Petroleum news

page 6 ANS September production up 19% from August; Cook Inlet down by 1%

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Tom Stokes appointed acting director of Division of Oil & Gas

TOM STOKES

Tom Stokes was appointed acting director of the Alaska Department of Natural Resources' Division of Oil and Gas on Oct. 28, DNR Commissioner Corri Feige told Petroleum News Oct. 30.

Stokes had been the department's state pipeline coordinator, and before that worked 28 years for Alyeska Pipeline Service Co. in support, compliance and operational assignments including director of the Valdez Marine Terminal and director of compliance.

In his role as acting division director, Stokes will supervise

see STOKES page 14

Revised deal for Chugach Electric purchase of ML&P under review

Following disagreements among the various stakeholders in the proposed purchase of Anchorage electric utility Municipal Light & Power by Chugach Electric Association, the parties in a Regulatory Commission of Alaska hearing into the deal have filed agreed changes to the terms of the purchase.

The board of Chugach Electric has also approved the changes. The Anchorage Assembly was scheduled to determine on Oct. 31, after Petroleum News went to press, whether to agree to the changes — the Municipality of Anchorage owns ML&P. The state's Regulatory Affairs and Public Advocacy Section has yet to determine its view on the new proposals.

see REVISED DEAL page 14

Oil Search files Mitquq, Stirrup operation plans for winter drilling

Oil Search has filed proposed lease plans of operations for two wells it wants to drill and test on the North Slope this winter — Mitquq 1 and Stirrup 1. The company also expects to sidetrack the Mitquq prospect well.

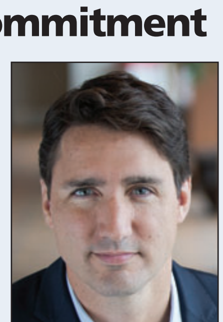
The wells will test Nanushuk analogues east of the Pikka unit with Mitquq 1, and west of the Horseshoe Block with Stirrup 1 (see Oil Search map in pdf version of this story, note Horseshoe 1 and 1A well date should be 2017, not 2015).

A public notice was issued for Oil Search's proposed lease plans of operations Oct. 30 on the Alaska Department of Natural Resources' Division of Oil and Gas website, with the comments due in by 4:30 p.m., Alaska Standard Time, Dec. 2.

Both the wells will be drilled from ice pads on state land

see DRILLING PLANS page 14

Promises, promises on TMX; Trudeau makes third commitment



JUSTIN TRUDEAU

Heard this one before?

Canadian Prime Minister Justin Trudeau says he wants the Trans Mountain pipeline expansion, TMX, completed as "quickly as possible," though the project has no chance of coming online before mid-2022.

It's the third time he has made the pledge, but his circumstances have been drastically altered since the first two promises, with the federal election on Oct. 21 removing his ability to control TMX, despite the government being the outright owner of the facility.

Trudeau is now dependent on the socialist New Democrats and Greens to provide enough votes to ensure the passage of any

see TRUDEAU PLEDGE page 13

FINANCE & ECONOMY

Big 3 drive Conoco

Third quarter results show Alaska's competitors fuel ConocoPhillips spending

By KAY CASHMAN

Petroleum News

MATT FOX

MICHAEL D. HATFIELD

The key takeaways for Alaska from the ConocoPhillips' third quarter investor presentation Oct. 29 were Hilcorp will likely be the new operator of the Prudhoe Bay unit after its acquisition of BP's Alaska assets closes in 2020, and that this coming winter will be ConocoPhillips' busiest winter season ever on the North Slope.

When asked whether there will be any operating changes or upsides in Alaska with BP exiting and a new partner coming in, particularly in light of the fact the company had already spent almost all of its full year Alaska budget, Michael Hatfield said the transition from BP to Hilcorp was still in "early stages" pending the close of the transaction, but that Hilcorp has a "track record" in Alaska of rejuvenating mature fields, reducing lifting costs, and increasing development activity and production.

"So, we expect to see a reduction in operating costs and a renewed focus on investment," said

see CONOCO Q3 RESULTS page 10

EXPLORATION & PRODUCTION

Furie POD extension?

Chapter 11 proceedings stifle new development or exploration commitments at KLU

By STEVE SUTHERLIN

Petroleum News

Furie Operating Alaska LLC, in an Oct. 4 letter signed by counsel Jon Iversen of Stoel Rives LLP, has requested an extension of its existing plan of development for the Kitchen Lights unit, located offshore in upper Cook Inlet.

Furie, headquartered in Anchorage, was required to submit its seventh POD by Oct.7, however the company filed a voluntary petition for Chapter 11 in the U.S. Bankruptcy Court for the District of Delaware Aug. 9, thus it has asked the state Division of Oil and Gas to allow the current POD to stay in place until its bankruptcy proceedings are resolved.

Furie's existing POD will likely be extended as requested. This was the policy of the division when Aurora Gas LLC, which operated Nicolai Creek unit on the west side of Cook Inlet, was going through bankruptcy in 2016-17.

Operations and production from the company's Julius R natural gas platform continue, but Furie is unable to commit to development expenditures such as drilling new wells until bankruptcy proceedings have cleared.

"Due to the current Chapter 11 proceedings that may result in new ownership of the company or the KLU assets, Furie cannot at this time reasonably or credibly commit to additional development or exploration activities that may change with changes in ownership," Iversen said. "Accordingly, Furie hereby

see POD EXTENSION page 11

GOVERNMENT

Bond hearings scheduled

AOGCC to hear appeals from operators on its increase in required well bonding

By KRISTEN NELSON

Petroleum News

The Alaska Oil and Gas Conservation Commission raised bonding requirements for wells in Alaska earlier this year, intended to deal with the potential that operators would abandon wells, leaving the state to foot the cost for plugging and abandonment which could be many times the existing bond requirement of $100,000 for a single well and $200,000 for multiple wells.

The new regulations went into effect in May. In July, the commission notified companies with permitted wellheads of the amount of additional bonding required, which is based on the number of permitted wellheads: $400,000 per well for one to 10 wells; $6 million for 11-40 wells; $10 million for 41-100 wells; $20 million for 101-1,000 wells; and $30 million for more than 1,000 wells.

The commission has set dates for the first three hearings; it has other appeals, but dates for those hearings had not been set when this issue of Petroleum News went to press.

A number of companies have appealed the new amounts.

The commission has set dates for the first three hearings; it has other appeals, but dates for those

see BOND HEARINGS page 16

● PIPELINES & DOWNSTREAM

Unocal, other owners, reach TAPS agreement

By KRISTEN NELSON
Petroleum News

Unocal Pipeline Co. suspended its operations on the Trans Alaska Pipeline System in 2012, requesting authorization from the Regulatory Commission of Alaska temporary suspension of its share of pipeline capacity, "pending the finalization of the sale of its ownership interest." Unocal had the smallest interest of any of the owners, just 1.36%, the company told RCA, and said its share could be sold or transferred to "a third party, another TAPS Owner, or all of the remaining TAPS owners."

Since 2012, Unocal has been in discussions with the other owners (BP Pipelines (Alaska) Inc., Exxon Mobil Pipeline Co. and ConocoPhillips Transportation Alaska Inc.)

In September Unocal told RCA that issues around sale of its share of TAPS "have been resolved" and said it was working with other entities on a joint application to the commission on the transfer of its TAPS shares.

That application, dated Oct. 21, is now in the hands of the commission, which said in an Oct. 28 public notice that while it had not assessed completeness of the application or ruled on a motion for waiver, it would rule on the petition for waiver and determine if the application is complete by Dec. 18.

Proportional shares

The parties said in the application that agreement was reached for the remaining TAPS carriers to acquire Unocal's share in a ratio comparable to their existing ownership percentages. In addition to approval of the transfer of operating authority for Unocal's shares, the application also requests amendment of certificates of public convenience and necessity to reflect the new ownership positions.

In a separate motion the parties requested expedited consideration.

The parties said, "Unocal and the Remaining TAPS Carriers engaged in a protracted dispute concerning matters related to the transfer of Unocal's interest in TAPS, which involved litigation in the Texas courts." All of the disputes have recently been settled.

The application does not disclose the nature of those disputes.

The proposal says each of the remaining carriers "will acquire a portion of Unocal's interest proportionate to its ownership interest in TAPS, with slightly different shares of the Pipeline Assets and Terminal Tankage."

Unocal's share of the pipeline is 1.3561%.

BP's current pipeline ownership is 48.441% and it acquires an additional 0.6659% for a new total of 49.1069%. ConocoPhillips has 29.2086%, acquires an additional 0.4016% for a total of 29.6102%. ExxonMobil has 20.9943% and acquires an additional 0.2886% for a new total of 21.2829%.

Terminal tankage ownership percentages are slightly different: Unocal ownership there was 1.666%.

BP has 47.5881%, acquires 0.8033% for a total of 48.3914%. ConocoPhillips has 28.1267%, acquires an additional 0.4748% for a total of 28.6015%. ExxonMobil has 22.6252%, acquires 0.3819% for a total of 23.0071%.

Other approvals

The application says Unocal is also working to obtain approval from the federal Bureau of Land Management to transfer its interest in the federal TAPS right of way grant to the remaining carriers. State approval is not required, the application says, but Unocal has notified the Alaska Department of Natural Resources of the pending transfer.

In a separation motion for expedited consideration the

see **TAPS AGREEMENT** *page 4*

contents

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Alaska - Mackenzie Rig Report

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Milne Point, M-17	Hilcorp
Dreco 1000 UE	16 (SCR/TD)	Standby	
Dreco D2000 Uebd	19 (SCR/TD)	Standby	
AC Mobile	25	Alpine, CD5-26	ConocoPhillips
OIME 2000	141 (SCR/TD)	Alpine, CD4-594	ConocoPhillips
	142 (SCR/TD)	Kuparuk 3R-111	ConocoPhillips
TSM 700	Arctic Fox #1	Standby	
Hilcorp Alaska LLC	Rig No.1	Milne Point	Hilcorp Alaska LLC
Kuukpik Drilling	5	Deadhorse	Available
Nabors Alaska Drilling			
AC Coil Hybrid	CDR-2 (CTD)	Deadhorse Z-25	BP
AC Coil	CDR-3 (CTD)	Kuparuk 1F-07	ConocoPhillips
Dreco 1000 UE	7-ES (SCR-TD)	Kuparuk Stacked	ConocoPhillips
Mid-Continental U36A	3-S	Stacked	Available
Oilwell 700 E	4-ES (SCR)	Stacked	Available
Dreco 1000 UE	9-ES (SCR/TD)	Stacked	ConocoPhillips
Oilwell 2000 Hercules	14-E (SCR)	Deadhorse	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked	Brooks Range Petroleum
Oilwell 2000 Canrig 1050E	27-E (SCR-TD)	Stacked	Glacier Oil & Gas
Oilwell 2000	33-E	Deadhorse	Available
Academy AC Electric CANRIG	99AC (AC-TD)	Stacked	Repsol
OIME 2000	245-E (SCR-ACTD)	Stacked	ENI
Academy AC electric CANRIG	105AC (AC-TD)	Stacked	Oil Search
Academy AC electric Heli-Rig	106AC (AC-TD)	Stacked	Great Bear Petroleum
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Deadhorse	Available
Superior 700 UE	2 (SCR/CTD)	Deadhorse, stacked	Available
Ideco 900	3 (SCR/TD)	Charlie #1	Accumulate Energy Alaska
Rig Master 1500AC	4 (AC/TD)	Oliktok Point	ENI
Parker Drilling Arctic Operating LLC			
NOV ADS-10SD	272	Prudhoe Bay S-202	BP
NOV ADS-10SD	273	Stacked in Deadhorse	Available

