Petroleum news

page 2 Repsol gives Oil Search 51% in 12 tracts; BRPC lease terminated

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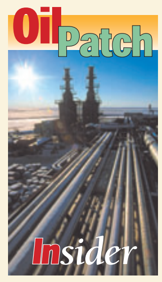
Glacier Oil scores 5-year zero RIR and award from lawmakers



Glacier Oil & Gas Corp. recently received an award from the Alaska Legislature, honoring the independent for a five-year 0.0 recordable incident rate with the Occupational Safety and Health Administration.

The citation was sponsored by Rep. Mel Gillis and co-sponsored by Rep. George Rauscher of the House Resources Committee and Rep. Sara Rasmussen of the House Labor & Commerce Committee.

The five-year period ended Dec. 31 and not only applied to Glacier's employees but also to some of its long-term contractor's employees, a total of about 155 individuals, including Glacier office staff in Anchorage and Houston and its oil and gas operations, which are all in Alaska.

Through its subsidiary Cook Inlet Energy, or CIE, Glacier runs the West McArthur River and Redoubt units on the west

see INSIDER page 8

Conoco Alaska net income $1.5B 25% of liquids production in 2019

Alaska contributed $1.52 billion of net income to ConocoPhillips in the fiscal year ending Dec. 31, 2019, down from $1.81 billion in 2018, but exceeding $1.466 billion in 2017, the company said in a recent 10K filing.

ConocoPhillips' total net income in FY 2019 was $7.189 billion, up from $6.257 billion in 2018, and up from a 2017 net loss of $855 million.

The decrease in Alaska earnings was due to lower realized crude oil prices and higher production, operating, and depreciation, depletion and amortization expenses associated with incremental volumes from acquisitions completed during 2018. Earnings were hit by the absence of a $98 million tax valuation allowance reduction, the absence of a $79 million after-tax benefit resulting from an accrual reduction due to a transportation cost ruling by FERC, and $62 million less in enhanced oil recovery credits. Partly offsetting the decreases were higher crude oil sales volumes due to acquisitions completed in 2018.

see CONOCO INCOME page 8

Kenney goes green: Alberta premier says renewable energy inevitable

Alberta Premier Jason Kenney, seen as one of Canada's if not the world's most resolute defenders of the hydrocarbon industry, has stunned his political allies and enemies.


JASON KENNEY

Without any buildup he acknowledged to a Washington, D.C., panel earlier in February that an energy transition is inevitable.

Over the coming decades "as we go through an energy transition, we all know" that the world will arrive at its last barrel of oil, he said, emphasizing that Alberta's goal should be to ensure that the last barrel of oil "comes from a stable, reliable liberal democracy with among the highest environmental, human-rights and labor standards on earth."

Kenney told the Calgary Herald that he has a "firm grasp of the obvious. No reasonable person can deny that in the decades to come we will see a gradual shift from hydrocarbon-based energy to other forms of energy."

see ENERGY TRANSITION page 8

FINANCE & ECONOMY

New buyer for KLU

Kachemak Exploration to buy Furie assets; lawsuits and objections settled

By STEVE SUTHERLIN

Petroleum News

According to documents filed in the Chapter 11 bankruptcy case of Furie Operating Alaska LLC, Anchorage-based HEX LLC was unable to raise the money needed to buy Furie's assets, primarily the Cook Inlet Kitchen Lights offshore unit and related infrastructure such as the Julius R offshore platform, onshore processing facility and related pipelines.

An alternative offer from Kachemak Exploration LLC has been accepted by all parties.

Kachemak is a Delaware corporation recently formed by Fort Worth Texas oil man John Upton's GFR Holdings and Melody Capital Partners L.P., represented by Melody executive Blake Yaralian.

Reliable sources have told Petroleum News that Kachemak Exploration intends to — and has the means to — vigorously explore for oil in the KLU.

It further appears that all lawsuits and objections from all parties have been settled.

An Amended Notice of Auction Results filed Feb. 18 by Furie said the debtors have entered an Acquisition by Foreclosure Agreement, dated Feb. 17, between and among the debtors, as sellers, and Kachemak Exploration, as the acquirer.

see FURIE BUYER page 4

GOVERNMENT

Bond increases argued

Commission continues hearings on reconsideration requests from field operators

By KRISTEN NELSON

Petroleum News

The Alaska Oil and Gas Conservation Commission is continuing hearings on bonding reconsideration requests received from oil and gas field operators after the commission substantially increased its bonding requirements last year with the goal of covering plugging and abandonment costs should operators fail to meet their obligations.

The commission heard the first two appeals in January — from Malamute Energy on Jan. 16 and from Alaskan Crude on Jan. 23.

The commission heard the remaining four appeals in February: Cook Inlet Energy and Savant Alaska, both Glacier Oil and Gas companies, on Feb. 12, AIX Energy on Feb. 13 and Amaroq Resources on Feb. 18.

Amaroq also argued that the new regulation "places a disproportionate bond requirement on small scale producers."

Savant Alaska

In August Glacier requested a consolidated bonding requirement covering both CIE and Savant, since Glacier owns both.

