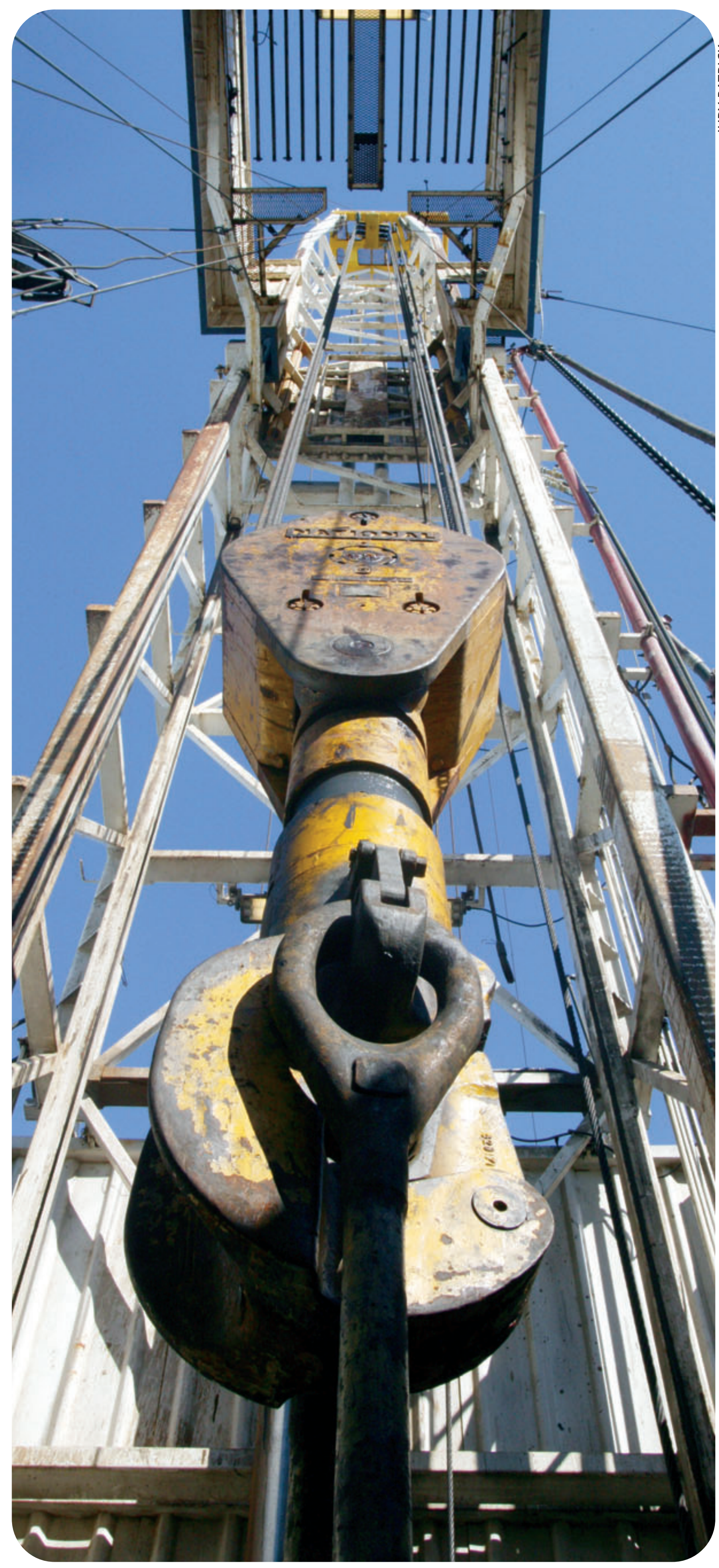
Canadian Beaufort Sea

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

The Alaska-Mackenzie Rig Report as of June 30, 2020. Active drilling companies only listed.

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

This rig report was prepared by Marti Reeve



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	June 26	June 19	Year Ago
United States	265	266	967
Canada	13	17	124
Gulf of Mexico	11	11	26

Highest/Lowest		
US/Highest	4530	December 1981
US/Lowest	265	June 2020

*Issued by Baker Hughes since 1944

● LAND & LEASING

Norway pushes for more Arctic drilling

Offers drilling incentives, auctioning 136 blocks for frontier area oil exploration, including 125 Barents blocks once off-limits

By KAY CASHMAN

Petroleum News

One of the world's leading petroleum exporters, Norway's oil and gas exports account for about half of the country's total exports and have enabled it to build the world's largest sovereign wealth fund, worth more than $1 trillion, as compared to Alaska's $63.7 billion Permanent Fund, also built from oil wealth.

TINA BRU

But new oil and gas discoveries are needed to generate more wealth and protect jobs, Norwegian Energy Minister Tina Bru said June 24, when she announced the ministry was looking to offer 136 additional blocks for oil and gas exploration in less explored, frontier areas on its shelf, including 125 blocks in the Arctic Barents Sea that had not previously been available for drilling. She said the action was especially needed after "challenging" economic losses in recent months, due in part to the coronavirus pandemic.

"Regular access to new exploration areas is crucial to maintaining activity on the Norwegian continental shelf," Bru said.

With North Sea oil production having peaked, interest in the frontier areas of the Norwegian Continental Shelf have increased.

The licensing round had previously been postponed pending a new management plan for the Barents Sea as a result of an ongoing debate between the Socialist Left and the Conservative party, which Bru is affiliated with, about the "ice edge" or how far north industry should be allowed to drill for oil and gas. Earlier in June Conservatives prevailed and the new Barents management plan and a new edge of ice were adopted by the Norwegian Parliament.

Drillers offered incentives

Also, in early June the Norwegian Parliament approved putting 8 billion kroner (approximately US$826 million) into an incentive package for the country's oil industry. The tax benefits in the package were to help oil and gas companies launch new projects, including in the Arctic.

According to The Barents Observer, if the subsequent returns of the companies were included, "the value of the package is … as big as 39 billion kroner" (US $4.3 billion).

The support package was backed by the Center Party, the Progress Party and Labour.

The ruling minority government coalition of Norway Prime Minister Erna Solberg, a Conservative, initially proposed more modest incentives.

The next licensing round, Norway's 25th, in which the frontier area blocks will be offered, is expected to be announced in September after consultation on the proposed areas for oil drilling, the ministry said.

Norway joins OPEC+ in production cuts

At the end of April Bru announced production cuts. Although not part of OPEC+, she said the reduction would contribute to a faster stabilization of the oil market.

"We will cut Norwegian production by 250,000 barrels per day in June and by 134,000 barrels per day in the second half of 2020. In addition, the start-up of production of several fields will be delayed until 2021. Consequently, the total Norwegian production in December 2020 will be 300,000 barrels less per day than originally planned by the companies. The regulation will cease by the end of the year," Bru said.

The base case used by the Energy Ministry was 1,859,000 barrels of oil per day. Thus, a cut of 250,000 barrels per day gave an upper limit for oil production from the shelf of 1,609,000 barrels per day in June. A cut of 134,000 barrels per day in the second half of this year translated into maximum of 1,725,000 barrels per day.

"We are currently facing an unprecedented situation in the oil market. Both producers and consumers benefit from a stable market. We have previously stated that we will consider a cut in Norwegian production if several big producing countries implement significant cuts. The decision by the Norwegian Government to reduce Norwegian oil production has been made on an independent basis and with Norwegian interests at heart," Bru said at the time.