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
BP			
Top Drive, supersized	Liberty rig	Inactive	BP
Doyon Drilling			
Sky top Brewster NE-12	15 (SCR/TD)	Spy Island SP03-NE2	ENI
Nabors Alaska Drilling			
OIME 1000	19AC (AC-TD)	Oooguruk Stacked	Caelus Energy LLC

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
BlueCrest Alaska Operating LLC			
Land Rig	BlueCrest Rig #1	Anchor Point, drilling production section of H14	BlueCrest Alaska Operating LLC
Glacier Oil & Gas	Rig 37	West McArthur River Unit Workover	Glacier Oil & Gas
All American Oilfield LLC			
IDECO H-37	AAO 111	North Slope stacked	Available
Hilcorp Alaska LLC			
TSM-850	147	Stacked	Hilcorp Alaska LLC
TSM-850	169	Stacked	Hilcorp Alaska LLC

Cook Inlet Basin – Offshore

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

Mackenzie Rig Status

Canadian Beaufort Sea

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

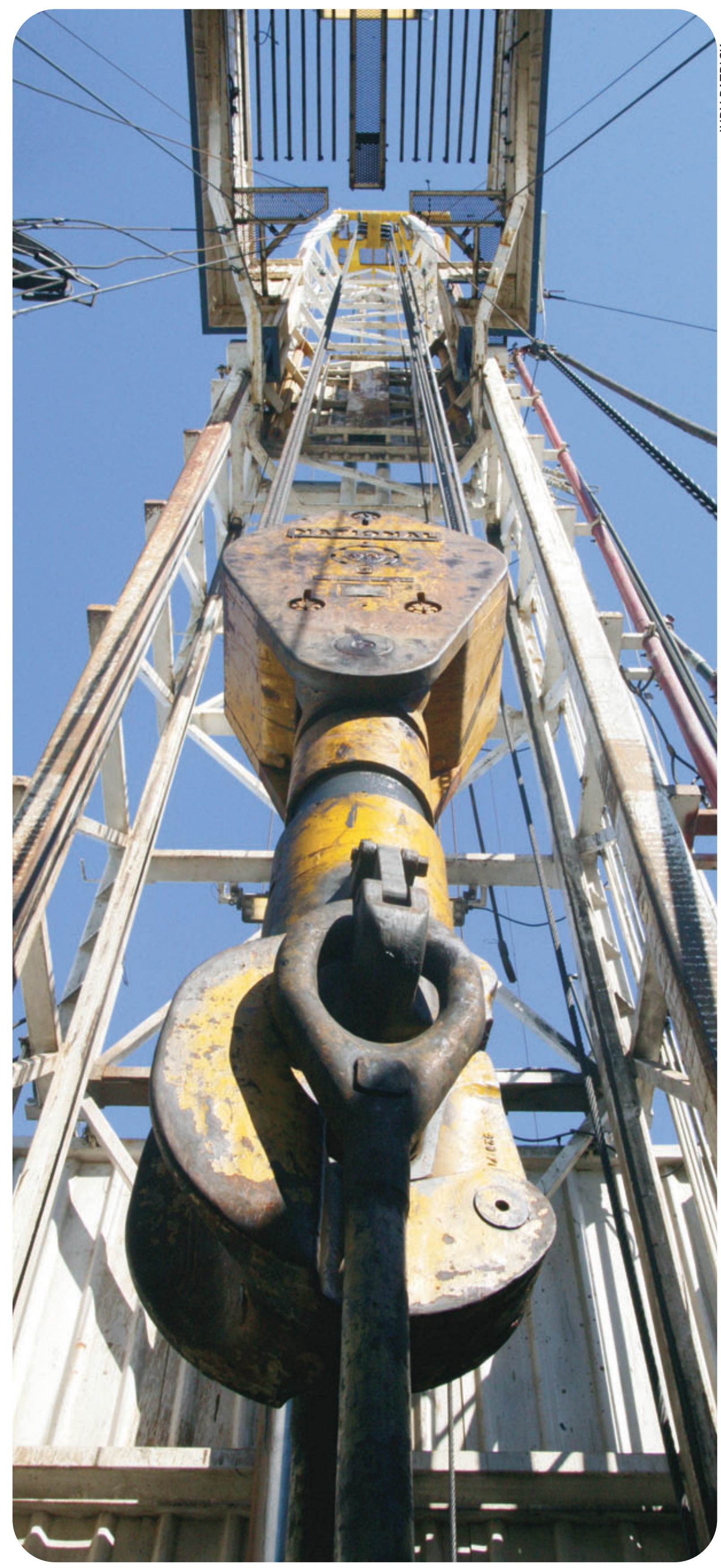
Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Akita			
TSM-7000	37	Racked in Norman Wells, NT	Available

The Alaska - Mackenzie Rig Report as of Oct. 29, 2019.
Active drilling companies only listed.

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

This rig report was prepared by Marti Reeve



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	Oct. 25	Oct. 18	Year Ago
United States	830	851	1,068
Canada	147	143	200
Gulf of Mexico	20	21	18

Highest/Lowest

US/Highest	4530	December 1981
US/Lowest	404	May 2016

*Issued by Baker Hughes since 1944

● GOVERNMENT

Alberta embraces austerity

Kenney government clings to hope of increased O&G production, new pipelines, higher royalties; sees no budget surplus before 2023

By GARY PARK
For Petroleum News

Travis Toews, finance minister in the freshly minted Alberta government of Premier Jason Kenney, introduced his first budget with a blunt understatement: "This is not a boom-time scenario."

The forecast for the next five years includes a modest recovery for the province's petroleum sector, stemming from hopes of rising oil and natural gas production, new pipelines (Trans Mountain expansion, TC Energy's Keystone XL and Enbridge's Line 3) and higher royalties.

But Toews' message of restraint echoed through the budget, which targets a return to a C$600 million surplus in 2022-23 as the province claws its way out of Alberta's own recession that will result in deficits of C$8.7 billion, C$5.9 billion and C$2.6 billion over the next three fiscal years.

The government expects the economy and employment will get better next year, with jobless numbers dipping below 6% in three years as housing starts and retail sales edge up.

Risks ahead

But it concedes there are risks, including downturns in commodity prices, the possibility of a global recession and ongoing policy and regulatory barriers, such as a continuation of opposition to new oil pipelines.

In an effort to head off those negatives, Toews announced deep cuts involving a widespread spending freeze, government layoffs and warnings of worse to come if new pipelines aren't built.

The first round outlines C$1.3 billion in cuts and the elimination of 2,100 public-sector jobs (7.7% overall), setting the stage for showdowns with public unions.

The plan to shrink operating expenses will lower the predicted debt of C$97 billion in 2023 by C$4 billion.

The government expects that increased pipeline capacity and crude-by-rail shipments will boost crude oil production by 178,000 barrels per day, while in-situ production is targeted to add another 197,000 bpd, raising overall output to 4.1 billion bpd in 2023.

Natural gas is expected to continue its struggles to remain over 4 billion cubic feet per day.

West Texas Intermediate prices are forecast to post measured gains from US$57 a barrel next year to US$63 in 2023, while the light-heavy differential is targeted to slide back to US$14 per barrel in 2020 from this year's $23.

Natural gas prices at Alberta's AECO trading hub are set at C$1.30 per gigajoule this year and expected to regain C$2 in 2023.

Bitumen royalties are counted on to contribute C$4.68 billion next year and to reach C$6.53 billion in 2023, while other resource revenues including natural gas are projected to add C$1.85 billion in 2020, rising to C$2.46 billion in 2023.

Resource revenues down

Based on those numbers, natural resource revenues will account for 13% of Alberta's total revenues in 2020, reflecting the drastic decline from peak years when they totaled close to 30%.

But revenues have been bruised by the Kenney government's decision to cancel plans to finance crude-by-rail shipments, costing the treasury C$1.5 billion in the 2019-20 fiscal year.

Toews said the risks of that program were untenable, but denied the government was showing its bargaining chips by including the C$1.5 billion figure in the budget as it attempts to offload the contracts back to the private sector.

Kenney is now faced with trying to lure capital investors with his decision to lower corporate taxes from 12% to 8% over the next four years.

So far that move isn't making much difference, starting with Hong Kong-controlled Husky Energy which reported a C$233 million benefit from the cut in its second quarter, at the same time it has moved spending to Saskatchewan, Newfoundland and the United States.

Husky Chief Executive Officer Rob Peabody, while saying Alberta's tax changes are "really appreciated," said his company's strategy has shifted the bulk of its production growth in Western Canada to Saskatchewan, while announcing layoffs which sources estimate to be in the hundreds.

He said Alberta's production quotas introduced by the province's previous government "have held back a lot of people making investments in Alberta."

Under the production limits, Peabody said "we could spend money to develop crude oil, but then Alberta wouldn't let us sell it. So that doesn't make any sense."

He said the jobs cuts were designed to align Husky's workforce with lower capital spending plans. "Eventually when you spend less, you need less people to spend that money efficiently," he said. ●

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EXPLORATION & PRODUCTION

Prudhoe produced water spill 600 barrels

The produced water spill which occurred Oct. 21 at Flow Station 3 in the Eastern Operating Area at Prudhoe Bay is estimated to have been 600 barrels, the Alaska Department of Environmental Conservation said in a situation report issued Oct. 24 (no additional reports were available when this issue of Petroleum News went to press).

DEC said Flow Station 3 is about a mile east of Pump Station 1, some 4.5 miles northwest of Deadhorse.

The spill occurred inside Module 4941 at Flow Station 3. The spill was produced water, a byproduct of oil production, and DEC said the 600 barrels in the spill, 25,200 gallons, is estimated to have contained 0.00156% crude oil, approximately 39 gallons.

Prudhoe operator BP Exploration (Alaska) expects to conduct an investigation to determine the cause of the spill, DEC said, with preliminary reports indicating it was caused by separation of expansion joints on a suction header connected to two produced production water injection pumps. "The expansion joints on the header are believed to have parted due to a 'water hammer' that was created when the two pumps shut down during a power outage," DEC said.

Focus in the first 48 hours was containment to minimize further migration of released product, followed by recovery on and off pad.

Flow Station 3 was shut down following discovery of the produced water spill, but was restarted Oct. 23, DEC said, "to prevent potential freeze related impacts to infrastructure."

