



## CPAI pauses Fiord West ERD; more state Cook Inlet lease sales

IN A MAY 18 STATUS UPDATE of an April 11 annual update to federal and state officials on the 24th Colville River unit plan of development, ConocoPhillips Alaska Inc. says it recently completed drilling the Fiord West CD2-310 well and given the “significant challenges seen” in the well, its “drilling plans for 2022 have been updated to include a drilling break” on Doyon Rig 26 this summer to be able to “improve ERD drilling operations.”

The huge extended reach drilling Rig 26, also known as the “Beast,” started drilling the Fiord West CD2-310 well in

see **INSIDER** page 9



## Great Bear Pantheon's 2-well Alkaid exploration plan approved

On May 13, Alaska's Division of Oil and Gas approved Great Bear Pantheon's unit plan of operations to carry out the Alkaid 2 and Alkaid 3 exploration program in the Alkaid unit approximately 20 miles south of Deadhorse on Alaska's North Slope. The project will start in May 2022 and be finished no later than Feb. 1, 2024.

The Alkaid 2 and 3 gravel pads, positioned 4 miles apart, will each sit 1,000 feet west of the Dalton Highway.

Each pad will have two access roads connecting directly to the highway. The ingress portion of the access roads will be 2,500 feet by 40 feet for Alkaid 2 and 1,200 feet by 40 feet for Alkaid 3. Both egress roads will be 1,000 feet by 40 feet.

see **ALKAID PLAN** page 10

## Hilcorp plans more Cook Inlet drilling, applies to NOAA for IHA

Hilcorp Alaska has applied to NOAA Fisheries for incidental harassment authorizations for the possible disturbance of marine mammals during a planned offshore drilling program in Cook Inlet. The authorization would apply to the use of tugboats for towing a jack-up drilling rig to various drilling sites. The sites are all within what Hilcorp characterizes as the middle Cook Inlet, the area containing existing offshore oil and gas production platforms. The planned drilling operations do not encompass the lower Cook Inlet, where Hilcorp has exploration interests in federal offshore leases.

An incidental harassment authorization, or IHA, allows the minor, unintended disturbance of marine mammals. And an authorization specifies precautions that must be taken to avoid

see **HILCORP DRILLING** page 10

## ConocoPhillips takes AOGCC, DNR to court on well data release

ConocoPhillips Alaska is challenging the Alaska Department of Natural Resources in court over release of well data for exploratory wells it drilled in the National Petroleum Reserve-Alaska. In separate litigation it is requesting a permanent injunction preventing the Alaska Oil and Gas Conservation Commission from releasing the data it holds from a group of NPR-A wells.

At issue is the state requirement that AOGCC release well data from exploratory and stratigraphic wells 24 months after the 30-day filing period after well completion



**CORRI FEIGE**

see **WELL DATA** page 7

### FINANCE & ECONOMY

# ANS most wanted oil

At \$118.59 May 16, ANS beats out all major worldwide crude benchmarks

By **STEVE SUTHERLIN**

Petroleum News

Alaska North Slope crude dove \$4.05 May 18 to close at \$113.66 per barrel, while West Texas Intermediate dropped \$2.81 to close at \$109.59 and Brent dropped \$2.82 to close at \$109.11.

The downward move coincided with a sharp downturn in U.S. equity prices.

“The market is extremely volatile so any little news or stock market sell off” can cause outsized swings in crude markets, Dennis Kissler, senior vice president of trading, BOK Financial told Bloomberg May 18. “The fundamentals remain bullish.”

Indeed, U.S. commercial crude oil inventories

slid by 3.4 million barrels for the week ending May 13, the U.S. Energy Information Administration reported May 18. At 420.8 million barrels, inventories were 14% below the 5-year average for the time of year.

Gasoline inventories fell also, down 4.8 million barrels on the week, reaching a level 8% below the 5-year average for the time of year as the summer driving season approaches.

The slide in prices — which broke a rally that took ANS above \$118 — started May 17, coinciding with reports that the Biden administration was moving to ease oil sanctions on Venezuela for Chevron to negotiate and potentially restart operations there.

see **OIL PRICES** page 8

### LAND & LEASING

# North Slope methanol?

Part 1 of 2: Alyeschem LLC looks to make first local source of methanol

By **KAY CASHMAN**

Petroleum News

On March 2, Alyeschem LLC and Ahtna Petrochemical Products LLC applied to the Alaska Department of Natural Resources' Division of Oil and Gas for an assignment of state lease ADL 421055 from Ahtna Petrochemical to Alyeschem under Alaska Statute (AS) 38.05.070 and AS 38.05.920.

The division approved the assignment with an effective date of May 11. The current Entry Authorization, or EA, is set to expire on July 30.

The odd lot lease is located within active oil and gas lease ADL 28312 in the Hilcorp North Slope-

operated Prudhoe Bay unit, approximately one-half mile east of Drill Site 14 and 100 feet south of Flow Station 3, immediately adjacent to the Spine Road.

Alyeschem, which is owned by Walter Wilcox II (also known as JR Wilcox) and his family, intends to build a petrochemical plant to produce methanol on the 23-acre parcel in support of North Slope oil and gas activities. (An AS 38.05.070 lease cannot be used for mineral extraction.)



**JR WILCOX**

see **SOURCING METHANOL** page 11

### FINANCE & ECONOMY

# Diesel crunch not a fad

Curtailed supply from Russia squeezes tight market further, kicking prices up

By **ALLEN BAKER**

For Petroleum News

Diesel fuel prices across the United States — and around the world — have taken off in recent months. Reduced supply of Russian diesel and crude oil are part of the problem, but not all of it by any means. And it isn't likely to ease any time soon.

A recent report of the International Energy Agency outlines the dilemma:

“Limited spare capacity in the global refining system, together with reduced exports of Russian fuel oil, diesel and naphtha have aggravated the tightness in product markets, which have now seen seven consecutive quarters of stock draws,” the

*But refineries haven't been standing still. Instead, they've been cutting back on production.*

IEA says in its Oil Market Report for May 2022.

That means that even with the economic contraction of the pandemic, refineries couldn't keep up with the demand. With those relentless draws, middle distillate stocks in the developed countries are the lowest they've been since 2008, IEA says.

In the United States, diesel prices reached \$5.61 a gallon on May 16. That's up 73% — or \$2.36 a gallon — from just one year earlier, according to

see **DIESEL CRUNCH** page 11



● EXPLORATION & PRODUCTION

# Hilcorp evaluating new Cannery Loop wells

Company reports work accomplished under '21 POD, work planned under '22 POD — the 43rd — at Kenai Peninsula natural gas field

By **KRISTEN NELSON**  
*Petroleum News*

**H**ilcorp Alaska has filed the 43rd plan of development for its Cannery Loop unit on the Kenai Peninsula with the Alaska Division of Oil and Gas. The company said the plan will be effective from Aug. 1 through July 31, 2023.

Cannery Loop is one of the smaller Cook Inlet gas producers, accounting for some 2.2% of inlet natural gas in March, the most recent month for which Alaska Oil and Gas Conservation Commission production data is available.

Cannery Loop is one of the mature assets Hilcorp acquired in the Cook Inlet basin when it invested in Alaska properties more than 10 years ago.

In the POD, filed April 29, Hilcorp provided a report on the 2021 POD, which was approved by the division last year. For the 2021 POD, the company said it was evaluating potential development wells, including a sidetrack of Cannery Loop unit 10 which would target the Deep Tyonek sands. Hilcorp said it was also evaluating new information and production results from the

CLU 6RD “as well as ongoing intervention/recompletion activity.”

The company said it would evaluate adding velocity strings or other artificial lift options to enhance production from various wellbores and would evaluate and carry out additional well work opportunities “as they arise.”

“If well performance changes significantly on existing wells, a rig workover and/or perf ads will be evaluated as necessary to maintain and enhance existing CLU production,” Hilcorp said.

Hilcorp said production from Cannery Loop was 4.67 million cubic feet per day during calendar year 2021, with cumulative production from the unit 1.7 billion cubic feet for the year.

### Work completed under 2021 POD

Workover and wellwork projects the company completed under the 2021 POD include:

•CLU 14 — adding additional perforations in the Middle Beluga sands, which “were wet and brought in sand.” The company then used coil tubing to plug back existing perforations and perforate the Upper Beluga 4A

sand, increasing production by some 2.7 million cubic feet per day.

•CLU 15 — additional perforations were added in various Lower Beluga, Middle Beluga and Upper beluga sands, increasing production by some 300 thousand cubic feet, mcf, per day.

