Petroleum news

page 5 AIDEA approves amended loan for BlueCrest; interest only for a year

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If deal right, Santos OK dropping Pikka lead; Padgett, Heimke news

ACCORDING TO KEVIN GALLAGHER, chief executive of Santos Ltd., the shareholders of both Oil Search Ltd. and Santos will likely vote on the merger of their two companies by the end of the year.

One of Oil Search's priorities this year is to sell up to a 30% stake (split between it and 49% partner Repsol) in the multibillion-dollar Pikka oil development that it operates on Alaska's North Slope. The company is on track to reach a final investment decision as soon as yearend if it picks up a satisfactory partner.

In his first briefing on the proposed merger which is currently

see **INSIDER** page 6

Work on hold: BLM Willow decision vacated, remanded to BLM, FWS

Work at ConocoPhillips's Willow project in the National Petroleum Reserve-Alaska, put on hold after project approval by the Bureau of Land Management was appealed by plaintiffs including Sovereign Inupiat for a Living Arctic and the Center for Biological Diversity, now faces further uncertainties following an Aug. 18 ruling by U.S. District Judge Sharon L. Gleason.

The judge vacated the U.S. Bureau of Land Management's approval of the project, remanding it to BLM and the U.S. Fish and Wildlife Service.

"BLM's exclusion of foreign greenhouse gas emissions in its alternatives analysis in the EIS was arbitrary and capricious,"

see **WILLOW DECISION** page 10

AIDEA puts Mustang field up for sale again; Feldman lead counsel

BART ARMFIELD

With more than $70 million invested and an expected gross value from oil production of $1.3 billion, lender Alaska Industrial Development and Export Authority is putting the assets of the North Slope Mustang oil field up for sale through a competitive bid process.

AIDEA passed a resolution Aug. 12, approving the "divestiture of the assets of, or the equity interests in, Mustang Holding LLC," the entity established to hold the foreclosed assets formerly run by the company that discovered the field, Brooks Range Petroleum Corp., or

see **MUSTANG FIELD** page 11

ConocoPhillips permitting 2 new pipelines to western North Slope

ConocoPhillips Alaska has filed an application with the State Pipeline Coordinator's Section of the Alaska Division of Oil and Gas for a right-of-way lease for the Western North Slope 4-inch products pipeline.

In a public notice the state said the 34.8-mile 4-inch line would transport diesel fuel, but could possibly also be used for mineral oil, gasoline "or other methane chemicals"

Filings included with the right-of-way application for the 4-inch products line also describe a 20-inch replacement for the existing 12-inch utility line. An application related to the 20-inch line had not yet been posted when this issue of Petroleum News went to press, but a construction plan describes work for both lines.

see **NEW PIPELINES** page 8

FINANCE & ECONOMY

Oil takes a dive

Traders lose grip on wall of worry as strong dollar greases price slide

By STEVE SUTHERLIN

Petroleum News

Alaska North Slope crude took a drubbing Aug. 18, falling $1.43 to close at $67.53 per barrel. West Texas Intermediate dropped $1.13 to close at $65.46, and Brent fell 80 cents to close at $68.23.

A one-day 2% loss for ANS is tough news for Alaska's government, which would benefit from higher prices to balance its budget. Unfortunately, the day's red ink was not an isolated incident — it was the fifth down day in a row. The last time oil fell for more than three days running was in March.

WTI and Brent closed lower for the same five days, and both continued lower in early Aug. 19

As the summer driving season draws to a close, U.S. motorists seem to be taking their feet off the gas pedal.

trading, as Petroleum News went to press. WTI fell below its critical mid-to-late-summer $65 support level, trading as low as $63.13. Brent slipped below its own $67 support level.

"A move below $65 in WTI … could see prices drop back into Q2 trading ranges between $57 and $65," Craig Erlam, senior market analyst at OANDA Europe said in a note, as reported Aug. 19 by Reuters. "This would be quite a drop from the

see **OIL PRICES** page 9

EXPLORATION & PRODUCTION

88E to drill Merlin 2 well

Drilling will be to the east; Merlin 1 tests suggest better reservoir thickness there

By KAY CASHMAN

Petroleum News

88 Energy said Aug. 16 that although it reserves the right to re-enter the Merlin 1 exploration well in the future, next year in first quarter it will drill Merlin 2, an appraisal well to the east and closer to the shelf break where the company expects "enhanced reservoir thickness and quality."

ERIK OPSTAD

88 Energy also said its post well evaluation of Merlin 1, which was drilled in March to a depth of 5,267 feet, has successfully demonstrated the presence of oil in multiple stacked sequences in the Cretaceous Nanushuk formation (N20 and N18 targets). An additional new target, the N19 sand, that was not previously mapped, also returned a strong hydrocarbon signature following geochemical analysis.

Analysis indicates 41 feet of net log pay across the three reservoir intervals, which are in the Nanushuk Grandstand sands.

These sands, 88 Energy said, show close correlation to the Lower Grandstand sands seen in 88 Energy's nearby Umiat field and petrophysical analysis has returned 138 feet of possible net pay.

In addition, 88 Energy said geochemical analysis of the cores from Merlin 1 established the "presence of a light oil with an estimated API gravity

see **MERLIN 2 WELL** page 10

GOVERNMENT

Kenney cracks the whip

With cash flooding in, Alberta premier says it's time for industry to hire, spend

By GARY PARK

For Petroleum News

It's a damned-if-you-do, damned-if-you-don't world in Canada's upstream petroleum sector these days.

Although the industry is awash in cash comparable to the almost forgotten pre-2014 age, producers, rig hands and investors seem unwilling to believe that the party has any staying power.

JASON KENNEY

One of the biggest challenges facing the resource-rich Alberta government is how to coax exploration and production companies to open their wallets and create jobs.

The conundrum has prompted Alberta Premier Jason Kenney to meet in mid-July with the top executives of oil sands players and conventional oil and natural gas operators, putting the squeeze on them to divert their profits from share buybacks to sweeping capital spending increases.

"We hope the energy industry will do its part because my message to them was that the resources they develop belong to the people of Alberta," he said later. "The people of Alberta have got to see some benefit."

Quoting a long-ago prime minister of Canada, Kenney said "right now we are using the sunny

see **CANADA UPSTREAM** page 10

● EXPLORATION & PRODUCTION

Division OKs Milne polymer projects

By KRISTEN NELSON
Petroleum News

The Alaska Division of Oil and Gas has approved amendments to Hilcorp Alaska's plan of operations for its Milne Point unit on the North Slope, all related to polymer injection at the field.

In the previous plan, the 38th, Hilcorp completed a polymer facility at F Pad, allowing enhanced recovery of hydrocarbons, the division said.

In the 39th plan, approved in November, Hilcorp planned three polymer projects: installation and startup of the polymer facilities at Moose Pad, I Pad and E Pad.

Hilcorp also planned engineering/procurement for the S Pad polymer project and planned long-term evaluation of expanded polymer injection at I, H and S pads.

Hilcorp has been working with the University of Alaska Fairbanks, New Mexico Tech, Missouri S&T and the University of North Dakota on a project evaluating the effectiveness of polymer injection for enhanced production of Schrader Bluff formation oil at Milne Point (see story in the April 4, 2021, issue of Petroleum News).

Moose Pad

On Aug. 17 the division approved a plan of operations amendment for conversion of a temporary polymer injection facility on Moose Pad at Milne to a permanent facility. "The facility is necessary to inject polymer to increase production from existing wells at Moose Pad," the division said.