—KRISTEN NELSON

continued from page 2

TAPS AGREEMENT

companies request RCA approval of the transfer by Jan. 31, 2020, noting accounting and financial considerations, and the fact that as part of the sale of its Alaska assets to Hilcorp, BP Pipelines (Alaska) Inc. is transferring all of its Alaska-related assets and interests to Harvest Alaska LLC, including its interest in TAPS, and closure of the Unocal transfer "well in advance of the transfer of BPPA's ownership interest in TAPS as part of the larger BP Exit Transaction will have benefits for all involved parties and will reduce the potential for procedural confusion surrounding how to treat the part of Unocal's interest that is being transferred to BPPA." ●

Contact Kristen Nelson at knelson@petroleumnews.com

● NATURAL GAS

Fairbanks gas supply makes progress

While LNG storage tank nears completion, FEED for expanded Titan plant moves ahead and IGU prepares for increased customer base

By ALAN BAILEY
For Petroleum News

The Interior Energy Project, an initiative sponsored by the Alaska Industrial Development and Export Agency, is making significant progress towards its objective of bringing increased quantities of affordable natural gas to Fairbanks and the surrounding Interior, the Interior Gas Utility reported to the AIDEA board on Oct. 23.

"It will be here this spring. It's happening," said Steve Haagenson, chairman of the IGU board, with reference to the pending increase in gas supplies as a consequence of the project.

Part of the purpose of bringing more natural gas to the Fairbanks region is to encourage consumers to use a relatively clean fuel, thus addressing the severe air pollution that the region suffers during the winter.

LNG storage facility

Construction of a 5.25 million gallon liquefied natural gas storage tank in Fairbanks is scheduled for completion in mid-November, with LNG to be put into the tank in November and December, and the tank to be commissioned in December, Dan Britton, IGU general manager, told the AIDEA board. In fact, the tank itself was completed a couple of months ago — continuing work is focusing on associated facilities such as pipework, instrumentation and electrical system, Britton said.

The double-walled tank will greatly increase the LNG storage capacity in Fairbanks, thus enabling IGU to increase the number of customers who can enjoy firm gas supplies in the city.

"It's the heart of the Interior Energy Project," Britton commented.

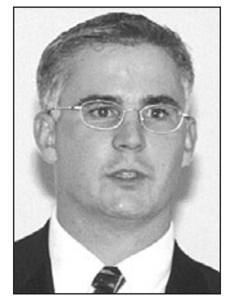
IGU has also embarked on the construction of new LNG storage facilities at North Pole, to enable the implementation of a new gas supply to customers in that region. As part of the IEP, IGU has already constructed the first phase of a gas pipeline distribution network in the North Pole area.

In September IGU closed on the purchase of a 20-acre site for the North Pole storage facility, and ground work construction began on Oct. 1. IGU has asked for bids for the infrastructure construction, Britton said. The plan is to install two 75,000 gallon LNG tanks which are currently in use in Fairbanks, but which will become redundant when the new large Fairbanks tank comes online.

The Titan plant

LNG for Fairbanks comes from a small 50,000 barrels per day LNG facility, referred to as the Titan plant, near Point MacKenzie on Cook Inlet: The LNG is shipped to Fairbanks by road using LNG trailers.

The IEP plan involves staged 100,00 barrel expansions of the Titan plant, as gas demand in Fairbanks grows: Front-end engineering and design is in progress for this expansion. The plan is to conduct engineering for an initial expansion and for a subsequent expansion. Then, if that second expansion is required, it could proceed relatively rapidly after the first expansion, Britton explained.



DAN BRITTON

FEED should be completed by the end of 2019, at which point the IGU board should be able to make a final investment decision for a Titan expansion project, he said.

In association with the FEED project, IGU issued requests for proposals for further work on the Titan expansion and had received 10 proposals in response, Britton said.

"We've now finalized our review and will be issuing shortly our notice of intent," he told the AIDEA board.

As an alternative to the Titan expansion, industrial company Siemens, in conjunction with Knik Tribe, had proposed the construction of a new LNG plant next to a spur of the Alaska Railroad near Houston. The idea would have been to ship the LNG to Fairbanks by rail. However, IGU was unable to conclude an agreement with Siemens that made sense for either party, Britton said.

Shipment by rail?

IGU is also evaluating the shipment of LNG to Fairbanks by rail rather than by road. In 2016 the Alaska Railroad successfully tested the carriage of LNG in special containers. At that time the Railroad had to obtain a permit for the testing — the federal Pipelines and Hazardous Materials Safety Administration has recently proposed regulatory changes, allowing the transportation of LNG in a specific type of rail car in the United States.

Britton commented that at present the strategy for shipping LNG to Fairbanks involves the carriage of modest sized cargos, to top up the LNG storage tanks in the city, as required. This mode of operation is particularly appropriate for a trucking operation. The use of railroad transportation would be more suitable for the batch transportation of larger LNG volumes, a situation that may emerge as LNG demand in the Interior increases. However, the lack of a railroad spur at the Titan liquefaction plant significantly impacts the economics of the railroad transportation option, Britton pointed out.

Expanding the customer base

Currently IGU's 1,150 customers are served by 140 miles of gas distribution pipeline in Fairbanks. This summer 50 more customers signed up, in anticipation of more gas coming available when the new LNG storage tank comes online, Britton said. By enabling the warehousing of summer produced LNG, and by providing a higher level of gas supply security, IGU will be able to increase its gas supplies in Fairbanks by 50% without any Titan plant expansion, Britton said. In an earlier phase of the IEP, 70 miles of new distribution pipeline were added to the central Fairbanks area, while 70 miles of pipeline had also been laid in North Pole.

By enabling the warehousing of summer produced LNG, and by providing a higher level of gas supply security, IGU will be able to increase its gas supplies in Fairbanks by 50% without any Titan plant expansion, Britton said.

In anticipation of the need for more gas, IGU has hired an Anchorage contractor to contact potential gas suppliers in the Cook Inlet region, Britton said.

And, at the customer end of IGU's business, the utility has been updating its marketing plan. A gas conversion group has been figuring out and assessing ways in which the conversion of buildings to the use of natural gas can be made as cost effective as possible.

Began in 1998

Gas supplies in Fairbanks started back in 1998 when Fairbanks Natural Gas, a private utility, started operating in the center of the city, using LNG from the Titan plant, which was completed in that same year. In 2012 Fairbanks North Star Borough established its Interior Gas Utility, with the intent of encouraging increased gas use.

In 2013 the Alaska Legislature passed legislation establishing AIDEA's Interior Energy Project. Initially the IEP plan involved the construction of an LNG plant on the North Slope. And work moved ahead on the expansion of the gas distribution pipeline network in central Fairbanks and in North Pole. However, in 2015, when the North Slope concept appeared uneconomic, another piece of state legislation switched the plan to the potential use of Cook Inlet gas, while also requiring AIDEA to approve a plan for the project, as a prerequisite to any further use of project funds.

Also in 2015, in the interests of furthering the IEP, AIDEA used its revolving fund to purchase Pentex Natural Gas Co, the owner of the Titan plant, the LNG trucking operation and FNG.

In 2017 the AIDEA board approved a plan for the IEP, thus enabling a resumption of funding for the project. Subsequently, in 2018 IGU purchased the Pentex assets from AIDEA, thus establishing a single gas utility in Fairbanks. IGU then took responsibility for managing and pursuing the project, with AIDEA continuing as a project sponsor.

State funding

Original state funding for the IEP consisted of a $57.5 million state capital appropriation and $125 million in SETS loans from the Sustainable Energy Transmission and Supply Development Fund.

Britton told the AIDEA board that much of the SETS funding has already been used and that he anticipated that funding to be fully drawn by the first quarter of 2020. This funding was used primarily for the 140 miles

see FAIRBANKS GAS page 6

● EXPLORATION & PRODUCTION

ANS Sept. production up 19% from August

Average is 475,648 bpd in September, as North Slope operators complete planned summer maintenance; Cook Inlet production down 1%

By KRISTEN NELSON
Petroleum News

Alaska North Slope production averaged 475,678 barrels per day in September, up 19.3%, 76,798 bpd, from an August average of 398,850 bpd, but down 5.6% from a September 2018 average of 503,996 bpd. With the end of the summer season, most North Slope fields move from planned summer maintenance back into regular production, with a typical seasonal uptick in production.

The September volumes include 435,878 bpd of crude oil, up 18.3%, 67,491 bpd, from an August average of 368,387 bpd, and 39,770 bpd of natural gas liquids, up 30.6%, 9,307 bpd, from an August average of 30,463 bpd. Both volumes are down from September 2018, a drop of 4.6% for crude oil from 456,655 bpd and a drop of 16% for NGLs from 47,342 bpd.

Production data reported here is from the Alaska Oil and Gas Conservation Commission, which provides volumes by field and well on a month delay basis.

Production data reported here is from the Alaska Oil and Gas Conservation Commission, which provides volumes by field and well on a month delay basis.

Milne up 182%

The largest month-over-month percentage increase was at the Hilcorp Alaska operated Milne Point field, which averaged 31,192 bpd in September, up 181.9% from an August average of 11,066, 20,126 bpd, and also up, by 46.5%, from a September 2018 average of 21,295 bpd. The new Moose Pad at Milne, which Hilcorp brought online in early April, accounted for 8,253 bpd of the field's September volume, 26%. There were two wells at the new pad in April; there are currently eight, seven of which were producing in September.

The largest month-over-month per barrel increase was at the BP Exploration (Alaska) operated Prudhoe Bay field, the Slope's largest, which averaged 222,911 bpd (185,163 bpd of crude and 37,749 bpd of NGLs), up 20.2%, 37,478 bpd (28,245 bpd of crude and 9,233 bpd of NGLs) from an August average of 185,433 bpd (156,917 bpd of crude and 28,516 bpd of NGLs), but down 14.7% from a September 2018 average of 261,301 bpd (216,539 bpd of crude and 44,761 bpd of NGLs).

In addition to the primary reservoir, production volumes from Prudhoe include Aurora, Borealis, Lisburne, Midnight Sun, Niakuk, Polaris, Point McIntyre, Put River, Raven and Schrader Bluff.

Colville, Kuparuk up

The ConocoPhillips Alaska operated Colville River and Kuparuk River fields both had substantial month-over-month production increases.

Colville averaged 54,271 bpd in September, up 16.7%, 7,767 bpd, from an August average of 46,504 bpd, but down 19.7% from a September 2018 average of 67,565 bpd.

In addition to oil from the main Alpine pool, Colville production includes satellite production from Fiord, Nanuq and Qannik.

Kuparuk, the Slope's second largest field, averaged 109,628 bpd in September, up 6.4%, 6,612 bpd, from an August average of 103,016, and also up, by 2.4%, from a September 2018 average of 107,076 bpd.

In addition to the main Kuparuk pool, Kuparuk produces from satellites at Meltwater, Tabasco and Tarn, and from West Sak.

Other increases

Several other North Slope fields also had month over month increases.

Eni's Oooguruk field averaged 9,379 bpd in September, up 3,461 bpd, 58.5%, from an August average of 5,918 bpd, but down 9.6% from a September 2018 average of 10,376 bpd.