Norway's O&G factoids

Oil was first discovered in the Norwegian waters of the North Sea in the late 1960s. Today, the oil and gas

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RIG COUNT

the record production."

Horizontal drilling

Horizontal drilling, allowing more contact with the formation, has been one factor in the production increase, with an average well length of 15,000 feet in 2019, reflecting longer horizontal lengths, EIA said.

The number of wells drilled each month per active rig peaked in 1985 at 3.6 wells per rig per month; by 2019, that average had dropped to 1.5 wells per rig per month. "By drastically increasing the horizontal length of wells, producers have increased production despite using fewer rigs and drilling fewer wells," the agency said.

In the early 2000s horizontal wells in the U.S. averaged 10,000 feet of lateral length — that grew to 18,000 feet in 2019, and with horizontal wells now accounting for a larger share of new wells, "the average linear footage per well increased from 6,000 feet to 15,000 feet during the same period."

EIA said increased productivity from horizontal wells more than offsets the fewer wells because horizontal wells have more wellbore in contact with the producing formation, increasing production compared with vertical wells. The average rig drilled 18,000-27,000 feet per month in 2019, EIA said, almost twice as far as in the early 2000s.

Horizontal wells have become prevalent in shale and tight formations, growing from some 2% of total wells in 1990 to more than 75% in 2019, with the number of new vertical wells decreasing since a recent peak in 2008.

"Horizontal wells have become the predominant way of drilling oil and natural gas wells in the United States," EIA said, "first outnumbering vertical and directional wells combined in 2015. In 2019, 75% of newly drilled wells were horizontal, and they averaged 18,000 feet wellbores compared with directional wells, which averaged 10,000 feet, and vertical wells, which averaged 4,500 feet." ●

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● PIPELINES & DOWNSTREAM

Enbridge battles on

Judge orders shutdown of Line 5 in Great Lakes region over issues of safety; Enbridge gets Minnesota approval for Line 3 expansion

By GARY PARK

For Petroleum News

As North America's largest energy pipeline operator, Calgary-based Enbridge is well-acquainted with setbacks amid some success.

It was the first in Canada to get tripped up by environmental and First Nations activists who made enough noise to scuttle Enbridge's Northern Gateway pipeline plans, denying oil sands producers the chance to export 525,000 barrels per day of raw bitumen to Asia while importing 193,000 bpd of diluents on a parallel line.

That knock-back for Enbridge came from the freshly elected Liberal administration of Prime Minister Justin Trudeau, which imposed a ban on oil tanker traffic off the northern British Columbia coast in 2015, then a year later officially rejected the Northern Gateway proposal, wiping out thousands of construction jobs and billions of dollars in government revenues.

US opposition

Now Enbridge is falling foul of activists and state legislators in the United States, who are campaigning to end the use of fossil fuels.

They have notched a partial victory through a temporary restraining order issued by a Michigan Circuit Court to shut down Line 5 at the urging of Michigan's Democratic Governor Gretchen Whitmer and the state's Attorney General Dana Nessel after a pipeline anchor shifted under the Straits of Mackinac connecting Lake Michigan and Lake Huron.

Enbridge Executive Vice President Vern Yu said the company was "disappointed in the court's ruling as we believe Line 5 is safe; however, the west leg of Line 5 has been shut down."

Nessel, in filing for an injunction, said Enbridge had "provided no explanation of what caused (the anchor) damage and a woefully insufficient explanation of the current condition and safety of the pipeline ... we cannot rely on Enbridge to act in the best interests of the people of this state so I am compelled to ask the court to order them to do so."

Whitmer delivered a stringing rebuke to Enbridge, saying she was "taken aback to learn the company has unilaterally resumed operation of the west leg," showing "disregard for the safety and well-being of our Great Lakes."

Enbridge Chief Executive Officer Al Monaco fired back, describing the company's efforts to inspect, repair and restart a portion of Line 5.

"We have spared no effort or expense in putting safety first and exceeding regulatory requirements, while moving forward expeditiously with the replacement of the Line 5 crossing (of the Straits of Mackinac)," he said.

Monaco was adamant that Enbridge will not resume operation on the east leg of Line 5 without a discussion with the State of Michigan and approval of the U.S. Pipeline and Hazardous Materials Safety Administration.

Fuel issue for Ontario, Quebec

While that political and legal tussle continues, concern is building in Ontario and Quebec that they will soon run short of gasoline and diesel fuel, if refinery feedstock from Western Canada is threatened by an extended shutdown of Line 5.

Imperial Oil relies heavily on the 540,000 bpd Line 5 delivers to its two Ontario refineries — 119,000 bpd to the Sarnia facility and 113,000 bpd to the Nanticoke plant.

Shell Canada and Suncor said Line 5 is "critical" to their Ontario refineries, and the same applies to three refineries in the U.S. — Marathon Petroleum's 147,000 bpd facility in Detroit and plants in Toledo, Ohio operated by BP and PBF Energy.

To a lesser extent, the pinch might also be felt in Quebec, which may have cause to rue its opposition to TransCanada's planned 1.1 million bpd Energy East pipeline, that would have been built entirely within Canada, connecting the oil fields of Western Canada with Quebec refineries as well as the Irving Oil refinery and a tanker port (for shipments to Europe and Asia), both in New Brunswick.

Line 3 replacement

On a more upbeat note for Enbridge, the Line 5 setback coincided with good news for the US$2.9 billion replacement of Line 3 from North Dakota to Superior, Wisconsin, to raise capacity to 760,000 bpd from the current 390,000 bpd.

Line 3 is part of a network of five Enbridge pipelines that deliver almost 3 million bpd from the Alberta oil sands.

The expansion has been aggressively challenged by environmentalists and Indian tribes, who have argued Minnesota does not need oil that exacerbates the effects of climate change and is a threat to lakes, rivers and forests.

But a five-member panel of the Minnesota Public Utilities Commission voted 4-1 on June 24 to deny the petitions for reconsideration of earlier approval of the Line 3 project, which has been examined by regulators and courts over five years.

The PUC, after a half-hour discussion, voted to uphold Line 3's certificate of need and route permit, reasoning that the benefits of replacing an old, corroding pipeline with a new, modern one, outweighed the impact on climate change and the environment.

"A new pipeline with thicker and safer materials, constructed with up-to-date safety standards by skilled laborers operating under prevailing wage laws, is a better outcome than leaving an old pipeline," said PUC chair Katie Sieben.

Matt Schuerger, the only panel member to agree with project opponents, said additional hearings were needed to weigh new evidence on the demand for Canadian oil in light of COVID-19, climate change, the growth in electric usage by vehicles and changes Enbridge has made to its allocation of pipeline capacity.

Line 3 opponents are expected to try at the Minnesota Court of Appeals to overthrow the PUC approval.

The administration of Minnesota Gov. Tim Walz, Democratic-Farmer-Labor Party, has not said whether it will file to overturn the Line 3 ruling, although the Minnesota Department of Commerce has argued Enbridge has failed to prove there is a long-term demand for the oil Line 3 would carry. ●

Contact Gary Park through publisher@petroleumnews.com

FINANCE & ECONOMY

Investors buy into Abu Dhabi pipe

Two of Canada's largest institutional investors have taken a controversial step by joining a consortium to buy a US$10 billion stake in an Abu Dhabi-based natural gas pipeline network in the United Arab Emirates.

