Petroleum news

page 2 EIA forecasts record production for both US crude and natural gas

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Lagniappe prepacking, mobilizing 3 rigs to eastern North Slope soon


BILL ARMSTRONG

In a Jan. 8 text to Petroleum News, Bill Armstrong confirmed that Lagniappe Alaska is "building ice now" (prepacking) and will be "mobilizing three rigs soon" to its Eastern North Slope acreage, which is south of Badami and east of Prudhoe Bay.

This winter's mobilization will deliver the Doyon 141 drilling rig to the King Street-1 well location, the Nabors 105-E rig to the Voodoo-1 site and the Doyon Arctic Fox rig to Sockeye-1. The three wells will be drilled simultaneously.

On Dec. 13, the Alaska Department of Natural Resources' Division of Oil and Gas approved a Lease Plan of Operations filed by the company to carry out the Lagniappe Exploration Program.

In a two-year consecutive exploration phase starting this winter, operator Lagniappe expects to drill six wells.

Partners in the deal are Lagniappe, an Armstrong company,

see **RIG MOBILIZATION** page 13

Doyon Associated applies for pad at mine site for storage, staging

There is so much going on this winter on the North Slope that Doyon Associated has been left looking for a place to stage and store for its winter season work at the Willow development project. Willow is the ConocoPhillips Alaska development in the National Petroleum Reserve-Alaska.

In an application to the Alaska Department of Natural Resources' Division of Oil and Gas for a land use permit, Doyon said Santos needs all of the space at F pad for its winter pipeline work and said while Doyon is "still in talks with them to get some space, they are unable to commit to anything to us at this moment and we cannot operate without having certainty."

Santos' local subsidiary, Oil Search Alaska, is developing the Pikka unit.

Doyon is applying to use up to 7 acres of state land at Mine Site F to store and stage equipment, shops and warehouses, the division said in a Jan. 8 public notice.

In its application the company said that there appears to be

see **PAD APPLICATION** page 13

Alberta on edge about TMX delay; expansion would support exports

Suddenly faced with a possible two-year delay in completion of the massive expansion of the Trans Mountain pipeline from the Alberta oil sands to the British Columbia coast to open the door to a possible 600,000 barrels per day of exports to Pacific Rim markets, Alberta crude producers and the provincial government are on edge.

"There's no other way to describe the prospect of a delay in TMX other than 'preposterous,'" said Tristan Goodman, head of the Explorers and Producers Association of Canada.

"We are still hopeful that it won't work out to a two-year delay, but it's quite serious," said Goodman.

Alberta Premier Danielle Smith told the Calgary Herald that the prospect of a delay on bringing the first phase expansion of TMX from 290,000 bpd to 900,000 bpd starting this spring has her "very concerned because there is so much pent-up demand" for additional pipeline capacity out of Alberta.

The expansion has been in the works since 2013, an 11-year span that ballooned pipeline costs from an initial estimate

see **TMX DELAY** page 14

FINANCE & ECONOMY

2024: ANS in $70s

Traders play weak recovery, ample supply against Middle East tension

By STEVE SUTHERLIN

Petroleum News

Alaska North Slope crude continues to experience a price tug of war that has defined oil trading in 2024, balancing fear of weakening demand against potential supply disruptions from hostilities in the Middle East.

ANS slid 83 cents Jan. 10 to close at $77.13 per barrel as oil prices reversed gains from earlier in the day after the U.S. Energy Information Administration reported an unexpected 1.3 million barrel build in commercial crude inventories. Analysts had anticipated a draw.

West Texas Intermediate reached $73.21 in early trading Jan. 10 before fading to close at $71.37 — an 87-cent loss on the day. Brent fell 79 cents to close at $76.80.

"Non-OPEC supply growth continues to frustrate the ambitions of OPEC+ to increase volumes and market share." —Simon Flowers, Wood Mackenzie

Prices were shooting higher after Houthi rebels fired their largest yet barrage of drones targeting shipping in the Red Sea, which the United States and British navies shot down Jan. 9 authorities said.

The U.S. Central Command said "Iranian-backed Houthis launched a complex attack of

see **OIL PRICES** page 14

EXPLORATION & PRODUCTION

Willow opposition falls

Nuiqsut tribal and city councils withdraw letter attacking Conoco project

By NATHANIEL HERZ

Published Jan. 10, Northern Journal

As ConocoPhillips begins a major winter construction season for its planned Willow oil development, the governments of a North Slope village that were among the few local institutions to criticize the project have both changed their positions, according to newly released documents.

The Indigenous Iñupiat community of Nuiqsut, population 550, is the closest village to Willow, a controversial development that could boost the amount of oil produced in Alaska by more than one-third.

Nuiqsut's tribal and city councils both approved resolutions in December withdrawing their support for a joint letter they released a year ago that blasted the "endless expansion of oil development and the complete encirclement of our village."

The city council's decision, at a Dec. 18 meeting, followed recent municipal elections that resulted in three new members and a new village mayor — after the previous mayor had vigorously opposed Willow's approval.

"Five of the current six city council members participated in the discussion and unanimously felt it was proper to rescind the letter of opposition to the Willow development, and to work closely with the developer, ConocoPhillips, and the regulatory agencies to follow the conditions and stipulations

see **WILLOW OPPOSITION** page 14

EXPLORATION & PRODUCTION

POD radically modified

Alaska agency rewrites Kitchen Lights plan of development, demands drilling

By KAY CASHMAN

Petroleum News


JOHN BOYLE

The proposed 10th plan of development for the Cook Inlet basin Kitchen Lights unit by operator Furie, a HEX company, was approved with significant modifications on Dec. 28 by Alaska's Division of Oil and Gas, part of the Alaska Department of Natural Resources, which is under the direction of Commissioner John Boyle. The 2024-25 10th POD is for period of Jan. 4 through Jan. 3, 2025.

Furie is Alaska's only 100% locally owned natural gas producer.

The division has the right to impose conditions as modifications to a POD. When reviewing a POD, the agency must consider the criteria in 11 AAC 83.303(a) and (b), such as the public interest, conservation of natural resources, prevention of economic and physical waste, protection of all interested parties including the state, environmental costs and benefits, geological and engineering characteristics of reservoirs or potential hydrocarbon accumulations, prior exploration activities, plans for exploration or development, economic costs and benefits to the state, and any other relevant factors, including mitigation measures.

see **KITCHEN LIGHTS POD** page 15

FINANCE & ECONOMY

EIA forecasts records for US production

Crude expected to set records in both 2024 and 2025, along with natural gas production; relatively unchanged crude price expected

By KRISTEN NELSON
Petroleum News

Both U.S. crude oil and natural gas production are forecast to set records this year and next, the U.S. Energy Information Administration said Jan. 9 in its January Short-Term Energy Outlook.

The agency said that despite slower growth, U.S. crude production is expected to average 13.21 million barrels per day this year and more than 13.44 million barrels in 2025, up from 12.92 million bpd in 2023, while U.S. dry natural gas production will grow between 1% and 2% to 105 billion cubic feet per day in 2024 and 106 bcf per day in 2025, increases of 1.5 bcf per day and 1.3 bcf per day respectively. This is slower growth for natural gas than in 2023, when production increased by 4%. EIA said the slower growth "reflects a drop in natural gas production associated with oil drilling in the Permian Basin."

Liquefied natural gas exports will increase as new LNG export capacity comes online, the agency said, with LNG exports expected to grow by 2.1 bcf per day in 2025 to average 14.4 bcf per day. LNG exports averaged 11.8 bcf per day in 2023 and EIA forecasts them to average 12.4 bcf per day this year.

JOE DECAROLIS

US crude production

EIA said domestic crude production "depends on rig activity and well-level productivity to offset natural declines from existing wells." U.S. Lower 48 growth, excluding Alaska and federal offshore production, is mostly limited to the Permian in western Texas and eastern New Mexico, with producer investment being one of the main uncertainties in the forecast. "Since 2021, producers have prioritized debt reduction, dividend increases, and corporate acquisitions over capital expenditures," the agency said, although capital expenditures did increase in 2023 "and further increases would suggest more active rigs than in our forecast."

The agency does not address Alaska production but said federal offshore Gulf of Mexico production is forecast to grow slightly in 2024 and 2025 as new projects come online. EIA said GOM production is less price sensitive than Lower 48 production because of project investments made before the pandemic which will begin producing in the next two years.

Crude oil prices

EIA said it expects crude oil prices to remain relatively

see **EIA OUTLOOK** *page 3*

contents

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LAND & LEASING

Cook Inlet, Alaska Peninsula lease sales

State oil and gas areawide lease sales are planned this spring for Cook Inlet and the Alaska Peninsula.

The Alaska Department of Natural Resources' Division of Oil and Gas said Jan. 3 that the sales are tentatively scheduled for the first half of the year and is requesting substantial new information for the Cook Inlet areawide, where the final best interest finding was issued in 2018, with a supplement in 2019.

The division is not requesting substantial new information for the Alaska Peninsula as that final BIF was just issued Dec. 27, within a year of proposed lease sale.

The deadline for submitting substantial new information for the Cook Inlet areawide is Feb. 5 at 5 p.m.