Phillip Elliott, president and chief financial officer of the companies, told the commission at the Feb. 12

see BOND INCREASES page 6

PIPELINES & DOWNSTREAM

Derailment troubles

Two crude unit trains leave tracks in Saskatchewan; producers looking for capacity

By GARY PARK

For Petroleum News

Imperial Oil, Suncor Energy and Cenovus Energy — most of the big names among Canadian oil producers — have all said in recent weeks that they are ready to increase their crude-by-rail shipments as the Alberta government has started easing the limits on output.

But as quickly as these companies raised their hopes of utilizing rail to access more markets they were sideswiped within two months by two derailments about 6 miles apart in rural Saskatchewan, compounded by spreading blockades of rail networks as First Nations protests against construction of energy pipelines in British Columbia spread across Canada.

While the cause of the accidents remains unknown authorities have refused to comment on the prospect of sabotage.

The two fiery crashes by Canadian Pacific Railway, CP, trains spilled a combined 2.7 million liters of crude, forcing Transport Minister Marc Garneau to cut in half the speed limits for trains hauling oil, propane and other flammable goods.

While the cause of the accidents remains unknown authorities have refused to comment on the prospect of sabotage.

see DERAILMENT TROUBLES page 5

● LAND & LEASING

Alaska lease transfers, terminations

Repsol transfers majority interest in 12 tracts to Oil Search; Beechey Point tract and North Nenana exploration license terminated

By KAY CASHMAN

Petroleum News

Alaska Department of Natural Resources' Division of Oil and Gas records show that in January Repsol E&P USA's assignment of majority interest in 12 leases to Oil Search was approved, a Beechey Point lease held by Brooks Range Petroleum Corp. was terminated and the North Nenana exploration license was terminated.

ALASKA LEASE REPORT

The assignments from Repsol to Oil Search, its partner in and operator of the Pikka unit, involved transferring a 51% working interest and a 42.5% royalty interest in all 12 leases.

The tracts were won by Repsol in the most recent North Slope areawide oil and gas lease sale held by DNR. Bids were opened in Anchorage Nov. 15.

Two of them were the only unleased tracts between Repsol and Oil Search acreage some distance south of Pikka.

One of the leases is at the southern tip of the Pikka unit.

The remaining nine tracts are generally between BRPC acreage and that company's Southern Miluveach unit south of Kuparuk in an area east of Pikka. On four of those tracts Repsol placed the highest bid per acre in the sale, $586. The totals bid for those four tracts, more than $1.5 million each, were also the highest bonus bids on sale tracts.

The 12 lease numbers and their approximate acreage are as follows:

- ADL 393782 (1,440 acres)
- ADL 393783 (1,440 acres)
- ADL 393873 (2,501 acres)
- ADL 393874 (1,232 acres)
- ADL 393875 (2,560 acres)
- ADL 393876 (1,280 acres)
- ADL 393877 (1,920 acres)
- ADL 393878 (1,920 acres)
- ADL 393879 (1,241 acres)
- ADL 393880 (1,920 acres)
- ADL 393881 (2,491 acres)
- ADL 393882 (640 acres)

Beechey Point lease terminated

The Brooks Range Beechey Point lease ADL 39214 was terminated for failure to pay rent.

The 1,319-acre tract is offshore adjacent to the company's former Beechey Point unit in the Gwydyr Bay region north of Prudhoe Bay, between the Milne Point and Northstar units. It was won by Kansas-based Alaska Venture Capital Group, or AVCG, in the December 2011 State of Alaska Beaufort Sea lease sale.

Brooks Range was formed in 2004 as the operator arm of AVCG, which was created explicitly to target oil reservoirs passed over during the first decades of North Slope development.

Working on behalf of varying joint ventures, Brooks Range pursued exploration opportunities across the North Slope, including the Beechey Point unit, Tofkat unit, Putu unit, Kachemach unit and a related cluster of prospects nestled between the Badami and Point Thomson units known under various names over the years.

Ultimately, Brooks Range made a significant discovery southwest of the Kuparuk River unit. The prospect was initially called North Tarn and later became known as Mustang. It was eventually incorporated into the Southern Miluveach unit, today still operated by Brooks Range, which brought the field online in November (see related Mustang story in this issue of Petroleum News).