Eni's Nikaitchuq averaged 20,652 bpd in September, up 15.5%, 2,768 bpd, from an August average of 17,884, and up 27.1% from a September 2018 average of 16,253 bpd.

The Hilcorp operated Northstar field averaged 9,035 bpd in September, 7,452 bpd of crude and 1,583 bpd of NGLs, up 2,408 bpd, 36.3% (1,860 bpd of crude and 548 bpd of NGLs) from an August average of 6,627 bpd (5,592 bpd of crude and 1,035 bpd of NGLs), but down 16.8% from a September 2018 average of 10,862 bpd (9,022 bpd of crude and 1,840 bpd of NGLs).

The ExxonMobil Production Co. operated Point Thomson field, which has had mechanical ups and downs since it came online in April 2016, averaged 5,038 bpd in September, up 50.6%, 1,693 bpd, from an August average of 3,345 bpd and up 5,317.2% from a September 2018 average of 94 bpd (the field was down for maintenance from July through August of 2018).

Month over month declines

Other North Slope fields had month over month production declines, with the biggest drop at Hilcorp operated Endicott, which averaged 4,742 bpd in September (4,304 bpd of crude and 438 bpd of NGLs), down 37.6%, 2,861 bpd, from an August average of 7,602 bpd (6,691 bpd of crude and 911 bpd of NGLs), and down 35.3% from a September 2018 average of 7,331 bpd (6,590 bpd of crude and 740 bpd of NGLs).

The Slope's newest field, ConocoPhillips Alaska's Greater Mooses Tooth in the National Petroleum Reserve-Alaska, which had its first production in October 2018, averaged 7,316 bpd in September from Greater Mooses Tooth 1, down 26.4%, 2,620 bpd, from an August average of 9,936 bpd. The field, producing from three wells, had peak production in the first quarter of more than 12,000 bpd. In a July analysts call ConocoPhillips acknowledged that GMT-1 was underperforming. AOGCC data for September show two producers online the full month and a third only online for 15 days. One of those producers accounted for 80% of GMT-1 production, the second 17%, with only 3% coming from the well online for half of the month.

Badami, operated by Savant Alaska, part of Glacier Oil & Gas, averaged 1,484 bpd, down 2.3%, 34 bpd, from an August average of 1,518 bpd and down 17.5% from a September 2018 average of 1,799 bpd.

Cook Inlet down 1%

Production from Cook Inlet in Southcentral Alaska averaged 13,515 bpd in September, down 0.8%, 114 bpd, from an August average of 13,628 bpd, and down 8.6% from a September 2018 average of 14,777 bpd.

Hilcorp's Beaver Creek averaged 224 bpd in September, down 38.1%, 138 bpd, from an August average of 362 bpd, but up 200.1% from a September 2018 average of 75 bpd. The company did a redrill late last year, and production peaked in November at 904 bpd. Production since then has varied between one and two wells, with just the redrill producing in September.

Hilcorp's Granite Point averaged 2,271 bpd in September, down 16%, 432 bpd, from an August average of 2,703 and down 17.2% from a September 2018

see **ANS PRODUCTION** page 7

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FAIRBANKS GAS

of distribution pipeline laid in central Fairbanks and North Pole, and to cover a portion of the cost of the Pentex purchase. An additional $10 million of financing agreed with AIDEA has also enabled the North Pole LNG storage and gas supply project to proceed. $15 million of the capital appropriation was used to fund the original project involving a North Slope gas supply, while the remainder of the appropriation was used in IGU's Pentex purchase.

IGU is now planning to issue bonds, with an initial offering of $60 million in bonding, primarily for the expansion of the Titan plant, Britton said. Under the original state financial arrangements for the IEP, AIDEA can make up to $150 million in AIDEA bonding available.

Britton has told Petroleum News that the current price of gas for Fairbanks residents is $20.81 per thousand cubic feet. He said that this price is expected to fall somewhat, as the delivered volumes of gas increase. He also commented that the gas price is competitive with the cost of fuel oil and that gas offers the benefit of relatively stable pricing, compared with the price hikes that can happen in the oil market. ●

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● LAND & LEASING

Critics gear up for response to lease sale

By DAN JOLING
Associated Press

The Department of the Interior hopes to conduct a lease sale in the Arctic National Wildlife Refuge by the end of the year but environmental groups say they will challenge those plans in federal court and the court of public opinion.

Opponents of oil drilling in America's largest wildlife refuge have a message for oil drillers and the people who finance them: Don't become the company known for the demise of America's polar bears.

The Department of the Interior hopes to conduct a lease sale in the Arctic National Wildlife Refuge by the end of the year but environmental groups say they will challenge those plans in federal court and the court of public opinion.

"We will not tolerate the administration's brazen attempt to paper over the impacts of this disastrous proposal, and we will see them in court," said Jamie Rappaport Clark, executive director of Defenders of Wildlife.

They claim an environmental review was rushed, incomplete and preordained and that it presents only a fraction of the long-term damage that will occur if drilling rigs are allowed into what's now a wilderness area.

BLM defends analysis

"Speculative threats of legal action cannot cloud the reasoning contained in our analysis, which was developed with information provided by numerous stakeholders, including tribal elders, wildlife biologists, anthropologists and elected officials, in addition to data-sharing with the Canada government's Environment Yukon and dialogue with the International Porcupine Caribou Board, as well as almost 2 million public comments submitted during the process," Bureau of Land Management spokesman Derrick Henry said in an email to The Associated Press.

"This analysis is a big step in carrying out the clear mandate we received from Congress to develop and implement a leasing program for the Coastal Plain," Henry wrote, adding that any future actions would require separate environmental analysis.

The refuge in the northeast corner of Alaska was created in 1960 and expanded by Congress in 1980 to nearly the size of South Carolina. About 12,500 square miles (32,375 sq. kilometers) are formally designated as wilderness. However, Congress ordered that 2,300 square miles (5,957 sq. kilometers) of refuge coastal plain be studied for natural resources.

The coastal plain is the area between the Arctic Ocean and mountains of the Brooks Range. During winter, pregnant polar bears use it for dens. In spring, it's the preferred nursery for the Porcupine Caribou Herd.

Oil estimates

The U.S. Geological Survey estimates the plain holds 10.4 billion barrels of oil. U.S. Sen. Lisa Murkowski, R-Alaska, has called the coastal plain North America's greatest prospect for conventional petroleum production. Drilling is supported by virtually everyone elected in recent years to statewide office in Alaska because it would create jobs, put oil in the trans-Alaska pipeline and put cash in the coffers of state government.

Congress did not take a direct vote on opening the refuge. Instead, a provision for lease sales was included in President Donald Trump's Tax Cuts and Jobs Act in December 2017. The law amended the tax code, reduced tax rates for businesses and individuals and aimed to make up for the loss of that revenue with new money generated by sources that include lease sales in the Arctic wildlands. Henry said that act requires a lease sale by 2021.

The Bureau of Land Management spent a year on an environment review and by February was holding public hearings in Alaska on the document. The environmental review listed a "no-sale" alternative but the agency did not consider it, said Joe Balash, the Interior Department's assistant secretary for land and minerals management at the time.

"A no-action alternative would fly in the face of what Congress told us to do," Balash said at the Anchorage hearing.

Environmental coalition

Environmental groups that fended off oil rigs in the Arctic Refuge for four decades were mortified. More than 30 subsequently formed a coalition for its protection, the Arctic Refuge Defense Campaign.

The group on Oct. 15 took out a half-page advertisement in the Wall Street Journal telling potential bidders that they will face legal challenges and damage to their reputations if they bid on the refuge.

"It's not something we are just going to accept because it was snuck into a tax bill," said director Desiree Sorenson-Groves.

"There should have been fair and open debate and there wasn't," she said. "If oil companies and folks want to bid on this, they need to do it with their eyes wide open."

Environmental attorneys say the environmental review is flawed.

"Until we see the record of decision, we can't say anything about potential lawsuits or the specific grounds for them, but I can tell you that the final EIS (environmental impact statement) is so deficient in how it looks at impacts to the coastal plain, and so dismissive of the legal requirements for protecting these sacred lands, that there could be many, many grounds for a lawsuit," said Brook Brisson, an attorney for Trustees of Alaska.

More than 80% of the coastal plain serves as critical denning habitat for threatened polar bears, said attorney Kristen Monsell of the Center for

see **ANWR LEASE SALE** *page 8*

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ANS PRODUCTION

average of 2,763 bpd.

BlueCrest's Hansen field, the Cosmopolitan project, averaged 1,261 bpd in September, up 2.5%, 31 bpd, from an August average of 1,230 bpd, and up 5.4% from a September 2018 average of 1,197 bod.

Hilcorp's McArthur River, Cook Inlet's largest field, averaged 4,321 bpd in September, down 1.7%, 73 bpd, from an August average of 4,394 bpd and down 7.5% from a September 2018 average of 4,671 bpd.

Middle Ground Shoal, another Hilcorp field, averaged 1,358 bpd in September, down 1.5%, 21 bpd, from an August average of 1,379 bpd and down 9.1% from a September 2018 average of 1,494 bpd.

Redoubt Shoal, operated by Cook Inlet Energy, a Glacier Oil & Gas company, averaged 1,435 bpd, up 54.1%, 504 bpd, from an August average of 932 bpd and up 19.6% from a September 2018 average of 1,201 bpd.

Hilcorp's Swanson River averaged 838 bpd in September, down 13.3%, 129 bpd, from an August average of 966 bpd and down 31.4% from a September 2018 average of 1,221 bpd.

Trading Bay, also operated by Hilcorp, averaged 1,296 bpd in September, down 6%, 83 bpd, from an August average of 1,379 bpd and down 6.6% from a September 2018 average of 1,388 bpd.

West McArthur River, operated by Glacier Oil and Gas' Cook Inlet Energy, averaged 510 bpd in September, up 79.8%, 226 bpd, from an August average of 284 but down 33.7% from a September 2018 average of 769 bpd. The field produces from four wells, down from six a year ago.

ANS crude oil production peaked in 1988 at 2.1 million bpd; Cook Inlet crude oil production peaked in 1970 at more than 227,000 bpd. ●

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ASSOCIATIONS

APICC becomes Alaska Safety Alliance

At its 20th Anniversary Gala in Anchorage on Oct. 25 the Alaska Process Industry Careers Consortium, or APICC, announced it was changing its name to Alaska Safety Alliance, or ASA.

The change, which took effect immediately, was accompanied by the launch of a new website — alaskasafetyalliance.org — that offers more services for employers and job seekers, the organization said in an Oct. 28 statement.

Since its formation in 1999, APICC has worked with various stakeholders to facilitate workforce training and education programs throughout Alaska.

APICC will continue to exist as a program under ASA alongside other long-standing programs, such as the North Slope Training Cooperative and the Maritime Works and National Center for Construction and Education Research.

"Our staff and board are excited to take this next step forward with Alaska's industries," ASA's executive director Cari-Ann Carty said. "The new online portal is a powerful tool for anyone involved with the tracking and verification of work-related credentials."

