



page 2 BP names Helge Lund to succeed Carl-Henric Svanberg as chairman

## Conoco positive on Alaska, hints at standalone facilities for Willow

In answer to a question about Alaska during the ConocoPhillips first quarter 2018 earnings call on April 26, Al Hirschberg, the company's executive vice president of production, drilling and projects, said that positive results from appraisal drilling in the Willow prospect in the northeastern National Petroleum Reserve-Alaska suggest that a development involving a standalone production facility appears likely.

"I think we can see from the appraisal work in Willow that it's looking more and more like it'll be able to justify a standalone facility," Hirschberg said.

### Development options

ConocoPhillips is debating the relative merits of building new production facilities for Willow versus tying the development back to the production facilities in the Alpine field, in a similar manner to what the company is doing for the CD-5 and Greater Mooses Tooth developments. A standalone facility

see **CONOCO POSITIVE** page 11

## Canada fights opening ANWR

Three Canadian governments along with several First Nations communities plan to voice their opposition at upcoming environmental hearings to any drilling on the Arctic National Wildlife Refuge in Alaska.

A spokesman for Global Affairs Canada said any resource development of ANWR would endanger continued conservation of the Porcupine caribou herd estimated at 218,000, which calves in Alaska and spends most of its time in Canada under a U.S.-Canada treaty which commits both countries to preserving the animals.

He pointed out that Canada has established two national parks in an effort to preserve the herd.

The governments of Canada, the Yukon and Northwest Territories, along with indigenous peoples have signed a pact to defend the treaty.

Yukon Environment Minister Pauline Frost said her government will fight any attempt to allow industrial activity in ANWR and will take "a very strategic and proactive approach to protecting" the caribou.

A member of the Gwich'in nation, Frost said her people

see **ANWR OPPOSITION** page 11

## RCA approves acquisition of FNG by IGU forming a single utility

The Regulatory Commission of Alaska has issued an order approving the purchase of Fairbanks Natural Gas by the Interior Gas Utility, a purchase that will combine the utilities into a single entity for the supply of natural gas in the Fairbanks region. The IGU acquisition of FNG comes in conjunction with the purchase by IGU of Pentex Natural Gas Co. from the Alaska Industrial Development and Export Authority, as part of AIDEA's Interior Energy Project. In addition to FNG, Pentex owns and operates a liquefied natural gas plant near Point Mackenzie on Cook Inlet, and a trucking operation for shipping LNG to Fairbanks. The purpose of the IEP is to bring an expanded supply of affordable natural gas to Fairbanks.

AIDEA and IGU have already agreed on the terms of the Pentex sale, which is expected to complete by the end of May. IGU and FNG both have certificates of public convenience and necessity issued by the RCA — the commission has suggested the possibility of consolidating the certificates after the Pentex sale has completed. IGU is owned by Fairbanks North Star Borough. AIDEA purchased Pentex in 2015 with the eventual

see **PURCHASE APPROVED** page 12

### PIPELINES & DOWNSTREAM

## Marathon-Andeavor merge

Once again Marathon Petroleum becomes big player in Cook Inlet basin

By **KAY CASHMAN**  
Petroleum News

Whether you refer to it as Kenai, North Kenai or Nikiski, two of Alaska's key refiners and export facilities are located there — the LNG facility and the state's largest oil refinery. Currently owned by Andeavor (formerly known as Tesoro Corp.), if the recently announced merger of Andeavor and the larger Marathon Petroleum Corp. goes through in the second half of 2018 as planned, they will be officially owned by the combined company, which will carry Marathon's name.

In the last 10 years Marathon exited the Cook Inlet basin as an upstream and midstream player.



**CAMERON HUNT**

JUDY PATRICK

The merged company's headquarters will be in Findlay, Ohio, where Marathon currently resides, along with a secondary office in San Antonio, Texas, Andeavor's current headquarters.

The Alaska office for both, headed by Andeavor vice president of refining, Cameron Hunt, will presumably remain the same, although any changes in Alaska likely won't be announced until after the merger closes.

In the April 30 deal, Marathon agreed to buy rival Andeavor for \$23.3 billion, creating the largest independent fuel maker in the United States, with an initial enterprise value greater than \$90 billion.

see **MARATHON MERGER** page 12

### EXPLORATION & PRODUCTION

## Drilling time extended

BOEM has approved a longer drilling schedule for Eni's Nikaitchuq North well

By **ALAN BAILEY**  
Petroleum News

The federal Bureau of Ocean Energy Management has approved a revised version of Eni US Operating Co.'s plan for the drilling of an extended reach exploration well into the Nikaitchuq North prospect under the federal waters of the Beaufort Sea. The company has been drilling the well from an existing drill pad on Spy Island, a pad that supports the Nikaitchuq field under the state nearshore sector of the Beaufort.

Eni had originally planned to spud the well, the Nikaitchuq North No. 1, around Dec. 10, complete the well in mid-February and then, if appropriate, conduct flow testing between mid-February and

*Eni's concept behind the drilling is to test for new resources that can be added to the reserves for the Nikaitchuq field, and thus to enable increased production at the field.*

mid-March. The company, in its revised plan, said that spudding of the well commenced on Dec. 23, with drilling starting on Feb. 1.

### 'Unforeseen impacts'

"Due to unforeseen impacts to the drilling schedule" Eni now anticipates finishing the

see **DRILLING SCHEDULE** page 11

### PIPELINES & DOWNSTREAM

## More twists and turns

Trans Mountain faces court challenge from BC government over diluted bitumen

By **GARY PARK**  
For Petroleum News

The more confusion builds over the end result for Kinder Morgan's Trans Mountain pipeline, the more observers are challenged to make sense of the multi-ring circus.

In the latest spin of the merry-go-round:

- Canada's Environment Minister Catherine McKenna, once an unwavering foe of oil sands development, offered what was viewed by many as a sensible way out of the British Columbia government's predicament.

- The B.C. government asked the province's highest court whether B.C. can regulate the flow of heavy crude within its boundaries.

- The Canadian government and Canada's major banks have made separate approaches to First

*Kinder Morgan said its drop-dead date is unchanged, noting that the proposed legislation "signals the province's continued intention to frustrate the project."*

Nations exploring the chances of aboriginal communities taking an equity stake in the C\$7.4 billion pipeline.

### Joint panel proposed

In an open letter to B.C. Environment Minister George Heyman, McKenna proposed the establishment of a joint scientific panel to study the impact of diluted bitumen spills and the response measures, in

see **TRANS MOUNTAIN** page 12

## ● FINANCE &amp; ECONOMY

# Lund to succeed Svanberg as BP chair

## PETROLEUM NEWS

BP has appointed Helge Lund to succeed Carl-Henric Svanberg as chairman. The company said April 26 that Lund will join the board as chairman designate and a non-executive director on Sept. 1 and will be appointed chairman on Jan. 1, 2019. Lund will have a base in London.

Lund is chairman of Novo Nordisk AS in Denmark. BP said he would stand down immediately from his directorship at Schlumberger.

"BP is a great company," Lund said. "Now as a non-executive, it is a huge privilege for me to be asked to lead an experienced and diverse board. BP has come successfully through a challenging period under the strong committed leadership of Carl-Henric and Bob. I am looking forward to working with Bob and his team as they address the changing energy landscape."

Svanberg said: "I am delighted that Helge Lund is to be BP's next chairman. Our industry is changing faster than ever as the world focuses on meeting the dual challenge of more energy with fewer emissions."

"Helge has a track record of leadership in addressing these issues, characterized by his open-minded and forward-



HELGE LUND

ward-looking approach. Together with his deep industry knowledge and global business experience, he has all the skills necessary to lead the board today and into the future.

"I have enjoyed my time as chairman, made special by the great people that I've been privileged to work with at BP, from Bob to the team throughout the company. I am sure that Helge will enjoy the role as much as I have."

Bob Dudley, BP group chief executive, said: "Carl-Henric has steadily led our board through

BP's darkest days and into this period of growth and modernization. We owe him a debt of gratitude for his strong support and clear vision over the past nine years.

"I have known Helge for more than a decade and I am very much looking forward to working with him. With strategic vision and a modern global perspective he has a clear understanding of the challenges and the opportunities facing our industry."

"I am confident Helge, with the rest of the board, will provide the company with good governance and strategic guidance as we continue to grow and adapt through the energy transition."

## 10 years with Statoil

Lund was chief executive of BG Group from 2015 to 2016 when the company merged with Shell. He joined BP Group from Statoil where he served as president and CEO for 10 years from 2004.

Prior to Statoil, Lund was president and CEO of Aker Kvaerner, an industrial conglomerate with operations in oil and gas, engineering and construction, pulp and paper and shipbuilding. He has also held executive positions in Aker RGI, a Norwegian industrial holding company, and Hafslund Nycomed, an industrial group with business activities in pharmaceuticals and energy.

