Petroleum news

page 5 DNR works with O&G industry on challenges arising from COVID-19

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Confirmation hearing set for sale of Furie Cook Inlet assets

A confirmation hearing for the Furie Alaska Operating LLC second amended joint plan of reorganization in its Chapter 11 bankruptcy case has been set for June 11 at 11 a.m. prevailing Eastern Time, before Judge Laurie Selber Silverstein in the U.S. Bankruptcy Court for the District of Delaware in Wilmington. The notice of the hearing was filed with the court on May 12.

The amended reorganization plan — filed April 20 — references a term sheet dated April 14 between the debtors, lenders and the acquirer for a sale of the equity in the debtor companies. The assets include the offshore Cook Inlet Kitchen Lights unit, an offshore natural gas production platform, pipelines and facilities.

The deadline for voting on the plan, by eligible holders of claims, is June 5 at 4 p.m. prevailing Eastern Time. The holders

see **FURIE HEARING** *page 8*

88 Energy, XCD merger moving forward, XCD equity value $8.9M

On May 7, 88 Energy and XCD Energy issued a joint announcement saying that the members of XCD's board of directors voted unanimously to recommend XCD security holders accept 88E's improved takeover bid "in the absence of a superior proposal and subject to the independent expert concluding that the offer is fair and reasonable, or not fair but reasonable."

The offer values the equity of XCD at approximately $8.9 million and delivers a premium to XCD shareholders and option holders, who will retain approximately a 20% ownership and participation in the future performance of the combined Perth-based companies, who are both focused on Alaska North Slope exploration.

The initial unsolicited non-cash offer for 100% of XCD's

see **TAKEOVER BID** *page 8*

Revisions in BP-Hilcorp deal include upstream closing first

DAMIAN BILBAO

Damian Bilbao, vice president of commercial ventures for BP in Alaska, told the Alaska House Resources Committee May 8 that BP is committed to closing the sale of its Alaska assets to Hilcorp. "Overall, we are very pleased with progress" on the transaction, he said.

When he addressed the committee in February, he talked about the effect of uncertainty on the industry.

"Boy, did I nail that one," Bilbao said May 8.

see **DEAL REVISIONS** *page 11*

Logan: Policy matters more now with industry job losses

REBECCA LOGAN

In testimony before the House Resources Committee May 8, Rebecca Logan, general manager of The Alaska Support Industry Alliance, closed with advice to Alaska legislators on the one thing she says can be controlled in the current environment: State policy.

For Alliance members to get back to work, she told the committee, oil and gas field operators need to have an oil price that allows "delayed projects to get back on track. … We have no control over price. We have no control over

see **LOGAN TESTIMONY** *page 8*

EXPLORATION & PRODUCTION

Milne hits high

Hilcorp sets new production record, bodes well for Prudhoe Bay future

By KAY CASHMAN

Petroleum News

DAVID WILKINS

On May 8, David Wilkins, senior vice president of Hilcorp Alaska, told the House Resources Committee that the company recently set a new production milestone of 36,000 barrels per day at its North Slope Milne Point field, up from 18,400 bpd in November 2014 when Hilcorp acquired a 50% interest in the field and took over operatorship from BP Exploration (Alaska).

"We have also expanded our polymer operations at Milne Point and started a third polymer pilot project at F pad … in the last two weeks," Wilkins testified.

Among other things, Hilcorp's tool chest to increase output from mature fields includes injecting polymer and water into reservoirs.

The company also continues to perform "routine well work activity and maintenance activity," he said.

In February, Hilcorp said it expected to reach 40,000 bpd at Milne Point by the end of

see **PRODUCTION RECORD** *page 12*

EXPLORATION & PRODUCTION

Restart not straightforward

ConocoPhillips resuming North Slope activity hangs on oil price, no rise in taxes

By KAY CASHMAN

Petroleum News

SCOTT JEPSEN

While ConocoPhillips' goal is to "weather the storm" and get North Slope jobs and production back online, getting back to a normal level of activity in Alaska is dependent on how soon oil demand and prices recover, Scott Jepsen said May 8. It will also depend on the investment climate, he said, "and by that, I mean on whether or not the oil tax initiative passes," noting it calls for "a significant tax increase" which "will put a brake on future investment."

According to the Alaska Oil and Gas Association, if the tax initiative on the Nov. 3 ballot passes it will increase the state's oil tax by 150-300%, depending on the price of oil.

In April, ConocoPhillips got $16.55 per barrel for North Slope crude before transportation costs, and around $8 a barrel after transportation costs. In mid-2018 Jepsen said $40 a barrel was the company's breakeven price for North Slope operations, an average that encompasses both existing oil fields and greenfield projects, such as the proposed Willow development.

As of market close on May 12, the Alaska Department of Revenue estimated the price of

see **CONOCO RESTART** *page 12*

GOVERNMENT

Canada dangles relief

Unveils bare bones program to provide loans for ailing large companies in O&G

By GARY PARK

For Petroleum News

BILL MORNEAU

It was one of those landmark comments by a politician — in this case Canada's Finance Minister Bill Morneau — that will be tough to shake off.

On March 25 he told reporters that help for the oil and gas industry, which accounts for 10% of Canadian gross domestic product and is the largest source of export revenues, before it was crippled by the fallout from COVID-19, was only "hours, possibly days" away.

On May 11 — 47 days later — Morneau and Prime Minister Justin Trudeau rolled out a financial assistance plan for Canada's big corporations, including the surviving oil and natural gas companies that, despite the time taken to cobble it together, is mostly a skeleton plan.

As with all of his pandemic-driven rescue plans, Trudeau admits it will take "days" to assemble the details for what government officials insist is a backstop, not a bailout.