The transaction involves other partners in New York, Singapore, South Korea and Italy in a joint venture called ADNOC Gas Pipeline Assets, which will have 20-year lease rights to 38 pipelines covering a total of 600 miles.

The consortium, which will hold 49% of ADNOC, attracted Toronto-based Brookfield Asset Management (which has C$510 billion of assets under management) and the Ontario Teachers' Pension Plan (with net assets of C$207 billion).

Brookfield Chief Executive Officer Bruce Flatt said the transaction "aligns with our strategy of investing in high quality, essential assets generating stable and predictable cash flows in a sector we know well."

OTPP Chief Investment Officer Zlad Hindo echoed Flatt's comments, saying the deal "provides us with a stake in a high-quality infrastructure asset with stable long-term cash flows."

But Shift Action, a pension advocacy group, said OTPP is exposing the pensions of (an estimated 184,000) Ontario teachers "to climate-related financial risk" and undermining action on climate change "by locking in a polluting infrastructure for decades to come."

In line with the arguments of many teachers, Shift Action said OTPP is now taking a stake "in a massive piece of fossil fuel infrastructure in the midst of a worsening climate crisis and a volatile disruption to global energy markets."

The advocacy group said OTPP excludes investments in tobacco companies, guns and arms manufacturers and weapons producers, but has "not yet disclosed exclusions on investments in fossil fuels."

Neither OTPP nor Brookfield disclosed their percentage share of the ADHOC stake, but both are sitting on record amounts of committed capital to invest. They did not react to the Shift Action criticism.

—GARY PARK

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NORWAY DRILLING

industry is Norway's largest industry, followed by the service and supply business, which includes more than 1,250 companies.

Norway, like Alaska, is known for its cutting edge technology and its strict environmental protection laws and enforcement.

The country's oil industry is not nationalized in the same sense as Venezuela where the government owns the oil companies. Norway-based Statoil, for example, is publicly traded, with the Norwegian government holding 67% of its shares. ●

Contact Kay Cashman at publisher@petroleumnews.com

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BP SALE

Hilcorp, an independent U.S. based company specializing in working mature oil fields.

A crucial step in the asset transfer happened June 29, when the Alaska Department of Natural Resources and the Alaska Department of Environmental Conservation approved transfer of BP's Alaska upstream assets to Hilcorp.

Terms of the deal between the companies were renegotiated earlier this year due to market volatility and the fall of oil prices. In an April 27 statement BP said it had worked with Hilcorp to reconfirm its commitment to completing the deal. The sale price remained at $5.6 billion, with a $500 million deposit from Hilcorp made at the signing, but the revised agreement between the companies adjusted the structure and payment to provide for lower payments from Hilcorp 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 in April.

Upstream assets include oil and gas leases and facilities associated with producing oil and gas on the North Slope.

Closing on the midstream — BP's interests in the trans-Alaska oil pipeline, the Valdez Marine Terminal and pipelines on the North Slope — is still a work in progress, with the Regulatory Commission of Alaska looking at a late September date for its final decision.

BP said it and Hilcorp are continuing to work with regulators to complete the midstream portion of the sale.

Working interest in leases

DNR must approve transfer of working interest in oil and gas leases — in this case, BP's interest in 176 leases at the Prudhoe Bay, Point Thomson and Milne Point units on the North Slope. Two hundred and fifty-six surface use permits also required amending.

The approvals required "significant due diligence, evaluating Hilcorp's financial standing and obtaining financial assurances for the substantial in lease, permit, easement, and right-of-way obligations this deal represents," DNR and DEC said in a June 29 release.

The state also secured a guarantee of secondary liability for dismantlement, removal and restoration of existing facilities and contaminated sites from BP Corporation North America.

Ten months of work

"After ten months of in-depth analysis, stress-testing of Hilcorp's financial capacity to hold and operate these assets, and successfully securing secondary liability guarantees from BP, I am confident that the transfer of these leases and facilities both protects and advances Alaska's interests," said DNR Commissioner Corri Feige.

DEC's role included transition of environmental permits and plan approvals, ensuring Hilcorp's financial responsibility for facilities and establishing responsibility for existing contaminated sites, the departments said.

In a due diligence memorandum to Gov. Mike Dunleavy from the Governor's Oversight Committee, which Feige chairs, the committee summarized the work of DNR, DEC, and other executive branch agencies involved in approval of the asset transfers.

Leases, employees

The 176 state oil and gas leases in the transfer include 115 at Prudhoe Bay, 37 and Point Thomson and 24 at Milne Point.

BP Exploration (Alaska), BPXA, owns the upstream assets and those assets now belong to Hilcorp North Slope LLC.

Hilcorp Alaska is currently 50% working interest owner at Milne Point, and the 50% working interest BPXA has at Milne will be assigned to Hilcorp Alaska.

The Department of Labor and Workforce Development provided employment information: 1,567 BP employees are affected by the transaction; 806 received offers from Hilcorp and 749 accepted; 342 employees volunteered for severance and 294 employees (237 of whom are Alaska residents) received involuntary severance. Some 153 employees will move outside of Alaska and continue as BP employees.

For the first 90 days, BP and Hilcorp will overlap experienced personnel at Prudhoe Bay facilities to ensure a seamless and safe transition, the committee said.

Hilcorp in Alaska

Hilcorp has a demonstrated record of operation in Cook Inlet, on the North Slope and in the Lower 48 and "has demonstrated an ability to increase production and ultimate recovery while reducing operating expenses. Further, a review of Hilcorp's safety record reveals that with an increase in contact hours as its business has grown, reportable incidents have been in steady decline," the committee said.

Hilcorp came to Alaska in 2011, acquiring existing production in Cook Inlet from Chevron and acquiring Marathon's Cook Inlet assets in 2012.

Hilcorp began working on the North Slope in 2014 when it acquired all of BP's interests in the Endicott and Northstar oil fields and a 50% interest in Liberty and Milne Point, taking over as operator at all four fields.

Financial assurances

Adequate financial protection for the state is a key component in approving lease transfers, the committee said.

DNR's commercial analysts revisited, with assistance from outside experts at National Economic Research Associates and international law firm Morrison & Foerster, the financial assurance agreements held by Hilcorp for its existing business in the state, both upstream and midstream assets, the committee said. Hilcorp was on its sixth iteration of its FAA for existing upstream assets and a condition of approving the lease transfers was Hilcorp executing an updated seventh iteration of its FAA.

The FAA includes a formula-based financial assurance amount refreshed every third year; submission of third-party estimates of costs to fulfill Hilcorp's dismantlement, removal and restoration liabilities; quarterly and yearly submission of financial data; opportunity to review insurance coverages; and pre-defined financial metrics to periodically reassess Hilcorp's financial strength.

The FAA requires a modification of the financial assurances formula if there is a material change in Hilcorp's financial health. ●

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GOVERNMENT

Trump to nominate Pendley to head BLM

President Donald Trump said June 26 that he will nominate William Perry Pendley to permanently fill the position of director of the Bureau of Land Management in the U.S. Department of Interior. Pendley has been serving as acting director of the agency since July 2019.

Interior Secretary David Bernhardt was pleased with the announcement: "I commend President Trump's intent to nominate William Perry Pendley who has been a leader at the Bureau of Land Management for nearly a year. He's doing a great job, including acquiring more than 25,000 acres of public land for expanded recreational access," Bernhardt said.