Hilcorp said it plans to complete rig workovers and non-rig wellwork projects during the remainder of the 2021 POD:

•CLU 01RD (Eline) — adding perforations in the Beluga sands;

•CLU 08 (Coil/Eline) — using coil tubing to gain access to add perforations in Upper Beluga sands;


•CLU 09 (Eline) — adding perforations to Beluga sands;



•CLU 13 (Coil) — cement tubing by inner annulus to add Upper Beluga perforations;

•CLU 05RD (RWO) — rig/rigless wellwork in preparation for potential sidetrack in 2022 POD period;

•CLU 10 (RWO) — rig/rigless wellwork in preparation for potential sidetrack in 2022 POD period; and

see **CANNERY LOOP** page 7

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• EXPLORATION & PRODUCTION

# State OKs work at small Cook Inlet fields

*Plans of development approved for Hilcorp Alaska-operated Ivan River, Lewis River, Pretty Creek — all west side natural gas fields*

By KRISTEN NELSON

Petroleum News

Hilcorp Alaska began acquiring Alaska oil and natural gas assets more than 10 years ago, beginning with mature Cook Inlet fields, in line with its Lower 48 business model of acquiring and extending the life of mature assets. Annual plans of development filed with the Alaska Division of Oil and Gas describe the company's continued work on those Cook Inlet assets, drilling new wells where appropriate and reworking older wells to maintain production.

The division recently approved Hilcorp's annual plans of development, PODs, for three small Cook Inlet gas fields — Ivan River, Lewis River and Pretty Creek — and for the Pretty Creek gas storage lease.

## Ivan River

The 52nd POD for Ivan River, approved May 9, covers June 1, 2022, through March 31, 2023. Ivan River is an onshore gas field on the west side of Cook Inlet formed in 1967 by Standard Oil Company of California, the division said. Hilcorp took over as operator from Union Oil Company of California effective Jan. 1, 2012.

The Ivan River unit was originally 24,439 acres; its current size is 2,295.34 acres. There are two participating areas, the Sterling-Beluga Gas PA and the Tyonek Gas PA.

Cumulative production since the inception of the unit through March 31 was 91.087 billion cubic feet of natural gas.

Under the 51st POD, approved for June 1, 2021, through May 31, 2022, Hilcorp planned to evaluate delineation opportunities in the PAs and a potential rig workover on the IRU 11-06, the division said.

From June 1, 2021, through March 31, Ivan River production averaged 8,208 thousand cubic feet of gas per day.

In August, Hilcorp proposed, and the division approved, drilling of a new well, IRU 241-01.

Hilcorp began drilling operations on the IRU 241-01 and completed the rig workover on IRU 11-06. The company also did a non-rig workover on the IRU 41-01, work not originally included in the 51st POD.

Hilcorp suspended drilling of the IRU 241-01 due to extreme winter conditions and will return to work on the well in the fourth quarter of 2022, the division said.

Under the proposed 52nd POD, Hilcorp plans to complete the IRU 241-01 and perform various non-rig well projects.

## Lewis River

The 47th POD for Lewis River, approved May 9, covers June 1 through May 31, 2023. Lewis River is an onshore gas field on the west side of Cook Inlet. The unit was formed by Cities Service Oil Co. in 1977 and Hilcorp took over as operator from Union Oil Company of California effective Jan. 1, 2012, the division said.

There are 620 acres in the unit and two participating areas, LRU Gas Pool No. 1 PA and LRU Gas Pool No. 2 PA, with all current production from the No. 2 PA.

From its inception through March 31, cumulative production from Lewis River was 16.625 billion cubic feet of natural gas.

For the 46th POD, June 1, 2021, through May 31, 2022, Hilcorp committed

to maintaining production from the LRU Gas Pool No. 2 PA, a plan the company revised in March 2021 to include plans to perforate a new Sterling sand in the LRU A1 well. The division said Hilcorp perforated the Sterling A in the LRU A1, "which proved unsuccessful."

From June 1, 2021, through March 31, LRU production averaged 1,039 thousand cubic feet per day, all from the No. 2 PA.

For the 47th POD, the division said Hilcorp commits to maintaining Lewis River production and performing various non-rig well projects.

## Pretty Creek unit

The division approved the Pretty Creek unit 44th POD May 9. Pretty Creek is an onshore gas unit on the west side of Cook Inlet, formed in 1977 by Union Oil Company of California. The unit has 12 tracts covering 4,660 acres entirely within the Beluga Participating Area, with cumulative production of 9.615 billion cubic feet through the end of March.

The division said Hilcorp took over as operator effective Jan. 1, 2012, and since then has cumulatively produced 149.96 million cubic feet of natural gas from Pretty Creek through the end of March.

"In August 2019, however, production ceased, and Hilcorp began work to restore production," the division said.

In the 43rd POD, covering June 1, 2021, through May 31, 2022, the division said "Hilcorp committed to evaluating the potential twin of the PC-4 well to access the Sterline sands discovered in its regional study conducted during the 42nd POD period, and conducting a coil cleanout of the PC-02 to access and perforate potential Sterling sands targets."

The company completed the coil cleanout of the PC-02 in July 2021, allowing it to isolate deeper Sterling sands, and perforated the Sterling X sand in December 2021. In January 2022 Hilcorp produced 1,807 thousand cubic feet of natural gas from the PC-02 over a three-day period, the division said.

In the 44th POD, covering June 1 through May 31, 2023, the company committed to maintaining production from the PC-02 well and doing various non-rig well projects.

## Pretty Creek gas storage lease

On May 9 the division also approved the 18th POD for the Pretty Creek gas storage lease. The lease was granted to Union Oil Company of California in October 2005 and amended in October 2011. The lease is on the west side of Cook Inlet within the boundaries of the Pretty Creek unit. Hilcorp took over operatorship effective Jan. 1, 2012.

In 2015 the division granted Hilcorp's request to extend the gas storage lease for

one additional 10-year term, expiring in September 2025.

There are some 1,998.8 acres in the gas storage lease, which "utilizes two gas storage horizons for storage operations" using Sterling 45-0 gas sands and Beluga 51-5 gas sands in the PC-4 well, the division said. Effective the end of March, the gas storage lease has cumulatively stored 7.12 billion cubic feet and withdrawn 6.66 bcf.

Under the 17th POD, Hilcorp planned to continue to use the gas storage lease for storage, with long-range plans including "a potential secondary compressor to allow the reservoir to be depleted to a lower pressure thereby maximizing recovery," the

division said.

During the 2021 calendar year the company injected 448.88 million cubic feet of natural gas and withdrew 558.97 mmcf, compared to injection of 320.65 mmcf and withdrawal of 613.99 mmcf during the 2020 calendar year.

For the 18th POD, effective June 1 through May 31, 2023, Hilcorp said it would "pursue improvements through various well, infrastructure and facility repairs as the need arises," the division said. ●

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## EXPLORATION & PRODUCTION

### Winter offroad tundra travel closed May 13

The Eastern and Western Tundra Opening Areas were closed for offroad winter travel May 13.

The Alaska Department of Natural Resources' Division of Mining, Land and Water said the coastal areas are no longer suitable for offroad travel, with widespread snowpack deterioration made evident by "large swaths of visible vegetation."

The division said that while snow quality in localized areas appears to be capable of supporting travel, "snow cover is highly variable across the region," with warm weather and sunny skies expected to continue to compromise snowpack.

All North Slope areas are now closed to offroad travel for the season.

The Upper Foothills tundra opening area was closed to offroad travel April 20; the Lower Foothills tundra opening area was closed May 6.

Because snow may be adequate for travel in some coastal areas, the division said it "may consider granting travel extensions on a case-by-case basis," with any exceptions requiring prior approval by an authorized representative.

Summer offroad travel may begin at 6 a.m., July 15, "unless otherwise notified," the division said, and applies only to holders of valid permits who obtain specific project approval and is further limited to vehicles approved by the division for summer offroad travel.

Specific area information and an area map are available online: <http://dnr.alaska.gov/mlw/tundratravel/>.

—KRISTEN NELSON

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EXPLORATION & PRODUCTION

US drilling rig count up by 9 to 714

The Baker Hughes’ U.S. rotary drilling rig count was 714 on May 13, up by nine from the previous week and up by 261 from 453 a year ago.

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

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

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

The May 13 count includes 563 rigs targeting oil, up by six from the previous week and up 211 from 362 a year ago, with 149 rigs targeting gas, up by three from the previous week and up 49 from 100 a year ago, and two miscellaneous rigs, unchanged from the previous week and up by one from a year ago.

Thirty-eight of the rigs reported May 13 were drilling directional wells, 651 were drilling horizontal wells and 25 were drilling vertical wells.