—PETROLEUM NEWS

EXPLORATION & PRODUCTION

Lower foothills open for snowmobile travel

The Alaska Department of Natural Resources' Division of Mining, Land and Water said Jan. 4 that the lower foothills area on the North Slope has been opened for snowmobile travel. The division said this applies only to operators with valid off-road travel permits for state-owned North Slope lands.

The western coastal area was opened for snowmobile use Nov. 4 and the eastern coastal area Dec. 1.

No areas are yet open for general off-road winter tundra travel and the division said in a Jan. 4 email that weather conditions on the Slope prohibited monitoring the first week of January, with personnel scheduled to return for monitoring the week of Jan. 9 and the next off-road travel status report expected to be sent out around Jan. 15.

In the notice of snowmobile travel opening the division said that while overall snow cover was appropriate for snowmobile travel, snow will be thin in some areas and those areas should be avoided. For snowmobile travel, the division said operators needed to contact their permit issuing divisions for approval of snowmobile travel, with permits issued by both DMLW and the Division of Oil and Gas.

—PETROLEUM NEWS

Division of O&G OKs Duck Island POD

Hilcorp Alaska's 42nd plan of development for its Duck Island unit has been approved by the Alaska Department of Natural Resources' Division of Oil and Gas.

Hilcorp told the division in its POD filing that it planned as many as two grassroots wells at the unit during the Feb. 13, 2024, to Feb. 12, 2025, period of the POD, with the second well dependent on results from the first.

In its Jan. 8 approval the division said that during the previous, 41st POD, Hilcorp completed eight rig and non-rig wellwork operations, including adding perforations, replacing tubing, returning previously isolated zones to production and tubing patch replacements. On the facilities side, Hilcorp completed new transformer installations, module levelling, Skookum Bridge repair and all proposed facility projects listed in the 41st POD. No drilling or sidetracks were proposed for the 41st POD.

Average daily production from January through November was 5,532 barrels of oil per day and 744 barrels per day of natural gas liquids.

During the 42nd POD, the division said that in addition to one, and possibly two grassroots wells, Hilcorp has a sidetrack and three rig workovers planned, as well as various non-rig wellwork.

A deaerator project is planned to debottleneck facilities and reduce corrosion, a 3-inch LACT meter upgrade and ongoing module levelling.

—PETROLEUM NEWS

continued from page 2

EIA OUTLOOK

unchanged in 2024.

Brent averaged $82 per barrel in 2023 and is forecast to remain at that level this year, dropping to $79 per barrel in 2025. EIA said it expects that in 2025 production growth will "slightly outplace demand growth, allowing inventories to build modestly and place some downward pressure on crude oil prices."

Brent averaged $78 per barrel in December, down $5 per barrel from November, with the price falling despite the Nov. 30 announcement from OPEC+ on its latest production cuts. EIA said the fall in prices was "based on ongoing concerns about global oil demand growth and on rising global oil inventories," estimated to have increased by 800,000 bpd in the fourth quarter.

The agency said global crude inventories are expected to be relatively balanced through the first quarter and then build over the final three quarters of the year on slowing demand growth, which is expected to outpace rising supply growth.

Electric generation

EIA said it expects solar electric generation to account for 7% of total U.S. electric generation in 2025, up from 4% in 2023, with developers reporting almost 80 gigawatts of solar power coming online over the next two years, increasing domestic solar generation by 84% and making solar the leading source of growth through 2025.

This year, 36 gigawatts of solar power are expected to come online, followed by an additional 43 gigawatts in 2025, increasing the percent of solar power from 4% in 2023 to 6% this year and 7% in 2026.

EIA is forecasting overall U.S. electric generation to grow 3% this year and be unchanged next year.

"We are experiencing a significant shift in U.S. electric generation, as solar generation grows rapidly, taking market share from coal and tempering the growth in natural gas usage," said EIA Administrator Joe DeCarolis. "Coal and natural gas remain important to the U.S. electric grid, even as variable renewable resources such as solar and wind grow."

Natural gas, which had a 42% share of U.S. electric generation in 2023, is expected to have that same 42% share this year and drop to 41% in 2025. Coal, 17% in 2023, is expected to continue to drop, to 15% this year and 13% in 2025.

Renewables, 22% in 2023, are forecast to grow to 24% this year and to 26% in 2025, while nuclear remains stable at 19%.

EIA said growth in wind power is expected to be slower than growth in solar.

The decline in coal, 9% expected this year and 10% in 2025, is from a combination of higher costs compared to renewables and another 12 gigawatts of coal-fired generation retiring in 2024 and 2025. Electric generation from natural gas is expected to be unchanged from 2023 in both of the next two years. ●

Contact Kristen Nelson at knelson@petroleumnews.com

EXPLORATION & PRODUCTION

AOGCC OKs Hilcorp's Whiskey Gulch 15

Hilcorp Alaska has received approval from the Alaska Oil and Gas Conservation Commission for a spacing exemption to drill its Whiskey Gulch 15 exploration well on the Kenai Peninsula north of the company's Seaview unit. The Alaska Department of Natural Resources' Division of Oil and Gas previously approved a lease plan of operation amendment for the well (see story in Dec. 17 issue of Petroleum News).

The company has drilled two exploration wells at the prospect, Whiskey Gulch 1 in 2021 and Whiskey Gulch 14 in 2022, in addition to a dozen stratigraphic test wells.

The commission said the well is planned to a measured depth of 8,491 feet, equivalent to a vertical depth of 7,721 feet. The bottomhole location is on private lands where Hilcorp has 100% working interest, targeting unproven gas reserves in the Sterling, Beluga and Tyonek formations within the Whiskey Gulch undefined gas pool.

In its application (see story in Nov. 26 issue) Hilcorp told the commission that each of the two earlier wells found some gas but that neither was commercially viable.

A spud date of Jan. 15 is planned, with the well to be drilled from Whiskey Gulch pad 1.

Hilcorp said that upon successful completion of Whiskey 15, but prior to putting the well on production, it will apply to the division to form the Whiskey Gulch unit and an initial participating area.

On Jan. 9 the division approved an application from Hilcorp for a vertical seismic profile miscellaneous land use permit, dated Dec. 12, at Whiskey Gulch. The area covered in the permit is section 23, township 4 south, range 15 west, Seward Meridian.

The division said the vertical seismic profile will be performed by lowering a sound source receiver into the Whiskey Gulch 15 well, once the well is cased and cemented. Equipment includes a vibe truck, seismic source receiver, E-line unit and mobile heater. The division said the vibe truck will shake at 55-foot intervals for 1,800 feet on the Whiskey Gulch pad, a privately owned road and a Kenai Peninsula Borough maintained road.

—KRISTEN NELSON

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● EXPLORATION & PRODUCTION

Division of O&G OKs Point Thomson POD

Hilcorp's 2024-25 plan of development calls for evaluation conversion of injection well PTU-15 to production; only PTU-17 produces

By KRISTEN NELSON
Petroleum News

Hilcorp Alaska's Point Thomson unit and Area F plan of development for 2024-25 has been approved by the Alaska Department of Natural Resources' Division of Oil and Gas. The POD was submitted in October and the approval was signed by division Director Derek Nottingham on Dec. 14.

Hilcorp operates the unit on behalf of itself, majority working interest owner ExxonMobil Production Alaska and a group of smaller working interest owners. ExxonMobil holds 62.36% of working interest in Point Thomson, Hilcorp Alaska holds 36.99% and a group of smaller working interest owners hold a combined 0.65%.

2024-25 POD

The division said that "Hilcorp's exploration-delineation plan consists of reviewing and evaluating internal interpretive data to establish future development plans for lands comprising 'Area F' of the PTU."

In addition to maintaining production from the unit in line with historical decline, the division said Hilcorp has committed to:

•Converting "injector PTU-15 to production, pending results of internal review."

•Continuing to evaluate drilling opportunities.

•Performing non-rig wellwork operations.

•Continuing operation of Initial Production System facilities and completing "work as needed to increase the capacity of installed facilities."

There is a single producer, PTU-17, and two injectors, PTU-15 and PTU-16, at Point Thomson, where condensate is extracted from gas in the high-pressure reservoir and the majority of the gas recycled to maintain reservoir pressure.

Hilcorp told the division production has been declining at PTU-17, the field's only producer, since startup, with current wellstock unable to cycle 200 million standard cubic feet of gas and fill the IPS facilities and additional wells required to fill the facilities to capacity.

Technical complexity

In its decision the division said it "recognizes and appreciates greatly the steps taken by Hilcorp already regarding its maximization of production with the extant PTU wells, particularly given the technical complexity associated with PTU production challenges," and said it anticipates Hilcorp will continue to work to mitigate production decline in the short term "while developing a plan to fill the IPS facility to its capacity as soon as practical."

That plan, the division said, will be presented to the division as a technical update within 12 months of approval of the 2024-25 POD, and "shall include an update on Hilcorp's understanding of the underlying mechanisms for reservoir productivity decline, an update on actions Hilcorp has and will take to mitigate decline in the short term, and a definitive timeline for drilling and development activities to restore production to the IPS facility capacity," which is 10,000 barrels per day.