Prior to being named acting director, Pendley served as BLM's deputy director for policy and programs. He is overseeing the agency's headquarters move west from Washington, D.C., to Grand Junction, Colorado, which was prompted by the fact that more than 99% of federal programs and lands, which total 245 million acres, are in the western U.S. About 60 positions from programs with inherently D.C.-based responsibilities as well as the deputy director for policy and programs will stay in the D.C. area.

Before joining BLM, Pendley was head of Colorado-based Mountain States Legal Foundation, a conservative public interest law firm. He worked there for nearly 30 years.

Born and raised in Cheyenne, Wyoming, Pendley received B.A. and M.A. degrees in Economics and Political Science from George Washington University.

He was a captain in the U.S. Marine Corps, after which he received his J.D. from the University of Wyoming College of Law.

Pendley was also attorney for former Sen. Clifford P. Hansen, Wyoming, and for the House Interior and Insular Affairs Committee. During the Reagan administration he served as deputy assistant secretary for Interior's Energy and Minerals, where he authored President Reagan's National Minerals Policy and Exclusive Economic Zone proclamation.

—KAY CASHMAN

● INTERNATIONAL

Yemen asks for help with abandoned tanker

By MAGGIE MICHAEL

Associated Press

The United Nations said an abandoned oil tanker moored off the coast of Yemen loaded with more than 1 million barrels of crude oil is at risk of rupture or exploding, causing massive environmental damage to Red Sea marine life, desalination factories and international shipping routes.

Internal documents obtained by The Associated Press show that seawater has entered the engine compartment of the tanker, which hasn't been maintained for over five years, causing damage to the pipelines and increasing the risk of sinking. Rust has covered parts of the tanker and the inert gas that prevents the tanks from gathering inflammable gases, has leaked out. Experts say repairs are no longer possible because the damage to the ship is irreversible.

For years, the U.N. has been trying to send inspectors to assess the damage aboard the vessel known as the FSO Safer and look for ways to secure the tanker by unloading the oil and pulling the ship to safety.

But a European diplomat, a Yemeni government official and the tanker's company owner said that Houthi rebels have resisted. The diplomat said the rebels are treating the vessel as a "deterrent like having a nuclear weapon." All three individuals spoke on condition of anonymity to discuss the subject with a reporter.

"They do say that openly to the U.N., 'We like to have this as something to hold against the international community if attacked,'" the diplomat said. "Houthis are definitely responsible for failure of the U.N. to look at the ship."

Money is also an issue, the diplomat said, adding that the Houthis initially were demanding millions of dollars in return for the oil stored in the tanker. The U.N. is trying to reach an arrangement where money could be used to pay workers and employees at the Red Sea ports where the ship is moored, the diplomat added.

Some experts, however, criticize both the Houthis and the U.N. for failing to fully understand the magnitude of the crisis with the abandoned ship.

Ian Ralby, founder of I.R. Consilium, who specializes in maritime and resource security, told the AP that the U.N.'s efforts to send a team to assess the ship are "futile." What the vessel needs is a salvage team, he said

"It's a real shame that they wasted so much money and time in this futile operation," said Ralby.

Ralby, who has written extensively about the tanker, told the AP that amid declining oil prices the cost spent on cleaning up the environmental damage from an explosion or leakage will be much more than the millions worth of oil on the ship.

But the Houthis have refused to back down from their demands.

Mohammed Ali al-Houthi, the rebel leader, blamed the U.S. and Saudis for not letting the rebels sell the oil, saying in a June 18 Twitter post that any "disastrous consequences ... God forbid," that could result from the collapse of the vessel, will be the responsibility of these two countries.

Houthi rebels are in control of the western Red Sea ports, including Ras Issa, 6 kilometers (3.7 miles) from where the FSO Safer tanker has been moored since 1980s. They are at war with the internationally recognized government in exile, which is backed by a Saudi-led coalition and the United States.

The floating tanker is a Japanese-made vessel built in the 1970s and sold to the Yemeni government in 1980s to store for export up to 3 million barrels pumped from oil fields in Marib, a province in eastern Yemen. The ship is 360 meters (1,181 feet) long, with 34 storage tanks.

A senior official at the state-owned company in charge of the tanker, said because of a shrinking operational budget, which used to be around 20 million dollars a year before the war, the company could no longer afford to purchase a special fuel needed to run the boilers on the ship. The boilers are needed to power generators that, among other things, keep an inert gas that prevents explosions flowing. The tanker needs 11,000 tons of the fuel, which cost about 8 million dollars each year.

"After the stoppage of the boilers the strong majority of the equipment and the machines of the tanker stopped because they all depend on steam power," the company official said. That includes the machines that power the ventilation system which reduces humidity and prevents corrosion, he said.

Since 2015, annual maintenance on the ship has come to a complete halt and most crew members, except for 10 people, were pulled off the vessel after the Saudi-led coalition imposed a land, sea, and air embargo before waging an extensive air campaign to dislodge the Houthi rebels from areas they seized including the capital Sanaa.

The U.N. has repeatedly warned that delays in taking action to fix the FSO Safer could lead to a man-made environmental disaster in the Red Sea four times greater than the 1989 Exxon Valdez oil spill. ●

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HEX TAKEOVER

tion platform, pipelines, and an onshore gas treatment plant.

AIDEA financing key to purchase

The purchase was made possible by an Alaska Industrial Development and Export Authority loan of $7.5 million, with an option to borrow not more than $5 million as part of the AIDEA loan secured by a first priority lien in the collateral.

"As an Alaskan with a lifetime of experience working in oil fields across our great state, I couldn't be happier that Alaskans now have the opportunity to advance the development and operation of this great Cook Inlet asset," said HEX LLC President and CEO John Hendrix. "HEX looks forward to bringing Kitchen Lights from base production to growth opportunities. The HEX team is grateful for AIDEA, and thanks them for their work and dedication to bringing us to this day."

Raised in the south Kenai Peninsula town of Homer, Hendrix was general manager of Apache Corp. in Alaska, and he

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HEX TAKEOVER

served on former Gov. Bill Walker's cabinet as chief oil and gas advisor.

HEX is committed to hiring Alaskans, Hendrix told Petroleum News in a December interview.

"Anchorage hire; Alaska hire; peninsula focused," he said.

For AIDEA, the project fits with its mission.

"AIDEA is very pleased that our support of HEX LLC has been instrumental in their acquisition of the Kitchen Lights offshore unit and infrastructure," said AIDEA spokesman Karsten Rodvik. "This acquisition for an Alaska-owned operation will create new jobs in the Kenai Peninsula Borough, with more jobs expected as there is more development of the Kitchen Lights unit. Creating these kind of job opportunities is right in line with AIDEA's mission and is especially important in these challenging COVID-19 times."

HEX's journey from its initial bid for the Kitchen Lights assets in late 2019, to ownership, was long and challenging.

HEX's success in clinching an agreement was due to extensive negotiations to unravel complicated obstacles to resolution of the bankruptcy cases, Timothy Walsh of McDermott Will & Emery LLP, counsel to the debtors, told Petroleum News in an April 27 interview.

"The document was subject to significant negotiations among many constituents in the case including the debtor and all of its lenders," Walsh said.

Walsh said the plan of reorganization reflects a meeting of the minds between all the major constituents in the case.

The debtor received other indications of interest from various parties, Walsh said.

"Unfortunately, none of the (other offers) entailed a settlement agreement with the debtors' existing lenders," he said.