Exploration license terminated

The North Nenana exploration license, terminated for failure to comply with work commitment requirements, was originally issued to Rocky Riley and later assigned by

see LEASE REPORT page 4

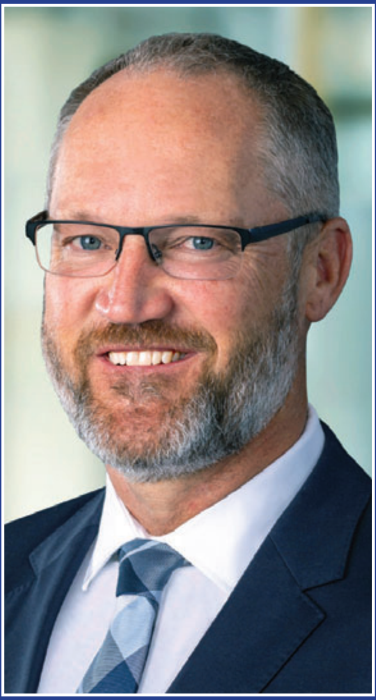
contents

ON THE COVER

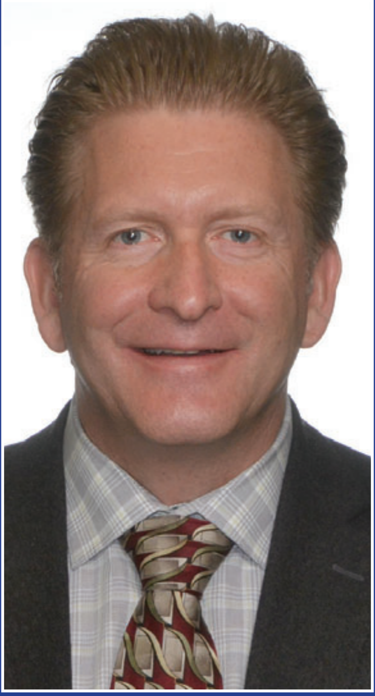
Congratulations

Hats off to Oil Search!

Congratulations to Oil Search Alaska, the first company to spud an exploration well on the North Slope this winter, and best wishes to Keiran Wulff and Bruce Dingeman, who officially assume their new roles as Managing Director of Oil Search Ltd. and President of Oil Search Alaska, respectively, on Feb. 25.



Keiran Wulff



Bruce Dingeman

ABR Inc.
Acuren
AES Electric Supply, Inc
Afognak Leasing LLC
Airgas, an Air Liquide company
Airport Equipment Rental
Alaska Dreams
Alaska Frontier Constructors (AFC)
Alaska Marine Lines
Alaska Materials
Alaska Railroad
Alaska Steel Co.
Alaska Tent & Tarp
Alaska Textiles
Alaska West Express
American Marine
Arctic Controls
ARCTOS Alaska, Division of NORTECH
Armstrong
ASTAC Broadband, LLC
AT&T
Avalon Development
Bombay Deluxe
BrandSafway Services
Brooks Range Supply
C & R Pipe and Steel
Calista Corp.
Carlile
ChampionX
Chosen Construction
Coffman Engineers, Inc.
Colville Inc.
Computing Alternatives
CONAM Construction
Cook Inlet Tug & Barge
Cruz Construction
Denali Universal Services (DUS)
Doyon Anvil
Doyon Associated
Doyon Drilling
Doyon, Limited
EEIS Consulting Engineers, Inc.
Egli Air Haul
exp Energy Services
F. R. Bell & Associates, Inc.
Fairweather
Flowline Alaska
Fluor
Foss Maritime
Frost Engineering Service Co. – NW
Fugro
GMW Fire Protection
Greer Tank & Welding
Guess & Rudd, PC
HDR Engineering, Inc.
ICE Services, Inc.
Inspirations
Judy Patrick Photography
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LONG Building Technologies
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Matson
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North Slope Telecom
North Star Terminal & Stevedore (NSTS)
Northern Air Cargo
Northern Solutions
NRC Alaska, a US Ecology Co.
Oil Search
Pacific Power Group
PND Engineers, Inc.
PENCO
Petroleum Equipment & Services, Inc.
PRA (Petrotechnical Resources of Alaska)
Price Gregory International
Raven Alaska – Jon Adler
Resource Development Council
SALA Remote Medics
SeaTac Marine Services
Security Aviation
Shoreside Petroleum
Soloy Helicopters
Sourdough Express
Strategic Action Associates
Summit ESP, A Halliburton Service
Tanks-A-Lot
The Local Pages
Thompson Metal Fab, Inc.
TOTE – Totem Ocean Trailer Express
Weston Solutions
Wolfpack Land Co.
Worley

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FURIE BUYER

An attachment to the documents listed Kachemak shareholders as: Melody Capital Partners FDB Credit Fund LLC, Melody Capital Partners Onshore Credit Fund L.P., Melody Capital Partners Offshore Credit Mini-Master Fund L.P., Melody Special Situations Offshore Credit Mini-Master Fund L.P. and any of their affiliated or other entities managed by Melody Capital Partners LP (collectively, the "Melody Lenders," and together with Melody Capital Partners L.P., "Melody") and GFR Holdings LLC, Vanco Oil & Gas Corp. and their respective affiliates.

The notice said the debtors intend to seek entry of an Approval Order, approving the debtors' entry into the acquisition agreement. Furie is also seeking for the acquirer to be approved to replace HEX as the Successful Bidder.

The debtors are moving forward with the Sale Hearing currently scheduled for Feb. 20 at 2 p.m. (prevailing Eastern Time), the notice said.

Deposit into escrow

The acquirer has made a deposit into escrow of $200,000 as part of the acquisition agreement.