Alaska rig count unchanged

Oklahoma (57) was up by four rigs from the previous week. Colorado (16), Louisiana (63), North Dakota (36), Texas (345), Utah (13) and Wyoming (16) were each up by a single rig. Kansas (0) dropped the single rig working in the state the previous week. Rig counts in all other states were unchanged week over week: Alaska (8), California (7), New Mexico (98), Ohio (12), Pennsylvania (25) and West Virginia (14).

Baker Hughes shows Alaska with eight rotary rigs active May 13, unchanged from the previous week and up by four from a year ago, when the state’s rig count stood at four.

The rig count in the Permian, the most active basin in the country, was unchanged from the previous week at 335 and up by 104 from 231 a year ago.

—KRISTEN NELSON

*Baker Hughes shows Alaska with eight rotary rigs active May 13, unchanged from the previous week and up by four from a year ago, when the state’s rig count stood at four.*

EXPLORATION & PRODUCTION

New well possible at Hilcorp’s Deep Creek

Small gas field on southern Kenai Peninsula produces from two Happy Valley pads, averaging some 3 million cubic feet per day

By KRISTEN NELSON  
Petroleum News

Hilcorp Alaska has filed a 19th plan of development for its Deep Creek unit, a small gas field on the southern Kenai Peninsula east of Ninilchik. The 2022 POD, filed April 29 with the Alaska Division of Oil and Gas, covers Aug. 1 through July 31, 2023.

The Alaska Oil and Gas Conservation Commission lists the discovery well at Deep Creek as Union Oil Company of California’s Happy Valley A-01, drilled in 2003, although Superior Oil Co. drilled the Happy Valey Unit No. 31-22 well to a total depth of 13,550 feet measured depth in 1963. “Although this well penetrated several intervals that are currently known to contain productive sandstone reservoirs, the well was plugged and abandoned without testing. The operator’s plugging record states: ‘No productive zones encountered,’” the commission said in its Deep Creek Happy Valley pool overview.

Production began in 2004

Following the 2003 discovery well a confirmation well, Happy Valley No. 2, was drilled that same summer and tested gas from two different Lower Tyonek reservoirs than the two encountered in Happy Valley A-01. Unocal drilled nine additional wells from the Happy Valley A Pad in 2004, completing eight of those as gas producers, the commission said.

The company constructed a 15-mile pipeline and gas production facilities at A Pad, and gas sales began in late in 2004. Production from the Happy Valley Beluga/Tyonek gas pool peaked at an average of 13.5 million cubic feet per day in January 2005.

Hilcorp Alaska became owner and operator at Deep Creek on Jan. 1, 2012, and drilled three additional gas producers from a new drill site — Happy Valley B Pad, the commission said.

In its POD application, Hilcorp said Happy Valley participating area production averaged 3.02 million cubic feet per day in calendar year 2021, with another 657 thousand cubic feet per day from Happy Valley tract operations. The company said two wells, HVB 14 and HVB 15, produce on a tract basis.

AOGCC production data for March, the most recent month available, shows Deep Creek averaging just over 3 million cubic feet per day that month, accounting for 1.3% of Cook Inlet production.

During the 2022 POD period, Hilcorp said it is evaluating plans to do one of the following: drill a sidetrack well from HVB 16 or drill the HVB 18.

Hilcorp said cumulative participating area production during 2021 was 1,101 million cubic feet; cumulative tract production was 20 million cubic feet.

2021 POD work

In the previous POD, the 2021 plan, Hilcorp said it was evaluating the HVB 18 well, targeting the Tyonek sands. The company said additional Middle/Deep Tyonek wells, including the HVB 19, are “highly dependent” on results of HVB 18. AOGCC records show the most recent development well at Deep Creek, Happy Valley B-17, was completed in 2016.

Hilcorp said it was evaluating a rig workover for HVB 16. “Ideas include abandonment of open Beluga perforations, pull tubing, and recomple well to the Sterling A sand.” It also planned a recompletion to the Sterling C in the HVB 14.

During the 2021 POD, Hilcorp added Tyonek and Beluga perforations to the HVA 10 well.

The HVB 18 was not drilled in the 2021 POD period, neither were additional Middle/Deep Tyonek wells, including HVB 19.

The rig workover at HVB 16 was not conducted, neither was the recompletion to Sterling C at HVB 14.

2022 POD plan

During the 2022 POD period, Hilcorp said it is evaluating plans to do one of the following: drill a sidetrack well from HVB 16 or drill the HVB 18.

“Both wells would be targeting the Tyonek sands,” the company said.


Hilcorp said it would “evaluate and execute additional well work opportunities as they arise,” adding that if there are significant changes in well performance it would evaluate rig workovers, perf adds, water shut-offs or fill cleanout “as necessary to maintain and enhance DCU production.”

No major facility upgrades are planned for the 2022 POD period. ●

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Congratulations

# Congratulations on Alkaid!



Congratulations Great Bear Pantheon on your plan to produce oil from the Alkaid unit on Alaska’s North Slope this summer using a \$1M test facility.



Patrick Galvin

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## EXPLORERS PREVIEW

# ConocoPhillips resetting from pandemic

COVID-19 curtailed big plans for 2020 on Alaska North Slope; focus on leases west of Colville River; has also explored to south

By ERIC LIDJI

For Petroleum News

If you look at a chart of ConocoPhillips' exploration activity on the North Slope over the past two decades, it echoes the average ANS West Coast spot prices over the same time.

ConocoPhillips has been the most prolific explorer in Alaska in the 21st century and also the most consistent. It is the only explorer from the mid-1990s still actively exploring in the region. And yet, on three occasions over the past two decades, it has had multi-year down cycles: 2010 and 2011, 2015 and 2017, and the present: last year and this year.

The first followed the bust of late 2008, when prices fell from a high above \$130 to a low below \$40 between June and December. The second followed the bust of 2014 through 2016, when prices fell from a high above \$110 to a low around \$30. The third and current follows the bust of early 2020, when prices fell from a high above \$65 to a low of \$16.



EREC ISAACSON

So what does that mean for ConocoPhillips in the near term?

One takeaway: ConocoPhillips always bounces back.

Between 2011 and 2015, it undertook crucial early exploration at the Greater Mooses Tooth unit. Between 2017 and 2020, it made its Willow discovery at Greater Mooses Tooth, and explored the Putu and Stony Hill prospects south of the Colville River unit.

Another takeaway: the current situation is unusual and awkward, and therefore hard to use for prediction. Oil prices fell due to the global shutdown at the start of the pandemic, a one-in-a-century event. With economies opening, oil prices are now rising again.

That should signal a return to exploration. But the "relatively high" prices of January and February 2022 were the same as the "relatively low" average prices from late 2014, when ConocoPhillips was last slowing its exploration activities. The bounce in oil prices following the Russian invasion of Ukraine only complicated things further: does it represent a short-term response to geopolitics or a sustained change in the market?

Whenever exploration activities resume, ConocoPhillips will be in the envious position of having to choose among many favorable options for where to begin investing. The company has promising plays to the north, south and west of its existing developments.

## 'Hitting reset'

In a presentation at Meet Alaska in late March 2021, ConocoPhillips Alaska President Erec Isaacson described 2021 as "hitting reset." The company would focus on lowering costs and engaging stakeholders and would also resume regular development drilling, as well

as progress on \$1.1 billion in projects across the North Slope: Greater Mooses Tooth No. 2 construction, Alpine expansion, Willow permitting, Nuna development and ongoing work at the Eastern NEWS (North East West Sak) at the Kuparuk River unit.

But prior to the pandemic, ConocoPhillips had been expanding exploration activities.

In addition to its long-standing movement to the west, it was pursuing emerging opportunities closer to its existing units at the western edge of the central North Slope, most notably in the Torok and Nanushuk formations around the Kuparuk River unit.

ConocoPhillips was planning a seven-well exploration program for 2020, but it had only completed three wells when the pandemic forced companies to curtail their activities.

Even when restrictions eased, the company suspended some drilling activity, pending the results of the Nov. 3 ballot initiative to increase oil production taxes in the state. After the ballot measure was defeated, ConocoPhillips resumed development work at the Kuparuk River, Colville River and Greater Mooses Tooth units but made no exploration plans.

## Willow and Harpoon

The undrilled wells from 2020 were associated with the Willow development.

With its initial developments at the Greater Mooses Tooth unit underway, ConocoPhillips began pursuing exploration targets to the west. The two-well Tinmiaq program in early 2016 led to a major discovery announcement in early 2017: the Willow prospect was estimated to contain as much as 300 million barrels of recoverable oil in the Nanushuk formation and could potentially produce as much as 100,000 barrels per day at its peak.

ConocoPhillips returned with a four-well program in 2018 (Tinmiaq No. 7, No. 8 and No. 9 and West Willow No. 1) and a five-well program in 2019 (Tinmiaq No. 10, No. 11, No. 13, No. 15 and No. 16, along with re-entry of Tinmiaq No. 2 and Tinmiaq No. 9).