Area F

In its POD Hilcorp said it "anticipates reviewing and evaluating internal interpretive data to establish future development plans for lands comprising 'Area F' of the PTU."

Jade Energy holds segment 2 of ADL 343112 in Area F, and has been working to drill there, but is currently in default for failure to meet its plans, with a March 5, 2024, date set by a decision by DNR Commissioner John Boyle in a Sept. 8 decision finding the company in default and providing an opportunity to cure.

(Jade filed a new POD for Area F in December — see story in this issue.)

In approving the Point Thomson POD for Jan. 1, 2024, through Dec. 31, 2025, the division said that if Jade is unable to cure the default by March 5, Hilcorp's POD for Point Thomson and Area F will satisfy the requirement of an approved POD for Area F.

Without an approved POD, the acreage in Area F would be relinquished. ●

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THIS MONTH IN HISTORY

Exxon: Standalone Pt Thomson not viable

20 years ago this month: Gas pipeline needed to make project economic, significant reduction in liquids resources estimates cited

Editor's note: This story first appeared in the Jan. 4, 2004, issue of Petroleum News.

By KRISTEN NELSON
Petroleum News

The Point Thomson bubble has apparently burst — at least until there is a natural gas pipeline from Alaska's North Slope to take gas to market.

Field operator ExxonMobil, speaking for itself and other major owners of the undeveloped eastern North Slope field — BP Exploration (Alaska), Chevron U.S.A. and ConocoPhillips Alaska — told the Alaska Division of Oil and Gas in mid-December 2003 that "a standalone project prior to gas sales is not economically viable under the current fiscal system."

ExxonMobil told the state that "completion of engineering and resource evaluation work during the past year has confirmed that development of the resource at PTU (Point Thomson unit) is challenged."

Resource evaluation work has "resulted in a significant reduction in liquid resources," the company said. On the cost side, engineering design work and "better identification of permitting and environmental requirements" added costs to the project, although that was balanced because "a cost reduction effort identified changes in scope that reduced costs" back to within the original cost range.

Companies exploring alternatives

ExxonMobil said the Point Thomson owners have not given up on development and have begun discussions with the state "to explore ideas that could result in a commercially viable project."

But because the project is not currently economic, the Point Thomson owners are proposing a change in their agreement with the state, which mandates a $10 million payment to the state if the owners determine by Jan. 15, 2004, to relinquish the expansion area.

In the 2001 agreement expanding the unit, the amount was $8 million and the deadline was June 30, 2003. The state extended that deadline in exchange for an increase to $10 million.

The companies are now proposing a sliding deadline: from Jan. 15, 2004, until the required date for the beginning of development drilling, June 15, 2006, the major working interest owners "may at any time provide notification of their election to contract the expansion acreage" and pay the state $10 million, plus an added amount equal to one-twelfth of $4 million for each full month beginning Jan. 16, 2004.

ExxonMobil said the owners' proposal is "consistent with the basis for the payment schedule" in the state's 2001 decision approving the unit expansion, "which recites that the payment is intended to compensate the state for delay in receiving bonus payments from leasing the acreage that was not relinquished."

The proposal would also, ExxonMobil told the state, align the interests of the owners and the state, giving the owners an incentive for early relinquishment of the acreage "if conditions warrant," an incentive which "is not present if there is a fixed payment that does not increase with time." Early relinquishment would make the acreage available sooner for the state to offer in an oil and gas lease sale.

Point Thomson is a high-pressure condensate field, and initial development plans called for producing the oil and reinjecting the gas into the reservoir.

Point Thomson resource

While ExxonMobil said evaluation had led to a "significant reduction" in the estimate of liquid resources at Point Thomson, it did not make the new estimates public.

The Alaska Division of Oil and Gas has listed the Point Thomson resource as 435 million barrels of oil and 8 trillion cubic feet of gas in its last two annual reports, and any information on new reserve estimates provided to the state by the owners in unit discussions is confidential.

Numbers from ExxonMobil earlier this year are in line with the state's recent published numbers. Houston, Texas-based ExxonMobil spokesman Bob Davis told Petroleum News in August that the field contains roughly 400 million barrels of recoverable condensate, which Davis said is a liquid much like kerosene, plus the 8 tcf of gas.

Davis said in December that the owners were not releasing revised resource figures.

Point Thomson is a high-pressure condensate field, and initial development plans called for producing the oil and reinjecting the gas into the reservoir.

Project estimate exceeds a billion dollars

Davis told Petroleum News Dec. 31 that the owners spent more than $50 million in 2003 completing engineering and evaluation work for Point Thomson and have had "preliminary discussions with the state on the project status."

The owners estimate project costs in excess of a billion dollars for facilities, infrastructure and drilling, Davis said, in addition to the hundreds of millions of dollars already spent at Point Thomson, which is in its 20th plan of development.

He said that, as the owners have told the state, based on costs, the resource and estimated revenue from the project, it is not economic.

"We do anticipate additional discussions with the state with the goal of identifying a commercial project," Davis said.

Leases held since 1970s

There has been a Point Thomson unit since the late 1970s, allowing leaseholders to retain oil and gas leases even though there is no production, until there is a pipeline to take the field's resources to market.

There have been various expansions and contractions in the unit since it was formed.

The most recent was in 2001, when the unit owners negotiated with the state to expand the unit to include adjacent leases close to expiration, in exchange for a number of commitments, including a long-term plan of development for the unit, development drilling beginning by June 15, 2006, and completion of seven development wells by June 15, 2008.

In exchange for expansion of the unit to include the additional leases, the unit's owners agreed to pay the state to make up for money the state could have earned by offering the expansion area leases in state oil and gas lease sales if they didn't meet the agreed-upon development schedule for the unit.

In the 2001 agreement expanding the unit, the amount was $8 million and the deadline was June 30, 2003. The state extended that deadline in exchange for an increase to $10 million.

The companies made the first such payment in 2002 when they decided not to deepen the Red Dog No. 1 well in a portion of the expansion acreage and instead paid the state $940,000, and relinquished leases on the western edge of the unit.

Unit alignment almost complete

Progress is being made on another front.

Alignment of major interests at the field, agreed to by ExxonMobil, BP and Chevron in 2000, and subsequently by ConocoPhillips, is nearing completion, ExxonMobil told the state.

The company said cross assignments are being executed and said it would submit them to the state for approval as soon as all of the companies had signed. ●

Contact Kristen Nelson at knelson@petroleumnews.com

PIPELINES & DOWNSTREAM

Eileen West End pipelines work approved

Hilcorp North Slope's application for a unit plan of operations amendment to install a new 30-inch diameter flowline and a new 14-inch gas lift line between Gathering Center 2 and the Eileen West End Junction in the western operating area of the Prudhoe Bay unit has been approved by the Alaska Department of Natural Resources' Division of Oil and Gas.

The project will improve flow from EWE Junction to GC2 and increase capacity for production from the L, V, W and Z pads, the division said.

Hilcorp North Slope, the Prudhoe Bay operator, filed for the work last year with the U.S. Army Corps of Engineers (see story in July 30 issue of Petroleum News) and then filed a unit plan of operations amendment with the division (see story in Nov. 12 issue).

The project will improve flow from EWE Junction to GC2 and increase capacity for production from the L, V, W and Z pads, the division said.

In its Dec. 21 approval the division said the work requires installation of a new pipe rack with new vertical and horizontal support members for the majority of the pipeline route, with additional VSMs and HSMs to be installed on the existing pipe rack at the Kuparuk River crossing.

An ice road and equipment turnarounds will be constructed in the 2024-25 ice season to support installation of the pipelines.

The EWE Junction pad will be expanded by 1.1 acres to accommodate a new 30-inch pig launcher, a 14-inch gas lift receiver and associated infrastructure, the division said.

Project work was expected to start Jan. 1 and run through the end of 2025.

Elements of the work include:

•Expanding EWE Junction pad by 1.1 acres.

•Installing new 60-foot by 60-foot access platform and associated supports at EWE Junction.

•Installing 30-inch pig launcher, 14-inch gas lift receiver and associated infrastructure on access platform.

•Relocating existing pig launcher next to new launcher and new receiver.

•Constructing 35,000-foot-long, 100-foot-wide ice road and ice equipment turnarounds.

•Installing new pipe rack between GC2 and EWE Junction, with some 550 new VSMs and HSMs

•Installing 41 new lengthened HSMs on Kuparuk River crossing pipe rack and 22 new VSMs at Kuparuk River Island crossing.

•Installing some 35,000 feet of 30-inch large diameter flowline and some 35,000 feet of 14-inch diameter gas lift line from GC2 to EWE Junction.

•Installing piping and associated supports.

—KRISTEN NELSON

● EXPLORATION & PRODUCTION

Baker Hughes US rig count down 1 to 621

US averaged 623 for December in company's monthly count, down 156 from December 2022, with Canada at 161

By KRISTEN NELSON
Petroleum News

The Baker Hughes' U.S. rotary drilling rig count was 621 for the week ending Jan. 5, down by one rig from 622 the previous week, and down by 151 from 772 a year ago. The rig count has increased in five of the last eight weeks, with a gain of 10 against losses of seven, a reverse in a downward trend dominant since the beginning of May.