Called the Large Employer Emergency Financing Facility, LEEFF, the program will provide short-term financing to Canada's largest employers — most of them in the energy, airline and tourism sectors — who are unable to secure loans from banks or other private

see **AID PLAN** *page 11*

● EXPLORATION & PRODUCTION

PODs approved for 3 small inlet gas fields

By KRISTEN NELSON

Petroleum News

The Alaska Department of Natural Resources' Division of Oil and Gas has approved the annual plans of development filed by operator Hilcorp Alaska for three small Cook Inlet natural gas units: Ivan River, Lewis River and Pretty Creek.

All three PODs were filed in late February and all cover June 1 through May 31, 2021.

The division said the plans were "received before major disruptions of business activities due to the Coronavirus pandemic" and said it recognizes that due to "global and local impacts of the pandemic" the operations described may not be completed during this plan period. The division said it will support Hilcorp in "any plan changes necessary to protect the health, safety, and welfare of operations personnel, the physical and economic integrity of the facilities and preservation of the surrounding environment."

The division did, however, ask that for all three units the company provide additional information in subsequent PODs: a table showing the status of all wells, including those that are shut-in; "and a description of and all substantive information regarding the work or projects under evaluation by Hilcorp" even if final decisions have not been made on the work. The division said the information would benefit both Hilcorp and the division "as it will provide the basis for practical and essential discussion for purpose of evaluating and reviewing the proposed" plan of development.

The division said the plans were "received before major disruptions of business activities due to the Coronavirus pandemic" and said it recognizes that due to "global and local impacts of the pandemic" the operations described may not be completed during this plan period.

The division said 2019 cumulative production from Ivan River was 146.7 million cubic feet, down from 184.9 million in 2018. Hilcorp has no specific long-range development plans for Ivan River. It is planning to maintain production from the Sterling-Beluga and Tyonek participating areas at the unit.

At Lewis River, the division said 2019 cumulative production was 185.6 million cubic feet from the Lewis River Unit Pool 2, a 28% increase from 2018. Hilcorp reported adding perforations on the LRU C-01RD, work which was not in the approved 2019 POD. As with Ivan River, the division said Hilcorp has no specific long-range activities planned at Lewis River.

At Pretty Creek, Hilcorp reported 2019 production of 47.3 million cubic feet, all from the Beluga River participating area. The company continues to use the Pretty Creek storage lease for gas storage operations, plans to continue production from the Beluga River participating area and has no specific plans for exploration, delineation or major facility upgrades, although the company did tell the division it would evaluate shut-in wells to determine their potential for returning to service or utility. ●

Contact Kristen Nelson at knelson@petroleumnews.com

contents

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● FINANCE & ECONOMY

EIA expects continued US crude declines

Forecast of 11.7 million bpd this year first annual decline since 2016; Brent averaged $18 per barrel in April, down $13 from March

By KRISTEN NELSON
Petroleum News

Brent crude oil is expected to average $34 per barrel this year, down from $64 in 2019, and is expected to average $48 in 2021, the U.S. Energy Information Administration said in its May Short-Term Energy Outlook, released May 12.

Brent averaged $18 per barrel in April, down $13 from March, EIA Administrator Dr. Linda Capuano said. "Crude oil prices fell as decreasing global demand led to significant inventory builds and concerns over storage capacity limits," she said.

Inventory draws are expected to begin in July and continue through next year, Capuano said, "putting upward pressure on prices. While high inventory levels will likely keep oil prices in 2021 from returning to levels seen before the COVID-19 pandemic, EIA forecasts crude oil prices will average $48 per barrel next year."

EIA said oil prices, largely driven down by COVID-19 related reduction in demand, have, despite the April agreement between the Organization of the Petroleum Exporting Countries and partner countries to reduce production, "remained at some of their lowest levels in more than 20 years."

The oil futures market continued to exhibit significant uncertainty in April due to COVID-19 impacts, the agency said, but noted that crude prices have steadily increased since April 21, a possible indication of easing of downside price pressure.

"Although the outlook for global oil markets remains highly uncertain, April 2020 could mark the low point for oil prices," EIA said.

US crude production

"EIA has lowered its forecast for production of U.S. crude oil in 2020 to an average 11.7 million barrels per day," Capuano said, noting that this is the first annual decline since 2016, with a further decline expected in 2021. "EIA expects the United States to return to importing more crude oil and petroleum products than it exports in the third quarter of 2020 and to remain a net importer in most months through the end of 2021," she said.

LINDA CAPUANO

EIA said the forecast of 11.7 million bpd this year is down 500,000 bpd from 2019, with a further decline of 800,000 bpd expected in 2021.

The agency said that if the forecast is realized it would be the first time U.S. production has declined for two years in a row "since the 17-year period of declines beginning in 1992 and running through 2008."

And while there is typically about a six-month lag between price changes and production, EIA said, "current market conditions will likely reduce this lag as many producers have already announced plans to reduce capital spending and drilling levels."

Domestic natural gas

Henry Hub natural gas spot prices averaged $1.73 per million British thermal units in April, Capuano said. "EIA expects natural gas prices to remain low in the near term as reduced business activity and higher-than-average storage levels keep downward pressure on prices," she said, but expects prices to rise at the end of May with declines in U.S. production and an increase in natural gas power generation demand.

EIA said it expects Henry Hub spot prices to average $2.14 per million Btu this year, increasing in 2021 to an annual average of $2.89 per million Btu, largely "because of lower natural gas production compared with 2020."

U.S. dry natural gas production averaged 92.2 billion cubic feet per day in 2019, an annual record, EIA said, and is forecast to average 89.8 bcf per day this year, falling from an estimated 93.1 bcf per day in April to 85.4 bcf per day in December, and declining most in the Appalachian and Permian regions, driven by low natural gas prices in the Appalachian region and low oil prices in the Permian, which reduce associated gas output from wells targeting oil.

EIA said it expects the steepest declines in U.S. oil production will be in the second quarter, with month-over-month declines averaging 500,000 bpd in those three months.

Dry natural gas production is forecast to average 84.9 bcf per day in 2021.