The company announced a six-well program for 2020 but was only able to complete two wells (Tinmiaq No. 18 and No. 20) before coronavirus restrictions interceded. The company still holds permits for the un-drilled Tinmiaq No. 19 and Tinmiaq No. 24 wells.

Seismic activity had also identified an anomaly at the Harpoon prospect, southwest of Willow. Before launching an exploration program, ConocoPhillips Executive Vice President of Exploration and Production Matt Fox said, it "looks like there could be ... quite substantial resources. Now it could be gas and it could be water. It's almost certainly a reservoir, because we're pretty sure that's what the seismic signature's telling us ... but it



doesn't have to be huge for it to be a tieback to the Willow hub."

In addition to the six Tinmiaq wells, the company planned four "rank exploration" wells at Harpoon — 10 well locations intended to support a seven-well drilling program.

ConocoPhillips completed the Harpoon No. 2 well before the pandemic shutdown in early 2020, leaving Harpoon No. 1, Harpoon No. 3 and Harpoon No. 4 undrilled.

ConocoPhillips later announced that Harpoon No. 2 had been a dry hole. In a subsequent earnings call, Fox said that the company intended to return to the area. He described a larger "Harpoon Complex" containing Harpoon, Lower Harpoon and West Harpoon.

## Narwhal

For years, ConocoPhillips focused the bulk of its onshore exploration energy on its leases west of the Colville River unit. But in recent years, it has also explored to the south.

Earlier this year, the company began sustained production from the Narwhal participating area in the southeast corner of the Colville River unit, adjacent to the Pikka unit. The company is currently utilizing the existing CD4 pad and plans to build a new CD8 pad.

The news was a major milestone for the stubborn prospect.

ConocoPhillips began pursuing the so-called Titania prospect in 2002, but the state terminated the leases in 2004 after the company failed to meet drilling commitments.

A few years later, a joint venture operated by Brooks Range Petroleum Corp. pursued the acreage as the Tofkat prospect. The company encountered hydrocarbons in early 2008 with the Tofkat No. 1 well and two sidetracks. It formed the Tofkat unit in October 2011. The state terminated the unit in March 2016, when BRPC missed work commitments.

ConocoPhillips acquired the acreage again and asked to incorporate the leases into the Colville River unit. The state approved the request with conditions, including drilling commitments. The company drilled the Putu No. 2 and Putu No. 2A wells in early 2018 and later announced a 100 million to 350 million barrel discovery at Narwhal.

With that announcement, ConocoPhillips shifted to development at Narwhal. The existing infrastructure in the area allowed the company to quickly bring it online.

## Stony Hill

As part of the original exploration campaign in the area in 2018, ConocoPhillips also explored the Stony Hill prospect in the NPR-A, south of the village of Nuiqsut.

The Stony Hill No. 1 well and Stony Hill No. 1A

see EXPLORERS PREVIEW page 7

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## WELL DATA

unless the agency is notified that the DNR commissioner “has made a finding that the required reports and information from a well contain significant information relating to the valuation of unleased land in the same vicinity,” AOGCC regulations specify, in which case AOGCC will hold that information confidential beyond the 24-month period until notified by the DNR commission to release the data.

AOGCC has the data from the NPR-A wells because it issues drilling permits for all wells within the state, irrespective of land ownership, and those permits require data submission.

### ConocoPhillips request

In April 2020, ConocoPhillips Alaska asked the DNR commissioner to notify AOGCC that DNR recognizes that well data for the Stony Hill 1, Tinmiaq 7-9 and West Willow 1 wells, all drilled on federal leases in the National Petroleum Reserve-Alaska, must remain confidential indefinitely.

In November 2020, the commissioner’s office requested that ConocoPhillips provide additional technical information.

DNR Commissioner Corri Feige denied the request Oct. 26, 2021, and on Nov. 26 she denied a request for reconsideration.

On Dec. 28, ConocoPhillips appealed the commissioner’s decision in Alaska Superior Court.

On May 13, the company filed in U.S. District Court for a permanent injunction prohibiting AOGCC from releasing the data.

### The commissioner’s decision

In her Oct. 26 decision, Feige focused on the state’s criteria for keeping well records confidential — that there is unleased acreage within 3 miles of the well, or in cases where the distance is greater, that areas are not available for lease.

“Extended confidentiality is appropriate in some circumstances where there are exogenous events and unleased acreage in the vicinity of a well, but an operator does not have occasion to make competitive use of information they have gathered during the 24 month period,” she said. While regulations do not directly address lands beyond 3 miles, they provide that if lands within 3 miles are offered for lease and receive no bids, “extended confidentiality will not be provided,” Feige said.

### Federal promises of confidentiality

ConocoPhillips said in its Alaska Superior Court filing the commissioner “erred by refusing to grant an evidentiary hearing”; that the company had met its burden that the well data contains significant information relating to the value of unleased land in the vicinity of the well; that the wells were drilled on federal lands in the NPR-A under lease terms requiring the well data to be kept confidential during the term of the leases; and that the commissioner failed to exercise “her discretion to align state and federal approaches to well confidentiality for well data on federal lands.”

In its filing for a permanent injunction against AOGCC, the company argued the commercial value of the well data, telling the court it invested “tens of millions of dollars” exploring NPR-A, “drilling a series of wells on federal lands pursuant to federal leases under federal law.” The company said it made the investments based on “the federal government’s express confirmation that the highly valuable

data obtained from this exploratory work” would be held confidential during the term of the company’s leases, “thus preventing competitors from taking unfair advantage of CPAI’s efforts.”

ConocoPhillips said it is entitled to confidential treatment of its well data under federal law and asked that the injunction protect “any and all present and future data obtained by CPAI” on federal leases.

### Issue with wells on state land

Last June, ConocoPhillips requested extended confidentiality for CD-595 and CD-594, exploratory wells drilled on state acreage in the Colville River unit.

Feige denied the request in an Oct. 26 decision.

She said ConocoPhillips identified unleased acreage within 5 miles of the wells.

Citing DNR regulations, Feige said the commissioner has discretion in the interests of the state to extend confidentiality if the company makes “a significant showing that the reports or information contain significant information relating to the valuation of unleased land beyond the three-mile radius.”

Feige said there are only small unleased areas within 3 miles of the wells, and it is not in the state’s interest to extend confidentiality because ConocoPhillips, which formerly held the nearest available acreage, “failed to produce from this acreage and maintain it beyond its primary term.”

She said DNR’s regulations do not directly address lands beyond 3 miles but do provide that when lands within 3 miles “are offered for lease and receive no bids, extended confidentiality will not be provided.”

—KRISTEN NELSON

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## EXPLORERS PREVIEW

sidetrack on federal lease AA-00093131 encountered oil in two zones. But the company felt that the prospect required additional appraisal drilling and analysis — similar to its early evaluations of Putu.

The Putu wells were closer to infrastructure and came first, suggesting that Stony Hill could be a higher priority whenever ConocoPhillips resumes exploration activities.

ConocoPhillips described Stony Hill as a prospect similar to Willow and estimated that it contained at least 300 million barrels of recoverable oil in the Nanushuk formation. In November 2017, ConocoPhillips executive Matt Fox said the company had identified “a lot” of Willow lookalikes in the Nanushuk and “every one of them we’ve drilled so far has had oil in it, so we’re hopeful that several of these Willow lookalikes will deliver.”

### Nuna

ConocoPhillips also expanded its onshore exploration north of the Kuparuk River unit in 2019, when it acquired the Nuna prospect from Caelus Natural Resources Alaska LLC.

Pioneer Natural Resources drilled the Nuna No. 2 discovery well during the 2012-13 winter drilling season, estimating ultimate oil recovery between 75 million and 100 million barrels of oil from the Torok formation of the Brookian sequence. Caelus later estimated that Nuna could produce 25,000 barrels of oil per day over 20-30 years.

Caelus Natural Resources sanctioned a \$1.4 billion development in 2015 and received a royalty modification from the state. But the company paused work a few years later over concerns about the economic climate and ultimately left the state in 2019. It sold the Oooguruk unit to minority partner Eni and sold the Nuna satellite to ConocoPhillips.

ConocoPhillips has yet to announce its plans for Nuna, but the prospect fits within the company’s stated goals. It can be pursued using existing infrastructure, and it sits within a formation where ConocoPhillips has been accumulating information for nearly a decade.

In mid-2021, ConocoPhillips announced the Coyote discovery east of

Nuna. At the time, ConocoPhillips Alaska President Erec Isaacson said Coyote was in the Brookian topset above the Nuna Torok discovery, describing Coyote as shallow: i.e. a Nanushuk play. ●

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## CANNERY LOOP

•Additional rig/rigless wellwork may occur in preparation for potential sidetrack(s) in 2022 POD period.