A drop of 17 to 731 on May 12, 2023, was the steepest weekly drop since June of 2020, during the first year of the COVID-19 pandemic, when the count also dropped by 17 to 284 on June 5, following drops as steep as 73 rigs in one week in April. The count continued down to 251 at the end of July 2020 before beginning a slow climb upward.

As 2023 reached its end, the count hovered in the 620s for more than a month with the Dec. 29 count down from a high of 775 on Jan. 13, 2023. The high for 2022 was 784 rigs at the beginning of December.

When the count dropped to 244 in mid-August 2020, it was the lowest the domestic rotary rig count had 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 prior to the COVID-19 pandemic, where it remained through mid-March of that year 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 Jan. 5 count includes 501 rigs targeting oil, up one from the previous week and down 117 from 618 a year ago, with 118 rigs targeting natural gas, unchanged from the previous week and down 34 from 152 a year ago, and two miscellaneous rigs, unchanged from the previous week and also unchanged from a year ago.

Forty-six of the rigs reported Jan. 5 were drilling directional wells, 564 were drilling horizontal wells and 11 were drilling vertical wells.

Alaska rig count unchanged

Kansas (1) was up by one rig from the previous week.

Texas (308) and Wyoming (12) were each down by a single rig.

Rig counts in other states were unchanged from the previous week: Alaska (10), California (4), Colorado (17), Louisiana (42), New Mexico (97), North Dakota (31), Ohio (12), Oklahoma (44), Pennsylvania (19), Utah (13) and West Virginia (9).

Baker Hughes shows Alaska with 10 rotary rigs active Jan. 5, unchanged from the previous week and up by one from a year ago when the count was nine. Nine of the Alaska rigs were onshore, unchanged from the previous week, with one rig working offshore, also unchanged from the previous week.

The rig count in the Permian, the most active basin in the country, was up by two from the previous week at 311 and down by 42 from 353 a year ago.

International count down 23 rigs

Baker Hughes' monthly international rig count for December, issued Jan. 5, is down by 23 rigs from November at 955, with land rigs down 23 to 735 and offshore unchanged at 220. Compared to the December 2022 count of 900, the December 2023 international count is up by 55, with land rigs up by 51 and offshore rigs up by four.

Baker Hughes began providing a monthly international rig count in 1975. The international count excludes North America, which is included in the company's worldwide figures.

The Middle East accounted for the most rigs in the international totals for December, 336, followed by Asia Pacific with 214, Latin America with 174, Europe with 122 and Africa with 109.

The U.S. rig count averaged 623 in December, up by four from November, and down 156 from December 2022, while the Canadian count for December averaged 161, down 36 rigs from November and up by six from December 2022.

Worldwide the rig count was 1,739 in December, down 55 from 1,794 in November and down 95 from 1,834 in December 2022. ●

Contact Kristen Nelson at knelson@petroleumnews.com

Congratulations

Thumbs up ConocoPhillips!

Thank you, ConocoPhillips for making the final investment decision to develop the $7 billion to $7.5 billion Willow project in the National Petroleum Reserve-Alaska. Willow is expected to create more than 2,500 construction jobs and approximately 300 long-term jobs, as well as billions in revenue to the federal and state governments and Alaska Native communities.

The Houston-based parent of ConocoPhillips Alaska said the FID approves the project and funds construction needed to reach first oil.

When completed, Willow is estimated to produce 600 million barrels across the lifetime of the project, and to deliver some 180,000 barrels of oil per day into the trans-Alaska pipeline with first oil expected by early 2029.

Ryan Lance

ConocoPhillips

ABR, Inc.
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AES Electric Supply, Inc.
AIDEA
Airgas, an Air Liquide Company
Airport Equipment Rentals
Alaska Air Cargo
Alaska Dreams
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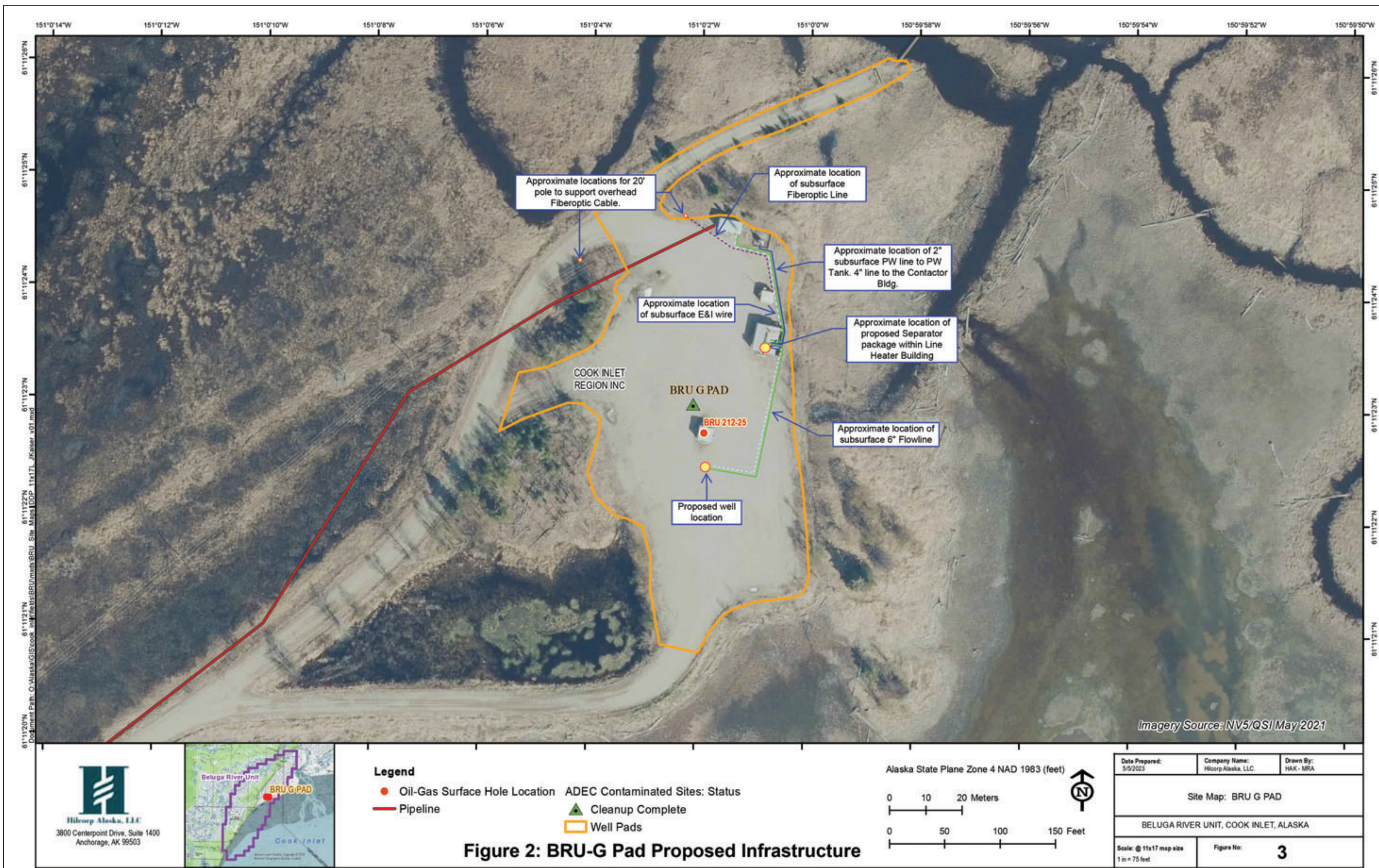

Figure 2: BRU-G Pad Proposed Infrastructure

● EXPLORATION & PRODUCTION

Hilcorp to drill grassroots Beluga well

By KRISTEN NELSON
Petroleum News

Beluga River field operator Hilcorp Alaska received approval Jan. 3 from the Alaska Department of Natural Resources' Division of Oil and Gas for an amendment to the Beluga plan of operations for a grassroots well at the Beluga River field. Hilcorp operates the field on the west side of Cook Inlet on behalf of itself and majority working interest owner Chugach Electric Association.

Hilcorp has been drilling at Beluga, completing five grassroots wells at the field last year, adding to the field's natural gas production.

In November, the latest month for which Alaska Oil and Gas Conservation Commission production data is available, Beluga averaged 39,258 thousand cubic feet per day, 20.1% of inlet production for the month, and an increase of 19.1% from the field's average of 32,961 mcf per day in November 2022.

In its approval, the division said the well will be at G pad and produce from a state lease, tying into existing gas production infrastructure on the pad.

Work includes installation of flowlines, instrumentation and electrical cables, a separator package, headers and a replacement line heater, the division said, with the separator package to be installed in the existing line heater building. Work will include trenching on the pad for installation of new flowlines and instrumentation and electrical lines.

The well is BRU 241-26. ●

Contact Kristen Nelson at knelson@petroleumnews.com

● EXPLORATION & PRODUCTION

Hilcorp plans Milne pad expansion, more wells

Proposal would add 4.7 acres to H pad, up to 25 new wells, with gravel to be added on 3 sides of existing pad starting in February

By **KRISTEN NELSON**
Petroleum News

Hilcorp Alaska is continuing work to expand production from its Milne Point unit, applying to expand H pad by adding gravel to allow for drilling up to 25 new wells. The company told the Alaska Department of Natural Resources' Division of Oil and Gas Nov. 27 in a request for approval of a unit plan of operations amendment that the expansion would accommodate the new wells and associated infrastructure.