The temporary facility was placed at Moose Pad in the fall of 2020 to test feasibility of injecting polymer into I Pad wells. The division said that after successful testing, the facility was being made permanent. The facility, at the western end of the Moose Pad piperack, consists of several modules; a source water heater will be installed at the location.

S Pad

On Aug. 16 the division approved an amendment to the Milne plan of operations for installation of a new polymer injection facility and associated tie-in piping at the Milne Point S Pad. The facility will consist of several modules and is expected to use an area of some 105 feet by 45 feet, with all project work to be conducted from existing roads and gravel pads.

The division said plan activities include:

•Placing rig mats and timbers on the gravel pad to support new connex and polymer storage silo.

•Installing water let-down connex, water tank, polymer trailer, polymer storage silo and pump and electrical building.

•Installing new header piping, polymer tubing and other necessary piping to connect to existing infrastructure.

•Connecting new infrastructure to electrical and water utilities.

I Pad

On Aug. 12 the division approved a plan of operations amendment to make a temporary polymer injection facility at I Pad permanent.

The division said the temporary facility was placed at I Pad in the fall of 2020 to test feasibility of injecting polymer into existing I Pad wells to increase production.

"The testing was successful and this facility is being made permanent," the division said. The facility is on the eastern end of the I Pad piperack and consists of several modules.

All of the plan amendments require submittal of certified As-Built surveys within a year of placement of the improvement. ●

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● EXPLORATION & PRODUCTION

Canadian natural gas producers remain edgy

Despite increasingly bullish outlook for commodity prices and North American demand, companies pay down debt rather than drilling

By GARY PARK
For Petroleum News

The fire-ravaged region of Interior British Columbia has just hit Canada's all-time high recorded temperature of 120 degrees, while readings of around 105 degrees have been common over the past month.

These so-called "heat offs," which climate forecasters expect will be commonplace during future summers, are creating an unexpected problem for Canada's natural gas producers, who are also a key year-round supplier to the western United States.

Darren Gee, chief executive officer of Peyton Exploration and Production, said the temperatures climbed so high that they "actually impacted gas supply."

The industry estimates that withdrawals from gas storage facilities were about 2.1 billion cubic feet in late June and believe those numbers have been surpassed in recent weeks — an unusual event for Canada's summer which is generally seen as the "injection season" as producers concentrate on rebuilding storage for winter.

Gee said producers expect to reap returns of at least C$3.50 per thousand cubic feet at the AECO trading hub, short of the average peak of C$4.05 in 2014, but well above the C$2.05 in 2020 and C$1.09 in 2019.

TC Energy, which operates the largest gas pipeline system in Western Canada, said it has not experienced equipment issues related to the heat.

Higher returns

Cameron Gingrich, managing director of Calgary-based consulting firm Incorrys, said Canadian producers can expect higher returns than in recent years because the discount they face relative to the AECO price compared with the Henry Hub benchmark has shrunk from C$1.50 per thousand cubic feet to C$0.70.

He said TC Energy's expansion of its Nova Gas Transmission System, the key gas-gathering network in Western Canada, and long-term contracting on its export systems have improved differentials for Canadian gas and LNG exports off the U.S. Gulf Coast and created a demand for Canadian gas to backfill supply in the Lower 48 states.

The demand for gas in regions of the western U.S. is likely to soar unless the extreme heat makes an unexpected decline and there is relief from drought in those states.

But the current trend points to growing demand for electricity fired by natural gas, some of which will be obtained from Western Canada.

Drilling vs. balance sheet repair

Regardless of these shreds of optimism, Gee said his company has no plans to drill additional wells, concentrating instead on higher commodity prices to pay down debt.

Raymond James analyst Jeremy McCrea agreed there is a need among production companies to repair balance sheets by demonstrating financial discipline.

Ed Morse, global head of commodities research at Citi Group, said that despite forecasts of Henry Hub prices rising to US$3.90 per thousand cubic feet, Citi expects a retreat to US$3.40 in 2022 and US$2.80 in 2023.

He said that regardless of resilient prices this year, there has been only a slight increase in rig counts because gas producers lack the appetite to drill, thus limiting production growth in the U.S., "keeping the market tighter for longer."

The firm of Rosenberg Research & Associates said the use of gas to generate electricity has stagnated over the last 15 years, but climate-change considerations will ensure gas remains a "crucial part of America's power system for years to come."

A recent study by Columbia University's Center on Global Energy Policy found that "investing more in the domestic natural gas pipeline network could help the U.S. reach net-zero emission goals more quickly and cheaply."

see **GAS PRODUCERS** *page 4*

ENVIRONMENT & SAFETY

Microbes can attack oil in Arctic seas

Researchers in the University of Calgary, Canada, have conducted experiments that demonstrate that microbes in the seafloor in Arctic conditions decompose crude oil. The microbes in question exist in the benthic zone, close to the seafloor. Given that some portion of spilled crude oil sinks, the researchers suggest that these microbial communities are important in considering the fate of oil spilled in the Arctic offshore. The Canadian researchers are particularly interested in conditions in the Labrador Sea, where there is increased ship traffic and potential oil production.

"Understanding how cold-adapted microbiomes catalyze hydrocarbon degradation at low in situ temperature is crucial in the Labrador Sea, which remains relatively cold throughout the year," the researchers say.

To evaluate the impact of microbes on oil the researchers mixed diesel or crude oil with sediments from the Labrador Sea seafloor and artificial seawater. While monitoring the response of the microbes to the oil over several weeks, the researchers kept the mixtures at low temperatures corresponding to conditions at the seafloor. They found that several types of microbes degraded the oil. And artificial stimulation of the microbe community also stimulated the oil degradation process.

A few years ago a research team in the University of Alaska Fairbanks conducted some similar experiments, incubating North Slope oil in bottled seawater at temperatures around freezing. The researchers found that the biodegradation of the oil in the cold water took place almost as rapidly as it does in water at temperatures found in more temperate regions. However, the oil does tend to evaporate more quickly in warmer temperatures.

—ALAN BAILEY

UTILITIES

LNG storage supports more gas consumers

The operation of new liquefied natural gas storage facilities in the Fairbanks North Star Borough is enabling Interior Gas Utility to provide gas supply services to new customers in the region, according to the latest Interior Energy Project quarterly report to the state Legislature. Construction of a new 5.25 million gallon LNG storage tank in central Fairbanks was completed in December 2019. The utility then completed a 150,000 gallon capacity LNG storage and vaporization facility in North Pole in February of this year, the quarterly report says.

The IEP is an Alaska Industrial Development and Export Authority sponsored project with the objective of bringing increased supplies of affordable natural gas to the Fairbanks regions, to reduce the cost of energy while improving air quality in the region. As part of the IEP some extensions to the gas distribution pipeline network were installed in 2015, in anticipation of increased gas supplies.

Following the completion of the large storage tank in Fairbanks IGU installed approximately 200 new service lines in 2020 — the utility is accepting applications for the 2021 construction season. And the full operation of the storage facility at North Pole has facilitated the gasification of more than 70 miles of the extended distribution system, the quarterly report says.

IGU has been planning to expand the existing Titan LNG plant near Point Mackenzie on the Cook Inlet, to increase the supply of LNG for Fairbanks. However, after completion of the front-end engineering and design for the plant expansion, major uncertainty over the future price of fuel oil following the onset of the COVID-19 pandemic in 2020 caused IGU to defer a final investment decision for proceeding with the expansion until economic conditions stabilize — natural gas has to compete on cost with fuel oil as a fuel for the space heating of buildings.