Also under the 2021 POD, Hilcorp said an additional sales compressor is planned to be installed in the second quarter on CLU pad 3 to increase throughput.

The company said it completed all approved development work at Cannery Loop during the 2021 POD period.

### 2022 POD

Under the proposed 2022 POD Hilcorp said it is evaluating additional wells for the Beluga and Tyonek sands, with timing “dependent upon current risked resource and economies, market demand, pipeline and compression capacity, and competitiveness within Hilcorp’s gas project portfolio.”

The company said it does not have planned exploration or delineation activities for any land at Cannery Loop which is not included in a participating area.

Current gas production from Cannery

Loop will be “maintained and enhanced” and Hilcorp said it will evaluate adding velocity strings and/or other artificial lift options to enhance production.

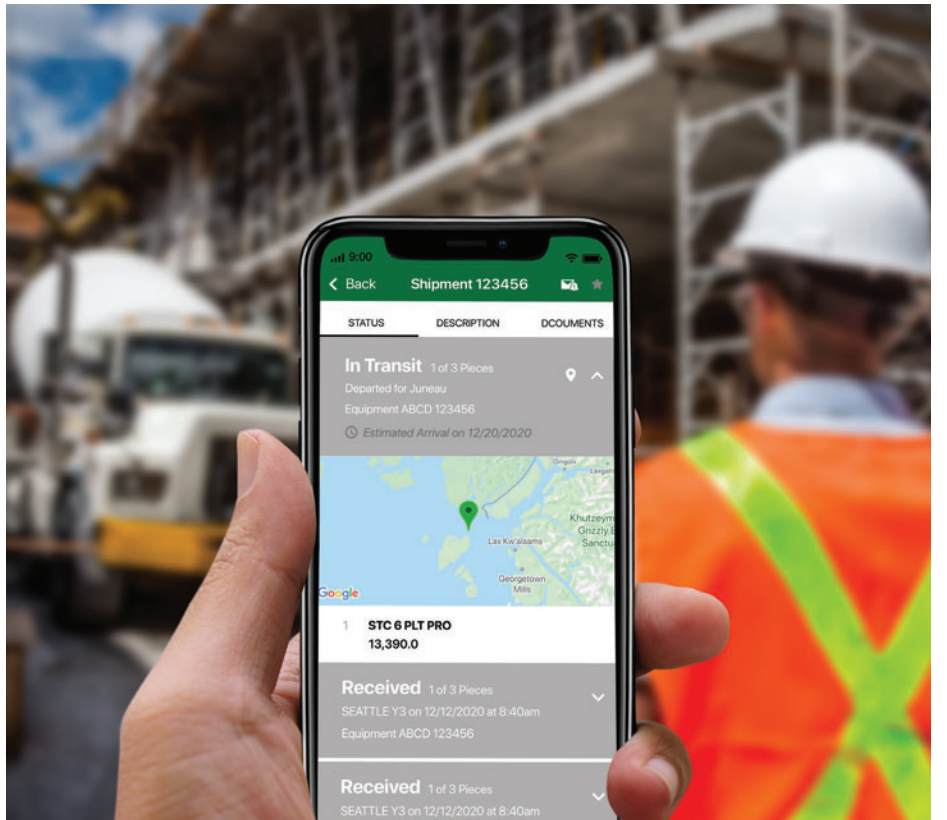
The company anticipates drilling one grass roots well targeting the Beluga and Tyonek formations, “pending results from initial sidetrack drill well results.”

Up to three sidetracks are anticipated targeting the Beluga and Tyonek formations from shut-in wells.

Various rig and non-rig well projects are planned during the 2022 POD, potentially including: preparations for potential sidetrack(s); coil cleanout operations; adding perforations of additional gas sands; setting plugs or patches for potential water shutoff activities; and additional wellwork opportunities which will be evaluated and executed as they arise, Hilcorp said.

Installation of a sales compressor is planned for CLU pad 1 during the third quarter to increase throughput from the facility. ●

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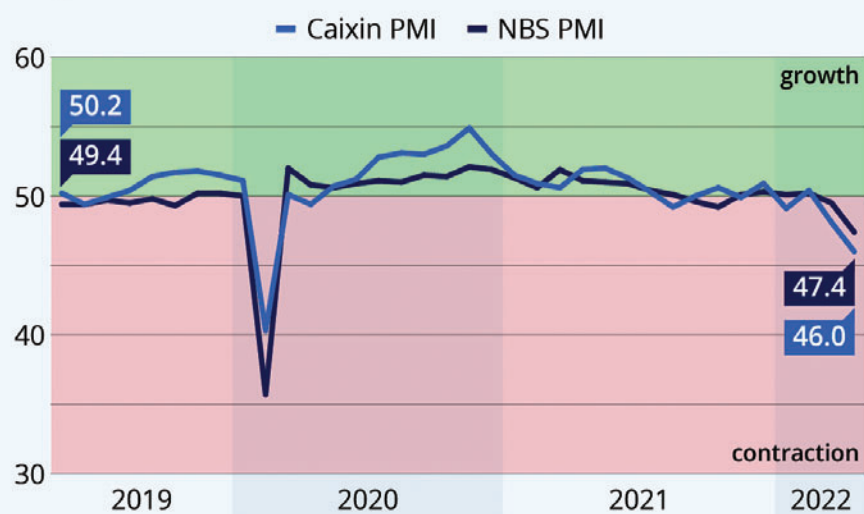
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## China's Covid Lockdowns Hit Industrial Production

Manufacturing purchasing managers indices for China by Caixin and the National Bureau of Statistics



Sources: Investing.com, National Bureau of Statistics China



statista

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## OIL PRICES

“The perception that we could see some more supply coming, Venezuela coming into the market, along with the equity markets, it’s causing some profit taking in a much-needed technical correction in the crude,” Kissler told CNBC May 17.

ANS slipped 89 cents May 17 to close at \$117.71, as WTI fell \$1.80 to close at \$112.40 and Brent slid \$2.31 to close at \$111.93.

ANS extended its premium over Brent, closing a colossal \$5.78 above the European benchmark on the day to reflect strong West Coast demand for the Alaskan product to replace banned Russian crude.

Notably, on the price differential front, WTI notched a 47 cent premium over Brent on the day, upsetting a long-held relationship between the benchmarks in which Brent is the pricier of the two.

The relative strength of WTI may stem from the drop in U.S. oil and gasoline inventories, possibly coupled with demand weakness in Europe due to energy supply disruptions as the EU scrambles to replace Russian oil, natural gas, and

refined products.

Traditionally, Brent — which reflects North Sea crude — is more easily shipped out to capitalize on higher prices, while WTI has been somewhat landlocked and more at the will of central U.S. markets. The isolation of WTI is less of a factor now due to infrastructure additions that facilitate ocean shipping of WTI oil, at a time when Brent oil is needed closer to home due to the war-stoked undesirability of supplies from Russia.

Long-term, the course of the relationship is yet to be determined; WTI held a premium over Brent on May 18 as well.

ANS rose \$2.61 May 16 to close at \$118.59, while WTI leapt \$3.71 to close at \$114.20 and Brent jumped \$2.69 to close at \$114.24.

At its May 16 close, ANS was the most valuable of the world’s major benchmark crudes, despite a strong showing by OPEC basket crude at \$117.20.

ANS popped \$3.60 higher May 13 to close at \$115.99, as WTI leapt \$4.36 to close at \$110.49 and Brent leapt \$4.10 to close at \$111.55.

On May 11, ANS closed at \$111.79, WTI settled at \$105.71 and Brent settled at \$107.51. Wednesday to Wednesday, ANS closed \$1.87 higher on May 18.

## Sleeping dragon

COVID-19 lockdowns are inflicting considerable damage on the Chinese economy.

Currently, concerns over oil demand in China are holding prices in check. Some 46 cities are under lockdown, hitting travel, shopping and manufacturing.

April retail sales fell 11.1% year-over-year, versus a 6.1% slowdown projected by a Reuters poll.

Industrial production was expected to post a slight increase, but it ended up falling 2.9%. China processed 11% less oil in April, with daily throughput hitting at the lowest level since March 2020.

The lockdown situation seems to be getting worse.

Goldman Sachs analysts cut their forecast May 17 for China’s GDP to 4% from 4.5%. The International Monetary Fund reduced its China growth forecast for the second time this year, to 4.4%, well shy of China’s official target of 5.5%.

For the five major car companies in Shanghai, production plunged by 75% in April from March, the China Passenger Car Association said.

Beijing reported more new cases May 17, while Tianjin’s Binhai area put another area under lockdown, according to a May 17 Bloomberg report.