Gravel placement would start Feb. 1, with the first round of 12 wells to be drilled beginning in September and the second round of 13 wells in 2025.

The division said Dec. 14 that comments were due Jan. 14 by 4:30 p.m.

Proposed work schedule

In its application Hilcorp said some 60,500 cubic yards of gravel would be placed on some 4.7 acres of wetlands adjacent to the existing pad to provide space for as many as 25 new wells and associated infrastructure which would include on pad power, fluid separation, polymer units and horizontal booster pumps.

Gravel placement would take place from February through August, with compaction from June through August and preparation for drilling activities beginning in April.

The first 12 wells are scheduled to be drilled from September of this year through November of 2025 and the second round of wells from November 2025 through January 2027.

Facility piping, electrical and associated infrastructure would be installed beginning in November and continuing through March 2025, with preparation for drilling — conductors and headers — scheduled for June 2025 through June 2026, and a second round of installation of associated facility piping, electrical and associated infrastructure beginning in January 2026 and running through the first of April that year.

Pad expansion

Hilcorp said it would expand the pad to the north, south and west: to the north by some 2.15 acres, to the west by some 0.6 acres and to the south by some 1.8 acres.

Conductors will be installed for the first 12 wells once the gravel has settled in April 2024, with drilling activities expected to begin in September and infrastructure installation in November. For the second round of wells, conductor installation will occur in June 2025 with drilling activities beginning in November and infrastructure installation in January 2026.

Hilcorp said some 750 feet of four new header lines will be required (8-inch power fluid, 10-inch production and two 3-inch polymer lines), a 40-foot by 10-foot power fluid separator module, a 60-foot by 15-foot low pressure booster module, a 60-foot by 15-foot high pressure booster module, a 35-foot by 10-foot jet wash tank, two 60-foot by 12-foot polymer injection units/skids and two 14-foot diameter polymer silos.

Existing Milne Point facilities and infrastructure will be used to house construction crews and to mobilize/transport materials, supplies and other equipment. ●

Contact Kristen Nelson at knelson@petroleumnews.com

● FINANCE & ECONOMY

State forecasts growth in oil & gas jobs

Alaska Economic Trends says industry jobs up 400 in 2023 to average 7,400, expected to gain 600 to average 8,000 in 2024

By **KRISTEN NELSON**
Petroleum News

The January issue of Alaska Economic Trends, put out by the Alaska Department of Labor and Workforce Development's Research and Analysis Section, is forecasting 1.7% growth in the state's jobs in 2024, an increase of 5,400, but, economist Karinne Wiebold said in the overall state forecast, not all industries in the state have recovered to their pre-COVID 19 pandemic levels.

The oil and gas sector, which gained 400 jobs in 2023 and is forecast to gain another 600 this year, to average 8,000, is still down 1,900 jobs, 19.2%, from 9,900 in 2019.

"COVID was the largest shock our economy has ever absorbed, with steeper losses in a shorter time frame than Alaska has weathered before," Wiebold said, down 27,600 jobs. Each year since 2019 the state has recovered jobs, she said, but by 2023 the easiest gains had occurred, and recovery slowed.

Oil and gas

The oil and gas industry is expected to gain 600 jobs in 2024, Wiebold said, but this comes after a loss of 3,200 jobs in the first two years after the pandemic, "on top of its declines in the immediately preceding state recession when the industry shed 5,400 jobs." By 2021, jobs in the industry were less than half of those in 2014 and recovery has been slow, with the industry gaining just 200 jobs in 2022, followed by 300 last year.

This year's gain of 600 jobs is driven by preparation for Pikka and Willow, with other employment in the early phase of the projects in construction, transportation, and professional and business, Wiebold said.

Construction, which lost 600 jobs due to COVID, "has recovered and grown at an accelerating pace, adding 100 jobs in 2021, 200 in 2022, and 600 in 2023," she said, with 2024 expected to see the addition of another 1,100. That would bring construction employment to 1,400 more than the pre-pandemic average.

Construction work comes from both federal infrastructure money and from oil field work, particularly at Pikka and Willow.

Professional and business services will benefit from supporting oil and construction work, with 600 new jobs forecast, which would push that sector "above pre-pandemic levels," Wiebold said.

see **INDUSTRY JOBS** page 10

● EXPLORATION & PRODUCTION

ConocoPhillips applies for expansion at CD1

Two gravel additions proposed, 0.49 acres on west side for water storage tanks, 0.46 acres on east side for truck turnaround area

By KRISTEN NELSON
Petroleum News

ConocoPhillips Alaska has applied to expand the CD1 pad at its Colville River unit, with two planned additions totaling almost an acre of gravel split between additions on the west and east sides.

The applications for the two projects were filed with the Alaska Department of Natural Resources' Division of Oil and Gas Nov. 16 and Dec. 4. The division's public notice, posted Dec. 21, said comments are due by 4:30 p.m. Jan. 21.

Lakeshore Drive

The Nov. 16 application is for a gravel addition of some 5,760 cubic yards of clean gravel fill onto 0.49 acres of jurisdictional wetlands expanding the CD1 gravel pad to the west. ConocoPhillips said the addition is to support installation of two water storage tanks and a smoke shack west of the existing J1 Warehouse. The gravel addition will also increase safety for vehicles and equipment traffic and maintain needed space for rig movement across the CD1 pad.

Work is scheduled to begin Jan. 30, the company said.

A trench some 90 feet long, 12 inches wide and a maximum of 4 feet deep will be excavated in new and existing gravel for a power and communications cable to the new smoke shack.

The project, on the west side or Lakeshore Driver area of CD1, will allow for installation of two 400-barrel water tanks in secondary containment outside the J1 Warehouse to store water for use in the existing J1 wash bay for pressure washing and/or steam cleaning equipment.

The new smoke shack will provide a designated smoking area.

J9 fabrication shop

The gravel expansion to the east, some 5,251 cubic yards of clean gravel fill into 0.46 acres of tundra, will support a truck turnaround area for the J9 fabrication shop, ConocoPhillips said in its Dec. 4 application, and provide space for installation of an emergency generator, fuel storage tanks, electrical switchgear and power and communications cables to provide emergency power to the Alpine Operations Camp at the Alpine Central Facility.

The addition will allow space for greater maneuverability of trucks and equipment entering and leaving the J9 fabrication shop and emergency power to AOC, providing space for installation of a platform which will support a new emergency generator and new fuel storage tanks.

The platform will be 75 feet long and 14 feet wide and rest on 10 pilings, supporting a new emergency backup generator and 600-gallon day tank for heated diesel storage in an arctic enclosure, a 3,000-gallon capacity double walled fuel tank for diesel storage and electrical switchgear.

Trenches will be excavated for power and communications cables.

"Space on the CD1 gravel pad is limited and the project is needed to maintain the safe and reliable operation of existing North Slope infrastructure and to support ongoing and planned activities," ConocoPhillips said.

Communications tower upgrade

Separately, on Dec. 28 DNR's Division of Oil and Gas approved a request from ConocoPhillips Alaska to upgrade the communications tower at the Kuukpik pad in the Colville River unit.

A new 120-foot communications tower will replace an existing 80-foot tower, with a communications shelter and power and fiber optic cables installed to support the tower.

The division said the project will provide LTE coverage for the Kuukpik pad and the Colville Delta 5 drill site. Work was scheduled to begin Jan. 1. ●

Contact Kristen Nelson at knelson@petroleumnews.com

● ALTERNATIVE ENERGY

An Anchorage community solar project

Chugach Electric proposes building a 500-kilowatt solar array that its members could purchase power from through subscriptions

By ALAN BAILEY
For Petroleum News

Anchorage based Chugach Electric Association has filed a tariff for approval by the Regulatory Commission of Alaska, proposing the construction of a community solar energy farm. The concept involves the utility building and operating the farm, while offering electricity generated by the facility to customers who voluntarily pay an annual fee for the service. Presumably the farm would offer the benefits of convenience and economies of scale to people who wish to make specific use of clean solar energy.

The facility would be built in Anchorage and would consist of a 500-kilowatt solar array involving 1,280 individual solar panels, a capacity amounting to about 0.4% of Chugach Electric's annual retail sales. The expected life of the facility would be 25 years. Output would vary seasonally and would likely amount to around 525,000 kilowatt hours annually.

A three-year pilot

Chugach Electric is proposing initiating the facility on a pilot basis for 36 months, with commercial operation beginning on March 1, 2025. Following an outreach period beginning in June of this year, from Oct. 1, 2024, to Feb. 14, 2025, the utility would accept applications for enrollment in the program. After a three-year pilot period for operating the facility, Chugach Electric would submit a report to the RCA, with findings from the pilot period and recommendations for improvements to the program.