In connection with the acquisition, the acquirer agrees to pay the debtors an amount equal to $2 million, to be used solely to satisfy allowed fee claims and allowed administrative claims.

According to the support declaration by Scott Pinsonnault, Furie interim COO, filed on Feb. 18, "$1,050,000 in cash will be paid to certain creditors for the benefit of the debtors to resolve matters settled pursuant to the Stipulations and Settlements."

The acquirer would waive the aggregate principal amount of loans made by Melody debtor in possession lenders under the DIP Credit Agreement.

The Pinsonnault declaration said the consideration includes forgiveness of $3 million in principal owed to the Melody Lenders under the debtors' debtor-in-possession financing facility, and that $103 million in debt secured by the assets of the reorganized debtors will be provided to the debtors' prepetition and remaining DIP lenders in full and final satisfaction of such lenders' claims.

Pinsonnault said that on Feb. 17, Melody Capital provided the debtors with financial statements and other evidence demonstrating the acquirer's ability to consummate the transaction contemplated by the Acquisition by Foreclosure Agreement.

Default declared on HEX bid

Contemporaneous with the execution of the acquisition agreement, the debtors will declare a default with respect to the HEX bid and seek appropriate relief to retain any deposit amounts received by debtors in connection with the HEX bid.

The amended notice filed by the debtors said that following the filing of the Initial Auction Notice, the debtors and HEX tried to negotiate a purchase agreement to embody the terms of HEX's bid, the terms of which were read into the record at the auction. The debtors said HEX failed to make subsequent good faith deposits on Dec. 24 or Jan. 10 or provide proof of financial wherewithal to consummate a transaction by Jan. 10, each as required under the terms of its bid.

The unpaid good faith deposits were to be $500,000 and $750,000 respectively, according to the support declaration by Scott Pinsonnault.

The Pinsonnault declaration said that during negotiations, HEX made an inquiry to Pinsonnault "as to whether the Debtors would accept a substantially reduced purchase price of $10 million for the Debtors' newly issued equity."

Subsequent to the inquiry, "the Debtors determined, in the exercise of their fiduciary duties, that HEX was unable to consummate the transactions contemplated by the subsequent HEX bid and, therefore, was no longer a Qualified Bidder."

HEX bid $15,000,010 for Furie's assets according to a Dec. 6 notice filed in the U.S. Bankruptcy Court for the District of Delaware, which noted that the transaction with the successful bidder will be a purchase of equity securities through a plan of reorganization.

Following the auction, the debtors selected Energy Capital Partners Mezzanine Opportunities Fund A LP, debtor-in-possession agent and prepetition term loan administrative agent, as the alternate bidder.

That arrangement has been vacated, according to the Feb. 18 amended notice.

"In light of the superior offer received from the acquirer, and in exchange for certain financial accommodations, the debtors and ECP have agreed to allow ECP to withdraw as the alternate bidder," the notice said.

Lawsuits and objections settlement hearing expedited

On Feb. 19, Judge Laurie Selber Silverstein signed an order entitled Order Granting Debtors' Motion for (I) a Shortened Notice and Objection Period, (II) an Expedited Hearing, and (III) an Expedited Ruling With Respect to Debtors' Motions Pursuant to Rule 9019 and Bankruptcy Code Section 105(a) for Approval of the Settlement Between the Debtors and APC and the Settlements Between the Debtors, the Lender Parties, the Buyer, the Webb Litigants, and the RWIO Litigants.

The order will fast-track the settlement motions to a hearing on March 4 at 2 p.m. Eastern Time. Objections or responses to the motions must be made by March 2 at 2 p.m. Eastern Time.

The court found that the relief in the motion was in the best interests of the debtors' estates, the creditors, and other parties in interest.

The debtors' motion for approval of the Settlement Between the Debtors, the Lender Parties, the Buyer, the Webb Litigants, and the RWIO Parties was filed on Feb. 18.

Also on Feb. 18, pursuant to the Settlement Agreement and Mutual Release, counsel for Giza Holdings LLC; Taylor Minerals LLC; Allen Lawrence Berry; the 2007 Allen Lawrence Berry Trust; and Danny Davis withdrew the objections of the royalty and working interest owners (RWIO Litigants) — filed on Dec. 17 — which might have stood in the way of closing the sale of the debtors' assets.

Assuming that the settlement agreement and the acquisition agreements are approved by the bankruptcy court, it would appear that the closing of the asset sale

see **FURIE BUYER** *page 7*

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LEASE REPORT

him to Tolovana Energy at his Fairbanks address.

In Alaska's Eastern Interior, the 5-year license under ADL file 392535 carried a $500,000 work commitment.

The license covered 25,294 acres in the Minto Flats State Game Refuge and was some 35 miles south and west of Fairbanks close to the Parks Highway and on the northern margin of the Nenana basin.

Administered by the division, the exploration licensing program's objective is to encourage oil and gas exploration in areas far from existing infrastructure, areas with unknown hydrocarbon potential and where there is a higher investment risk to the operator.