The unemployment rate in China’s 31 largest cities hit a new high of 6.7% in April, according to data going back at least to 2018, according to a May 15 CNBC report.

The unemployment rate across cities rose by 0.3% from March levels to reach 6.1% in April, it said, adding that the jobless rate in the 16 to 24 age group was three times higher at 18.2%.

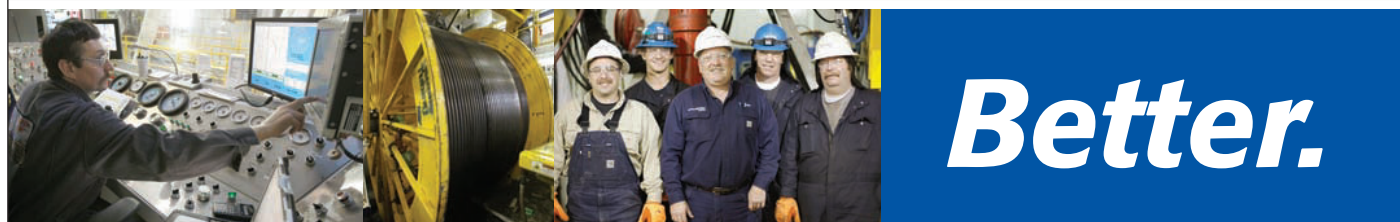
But there is light at the end of the tunnel.

Shanghai city announced May 15 that it would begin to allow restaurants to reopen gradually, and it said May 16 that it planned to resume normal production and life by the middle of June.

Despite the draconian lockdowns in the world’s second largest oil consumer (after the United States), oil prices remain above \$100.

The lockdowns are artificial, and temporary. Once the sleeping dragon awakens, the tailwinds for oil prices will be fearsome. ●

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## INSIDER

second quarter 2021. Petroleum News sources say the rig is currently undergoing annual maintenance but remains under contract to CPAI.

“This break in the ERD program,” CPAI said, “will be used to incorporate the lessons learned from CD2-310 execution and make required engineering changes to the ERD well designs going forward.”

Also, as of May 2, Doyon Rig 142 completed operations on WD-03, having moved from CD1 pad to the CD4 pad.

There it will drill the “CD4-597 opportunity well within the Narwhal PA, contingent on equipment and infrastructure availability,” CPAI said.

Following the CD4-597 well, Doyon 142 may move back from the CD4 pad to the CD1 pad to drill the WD-04 well (replacement for the WD-03 well) “or may drill another opportunity well.”

CPAI is the operator and sole working interest owner of the Colville River unit, which is in both state of Alaska land and in federal land in the National Petroleum Reserve-Alaska.

## CI gas supplies, more lease sales

UTILITIES AND THEIR CUSTOMERS along Alaska’s Railbelt primarily depend on natural gas from Hilcorp’s Cook Inlet basin fields to generate electricity.

But according to Homer Electric Association general manager Brad Janorschke’s May 10 monthly report to HEA members, Hilcorp told them in an April 12 stakeholders’ meeting that while Hilcorp has “sufficient gas for their existing fuels contracts, they did not have firm gas available beyond that. Additionally, any future contracts would be dependent on current drilling programs to secure additional reserves.”

Janorschke said, “We are following

this closely as HEA’s current contract terminates at the end of the first quarter of 2024.”

For Chugach Electric, which powers Anchorage and parts of the Kenai Peninsula, the termination date is March 31, 2028, the utility’s spokesperson Julie Hasquet, told Petroleum News May 18.

“Chugach meets about 50% of our gas supply requirements from Hilcorp, with the remaining 50% from our working interest in the Beluga River unit gas field. Because this is a statewide issue impacting multiple entities, the Railbelt utilities are working together (with the State of Alaska) to explore future options. This is a high priority for Chugach, however, with our collaborative approach to addressing the issue, we are confident we have time to find alternative sources of gas along with other energy sources,” Hasquet said.

She said options include: “Increased exploration in the Cook Inlet basin and other areas in Southcentral Alaska, importation of LNG, increased renewable generation, development of the North Slope gas line.”

What does Hilcorp have to say? Spokesperson Luke Miller told PN May 18: “Since coming to Alaska, Hilcorp has invested nearly a billion dollars on natural gas projects in the Cook Inlet. We anticipate spending hundreds of millions of dollars in the next few years and drilling 17 new wells this year to produce additional natural gas for Alaskan homes and businesses. We are proud of the work we have done to revitalize the Cook Inlet basin and fuel local Alaskan markets over the last decade. Hilcorp is committed to continuing our investment into the future and satisfying the commitments we have made to local end users.”

What does the Alaska Department of



JOHN CROWTHER

Natural Resources have to say about Cook Inlet basin reserves?

Here is some of what DNR Deputy Commissioner John Crowther told PN May 18 in response to several emailed questions/statements: “We generally agree with your statement that ‘The numbers I have seen over the last few years suggest there is a great deal of untapped natural gas on state and federal acreage, including offshore in the Cook Inlet basin.’”

“There are several fields with large amounts of known natural gas reserves that companies are working on developing — if these projects are successful, they could provide significant additional volumes for the utilities to place under contract,” Crowther said.

“There are quite a few exploration opportunities that exist in the Cook Inlet: some are near infrastructure and others more remote, including both conventional and unconventional gas plays (including, per USGS technical assessments an esti-

mated 19 trillion cubic feet of potential resources in place),” he said.

“One of the primary reasons why DNR is joining the (Railbelt) utility working group to assess energy supply questions is to provide technical support on the future of Cook Inlet supply,” Crowther said.

“DNR and DOR are also evaluating some of the Cook Inlet fiscal terms and regulatory procedures that may be obstacles to development,” he said.

“DNR is also considering additional Cook Inlet lease sales later this year and in coming years,” Crowther said.

Other oil and gas companies currently operating in the Cook Inlet basin, he said, “include Furie/Hex, BlueCrest, Vision/Gardes, Cook Inlet Energy, and Amaroq.”

—Oil Patch Insider is compiled by Kay Cashman

Contact Kay Cashman at publisher@petroleumnews.com



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## ALKAID PLAN

The pads are expected to have a 500-foot by 260-foot working surface area and will each cover a total of 3.3 acres of tundra.

Great Bear will build one staging pad using rig mats on the former Alcor 1 site, which sits directly across the Dalton Highway from the Alkaid 2 ingress road.

### Cruz developed techniques

The division's decision also said Cruz Construction has developed techniques designed to address the challenges presented when placing gravel intended for same-season heavy use. A layer of permeable geotextile fabric will be installed directly over the organic layer to provide separation and stabilization of the tundra.

A layer of 2 to 3 feet of gravel will be placed with a dozer and compacted with a vibratory roller to further evacuate water from the fill.

A 3-to-6-inch thaw depth in the active layer is expected when the first lift is placed. This initial layer will be suitable only for off-road equipment.

A CAT 730 haul truck will be used to transfer stockpiled gravel from the roadside to the dozer for placement.

The haul trucks will split tracks to avoid damage to the geotextile and vegetation mat caused by rutting.

Successive layers of fill will be placed in lifts of approximately 12 inches and compacted up to a total thickness of 5 feet.

The final lift will be placed loose and bladed into windrows to help remove moisture, after which it will be leveled and compacted to a minimum of 95% of the maximum dry density.

A vertical well each will be drilled from the Alkaid 2 and 3 drill sites, the decision said. The wells will be drilled to the base of the Brookian sand at approximately 8,000 feet. Combined with their horizontal wells, they will each have a total depth of up to 18,000 feet.

The well at Alkaid 2 will be drilled to the southwest, and the well at Alkaid 3 will be drilled to the northeast. Each horizontal well will be logged, cased and fracture stimulated with a multi-stage frac.

### Operations schedule

Great Bear expects to finish gravel mining and conditioning in early June, then construct Alkaid 2 gravel driveway (ingress and egress) and drill pad by July 1. The company will finish building the Alcor staging pad using rig mats by July 1, move the drill rig to Alkaid 2, rig up and spud by July 15.

Great Bear expects to finish drilling, casing and fracking Alkaid 3 by Oct. 15.

It will build the Alkaid 3 gravel driveways and drill pad by Aug. 31, begin Alkaid 2 flow testing by Oct. 15 and finish it no later than May 31, 2022.

The company expects to start moving the rig to Alkaid 3 around Feb. 1, 2023, and finish rig up and spudding by Feb. 15, 2023, then drill and case Alkaid 3, finishing by March

30, 2023, and have the well fracked and flow tested no later than Feb. 1, 2024.

The Alcor 1 staging pad "will be primarily used for tubular storage and Conex with dry supplies," the division said in its decision.