U.S. liquefied natural gas exports are forecast to average 5.8 bcf per day in the second quarter of this year and 4.8 bcf in the third quarter, and "exports are expected to decline through the end of the summer as a result of lower expected global demand for natural gas."

US consumption, supply

EIA said it assumes "significantly lower levels of U.S. liquid fuels consumption" for much of this year due to the impact on travel of reduced economic and business activity in response to COVID-19.

"These impacts are expected to be most pronounced during the second quarter of 2020, when most containment measure and wide-scale reductions in business activity are assumed to be in place," with impacts persisting through the year but with liquid fuels consumption gradually increasing in the second half of the year.

U.S. liquids fuels consumption is expected to average 15.9 million bpd in the second quarter and increase to 18.7 million bpd in the third quarter, averaging 19.8 million bpd in 2021, "up 8% from 2020, but lower than 2019 levels."

Jet fuel consumption is expected to see the greatest impact, down 25% year over year, and down by more than 50% year over year in the second quarter of this year, with gasoline and distillate fuel consumption expected to fall by about 10% compared to 2019.

EIA said its model for Lower 48 U.S. oil and gas production reduces the forecast for rigs and wells when West Texas Intermediate falls below $45 per barrel or Henry Hub falls below $2 per million Btu. The agency said it "assumes a further 30% reduction in drilling activity on average in the second quarter of 2020 and a 6% reduction in the third quarter of 2020 as a result of low oil prices related to the unprecedented effects of restrictions as a result of COVID-19," and noted that many producers have already announced reduction in capital spending and drilling.

EIA said it expects the steepest declines in U.S. oil production will be in the second quarter, with month-over-month declines averaging 500,000 bpd in those three months.

The agency expects production declines to continue, although at a slower rate, through March 2021, and to bottom out at 10.7 million bpd, a 2.1 million bpd decline from the record set in November 2019.

As crude oil prices rise, EIA expects production to rise modestly through the end of 2021, with average annual production of 11.7 million bpd this year and 10.9 million bpd in 2021. ●

Contact Kristen Nelson at knelson@petroleumnews.com

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EXPLORATION & PRODUCTION

State closes off-road winter tundra travel

The Alaska Department of Natural Resources, Division of Mining, Land and Water, said May 8 that it is closing the eastern and western North Slope coastal tundra open areas to all off-road and ice road activities.

The closure was effective May 8, with a requirement that all off-road travel in progress be completed within 72 hours, by May 11.

The division said COVID-19 prevented division staff from being on the Slope to monitor snow conditions and thanked those working on the Slope for field reports and snow condition updates received over the last two months.

The upper and lower Foothills areas have remained closed this season.

The division said that while snow quality can be good in localized areas, the weather forecast indicates the weather will continue to warm. The division said COVID-19 prevented division staff from being on the Slope to monitor snow conditions and thanked those working on the Slope for field reports and snow condition updates received over the last two months.

The division said DNR may consider granting travel extensions on a case-by-case basis where snow is adequate, but prior approval is required.

The eastern and western coastal areas opened for the 2019-20 winter season Jan. 8. The requirements for opening are 6 inches of snow and a soil temperature colder than minus 5 degrees Celsius at a depth of 30 centimeters.

Summer off-road travel may begin July 15, the division said, with summer off-road travel approval applying only to holders of valid permits with specific project approval "and is further limited to those vehicles approved by the Division of Mining, Land and Water for summer off-road travel," the division said. Questions may be addressed to the division's Norther Oil & Gas team in Fairbanks at 907-451-2740.

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● PIPELINES & DOWNSTREAM

Exploring the long route for oil shipping

Irving Oil applies to send Alberta crude bitumen from West Coast to refinery on East Coast; hope glimmers for 3 export pipelines

By GARY PARK
For Petroleum News

Amid the anguish and turmoil of COVID-19 some shreds of hope are surfacing within Canada's petroleum industry, especially driven by one idea that ranges from innovative to unthinkable.

Faced with the unyielding resistance of the Quebec government, which is now calling for the oil sands sector to wind down (apparently unaware that the maligned resource contributes C$11 billion and more a year to the Quebec coffers through a federal wealth redistribution), the Alberta-based industry had given up on its dream to ship more than 1 million barrels per day of crude bitumen to the Irving Oil refinery and an export terminal in New Brunswick.

That proposal by TC Energy was shelved in 2017 as threats of legal and civil action against the C$15.7 billion Energy East project reached a crescendo.

Pipeline headed west

But the basic objective of Energy East has suddenly resurfaced with a plan by Irving to ship crude by pipeline from Alberta through the expanded Trans Mountain system to a tanker port in the Vancouver area and from there by ship down the Pacific Coast, through the Panama Canal and up the Atlantic Coast to New Brunswick.

When Energy East was first launched, Irving had committed to building a C$300 million export terminal at its Canaport facility in Saint John, New Brunswick. Whether that idea has gained fresh life is unclear.

For now, Irving said it has gained approval from the Canadian government to "sourcing additional Canadian crude for our refining operations," thus slashing the reliance by its refineries on feedstock from the volatile Middle East and African sources, with Saudi Arabia accounting for a significant percentage of the 360,000 barrels per day that it refines, though it has been importing more from the United States in recent years.

In addition, Irving is exploring ways to source Canadian crude that is primarily shipped on the existing Keystone pipeline to Gulf Coast ports in Texas and Louisiana.

Panama option

The company submitted a formal proposal for its Panama option in April 16 with the Canadian Transportation Agency, requesting permissions to use the Panama route — which would cover 7,300 miles compared with 2,900 miles for the Energy East system — "on an urgent basis."

It said the plan would allow for effective and flexible supply-chain planning and would strengthen Irving's connection with Canadian producers in a challenging and uncertain time.

"From Western Canada to offshore Newfoundland, we're expanding our reach as we continue to pursue solutions that help create energy security (for Canada)," an Irving spokeswoman told the National Post.

The solution would also largely bypass the opposition to pipelines from the Quebec, Ontario and British Columbia governments and from activist organizations.