The new website allows corporate and individual users to establish accounts to track training records and certifications. In the coming months, the system will be paired with a badging protocol to provide real-time verification of worker credentials in the field.

The system will also allow employers to quickly identify pre-qualified workers for job openings. According to Carty, a worker can make their qualifications known to employers by setting up an account on the website at no charge and can also register to receive notifications when opportunities matching their interests are posted to the job board.

While ASA will remain exclusively focused on developing Alaska's workforce, it is a member of the National Safety Council and the Association of Reciprocal Safety Councils, which allows many of the training programs it administers to be more readily recognized by employers throughout the country.

—PETROLEUM NEWS

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ANWR LEASE SALE

Biological Diversity, adding the BLM significantly underestimates effects of seismic testing and other exploration activity.

Polar bear primary habitat is sea ice, which has been significantly reduced by climate change. Polar bear preferred denning habitat is on shore. To protect polar bear dens, the review relies on den detection studies conducted in advance of oilfield activity, Monsell said.

"Even under ideal conditions, den detection surveys are effective only 50% of the time," she said. "This means that the agency arbitrarily dismissed the risks from seismic, including the likelihood that denning polar bears will be run over and killed by seismic vehicles."

The review fails to take a hard look at greenhouse gas pollution on polar bears, she said, both emissions from oilfield operations and emissions produced by oil extracted from the refuge.

"It does not acknowledge how the direct, indirect and cumulative impacts of opening the refuge to drilling will affect the likelihood of sea ice loss destabilizing the established polar bear recovery thresholds," she said.

Changing the law that requires lease sales is the ultimate goal, said Sorenson-Groves. The short-term goal is to let oil companies, financial institutions and insurance companies that there will be consequences if they are involved with bidding on refuge leases.

"Do you want to be the oil company that helped put polar bears on the endangered species list?" she asked. "These are serious questions that you have to grapple with. They're not going to get a pass." ●

EXPLORATION & PRODUCTION

US rig count takes big drop, down by 21

Baker Hughes reports the number of rigs drilling for oil and natural gas in the U.S. took a steep drop the week ending Oct. 25, down by 21 to 830, following a drop of just five rigs the previous week.

In its weekly rig count the Houston oilfield services company said the active rig count was down 238 from 1,068 active rigs a year ago.

The company reported that 696 rigs targeted oil (down 17 from the previous week; down 179 from a year ago) and 133 targeted natural gas (down four from the previous week; down 60 from a year ago). There was one miscellaneous rig active (that count unchanged from the previous week and unchanged from a year ago).

The company said 51 of the U.S. holes were directional, 728 were horizontal and 51 were vertical.

Oklahoma had the largest week over week drop, down six.

Texas, with more than half the active rigs in the country at 418, was down by five.

North Dakota and Wyoming were each down by two rigs.

Louisiana, New Mexico, Pennsylvania, Utah and West Virginia were each down by one. Rig counts in Alaska, California and Ohio were unchanged from the previous week.

Colorado was up by one rig.

Baker Hughes shows Alaska with eight rigs active for the week ending Oct. 18, up from three a year ago.

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

—KRISTEN NELSON

INTERNATIONAL

Russia calls US move in Syria 'banditry'

Russia's Defense Ministry on Oct. 26 harshly criticized the United States decision to send armored vehicles and combat troops into eastern Syria to protect oil fields.

U.S. Defense Secretary Mark Esper says the move is aimed at keeping the fields from potentially falling into the hands of Islamic State militants.

But Russian ministry spokesman Maj. Gen. Igor Konashenkov said "what Washington is doing now, the seizure and control of oil fields in eastern Syria under its armed control, is, quite simply, international state banditry."

He added in a statement that "all hydrocarbon deposits and other minerals located on the territory of Syria do not belong to the IS terrorists, and even less to the 'American defenders from IS terrorists,' but exclusively to the Syrian Arab Republic."

"The real cause of this illegal action by the United States in Syria lies far from the ideals that Washington has proclaimed and from the slogans of fighting terrorism," Konashenkov said.

—ASSOCIATED PRESS

PIPELINES & DOWNSTREAM

Zenith threatens to sue over new pipes

Zenith Energy threatened Oct. 24 to sue the city of Portland unless it reverses a recent decision to block the firm from adding underground pipes at its oil terminal along the Willamette River. The Oregonian/OregonLive reports Zenith gave the city a week to change its stance or face legal action.

Portland's city attorney and mayor's offices declined comment, citing the possible legal action. Mayor Ted Wheeler said previously he supported disallowing the pipes at the Zenith property, where the firm has stored and transferred tar sands crude oil.

A lawyer for the company, Eric L. Martin, sent a letter Oct. 24 to Portland interim Community Technology Director Elizabeth Perez, saying the city's Oct. 18 refusal to allow it to add the three pipes violates the business' agreement with the city.

Zenith says the city's refusal to allow it to add pipes to transport biofuel directly counters a city policy promoting green energy in Portland. The company said it plans to run only biofuels and other non-fossil-fuel liquids through the pipes although Zenith has acknowledged the new pipes would becapable of transporting fossil fuels.

—ASSOCIATED PRESS

● LAND & LEASING

SAE's Kuukpik 3-D survey modified

Division approves modification of seismic acquisition to be finished this winter on east side of Colville River south of Horseshoe

By KAY CASHMAN
Petroleum News

Effective Oct. 24, Alaska's Division of Oil and Gas approved a modification of SAExploration Inc.'s Kuukpik 3-D seismic survey that expands it from a 490 square mile acquisition to a 514-mile program.

One-third of the survey was completed last winter, and the rest is expected to be finished this coming winter.

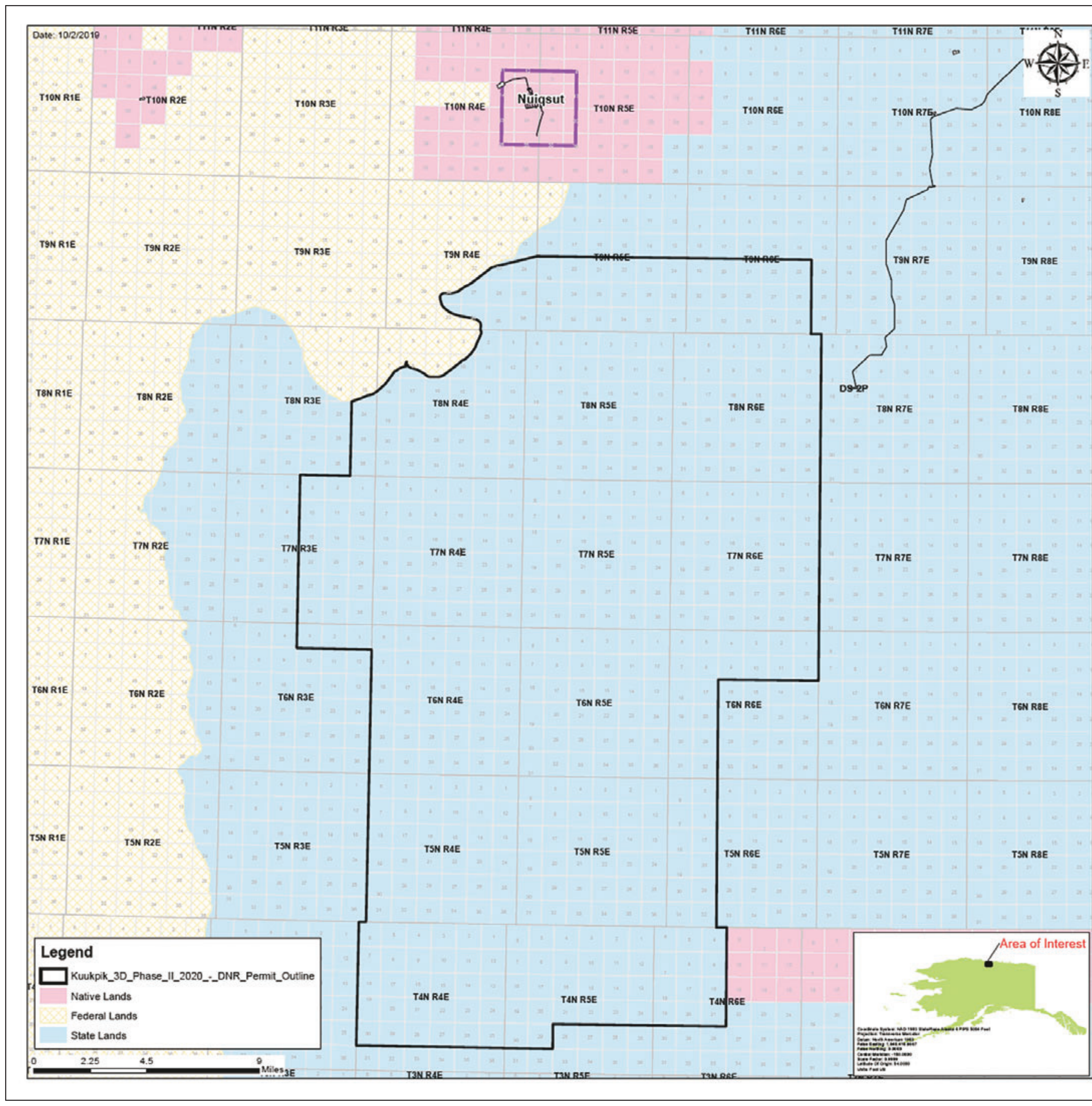
The survey is on the east side of the Colville River, extending south from the Horseshoe No. 1 well where Armstrong Energy discovered oil in the Nanushuk formation in 2017 (see map in pdf version of this story).

Armstrong has since sold its interests in the area to the current operator, Oil Search.

The leases involved are on state land held by Oil Search, Repsol, ConocoPhillips, Pantheon, Great Bear and SAE.

The miscellaneous land use permit to conduct geophysical exploration was issued March 15. Permit MLUPNS 19-002's duration is from its approval date to tundra closure 2020.

Per statute, SAE provided the division with a performance guarantee of $100,000, as well as supplied a certificate of insurance that lists the Alaska Department of Natural Resources as an additional named insured on the policy.



The division conducted an agency review and comment opportunity for the activities authorized under the permit modification. The following government entities were notified on Oct. 2 for comment: Alaska Department of Fish & Game, DNR's Division of Mining Land and Water, Alaska Department of Environmental Conservation, the North Slope Borough and the U.S. Army Corps of Engineers. The comment deadline was 4:30 p.m. Oct. 16. ●

Contact Kay Cashman at publisher@petroleumnews.com

EXPLORATION & PRODUCTION

AGS to host geology review meeting Nov. 19 on USGS updated central Slope assessment

The U.S. Geological Survey is conducting an updated assessment of technically recoverable oil and gas resources of the central North Slope and adjacent state waters, encompassing the area between the National Petroleum Reserve-Alaska and the Arctic National Wildlife Refuge.

In preparation for the upcoming assessment, a public geology review meeting will be hosted by the Alaska Geological Society in Anchorage on Nov. 19, the primary purpose of which is to present the geological framework that the assessment will be based on and to solicit feedback from the geological community regarding the geology and interpretations that represent the foundation of the assessment. An overview of methodology also will be included.