Lund has worked as a consultant with McKinsey and Co. and has served as a political advisor for the parliamentary group of the Conservative party in Norway.

He is chairman of the board of Novo Nordisk AS, a global healthcare company, and has been a non-executive director of Schlumberger from 2016-18, and Nokia, 2011-14.

Lund is an operating advisor to Clayton Dubilier & Rice, the U.S. investment firm, is a member of the board of

see **BP CHAIRMAN** page 4

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### Alaska's source for oil and gas news

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North Slope averages 516,869 bpd, up 0.6% from February, largest increase at Prudhoe; Cook Inlet averages 15,748 bpd, down 4.1%

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# Alaska - Mackenzie Rig Report

Rig Owner/Rig Type      Rig No.      Rig Location/Activity      Operator or Status

## Alaska Rig Status

### North Slope - Onshore

<b>Doyon Drilling</b>			
Dreco 1250 UE	14 (SCR/TD)	Kuparuk, 1G-07	ConocoPhillips
Dreco 1000 UE	16 (SCR/TD)	Standby	
Dreco D2000 Uebd	19 (SCR/TD)	GMT MT6-03	ConocoPhillips
AC Mobile	25	Standby	
OIME 2000	141 (SCR/TD)	Stacked	
	142 (SCR/TD)	Kuparuk 1H-103	ConocoPhillips
TSM 7000	Arctic Fox #1	Stacked	
<b>Hilcorp Alaska LLC</b>			
	Rig No.1	Milne Point	Hilcorp Alaska LLC
<b>Kuukpik Drilling</b>			
	5	Putu No. 2	ConocoPhillips
<b>Nabors Alaska Drilling</b>			
AC Coil Hybrid	CDR-2 (CTD)	Deadhorse	BP
AC Coil	CDR-3 (CTD)	Kuparuk	ConocoPhillips
Dreco 1000 UE	2-ES (SCR-TD)	Deadhorse	Available
Mid-Continental U36A	3-S	Deadhorse	Available
Oilwell 700 E	4-ES (SCR)	Deadhorse	Available
Dreco 1000 UE	7-ES (SCR/TD)	Deadhorse	Available
Dreco 1000 UE	9-ES (SCR/TD)	Deadhorse	Available
Oilwell 2000 Hercules	14-E (SCR)	Deadhorse	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Mustang location	Available
Oilwell 2000 Canrig 1050E	27-E (SCR-TD)	Deadhorse	Available
Oilwell 2000	33-E	Deadhorse	Available
Academy AC Electric CANRIG	99AC (AC-TD)	Deadhorse	Available
OIME 2000	245-E (SCR-ACTD)	Kuparuk	Available
Academy AC electric CANRIG	105AC (AC-TD)	Deadhorse	Available
Academy AC electric Heli-Rig	106AC (AC-TD)	Deadhorse	Available
<b>Nordic Calista Services</b>			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay	Available
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay	Available
Ideco 900	3 (SCR/TD)	Prudhoe Bay	Available
Rig Master 1500AC	4 (AC/TD)	Oliktok Point, well OP-22	ENI
<b>Parker Drilling Arctic Operating Inc.</b>			
NOV ADS-10SD	272	Prudhoe Bay DS 18	BP
NOV ADS-10SD	273	Prudhoe Bay DSW-59	BP

### North Slope - Offshore

<b>BP</b>			
Top Drive, supersized	Liberty rig	Inactive	BP
<b>Doyon Drilling</b>			
Sky top Brewster NE-12	15 (SCR/TD)	Spy Island NN-01	ENI
<b>Nabors Alaska Drilling</b>			
OIME 1000	19AC (AC-TD)	Cold Stack	

### Cook Inlet Basin – Onshore

<b>BlueCrest Alaska Operating LLC</b>			
Land Rig	BlueCrest Rig #1	Anchor Point, drilling production section of H14	BlueCrest Alaska Operating LLC
<b>Glacier Oil &amp; Gas</b>			
	Rig 37	West McArthur River Unit Workover	Glacier Oil & Gas
<b>All American Oilfield LLC</b>			
IDECO H-37	AAO 111	In All American Oilfield's yard in Kenai, Alaska	Available
<b>Aurora Well Services</b>			
Franks 300 Srs. Explorer III	AWS 1	Stacked out west side of Cook Inlet	Available
<b>Saxon</b>			
TSM-850	147	Stacked	Hilcorp Alaska LLC
TSM-850	169	Stacked	Hilcorp Alaska LLC

### Cook Inlet Basin – Offshore

<b>Hilcorp Alaska LLC</b>			
National 110	C (TD) Rig 51 Rig 51	Platform C, Stacked Steelhead Platform, Stacked Monopod Platform, Drilling	Hilcorp Alaska LLC Hilcorp Alaska LLC Hilcorp Alaska LLC
<b>Spartan Drilling</b>			
Baker Marine ILC-Skidoff, jack-up		Spartan 151, Stacked Seward	
<b>Furie Operating Alaska</b>			
Randolf Yost jack-up		Nikiski, OSK dock	Furie
<b>Glacier Oil &amp; Gas</b>			
National 1320	35	Osprey Platform, activated	Glacier Oil & Gas

## Mackenzie Rig Status

### Canadian Beaufort Sea

<b>SDC Drilling Inc.</b>			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

### Central Mackenzie Valley

<b>Akita</b>			
TSM-7000	37	Racked in Norman Wells, NT	Available

The Alaska - Mackenzie Rig Report as of May 2, 2018.  
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\*

	April 27	April 20	Year Ago
United States	1,021	1,013	870
Canada	85	93	85
Gulf of Mexico	18	18	17

### Highest/Lowest

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

\*Issued by Baker Hughes since 1944

The Alaska - Mackenzie Rig Report  
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## GOVERNMENT

# BSEE proposes simplified regulations

Wants to reduce some of the regulatory burden of drilling safety rule introduced following the Deepwater Horizon disaster

By ALAN BAILEY

Petroleum News

The federal Bureau of Safety and Environmental Enforcement has announced proposed simplifications to the drilling safety rule implemented by the Obama administration in 2016 in the aftermath of the Deepwater Horizon disaster in the Gulf of Mexico. Commenting that the agency is responding to directives by President Donald Trump and Interior Secretary Ryan Zinke to reduce unnecessary regulatory burdens on industry while ensuring safe and environmentally responsible offshore operations, BSEE said that it is publishing its proposed new rule, the Blowout Preventer Systems and Well Control Rule, in the Federal Register. Publication will be followed by a 60-day public comment period.

"Using innovation and best science to increase safety and reliability, BSEE took a careful and deliberate approach to reduce unnecessary regulatory burdens," said

BSEE Director Scott Angelle when announcing the proposed new rule on April 27. "These reform efforts are part of the Trump administration's push for smart and safe energy development. We'll continue to work to do our job smarter and to ensure industry is exploring and operating safely."

In July 2016 BSEE also implemented a new rule specifically targeting drilling safety in the Arctic offshore. Guy Hayes, BSEE public affairs officer for Alaska, has told Petroleum News that the agency is also reviewing that rule.

## Reviewed 2016 rule

BSEE said that its team of engineers and regulatory specialists reviewed the 2016 Well Control Final Rule and identified some provisions that are burdensome, unclear and impractical to implement. These problematic regulations require BSEE to repeatedly allow the use of alternative procedures or equipment, the agency said. The team also identified long-standing policies that could be incorporated in the

regulations the agency said.

Ultimately, BSEE determined that 59 of the 342 provisions in the 2016 regulations required updating and revision.

Having figured out potential changes to the regulations, the BSEE team checked these changes against the 424 recommendations in 26 reports that followed the Deepwater Horizon incident.

"The team determined that none of the proposed rule changes would ignore or contradict any of those recommendations, or would alter any provision of the 2016 Well Control Final Rule in a way that would make the results inconsistent with those recommendations," BSEE said.

Moreover, the provisions of the new rule would not impact any of the other regulations introduced since Deepwater Horizon, including the Drilling Safety Rule of 2010, and the two safety and environmental systems, or SEMS, rules, BSEE said. The proposed rule revisions would change the well blowout preventer testing protocol, modify the capability requirements for remotely operated vehicles, remove duplication in the verification requirements, and incorporate revisions to industry standards.

"The result of this analysis is proof that our regulatory reform efforts continue to be careful, tailored, and balanced," Angelle said. "We have been successful in develop-

ing a solid set of proposed revisions. We look forward to the public comment dialogue and to providing America with smart regulations that ensure safe exploration for America's energy future."

## Cost savings of \$946 million

During an April 27 news conference Angelle commented that BSEE anticipates industry cost savings of \$946 million over 10 years as a result of implementation of the new rule. Fred Brink, the lead drafter of the proposed rule, gave as an example of cost savings some simplifications to the manner in which BSEE approval is obtained for well cementing operations — these simplifications would impact rig time during drilling operations, Brink said.

Another area of significant cost saving relates to clarity in rules for blowout preventer testing, Brink said.