In addition, Irving is exploring ways to source Canadian crude that is primarily shipped on the existing Keystone pipeline to Gulf Coast ports in Texas and Louisiana.

Frank McKenna, a former New

see OIL SHIPPING page 7

CORRECTION

1002 area of ANWR

A story in the May 10 issue of Petroleum News, "2020 ANWR lease sale not certain," incorrectly refers to the 2002 area of ANWR. It is the 1002 area.

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● GOVERNMENT

DNR addressing COVID-19 challenges

Department working with North Slope producers to address issues that are arising while DOG re-assesses its oil production forecast

By ALAN BAILEY
For Petroleum News

CORRI FEIGE

During a May 8 presentation to the Alaska House Resources Committee, officials from the Alaska Department of Natural Resources described how they are working with North Slope oil producers to address COVID-19 issues, and how they are reassessing the state's oil production forecast in the light of the COVID-19 pandemic.

DNR Commissioner Corri Feige told the committee that DNR has continued actively working through the crisis, with a peak of 70% of personnel out of the office, teleworking. The department has now started to bring people back to the office, Feige said.

Stabilizing the industry

To help stabilize the industry, DNR is pursuing policies such as managing requests from lessees and operators for help with the deferral of payments on lease rentals, and helping manage production curtailments, Feige said. The department has also been paying attention to issues such as ensuring access to common carrier pipelines for all pipeline users when a pipeline operator has to curtail its throughput. In addition, DNR has been continuing its monitoring of environmental and permit compliance, for both normal production and production curtailment, Feige said.

"From early on it became clear that the best way that DNR could protect the state's interests and the interests of the people in Alaska was working through our framework of statutes and regulations, to be sure that we did everything we could to stabilize the businesses operating in the industry," she said. "We are trying our best to have open and frequent communications with all of our operators and any of our lessees."

Impacts on oil production

At the same time DNR's Division of Oil and Gas has been busy assessing the potential impact of the COVID-19 pandemic on activity in the North Slope oil fields and, hence, on North Slope oil production. Reflecting on announced reductions in capital expenditure by several companies operating on the North Slope, Pascal Umekwe, a division petroleum reservoir engineer, told the Resources Committee that rig laydowns and the deferral of non-essential oilfield work appeared to be having the greatest immediate effect of expenditure reductions on production. In new, revised evaluations of oil production in fiscal years 2020 and 2021 DNR now estimates a 5.2% production decline between the two years — that compares with a more typical historic decline rate of around 4% to 5%, Umekwe said.

However, the new estimate does not factor in the impacts of the recent proration of North Slope production by Alyeska Pipeline Service Co. to balance shipments off the North Slope with storage and tanker schedules, nor the April 30 announcement by ConocoPhillips that it would reduce production from Alpine and Kuparuk by some 100,000 barrels per day in June, part of a company-wide production reduction.

Also, new drilling in the legacy fields of the Slope in recent years has significantly flattened the production decline curve, moving the annual decline rate downward from an earlier level of 9% to 10%. So, a sudden hiatus in drilling programs could send the future decline rate above that 5.2% level.

And the situation continues to evolve, with very high levels of uncertainty in the division's numbers, Umekwe emphasized. In the longer term, the oil price will become increasingly important in determining production levels, he commented.

"Some companies are still going through the changes that COVID-19 and low oil prices are causing to their programs. We can only present a snapshot at this particular point in time," Umekwe said. While the scale of rig laydowns suggests a pause in new rig workovers for the remainder of the year, some operators had already completed about half of their planned drilling for fiscal year 2020 prior to suspending development activities.

Update to production forecast

The division's revised oil production forecast represents an update to the forecast that it published in February. In its reassessment of that forecast the division has now assumed that no new wells will be drilled on the North Slope for the remainder of this year. However, it has left unchanged other assumptions in the February forecast and has used the state's official spring forecast for the oil price. Excluded from the production forecast are oil production reductions by the oil companies, the impact of facility maintenance projects and the impacts of production management activities such as rate protection well work and rig workovers.

Adding to the uncertainty are ques-

see COVID CHALLENGES page 6

EXPLORATION & PRODUCTION

At 374, US rig count sets new record low

The count of rotary rigs drilling in the U.S., issued weekly by Baker Hughes since 1944, bottomed out the week ending May 8 at 374. The previous low count, 404, was in May 2016.

The May 8 count was down 34 from 408 the previous week and down 614 from a year ago.

The count continues a recent steep drop: down by 34, 64, 73, 62, 64, 44 and 20 rigs respectively, a total of 361, over the previous seven weeks.

In its weekly rig count the Houston oilfield services company said 292 rigs targeted oil, down 33 from the previous week and down by 513 from a year ago, while 80 targeted natural gas, down one from the previous week and down 103 from a year ago. There were two miscellaneous rigs active, unchanged from the previous week and up by two from a year ago.

In its weekly rig count the Houston oilfield services company said 292 rigs targeted oil, down 33 from the previous week and down by 513 from a year ago, while 80 targeted natural gas, down one from the previous week and down 103 from a year ago.

The company said 27 of the holes were directional, 338 were horizontal and nine were vertical.

New Mexico (70) was up by four rigs from the previous week.

Rig counts were unchanged in Alaska (3), California (5), Colorado (8), Pennsylvania (23), West Virginia (7) and Wyoming (4).

The rig count in Texas, which at 173 has the most active rigs, was down by 28 from the previous week and down by 312 from a year ago.

North Dakota (20) was down by six rigs.

Oklahoma (13) was down by two rigs.

Louisiana (38) and Ohio (8) were each down by one rig from the previous week.

Baker Hughes shows Alaska with three active rigs for the week ending May 8, down by six from a year ago.

The largest rig count drop by basin was in the Permian, which also has the most active rigs at 198. The Permian count was down 21 from the previous week and down 259 from a year ago.

Baker Hughes has issued weekly rig counts for the U.S. and Canada since 1944 and began issuing international rig counts in 1975.