The meeting will be held at the BP Energy Center, 900 East Benson Boulevard from 8:30 to 11:30 a.m.

USGS personnel also will be available for expanded discussions in a smaller room from 1 to 4 p.m. Attendance is open to anyone interested in the scientific foundation on which the assessment will be conducted.

A WebEx will be available for remote participation at the following address:

https://alaskageologicalsociety-lcb.my.webex.com/alaskageologicalsociety-lcb.my

If you have questions and comments — and if you wish to receive a direct calendar invitation to the WebEx — email Rebecca Smith at: rsmith@usgs.gov.

She can provide the meeting number (access code) and password.

Also feel free to send questions to USGS senior research geologist Dave Houseknecht, a long-time USGS expert on northern Alaska petroleum geology, at dhouse@usgs.gov.

—KAY CASHMAN

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CONOCO Q3 RESULTS

Hatfield, ConocoPhillips' president for Alaska, Canada and Europe, noting any capital expenditures for Prudhoe Bay would require the approval of Hilcorp, ExxonMobil and ConocoPhillips.

"While we work very closely today with BP as the operator, we'll continue to work closely with Hilcorp as they come in … to maximize the value of this legacy asset," Hatfield said.

"We're excited about this transaction; we see opportunity to unlock more value at Prudhoe Bay" with Hilcorp.

Currently, the major working interest owners in the Prudhoe Bay unit are ConocoPhillips with a 36% interest, ExxonMobil with a 36% interest and BP with a 26% interest.

Regarding the other key takeaway, Hatfield said the upcoming winter season on the North Slope will be "our largest ever. We'll drill wells at Willow, at Narwhal and Harpoon (prospect southwest of Willow)," referring those listening to the investor and analyst meeting planned for Nov. 19 in Houston for additional details.

Matt Fox, ConocoPhillips executive vice president and chief operating officer, said the company would unveil a 10-year "disciplined plan that delivers free cash flow and strong returns" at the November meeting. "And, of course, we'll provide a deep dive into the assets across our diverse portfolio."

Operational highlights

In presenting year-to-date operational highlights in Alaska and answering questions, Fox echoed Hatfield's sentiments about the upcoming North Slope winter season.

"Starting in Alaska," he said, "we safely completed our third quarter turnarounds at Prudhoe, the Western North Slope and Kuparuk, and closed the Nuna discovered resource acquisition. We also continue to progress appraisal of our Willow and Narwhal discoveries. Earlier this month we spud another horizontal well from an existing Alpine drill site into the Narwhal trend (Nanushuk formation). The well was designed to provide offset injection to the horizontal producer we drilled earlier in the year and help us optimize future development planning. We're also gearing up for the winter exploration, appraisal and project execution season," Fox said, later describing it as the largest ever.

Production, earnings, spending

ConocoPhillips' global oil and gas output rose 7% year over year in third quarter. Driving growth was a 21% surge in production from Alaska's biggest competitor for investment — the company's "big three" unconventional plays in the Lower 48: the Eagle Ford, Bakken and Permian basin.

That high-end production growth enabled ConocoPhillips to deliver strong earnings even though commodity prices fell 18% from the same period a year ago, Moody's reported.

It also helped the company generate $2.3 billion in cash flow from operating activities, which was more than enough to cover its $1.7 billion in capital spending and boost its dividend by 38% to $340 million.

That said, ConocoPhillips more than reloaded its cash position by closing $2.2 billion in asset sales during the quarter, enabling it to end third quarter with $8.4 billion in cash.

Overall, the company produced $1 billion in free cash flow, while returning 41% of its total cash flow from operations to shareholders.

ConocoPhillips' capital spending and investment in Alaska in third quarter was $427 million and $1.2 million year to date, as compared with the Lower 48, where the company's capex and investment was $843 million and $2.6 billion in the same periods.

However, adjusted earnings in Alaska were higher than the Lower 48, with third quarter being $312 and year-to-date almost $1.1 billion, whereas in the Lower 48 year-to date earnings were just $707 million, mainly due to a drop in earnings from $331 million in second quarter to $136 million in third quarter. (In the full year ending 2018, Lower 48 earnings were almost $1.7 billion.)

Third quarter tax rates in Alaska were 26.6% (excluding royalties) as compared to 27.7% in the Lower 48, 16.1% in Canada, and 14.6% in Europe and North Africa.

Hatfield said that at this point in time Alaska production after the turnarounds was 210,000 to 220,000 barrels of oil per day.

As of as of Sept. 30, ConocoPhillips has operations and activities in 17 coun-

see **CONOCO Q3 RESULTS** *page 11*

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POD EXTENSION

requests an extension such that current POD would stay in place pending resolution of the Chapter 11 proceedings."

2019 activity

In addition to the extension request, the three-page letter included a summary of Furie's activities in 2019.

From January through April, Furie's primary concern was resolving hydrate plugs that formed in its KLU gas pipeline, Iversen said.

In early January, Furie ran into problems when hydrate plugs at its onshore processing facility and in the 15-mile subsea pipeline from the offshore production platform slowed natural gas delivery to a trickle and put Furie's contract with utility Enstar Natural Gas in jeopardy. Gas output fell from 739,023 thousand cubic feet to 1,886 mcf in February.

"Furie personnel, along with its contractors and industry experts, worked diligently to resolve this issue," Iversen said. "Remedial measures included bleeding the pipeline pressure down at the onshore processing facility and offshore production platform to place the hydrate plugs in a pressure/temperature regime where the hydrate would dissociate, and Furie pumped large methanol pill treatments with heated produced gas."

"After seeing diminishing returns from alternating injection between the production platform and the production facility, the decision was made to pump a large methanol pill followed by nitrogen from the production facilities toward the platform," he said. "The rationale was that more pressure was needed to get the hydrate plug to move and Furie wanted to achieve this pressure with nitrogen to avoid creating additional hydrate plugs that could occur with higher produced gas pressures. The pressure was bled off at the platform and 15,000 gallons of methanol were pumped at the processing facility."

"Communication between the platform and processing facility was established in late March when the hydrate plugs were resolved," Iversen said, adding that current daily production is approximately 16 million cubic feet per day, and that Furie has seen no problems with the pipeline as a result of the hydrate plugs or remedial actions taken.

Taking measures

Iversen said the company is taking measures to avoid encountering hydrate plugs, including a periodic pigging program to ensure the pipeline stays clear and a prescribed and constant low volume injection of methanol into the pipeline from the production platform; producing only from the Beluga formation to limit the amount of produced water entering the pipeline; preparing for a modification to route incoming production through a process heater to improve separation at the central processing facility; installing additional heat trace at the CPF to minimize the potential for freezing; installing a methanol injection point at the CPF pipeline inlet, installing a thermometer on the departing pipeline on the platform, with supervisory control and data acquisition monitoring; and installing a thermometer on the incoming pipeline at the CPF with SCADA monitoring.

The company has developed a water remediation plan to handle water produced from the Sterling formation in order to be able to produce from those zones in the future, and it anticipates submitting a permit in November to allow overboard discharge of produced Sterling formation water after onsite treatment, Iversen said.

Additional activities

Aside from the activities to deal with hydrate plugs, the letter listed additional work done or underway at the KLU during 2019.

Furie procured two replacement gas-fired generators and an auxiliary diesel-fired generator for the platform and anticipates that they will be installed and commissioned by the end of October 2019.

Other 2019 activities have included perforating the Beluga formation in the A-I well, returning the A-2A well to production in the Beluga formation, planning a coil tubing workover of the A-4 well for late October 2019 to recover wireline fish and tubing plug to access the Beluga formation, performing a pipeline span survey and scheduling remediation work for October 2019, procuring a coalescing filter separator for improved dehydration performance with the installation scheduled for November 2019.

"Furie plans to continue its efforts to maintain and enhance production from the KLU including maintenance of infrastructure and wells as necessary, and upgrading equipment like the generators," Iversen said. "Furie also will continue to work on progressing and implementing the water remediation plan mentioned above and on identifying and maturing prospects for exploration and development." ●

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CONOCO Q3 RESULTS

tries, $70 billion in total assets, and approximately 10,400 employees. Production excluding Libya averaged 1,310 million barrels of oil equivalent per day for the nine months ending Sept. 30, and proved reserves were 5.3 billion barrels of oil equivalent as of Dec. 31, 2018.

Battle ahead

In the Q&A session Hatfield was asked to talk about the fair share act ballot initiative; specifically, to put it in the context of the longer-term ebb and flow of tax policy for the North Slope.

"It's a situation that we are monitoring very closely," Hatfield said.

"I'd say this initiative is not in the best long-term interest of Alaska citizens. We believe the Alaskan citizens will see the benefit that the North Slope exploration renaissance has already brought to the state and to its citizens," he said.

"If you look at the positive changes that have occurred since SB 21 went into effect in 2013, ConocoPhillips and others have announced several additional discoveries and projects that could add significant incremental production and revenue to the state. So, we believe that continuing those investments is good for employment, it's good for the Alaskan economy and it's good for the Alaskan citizens. … We feel like it's also worth noting that this sort of initiative has come up in the past and we've successfully informed voters of the negative consequences on jobs, production and long-term revenue — the impact those sort of initiatives have," Hatfield said, adding that ConocoPhillips has "a long history of engagement with the public. We feel that there is a mutually beneficial relationship with the stakeholders."

In short, Hatfield said, the ballot initiative "is very much on our radar and something we're monitoring quite closely, and we do expect, in fact, we're gearing up now to make our case to the citizens about the benefits of continuing under the fiscal regime that we currently have." ●

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TRUDEAU PLEDGE

related legislation through the House of Commons, although analysts doubt that either of those parties would be eager to topple the Liberal administration and force another election at a time when neither has the money, or desire to run an early campaign.

He said it will "take all Canadians sticking together (to solve economic challenges such as TMX), helping out folks who are struggling in places like Alberta and Saskatchewan."

What bolsters the Liberals confidence is the likelihood that the major opposition Conservatives would vote with them to ensure that TMX proceeds.

While that shuffling of the political cards continues, Finance Minister Bill Morneau has taken an unusually bold stand by insisting the Liberals will not allow TMX to become fodder for negotiating trade-off deals with the minority parties.

Instead he said TMX is a crucial piece of the puzzle to finance Canada's transition to a clean energy economy and could contribute up to C$500 million a year on efforts to lower greenhouse gas emissions.

"We purchased (the existing Trans Mountain and the expansion) for a reason," Morneau said. "We think it is the best way we can move forward (on energy transition)."

The Liberals paid C$4.5 billion for the Trans Mountain pipeline of 300,000 barrels per day which came into service in the 1950s and is faced with providing another C$10 billion or more for the 590,000 bpd expansion.

Morneau said the Liberals have "much common ground" with the other parties that have been elected to the next Parliament and are now ready to seek consensus on a range of issues.