Kate MacGregor commented that one concern relating to the original regulations was the potential for wear and tear on blowout preventer components as a consequence of the frequency with which the components have to be tested.

"We tried to infuse some common sense to that," MacGregor said. ●

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at abailey@petroleumnews.com



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## LAND & LEASING

### Conoco applies for 8th CRU expansion

ConocoPhillips has applied to the Alaska Department of Natural Resources and Arctic Slope Regional Corp. to add a tract containing some 412 acres to the Colville River unit. It would be the eighth expansion of the unit.

The acreage proposed for addition is jointly owned by the state and ASRC and is in the southern portion of the unit on its western edge, between existing unit acreage to the north and south.

In its application the company said adding the proposed expansion area to the unit would "expedite the development process" and revenues from that development received by both the state and ASRC.

Alaska Division of Oil and Gas records show there are currently 89 tracts and 95,405 acres in the unit, which has production from the Alpine field.

—KRISTEN NELSON

continued from page 2

## BP CHAIRMAN

trustees of the International Crisis Group and from 2011-14 served as a member of the United Nations Secretary-General's Advisory Group on Sustainable Energy.

Lund has a degree in business economics from the Norwegian School of Economics and Business Administration in Bergen and a Master of Business Administration from INSEAD business school in France.

A Norwegian national, Lund is married with two children. ●



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# Congratulations

# Hats off to ConocoPhillips Alaska



Congratulations on a successful exploration season, more discoveries, and for setting new drilling records in Alaska for North America and the state!



Joe Marushack, President  
ConocoPhillips Alaska

- |                                               |                                   |                                          |
|-----------------------------------------------|-----------------------------------|------------------------------------------|
| Afognak Leasing LLC                           | Chosen Construction               | Lynden International                     |
| Air Liquide                                   | CMS, Inc./Hepworth Agency         | Lynden Logistics                         |
| Alaska Energy Services, LLC                   | Colville Inc.                     | Lynden Transport                         |
| Alaska Communications                         | Computing Alternatives            | MAPPA Testlab                            |
| Alaska Dreams                                 | CONAM Construction                | Maritime Helicopters                     |
| Alaska Frac Consulting LLC                    | Construction Machinery Industrial | Motion & Flow Control Products           |
| Alaska Frontier Constructors (AFC)            | Cruz Construction                 | Nabors Alaska Drilling                   |
| Alaska Marine Lines                           | Distribution NOW                  | Nalco Champion                           |
| Alaska Materials                              | Dowland-Bach Corp.                | NANA                                     |
| Alaska Railroad                               | Doyon Anvil                       | NEI Fluid Technology                     |
| Alaska Rubber & Rigging Supply Inc.           | Doyon Associated                  | Nordic Calista                           |
| Alaska Steel Co.                              | Doyon Drilling                    | North Slope Telecom                      |
| Alaska Textiles                               | Doyon, Limited                    | Northern Air Cargo                       |
| Alaska West Express                           | exp Energy Services               | NRC Alaska                               |
| Alpha Seismic Compressors                     | F. R. Bell & Associates, Inc.     | Nutrien                                  |
| American Marine                               | Fairweather                       | Olgoonik Corp.                           |
| Arctic Catering & Support Services            | Flowline Alaska                   | Opti Staffing                            |
| Arctic Controls                               | Fluor                             | PENCO                                    |
| Arctic Fox Environmental                      | Foss Maritime                     | Petro Star Lubricants                    |
| Arctic Slope Telephone<br>Assoc. Coop (ASTAC) | Fugro                             | PRA (Petrotechnical Resources of Alaska) |
| Arctic Wire Rope & Supply                     | Geotemps                          | Price Gregory International              |
| ARCTOS Alaska, Division of NORTECH            | GMW Fire Protection               | Resource Development Council             |
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|                                               | Lynden Inc.                       | Western Pacific Crane & Equipment        |

## EXPLORATION &amp; PRODUCTION

# USGS publishes Susitna basin assessment

Estimates up to 4.6 tcf of gas and up to 10 million barrels of oil in the basin in the Susitna Valley to the north of Anchorage

By **ALAN BAILEY**

Petroleum News

The U.S. Geological Survey has published an assessment of undiscovered, technically recoverable oil and gas in the Susitna basin, a broad sedimentary basin under the Susitna Valley to the north of Anchorage. The agency has estimated the possibility of up to 4.6 trillion cubic feet of natural gas and up to 10 million barrels of oil recoverable from the basin. Mean estimates are 1.6 trillion cubic feet of gas and 2 million barrels of oil.

Given that no oil or gas has yet been produced from the basin and few exploratory wells have been drilled in it, the wide range of the estimates indicates relatively high levels of uncertainty in the figures. The lack of commercial discoveries results in volumes of zero at the lower ends of both the oil and the gas estimate ranges.

## Probable resources

However, the USGS says that a detailed assessment of the basin by its scientists does indicate the probable existence of oil and gas that could be discovered, developed and produced using current technology. And, being situated close to Anchorage and the Alaska Railbelt transportation corridor, a commercial development in the basin seems an enticing possibility.

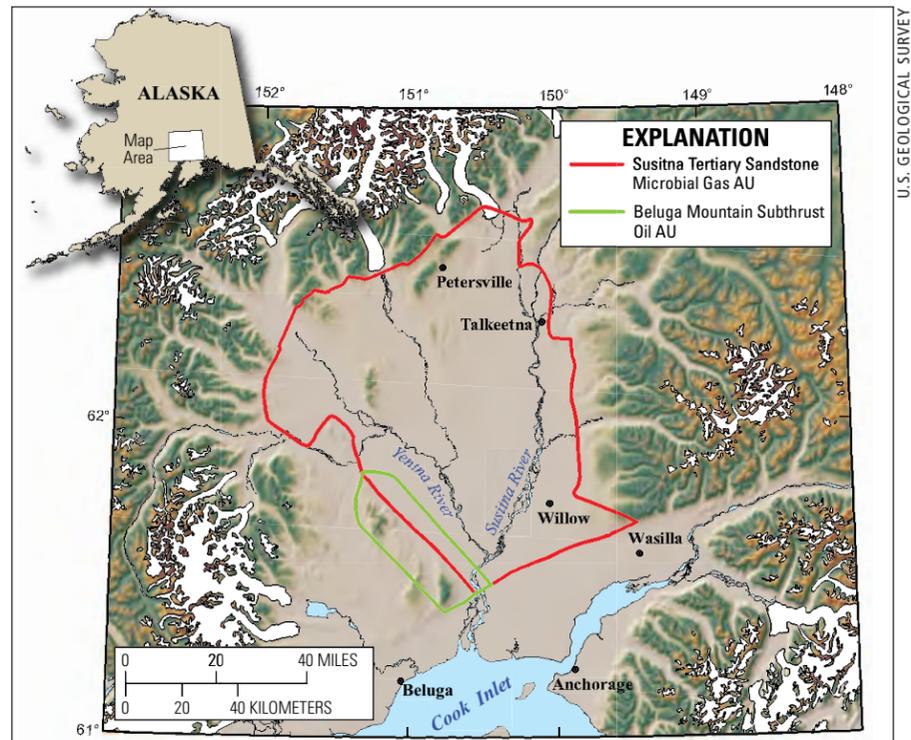
The Susitna basin sits adjacent the northeastern edge of the Cook Inlet basin,

with that latter basin's producing oil and gas fields. However, the two basins are separated by a major geologic fault and appear to have formed under different circumstances. So, although the two basins appear similar in that they hold significant thicknesses of Tertiary sediments, including coal seams, laid down in ancient river systems, the two basins also differ: Unlike the Cook Inlet basin, where a thick, oil sourcing Mesozoic sequence underlies the Tertiary, the Tertiary of the Susitna basin appears to sit directly on impervious metamorphic rocks.

## Gas prone

Consequently, the Susitna basin has tended to be viewed as gas prone rather than oil prone, a view that seems supported by the new USGS assessment. The gas would have originated from microbial action in coals and shales that are rich in organic matter. The USGS says that this gas may have become trapped in sandstone reservoirs, where sand in ancient river channels became confined by impermeable, fine-grained material on adjacent floodplains. Other gas accumulations could have become trapped in sandstones and conglomerates, by folds in the strata or by adjacent geologic faults.

In the resulting assessment unit, referred to as the Susitna Tertiary Sandstone Gas Assessment Unit, the USGS scientists think that there may anywhere from one to 264 gas fields, with field sizes possibly falling within a range from 3 billion to 2,500 billion cubic feet.



The Susitna basin occupies much of the drainage areas of the Susitna and Yentna rivers to the northwest of Anchorage. A major fault to the south of Willow marks the southern boundary of the basin.

There is an 86 percent probability of there being at least one 3 bcf field, the scientists determined.