The U.S. rig count peaked at 4,530 in 1981 and previously bottomed out in May 2016 at 404. The 374 count for the week ending May 8 is a new low.

—KRISTEN NELSON

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PIPELINES & DOWNSTREAM

TAPS runs smoothly under prorations

Pipeline oil volume cut increased from 10% to 15%; prorations likely to continue into June based on volumes, tanker schedules

By STEVE SUTHERLIN

Petroleum News

Despite flow reductions from prorations, the trans-Alaska pipeline system is working fine, Betsy Haines, senior vice president of operations and maintenance, Alyeska Pipeline Service Co., told the Alaska House Resources Committee at a meeting in Anchorage May 8.

"We have continued to move oil without disruption," Haines said.

Alyeska has ratcheted the oil flow in the pipeline down another 5% since implementing a 10% reduction on April 24 — standing at 85% proration as of the date of the presentation, she said.

"Prorations are something we work hard to avoid," Haines said, adding that Alyeska monitors oil coming into the system, along with tanker schedules and capacity to make sure that any oil arriving in the Valdez terminal is loaded on a tanker in a reasonable time after arrival.

"Looking at our 28-day and 60-day outlook, we've identified some inventory challenges in the month of May," she said. "TAPS was not designed to be an oil storage facility."

At Valdez the oil is routed to a tank farm and balanced across the tanks, she said. With 14 tanks in service, the terminal has a 6.6 million barrel working inventory capacity.

Haines said it is difficult to predict when the prorations will end; it depends on oil coming into TAPS and the tanker schedule.

"Both of these factors can change," she said.

Lowering flow rates increases challenges

Peaks in throughput are not uncommon in the spring, but as warmer months come, it's easier to deal with lower flow volumes, Haines said.

TAPS was designed to move warm crude oil in an arctic environment.

As throughput declines, so does the rate at which oil moves.

"In 1988 one barrel of oil traveled the 800-mile distance in four and one half days; today that same trip takes 18 days," Haines said. "The slower the flow rate, the colder the oil becomes; that cold can lead to ice formations and wax accumulations."

"In 1988 one barrel of oil traveled the 800-mile distance in four and one half days; today that same trip takes 18 days." —Betsy Haines, Alyeska Pipeline Service Co.

Alyeska began studying low flow issues a decade ago, she said.

"Today we have many mitigations in place, along with special pigging routines, wax management strategies and adding heat," Haines said. "Through the winter we monitor the temperature along TAPS, determining the need for mitigations."

Crude oil can be recirculated at pump stations 3, 4, 7 and 9 to add frictional heat. Supplemental skid mounted mobile slipstream heaters are available at two locations.

How low can flow go?

The lower limits of volumes at which the pipeline can operate depend on many factors, Haines said, adding, "I can say confidently that in warmer months ahead we can manage considerably lower rates than we see today."

"Earlier flow assurance research examined TAPS operational issues at flow rates above 300,000 barrels per day," she said. "Our research continues, and data analysis to date suggests that with additional investment, it may be technically possible to operate down to annualized throughput rates as low as 200,000 barrels per day."

A dedicated flow assurance team is evaluating new technologies and alternative operating modes to build confidence that TAPS can operate at lower volumes, Haines said, adding that technical capability does not necessarily equate to economic viability; the long-term sustainability of TAPS may ultimately be limited by per barrel transportation costs.

"The best antidote for low flow issues is

see TAPS FLOW page 8

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COVID CHALLENGES

tions over the extent to which companies may ramp up field management and development activities next year — operators are poised to bring production back if the commercial climate continues to improve, Umekwe said. In addition, different companies will ramp up in different ways, he said.

Based on its findings through April, the division reduced its forecast production rate for the 2020 fiscal year to 506,000 barrels per day from the forecast of 519,000 barrels per day that it published in February. For fiscal year 2021 the forecast dropped to 479,000 barrels per day from 512,000 barrels per day.

Other impacts

Division Director Tom Stokes emphasized that the new forecasts represent maximum projections, assuming no restrictions in the oil production system and no company prorations of production rates. Subtracting a recent 10% proration from that 506,000 barrels per day forecast for this year leaves a production rate of 460,000 barrels per day: That estimate, which would reflect the 10% proration, is close to this week's production nomination by the producers of 452,000 barrels per day, Stokes commented.

Division production forecasts form key inputs to the Alaska Department of Revenue's state revenue forecasts. Dan Stickel, DOR chief economist, told the committee that DOR has been working with the division on the updated production scenario while also analyzing potential prorations of oil production, layering the impacts of prorations on top of the division findings. Revenue anticipates releasing some information about its analysis soon, Stickel said. ●