Opposition from Greens

That view isn't shared by Green leader Elizabeth May, who had only three of its members elected to the House of Commons, which has 338 elected members.

She urged NDP leader Jagmeet Singh, whose 25 Members of Parliament give Trudeau a clear majority to make TMX a condition for cooperating with the Liberals, despite Morneau's comments.

May said that if Singh works deals with the Trudeau administration he would be exposed as "insincere" in his opposition to upgrading the pipeline and his call for Canada to accelerate the elimination of fossil fuel development.

Since the election Singh has only hinted it is probably too late to use TMX to draw a line in the sand.

May said the Greens will not support the Liberals in confidence votes unless Trudeau does more to curb greenhouse gas emissions, arguing those levels should be cut by 60% over the next decade — double the current goal — as part of a move to net zero emissions by 2050.

Preliminary work

Construction of TMX was halted in September 2018 when the Federal Court of Appeal overturned government approval of the expansion, citing insufficient consultations on environmental and indigenous issues.

The Trudeau cabinet undertook new rounds of talks and approved the expansion for a second time in June.

Preliminary work resumed in August, starting with stockpiling sections of pipeline along the route and groundbreaking for marine terminals in British Columbia and pumping stations in Alberta, while the first 30 miles of laying pipeline will soon start in the Edmonton area after 2,200 workers were hired.

—GARY PARK

Petroleum news — Oil Patch Bits

Grand opening of Brooks Commons office space in Prudhoe Bay

Colville Inc., an Arctic logistics and supply company, said Oct. 28 that it has completely renovated its Brooks Commons officeplex.

Located close to the Deadhorse airport and adjacent to both Brooks Camp and Brooks Range Supply, Brooks Commons offices are clean, modern and equipped with high speed internet service. Offices can be rented furnished or unfurnished. Each office is 9 feet by 13 feet.

The facility has two mud rooms, one at each entrance, men's and women's bathrooms equipped with full showers, 50Mbps of dedicated bandwidth and a conference room which is 9 feet by 17 feet.

Office space will be available to rent Dec. 1. For more information contact Brooks Camp at 907-659-6233.

COURTESY COLVILLE

Companies involved in Alaska's oil and gas industry

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

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REVISED DEAL

Oct. 29 meeting

During an RCA hearing meeting on Oct. 29 the commissioners and the parties to the hearing agreed to continue the hearing on the basis of seeking RCA approval of just the changes to the deal. The changes that have been filed are formally referred to as "the stipulation." The idea now is that, if the commission approves the stipulation, the commission will have approved the entire ML&P purchase deal. On the other hand, if the commission rejects the stipulation, the hearing will end without approval of the purchase.

The idea behind this manner of conducting the remainder of the hearing is to minimize the time required to complete the hearing — much testimony has already been presented on the complete terms of the deal. The hearing is already running behind schedule and has a statutory deadline of Nov. 19.

The concept behind the merger of the two Anchorage based utilities centers around the potential for improved efficiencies through the elimination of duplicated functions and more efficient use of power generation facilities. But, while simple in principle, the business technicalities of merging the two businesses are complex, involving issues such as ensuring the fair treatment of all of the utilities' customers and ensuring a fair deal for Anchorage taxpayers.

The original deal

The deal, as initially presented to the RCA, involved an up front payment to close the deal; payments in lieu of taxes to the Municipality of Anchorage by Chugach Electric for a period of 50 years; and a commitment to purchase Eklutna hydroelectric power from the municipality for 35 years. There was also a commitment that the electricity rates would not be immediately impacted, although in the longer term the merger would result in lower rates than would otherwise be possible. One significant set of complications results from the economics of natural gas fuel obtained from the Beluga River gas field, given that both utilities own portions of the field.

The entire deal encompasses three related RCA dockets. Hearings on the dockets had been scheduled to run through to Sept. 17. But following disagreements among the parties in the dockets, the hearing into the merger was postponed on Oct. 1, pending the filing of a stipulation with agreed changes to the deal. That stipulation was filed on Oct. 25. Hence the Oct. 29 hearing meeting, to determine how to proceed.

Proposed changes

As with the original ML&P purchase deal, the terms of the stipulation are fairly complex. Key terms include a reduction in the total purchase price for ML&P from $767 million to $758 million; a reduced payment to the Municipality of Anchorage, if the net book value of ML&P's assets is less than $715 million; a transfer of $36 million to Chugach Electric for rate reductions for ML&P's legacy customers; provisions to reduce the amortization period for transaction costs; and a change to the accounting for Beluga River gas used in the generation of electricity sold to other utilities. The stipulation anticipates savings of $47 million in the net cost of the ML&P acquisition relative to the original agreement for the purchase.

—ALAN BAILEY

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DRILLING PLANS

east of the Colville River, with Mitquq 1 a little over 6 miles from the proposed Pikka Nanushuk Development A pad, or ND-A.

Oil Search recently described Mitquq's oil potential as a "high value tieback" to "future Pikka infrastructure" (see story in Sept. 29 edition of Petroleum News).

Success at the Stirrup prospect, which is adjacent to the Horseshoe Block south of the Pikka unit "could de-risk additional fairways to underpin a possible standalone" Horseshoe development, the company said at that time, noting Stirrup is a direct analogue to the Horseshoe 1 Nanushuk discovery drilled by former operator Armstrong Energy.

Mitquq 1 project

The purpose of the drilling and testing activities at Mitquq 1 is to better understand subsurface reservoir characteristics in the Mitquq exploration area.

The project includes a 35-foot wide 6.4-mile long ice road that starts from the ConocoPhillips drill site 3S gravel road, as well as spur ice roads for accessing water sources. Water and ice chips from nearby lakes will be used to build a total of about 8 miles of ice roads.

The project also involves two ice pads, one primary 23-acre drilling pad roughly 5.5 miles southwest of DS-3S, one construction support pad at the ice road junction with the DS-3S access road and a staging area at the Nuna pad.

Oil Search requested a single exception for mitigation measure A.1.d. because portions of the Mitquq ice road will be within 500 feet of fish bearing waterbodies.

Mitquq 1 and its sidetrack will be drilled to a true vertical depth of approximately 7,000 feet or less and plugged and abandoned upon completion, Oil Search said.

The wells surface site is at Umiat meridian, township 11N, range 7E, sections 3 and 10 in ADL 393875.

The Mitquq well bore location is described as Umiat, 11N, 7E, section 2, affecting ADL 391912.

Prepacking, snow trail and staking is expected to start Nov. 1, along with ice road and ice pad construction.

see **DRILLING PLANS** *page 15*

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STOKES

exploration licensing, lease sales, unit management, permitting, royalty accounting, royalty audit, resource evaluation, commercial activities and the State Pipeline Coordinator's section.

Stokes earned a bachelor's and master's degree in business administration from the University of Southern California and the University of South Dakota, respectively. He also served in the U.S. Army as an artillery officer.

The previous acting director was Jim Beckham, who had taken over in March for former division Director Chantal Walsh.

—KAY CASHMAN

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DRILLING PLANS

Drilling operations are scheduled to get underway Jan. 1 and be completed by April 15.

The company plans to use Nabors 7ES drill rig, with the Mitquq well design like that employed in previous exploration wells and in accordance with a permit to drill from the Alaska Oil and Gas Conservation Commission.

Well stimulation and flow testing activities may be performed at the well site if deemed appropriate. If well testing occurs, approximately 60 to 80 bulk tanks (up to 600 barrels each) will be placed onsite to hold drilling fluids/crude oil during testing activities.

In compliance with air quality regulations, a safety flare would be utilized during well testing.

Drilling operations will include several temporary structures at the well site ice pad. In addition to the rig, facilities such as maintenance buildings, storage connexes, camps, office buildings, a communication tower and other small temporary support structures will be at the drill site pad, Oil Search's application said.

All buildings will be hauled to the project from Deadhorse during mobilization and will be removed at the completion of drilling operations.

Mitquq seismic testing

The division also received a miscellaneous land use permit application from Oil Search seeking authorization to conduct seismic testing at the Mitquq 1 drill site, which was included in the public notice. The company posted a $500,000 bond for the work.

To support what the division described as an exploration project, Oil Search will conduct a walkaway vertical seismic profile and microdeformation fracture mapping, more commonly known as a tiltmeter survey, at the well.

The geophysical surveys, the company told the division, will allow it "to obtain a better understanding of fracture geometry and reservoir characteristics in the exploration area."

Stirrup 1 project

The purpose of the drilling and testing activities at Stirrup 1 is to better understand subsurface reservoir characteristics in the Stirrup exploration area.

Oil Search is requesting authorization to drill and test one exploratory well, Stirrup 1, from an ice pad during the upcoming winter season. That 23-acre pad will be roughly 23 miles west of ConocoPhillips drill site 2P.

The well will be drilled to a true vertical depth of approximately 6,000 feet or less, and upon completion Oil Search will plug and abandon it.

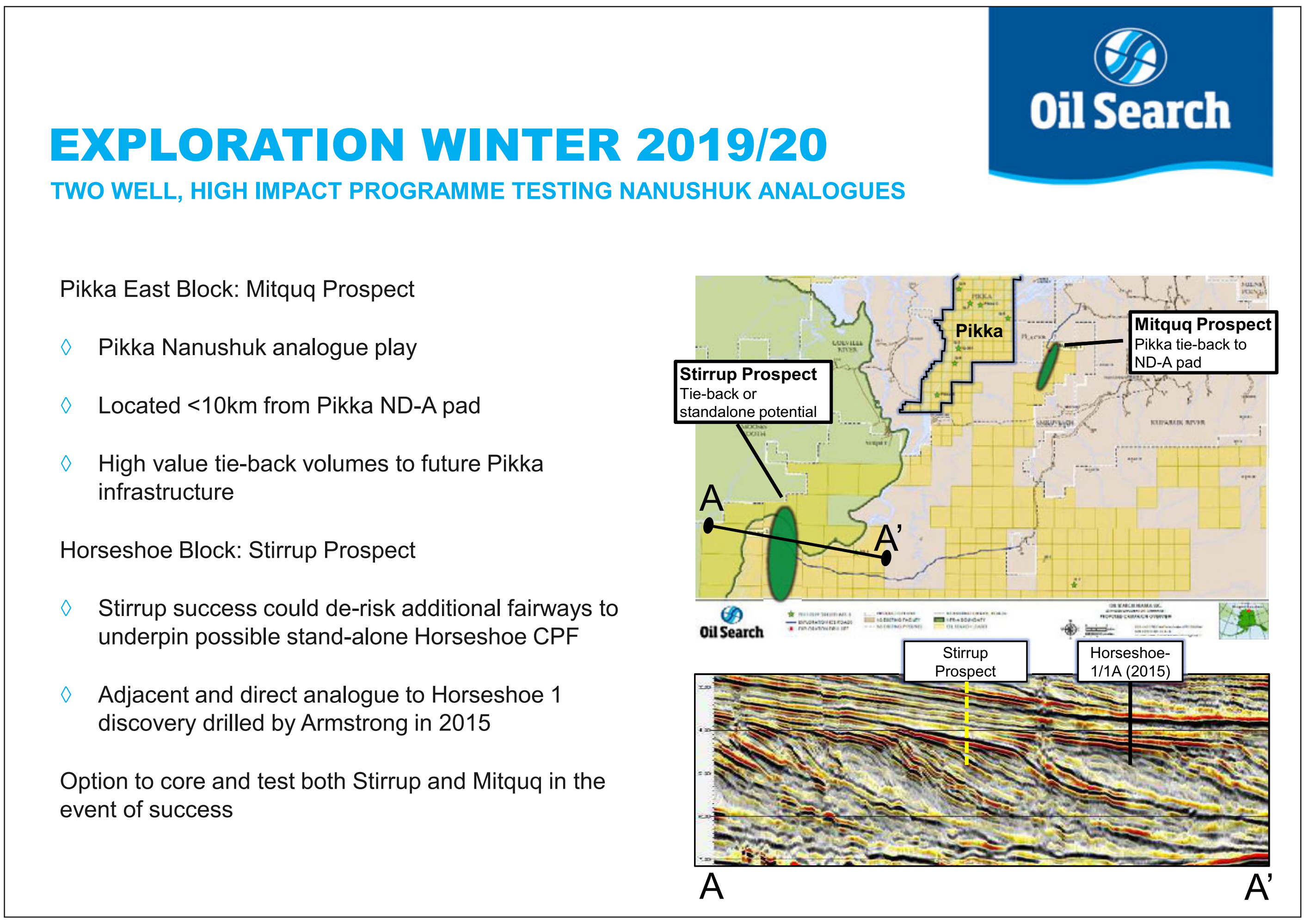
The project will include one main 26.1-mile ice road that is 35 feet wide from the gravel DS-2P access road, 10 spur ice roads for water source access, four ice pads for staging, construction, telecommunications and drilling, a staging area at drill site 2P and one ice airstrip.