## Possibility of oil

Although the coals, shales and mudstones in the basin contain material capable of generating oil, the basin is in general thought to be too shallow and cold to produce conditions under which oil might form. The possible exception is an area in the southwestern part of the basin, where faulting appears to have buried the basin rocks to depths where temperatures could have reached levels for oil generation.

That has resulted in what the USGS scientists refer to as the Beluga Mountain Subthrust Oil Assessment Unit, the assessment unit that accounts for all the potential oil in the basin. The scientists have estimated the possibility of at least one and possibly as many as 15 oil fields in this assessment unit, with field sizes ranging from 500,000 barrels to 20 million barrels. The scientists determined a 27 percent probability of there being a field of at least 500,000 barrels. ●

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• GOVERNMENT

# Administration's bond bill on House floor

By **KRISTEN NELSON**  
Petroleum News

The House Finance Committee has passed out a committee substitute for House Bill 331, the administration's proposal to issue bonds to pay for oil and gas tax credits. The bill moved to the House floor May 2, immediately after the committee action, and was held to the May 3 calendar.

Legislators have been concerned about the issue of whether issuance of the bonds would be constitutional, an issue raised by Sen. Bill Wielechowski, D-Anchorage. The Legislature's legal division has told legislators that it cannot say with certainty that bonds issued under HB 331 would be constitutional.

Both the Department of Law and the state's bond counsel have argued that the bonds would be constitutional. In a lengthy April 27 letter on the issue to the co-chairs of House Finance, arguing that the bonds would be constitutional, the department noted that the letter was not a formal opinion by the attorney general. "We note that if the bill passes and the process toward issuing these bonds is initiated, no bonds will be issued without the certification by both the Department of Law and State bond counsel that it is the respective belief of each organization that the bonds

*HB 322, increasing oil spill fines which can be charged by the Alaska Department of Environmental Conservation, passed the House 22-16 on April 27 and has been referred to Senate Resources.*

are permitted under Alaska law."

If HB 331 passes the House, it would need to be taken up by Senate Finance, which has yet to hear the companion bill, Senate Bill 176.

## Other bills

A Senate bill, SB 125, extending the ability of the Alaska Industrial Development and Export Authority to issue bonds for the Interior Energy Project, which currently expires June 30, passed the Senate in February and has been in House Labor and Commerce since. The bill would extend the ability to issue bonds to July 1, 2023. The bill's next referral is to House Finance. The bill, sponsored by Senate President Pete Kelly, R-Fairbanks, passed the Senate 19-0 and appears to have broad bipartisan support from Interior legislators, with Rep. Scott Kawasaki, D-Fairbanks, also listed as a sponsor.

The House version, HB 261, by Rep. Steve Thompson, R-Fairbanks, has been in House Labor and Commerce without a hearing since January; Kawasaki is also listed as a sponsor on that bill.

HB 322, increasing oil spill fines which can be charged by the Alaska Department of Environmental Conservation, passed the House 22-16 on April 27 and has been referred to Senate Resources. The bill, which increases fines, was amended on the House floor. It originally called for an annual update of spill charges based on the consumer price index. That was changed in House Finance to once every three years; it was changed on the House floor to once every 10 years.

The bill had not been scheduled for a Senate hearing when this issue of Petroleum News went to press.

HB 411, the House Finance Committee's oil and gas production tax bill, has been forwarded to the Legislative Oil & Gas Working Group established in HB 111 last year, with a request that the working group use all three consultants available to the Legislature "to obtain an array of perspectives." The working group is requested to submit a report and proposed legislation to the Legislature by Jan. 1. ●

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• GOVERNMENT

# AOGCC fines BlueCrest \$20,000 on 2 wells

By **KRISTEN NELSON**  
Petroleum News

The Alaska Oil and Gas Conservation Commission has fined BlueCrest Alaska Operating a \$20,000 civil penalty for failure to complete a well safety valve system performance test on one well and failure to obtain approval for the alternative closure of the subsurface safety valve on a second well.

The commission said in an April 26 order that both were violations of well safety valve systems requirements.

The first violation, at the Hansen 1A well, occurred April 5, 2016, when the company began production without obtaining approval for an alternate closure for the subsurface safety valve. The second violation occurred July 6, 2017, when BlueCrest failed to perform a safety valve system performance test on the Hansen H-16 well.

The commission's proposed fine, \$20,000, is \$10,000 for each violation.

BlueCrest requested and received an informal review, held Jan. 9, at which the company presented a summary of well operations at Hansen, results of its internal review and a summary of implemented and intended solutions to prevent recurrence of violations.

The commission said the company sought clarification on the proposed enforcement but did not dispute the violations.

## BlueCrest response

In a January response to the commission's Dec. 13 notice of violation, BlueCrest acknowledged failure to submit results of the performance test on the H-16 well and said, "A Safety Valve Test Record cannot be found for the performance test performed by an individual who is no longer employed, only an operator logbook entry for the function test performed July 2, 2017."

The company said it did respond to the commission on that matter in October but acknowledged that it "failed to submit and cannot provide a record of a passing SVS test on H16 within 5 days of startup. All parties in BlueCrest believed this was complet-

ed after the witness was waived but we are unable to locate a record."

The company said it does "dispute that we willfully or knowingly operated in non compliance in our Safety Valve System." BlueCrest said it believed the system "met the intent of the regulations as our SVS tests have all passed since field start up. Having been told otherwise by the commission via Docket No OTH-17-055 we have already implemented the corrective action to actuate our SSSV on flowline pressure alarms."

Among proposed action the company listed a training program for all operators and the identification of a single point of contact for Cosmopolitan facility operations.

## Failure of valve to close

In its April decision the commission said safety valve system testing of the Hansen 1A well on March 23, 2017, found that the subsurface safety valve failed to close in response to low pressure in the well's flowline.

"BlueCrest confirmed that the subsurface safety valve in Hansen 1A is not linked to the low-pressure detection device as required by AOGCC regulations but instead closes only on a plant or site emergency shut down," the commission said. The failure of the company to request a variance or waiver from the safety valve system regulations violated regulations, AOGCC said.

Testing of the Hansen H-16 was first scheduled for July 3, 2017, the commission said, but rescheduled by the company to July 6 because of operational issues. The commission said it deferred witnessing a pre-production safety valve system test July 5 to coincide with testing five days after production commenced.

The commission said BlueCrest's operation log book shows the safety valve system was tested July 2.

"BlueCrest has not provided a record of a safety valve system performance test," the commission said, and the Hansen H-16 produced without a properly tested safety valve system until the commission tested witnessed a test Nov. 9.

It cited BlueCrest for failure to perform the initial safety valve system performance

test as required by regulations.

The commission said BlueCrest acknowledges that it failed to submit a record of Hansen H-16 passing a safety valve system performance test within five days of startup and cannot provide a record of that test.

BlueCrest has 30 days to appeal the order. If it chooses not to appeal, the fine must be paid within 30 days of the issuance of the order. ●

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● GOVERNMENT

# F&W proposes IHA for Hilcorp survey

*Airborne gravity and magnetic survey would encompass part of federal lower Cook Inlet and adjacent onshore region of state land*

By ALAN BAILEY

Petroleum News

The U.S. Fish and Wildlife Service has proposed issuing an incidental harassment authorization to Hilcorp Alaska for an airborne gravity and magnetic survey that the company plans to conduct over part of the lower Cook Inlet this summer. The company had applied for authorization for the unintended disturbance of northern sea otters by noise created by the survey operations. Fish and Wildlife says that Hilcorp had originally planned to conduct both an aerial geophysical survey and an in-water seismic survey but had subsequently withdrawn the seismic survey from its plans.

The company now plans to conduct the aerial survey between May 23 and July 1, Fish and Wildlife said in a Federal Register notice regarding the proposed IHA. The agency requires comments on the IHA by May 29. Presumably Hilcorp will not commence the survey

unless the IHA is confirmed, following consideration of public comments. Fish and Wildlife says that the IHA takes into account potential environmental impacts through Sept. 30, an extended timeframe that would provide additional flexibility for completing the project. The time extension assumes that the total amount of surveying would remain unaltered but that it could be carried out over a longer time period.

## Partly onshore

The IHA notice says that the survey will encompass federal waters of the lower Cook Inlet, some nearshore state waters and some onshore state land. In an application to the federal Bureau of Ocean Energy Management for a permit to conduct the survey, Hilcorp said that part of the survey would cover land on the Iniskin Peninsula on the west side of the inlet and that the company plans to hire CGG Multi-Physics to acquire and process the data. The IHA notice says that the plan is to use a modi-

fied DC-3 fixed-wing aircraft for the offshore portion of the survey, with an AS-350 B3 helicopter being used onshore. A total of about 14 days of surveying would be required, with the scheduling of the flights being dependent on weather conditions.