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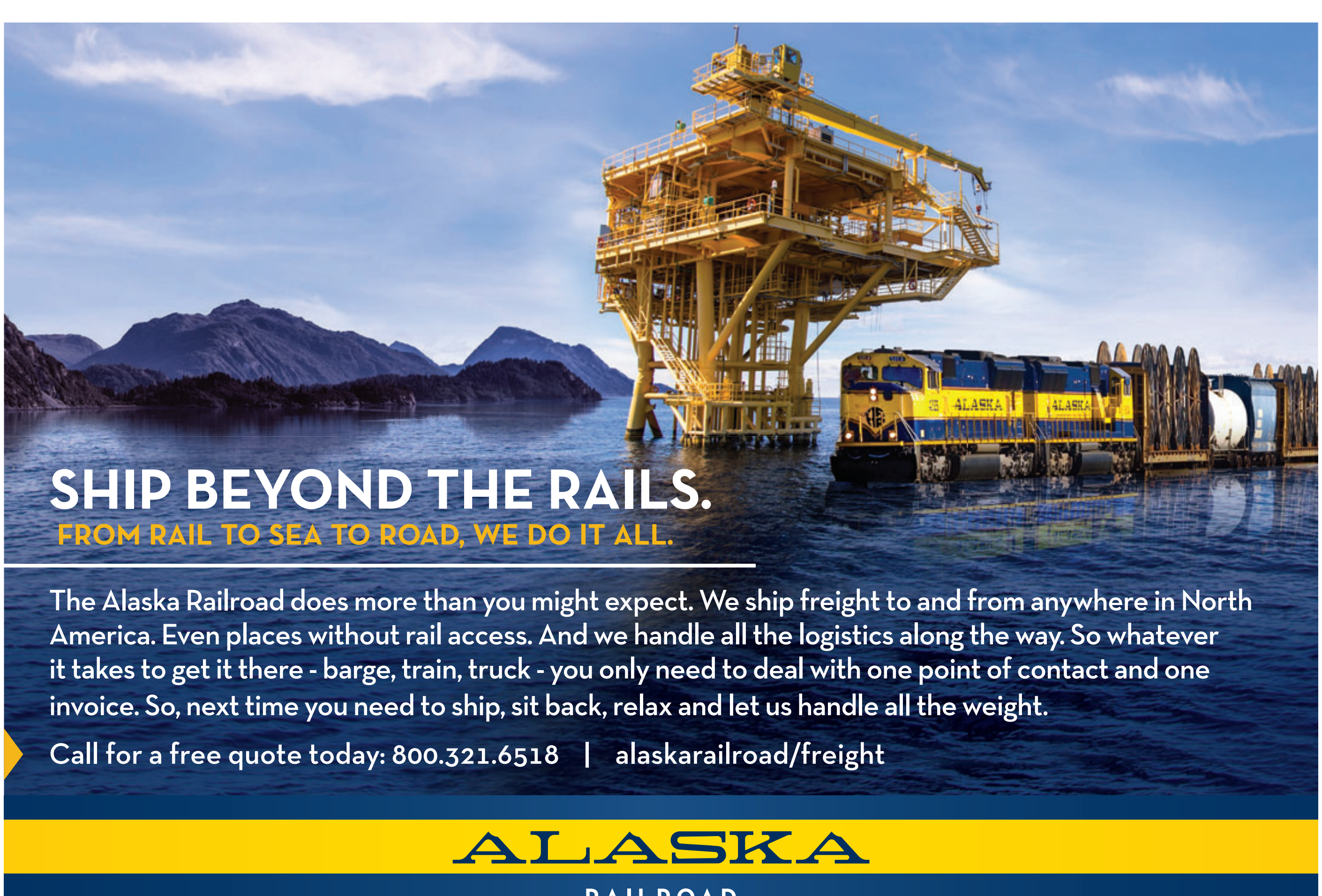

● PIPELINES & DOWNSTREAM

US says Washington state law overstepped

By MATTHEW BROWN

Associated Press

The Trump administration on May 11 moved to block a Washington state law that imposed safety restrictions on oil shipments by rail following a string of explosive accidents.

The Department of Transportation determined federal law preempts the Washington law adopted last year, which mandated crude from the oil fields of the Northern Plains have more of its volatile gases removed prior to being loaded onto rail cars.

The volatility of oil trains drew widespread public attention following several explosive derailments, including one in 2013 in Lac-Megantic, Quebec that killed 47 people. Washington's law was aimed at boosting safety for schools and homes that are near passing oil trains.

With backing by the rail and oil industries, the attorneys general for Montana and North Dakota had argued the law effectively banned crude from their states. In July, they petitioned the Trump administration to overrule the law.

Federal officials said May 11 that the removal of volatile gases was not a "statistically significant factor" in the severity of oil train crashes.

"A state cannot use safety as a pretext for inhibiting market growth or instituting a de facto ban on crude oil by rail within its borders," wrote Paul Roberti, chief counsel of the Transportation Department's Pipeline and Hazardous Materials Safety Administration.

North Dakota is the nation's No. 2 oil producer behind Texas and produced about 1.4 million barrels of oil daily in February, including about 300,000 barrels daily that was shipped by rail, according to the North Dakota Pipeline Authority. The February numbers are the latest available and came before sliding demand and the coronavirus led drillers to shut down more than 40% of their wells.

Montana Attorney General Tim Fox said it was "a victory for Montanans and the citizens of other oil-rich states."

He said Washington had illegally attempted to "dictate what commodities other states can transport to market."

Washington state officials and environmentalists who sided with them in the dispute said the restrictions did not directly regulate crude and instead addressed only the loading and unloading of oil within Washington. They contended railroads still could carry crude into the state and the restrictions meant only that they would have to make sure it was safe to transport.

A spokesperson for Washington Gov. Jay Inslee said state officials were disappointed with May 11's 74-page decision.

"Washington's law helps protect the public from the inherent risks of transporting oil by rail by decreasing explosion risk in the event of an oil train derailment," said Tara Lee, Inslee's communications director. "Public health remains our top priority and we are considering our options." ●

EXPLORATION & PRODUCTION

Oil Search Alaska lets more people go

In response to market conditions, Oil Search recently decided to release additional people from its Alaska operations, which entered the year with 287 employees and contractors and expects to reduce staffing to about 150 people. While seasonal contractors associated with its winter drilling and exploration programs represent most of this reduction, the company has reduced full time employees by about 15% through a combination of recent and previous reductions.

BRUCE DINGEMAN

Bruce Dingeman, president of Oil Search Alaska, updated the House Resources Committee May 8 on the company's activities and plans in Alaska.

While Oil Search has moved its final investment decision on its big North Slope Pikka project from 2020 to 2021, the company is still on track for first oil in 2025, Dingeman said. Pikka is expected to produce 135,000 barrels of oil per day at its peak, excluding output from the Horseshoe discovery area.

Bump TAPS to 600,000 bpd

A slide accompanying his presentation indicates Pikka is expected to bump oil flow through the trans-Alaska pipeline by 600,000 barrels a day by the end of the decade and could potentially be extended for up to a decade.