Each of Chugach Electric's members who enrolls in the program would be able to subscribe for the purchase of power from up to 20 of the solar panels in the facility. The annual subscription per panel is estimated at $267 in the first year, for which the panel should deliver around 400 kilowatt hours over the course of the year. The energy that the participant receives from the solar farm would be applied as energy credits in the participant's monthly bills, using the same procedures as are used for customers who operate their own solar panels.

Estimated $2.8 million cost

The estimated construction cost is $2.8 million, but Chugach Electric anticipates federal investment tax credits reducing that cost to $1.9 million. The estimated initial subscription rates do not assume the receipt of those tax

see **COMMUNITY SOLAR** *page 12*

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INDUSTRY JOBS

Anchorage

Wiebold said Anchorage is expected to add some 2,300 jobs in 2024, with increased oil activity being one factor. The municipality had no gain in oil and gas jobs between 2022 and 2023, averaging 1,500 in both years, but is expected to gain 100 sector jobs in 2024.

The oil and gas impact on Anchorage is because it is the in-state headquarters of most companies working in the sector, she said, but those gains will not make up for long-term Anchorage oil and gas sector job losses, such as those caused when Hilcorp bought out BP's interests in Alaska, since Hilcorp "operates a much leaner workforce and has headquarters in Texas."

Anchorage's oil and gas industry is 40% smaller, down 1,000 jobs, than it was in 2019. ●

Contact Kristen Nelson at knelson@petroleumnews.com

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THIS MONTH IN HISTORY

Happy New Year, Alaska

20 years ago this month: Armstrong brings new player, independent Kerr-McGee, to North Slope, for Northwest Milne prospect

Editor's note: This story first appeared in the Jan. 11, 2004, issue of Petroleum News.

By KAY CASHMAN
Petroleum News

Alaska Gov. Frank Murkowski has made bringing new players to the oil rich North Slope a priority for his administration. Last year, Bill Armstrong brought Pioneer Natural Resources to the Slope as operator and majority owner of Armstrong Alaska's Northwest Kuparuk prospect. On Jan. 8, 2004, Armstrong snagged big independent Kerr-McGee Oil & Gas as operator and majority partner in its Northwest Milne prospect northwest of Prudhoe Bay where Armstrong has said it would drill one to three wildcats this winter.

Oklahoma-based Kerr-McGee Oil & Gas said it has signed a deal with Armstrong to acquire a 70% working interest in the 12,000 acre Northwest Milne prospect, which is located in shallow waters offshore BP's Milne Point unit some 3 miles north of Oliktok Point. The agreement includes the right to acquire interest in 13 additional leases in the area, totaling 54,000 acres.

JUDY PATRICK

From left to right, Stu Gustafson, vice president, Armstrong; Michael Stockinger, vice president of drilling, Kerr-McGee; and David Johnston, president, ASRC Energy Services

"The governor wants more players on the North Slope. … Opportunities are opening up in Alaska. The state has been great to work with. It's good to be able to bring a company to the Slope that hasn't been there before. Kerr-McGee is the kind of company we need up there. They are big enough to operate on the North Slope and they're great operators," Bill Armstrong, president of Armstrong Alaska and its affiliate, Denver-based Armstrong Oil & Gas and Armstrong Resources, told Petroleum News Jan. 8, 2004.

Gustafson has POA, Stockinger not new to Slope

Armstrong and Kerr-McGee are in the process of getting Northwest Milne drilling and operational permits transferred to Kerr-McGee.

Alaska Interstate Construction has already begun ice road construction to the prospect.

To ensure a smooth transition between the two operators, Kerr-McGee has given Armstrong Vice President Stu Gustafson power of attorney to direct this winter's exploration operations at Northwest Milne, Michael Stockinger told Petroleum News Jan. 8. Stockinger, vice president of drilling for Kerr-McGee, worked as drilling manager for Conoco in 1991 at the Milne Point unit on Alaska's North Slope.

Kerr-McGee office in ASRC building

Kerr-McGee has set up an Alaska office in suite 702 of Arctic Slope Regional Corp.'s office building at 3900 C Street in Anchorage. Two Kerr-McGee employees will be working rotation shifts from that office — Charles Summers and Todd Durkee.

In its press release Kerr-McGee said it would drill at least one well during the first quarter. Stockinger said the exploration plan with the state "requires one well but we can farm into additional acreage to drill additional wells. We'll likely sit two wells this winter unless we're totally disappointed with the results from the first well. … There is a possibility of drilling three but it's fairly unlikely because of our start up time."

The wells will be drilled by Nabors Alaska Drilling Rig 27E from ice pads at two locations on Spy Island — one near the middle of the island and the other at the east end of the island.

Drilling from Spy Island

The wells will be drilled by Nabors Alaska Drilling Rig 27E from ice pads at two locations on Spy Island — one near the middle of the island and the other at the east end of the island.

Gustafson said in August that the proposed wells — Nikaitchuq No. 1, No. 2 and No. 3 — "will target multiple objectives. One of the primary objectives is an attempt to extend the favorable productive Jurassic sand fairway," which tested commercial at Pioneer and Armstrong's Northwest Kuparuk prospect in the North Slope's Oooguruk unit.

ASRC Energy Services is project manager

ASRC Energy Services is the engineering support operations service company that will oversee drilling at Northwest Milne for Kerr-McGee. Skip Coyner, the ASRC drilling superintendent who oversaw Pioneer's exploration program at Oooguruk last winter, is the project manager, Gustafson said.

Alaska Chadux was selected as the spill response contractor.

The initial Northwest Milne acreage was acquired by Armstrong from BP earlier this year. Armstrong has also picked up other leases in the area from "other entities and lease sales," Armstrong's vice president of land, Ed Kerr, told Petroleum News Jan. 8.

Kerr-McGee Oil & Gas is an upstream affiliate of Oklahoma City-based Kerr-McGee Corp., an energy and inorganic chemical company with global operations and assets in the neighborhood of $10 billion. ●

Contact Kay Cashman at publisher@petroleumnews.com

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COMMUNITY SOLAR

credits.

While the costs associated with the program would be included in Chugach Electric's revenue calculations that the utility uses in determining its electricity rates, revenues generated through the sale of subscriptions would be used to reduce the retail revenue requirement. In this way, while the project is expected to fund itself through the subscriptions, all of the utility's retail customers would backstop the project.

Chugach Electric told the commission that the utility's members have been requesting more renewable and clean energy sources and that this program will provide members with a means of augmenting their use of solar energy while Chugach Electric works to add more large-scale clean energy to its energy mix.

A previous concept

The utility had previously proposed a 500-kilowatt community solar farm in 2017. That concept would have involved the possibility of Chugach Electric's members buying shares in the farm, either through an upfront payment or through a monthly subscription. A share owner would have been entitled to power from the farm in proportion to their share ownership.

However, the RCA ultimately rejected that proposal. The commission said that, although it supports new and innovative service offerings, the proposal lacked specific details that would be necessary to evaluate its viability. ●

Contact Alan Bailey at abailey@petroleumnews.com

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PAD APPLICATION

ground-fast ice at F pit that would work for its winter season needs.

"This location is key for us as we are the last ones to mobilize in February due to the lack of infrastructure heading west to Willow. With all of the development going on, premobilization of equipment is preferred by getting us approx. 50 miles closer to the worksite."

Doyon said the site would be largely used as a staging area. Equipment would include mobile offices, warehouses, equipment shop, material storage and logistical support.

Doyon is applying to use up to 7 acres of state land at Mine Site F to store and stage equipment, shops and warehouses, the division said in a Jan. 8 public notice.

The area is some 5 acres of ground fast ice and some 2 acres of gravel just to the northwest of the F pit ground fast ice, Doyon said.

Doyon said it was targeting Jan. 20 as a startup date.

In addition to storage, Doyon said a tent may be set up for either storage or for use by mechanics, with the site to be used "as a base of operations for Doyon Associated for construction activities to support the oil industry during the winter season, with general activity at F pit staging to get the company closer to the work site. A mechanics tent at the site, Doyon said, "may be erected to have a closer location to work on equipment rather than having to back haul 100+ extra miles to Deadhorse and re-mobilization."

The company is asking for a multiyear term for up to 5 years, starting January 2024 and ending May 2029, with use January through May.

Doyon said there will be no tanks at the site. "All equipment will have all the required containment at all times" on both the ice pad and the gravel.

—KRISTEN NELSON

Contact Kristen Nelson at knelson@petroleumnews.com

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RIG MOBILIZATION

APA Corp., holding company for Apache Corp., and Santos.

Santos said its working interest is 25%, having dropped another 25% in exchange for not having to pay any of the exploration costs. The company is concentrating on its Pikka development on the other side of the North Slope.

Added 20 leases nearby

The acreage block operated by Lagniappe consists of approximately 270,000 acres, although in the state of Alaska's areawide North Slope and Beaufort Sea lease sales held Dec. 13 Lagniappe gained an additional 51,250 acres in 20 leases in the area where it plans exploration drilling this winter and next.

In online bidding Lagniappe bid on and took 17 tracts for $1,866,393.60 in the North Slope areawide sale, 43,570 acres adjacent to its existing holdings south of Badami. The new leases are east, north and west of the existing acreage, with the largest block to the north.