But the major expansion of LNG storage capacity now available in Fairbanks is enabling the warehousing of LNG produced when gas demand is low — this warehousing of gas provides capacity to sign up more gas customers, even although the Titan plant has not yet been expanded.

—ALAN BAILEY

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EXPLORATION & PRODUCTION

US rotary rig count hits 500, up by 9

The Baker Hughes U.S. rotary drilling rig count hit 500 the week ending Aug. 13, up by nine from 491 the previous week and up by 256 from 244 a year ago.

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

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

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

The Aug. 13 count includes 397 rigs targeting oil, up by 10 from the previous week and up 225 from 172 a year ago, with 102 rigs targeting gas, down by one from the previous week and up by 32 from 70 a year ago, and one miscellaneous rig, unchanged from the previous week and down by one from a year ago.

Twenty-seven of the rigs reported Aug. 13 were drilling directional wells, 456 were drilling horizontal wells and 17 were drilling vertical wells.

Alaska rig count down by one

The New Mexico rig count, 79, was up by four rigs from the previous week.

Texas (232) was up by three rigs.

North Dakota (21) gained two rigs while California (6) was up by one.

Alaska (4), Louisiana (47) and Oklahoma (30) were each down by a single rig from the previous week.

Rig counts in all other states were unchanged from the previous week: Colorado (11), Ohio (11), Pennsylvania (19), Utah (10), West Virginia (10) and Wyoming (16).

Baker Hughes shows Alaska with four rigs active Aug. 13, down by one from the previous week and up one from a year ago, when the state's count stood at three.

The rig count in the Permian, the most active basin in the country, was up by two from the previous week at 245 and up by 128 from a count of 117 a year ago.

—KRISTEN NELSON

Hilcorp completes Seaview 9 well drilling

Hilcorp Alaska told the Alaska Oil and Gas Conservation Commission Aug. 9 that it completed drilling the Seaview No. 9 well in July.

Seaview 9 will be the second well in the Seaview gas field at Anchor Point on the southern Kenai Peninsula. The first well, Seaview 8, began production in June. That well was drilled in 2018 and tested in 2019 but could not be brought online until a 2-mile pipeline was completed. Horizontal directional drilling was required for two crossings of that line beneath the Anchor River, and the HDD work was not completed until this summer.

Hilcorp's statement on completion came in a request to the AOGCC to amend the conservation order allowing a spacing exception for the Seaview No. 9 well, based on results from the well.

A spacing exception is required to allow the company to drill within 1,500 feet of a property line where owners are not the same on both sides of the line.

The existing conservation order allows the company to complete, test and produce Seaview 9 in the Seaview undefined gas pool, but when the company applied for the spacing exception, it specified that the top of the productive horizon was expected at a depth of 4,562 feet measured depth.

The existing conservation order allows the company to complete, test and produce Seaview 9 in the Seaview undefined gas pool, but when the company applied for the spacing exception, it specified that the top of the productive horizon was expected at a depth of 4,562 feet measured depth.

In its Aug. 9 request to have the order amended Hilcorp told the commission that when the Seaview 9 well was drilled and completed in July, it reached a total of depth of 7,749 feet MD. The top of the productive horizon was shallower than expected, at a depth of 393 feet MD. "This revision will require notice to be sent to additional owners and landowners" within 3,000 feet of the wellbore, the company said. The original spacing exception application was sent to all landowners within 3,000 feet of the affected area of the wellbore, based on the expectation that 4,562 feet would be the top of the productive horizon.

The Seaview undefined gas pool, the company said in its amendment request, "includes all gas sands located in the Lower Sterling, Beluga, and Tyonek Formations."

AOGCC has public noticed the request and tentatively scheduled a hearing for Sept. 20 at 10 a.m. but said that if it does not receive a written request for a hearing by Sept. 13, it may consider issuance of an order without a hearing.

—KRISTEN NELSON

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GAS PRODUCERS

Rosenberg said the outlook for U.S. natural gas looks positive because of high demand for power generation and solid exports, although commodity prices "have yet to hit levels that are going to entice new production right away."

The firm said it is not clear whether expectations of rising gas output next year after a flat 2021 will be sufficient to match the expansion needed in the U.S. and globally.

It said global equity investors "should note that the countries with the highest proven reserves of natural gas include the U.S. (in the top five), Canada and Norway (top 20) and Australia (top 30)." ●

Contact Gary Park through publisher@petroleumnews.com

● FINANCE & ECONOMY

AIDEA OKs amended loan for BlueCrest

By KAY CASHMAN
Petroleum News

An amendment to BlueCrest Alaska Operating's loan agreement was approved by the Alaska Industrial Development and Export Authority on Aug. 12, allowing the company to make interest only payments for one year that will be applied to the loan's principal.

BlueCrest, which operates the Cosmopolitan unit off the coast of the southern Kenai Peninsula, has been developing the field using increasingly complex well designs intended to improve production. The Cook Inlet unit, which is three miles offshore and five miles north of Anchor Point, is being developed from onshore; it produces mainly oil.


ALAN WEITZNER

On July 24, 2015, AIDEA entered into a loan agreement with BlueCrest Alaska Operating, as borrower, and BlueCrest Alaska Oil & Gas, BlueCrest Cosmopolitan, and BlueCrest Energy as co-borrowers, under which it agreed to provide a line of credit of up to $30 million to finance the acquisition, transportation, set up and commissioning of a drilling rig, associated equipment and a camp facility for Cosmopolitan. The funds were fully disbursed.

In March 2016, Cosmopolitan went into production utilizing state-of-the-art extended-reach drilling technology to access the offshore oil reserves from its onshore drill site.

The wells are being drilled approximately 3 miles out and 1.5 miles down to reach the reservoir. Then the wells traverse an additional 1.5 miles horizontally through the productive sands. The specially built drilling rig is owned by BlueCrest and is the most powerful rig in Alaska.

After COVID-19 first hit Alaska and oil prices plummeted, AIDEA amended its loan agreement with BlueCrest, providing temporary relief from payments.

Due to ongoing COVID concerns and the inability of the State of Alaska to pay development tax credits owed BlueCrest, the company requested further relief.

AIDEA's staff recommendation was to allow BlueCrest to make interest only (at the current rate) payments that would be applied to the loan principal, with principal and interest payments resuming on Aug. 1, 2022.

Alan Weitzner, executive director, spoke in favor of the amendment. "The board is aware from a previous BlueCrest Operating modification that they were very much impacted by drop in oil prices when COVID was first impacting Alaska. … They've come back as they are impacted by the same issues even with the increase in oil prices."

In his comments to the board, Morgan Neff, chief investment officer for the loan, said that "BlueCrest has been a very good borrower and in good standing and has always made payments on time on their existing agreement and the modified agreement. Not only that, they continue to produce oil and gas hydrocarbons that generate a significant amount of royalty revenue for the state."

To date, he said, Cosmopolitan has generated approximately $13.8 million in royalty revenue and has increased property values in the Kenai Peninsula Borough from $699 million to about $1.4 billion. ●

Contact Kay Cashman at publisher@petroleumnews.com

EXPLORATION & PRODUCTION

Hilcorp has spud Whiskey Gulch No. 1 well

Hilcorp Alaska told the Alaska Oil and Gas Conservation Commission Aug. 16 that it has spud the Whiskey Gulch No. 1 well in the Whiskey Gulch undefined gas pool and the Whiskey Gulch undefined oil pool.