The development, Dingeman said, has received all the key stakeholder and regulatory approvals, but the "current price drop makes the project untenable — we need a price recovery to move ahead."

Oil Search is "looking for ways to squeeze costs out of our project," he said. "We're talking with suppliers, making the project more efficient and focusing on the most promising components of it."

Oil Search has been in the oil and gas business for 90 years. Its primary focus before getting involved in Alaska was Papua New Guinea.

"Alaska is a key platform of growth for the firm. Our commitment is very deep," Dingeman said.

When asked, "what price point do you see being able to advance your fall drilling" by a committee member who was referring to a winter exploration program, which Oil Search canceled for next year, he replied: "We're hoping to lower the breakeven cost of the project. Currently our project has a mid-$40 level economic return and … a few months ago it was $53. To answer your question, back up to the high $40s, $50 would give us the confidence to advance the project."

—KAY CASHMAN

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OIL SHIPPING

Brunswick premier and Canadian ambassador to the United States and a key consultant in the Energy East project, described the new shipping plan as a "spectacular thing" that is "patriotic and pragmatic."

Dinara Millington, vice president of the Canadian Energy Research Institute, admitted her organization has never looked at the Panama "pathway."

She said that if Irving can secure tankers "for the longer-term, it just has to be economic at the refinery gate."

Pricing dynamics between heavy oil benchmark Western Canadian Select, West Texas Intermediate and Brent benchmarks could see Irving source more WCS over the long-term.

Line 3 replacement

Another injection of optimism has raised hopes that Enbridge will eventually complete its replacement Line 3 from Alberta to Superior, Wisconsin, boosting capacity to 760,000 bpd from 390,000 bpd.

After being sidetracked by state regulators, Line 3 got positive news from the Minnesota Public Utilities Commission on May 1, gaining a written order relating to final approval.

Enbridge Chief Executive Officer Al Monaco told his company's annual meeting that it will not set a completion date until it receives the remaining permits need to start construction, which is expected to take up to eight months and provide jobs for 4,200 workers. The Canadian section of the line was completed late last year.

Chris Bloomer, chief executive officer of the Canadian Energy Pipeline Association, said that if and when crude demand picks up, Canada is position for a quick turnaround because of the U.S. refineries that are configured to use Alberta heavy crude.

The convergence of these positive developments could also overcome growing unease over the long-standing assumption that volumes of 890,000 bpd on the new Trans Mountain system would find an outlet in Asia, especially China.

Kevin Birn, with energy consultant IHS Markit, said the importance of new pipelines "in this current environment has certainly waned in the very short term, but in the longer term, there is need for incremental (pipeline) capacity."

Patrick Kenney, an analyst with National Bank Financial, told the Calgary Herald that in another three or more years Western Canada "will figure out a way to fill (new) pipelines, assuming commodity prices have rebalanced and demand has come back."

A spokesman for the Canadian Association of Petroleum Producers said that although new pipelines could come on stream without operating at capacity "that would largely be a temporary issue," assuming COVID constraints and economic contraction "don't change the long-term need for increased oil egress."

If the Panama option, Keystone XL, and the expansions of Line 3 and Trans Mountain all come on stream, they will offer almost 3.5 million bpd of capacity, of which 2.8 million bpd would be incremental. ●

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TAKEOVER BID

shares involved each XCD shareholder receiving 1.67 88E shares for every XCD share and 0.5 of an 88E share for every XCD quoted option held.

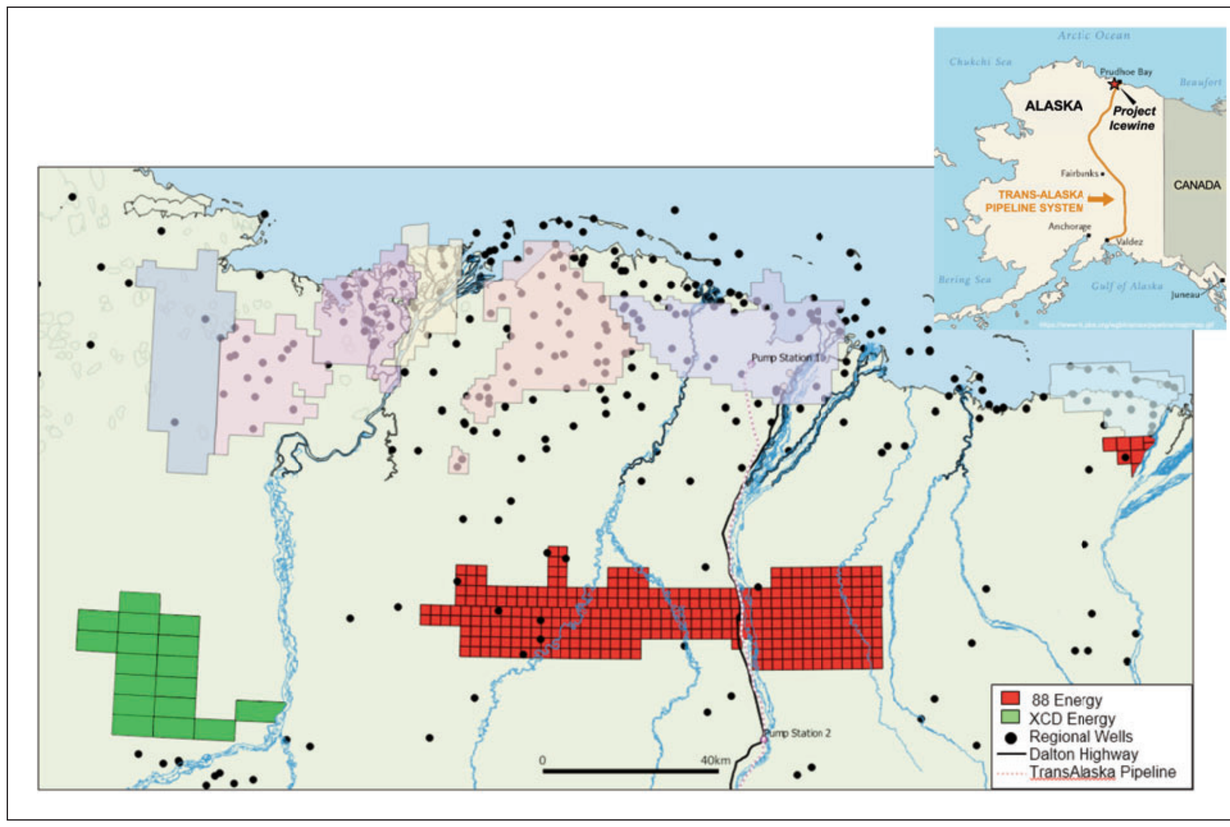
The improved offer gives each XCD shareholder 2.4 new 88E shares for every XCD share and 0.7 of an 88E share for every XCD quoted option held.