The licensee has the exclusive right to explore for oil and/or gas in the license area, requiring a one-time $1 per acre fee and a specified minimum to be spent, a work commitment, on exploration. An annual report is due on the license showing direct expenditures. ●

Contact Kay Cashman at publisher@petroleumnews.com

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DERAILMENT TROUBLES

The new speed limits of 20 miles an hour in cities and 25 mph for other areas was scheduled to last until March 3, though Garneau said it could be lengthened pending results of the government inquiry, which will attempt to establish whether there is a link between the two events.

Canadian National Railway, CN, the other of Canada's two leading railroads, said the order "will have a material impact on our overall capacity unless we take steps to protect network fluidity," adding that crude shippers must apply to CN for permits to move crude and other flammable liquids.

Volumes up sharply

The volumes of crude moved in the final quarter of 2019 rose sharply, driven by a shortage of pipeline capacity and the easing of Alberta's production limits, with CP estimating it moved a record of about 23.4 million barrels in the period.

In late 2019, oil producers said they were scrambling to round up additional cars in anticipation of further relaxation of the Alberta government's quota, which was set at 3.8 million barrels per day in November.

Energy Minister Sonya Savage said the companies could apply for higher production limits if they could demonstrate their ability to ship all of the additional volumes by rail without using pipelines.

Suncor Chief Executive Officer Mark Little said his company had contracted rail cars to ship another 30,000 bpd, while Cenovus Chief Executive Officer Alex Pourbaix said his company planned to increase its rail shipments to 100,000 bpd from 80,000 bpd.

Imperial Chief Executive Officer Brad Corson said it made good sense "for us to ship barrels on the rail" and expects shipments out of its Edmonton Rail Terminal to exceed 100,000 bpd.

He was encouraged by comments from the Alberta government that it expected to eliminate the production curtailment by the end of 2020.

Capacity estimated at 300,000 bpd

The Alberta government estimates railroads have the capacity to transport up to 300,000 bpd out of the province.

Canadian Natural Resources Ltd. was non-committal about signing more CBR contracts. President Tim McKay said there was no problem getting crude onto the rail, but beyond that point there were difficulties settling on a destination and uncertainties about the cost of unloading.

Alberta Premier Jason Kenney has indicated the province is on the verge of selling CBR contracts that his predecessor Rachel Notley signed a year ago to lease 4,400 tanker cars capable of transporting 120,000 bpd at a cost of C$3.7 billion over three years.

Kenney, having pledged to scrap those deals, said earlier in February that his government has sold off C$10 billion in CBR contracts to private companies, at a cost to taxpayers of about C$1.3 billion.

The importance of accessing markets was underscored in new statistics released by Export Development Canada, which estimated that energy accounts for 19% of Canada's exports, topping the list of commodities, followed by automobiles and parts at 13%, ores and minerals at 12% and agriculture products at 10%. ●

Contact Gary Park through publisher@petroleumnews.com

EXPLORATION & PRODUCTION

US drilling rig count again steady at 790

For the second week in a row the U.S. drilling rig count has held steady at 790.

Baker Hughes reports the number of rigs drilling for oil and natural gas in the U.S. the week ending Feb. 14 is unchanged from the previous week; it is also unchanged from two weeks ago, although the count is down by 261 from 1,051 a year ago.

In its weekly rig count the Houston oilfield services company said 678 rigs targeted oil, up two from the previous week and down 179 from a year ago, while 110 targeted natural gas, down one from the previous week and down 84 from a year ago. There were two miscellaneous rigs active, down one from the previous week and up by three from a year ago.

The company said 47 of the holes were directional, 713 were horizontal and 30 were vertical.

The rig count in Texas, the state with the most active rigs at 397, was up three from the previous week.

The New Mexico rig count was up by one.

Rig counts were unchanged from the previous week in California, Colorado, Louisiana, North Dakota, Ohio, Oklahoma, Utah and West Virginia.

Alaska, Pennsylvania and Wyoming were each down by one rig from the previous week.

Baker Hughes shows Alaska with nine rigs active for the week ending Feb. 14, down three from a year ago.

The U.S. rig count peaked at 4,530 in 1981. It bottomed out in May 2016 at 404.

—KRISTEN NELSON

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BOND INCREASES

hearing that the companies were no longer requesting consolidation.

The company had different requests for the two companies — Savant operates the Badami field on the North Slope and CIE operates three Cook Inlet area fields.

In its July notice to Savant on the increased bonding requirement, the commission cited 12 wells at Badami.

Elliott said Glacier was very supporting of the commission's goals with bonding — the state shouldn't have to bear the P&A burden, he said.

But bonding is difficult for small companies because of the exceptionally high cost of bonds, which basically require, for small companies, that cash be deposited into dedicated bank accounts. That, Elliott said, is cash the company doesn't have to invest.

With 12 wells at Badami the total bond requirement would be $6 million, the amount required for 11 to 40 wells.

But Elliott said that not only did BP drill most of the wells at Badami, it retained the plug and abandon obligation for seven of those wells, an obligation spelled out in the 2011 sales agreement. Elliott said he would provide the commission with a redacted copy of that portion of the agreement.