Whiskey Gulch is on the southern Kenai Peninsula, north of Hilcorp's Seaview gas field.

In June AOGCC issued Conservation Order 790, granting Hilcorp a spacing exception to drill, complete, test and produce the well. A spacing exception was required because the well is in an undefined oil pool within 500 feet of a property line and in an undefined gas pool within 1,500 feet of a property line, in both cases, a location where the owner and landowner are not the same on both sides of the line.

Hilcorp said that approval was granted on the basis that notice was sent to the proper parties based on the top of the productive horizon shown on a map the company submitted.

Hilcorp said it spud the well in August and is drilling based on an anticipated total depth of 10,271 feet measured depth.

The map submitted for the spacing order, and the basis on which the order was issued, showed the top of the productive horizon for gas at a depth of 6,089 feet, and Hilcorp said it sent notice to all landowners within 3,000 feet of the affected area of the wellbore, based on that TPH.

Hilcorp said it now believes that the TPH will be encountered at a shallower depth, estimated at 237 feet MD, the top of the Lower Sterling formation.

"Hilcorp is now requesting a revision to CO 790 to allow for completion, testing, and production of the Whiskey Gulch No. 1 Well in the shallower formations, within the Whiskey Gulch Undefined Gas Pool," the company said, requiring notice to be sent to additional owners and landowners.

In a public notice issued Aug. 18, AOGCC said it has tentatively scheduled a public hearing on the application for Sept. 22 at 10 a.m., but also said if it does not receive a request for the hearing by Sept. 15, it may consider issuing an order without a hearing.

—KRISTEN NELSON

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INSIDER

in the due diligence process, Gallagher said he would continue the sell-down process and would be "more flexible" about giving up operatorship than Oil Search has allegedly been with North Slope producer ConocoPhillips. (Neither ConocoPhillips nor Oil Search has said they are, or have been, in negotiations.)

"We'd not waive the operatorship of any asset if the deal was right at the end of the day," he said in a Q&A session on Aug. 17 with analysts that followed the presentation of Santos half-year results.

"We'll continue with Oil Search's plan and we'll be very flexible on what that would look like in terms of operatorship."

Gallagher recently told Reuters he has a "very good relationship" with ConocoPhillips and sees the company as a "world class operator."

As Petroleum News has suggested, ConocoPhillips is a likely bidder for Oil Search's Alaska assets because the company holds most of the leases and infrastructure surrounding Pikka, as well as acreage across the North Slope near Oil Search leases.

In his Aug. 17 briefing on the deal, Gallagher said he expects to deliver "significant synergies" from the merger with Oil Search, pointing to Santos' success in gleaning $160 million in savings following its acquisitions of ConocoPhillips' northern Australian assets and Quadrant Energy.

Plus, ConocoPhillips' top executive Ryan Lance has made it clear in recent financial presentations that his company is interested in picking up oil and gas assets in areas where it already operates, as long as the price is right and the deal brings value to the company's portfolio.

In his Aug. 17 briefing on the deal, Gallagher said he expects to deliver "significant synergies" from the merger with Oil Search, pointing to Santos' success in gleaning $160 million in savings following its acquisitions of ConocoPhillips' northern Australian assets and Quadrant Energy.

Gallagher also said Santos wants to keep a balanced portfolio between natural gas, LNG and liquids. One of the analysts asked if that balance would play a part in looking at Alaska because the Pikka project holds considerable oil (1 billion recoverable barrels-plus). Gallagher said yes — that consideration would play a part in the sell-down process in Alaska.

But Santos continues to emphasize its role as "a proudly Australian company" and an "Australian energy pioneer" and operator.

The company is the second largest independent oil and gas company in Australia, and Gallagher continues to seem far more enthusiastic about the combined companies' Australia and Papua New Guinea assets than he is about operating in Alaska.

Sullivan selects Padgett

U.S. SENATOR DAN SULLIVAN, R-Alaska, said Aug. 17 he has appointed Chad Padgett as the new state director for his Alaska Senate office.

"With nearly three decades spent working to improve the lives of everyday Alaskans, Chad Padgett has a deep understanding of the challenges and opportunities we have in Alaska," Sullivan said. "Chad brings with him a wealth of experience serving on the front lines looking out for the best interests of our communities and he will be a welcome addition to my leadership team."

Padgett comes to Sullivan's office from the Bureau of Land Management Alaska. As the career senior executive for BLM in Alaska, he was responsible for the management of 72 million acres of federal lands in the state ranging from recreational lands to the National Petroleum Reserve-Alaska.

CHAD PADGETT

He was instrumental in the approval of the Willow Project in NPR-A and revisions to the NPR-A Integrated Activity Plan, opening more lands for oil and gas development in the petroleum reserve.

Prior to joining BLM Alaska, Padgett spent 10 years serving as state director for the Office of Congressman Don Young.

"I am looking forward to serving the people of Alaska in my new role as Senator Sullivan's state director," Padgett said. "This is the perfect opportunity to work closer with Senator Sullivan on behalf of Alaska. I share his values and his desire to provide opportunities for all Alaskans and I am very excited to get started."

Padgett first came to Alaska as a child with his mother who accepted a teaching position in Metlakatla. He graduated from Seward High School and attended Boise State University, earning a degree in political science and international relations before returning to Alaska in 1994.

He is an avid outdoorsman who knows Alaska and understands the challenges of a rural state with little infrastructure and a unique legal framework.

Padgett has been married to his wife Kambe for 28 years. They have four children together.

His first day in the Senator's office will be Sept. 7.

Heimke joins AIDEA

THE ALASKA INDUSTRIAL Development and Export Authority said July 22 that Dave Heimke will join AIDEA as chief operating officer.

Heimke previously served as the executive vice president of risk and engineering at Alyeska Pipeline Service Co. and was with the company for more than 10 years.