All told, there will be 29.6 miles of ice roads, including the spurs.

Water and ice chips from nearby lakes will be used to build the roads.

Per the application, Stirrup 1's surface hole location is Umiat meridian, township 8N, range 3E and section 8 in ADL 392043, whereas the cover letter for the lease plan of operations said the affected lease where drilling activities will occur is ADL 392044.

Unlike the Mitquq 1 application no well bore location is provided for Stirrup 1.



Note: Horseshoe 1 and 1A were drilled in early winter of 2017, not 2015.

Unlike Mitquq 1, a 200 foot by 5,000 foot ice airstrip may be built to "support contingencies for personnel or equipment transport to the Stirrup 1 drilling location.

Prepacking, snow trail and staking is expected to start Nov. 1, along with ice road and ice pad construction.

Mobilization of drilling equipment is scheduled to get underway Jan. 1, with drilling operations to begin Jan. 31 and be completed by April 15.

The company plans to use Doyon Arctic Fox drill rig, with the Stirrup well design like that employed in previous exploration wells and in accordance with a, AOGCC permit to drill.

Well stimulation and flow testing activities may be performed at the well site if deemed appropriate. If testing occurs, approximately 60 to 80 bulk tanks (up to 600 barrels each) will be placed onsite to hold drilling fluids/crude oil during testing.

In compliance with air quality regulations, a safety flare would be utilized during well testing.

Upon completion of drilling activities, the well will be plugged and abandoned prior to demobilization from the site

Per Oil Search's application, drilling operations will include several temporary structures at the well site ice pad, including maintenance buildings, storage connexes, camps, office buildings, a communication tower, and other small temporary support structures.

All buildings and equipment will be hauled to the project from Deadhorse and will be removed at the completion of drilling operations

Unlike Mitquq 1, a 200 foot by 5,000 foot ice airstrip may be built to "support contingencies for personnel or equipment transport to the Stirrup 1 drilling location. A fixed wing aircraft, or helicopter may make contingency visits … to evacuate personnel or equipment as needed. Flights may originate from the Deadhorse Airport, or elsewhere, if required due to weather conditions, emergencies, or as needed to support drilling operations. The number of flights would be the minimum necessary for the safe transport of personnel," Oil Search said in its application.

Stirrup seismic testing

The division also received a miscellaneous land use permit application from Oil Search to conduct seismic testing at the Stirrup 1 drill site, which was included in the public notice. The company posted a $500,000 bond for the work.

To support what the division described as an exploration project, Oil Search will conduct a walkaway vertical seismic profile and microdeformation fracture mapping, more commonly known as a tiltmeter survey, at the well.

The geophysical surveys, the company told the division, will allow it "to obtain a better understanding of fracture geometry and reservoir characteristics in the exploration area."

—KAY CASHMAN

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BOND HEARINGS

The new regulations went into effect in May. In July, the commission notified companies with permitted wellheads of the amount of additional bonding required, which is based on the number of permitted wellheads: $400,000 per well for one to 10 wells; $6 million for 11-40 wells; $10 million for 41-100 wells; $20 million for 101-1,000 wells; and $30 million for more than 1,000 wells.

hearings had not been set when this issue of Petroleum News went to press.

Malamute Energy

A hearing on a reconsideration request from Malamute Energy has been set for Jan. 16 at 10 a.m. at the AOGCC's Anchorage offices. The commission said it would also accept written comments through the end of the hearing.

Malamute Energy's letter is from Leonard Sojka, the company president.

He said Malamute owns 97.5% of and is the designated operator for Renaissance Umiat LLC, which has two suspended wells on federal Bureau of Land Management leases at Umiat.

Sojka said Malamute currently has a $200,000 bond on file with AOGCC and has also posted bonds totaling $200,000 with BLM for the same two wells for what he said was the same regulatory purpose.

Because of the two sets of bonds, he told the commission, Malamute should only be required to post an additional $400,000. (That would bring the company's bonding total to $800,000, AOGCC's requirement for two wellheads.)

Sojka said the two wells at Umiat, drilled in 2013 and 2014, are good modern wells, neither of which will flow to surface without added pressure.

"The wells thus pose very little risk of rupture or environmental release," he said.

In addition to the bonds already posted with the state and BLM, Malamute has $10 million in pollution liability insurance with the Alaska Department of Environmental Conservation.

"Therefore," Sojka concluded, "the State of Alaska has very low economic exposure to costs from the Umiat wells."

Alaskan Crude Corp.

A hearing for reconsideration of the bonding amount for Alaskan Crude Corp. is scheduled for Jan. 23 at 1 p.m. at AOGCC's Anchorage offices, with written comments accepted through the end of the hearing.

Alaskan Crude's response is from attorney James B. Gottstein, who takes issue with the constitutionality of the commission's actions, as well as with the fact that the commission's letter was sent to the wrong address, so James White, president of Alaskan Crude, only received the July 9 letter July 24.

Alaskan Crude has three existing wells, Burglin 33-1, Mike Pelch 1 and Katalla KS-01 and the additional bonding amount would be $1 million (three times $400,000 less the existing $200,000 bond).

Gottstein said increasing bonding requirements for existing permit holders is not legal under the Alaska Constitution. He also said the commission's new regulations "go beyond the scope of the authorizing statute." He cites Alaska statutes on the commission's bonding authority which describe a "reasonable bond" sufficient to plug dry or abandoned wells or repair a well causing waste, while the new regulations "go far beyond that allowed by the statute."

Amaroq Resources LLC

A hearing on an application for reconsideration of bonding amounts by Amaroq Resources is set for Feb. 18 at 10 a.m. at the commission's Anchorage offices, with written comments accepted through the end of the hearing.

Amaroq's request for reconsideration and hearing is from attorney William Bankston of Bankston Gronning Brecht.

Bankston said AOGCC told Amaroq its new bonding requirement would be $2.4 million for six permitted wellheads. Amaroq, previously Aurora Exploration, acquired five state leases and associated wells in the Nicolai Creek from Aurora Gas in a bankruptcy proceeding.

Amaroq posted the required $200,000 blanket bond — a requirement for approval of the lease transfers.

The Department of Natural Resources notified Amaroq in early July that a dismantlement, removal and restoration agreement between DNR and Amaroq might not be a sufficient substitute for AOGCC's new bonding requirements.

Bankston said the DR&R agreement requires Amaroq to fund a trust account over a five-year period "for the amount independently determined to be required to dismantle, remove, and restore the surface of the Nicolai Creek Unit after production ceases," with any residual funds in the trust account and a $500,000 bond held by DNR to be released only after Amaroq submits a letter from AOGCC stating that Amaroq has plugged and abandoned all Nicolai Creek wells to the satisfaction of AOGCC.

"Amaroq accepts responsibility for the full cost of plugging and abandoning the six wells at the Nicolai Creek Unit," Bankston said, and has financial incentive to do the work because of the $700,000 (the total of the bonds and trust account).

He said the actual cost of plugging and abandoning the six wells "is significantly less than the $2,400,000 bond now required by the AOGCC," and cites an estimate by J.E. Jones, former president of Aurora Gas, that AOGCC had approved a procedure to plug and abandon wells on Cook Inlet Region Inc. land at an estimated cost of between $100,000 and $250,000 per well. "Jones knows of no reason why the costs to plug and abandon wells in the Nicolai Creek Unit would be significantly different from the estimated costs related to the wells on CIRI land," Bankston said.

He listed six grounds as the basis for the reconsideration request.

"AOGCC's additional bonding requirement is not reasonable or based upon any articulated facts and appears to be a decision unsupported by any financial information, cost estimates, or bids for plugging and abandoning the Nicolai Creek wells."

AOGCC requires an additional $2.2 million from Amaroq, in addition to the $200,000 bond the company already has for its wells. Bankston said the revised regulation "places the onus on an operator to challenge the increased bonding requirement, rather than placing the burden on the agency to first prove the necessity of the bond."

Second, the additional bonding requirement retroactively applies a new bond requirement not in place when Amaroq acquired the leases, Bankston said, and since Amaroq already had a bond in place, the regulation "may not be retroactively applied to impose an additional $2,200,000 in bonding."

Third, "AOGCC has violated Amaroq's due process rights by issuing findings without a hearing," Bankston said, arguing that an agency "must comply with notions of due process enshrined in the Alaska Constitution, Art. 1, sec. 7."

The fourth ground is that the new regulation "places a disproportionate bond requirement on small scale producers."

Bankston notes that the minimum bond per well in each of the four categories is $400,000 (for one to 10 wells), $150,000 (11-40 wells), $100,000 (41-100 wells), $20,000 (101-1,000 wells) and $29,970 (for more than 1,000 wells), with large companies receiving the most favorable treatment (those operating up to 1,000 wells), followed by those operating more than 1,000 wells.

"The practical impact of the new bonding requirements is to discriminate against small companies and discourages small operators."

Fifth, Bankston says that forcing Amaroq to post an additional bond "constitutes a regulatory taking" which "could easily render Amaroq illiquid and torpedo its attempts to develop the Nicolai Creek Unit."

And sixth, because "AOGCC has declined to consider a variance from the bonding requirements without allowing Amaroq an opportunity for a hearing," which requires publishing notice, it "may unduly delay operations of the Nicolai Creek Unit." ●

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