In a memorandum filed June 8 supporting an order confirming the third amended plan, attorneys of the debtors argued that releases contained in the plan were vital to the successful reorganization of the companies.

Each of the debtors' lenders is accepting less than otherwise entitled, it said.

The royalty and working interest owner parties agreed to reduce their interests in the oil and gas leases operated by the debtors and settle litigation claims, it said. ●

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OIL MARKET

upward pressure on prices leading into the week ending June 26, along with buying by players like China and India which have been taking advantage of low prices to build up inventories.

Many traders have a wary eye on storage capacity; that seems to be retarding short term prices — against trader optimism for higher prices later in 2020 and in 2021.

A recent Reuters poll of analysts revealed expectations that oil prices will gain steam in the fourth quarter of this year, after consolidating at around $40 a barrel.

While COVID-19 is a wild card, recent price action is likely just a downdraft on a trajectory toward higher oil prices.

"As global demand recovers, oil's natural inclination is to go higher, since current prices are below the economic threshold for most producers," Manish Raj, chief financial officer at Velandera Energy, told MarketWatch per a June 29 article.

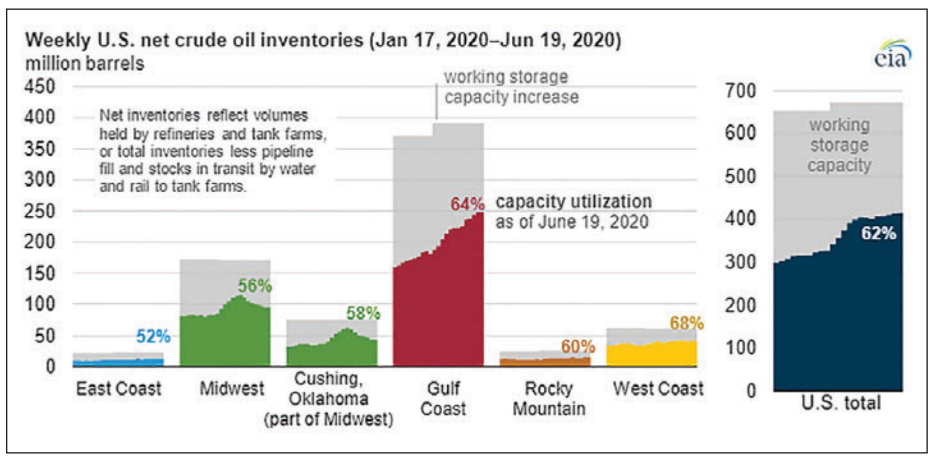
Internationally, China official statistics released over the June 27-28 weekend were bullish for oil. Industrial profits in China for May were up 6% year over year, the first increase in 2020. Higher OPEC compliance with production limits also is bullish for crude.

Harold Hamm bets on the future

Continental Resources Inc. Executive Chairman Harold Hamm has signaled a bullish outlook for the shale industry in the United States.

Hamm acquired 3,436,264 shares of the oil and natural gas exploration and production company he founded in 1967, paying $16.62 per share for a total amount of $57.12 million, according to a filing with the U.S. Securities & Exchange Commission.

The June transaction lifted Hamm's direct stake in Continental by 197.24% — to 5,178,395 shares.



The 3.44 million shares bring Hamm's total of direct and indirect shares to 288 million, or about 79% of the company, according to a report in the Houston Chronicle.

As fuel consumption picks up, Continental and others are reopening wells previously shut.

Hamm said oil prices above $40 per barrel would be needed to "recapitalize" the shale sector and prompt significant new drilling, according to a June 28 Financial Times article.

Oil prices may be range bound for a spell, however.

"WTI crude has not been able to do much after capturing the $40 level and seems destined to continue to consolidate between the $35 and $42 level over the next couple weeks," OANDA strategist Ed Moya said after trading closed the week ending June 26. "The rapid demand rebound is not happening, but stimulus efforts, pauses in reopening of businesses, improved treatments for the virus are limiting the downward pressure on crude prices."

But range bound prices may be adapted to by efficient operators of quality properties with appropriate technology. Additionally, the shakeout of weaker shale players is accelerating the consolidation of better properties into the hands of larger, more richly capitalized players.

"A material portion of the U.S. light oil supply is now controlled by supermajors and large independents with access to the core acreage and strong balance sheets," said Artem Abramov, head of shale research at Rystad, adding that many of those players "can gradually adapt even if oil prices of $35-40 WTI stay around for longer."

S&P Global Platts and Argus launched rival contracts the week ending June 26, to create an American benchmark to reflect international seaborne prices, rather than those at the Cushing, Oklahoma, delivery point for Nymex's WTI futures contract.

Hamm said a new oil contract for the U.S. Gulf coast would put American producers on a more level playing field with Saudi Arabia and other rivals.

"We're not going to be playing second fiddle for them," he said. "They'll never get past the blame of what happened, but they're not going to be able to kill this industry."

The automobile will lead the way

Following the 9/11 terrorist attacks in New York, oil and gasoline prices spiked briefly due to fears that oil production from the Middle East could be disrupted, but oil prices soon turned south, plummeting 20% as air travel was disrupted.

Travelers took to their cars, and it was gasoline that led the way to the recovery in oil prices.

Car gasoline is leading the way out of the current oil price slump as well.

Under the current scenario of coronavirus risks and social distancing, its logical that people may continue to opt for the use private automobiles over public transportation — and over airliners, especially for shorter trips.

That has been true in China. In May, the use of the subway in Beijing, Shanghai, and Guangzhou plunged by 53%, 29%, and 39% compared to the usage before the pandemic, according to Bloomberg.

After plunging below 5.5 million barrels per day in April, U.S. weekly gasoline demand continues to recover in June, rising from 7.9 million bpd on June 6 to 8.6 million bpd on June 19, according to the EIA. On June 21, 2019, the weekly demand figure stood at 9.5 million bpd.

Distillate fuel and jet fuel demand, however, is still struggling — especially jet fuel.

According to the Airlines Reporting Corp., airline transactions have fallen in the past two weeks.

For the week ending June 28, air transactions declined 77% year-over-year, versus a 76.5% decline for the week ending June 21. For the week ending June 14, air bookings were down 75.2%.

Air transactions had been on the rise since April 12, when transactions were down 93.8% year-over-year.

The numbers reflect shutdowns and caution as COVID-19 cases reports have increased.

In Texas, Gov. Greg Abbott has shut bars down again and cut restaurant capacity to 50%. He even shut down river-rafting trips, which have been blamed for a swift rise in cases.

But it is highly unlikely that Texans, or Americans will give up their cars, and they can't stay in their homes forever.

In China, rush hours and traffic jams are back in major cities.

Electric cars may be the future, but for now, there is a large existing U.S. base of gasoline fueled cars ready to take to the road. ●

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CONOCO PRODUCTION

turnaround activity, the company expects to report second quarter production volumes of 960,00-980,000 barrels of oil equivalent daily. Excluding Libya, and adjusting for closed dispositions and curtailments, production in the second quarter is expected to be in line with the same period a year ago and approximately 5% below first quarter 2020.

"ConocoPhillips established a consistent set of criteria for evaluating and implementing economic curtailments during the recent weakness in netback oil prices," said Ryan Lance, company chairman and CEO. "Due to our strong balance sheet, we were in an advantaged position to create value for shareholders by forgoing some production and cash flow in the second quarter in anticipation of receiving higher cash flows for those volumes in the future."