DAVE HEIMKE

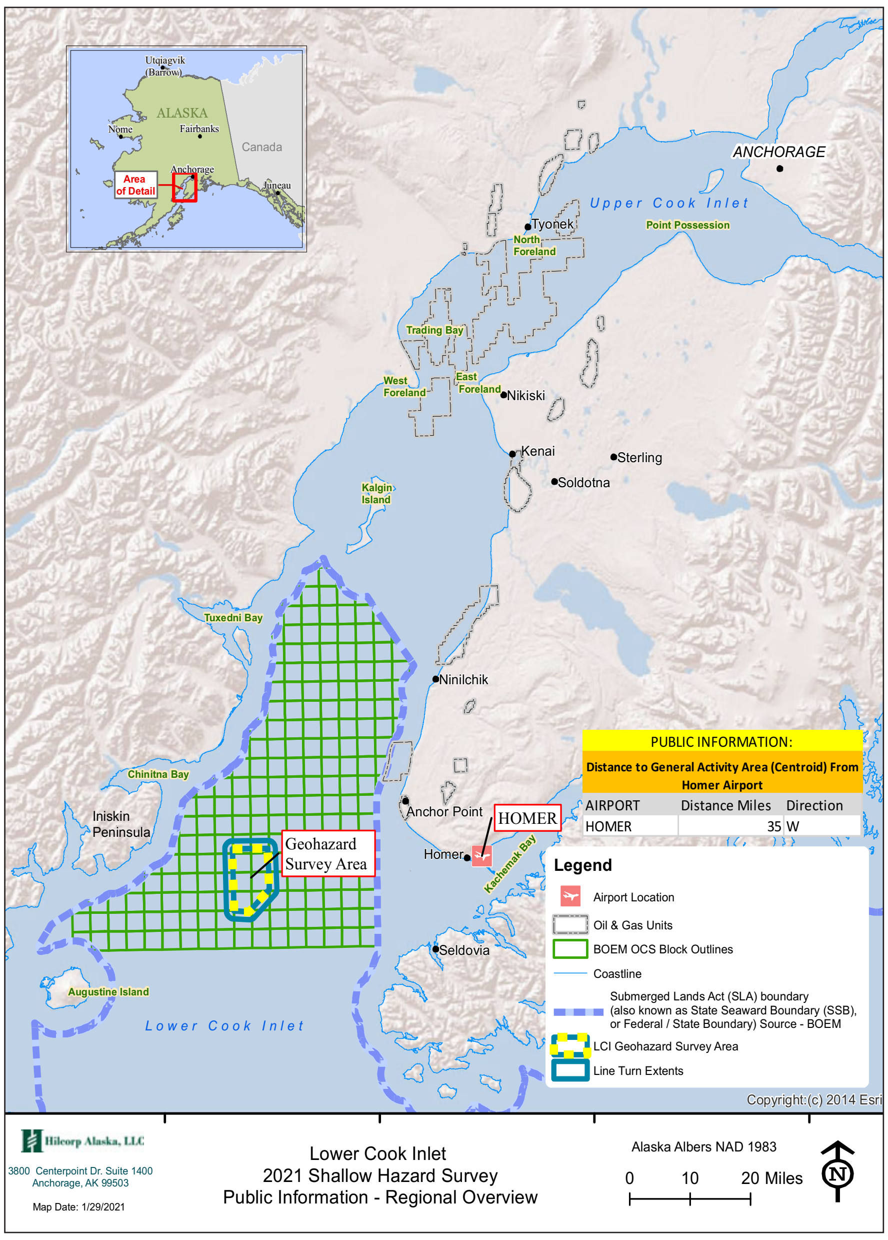
He first came to Alaska in 1985 after working at scientific research stations in Antarctica. Throughout the years, AIDEA said, Heimke has managed numerous remote Alaska infrastructure development and improvement projects and has also served various technical and operational roles in project management, engineering, and consulting.

Heimke holds undergraduate and graduate degrees in electrical engineering from the University of Alaska Fairbanks.

As chief operating officer, AIDEA said, Heimke is responsible for leveraging its programs to foster public and private investments for Alaska projects and to ensure effective internal communications, planning, management, and operations in fulfilling AIDEA's mission for job growth and economic opportunity for all Alaskans.

"We're very excited to have Dave on board," said Alan Weitzner, AIDEA executive director. "His extensive experience with infrastructure development planning and operational improvement within Alaska makes him a key addition to our leadership team as we grow our programs for Alaskans."

—INSIDER IS COMPILED BY KAY CASHMAN



EXPLORATION & PRODUCTION

BOEM approves Hilcorp geohazard survey

The Bureau of Ocean Energy Management has approved Hilcorp Alaska's application to conduct geohazard surveying over federal leases in the Cook Inlet this summer. The surveying would encompass four lease blocks about halfway across the inlet, to the west of Kachemak Bay. Hilcorp has indicated an interest in drilling up to four exploratory wells in federal lands in the lower Cook Inlet. Federal regulations require a geohazard evaluation over the entire area within 1.5 miles of a well site, before drilling can begin.

In an Aug. 11 letter confirming the permit approval BOEM said that the agency had conducted an environmental assessment of the proposed operations and had reached a finding of no significant impact. The agency consulted with the National Marine Fisheries Service and the U.S. Fish and Wildlife Service with respect to the requirements of the Endangered Species Act. Hilcorp has obtained letters of authorization from both of these agencies for the incidental take of whales and sea otters.

BOEM has listed a series of measures that Hilcorp must take to prevent unacceptable environmental impacts. For example, vessels must reduce speed when within 900 feet of marine mammals and must not operate in a manner that may separate some members of a group of animals from the animal group.

Hilcorp has previously indicated an intention to bring a jack-up drilling rig to Cook Inlet for Cook Inlet exploratory drilling. The company has expressed a particular interest in testing the Blackbill prospect, discovered by ARCO's Raven No. 1 well in 1982. The prospect is situated about halfway across the inlet. An offshore 3D seismic survey conducted by Hilcorp in 2019 found that the prospect, with oil in a Cretaceous reservoir, is associated with a 65,000-acre, four-way closure in the rock strata.

The federal offshore leases that Hilcorp is exploring lie north of the Augustine-Seldovia Arch, a geologic structure to the south of which the Tertiary strata hosting the producing Cook Inlet oil and gas fields thin out. However the Cretaceous rocks associated with the Blackbill prospect are part of the older Mesozoic sequence that underlies the Tertiary.

—ALAN BAILEY

PIPELINES & DOWNSTREAM

Wild rice lead plaintiff in Line 3 suit

Opponents of Enbridge Energy's Line 3 oil pipeline replacement across northern Minnesota are taking a novel legal approach to try to halt construction — they are suing on behalf of wild rice.

Wild rice is the lead plaintiff in a complaint filed Aug. 4 in White Earth Nation Tribal Court. The lawsuit, which names the Minnesota Department of Natural Resources among the defendants, advances a legal theory that nature in itself has the right to exist and flourish, the Star Tribune reported.

The lawsuit is only the second "rights of nature" case to be filed in the U.S., said Frank Bibeau, a lawyer for the White Earth tribe.

The plaintiffs include manoomin, which means "good berry" in Ojibwe, several White Earth tribal members and Indian and non-Indian protesters who have demonstrated along the Line 3 construction route. They say the DNR is failing to protect the state's fresh water by allowing Calgary-based Enbridge to pump up to 5 billion gallons of groundwater from construction trenches during a drought.

The lawsuit seeks to stop the extreme water pumping, and to stop the arrests of demonstrators. To date, more than 700 people have been charged for demonstrations along the Line 3 construction route, Bibeau said.

They also claim the DNR has violated the rights of manoomin, as well as multiple treaty rights for tribal members to hunt, fish and gather wild rice outside reservations.

The lawsuit seeks to stop the extreme water pumping, and to stop the arrests of demonstrators. To date, more than 700 people have been charged for demonstrations along the Line 3 construction route, Bibeau said.

DNR spokeswoman Gail Nosek said the agency is reviewing the lawsuit and had no further comment. Enbridge spokeswoman Lorraine Little said the company has shown respect for tribal sovereignty and has routed the pipelines outside the Upper and Lower Rice Lake and its watershed because of tribal concerns.

"Line 3 construction permits include conditions that specifically protect wild rice waters," Little said. "As a matter of fact, Enbridge pipelines have coexisted with Minnesota's most sacred and productive wild rice stands for over seven decades."

Line 3 starts in Alberta and clips a corner of North Dakota before crossing northern Minnesota en route to Enbridge's terminal in Superior, Wisconsin. The 337-mile line in Minnesota is the last phase in replacing the deteriorating pipeline that was built in the 1960s.

—ASSOCIATED PRESS

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NEW PIPELINES

Replacement project

ConocoPhillips said two pipelines are included in the Western North Slope Pipelines Replacement Project, with the lines replacing or supplementing existing lines in similar service.

A segment of the existing 12-inch Alpine Utility Pipeline between Central Processing Facility No. 2, CPF2, at Kuparuk to near the miscible injectant/gas injectant, MIGI, tie-in pad, a short distance south of the Colville Delta 4, CD4/CD5 intersection will be replaced, the company said, while the segment of the 12-inch line from near the MIGI pad to the Alpine Central Facility, ACF, will remain in use.