### Buildings for the project

The Alkaid 2 and 3 drill sites are expected to contain nearly identical facilities and building layout.

Great Bear plans to install a satellite office camp with an 11-bed capacity; fuel, drilling fluids, and waste storage areas; and standard maintenance buildings.

The crew is expected to be housed primarily at a camp in Deadhorse or the Aurora Hotel.

### Prior exploration activities

Exploration around the Alkaid unit can be divided into three phases: early post Prudhoe discovery step-out drilling from 1969-1974; focused exploration tests from 1980 through the mid-1990s driven by increased 2D seismic data coverage; and post 2010, Great Bear Petroleum entrance driving regional 3D seismic coverage across the initial vast leasehold.

Phase 1, the decision said, was largely conducted by the Atlantic Richfield Oil Co., or ARCO, in its effort to expand the Kuparuk River unit.

In 1969, ARCO drilled two wells, Toolik 1 and 2, in proximity to the project. Both wells were plugged and abandoned with no testing.

In the late 1980s through the 1990s, increased 2D seismic data acquisition led to further exploration of the surrounding areas by various operators; however, exploration within the Alkaid unit did not pick up until Great Bear's entry to the area in 2010.

In 2012, Great Bear began acquiring 3D survey data sets covering an area spanning between the Alkaid unit and the Talitha unit, and drilled two stratigraphic test wells, Alcor 1 and Merak 1. Oil shows were documented in both the Campanian and Kuparuk strata correlative to the reservoir zones in Alkaid and Talitha, the division said.

The Alkaid 1 exploration well was then drilled during the 2014-2015 winter exploration season. Drilling did not reach target depth due to flooding from the Sag River, which led to an eventual suspension of activities at Alkaid 1.

Great Bear continued to acquire 3D survey data sets in the area throughout 2015 and 2016.

In 2019, Alkaid1 was re-entered and flow tested with positive results.

### No comments

The division said that public notice of the plan and opportunity to comment, per AS 38.05.035, was published on the Alaska Department of Natural Resources and the division websites and faxes of the public notice were sent to the Deadhorse, Nuiqsut, and Utqiagvik post offices on April 7, 2022.

Additionally, a copy of the notice was posted in Anchorage Daily News on April 11 and April 17, 2022, and the Arctic Sounder on April 14, and April 28, 2022, with a deadline for comments of May 7, 2022, at 4:30

p.m. Alaska time.

No comments were received.

### Conditions of approval

The division, which is part of the Department of Natural Resources, approved the plan as amended and modified by the May 11 decision. To protect the state's interest, the division found it was necessary to amend the plan to incorporate the following conditions of approval:

A) "The applicant shall defend, indemnify, and hold the State of Alaska harmless from and against any and all claims, damages, suits, losses, liabilities and expenses for injury to or death of persons and damage to or loss of property arising out of or in connection with the entry on and use of State lands authorized under this approval by the applicant, its contractors, subcontractors and their employees."

B) "The applicant shall inform and ensure compliance with any and all conditions of this approval by its employees, agents and contractors, including subcontractors at any level."

C) "Unless pre-authorized by a general permit, amendments and modifications to this approval require advance notice and must be approved in writing by the DNR."

D) "The commissioner of the DNR may require that an authorized representative be on site during any operations conducted under this approval. This stipulation is required to ensure that DNR meets its statutory responsibilities for monitoring activities taking place on State-owned lands."

E) "A status report for the activities conducted under this approval must be filed with this office on May 1 and November 1 each year, from the date this approval is issued and until a final completion report is filed with the Division. If a lessee requests an assignment, a status report must also be submitted during the assignment process. Failure to file in a timely manner may result in revocation of this approval."

### Status reports

Each status report must include a statement describing and map(s) depicting all operations actually conducted on the leased area as of the date the report is prepared, which includes the location, design and completion status of well sites, material sites, water supplies, solid waste sites, buildings, roads, utilities, airstrips, and all other facilities and equipment installed.

Upon completion of operations, Great Bear has to submit a completion report that includes all information required of a status report described above as well as a statement indicating the date of completion of operations, any noncompliance with the terms of the approved plan, cleanup activities conducted, the method of debris disposal, and a narrative description of known incidents of surface damage.

Great Bear has to notify the DNR of all spills that must be reported under 18 AAC 75.300 under timelines of 18 AAC 75.300. Several other requirements are included in the approval decision and can be viewed on the division's website.

—KAY CASHMAN

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## HILCORP DRILLING

marine mammal disturbance. In 2019 NOAA issued a letter of authorization with a termination date of July 30, 2024, for the incidental harassment for marine mammals as a consequence of Hilcorp's operations in the Cook Inlet. However, the company says that that authorization did not encompass the use of tugboats for towing a jack-up rig — hence the need for an IHA for this specific activity.

### Two-year drilling program

In its IHA application Hilcorp says that it plans a two-year offshore drilling program, probably using the Spartan 151 jack-up drilling rig. The rig would be towed to drilling sites using three ocean-going tugs. Helicopters and fixed wing aircraft would potentially be deployed during the operations, with helicopters being used for crew changes and the provision of supplies for the jack-up rig.

Year one of the planned operations would run from April 1, 2022, to March 31, 2023. Operations in that year would include

the completion of the plugging and abandonment of well 17589-1A, drilled in 1962 as a relief well for the North Cook Inlet discovery well. The well location is offshore, a few miles ENE of Tyonek. Hilcorp said that plugging and abandonment of this well had begun in 2021 but could not be completed at that time because of a broken piece of well-head equipment that needed to be manufactured out of state. Divers will assist with the plugging and abandonment activities, which are expected to take about 30 days to complete.

During the 12-month period the jack-up rig will also conduct production drilling activities at offshore platforms, Hilcorp told NOAA. And production drilling activities will continue in year two of the drilling program, running from April 1, 2023, to March 31, 2024, Hilcorp wrote. The company did not specify which wells or how many wells may be drilled. The company has previously said that, for drilling from an offshore platform, the drilling rig on the jack-up rig can be moved on and off the platform, as necessary.

—ALAN BAILEY

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## DIESEL CRUNCH

the U.S. Energy Information Administration. European diesel prices rose 88% in the same period.

Since diesel fuel powers the trucks and trains that deliver most goods, price increases on fuel ripple through the economy swiftly and seriously.

Russian supplies of diesel fuel to the U.S. market have been significant, but not huge, in recent years. In 2021, Russia shipped 23,000 barrels a day of diesel to the U.S., about 8% of imports. Only Canada supplied more. As a part of total distillate product supplied to the U.S. market, however, it's a tiny sliver of the 3.9 million barrels a day total.

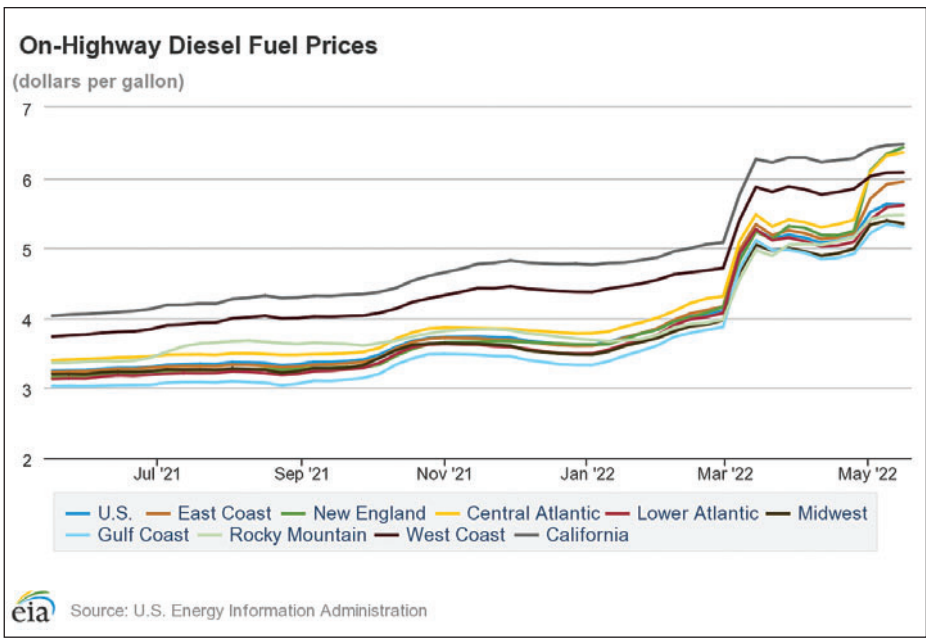
### Refiners cutting back

But refineries haven't been standing still. Instead, they've been cutting back on production. Some of that goes along with the theme of reducing greenhouse gas emissions.