In the Beaufort Sea sale Lagniappe bid on and took three leases, 7,680 acres, for $380,262.40. The tracts are west of Badami, and north of the company's large acreage position from the North Slope areawide sale.

The exploration plan was submitted to the division by Lagniappe on Oct. 6. The Lagniappe Exploration Program area is approximately 40 miles east of Deadhorse and 3 miles south of the Badami unit.

44-mile ice road

A 44-mile ice road will be constructed from Endicott Road for mobilization of the three drilling rigs.

On Dec. 13, the Alaska Department of Natural Resources' Division of Oil and Gas approved a Lease Plan of Operations filed by the company to carry out the Lagniappe Exploration Program.

A temporary staging/offload pad and a semi-circular turnout will be constructed along Endicott Road near the origin of the project ice road.

An ice bridge will also be built near Deadhorse to cross the west fork of the Sagavanirktok River.

Next winter's (2024-25) mobilization will follow a similar route to access the three remaining well locations.

The drilling sites will be ice pads measuring 600 feet by 600 feet or smaller. Temporary facilities will include support and office camps, tanks, generators, maintenance shops, and other containers and connexes.

Work activities

Next on Lagniappe's work schedule this winter will be ice road construction and full mobilization of the rigs.

Well drilling is expected to cease April 24.

Also on the schedule is a Vertical Seismic Profile (VSP) Survey ending late in March.

Demobilization will finish no later than May 7.

Summer site inspection and cleanup is expected to be done from mid-June through mid-July.

The prizes

The lease block, Santos previously said, contains "multiple prospects in the late Cretaceous Brookian and Schrader Bluff formations."

Although Bill Armstrong has not commented on the agreement, on March 30, after Lagniappe had begun permitting for the area, he told Petroleum News in a text that the exploration wells will target Brookian objectives — "Pikka look-a-likes that are defined off of high effort, reprocessed modern 3D. Really exciting stuff. Big targets."

There has been "virtually no prior drilling in the area. The wells that have been drilled have great shows and some have bypassed pay on old logs," Armstrong added.

Conditions of approval

Among the numerous conditions of approval to protect the state's interest in the plan, the division included exploration phase reporting.

While active exploration operations authorized by the approval are being conducted, Lagniappe must provide a bi-weekly report to the division, summarizing activities undertaken and their location within the exploration block. The frequency and substance of these reports may be modified to the satisfaction of the division, as needed.

Public notice

Public notice of the plan and opportunity to comment, per AS 38.05.035, was published in the Anchorage Daily News on Oct. 30, 2023, and Nov. 10, 2023, and in the Arctic Sounder Nov. 2, 2023, and Nov.16, 2023, with a deadline for comments of Nov. 27 at 4:30 p.m. Alaska time.

Additionally, a copy of the notice was posted on the division's website and the Alaska Online Public Notice System, and faxes of the public notice were sent to the Nuiqsut, Deadhorse, and Utqiaġvik post offices.

No comments were received.

—KAY CASHMAN

Contact Kay Cashman at publisher@petroleumnews.com

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TMX DELAY

of C$7.4 billion to a projected C$30.9 billion, with some recent estimates easily topping C$40 billion, although a new filing by Trans Mountain (the federal government agency that owns the pipeline) has insisted that 70% of the project's cost over-runs will be borne by the pipeline company and will have no effect on pipeline tolls.

A Canadian Energy Regulator filing in early December by Trans Mountain gave rise to concerns about what the company has in mind to recover its costs, including altering the size of the pipe for a section in British Columbia. Trans Mountain has warned it may have no choice but to delay completion of the project by another two years, adding to Trans Mountain's long series of costly delays that have included a First Nations' blockade of construction and protracted environmental hearings.

Trans Mountain has called the mounting capital costs of the pipeline "reasonably and justifiably incurred."

"Over the last several decades, Canadians have placed greater emphasis on environmental and regulatory oversight, rights of Indigenous peoples, mitigation of socio-economic impacts and landowner rights when building a major project," said Trans Mountain, hinting at looming additional costs that could only be recovered from TMX users through higher tolls.

Trans Mountain has already indicated it wants to charge TMX users a benchmark toll that is nearly twice a 2017 estimate it submitted to the Canadian Energy Regulator, noting that it expects only "modest returns" on its investment in the first few years of the expanded pipeline's operation.

Kevin Birn, Standard and Poors chief analyst for Canadian oil markets, said his firm still sees the need for TMX to come online in 2024, given its expectation that oil supply in Western Canada will increase by 230,000 bpd this year and could peak in late 2024-25 at 5.2 million bpd.

—GARY PARK

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WILLOW OPPOSITION

Opponents of the project are asking a federal appeals court to temporarily block Conoco from continuing with construction while their underlying case challenging the Biden administration's approval plays out. A lower-level federal judge has already dismissed the underlying lawsuit and multiple requests to stop construction.

that are in place to the maximum extent possible for the benefit of the community of Nuiqsut," the city council's December resolution said.

The tribal council's resolution, which passed unanimously a day later, contains a caveat, saying that the tribal government is not opposed to Willow "so long as subsistence resources are protected."

The Nuiqsut governments' evolving positions on the project surfaced this week in documents filed by Conoco in ongoing litigation over the Biden administration's approval of Willow.

Opponents of the project are asking a federal appeals court to temporarily block Conoco from continuing with construction while their underlying case challenging the Biden administration's approval plays out. A lower-level federal judge has already dismissed the underlying lawsuit and multiple requests to stop construction.

The two Nuiqsut governments were some of the only institutions on Alaska's petroleum-dependent North Slope to criticize the Willow development, which could produce 180,000 barrels of oil a day.

Their joint letter, dated Jan. 25, 2023, had criticized, among other things, Willow's impacts on the caribou that village residents subsist on, as well as windows for public comment on the project that the councils said were too short.

The chief executive of Nuiqsut's for-profit Native-owned village corporation, which withheld its support for Willow until 2022, said he had no firsthand knowledge about why the village governments changed their stances.

But the executive, Andy Mack, said it appears that council members are positioning themselves to take advantage of the opportunities that accompany Willow — like jobs and grants — now that construction appears increasingly inevitable.

"They're looking at it as, 'This project's moving forward: What are we going to do as a city, what are we going to do as a tribe to support our shareholders?'" Mack said. "Turning the boat around at this point, while it's possible, doesn't seem likely."

Willow is projected to generate billions of dollars in tax, royalty and other revenue for Indigenous communities on the North Slope and the region's borough government, which already depends on petroleum revenue for 95% of its budget.

Borough and regional business leaders, along with Alaska Republican Gov. Mike Dunleavy and all three members of the state's congressional delegation, have advocated forcefully for Willow's approval amid intense opposition from conservation groups and climate activists.

In recent legal arguments asking the appeals court to temporarily block construction, conservation groups cited the original 2023 Nuiqsut letter as one of the reasons that such an order would serve the public interest — a key legal test that must be met before judges could issue such an order, known as an injunction.

Conoco's lawyers, in a filing Tuesday, included the city and tribal government's December resolutions withdrawing their support for the letter.

"Even before these resolutions, the public interest tipped sharply against an injunction," Conoco's attorneys wrote. "That is even more true now that the local city and tribal governments closest to the Willow project have made clear with formal resolutions that they do not oppose the project."

Nuiqsut's city clerk did not respond to a request Tuesday to release audio recordings of December's public council meetings where members discussed the change in their position.

Nuiqsut's tribal government did not respond to an emailed request for comment. And neither did Rosemary Ahtuangaruak, an environmental advocate and Willow critic who served as Nuiqsut's mayor before the October municipal election.

Conoco, in a prepared statement Tuesday, said it has operated near Nuiqsut for more than 20 years and values its relationships within the North Slope community.

"The Willow project was designed and approved with subsistence protection measures, including measures responsive to input from Nuiqsut residents," spokeswoman Rebecca Boys wrote. "We understand that it is a privilege to develop and operate on the North Slope, and we welcome support for our projects from all North Slope entities."

Conoco, in its most recent legal filing, said the company has already started to mine gravel that will be used to build roads for Willow, and that 300 workers have been hired and sent to the field — a number that will grow to 1,800 later this winter. ●

This story was originally published in Northern Journal, a newsletter published by Nathaniel Herz. Subscribe at northernjournal.com.

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OIL PRICES

Demand for crude held up over 2023, but the growth in oil supply has been surprisingly robust, resulting in softer oil prices, and that phenomena may continue in 2024, said Sarah Kiernan, head of Americas Commodities Sales in Global Banking & Markets at Goldman Sachs.

Iranian designed one-way attack UAVs, anti-ship cruise missiles, and an anti-ship ballistic missile from Houthi-controlled areas of Yemen into the Southern Red Sea, towards international shipping lanes where dozens of merchant vessels were transiting."

It was the 26th Houthi attack on commercial shipping lanes in the Red Sea since Nov. 19, CENTCOM said, adding that no injuries or damage were reported.

Mideast tension trumped demand worries on Jan. 9, sending ANS up $1.23 to $77.95, as WTI and Brent each leapt $1.47 to close at $72.24 and $77.59 respectively.