The Alpine utility line transports treated seawater from the KRU CPF2 to the Alpine Central Facility for use in enhanced oil recovery.

There is an existing 2-inch Alpine diesel line, and it will be supplemented with the new 4-inch products line.

The existing lines were installed in the late 1990s as part of the original Alpine development.

The WNS 20-inch line will run from CPF2 in Kuparuk to a new module at the MIGI tie-in pad a short distance south of the CD4/CD5 intersection. "At this point the new pipeline will be connected to the existing Alpine 12-inch Utility Pipeline," with the length of the new 20-inch line some 32 miles.

The WNS 4-inch products line will run from CPF2 to the Alpine Central Facility, a length of some 35 miles, the company said.

New 4-inch line

In an Aug. 2 cover letter for the new products pipeline, ConocoPhillips said the line will "import diesel and other products" for use at the Colville River unit, Greater Mooses Tooth unit and eventually the Bear Tooth unit, "for powering equipment, supporting well work operations, and for freeze protection of wells."

The Colville River unit Alpine field been in production for more than two decades. Greater Mooses Tooth, in the National Petroleum Reserve-Alaska, came online in October 2018 from a single pad, GMT1. A second pad, GMT2, is expected to begin producing before the end of the year. Development at Bear Tooth, site of the Willow discovery, is being litigated.

ConocoPhillips said the new products line will be placed on a spare slot on the existing Alpine sales oil pipe rack for most of its length. Construction will include a horizontal directional drilling, HDD, crossing under the Colville River.

Construction overview

ConocoPhillips said work for the products line is expected to begin in November and be completed by June of 2004 with startup possibly as early as December 2023.

The project includes both lines.

This year:

•Survey activities are scheduled from July to December.

•Permit applications and supporting documents to be submitted in August.

From January to June 2022:

•Utility and products pipelines will be installed at the new HDD crossing, also fiber optic communication line and cathodic protection anode.

•Installation of year-1 utility pipeline vertical support members between CPF2 and the east side of the Colville River HDD pad.

•MIGI pad expansion.

June 2022 to December 2022:

•Expand CFP2 pad.

January to June 2023:

•Install year-2 utility pipeline VSMs from CPF2 to MIGI pad.

•Install new HDD transition gravel pads and thermosphyons at HDD.

June to December 2023:

•Expand CPF2 pad.

•Install surface facilities, do hydrostatic testing and begin using pipelines.

January to June 2024:

•Install fiber optic communication line.

Installation

ConocoPhillips said pipelines will be installed in the winter using ice roads. Work will begin with installation of WNS 20-inch utility pipeline VSMs and corresponding horizontal support members; pipeline saddles will position the pipeline on the HSMs. The company said some 60% of the VSMs and HSMs will be installed in the 2022 construction season, with the remainder in the 2023 season. The WSN 4-inch products line will be installed from the same ice road as the WNS 20-inch utility line.

Once VSMs and HSMs have been installed, "pipelines will be strung, welded, tested, and then installed in pipe saddles on top of the HSMs."

The WNS 4-inch products line installation will begin several days prior to the WNS 20-inch utility line, thus avoiding conflicts between crews.

The pipe for the WNS 4-inch line will be strung — the joints laid out end to end supported by wooden timbers — then welded together, followed by nondestructive testing. The 4-inch pipeline will then be raised into a berth on the existing pipe rack.

As the WNS 4-inch line crews clear the construction area, work will begin on the 20-inch utility line.

Hydrostatic testing will be done over the summer.

Work on the 20-inch line will follow a similar pattern to that for the 4-inch line.

HDD installation

ConocoPhillips said the HDD installation will begin with crossing installation in 2022 and wrap up with gravel pad and thermosyphon install in the winter season of 2023.

The HDD crossing will be near facilities constructed for the Alpine Pipeline HDD crossing, with each line installed individually some 60 feet apart with an 8-inch anode for cathodic protection in between.

Up to three drill rigs — two working and one spare — will be used, with drilling from west to east. There will be three steps in the drilling of each borehole: directional drilling of the pilot bore; reaming the pilot bore; and pulling back the pipeline.

The bore hole will be drilled by a rotary rig from the west side of the river, with the total borehole length some 4,550 feet. Following establishment of the pilot bore, it will be reamed and re-reamed until the hole is large enough to accommodate the pipe.

While the drilling is going on, pipeline sections will be staged on ice pads on the east side of the river, welded "and placed in casings long enough to span the entire HDD crossing." The cased pipeline segments will be pulled back through the drilled hole from east to west.

"Pipelines under the Colville River will be uninsulated and placed within an outer steel casing, which will serve to inhibit heat transfer, contain fluids in the remote event of a spill, and provide additional structural integrity," the company said.

Pad expansions, facilities

The MIGI pad will be expanded on the northeast side by 0.7 acre and the CPF2 pad expanded on the south and east by 1.0 acre, expansions needed for new modules and equipment.

The expansion at the MIGI pad will accommodate tie-in of the new 20-inch utility line with the existing Alpine 12-inch utility line, with new facilities to include: a pigging module with receivers and launchers for the new 20-inch line and the existing 12-inch line; and a remote electrical and instrumentation module.

The CPF2 expansion will accommodate a diesel tanker truck loading area; diesel storage tanks; a diesel pump and pigging facilities; and a seawater pigging module.

New facilities on the Alpine Central Facilities pad, which does not require expansion, will include diesel tanks for product and "infrastructure to facilitate warm-up or de-inventory of the seawater pipeline and future pipelines."

ConocoPhillips said the products pipeline will use existing pigging equipment at the ACF pad.

—KRISTEN NELSON

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OIL PRICES

levels we've seen the last couple of months and surely reflect growing concerns about the spread of delta and the implications for fourth quarter growth," he said.

The worries over the delta variant of COVID-19 are nothing new at this point, but the price action this week is markedly more bearish, breaking a recent pattern of black Mondays followed by a price recovery at midweek.

ANS, for instance, closed at $71.60 per barrel Aug. 11, up from a $69.52 close on Aug 9 and just a penny away from its Aug. 5 close of $71.61.

The U.S. dollar has greased the oil price slide, extending its recent gains to hit 4-1/2-month highs in midday trading Aug. 18 before losing steam later in the day as last month's Federal Reserve meeting notes were released. The Fed gave little in the way of certainty about a precise schedule for tapering of its asset purchases under its quantitative easing program.

For now, the Fed will continue with $120 billion a month of bond purchases. The total includes $40 billion of mortgage-backed securities. With a hyper-hot housing market in the United States, those are likely to be the first buys to be tapered sometime later in the year.

Continued Fed excess may not trim the dollar's sails for long. As the delta variant wreaks havoc on Asia, lockdowns and travel restrictions there have made the U.S. markets look inviting in comparison. Foreign investors are flocking to the relative safety and liquidity of U.S. assets.

Money is likely to continue its flow into the U.S. dollar, and as that continues, oil will be more expensive for buyers holding foreign currencies.

The aggregate impact of nuclear, hydroelectric, and solar/wind generation reduced global reliance on fossil fuels from approximately 95% of primary energy in 1975 to some 85% in 2020, Cembalest said.

Driving oil demand

As the summer driving season draws to a close, U.S. motorists seem to be taking their feet off the gas pedal. Gasoline stocks gained 696,000 barrels to 228.2 million barrels, according to the U.S. Energy Information Administration Aug. 18 report, surprising analysts expecting a 1.7 million barrel drawdown.