Hilcorp acquired 14 lease blocks in BOEM's 2017 Cook Inlet outer continental shelf lease sale. According to BOEM, Hilcorp's planned survey encompasses all 14 of these lease blocks. In 2013 Hilcorp commissioned a 41-mile 2-D seismic survey between Chinitna Bay and Iniskin Bay. Hilcorp has also conducted a geologic assessment of the Iniskin Peninsula in conjunction with this seismic survey. With known oil seeps and spectacular geologic structures, the peninsula has been of interest to oil explorers since the early days of Alaska oil exploration. ●

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● EXPLORATION & PRODUCTION

# TGS plans Beaufort Sea seismic survey

*3-D survey would cover 905 square miles north of the central North Slope and take three summer open water seasons to complete*

By ALAN BAILEY

Petroleum News

TGS-NOPEC Geophysical Co. has applied to the federal Bureau of Ocean Energy Management for a permit to conduct a 3-D seismic survey to cover an area of 905 square miles of the Beaufort Sea, offshore the Colville River delta region of the central North Slope. The company anticipates conducting the survey in three phases, with each phase to be completed during a single summer open water season. In its plan of operations, TGS says that about 620 square miles of the survey would take place in waters of the federal outer continental shelf, while 285 square miles would be in state nearshore waters. The component of the survey in state waters will require state permits.

TGS anticipates its phase 1 program to start in mid-July this year and continue until late October.

"Results of the 3-D seismic program will be used to identify and map potential hydrocarbon-bearing formations and the geologic structures that surround them," the TGS plan of operations says.

The more western portion of the survey area appears to lie offshore the recent major Pikka/Horseshoe oil discovery. TGS refers to the survey as the "Barrow Arch 3D," in

*TGS says that about 620 square miles of the survey would take place in waters of the federal outer continental shelf, while 285 square miles would be in state nearshore waters.*

reference to the regional geologic arch structure that has led to many of the oil accumulations in the coastal region of the North Slope.

## Cable-free recording

The survey will use cable-free ocean bottom nodes to record the seismic signals. Prior to a data gathering operation nodes will be placed in position on the sea floor, tethered at 100-foot intervals along ropes spaced 600 feet apart and laid along north-south orientations. The nodes will be retrieved for data download after the operation has been completed. The seismic sound source will consist of an eight airgun device, towed at a depth of 2 meters behind a seismic source vessel. Jet driven shallow draft vessels and bow pickers will be able to deploy and retrieve the recording nodes, the plan of operations says.

TGS proposes to deploy a total of nine vessels for the survey operations, including two seismic source vessels; the node deployment and retrieval vessels; a mitigation and housing vessel; and a crew transport vessel. Since the vessels will not have ice breaking capability, the operations will avoid any pack ice in the project area.

## 24-hour operation

To the extent possible, taking into account the potential for shutdowns to mitigate marine mammal disturbance, operations will be conducted 24 hours per day, the operations plan says.

And, given the potential for noise from the operations to disturb wildlife and subsistence resources, the project will require an incidental harassment authorization from the National Marine Fisheries Service, a letter of authorization from the U.S. Fish and Wildlife Service, a marine mammal monitoring and mitigation plan and a conflict avoidance agreement with the Alaska Eskimo Whaling Commission.

TGS says that it has planned meetings and engagement with communities and marine mammal co-management groups on the North Slope to discuss its proposed program. ●

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• UTILITIES

# Utilities assess impact of tax change

Enstar and CINGSA have both filed proposals for rate reductions in the wake of the revisions to the tax code enacted last year

By **ALAN BAILEY**  
Petroleum News

In the wake of a reduction in the federal corporate tax rate from 35 percent to 21 percent, as part of the changes to the federal tax system enacted by Congress at the end of last year, two Alaska utilities, Enstar Natural Gas Co. and Cook Inlet Natural Storage Alaska, or CINGSA, are proposing reductions in the rates that they charge their customers. Enstar's rate reductions would apply to the fees it charges for shipping gas through its system, and not to the cost of the gas that it purchases from gas producers. Presumably CINGSA's rates, charged to commercial customers who store gas in its facility, would ultimately impact the cost of gas and electricity for energy consumers.

Unlike other Alaska Railbelt utilities, which are either

member owned cooperatives or are owned by municipalities, Enstar and CINGSA are for profit companies, both owned by AltaGas Ltd. and subject to corporate income tax on their profits. Not-for-profit, member owned cooperatives and municipal entities are not subject to corporate income tax.

## Enstar reduced revenue requirement

Enstar, in an April 26 filing, told the Regulatory Commission of Alaska that, while the full ramifications of the new tax code are complex, the utility has determined that the change in the tax rate results in a 5.7 percent reduction in Enstar's non-gas revenue requirement. The revenue required to cover a utility's costs and return on investment forms the basis of the rates that the entity charges its customers.

The commission has not yet ruled on how utilities

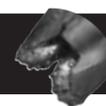
should respond to the tax rate reduction. However, Enstar said that it has made its filing because it believes that its new revenue requirement calculation is "the most expeditious way for customers to realize savings on their monthly bills." The utility told the commission that its customers of all categories should expect around a 1.3 percent reduction in their total bills as a consequence of the rate change.

Enstar told the commission that, in calculating its new revenue requirement, it had determined that the reduction in the tax rate will directly reduce the utility's federal income tax bill by about \$4.6 million. The tax change will trigger a reduction of \$57,700 in Enstar's capital requirements, a change that translates into a reduction of \$4,959 in the utility's required return on investment. The tax change will also reduce expenses relating to bad debt and

see **CORPORATE TAXES** page 10



## Oil Patch Bits



### Stork awarded Shell technical support contract

Fluor Corp. announced April 30 that Stork, part of Fluor's diversified services segment, was awarded a three-year contract by Shell UK Ltd. to provide technical support for a range of Shell's UK-based ONEgas assets in the Southern North Sea, as well as onshore facilities, offshore installations and vessels. Fluor booked the undisclosed contract value in the first quarter of 2018.

"This award demonstrates Stork's ability to provide technical solutions in the Southern North Sea region and Dutch sector of the North Sea," said Taco de Haan, Stork's president. "We look forward to our expanded relationship with Shell by support of their UK operations."

Stork will provide onshore support and technical expertise in disciplines such as inspection, electrical and mechanical as well as offshore leadership positions. The assets covered in the contract include several ONEgas Southern North Sea facilities, the onshore Bacton gas terminal and two offshore installations — Leman Alpha and Clipper. Stork will also support the Seafox 4 barge, in addition to Shell's two walk-to-work vessels, which provide specialist offshore maintenance and interventions supporting Southern North Sea operations.

"Stork has a rich heritage of supplying maintenance, modification and asset integrity management activities offshore, predominately in the UK Continental Shelf," said Erik-Jan Bijvank, regional vice president of Stork's UK, Middle East, Africa and Australia region. "By delivering these technical solutions onshore, we are broadening our ability to serve a key client with its operational needs."

### Lynden delivers crucial emergency service to Canada

Lynden International Logistics Co. announced April 26 that one of the many services it provides to the pharmaceutical industry in Canada is shipping life-saving drugs to wholesalers, hospitals, clinics and doctors — often requiring after-hours emergency delivery.

On the night of Friday, Jan. 6, a call came into Lynden's after-hours emergency line from Health Canada requesting the immediate shipment of a life-saving drug that Lynden International Logistics distributes. Manjit Sandhu, warehouse supervisor at the Lynden Vaughan facility, responded to the call and drove to the Lynden International Logistics warehouse to prepare the order for shipment.

When Sandhu ran into a scheduling issue with the courier service, Lynden employee Janak Parmar volunteered to drive the product to the hospital even though it was six hours away in Montreal and in the middle of the night. The product was received at the hospital early Saturday morning, where it was administered to the patient. The patient's life was saved thanks to Parmar's quick response and delivery. Health Canada contacted Lynden International Logistics afterwards thanking the individuals involved, and Lynden, for their prompt and life-saving response.

"Lynden would like to recognize Manjit and Janak for their tremendous service, but, more importantly, for their actions to help another person in need," said Brian MacAskill, Lynden International Logistics vice president, operations and business development.

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## EXPLORATION &amp; PRODUCTION

# Marginal increase in March ANS production

North Slope averages 516,869 bpd, up 0.6% from February, largest increase at Prudhoe; Cook Inlet averages 15,748 bpd, down 4.1%

By KRISTEN NELSON

Petroleum News

Alaska North Slope crude oil production averaged 516,869 barrels per day in March, up 0.6 percent (3,033 bpd) from a February average of 513,836 bpd, but down 5.4 percent (29,546 bpd) from a March 2017 average of 546,416 bpd.

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

The largest month-over-month per-barrel increase was at BP Exploration (Alaska)-operated Prudhoe Bay which averaged 263,983 bpd in March, up 1.2 percent, 2,993 bpd, from a February average of 260,990 bpd but down 11.1 percent from a March 2017 average of 289,179 bpd. In addition to Prudhoe oil, Prudhoe Bay field

volumes include Aurora, Borealis, Lisburne, Midnight Sun, Niakuk, Polaris, Point McIntyre, Put River, Raven and Schrader Bluff.