On Jan. 8, oil bears held sway as Saudi Arabia announced its decision to lower the price of its flagship Arab Light grade to the lowest level in 27 months. Arab Light plummeted $3.67 on the news from $81.17 Jan. 5 to $77.05 Jan. 9.

ANS plunged $2.79 Jan. 8 to close at $76.73, as WTI plummeted $3.04 to close at $70.77 and Brent plunged $2.64 to close at $76.12.

On Jan. 5 ANS leapt $1.85 to close at $79.52, WTI jumped $1.62 to close at $73.81 and Brent gained $1.17 to close at $78.76.

ANS dropped $1.46 Jan. 4 to close at $77.67, while WTI fell 51 cents to close at $72.19 and Brent fell 66 cents to close at $77.59.

From Wednesday to Wednesday, ANS fell $2.01 from its close of $79.14 Jan. 3 to $77.13 Jan. 10.

On Jan 10, ANS traded at a $5.76 premium to WTI, and at a slim 33-cent premium to Brent.

Robust supply to moderate 2024 prices

Wood Mackenzie analysts forecast that 2024 will be the fourth successive year of strong growth in crude oil demand, just under 2 million barrels per day of growth, which will lift global oil demand to an all-time high of almost 104 million bpd, according to Simon Flowers, Wood Mackenzie chief analyst.

Much of the growth in demand will spring from the petrochemicals sector, Flowers said in a Jan. 9 note.

Flowers said defending price will remain central in 2024 to the strategy of the Organization of the Petroleum Exporting Countries and its allied Exporting nations. WoodMac expects OPEC+ to "pull out all the stops" to deliver an average 2024 Brent price near the $83 achieved in 2023, but the market-balancing act of the post-pandemic era won't get any easier for OPEC+ in 2024, Flowers said.

"Non-OPEC supply growth continues to frustrate the ambitions of OPEC+ to increase volumes and market share," he said. "We forecast non-OPEC liquids production to rise by almost 1 million bpd in 2024 — below the 2 million bpd achieved in 2023, but a third successive year of robust growth."

"As we have argued, the widely touted 'under-investment' thesis has yet to lead to faltering non-OPEC volumes," he said.

Given its forecast for strong demand growth, WoodMac expects that OPEC+ will be able to increase overall production in 2024 — perhaps no more than 0.5 million bpd of the 3 million bpd currently held from the market on an annualized basis, Flowers said, adding that most of that will come in the second half of the year as the global economy recovers.

Demand for crude held up over 2023, but the growth in oil supply has been surprisingly robust, resulting in softer oil prices, and that phenomena may continue in 2024, said Sarah Kiernan, head of Americas Commodities Sales in Global Banking & Markets at Goldman Sachs.

"My colleagues in investment research have been of the view that there is a $20 price collar around the market," Kiernan said in a Jan. 8 note. "The idea is that OPEC provides a floor price around $70-80 a barrel, because they don't want to see it go lower because of the budgetary needs of many of the OPEC nations, and then above $90-100 a barrel the benefit from higher prices starts to erode."

If OPEC+ control of supply wanes, the ability to hold a floor can come into question, Kiernan said. In 2023 the market has skewed more to the bottom of that range than the top — even with demand growth.

"Most of the focus, if you go back a year ago, was: soft landing or no soft landing? What would demand look like?" she said. "Demand actually delivered, but the supply really outpaced it." ●

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KITCHEN LIGHTS POD

The modifications made by DNR's Division of Oil and Gas are as follows:

—Furie will drill a grassroots or sidetrack well targeting additional gas resources during the 2024 POD period.

—Furie will provide the division with a fully defined plan for the KLU as part of its 2025 POD submission. This plan will include but is not limited to:

1) Maps with well locations demonstrating to the division that Furie is planning for the full delineation of gas resources in KLU.

2) Platforms, pipelines and drilling plans that describe the necessary infrastructure to delineate and produce all viable gas resources in the KLU.

3) Timeline(s) with specific dates and key project milestones for full KLU development.

4) Gas production forecast(s) demonstrating Furie has plans to recover all viable gas resources from the unit in a timely manner.

5) Qualitative risk assessment and critical paths to achieving additional gas production.

"Furie will accept in writing these conditions within 20 days of this decision or the POD is denied. Failure to comply with the terms of an approved plan may result in default as described in 11 AAC 83.374." (That default must be issued by the DNR commissioner.)

KLU history

The Kitchen Lights unit was formed Feb. 1, 2007, as the Kitchen unit, and later renamed when the unit expanded to include acreage from the former Corsair unit, a proposed Northern Lights unit and other state leases. In July 2020, HEX took over management of Furie and continues to operate the KLU as Furie.

For the period of January 2023 to September 2023 the KLU produced a total of 2,936,048 mcf of natural gas, about 12% less than during the same period the prior year.

The revised 10th POD was sent to the division on Nov. 7 and deemed complete by the agency on Nov. 8. Furie provided a technical review to the division on Dec. 6,

Status of wells

Despite efforts from December 2022 through late February 2023 under the 9th POD to reestablish natural flow from the KLU A-1 well, it remains shut in due to solids fill in the tubing above the Middle Sterling interval perforations and a subsurface safety valve failure. And, although a hydraulic workover unit was utilized for a workover to install gas lift capability and reinstate Beluga production, the KLU A-1 well was on production for approximately 10 days post-workover, then briefly shut in for safety valve system testing. Efforts have been ongoing to attempt to reestablish flow from the well and further diagnose the subsurface safety valve failure.

A Lower Sterling production test commenced in June 2022 for the KLU A-2 well and is ongoing and Furie is still evaluating the test results. The 9th POD period also saw continued production from the existing open Beluga intervals.

A rig workover was performed at the KLU A-4 well to remove multiple fish from the tailpipe to allow access to down hole perforation intervals. Fish removal was unsuccessful. Additional up hole perforations were performed in the Beluga pool and the well returned to production on Sept. 6, 2023. Post workover production rates have been below the targets for the workover due to the inability to access the zones below the fish. The KLU A-4 well, according to Furie, is a candidate for sidetracking.

Furie's commitment

For the proposed 10th POD period, Furie committed to: continued development of natural gas reserves within the KLU through identifying additional gas zones potentially accessible from the Julius R platform; to pursue access to both identified targets for sidetrack from the KLU A-4 well and potential new grassroots wells; to secure the necessary permits for mobilization of a jack-up rig for drilling any sidetrack, or grass roots well(s) and any other major sidetrack activities; to and conduct wireline interventions as necessary to maintain production levels from the KLU A-1, A-2A, 3, and A-4 wells.

But Furie said that all its plans are subject to its securing the necessary financing/investment and having economically viable production. There was no mention of any of these factors in the modifications made by the division. ●

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KLU PAs approved in part

On Dec. 21, the Alaska Department of Natural Resources' Division of Oil and Gas approved in part an application for two participating areas in the Kitchen Lights unit, or KLU, from operator Furie Operating, a HEX company.

The KLU contains 30 leases encompassing 83,300 acres. Furie proposed that PA Julius R Sterling, or SPA, and PA Julius R Beluga, or BPA, should contain 12 leases covering 16,681 acres, and 13 leases covering 15,526 acres, respectively.

The participating areas as approved by the division encompass a much smaller area consisting of approximately 1,000 acres in the SPA, and 1,193 acres in the BPA.

In its decision, the agency said, "a participating area may include only the land reasonably known to be underlain by hydrocarbons and known or reasonably estimated through use of geological, geophysical, or engineering data to be capable of producing or contributing to the production of hydrocarbons in paying quantities."

The "missing wells," as reviewed by the agency, show where some of the internal Beluga and Sterling sands are wet and "indicate contradictions in the prospect maps provided by Furie."

In attachments to its PA application, Furie supplied both public and confidential proof of the above and asked that the private attachments be kept confidential by the division, which they were.

The KLU currently produces from four wells, all located at the Julius R platform.

The division's decision said that its technical staff evaluated all data provided by Furie to determine if the proposed boundaries were reasonably supported. Because the data provided by Furie included confidential well data and interpretations, it is not discussed in any detail in the Dec. 21 decision.

In a series of technical presentations to the division, Furie demonstrated its use of seismic-based models to predict the distribution of sands within the Beluga and Sterling formations. Furie also provided prospect leads in the area based on seismic data and the four producing wells to define their participating area. Their model as presented incorporated only the four producing wells in the area and did not include the entirety of the well data available, the division said in its decision.

The "missing wells," as reviewed by the agency, show where some of the internal Beluga and Sterling sands are wet and "indicate contradictions in the prospect maps provided by Furie."

These data from the "missing wells" illustrate the unpredictable nature of the Cook Inlet fluvial environment(s) and indicate the shortcomings in traditional seismic reservoir evaluation in the basin, the division said.

The presence of "wet" sands within the overall Beluga and Sterling formations is observed in much of the Cook Inlet basin and the assessment by the division does not diminish the overall prospectivity of the Kitchen Lights area, the agency said.

"However, these are strong indications that lateral reservoir connectivity is limited to a smaller area such as the drainage area of the individual producing wells," the division said.

As a result, the agency concluded that Furie has not met the requirement of demonstrating reasonable certainty of producible hydrocarbons within the requested participating area boundaries.

—KAY CASHMAN


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