ConocoPhillips said it continues to monitor netback pricing and evaluate curtailments across its operated assets on a month-by-month basis. It expects to begin restoring curtailed production in Alaska during the month of July, as reported in the June 14 issue of Petroleum News.

In the Lower 48 the company also expects to begin bringing some curtailed volumes back online during July and will continue to make economically driven production decisions at the asset level in the months ahead. At Surmont, the company is planning to increase output from curtailed levels in third quarter.

Given ongoing variability and uncertainty, ConocoPhillips said it will continue to suspend forward-looking guidance and sensitivities.

—PETROLEUM NEWS

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NPR-A LEASING

based on new information while also using management prescriptions to protect important wildlife, habitat, and subsistence uses," said BLM Alaska State Director Chad Padgett.

BLM said the IAP/EIS "includes special measures to address concerns and interests of the communities of Wainwright, Atqasuk, Nuiqsut, and Utqiagvik including leasing deferral areas, setback along important subsistence rivers, flexibility for potential community infrastructure projects, and special management for split estate lands where occupancy stipulations can be waived by the land owner."

The EIS was initiated in November 2018 to develop a new management strategy for all BLM-managed public lands in NPR-A.

BLM will prepare a record of decision which may be published no earlier than 30 days after the June 26 official notice of availability of the EIS in the Federal Register.

BLM was the lead agency. Cooperating agencies were the Bureau of Ocean Energy Management, Inupiat Community of the Arctic Slope, National Park Service, North Slope Borough, State of Alaska and U.S. Fish and Wildlife Service.

Five alternatives

BLM manages nearly 23 million acres of public lands in NPR-A. The final IAP/EIS has five alternatives, including BLM's preferred alternative, Alternative E.

In addition to four action alternatives, a no action alternative (Alternative A) would continue current management as approved in the 2013 NPR-A IAP record of decision, and would allow oil and gas leasing on some 52%, 11.8 million acres, of NPR-A subsurface estate.

Alternative B is similar to Alternative A, the agency said, but would increase land set aside for conservation, decreasing land available for leasing to some 10.9 million acres, 48% of subsurface.

Alternative C would increase the number of acres open to leasing to some 17.3 million acres, 76% of the subsurface. Alternative D would open more land to leasing, some 18.6 million acres, 82%, and the area closed to new infrastructure would decrease to some 4.4 million acres.

Alternative E, BLM's preferred alternative, would open the most land to leasing, some 18.7 million acres, 82% of subsurface, and the area closed to new infrastructure would decrease to some 4.3 million acres.

BLM said all the action alternatives include a mix of lease stipulations and required operating procedures with measures to avoid or mitigate surface damage and minimize ecological disturbance.

Alternative B

BLM said Alternative B is similar to Alternative A, the no action alternative, but increases land set aside for conservation "while allowing operators access for transporting oil from State offshore leases to the Trans-Alaska Pipeline System."

The increase in land closed to leasing would account for new resource data, preventing additional development in habit used by the Teshekpuk caribou herd and molting geese.

There would, however, be two north-south pipeline corridors in the Teshekpuk Lake special area, to allow for linear right of way to transport oil and gas from offshore leases through areas otherwise closed to new infrastructure, although specific locations of such corridors are not part of the plan.

Alternative B recommends the 12 suitable rivers for designation in the National Wild and Scenic Rivers System.

Alternative C

Alternative C increases the area open to leasing to 17.3 million acres, 76% of the subsurface estate, by reducing acres closed to leasing in the Teshekpuk Lake special area and within the Utukok River uplands special area, with the area closed to new infrastructure decreased to some 4.9 million acres. Both the Teshekpuk Lake and Utukok River special areas would retain core areas unavailable for leasing and closed to new infrastructure.

One north-south pipeline corridor east of Teshekpuk Lake would be provided in Teshekpuk Lake special area, allowing for linear rights of way to transport oil and gas from offshore leases through areas otherwise closed to new infrastructure.

The southern and eastern portions of the

see **NPR-A LEASING** *page 11*

Petroleum news

Oil Patch Bits

North to Alaska, South by Barge: Voyage of a Reefer Tech

COURTESY PHOTO

As reported by Lynden News June 29, every fishing season, Alaska Marine Lines refrigeration mechanics leave Seattle and make the journey north to keep Lynden's refrigerated containers in top shape. The techs fly to Alaska and then accompany the loaded reefers on the southbound barges. These ride-along-with-the-reefer trips have been taking place for years, but the voyage of the reefer technician has not been well known. Until now.

Mechanic Greg Restad was so impressed with his off-site assignment that he decided to document his experience. His notes provide a unique look behind the scenes of this annual effort to protect customers' fish and other refrigerated freight and maintain Lynden's equipment. It should be noted that Restad has 30 years of experience working on refrigerated equipment including working for Les Candee and Art Burg at Foss Maritime in the early 1980s.

According to Assistant Maintenance and Repair Manager Steve Tafoya, mechanics check around 3,000 reefers each year during the north-to-south trips. Most reefers last around 20 years, but with excellent care, they can last longer.

"We run a pre-trip inspection anytime a reefer enters the yard so we keep close tabs on all equipment and any emerging problems," Tafoya says. "It could be power, a leak, burnout of the evaporator motor or something else. The most common issue with reefers is a lack of communication with the tug. Our mechanics also check and service generator sets, make sure gear vans are stocked and that the GRASP reefer monitoring system, all plugs and time share panels are working," Tafoya explains. Everything is documented and becomes part of the service record.

For more information visit www.lynden.com.

Companies involved in Alaska's oil and gas industry

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

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ALASKA LNG

process improvements in the LNG industry over the past several years, including advances in gas liquefaction technology and modular construction techniques, lower engineering costs and a streamlined project management team.

The new estimate is the result of 14 months of work including third-party natural gas and LNG expertise, with AGDC staff working with representatives from BP, ExxonMobil and Fluor Corp.

"These updates improve the competitive position of the Alaska LNG Project and its ability to deliver LNG and natural gas at favorable prices," said AGDC President Frank Richards. He said AGDC is "incorporating these results into our discussions with potential partners as we work to transition to a new market-led project team and maximize project benefits for the State of Alaska. While today's results strengthen the case for developing this project, it will ultimately be the market that determines the best path forward."

Challenges remain

The Federal Energy Regulatory Commission authorized AGDC to construct and operate the Alaska LNG Project on May 21. The project still requires permits, and economics remain an issue.

AGDC is a state entity and project leadership by the State of Alaska is coming to an end.

After FERC issued the final environmental impact statement for the project March 6, Gov. Mike Dunleavy said: "The final EIS is a milestone in the Alaska LNG permitting process — a process still with significant hurdles. … FERC licensure is an important component in determining if Alaska LNG, which must be led by private enterprise, is competitive and economically advantageous for development."

The AGDC board does not support AGDC continuing a project sponsor beyond Dec. 31.

Materials for an April 9 board meeting included the statement: "In the event there is not sufficient interest from Strategic Parties to lead the Alaska LNG Project, an open solicitation of interest will be made to other parties."

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

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

June 25 updates

Materials from the June 25 board meeting include a discussion of objections to the FERC's May 21 order.

Interveners needed to file within with 30 days of the FERC order, and FERC received two requests for rehearing of its order: from the Matanuska-Susitna Borough and from the Center for Biologic Diversity and Earthjustice on behalf of Chickaloon Village Traditional Council, Northern Alaska Environmental Center and the Sierra Club (see story in June 28 issue of Petroleum News).