The ConocoPhillips Alaska-operated Colville River field had the largest month-over-month percent increase, averaging 66,447 bpd in March, up 3 percent, 1,959 bpd, from a February average of 64,488, and up 1.8 percent from a March 2017 average of 65,270 bpd. In addition to oil from the main Alpine pool, Colville production includes satellite production from Fiord, Nanuq and Qannik.

The Hilcorp Alaska-managed Milne Point field averaged 21,602 bpd in March, up 3.5 percent, 734 bpd, from a February average of 20,868, and down 2 percent from a March 2017 average of 22,028 bpd.

The ExxonMobil Production-operated Point Thomson field, producing from just

one well, averaged 5,596 bpd in March, with production on 23 days, compared to a February average of 5,592 bpd with production on all 28 days of that month, a difference of 1.1 percent, but down 17 percent from March 2017 when the field produced 6,738 bpd.

Badami, operated by Savant Alaska, a Glacier Oil & Gas company, averaged 696 bpd in March, up 4.7 percent, 31 bpd, from a February average of 665 bpd, and down 28.8 percent from a March 2017 average of 977 bpd.

## Month-over-month declines

The Caelus Alaska-operated Oooguruk field averaged 9,218 bpd in March, down 13.2 percent, 1,406 bpd, from a February average of 10,624 bpd, and down 32 percent from a March 2017 average of 13,540 bpd.

The Hilcorp-operated Endicott field averaged 6,601 bpd in March, down 2.8 percent, 190 bpd, from a February average of 6,791 bpd, and down 13.5 percent from a March 2017 average of 7,633 bpd.

Nikaitchuq, operated by Eni, averaged 13,844 bpd in March, down 1 percent, 146 bpd, from a February average of 13,990 and down 19.9 percent from a March 2017 average of 17,274 bpd.

The Hilcorp-operated Northstar field averaged 8,918 bpd in March, down 0.8 percent, 67 bpd, from a February average of 8,985, and up 13.7 percent from a March 2017 average of 7,842 bpd.

The ConocoPhillips-operated Kuparuk River field averaged 119,964 bpd in March, down 0.7 percent, 879 bpd, from a February average of 120,843, and up 3.5 percent from a March 2017 average of 115,924 bpd. In addition to the main Kuparuk pool, Kuparuk produces from satellites at Meltwater, Tabasco and Tarn, and from West Sak.

## Cook Inlet

Cook Inlet production averaged 15,748 bpd in March, down 4.1 percent, 675 bpd, from a February average of 16,423, but up 9.1 percent from a March 2017 average of 14,432 bpd.

Hilcorp's Beaver Creek field averaged 96 bpd in March, down 10.3 percent from a February average of 107 bpd, and down 95 percent from a March 2017 average of 183 bpd.

Hilcorp's Granite Point field averaged

**The largest month-over-month per-barrel increase was at BP Exploration (Alaska)-operated Prudhoe Bay which averaged 263,983 bpd in March, up 1.2 percent, 2,993 bpd, from a February average of 260,990 bpd but down 11.1 percent from a March 2017 average of 289,179 bpd.**

2,942 bpd in March, up 3.5 percent from a February average of 2,844 bpd, and up 18.5 percent from a March 2017 average of 2,482 bpd.

BlueCrest Energy's Hansen field, the Cosmopolitan project, averaged 799 bpd in March, down 3.4 percent from a February average of 827 bpd, but up 447 percent from a March 2017 average of 146 bpd.

Hilcorp's McArthur River field averaged 4,776 bpd in March, down 6.5 percent from a February average of 5,108, but up 19.3 percent from a March 2017 average of 4,002 bpd.

Middle Ground Shoal, also operated by Hilcorp, averaged 1,544 bpd in March, up 0.3 percent from a February average of 1,539, but down 11.7 percent from a March 2017 average of 1,748 bpd.

Redoubt Shoal, operated by Glacier Oil & Gas, averaged 1,314 bpd in March, down 10.4 percent from a February average of 1,467 bpd, but up 54.4 percent from a March 2017 average of 851 bpd.

Hilcorp's Swanson River averaged 1,465 bpd in March, down 6.9 percent from a February average of 1,574 bpd, and down 24.8 percent from a March 2017 average of 1,949 bpd.

Trading Bay, also operated by Hilcorp, averaged 1,811 bpd in March, down 1.2 percent from a February average of 1,833, but up 7.4 percent from a March 2017 average of 1,687 bpd.

Glacier's West McArthur River field averaged 1,001 bpd in March, down 10.9 percent from a February average of 1,124 bpd, and down 27.7 percent from a March 2017 average of 1,384 bpd.

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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## CORPORATE TAXES

lead to a decrease of \$477,607 in state income tax expense.

Enstar has determined its revised rates by applying its adjusted revenue requirements to the same allocation methods and rate design as were used in the utility's currently approved tariff, the utility told the commission.

## CINGSA reduced base rates

CINGSA told the commission that its rate reduction would apply to its base rates for firm and interruptible gas storage services. Rate reductions for services including storage reservation and interruptible storage would range from 14.3 percent to 17.2 percent. However, CINGSA proposes raising by 89.5 percent the fees it charges for injecting gas into its facility or withdrawing gas from storage.

In addition to the reduction in corporate

income tax, the reduction of rates for the storage facility reflects a decrease in the company's required return on equity, a change in the manner in which revenues from interruptible storage services are handled, the removal of some historically disallowed expenses from the revenue requirement, depreciation in the rate base, and a lower depreciation expense. The revised rate also reflects the commission's standard use of a 13-month average rate base, CINGSA told the commission.

The revised rate of return on equity, a little below CINGSA's desired rate of return, reflects the rate of return that the commission has mandated for Enstar. And changes to the handling of interruptible service revenues reflect the volatile nature of these revenues — CINGSA proposes a mechanism to share 50 percent of its interruptible service revenues with its firm service customers, CINGSA said. ●

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## CONOCO POSITIVE

would be much more expensive than a tie-back but would enable significantly higher production rates. The preferred mechanism for optimizing the return on development capital expenditure would presumably depend on the scale of the Willow find: the larger the resource, the more benefit in having standalone facilities.

ConocoPhillips has also reported the discovery of a new oil pool at West Willow, in one of the outcomes of this winter's exploration drilling program. West Willow is a relatively short distance west of the Willow discovery. Hirschberg commented that, although ConocoPhillips has yet to make any decision on what action to take relative to West Willow, a development at the new discovery could potentially tie back to facilities at Willow, a further factor that could play into a decision over the development options.

### Pipeline of projects

For a number of years ConocoPhillips has been moving forward on a strategy of incremental developments, moving west from the Alpine field out into NPR-A. The CD-5 development was followed by Greater Mooses Tooth 1, which is scheduled to come on line later this year. Greater Mooses Tooth 2 is the next development in what Hirschberg characterized as "a pretty nice pipeline of ... mid-sized sort of projects we're bringing on" in Alaska. And strong well performance in ConocoPhillips' Alaska operations made a significant contribution to ConocoPhillips overall success in exceeding its anticipated global oil production for the quarter, Hirschberg said.

In addition to West Willow, ConocoPhillips reported oil finds in its Stony River and Putu wells during this winter's exploration season. However, Hirschberg cautioned that it would take several years to bring any of these new discoveries on line. For the Willow discovery, for example, given the time it would take to obtain all of the necessary approvals, especially the federal approvals, the earliest startup would be in 2023.

"But that's a bit of a theoretical timing that would require more rapid federal permitting than we've experienced in the past. But it is possible within the rules," Hirschberg said.

### Lower 48 shale oil

ConocoPhillips has been commenting recently on competition for capital investment between Alaska and the company's shale oil operations in the Lower 48. During the earnings call Hirschberg said that in the Eagle Ford the company has

seen new well completion designs driving some dramatic improvements in production, while the company is also managing to drive down costs. Drilling times are also shortening, while new tools have doubled the number of wells that a field operator can handle, he said. The company is using data analytics to optimize its development efforts in the Eagle Ford.

"That was really the first place in the company where we built a comprehensive data warehouse," Hirschberg said.

On the other hand, the company has been experiencing issues relating to pipeline transportation constraints from the Permian basin, although there is the longer-term prospect of more pipeline capacity opening up.

### Increased earnings

The company's Securities and Exchange Commission filing for the first quarter shows a steady increase in quarterly adjusted earnings in Alaska from \$99 million in Q1 2017 to \$445 million in Q1 2018.

ConocoPhillips spokeswoman Amy Burnett told Petroleum News in an April 27 email that the company's rising Alaska earnings can be attributed to efforts to drive down costs while increasing production, as well as the increasing price of oil. The company's realized price for Alaska oil averaged at \$68 per barrel in Q1 2018, compared with \$61 per barrel in Q4 2017.