Savant is responsible for just five wells, which brings the $6 million bonding requirement specified by the commission down to $2 million, which, Elliott said, is reasonably close to the estimate the company has to P&A, which is just under $3 million for all obligations for DR&R, dismantling, removal and restoration, at the field.

Commission production data for December, the most recent posted, shows 11 wells in production at Badami; the twelfth is an injector.

Elliott said it only assumed responsibility for wells it drilled or reentered: Savant had reentered two wells originally drilled by BP, and drilled three, so is responsible for five wells.

The commission wanted to know what would happen after the sale of BP's Alaska assets to Hilcorp. Elliott said the Badami obligation would not be extinguished and said he would ask BP to confirm that.

Elliott requested that the commission consider other bonding obligations it has in place for Badami, $2.345 million with the Department of Natural Resources for the Badami wells and $615,000 with DNR for facilities, for a total of $2.96 million for DR&R at the field.

He said Savant Alaska has cash deposits of $1.498 million toward the DNR obligation, in addition to a $500,000 DNR bond, in addition to its existing $200,000 AOGCC bond (the former bonding amount covering all an operator's wells in the state), and asked the commission to consider the bonds already in place for Badami.

The amount of the DNR bonding has recently been increased and the commission wanted confirmation from DNR on the amount in place, as well as information on what would happen to the BP obligation at Badami after the sale to Hilcorp. The hearing record was left open until March 25 to allow Savant to submit that information.

Cook Inlet Energy

Elliott said Cook Inlet Energy, also a Glacier company, operates three units in Cook Inlet: North Fork, Redoubt and West McArthur River, and has 25 permitted wells. He said the commission cited 26 wells but said one of those was plugged and abandoned when a sidetrack was drilled, reducing the number of wells to 25.

The commission's new bonding requirement would be $6 million, $5.8 million in additional bonding on top of the $200,000 statewide bond CIE already holds.

He said CIE's view is that the amount is reasonable, but said CIE is asking for credit for DNR and U.S. Environmental Protection Agency bonds already in place and which are available for well abandonment work.

CIE has a $500,000 statewide bond in place with DNR for plugging and abandonment of wells and a $324,000 bond in place with EPA for plugging and abandoning the WMRU 4D and Redoubt-D1 disposal wells.

Elliott said CIE does not request that the commission reduce the amount of bonding required, but requests that it recognize the $824,000 in bonds CIE already has in place, which together with its existing $200,000 AOGCC bond, would reduce the outstanding bonding obligation under the commission's new regulations to $4.976 million.

Savant has a separate bond with DNR for abandonment of the Osprey platform and pipelines, but Elliott said that bond excludes wells.

AIX Energy

Wendy Sheasby, chief financial officer of AIX Energy, operator of the Kenai Loop field, told the commission by phone in a Feb. 13 hearing that AIX bought Kenai Loop out of bankruptcy from Buccaneer in 2014. There are two producing gas wells in the field and 5 years of remaining economic life at the field, she said.

AIX has an existing $200,000 statewide bond from AOGCC, a $500,000 statewide DNR bond and a $950,000 of financial security in place to the benefit of the Alaska Mental Health Trust Land Office to satisfy its DR&R bonding obligations for the four wells, a total of $1.65 million.

At $400,000 each for four wells, the commission's new bonding requirement would be $1.6 million.

Sheasby said the cost estimate to P&A the field's four wells is $1,037,166 based on engineering data submitted to the commission and noted that the since the gas field is in the Kenai Industrial Park there are good logistics for P&A work.

She also noted the commission's 2019 decision on the Northern Dancer well, which held the Mental Health Trust Land Office, the landowner, liable for P&A of that well, and said the state would look to the landowner if AIX failed.

AIX believes it has sufficient bonding in place, Sheasby told the commission, and is looking to eliminate any redundancy.

The commission asked Sheasby to secure from the Mental Health Land Office in writing the specific uses to which that $950,000 bond could be put and kept the hearing record open until March 5 for that purpose.

Amaroq: round two

Amaroq Resources and the commission already had issues over bonding.

In 2017 Amaroq, then Aurora Exploration, acquired the Nicolai Creek gas field from Aurora Gas for $100,000 in a bankruptcy. The commission, concerned about wells Aurora Gas had on other acreage, said that before it would approve a handover to AE as operator, AE would have to plug and abandon wells at Three Mile Creek, wells AE was not acquiring, or provide a $600,000 bond. At that time, the commission's bonding was $100,000 for a single well and $200,000 for multiple wells.

AE fought the commission in bankruptcy court, which sided with AE. The company also filed an administrative agency appeal against the commission in state court. A December 2017 settlement agreement resolved both the bankruptcy issue and state administrative appeal between AE and the commission, Amaroq said in an extensive prehearing brief, filed prior to its Feb. 18 reconsideration hearing. But, it said, the appeal raised 17 issues, "many of which overlap with the present motion for reconsideration."

Amaroq said that in addition to the AOGCC bond, it was required to have a DR&R, dismantlement, removal and restoration, agreement with the Alaska Department of Natural Resources.