If FERC doesn't act on a request within 30 days, it is denied, and unless ordered by FERC, the filing of a request for rehearing does not delay the order.

Cost estimate update

In describing the cost estimate update materials for the June 25 meeting said the work was initiated because of positive results from an April 2019 cost reduction workshop with BP and ExxonMobil. The scope of the project, which Fluor Corp. was contracted to perform, was targeted at cost reduction opportunities generally greater than $100 million.

Cost reductions were largely influenced by material and equipment sourcing market changes; best in class contracting and execution strategies; re-thinking third-party power services; liquefaction technology; and reduction in risk.

Cost saving changes

In a January update on the project to House Resources, Richards, then the company's senior vice president, program management, said one source cost reduction would be increasing use of modularization, allowing a significant decrease in costs because construction is done elsewhere and facilities assembled on site.

In an article in the June issue of LNG Industry, Fritz Krusen, formerly a vice president at AGDC, gave an update on the project and illustrated cost reduction planned for the liquefaction facility planned for Nikiski.

Onsite construction was planned, Krusen said, but the plan now is that LNG storage tanks at the facility will use precast, pre-stressed concrete technology for both inner and outer tanks, allowing offsite precasting, reducing labor required at the site and reducing the costs. He said the technology, with panels assembled on site in what he described as analogous to staves being made into barrels, has been successfully used in a number of applications in the U.S., including a smaller LNG tank which went into operation in Fairbanks in December 2019.

—KRISTEN NELSON

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RCA DOCKETS

Council, or RRC, an ERO for the Railbelt. The utilities are in the process of forming the RRC, which would apply to the commission for certification as the Railbelt ERO. One worry is that the regulatory process could delay the RRC formation.

The commission has already held a technical workshop to gather initial input to the regulatory requirements and plans to hold a series of further workshops. A concern is that, once the commission starts publicly noticing regulations from a docket, no further workshops will be allowed within that docket. So, in the interests of enabling all necessary technical workshops to be held, public noticing of regulations from a single docket would need to be delayed until the complete workshop sequence has been completed.

Instead, the first of three separate dockets will address the certification, competency requirements and board composition of an ERO, thus enabling the establishment of an ERO to proceed. A second docket will deal with ERO responsibilities for integrated resource planning and the pre-approval of large electrical system projects. The third docket will address regulations dealing with ERO tariff filing, the assessment and imposition of penalties, and conflict resolution procedures.

Independent or balanced board

A source of contention in that first docket revolves around the extent to which the ERO board should be independent from the utilities, or whether, rather than being fully independent, the board composition should be balanced, with representation from both the utilities and other stakeholders in the electrical system. Stakeholders such as independent power producers tend to argue for a fully independent board, while the utilities say that they require board involvement, in particular because of utility expertise in how the electrical system operates. SB 123 allows considerable flexibility, requiring a board "formed as an independent board; a balanced stakeholder board; or a combination independent and balanced stakeholder board."

The planned RRC board targets the balanced approach, with six board members representing the six utilities and six members representing non-utility stakeholders. The 13th board member would be the RRC CEO.

The utilities are close to completing the formation of an implementation committee for the RRC. The idea is then to develop the various foundational documents for the organization. The committee would subsequently transition into the initial board for the organization, based on the proposed board structure.

During the June 24 meeting utility executives expressed concern that the RCA regulatory process might delay the RRC formation, in particular if the technical conferences result in a board specification that conflicts with that of the planned RRC.

Brian Hickey, chief operating officer of Chugach Electric Association, requested that the new regulations should not be too prescriptive, allowing flexibility in how an ERO can be established.

"I would urge the commission to remain with regulations at a high level that allows us the flexibility to continue the positive process that brought forth the RRC MOU as wells as Senate Bill 123," Hickey said.

John Burns, president and CEO of Golden Valley Electric Association, commented on a perception that the commission is inviting the specification of an ERO governance structure that differs from that spelled out in the RRC MOU. That would undermine a process undertaken by the utilities for well over a year at the direction of the commission, Burns said. The commission should just set broad standards for an ERO, consistent with SB 123, with broad representation of stakeholders within the ERO governance structure, he said.

RCA staff member Christina Hunter said that during the initial technical conference there had been discussion over whether the ERO board membership needed to include people with appropriate technical expertise, to enable effective decision making, or whether that expertise could be provided through a technical committee or consultant. Another concept discussed involved the possibility of starting with a balanced board and then transitioning to a fully independent board at a later date, Hunter said.

Utility views

In a June 18 filing with the commission, Lee Thibert, CEO of Chugach Electric Association, commented that the RRC concept had been developed over a period of several years by a diverse group of stakeholders, with the proposed governance structure reflecting "the fundamental needs of a viable ERO for the Railbelt interconnection." And the RRC model is consistent with the requirements of SB 123, he said. The RRC board needs to include utility representation, to provide the necessary expertise for conducting system planning, and linking that planning with system reliability standards. Moreover, the utilities are nonprofit cooperatives, answerable to their customers in the Railbelt and not to corporate shareholders, Thibert commented.

In a June 16 filing, Tony Izzo, CEO of Matanuska Electric Association, commented that, while the board structures of Lower 48 EROs have tended to evolve over time, the governance structures of these organizations, in complex electricity markets, are a mismatch for the situation in the Alaska Railbelt.

"The governance structure in the RRC MOU is a sound structure that is aligned with best practices metrics from structures in similar phases of development and adjusted to Alaska's unique context," Izzo wrote.

Under the RRC MOU specification, no single utility or group of utilities can dominate the RRC's decision making, he wrote.

REAP wants board independence

Independent power producers, including independent renewable energy producers, want to ensure that they will have fair access to the Railbelt electrical system.

In a June 1 commission filing Chris Rose, executive director of the Renewable Energy Alaska Project, said that REAP thinks that an independent ERO board, rather than a balanced board, is necessary to eliminate conflicts of interest between the ERO and the owners and operators of the electricity grid. Rose also commented that REAP does not agree that the governance structure specified in the RRC MOU meets the definition of a balanced stakeholder board. The fact that half of the board would consist of utility representatives would overweight the board in favor of the utilities, with the RRC CEO, the 13th member, able to cast a tie-breaking vote, Rose wrote.

REAP wants the RCA to provide guidance on the definition of an independent or a balanced stakeholder board for an ERO.