### Steady production

Thanks to continuing oil field development offsetting natural oil production declines in operational fields, production in Q1 2018 came in very similar to that in Q1 2017 but up by 1 percent relative to Q4 2017, Burnett said. According to the SEC filing, ConocoPhillips' Alaska oil production averaged 173,000 barrels per day in Q1 2017, dropped to 167,000 bpd in Q4 2017 and climbed back to 174,000 bpd in Q1 2018.

Burnett also commented that Alaska's current oil production tax system, commonly referred to as SB21, makes Alaska competitive for oil and gas investment.

"Maintaining Alaska's competitive tax framework will be important to future investment decisions on the North Slope," Burnett wrote.

—ALAN BAILEY

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## DRILLING SCHEDULE

drilling of much of the well by June 1, without at that point penetrating any hydrocarbon bearing zones, the revised plan says. After temporarily plugging and abandoning the well, the drilling of an 8.5-inch diameter section, potentially into hydrocarbons, will start on July 15. Flow testing would take place between the end of July and late August, with the well subsequently being plugged and abandoned.

The original plan had envisaged the potential drilling of a sidetrack well, following completion of the main well in late March. Eni no longer plans to drill the sidetrack.

Eni is using Doyon Rig 15 for the drilling project.

The temporary hiatus in the summer drilling and the decision not to drill a sidetrack reflect consistency with drilling restrictions designed for environmental protection. Eni will only drill during frozen ice conditions and during the open water season between July 15 and Sept. 15, and the company will only drill lateral wells during frozen ice conditions, the revised plan says.

### Second well still planned

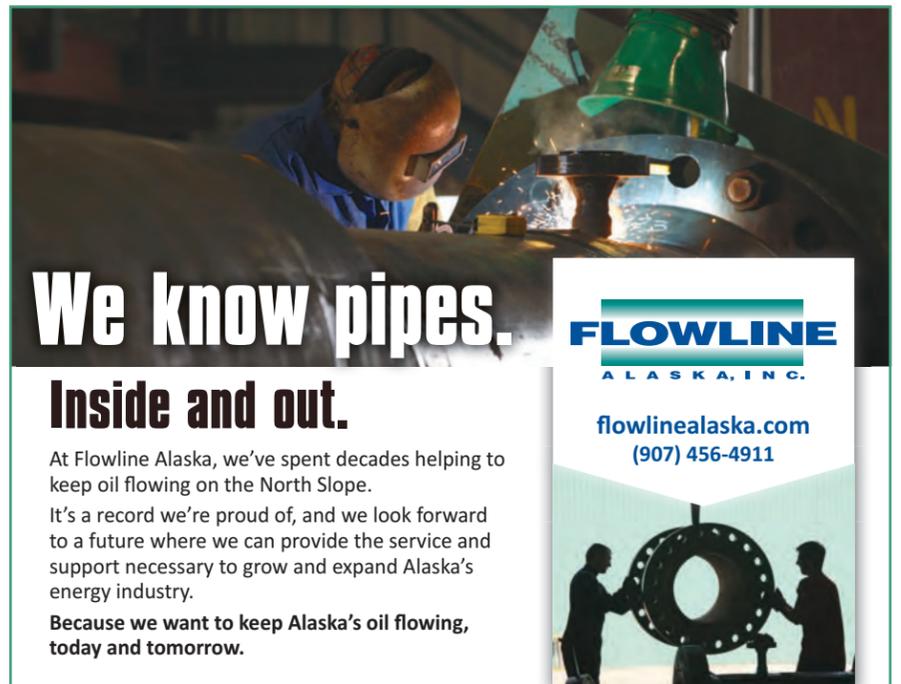
Depending on the results of this

*The temporary hiatus in the summer drilling and the decision not to drill a sidetrack reflect consistency with drilling restrictions designed for environmental protection.*

year's drilling, Eni still plans to drill a second Nikaitchuq North well next winter. Regardless of issues encountered during the drilling of the first well, the plan for the second well remains identical to what was proposed in Eni's original exploration plan: The well would be drilled between early December and mid-February. Any flow testing would take place between mid-February and mid-March. And there is the possibility of drilling a sidetrack between late March and late April. Any further flow testing would be completed by late May.

Eni's concept behind the drilling is to test for new resources that can be added to the reserves for the Nikaitchuq field, and thus to enable increased production at the field. Eni has said that the existing production facilities can handle production rates significantly higher than at present. ●

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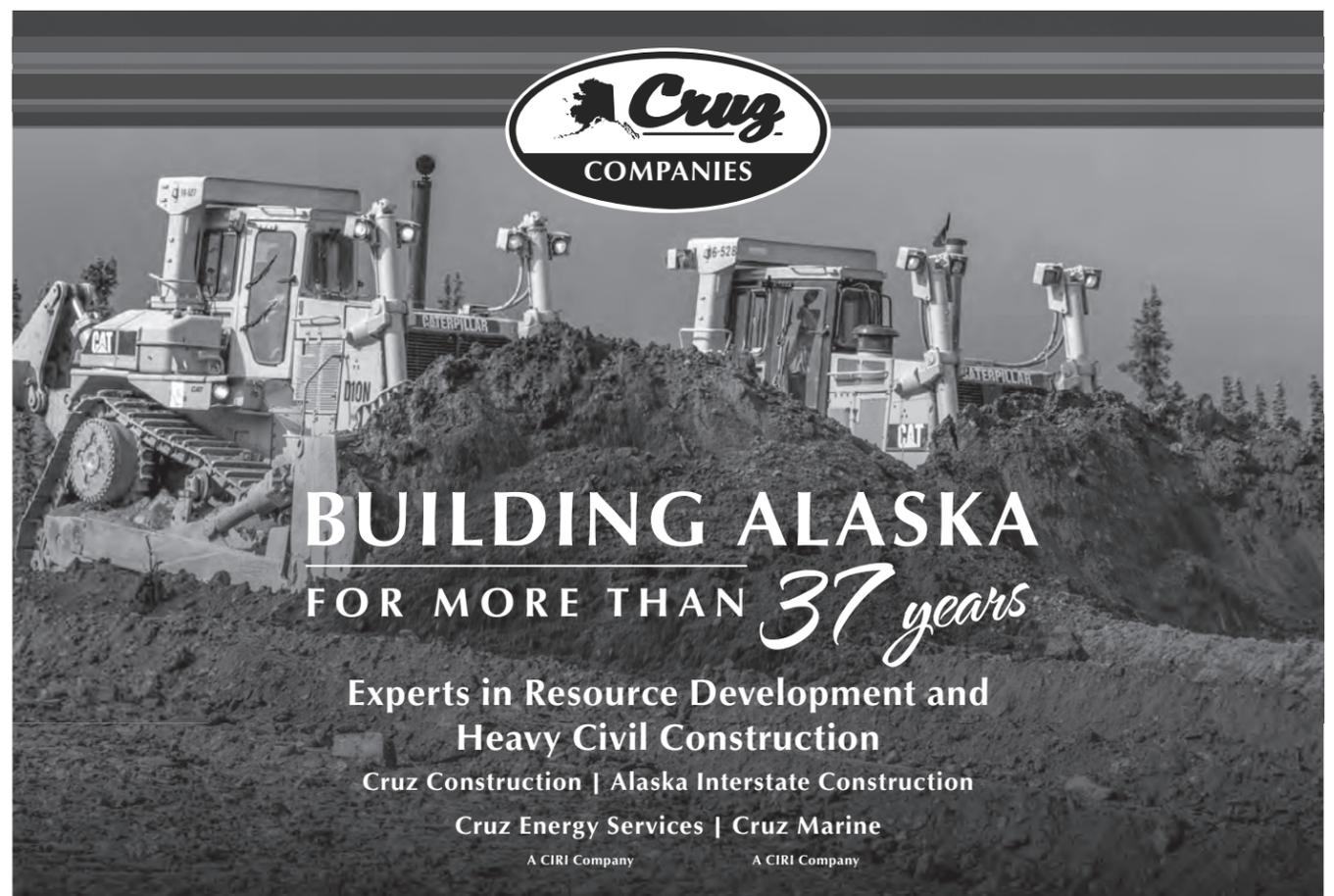
## ANWR OPPOSITION

depend heavily on the caribou for a livelihood and have been lobbying the U.S. government to keep development out of ANWR for 30 years.

NWT Environment Minister Robert McLeod called for an environmental impact study covering the risks of drilling to caribou, polar bears, migratory birds and grizzly bears that would allow "adequate time for consultation and respect obligations established in international agreements and land claim agreements."

—GARY PARK

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## TRANS MOUNTAIN

addition to a federal offer of C\$1.5 billion to bolster safety measures under the government's Ocean Protection Plan.

Expressing frustration to reporters with efforts by the B.C. government to stall progress on the pipeline by any means, McKenna said in her letter that the panel "would build on our scientific investments and results, take stock of the work on the fate, behavior and effects of various oil products (work already well advanced under Natural Resources Canada) in different spills conditions and under extreme Canadian climates ..."