In early July 2019 Amaroq received a letter from DNR about the new AOGCC bonding requirements, notifying it that its DR&R agreement with DNR "might not be sufficient satisfaction or substitute for AOGCC's new bonding requirements. The DNR also indicated that there may be some relief available from double bonding requirements for plugging and abandonment requirements," the company said in its prehearing brief.

AOGCC notified Amaroq in early July that its new bonding requirement was $2.4 million (six wells at $400,000 each, per the new bonding regulations). Since Amaroq already had a $200,000 bond, an additional $2.2 million was required, which could be paid in four annual installments.

Amaroq's DR&R agreement with DNR requires a trust account at a bank for the benefit of DNR, with funds under exclusive control of DNR and funding required over a five-year period in an amount determined by an independent third party to be sufficient to cover DR&R costs at Nicolai Creek after production ceases.

This trust account is in addition to the $500,000 bond held by DNR; those funds would be released to Amaroq once AOGCC certifies that Amaroq has plugged and abandoned the Nicolai Creek wells to the commission's satisfaction.

Amaroq said Solsten XP was hired to determine total DR&R costs at Nicolai Creek, and estimated $819,600.

Issues cited by Amaroq

The company said it had five legal issues and a number of factual ones relating to the bonding increase.

Since AOGCC previously settled bonding requirements for Nicolai Creek with Amaroq, applying the new bonding requirements "violates an existing settlement agreement," the company said, arguing that since the issue had been "resolved by a court of competent jurisdiction" the parties are bound by that decision in similar cir-

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FURIE BUYER

could proceed fairly rapidly.

Furie, headquartered in Anchorage, filed a voluntary petition for Chapter 11 in the U.S. Bankruptcy Court for the District of Delaware Aug. 9, 2019, listing about $450 million in debt. The company said it planned to sell its assets, which it listed on its petition with an estimated value of less than $50 million, by early January 2020.

Furie listed two affiliates on the petition — its parent company Cornucopia Oil and Gas Co. LLC and Corsair Oil and Gas LLC.

Furie holds a majority working interest in 35 competitive oil and gas leases in Cook Inlet. Its offshore natural gas production platform is connected to a subsea pipeline that delivers natural gas directly to an onshore processing facility.

Gas discovery in 2011

The company, then named Escopeta Oil, made a large natural gas find in late 2011, which led to the installation of the natural gas production platform in 2015.

Installation of the production platform, however, stressed the company's finances.

It was scheduled for installation — and it did arrive — in Cook Inlet in 2014, but it arrived late in the season thus installation was delayed. The company was forced to transport the platform component package back to Seattle, to sit on the back of its transport barge until a return to Alaska in 2015.

The heavy lift vessel for placing the platform on the seafloor also arrived in Cook Inlet in 2014, but it too had to leave and redeploy to Alaska in 2015.

The field went online in December 2015. Instead of producing first gas in late 2014 as planned, Furie instead suffered substantial cost overruns on the project.

The Kitchen Lights unit was assembled by former Escopeta Oil President Danny Davis of Houston, Texas. Originally, Escopeta's target in the acreage was oil, however, natural gas as a by-product was eyed as a solution to the gas shortage that gripped the Cook Inlet region in the early 2000s, according to historic interviews with Petroleum News.

Under subsequent management, Furie was unable to drill successfully to depths that were thought to hold oil deposits and it shifted its focus to exploiting the natural gas discovery.

Reliable sources have told Petroleum News that Kachemak Exploration intends to — and has the means to — vigorously explore for oil in the KLU. ●

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BOND INCREASES

cumstances.

Amaroq said the "additional bonding requirement is not reasonable or based upon any articulable facts"; said the Solsten XP DR&R estimate included plugging and abandonment of the wells; and said the commission "has not solicited, opined, or challenged any of Amaroq's factual contentions or estimates." The company said the new regulations place the onus on the operator to challenge the increased bonding requirement, "rather than placing the burden on the agency to first prove the necessity of the bond."

The company argued that the additional bonding requirements "impermissibly retroactively applies a new bond requirement that was not in effect when Amaroq acquired the leases," and said in Alaska law "no statue is retroactive unless expressly declared therein."

"By settling its earlier claims, Amaroq and the AOGCC resolved their issues on the necessity of the bond regardless of subsequent regulatory enactments," the company said.

The company said the new AOGCC requirement is a 12-fold increase in the bonding requirement, drastically exceeds the DNR requirement, "is not supported in fact" and is a regulatory taking, which "could easily render Amaroq illiquid, torpedo its attempts to develop the Nicolai Creek Unit, and put Amaroq out of business."

The company said AOGCC's jurisdiction "is not exclusive," since "DNR has standing before the commission to raise all issues related to state-owned land." DNR has overlapping bonding authority, Amaroq said, noting that DNR has said the agencies should work together on the overlap in requirements.

"The DNR has already warned that 'this Regulation goes too far, by orders of magnitude,'" Amaroq said, citing DNR's concerns that the new regulatory requirements are "unduly burdensome" on existing producers and detracts from new regulation in the state.