—ALAN BAILEY

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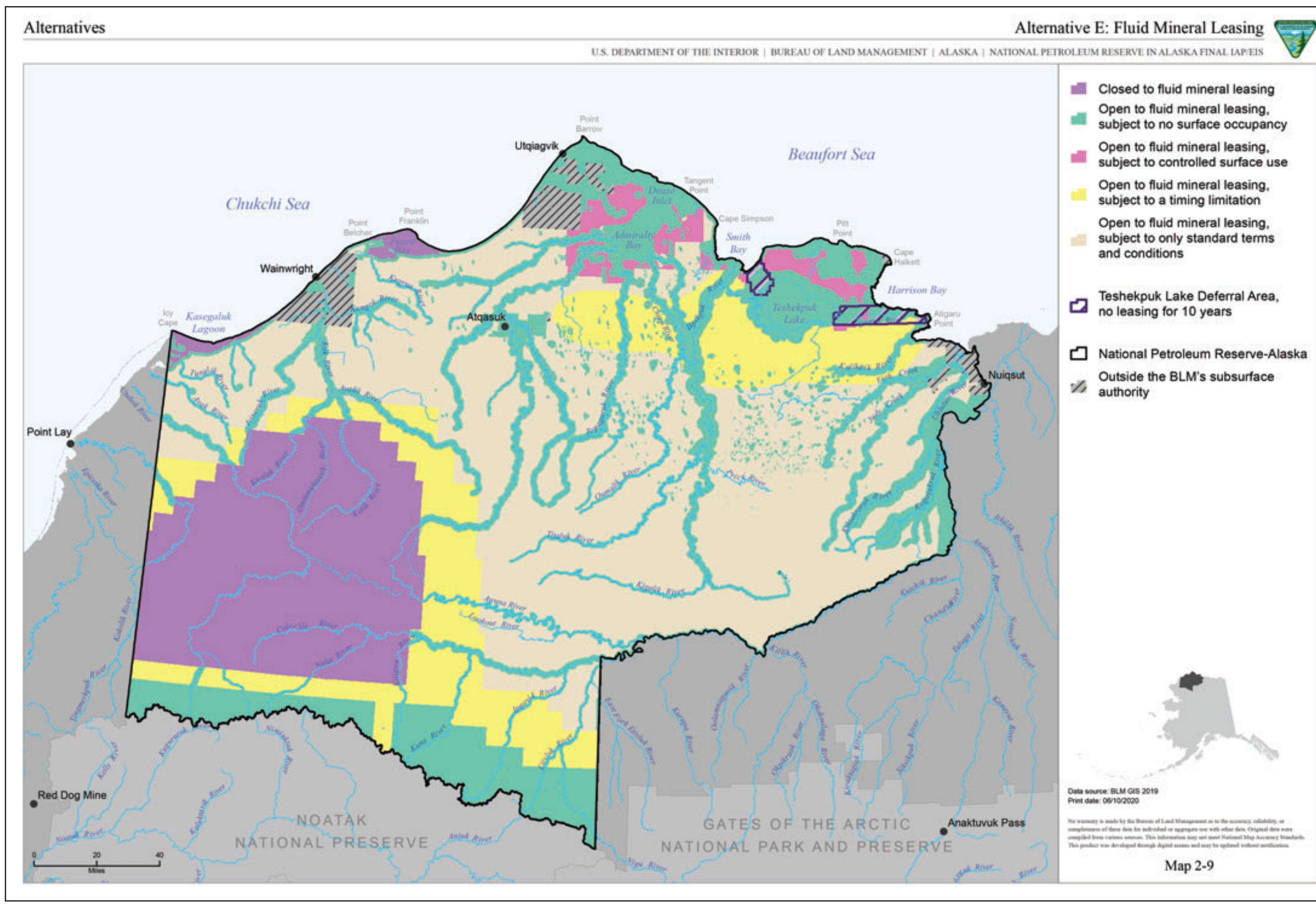
NPR-A LEASING



Utukok River uplands special area would be available for new infrastructure.

Alternative C would not recommend any rivers for addition to the NWSRS, but BLM would manage the existing 12 suitable rivers to protect their free flow, water quality and outstandingly remarkable values.

Alternative D

Alternative D would make 18.6 million acres, 82% of the subsurface, available to leasing, with the area closed to new infrastructure decreasing to some 4.4 million acres.

Management of the Utukok River uplands, Kasegaluk Lagoon and Peard Bay special areas would be the same as Alternative C, but all of the Teshekpuk Lake special area would be available for leasing, "with impacts on caribou calving habitat and important bird habitat partially mitigated through no surface occupancy stipulations and timing limitations."

No pipeline corridors would be needed in Alternative D because more areas would be open for new infrastructure, including where pipelines may be needed to transport oil and gas from offshore leases. And, as with Alternative C, no rivers would be recommended for addition to NWSRS, but BLM would manage the existing 12 rivers as in Alternative C.

Alternative E — preferred alternative

Alternative E, BLM's preferred alternative, would make the most land open to leasing, some 18.7 million acres, 82% of NPR-A subsurface, with the area closed to new infrastructure decreasing to some 4.3 million acres.

Management of the Kasegaluk Lagoon and Peard Bay special areas would be the same as under Alternatives C and D.

"All of the Teshekpuk Lake Special Area would be available for leasing, with impacts on caribou calving habitat and important bird habitat partially mitigated through no surface occupancy stipulations and timing limitations."

There will be a core area in the Utukok River uplands special area that would not be available for leasing and new infrastructure, "a corridor where leasing and infrastructure would be allowed subject to a timing limitation, and a caribou mitigation corridor along the southern boundary that would be available for leasing subject to no surface occupancy and that would allow essential road and pipeline crossings."

There would be no need for pipeline corridors because more areas would be open to new infrastructure, and as with Alternatives C and D, no rivers would be recommended for addition to NWSRS, but BLM would manage the rivers as with Alternatives C and D.

Support

Alaska Gov. Mike Dunleavy thanked the Department of the Interior and the Trump administration for "working closely with Alaskans to better balance federal land usage in the National Petroleum Reserve in Alaska."

Commissioner Doug Vincent-Lang of the Alaska Department of Fish and Game noted that Alaska is the nation's only Arctic state, and said "it was refreshing that the Federal Administration considered Alaska's science and our local understanding of the subtle environmental nuance that is Alaska's North Slope when making this critical decision in its EIS for the conservation of the environment and the security of this Nation." Vincent-Lang said he was confident the oil and gas resources in NPR-A could be developed in a manner that "conserves the fish and wildlife resources and their uses."

Alaska's congressional delegation, U.S. Sens. Lisa Murkowski, Dan Sullivan and Rep. Don Young, all Republicans, welcomed the final EIS on the NPR-A integrated activity plan.

"As Alaskans work toward economic recovery, having a robust plan to unlock the potential of one of the most promising areas on the North Slope is a powerful tool," Murkowski said. "NPR-A holds billions of barrels of oil that will ensure the continued operation of the Trans-Alaska Pipeline System and support good jobs for thousands of Alaskans."

"This is a key milestone in fixing the flaws of the 2013 IAP and ensuring we can fill the Trans-Alaska Pipeline, through reasonable access and development as the NPR-A was intended under its original purposes," Sullivan said.

Young said, "The release of the final EIS for the updated Integrated Activity Plan is welcome news for our state and the North Slope communities whose livelihoods depend on energy exploration."

Opposition

David Krause, Alaska assistant director of The Wilderness Society, said the final environmental impact statement was expected, and called it "another sad and harmful development in this administration's shameful race to destroy public lands by auctioning off wild, irreplaceable ecosystems for industrial development. With a disregard for science and the climate reality the planet faces, this is no time to be dismantling conservation protections for fragile Arctic landscapes (upon) which wildlife and people depend."

Krause called the existing integrated activity plan "thoughtful and science-based."

Kristen Miller, conservation director at Alaska Wilderness League, said the 2013 IAP reflected years of "working with tribal communities, the state of Alaska, the Western Arctic Caribou Herd Working Group." She called the new plan "a rushed alternative that received no public oversight" and said it "would endanger the Teshekpuk Lake Special Area, one of the most productive wetland complexes in the world and an important calving ground for the Teshekpuk Lake caribou herd, an important source of good and culture for communities on the North Slope."

—KRISTEN NELSON

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