U.S. oil inventories, however, fell to the lowest levels since January 2020, dropping 3.2 million barrels to 435.5 million barrels, the EIA said.

The dichotomy may suggest that the overall U.S. recovery is still underway, but that automobile fuel demand may be — for now — ceding its leadership position in driving nation's the oil price recovery.

But automobiles are and for many years will be largely reliant on fossil fuels, according to Michael Cembalest, JP Morgan Asset Management chairman of market and investment strategy.

"World demand for liquid fuels should continue to rebound as COVID vaccinations increase and economies reopen," Cembalest said in JP Morgan's 2021 Energy Paper. "As demand grows, we expect supply to recover more slowly."

Greater capital investment will be needed.

"While publicly traded oil companies only represent 2/3 of global production, their trends are notable: 60% decline in reserve lives since 2014, steepening oil cost curves since 2017 and declining capital commitments," he said.

Cembalest said President Biden's greenhouse gas emissions target of a 50% decline by 2030 vs a 2005 baseline is "very ambitious," implying a decarbonization pace over the next 10 years which is four times faster than in the last 15 years.

"Even with the amount of money the administration plans to dedicate to the task, it's an enormous hurdle," he said.

The aggregate impact of nuclear, hydroelectric, and solar/wind generation reduced global reliance on fossil fuels from approximately 95% of primary energy in 1975 to some 85% in 2020, Cembalest said.

"In other words, energy transitions take a long time and lots of money."

In 2021, renewables are expected to garner more capital spending than upstream oil and gas, yet the International Energy Agency projects that 70%-75% of global primary energy consumption may be powered by fossil fuels in the year 2040, he said. However, renewable energy is mainly used to generate electricity, and electricity as a share of final energy consumption on a global basis is just 18%.

"In other words, direct use of fossil fuels is still the primary mover in the modern world, as the demise of fossil fuels continues to be prematurely declared by energy futurists," Cembalest said. ●

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Petroleum news — Oil Patch Bits

Lynden Transport earns 25th Quest for Quality Award

As reported by Lynden News Aug. 16, Lynden Transport earned its 25th Quest for Quality Award this year, marking a quarter century benchmark of providing the highest level of customer service and performance. Upholding its gold standard, Lynden Transport received an award for 2021 in the less-than-truckload western regional category as it has in years past. The annual logistics management awards are the ultimate measure of customer satisfaction and performance excellence for carriers, ports and logistics providers worldwide.

"A Quest of Quality Award is the highest honor and vote of confidence a company can receive," says Lynden Transport President Paul Grimaldi. "Lynden Transport is proud to add another award in the western regional LTL category this year. We are still dealing with the fallout of the pandemic on the transportation industry, so this award is especially meaningful as our employees step up and continue to work through the challenges to provide the Lynden brand of customer service each day. One of the most gratifying aspects of this award is that we are hearing directly from our customers that we are meeting the mark in serving their transportation and logistics needs."

The Quest for Quality Awards are the culmination of a six-month research project conducted by Peerless Research Group. For nearly four decades, the awards have been regarded in the transportation and logistics industry as the most important standard of customer satisfaction and performance excellence. To determine the "best of the best," transportation and supply chain decision-makers rate carriers, logistics providers and port operators on service quality in various categories such as on-time performance, value and customer service. For more information visit info.lynden.com/blog.

Companies involved in Alaska's oil and gas industry

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WILLOW DECISION

Gleason said.

She ruled the agency "acted contrary to law insofar as it developed its alternatives analysis based on the view that ConocoPhillips had the right to extract all possible oil and gas from its leases," and also "acted contrary to law in its alternative analysis for the Teshekpuk Lake Special Area insofar as it failed to consider the statutory directive that it give 'maximum protection' to surface values in that area."

In vacating the Fish and Wildlife Service biologic opinion, Gleason said the incidental take statement "lacks the requisite specificity of mitigation measures for the polar bear" and the "take finding with respect to the polar bear is arbitrary and capricious." Because of that, BLM's reliance on the FWS opinion "is arbitrary and capricious."

ConocoPhillips has faced development delays for NPR-A projects in the past. Its development of CD5, the fifth Alpine drill site, began with a memorandum of understanding with the company signed with BLM in 2003. The work involved a bridge across the Nigliq Channel of the Colville River as part of the plan for CD5, the company's first drilling pad in NPR-A. First the company had to overcome objections from the local groups, and then had its plans challenged by the U.S. Army Corps of Engineers. An agreement was finally reached in late 2011 and ConocoPhillips sanctioned CD5 in late 2012; construction began in early 2014 and production in 2015.

In a June 30 market update, ConocoPhillips Chairman and CEO Ryan Lance, asked about issues with Willow approvals said, "this isn't unusual for Alaska. Just about every major project up there has gone through this, so we know what's coming, we planned for it, and we know how to deal with it."

See full story in Aug. 29 issue.

—KRISTEN NELSON

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MERLIN 2 WELL

between mid-30 to low-40 API."

1.6 billion barrels

Incorporating Merlin1 results into Project Peregrine's dataset, 88 Energy revised Peregrine's mean total prospective resource to an estimated 1.6 billion barrels. (An independent oil and gas reservoir evaluation consultancy, ERCE Australia Pty Ltd conducted the updated assessment of the Project Peregrine.)

The objective of Merlin 1 was to assess three independent Nanushuk reservoir targets — N14, N20, and N18 — identified from reprocessed seismic data. All targets came in considerably deeper than expected.

Post well analysis indicated that the N14 horizon, the primary target of Merlin 1, was not intersected, as it was believed to lie about 600 feet deeper than the well's total depth.

The company said N14 remains a target of interest.

Merlin 1 was drilled by one of 88 Energy's four Alaska operating subsidiaries, Emerald House — all the subsidiaries are run by long-time Alaska geologist and innovator Erik Opstad.

Opstad used All-American Rig 111, a lightweight, inexpensive portable rig that did not require an ice road.

Project Peregrine is in the National Petroleum Reserve-Alaska.

Merlin 2 pre-planning

With Merlin 1, the company was looking at proving up a gross mean prospective resource of 645 million barrels of oil. With Merlin 2, 88 Energy is targeting a net entitlement mean prospective resource of 652 million barrels (unrisked).

Three potential locations have been selected for Merlin 2 and will be permitted, 88 Energy said, with pre-planning and rig selection beginning immediately.

Merlin 2 is designed to target the thicker zones of reservoir intervals.

A potential infill 2D seismic program, consisting of 343 line miles, has been designed and costed, the company said.

88 Energy Managing Director Ashley Gilbert was quoted in the Aug. 16 report as saying: "We are thrilled with the results from the Merlin 1 exploration well. This is the best well we've drilled on the North Slope of Alaska to date, with light oil detected in the Nanushuk across three separate horizons. Whilst we have a lot more work to do, the Merlin 1 well has confirmed an active petroleum system in the Peregrine acreage"

"Results of this significance, together with the magnitude of the opportunity, merit a pace of evaluation that facilitates further drilling and seismic in upcoming winter seasons," he added.

88 Energy holds a 100% interest in the Peregrine Project, which includes several prospects, including Merlin and Harrier. ●

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CANADA UPSTREAM

ways of persuasion."

He carefully avoided issuing any threats that if his current strategy fails, he is ready to take a tougher stand. But the hint was unmistakable.

Kenney said the consensus from the oilpatch leaders was that they expect "a gradual ramp up in employment as opposed to a sharp rise."