The biggest U.S. refiner, Marathon Petroleum Corp., has cut its refining capacity by 188,000 barrels a day, or 6%. Marathon still has the capacity to process 2.9 million barrels of crude a day.

The company, which operates the Alaska refinery in Nikiski, recently chose to "indefinitely idle" refineries in Gallup, New Mexico, and Martinez, California. The company plans to switch the Martinez operation to produce a tiny stream of renewable fuels. The company's refinery in Dickinson, North Dakota, was also switched over to renewables.

Marathon logically wants to keep its



options open, and its permits in force, in case it wants to restart the plants or sell them. In the meantime, producing renewables is a green thing to do.

"By indefinitely idling two of our highest cost, least efficient facilities, we are becoming more cost efficient and lowering the carbon intensity of our operations," the company says.

Marathon also plans to devote 20% of growth capital over the next three years to "projects that progress our sustainable energy vision while producing good returns on invested capital." That capital won't be plowed into more refinery capacity, however.

### Europe's dilemma

Europe's energy mix has been shaped by a political push for renewables and more renewables, often supported by gen-

erous government subsidies. In that environment, oil companies have been loath to invest in new refinery capacity, so the plants in Europe are among the oldest and least sophisticated in the world. New refineries being built from scratch in the Middle East and Asia are far more efficient and flexible.

Indeed, Middle East producers are now making up some of the deficit in Europe as Russian supplies are cut. Diesel shipments from the Middle East to Europe are expected to double, to close to 400,000 barrels a day, in the wake of the Ukrainian conflict. At higher prices, of course.

Just as in the U.S., distillate supplies in Europe were tight well before all the sanctions and counter sanctions started ramping up.

At this point, it's not clear if Russian

supplies will actually be substantially reduced, or the supply chains will simply be rearranged so that countries willing to deal with Russian products at a substantial discount take up much of the supply that Europe rejects.

Russian producers can offer those discounts and still pocket more money than they were getting at the lower prices of a few months ago. Russia shut in about a million barrels a day of production in April, according to the IEA report. Further Russian cutbacks, if they occur, will strain the system further and likely push prices even higher.

### Record crack spreads

For refiners, profits have reached levels not seen for years or decades.

"During April," the IEA says, "crude and product markets saw diverging trends. While crude prices trended lower overall, diesel and gasoline cracks surged to record levels, pulling up refinery margins and end-user prices."

Even with the profitable environment, world refinery throughputs in April fell by 1.4 million barrels a day to 78 million barrels daily, the lowest since May of last year, the agency reported.

"Between now and August, runs are forecast to ramp up by 4.7 mb/d, but the tightness in product markets is expected to continue based on our current oil demand outlook," the report concludes.

So absent a major economic downturn, diesel and other fuel prices are likely to remain elevated for quite some time. ●

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## SOURCING METHANOL

Methanol is used as a freeze protectant for wells and pipelines and is currently imported to the North Slope for use by oil and gas operators.

### Background, infrastructure

In a May 18 interview Wilcox said the 23-acre parcel is essentially square-shaped and composed of a 15-acre gravel pad (no improvements on it), and a pipeline corridor that links to Flow Station 3.



The story begins on Oct. 15, 2013, when Spectrum Alaska LLC entered into a right-of-way, or ROW, lease (ADL 419409), with the Division of Oil and Gas State Pipeline Coordinator's Section for the purpose of pursuing a natural gas pipeline project, pursuant to the provisions of AS 38.35.

In 2014, Spectrum assigned all rights, title, and interest of the members, subject to all rents, covenants, and conditions, to the Alaska Industrial Development and Export Authority, or AIDEA.

Subsequently, on July 31, 2014, AIDEA entered into a ROW lease for the purpose of constructing a natural gas pipeline and liquefied natural gas, or LNG, facility, pursuant to AS 38.35.

Under the ROW, a 15-acre gravel pad and associated access roads were built.

After the construction of the pad, AIDEA proposed an alternative business plan and use of the ROW to allow for installation of a methanol plant on a portion of the pad.

DNR determined that the existing AS 38.35 lease was not appropriate for a methanol plant and that a general purpose lease under AS 38.05.070 was required. On June 8, 2018, as a result of DNR's determination, AIDEA submitted an application for an AS 38.05.070 lease. To facilitate the new lease, AIDEA agreed to surrender its interest under the existing ROW lease (ADL 419409).

On Dec. 12, 2018, DNR issued a Final Finding and Decision to proceed with an EA to AIDEA for the lease, ADL 421055.

The release of the ROW was finalized upon issuance of the EA, effective July 30, 2019. The EA was issued for a term of 3 years. The term of the lease, including the EA, was 30 years. Upon the release of the ROW, the gravel

pad and access roads were authorized under and subject to the terms of the EA and the lease.

On Aug. 7, 2019, AIDEA's board approved Resolution No. G19-19, approving the transfer or subleasing of property leased under ADL 421055 to third parties for development purposes.

Subsequently, on Sept. 10, 2019, AIDEA entered into a purchase and sale agreement to transfer ADL 421055 to Ahtna.

On Dec. 23, 2019, a Memorandum of Decision for ADL 421055 was approved to proceed with the assignment of the EA. Upon assignment of the EA, Ahtna was eligible to request approval from DNR's Division of Mining Land and Water, or DMLW, for construction of the proposed methanol plant and subleasing.

Construction of the methanol plant was scheduled to begin in the summer of 2020.

Ahtna never built the plant and the gravel pad remains free of any surface improvements.

In March 2021, DNR's commissioner determined that case file administration for ADL 421055 was to be transferred to the Division of Oil and Gas. The case file was transferred on Sept. 8, 2021.

On Jan. 21, 2022, Ahtna and Alyeschem entered into a purchase and sale agreement with the intention of selling Ahtna's interest in ADL 421055 to Alyeschem.

### Alyeschem's plans

As noted above, on March 2, Alyeschem and Ahtna formally requested assignment of ADL 421055 from Ahtna to Alyeschem and to extend the terms of the EA, with the intention of continuing the project to build a petrochemical plant. (Alyeschem was registered with the Alaska Department of Commerce's corporations division on July 16, 2015, and Wilcox has been involved in planning since that time.)

According to the May 11 decision signed by Division Director Derek Nottingham, Alyeschem told the agency it intends to develop a small-scale petrochemical plant on the site, and "over the years has worked with AIDEA, SPCO, SPCS, DNR ML&W, the Division of Oil and Gas and Ahtna to obtain surface rights necessary for the financing of such a project."

At this time Alyeschem's only proposed action is to convert the EA into a long-term lease so that financing may be obtained for development. The company told the Division of Oil and Gas that it "cannot obtain financing

without a term of lease that is longer than the term of a loan."

Alyeschem's envisioned development would only take up one-third of the 15-acre pad, so the company intends to work with other potential users of the pad to sublease space as permitted by AS 38.05.070 and approved by DNR. These could include gas processing, product storage, power generation, a data center, or any other operation that is complementary to Alyeschem's use, and to oil and gas operations on the North Slope.

In its May 11 approval the division said, "the lease will be located around an 800-foot by 810-foot pad with one 60-foot wide by 310-foot long and one 60-foot wide by 180-foot long driveways connecting the parcel to Spine Road ... incorporating an area of undeveloped tundra located between the two access roads."

The width of the pipeline ROW is 100 feet centered on the downstream flange of FV-3519 on the Prudhoe Bay Field Fuel Gas System south of Flow Station 3 and continuing approximately 1,100 feet south to the north edge of the pad near its northeastern corner.

Prior to commencement of construction activities for petrochemical plant facilities, or other related facilities, Alyeschem is required to provide the division with "a detailed development plan that includes an engineering design package, process hazard analysis, construction schedule, material specifications, fabrication and construction execution plan, topsides process flow diagram, design data and process description, and hazardous substance safety plan."

### Findings and decision

In its findings, the division said methanol production in the North Slope is in the best interest of the state by providing an additional and local source of methanol.

Furthermore, the division said in its approval, the lease assignment and EA extension will provide Alyeschem with the surface land it reasonably requires for the construction and operation of a petrochemical plant facility.

The division assigned and extended the EA for a period of only 5 years, which will terminate on July 30, 2027.

"After the construction of an operational petrochemical plant, and satisfying all deliverables of the EA, a 30-year lease will be issued to the lessee," Nottingham wrote in his May 11 decision. ●

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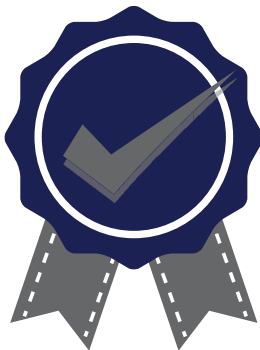


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