Amaroq also argued that the new regulation "places a disproportionate bond requirement on small scale producers." ●

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CONOCO INCOME

Total company production of 1,348,000 barrels of oil equivalent per day increased 5% in 2019 compared with 2018.

The increase in total average production primarily resulted from new wells online in the Lower 48; an increased interest in the Western North Slope and Greater Kuparuk Area of Alaska following acquisitions closed in 2018; and higher production in Norway, the company said.

Alaska operations contributed 25% of the company's worldwide liquids production and less than 1% of natural gas production. Average Alaska daily net liquids production averaged 217,000 barrels per day in 2019.

The average sale price of Alaska crude oil (per barrel) was $ 64.12 in 2019, $70.86 in 2018 and $53.33 in 2017.

—STEVE SUTHERLIN

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INSIDER

side of Cook Inlet and the North Fork unit on the southern Kenai Peninsula. Through its subsidiary Savant Alaska, Glacier operates the Badami unit on the North Slope.

Brian Webb, Glacier's health, safety, security, training, emergency response manager, designed the compact employee-driven program six years ago when he first went to work for CIE. (Shortly thereafter CIE, Savant, Anchor Point Energy and Nutaaq Pipeline became Glacier subsidiaries.)

The company's OSHA incident rate is particularly commendable because while it's comparatively easy for a large producer to attain a 0.0 rate, it is much tougher for a small company because of the way OSHA calculates incident rates, which allow the big firms to absorb some incidents and still maintain a near perfect rate.

So, what's Glacier's secret?

"We're not top heavy," Webb said. "Our workers have direct access to me. I sleep with my cell phone. … They can call me 24/7 and I'll cheerfully answer the phone."

"Our guys actually have a say in the program. We've been able to fix things immediately without having to sit down with committees," he said. "It's easy, simple and it gets results. We're the envy of the Alaska chapter of safety professionals."

Webb manages the program, but Glacier's workers "realize they run the system. They bought into it and made it theirs," he said.

Also, Webb said management at Glacier "supports the system. That's why I've been working here for six years."

Perhaps that sentiment is best expressed by Lance Anderson, lead operator on Redoubt's Osprey Platform, in a quote at the end of Webb's emails: "Train your people so they can go anywhere but treat your people well enough so they never want to."

—KAY CASHMAN

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ENERGY TRANSITION

Concession from hardline party

That concession by his hardline United Conservative Party government leaves outsiders to scratch their heads and rethink new polling information from Abacus Data-Clean Energy Canada that show 68% of Canadians and the same percentage of Albertans view Kenney as inflexible when it comes to oil sands development.

In the same poll, 60% of Albertans — another shock for those who have a fixed idea on the entrenched mindset in Alberta — want Kenney to find ways to shift the province's economy to green over time.

For some observers, this apparent about face by Kenney is seen as a cynical ploy to sway the cabinet of Prime Minister Justin Trudeau into approving Teck Resources' Frontier oil sands mine, although the premier has given no sign he is ready to adopt the federal carbon tax in return for a Frontier go-ahead.

Kenney also said he understands that the most influential investors and energy companies are rapidly shifting their alliances to jurisdictions that favor strong green agendas.

"We get it. There is a transition going on," he said, while noting that the International Energy Agency, in its most bearish projection, estimates global consumption of oil will be 68 million barrels per day in 2040, about 31 million bpd below current levels, while natural gas output will have doubled.

But he is eager to see Alberta play a vital role in the growth of renewable energy and the green of non-renewable sources as fossil fuel energy producers

Kenney also said he understands that the most influential investors and energy companies are rapidly shifting their alliances to jurisdictions that favor strong green agendas.

commit themselves to net-zero carbon emissions.

Kenney put the spotlight on what he estimated are renewable energy projects valued at "billions of dollars" in Alberta, including a Travers Solar Energy Project near Calgary which has attracted C$500 million of investment from Denmark.

He said there are two schools of thought in the world — one he described as a utopian notion that energy needs can be extracted from "rainbows and unicorn farts" and the other that believes hydrocarbon-based energy will be consumed over another 20 to 30 years, while modern development economies will develop "energy sources we haven't even considered yet."

Oil sands still an issue

However, this apparent greening of Kenney is not about to see him lay down his arms in the battle with Trudeau, especially over the estimated oil sands emissions.

Alberta has insisted that the Teck Frontier project can proceed without endangering the province's pledge to keep its greenhouse gas emissions under 100 million metric tons a year.

Frontier is targeted at 4.1 million metric tons a year and could achieve even less if the company delivers on its started target of net-zero emissions for all of its global projects by 2050.

Federal Environment Minister Jonathan has argued that if all the 20-plus oil sands projects that have been approved and are awaiting construction do go ahead Alberta will reached 130 million metric tons a year of emissions.

But that depends on whose current estimates are believed — Alberta's claim that current output is 68 million metric tons and the federal data projects this year's output will be 87 million metric tons and will hit the province's ceiling within a decade even if no new projects are built.

—GARY PARK

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