The joint federal-provincial-indigenous panel would include independent experts, she said.

### Green Party concerns

B.C. Premier John Horgan has said the primary concerns of his coalition partner, the B.C. Green Party which keeps Horgan in power, is the threat of a diluted bitumen spill off the province's coast.

Heyman said he is happy to work "cooperatively and collaboratively" with the federal government on an issue that is in the interest of all Canadians "to ensure we have the knowledge we need to defend our coast."

Horgan said his government has asked

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## PURCHASE APPROVED

aim of facilitating a single, consolidated gas utility in Fairbanks.

### Bonds needed

Because IGU will use AIDEA bonds to purchase Pentex and the issuance of those bonds is contingent on RCA approval of the IGU/FNG merger, the utilities had asked the commission for expedited consideration of the approval — there is a deadline of June 30 for the issuance of the required bonds, unless the state Legislature passes a bill to extend the bond timeline. The commission has consented to expedited approval, saying that it sees no benefit to Fairbanks gas utility customers from allowing the financing mechanism for the utility

merger to expire without the commission addressing the merits of the case.

The commission, in its order, said that some have claimed that AIDEA paid too much for Pentex and that, in turn, the agency is expecting IGU to pay too high a price for the company. However, IGU's acquisition of FNG will not increase FNG customers' financial responsibility for the cost of the gas supply, the commission said. Moreover, IGU has demonstrated sufficient fitness, willingness and ability to maintain FNG's gas supply service. Integration of the utilities will avoid the duplication of plant and facilities while also reducing operations cost, maintenance costs and overheads, the commission said.

—ALAN BAILEY

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## MARATHON MERGER

The only news from the Alaska Andeavor office was Casey Sullivan's move from Caelus Energy to Andeavor as of May 7. Sullivan replaces Kate Blair as government and public affairs manager.

Although Alaska is a minor player in the new entity's portfolio of refining assets, both the LNG facility and the oil refinery have something deemed important in the Marathon-Andeavor merger presentation — export port access.

### Marathon, Phillips build LNG facility

The LNG facility, which includes a dock and loading facility, was originally opened by Phillips Petroleum and Marathon Oil in 1969 to provide a means of monetizing excess natural gas coming from the Cook Inlet basin. Over the years the plant produced LNG, or liquefied natural gas, for delivery by tanker to Japan, primarily to two utilities, Tokyo Gas and Tokyo Electric. Cargo sizes ranged from 588,764 barrels to

855,100 barrels.

However, as gas production from Cook Inlet tightened and the price of Cook Inlet gas increased while global LNG prices fell, the export of LNG from Nikiski slowed to a halt. There were just five cargoes exported in 2014, six in 2015. Exports stopped entirely in 2016.

Plant operator ConocoPhillips put it up for sale in November 2016 and in the fall of 2017 mothballed the facility in preparation for a long-term warm shutdown, a company spokeswoman in Alaska, Amy Burnett, told Petroleum News July 12, 2017.

"The reduced operations will focus on continued preservation of the facilities for future LNG exports," Burnett said.

The Nikiski facility continued to produce some LNG, during the second half of 2016 transferring eight tanker truckloads of LNG from the Kenai LNG facility to Fairbanks Natural Gas LLC facilities.

On Jan. 31 of this year ConocoPhillips closed on its sale to Andeavor for the unconfirmed price of \$10 million versus its Kenai Peninsula Borough assessed value of \$55 million.

the Court of Appeal whether the province has a right to impose restrictions on the flow of crude bitumen from Alberta to a tanker terminal in Vancouver.

He said the filing is a way to protect his province and its coastlines, streams and rivers from an oil spill that could endanger thousands of jobs.

Under draft legislation, B.C. would require companies to satisfy the government that it has sufficient capacity, including dedicated personnel and equipment, to respond within a specified time to a heavy crude spill.

Companies would also have to post security or have access to financial resources to clean up spills and compensate affected individuals, First Nations and governments.

But legal experts say there is no chance of the jurisdictional question being settled before Kinder Morgan's May 31 deadline for receiving certainty that it can build the 590,000-barrel-per-day pipeline across B.C., mostly running parallel to an existing 300,000 bpd system.

Kinder Morgan said its drop-dead date is unchanged, noting that the proposed legislation "signals the province's continued intention to frustrate the project."

Those looking for deeper implications in the court filing suggested there is a concession the government could be heading for defeat, largely based on the absence of any insistence that the Trans Mountain expansion cannot or will not be built.

University of Calgary law professor Nigel Bankes told the Calgary Herald doubts that the court strategy will succeed,

suggesting that the province's case "undercuts its (basic) argument" by not demanding permits for existing shipments of diluted bitumen to Vancouver or Washington state refineries.

That case aside, six First Nations are before various courts testing Trans Mountain-related issues such as inadequate consultation and infringement of existing land and fishing rights.

Alberta Premier Rachel Notley warns that if B.C. wins the case, Canada's economy will "grind to a halt faster than you can say free trade."

### Overture to First Nations

The federal government and bank overture to First Nations has been welcomed by most of the 33 B.C. First Nations that have signed benefits agreements with Kinder Morgan covering environmental monitoring, contracting opportunities, job training and direct payments to communities, estimated to be worth C\$400 million.

Stephen Buffalo, president of the Indian Resource Council, representing 130 aboriginal communities that hold oil and gas rights across Canada, said his group "wants and demands participation and equity ownership in (pipeline) projects."

He said a meeting in May will discuss how to finance a stake in Trans Mountain by the 33 First Nations.

The Simpcw First Nation, whose territory covers a third of the pipeline route, said it is open to discussing an equity position.

But even deals on aboriginal ownership are no guarantee that a project would get built. ●

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"We can confirm that Andeavor has acquired the Kenai Liquefied Natural Gas (LNG) facility," Andeavor spokesman Scott LaBelle told Petroleum News in an email. "This acquisition further strengthens our integrated value chain by optimizing our operations in Kenai and providing low-cost fuel for our (oil) refinery to produce the fuels that consumers in Alaska need to keep their lives moving."

It was the last of ConocoPhillips' Cook Inlet assets to be sold — the company had been departing the Cook Inlet gas industry and had already sold its gas fields in the region to focus on its North Slope oil fields and exploration.

Exporting LNG was not resumed under ConocoPhillips or Andeavor, although ConocoPhillips applied for and received a two-year extension from the Department of Energy that expired on Feb. 18 of this year, allowing it to export up to 40 billion cubic feet of natural gas in the form of LNG during that period.

"The export license for the facility expired in February of 2018. As such no export activity has taken place. We are still in the process of determining our plans for the facility," LaBelle told Petroleum News May 3.

### Tesoro refinery starts 1969

Andeavor, changing its name from Tesoro in 2017, was founded in 1968, and in 1969 began operating its first refinery, the Kenai Refinery, at Nikiski.

On Cook Inlet, 60 miles southwest of Anchorage, Andeavor's refinery can process up to 72,000 barrels per day.

The refinery produces gasoline and gasoline blend-stocks, jet fuel, diesel fuel and heavy fuel oils, propane and asphalt.

Crude oil is delivered by truck, by double-hulled tankers through Cook Inlet and by pipeline from the Kenai Peninsula and Cook Inlet. A 69-mile, 48,000 bpd common-carrier products pipeline transports jet fuel, gasoline and diesel fuel to the Port of Anchorage and the Anchorage International

Airport.

Wholesale delivery occurs through terminals in Kenai, Anchorage, the Nikiski dock and the Port of Anchorage.

The refinery also supplies Andeavor's network of Tesoro and USA Gasoline stations throughout Alaska.

### The Marathon/Andeavor deal

Increasing fuel demand, both in the U.S. and Latin America, and a tight oil boom (so-called shale or unconventional), which has expanded access to domestic oil supplies, have given North America refiners an advantage over foreign competitors.

"Why wouldn't you do this deal?" Greg Goff, Andeavor's chairman and chief executive officer, said in a conference call April 30. "The time is right now, because for this industry, the wind is behind our backs."

Whereas Marathon's refineries and pipelines are in the Midwest and Gulf Coast, Andeavor focuses on the western U.S. and Alaska. Thanks to acquisitions from 2017's merger with Western Refining Inc., Marathon surpassed its number one competitor, Valero Energy, as the largest U.S.-based oil refiner, per Bloomberg calculations.

The combined entity expects to be well-positioned to capitalize from upcoming regulations to reduce pollution from ships. Andeavor's port assets in California and Alaska, together with Marathon's on the U.S. Gulf Coast, will give the combined company the ability to sell lower-sulfur ship fuel.

"Ports are the lifeblood to refining out in those markets," Gary R. Heminger, Marathon chairman and chief executive officer said April 30.

At closing, Goff will join Marathon as executive vice chairman. He, along with three other Andeavor directors, will also join the board of directors of Marathon.

Heminger will remain Marathon top executive. ●

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