What is understood by all parties is that Kenney lacks the levers other than negotiation and diplomacy to force public companies to loosen their purse strings, even with oil prices holding steady at close to US$70 a barrel for West Texas Intermediate and C$4 per thousand cubic feet at Alberta's natural gas trading hub.

Shareholders demands

Offsetting Kenney's public pitch, shareholders are demanding continued financial prudence and a return on their investments after years of riding out tough times.

The Toronto Stock Exchange energy index has climbed by more than a third this year, but still lags 40% behind its performance over the past three years.

Eric Nuttall, a respected senior portfolio manager with Ninepoint Partners, told the Calgary Herald that investors do not want to "repeat the sins of the past. We must not chase growth and chase a higher oil price."

"My hope is energy investors carry a bigger stick (than government) because energy stocks have been stuck in purgatory for what feels like an eternity."

Rafi Tahmazian, a senior portfolio manager at Canoe Financial, had a similar message in response to spending pressures, insisting "the market is violently against" a spending spree.

Athabasca Oil Chief Executive Officer Ron Broen said smaller and mid-sized companies that are unable to access capital have turned their attention instead to liquidity and balance sheets.

Some companies are more focused on initiatives to reduce their greenhouse gas emissions and meeting ESG (environmental, social and governance issues) to satisfy their critics.

Oil sands giant Suncor Energy has opted to press ahead with a C$1.4 billion cogenerated power project at its base oil sands plant, accounting for at least one-third of its capital budget.

Although modest, Canadian Natural Resources, the biggest combined producer of oil and gas, has boosted its capital budget by C$275 million to C$3.5 billion, including C$120 million to drill an additional 78 wells.

Two of its peers, Suncor and Cenovus Energy, are resisting any thoughts for now of hiking their upstream spending.

Rig count now at 150

A year ago, a mere 39 rigs were drilling in Western Canada creating about 7,000 direct and indirect jobs, said the Canadian Association of Energy Contractors. Those numbers have surged to 150 rigs at work, generating about 30,000 jobs.

Precision Drilling Chief Executive Officer Kevin Neveu told the Calgary Herald he has seen a "pretty meaningful rebound in customer demand for drilling and well servicing" prompted by higher commodity prices.

Precision has about 1,000 more rig hands at work in Canada, but that puts the spotlight on one of the toughest struggles faced by the industry.

Oilfield service companies say workers are reluctant to return to the sector because of their experience with employment volatility over the past five years that has seen tens of thousands of workers laid off.

"It's difficult to get enough resumes in the door, let alone enticing trained and ticketed employees" to meet the requirement for those with specialized skills, said Gurpreet Lail, president of the Petroleum Services Association of Canada.

Unemployment in the services sector was down to 5.4% in June from 23.5% a year earlier, but that also reflects decisions by thousands to simply abandon the industry. ●

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MUSTANG FIELD

BRPC.

AIDEA-owned Mustang Holding is the current operator of the field, which is in cold shutdown and part of the Southern Miluveach unit. An increased budget for the balance of 2021 was also part of the resolution.

The increase included the engagement of attorney Jeffrey Feldman as lead counsel in the divestment. Per a profile posted online, he is well versed in the real estate market and "all facets of the sale process."

The revised 2021 budget is $500,000 more than the previously approved $1.59 million, bringing it to $2.1 million. The resolution also called for the transfer of additional funds in the amount of $850,000 from the Revolving Fund "in order to responsibly carry the project in cold shutdown status through calendar year 2021."

Furthermore, the resolution said the budget and project plan can be "non-materially amended and approved" at the discretion of AIDEA's executive director, Alan Weitzner.

The budget includes unforeseen pad remediation work to maintain Mustang in cold shutdown, property taxes, and professional fees regarding the competitive sale process, AIDEA staff said in background material.

Mustang assets

In a notice of sale published in June 2020, AIDEA listed more than $76 million in principal, late fees, accrued interest and foreclosure fees on the property.

The sale included a gravel pad and road, pipelines and related facilities at the partially completed Mustang field, as well as the five State of Alaska leases underpinning the Southern Miluveach unit. (A buyer would have to be approved by Alaska's Division of Oil and Gas to operate the leases.)

In briefing the board prior to the vote on Aug. 12, AIDEA's chief investment officer for Mustang, Morgan Neff, said: "What we're looking at now as we're coming up on the one-year anniversary of the foreclosure of this asset is to properly move forward and monetize it by discussing and engaging with interested third parties that are qualified and have the ability to properly develop this asset that could, over time generate in excess of $200 million in royalty and tax revenue for the state," adding AIDEA is "looking at a very competitive process for this asset."

Story of a broken dream

In its original 2020 plan of development for the unit that was filed with the division, BRPC described plans to advance an early production facility, or EPF, at the unit.

The revenue generated from initial production would have been used to finance a 15,000-barrel-per-day central processing facility, which would accommodate Mustang production as well as third-party production from other independent operators in the area.

With the larger processing facilities in place, BRPC would have begun an initial development drilling campaign with up to 10 producers and 11 injectors.

BRPC was formed in 2004 as the operating arm of the Kansas-based Alaska Venture Capital Group LLC, which was created to pursue large or mid-sized oil fields passed over during the first decades of North Slope development. The lead individual was Bart Armfield.

In a notice of sale published in June 2020, AIDEA listed more than $76 million in principal, late fees, accrued interest and foreclosure fees on the property.

The small independent company spent eight years looking for the right North Slope play before drilling the North Tarn No. 1A discovery well in 2012. The resulting Mustang field is estimated to hold some 21.2 million proven barrels of oil in place.

BRPC then spent the next seven years responding to a series of technical, economic, political and logistical challenges at the Mustang field. While some of those complications were inherent to the field and to the company, others were external, such as the crash in oil prices in 2014, as well as the 2017 veto by then-Gov. Bill Walker of previously approved oil and gas tax credits designed to offset exploration expenses.

Despite all, with the start of commercial production on Oct. 30, 2019, BRPC became the first small independent oil company in Alaska history to bring a North Slope field from discovery to production.

The company conducted an extended production test from its North Tarn 1A well using its temporary processing facilities and exported oil to the Alpine Pipeline System. By the time a flaring permit for the unit expired on Nov. 27, 2019, the company had produced 11,944 barrels of oil, according to its estimates.

Although the production was small by North Slope standards, it was a sign that the basin was at least theoretically accessible to players beyond multinational majors and even beyond large and mighty independents with strong balance sheets.

But the challenges that had plagued earlier years continued apace.

As the production test was proceeding, a private sector backer failed to meet its financial obligations on the project. BRPC and working interest owners began refinancing a major loan with AIDEA, their main financial backer.

According to BRPC, the authority issued a notice of default on that debt in early October, and then, in early November exercised its rights to accelerate debt repayments.

BRPC suspended operations.

Even after negotiating new financing terms in January 2020, the immediate economic conditions surrounding the project proved to be insurmountable, including low oil prices in the early days of the coronavirus pandemic.

BRPC put the field in warm shutdown in early April 2020.

Foreclosure followed, with AIDEA working closely with former investors

Even after negotiating new financing terms in January 2020, the immediate economic conditions surrounding the project proved to be insurmountable, including low oil prices in the early days of the coronavirus pandemic.

and creditors to put a deal together. Again, deals fell apart and payments were not made, which brings us to AIDEA's continued efforts today to secure a qualified owner/operator for Mustang.

—KAY CASHMAN

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