All of the XCD directors "intend to accept, or procure the acceptance of" the offers, including XCD managing director Dougal Ferguson who intends to exercise his XCD performance rights ($10 million) in the "bid implementation agreement once vested," and then accept the XCD shares "issued on exercise into the offers," the companies said.

All the directors of XCD also plan to accept the offers for any of their own shares and listed options (including ones they control). Collectively the directors represent 3.4% of XCD shares in issue and 3.6 % of the listed options in issue.

Their commitments also carry the qualification that they will support acceptance of the 88E takeover bid "in the absence of a superior proposal and subject to the independent expert concluding that the offer is fair and reasonable or not fair but reasonable."

88E said April 27 that it had several XCD shareholders committed to the terms of the takeover; specifically, they'd "entered into pre-bid acceptance agreements with 88 Energy in respect of 18.5% of shares on issue and 6.8% of listed options on issue." That same claim was repeated in the joint May 7 announcement.



The combined North Slope portfolio of the two companies will include three key groups of leases at various stages of exploration: 88E's Project Icewine and Yukon Gold leases and XCD's Project Peregrine.

The companies expect the bidder's statement from 88E and the target's statement from XCD, containing further information about the takeover offer, to be posted to XCD shareholders and listed option holders in or around late-May, with the offers to open for acceptance around that same time.

—KAY CASHMAN

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FURIE HEARING

of prepetition tax credit claims and prepetition term loan claims are eligible to vote, according to the notice.

The deadline for filing objections to the plan is June 5, 2020, at 4 p.m. prevailing Eastern Time.

The debtors must file the plan supplement, other than the contract assumption schedule, no later than seven days prior to the voting deadline.

Selber Silverstein signed an order May 8 approving the disclosure statement; establishing the voting record date, voting deadline and other related dates; approving procedures for soliciting, receiving, and tabulating votes on the plan and for filing objections to the plan and the rejection or assumption, as applicable, of executory contracts and unexpired leases under the plan; approving the manner and forms of notice and other related documents; and granting related relief.

Furie plans sale to Alaska-based company

Chapter 11 debtor Furie Operating Alaska LLC and related debtor companies — Cornucopia Oil & Gas Company LLC and Corsair Oil & Gas LLC — have agreed to a plan for an asset sale to Anchorage-based Hex LLC under the amended bankruptcy plan.

Hex is to pay $5 million in cash. A $15 million debtor in possession, or DIP, refinancing loan will be issued, secured by a second priority lien behind ING Capital LLC on the state of Alaska tax credit priority collateral, also secured by a second priority lien on all of the assets or property of the reorganized debtors behind a first lien to Alaska Industrial Development and Export Authority debt, not to exceed $7.5 million in principal amount plus an additional $5 million in advances.

The first source of repayment for the DIP loan is state of Alaska tax credits already earned but unpaid to date.

Prepetition term loan lenders will receive shares of a $21 million new term loan issued by the reorganized Cornucopia Oil and Gas, secured by a third priority lien on the tax credit priority collateral.

Proceeds from the state tax credits are to be applied first to repay a new $60 million tax credit loan to ING until repaid in full; second, to repay the $15 million DIP replacement loan until repaid in full; third, to repay the $21 million new term loans, split 75% to the holders of the new term loans and 25% to the acquirer for every dollar; and fourth, the remainder, if any, to the acquirer.

—STEVE SUTHERLIN

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LOGAN TESTIMONY

the pandemic. So, policy really matters now."

Her members are very concerned about the tax initiative measure that is going on the Nov. 3 ballot, Logan said. "Their future relies on the investment these (oil and gas) companies are going to make. We need to make sure we have that investment to look forward to. As BP's Damian Bilbao has said, don't scare off the money."

Asked by the committee to talk about the impacts of COVID-19 on the Alaska oil and gas industry, Logan said that before the pandemic, "all of us endured the last oil price crash together. That crash bottomed out at $26 oil — very different from what we have today. It meant hundreds of my member companies downsized between 2016 and 2019 and many went out of business."

"In addition to that we worked with the operators, our partners, to help them reduce their costs at that time by taking rate cuts."

Wood Mackenzie, Logan said, estimated that "the majors during the last downturn reduced their costs by about 55% and of the 55% almost half of the rate cuts came from suppliers and the support industry," referring to a recent quote by the association's board president, Tom Walsh, who said in an interview, "We've never really clawed back any margins. … And now this hits and it's like there's just no more room to squeeze anything out of the costs of doing business up here."

In 2019, the industry began "coming out of that recession and my member companies were eagerly anticipating the North Slope renaissance and had a lot of work to look forward to. And they were starting to hire more people," Logan said.

"Then we met COVID-19."

Her members, she said, went through many of the same things as their oil company partners — quarantines and travel restrictions, and then on top of COVID-19 were the crashing global oil prices, resulting in layoffs for her members.

"There have been 690 layoffs to date and that's just from a small number of companies. My estimate from speaking to member companies is in reality it's closer to 1,000 right now and that that trend is going to continue," Logan said.

The "more pressing issue for my member companies right now is whether or not they are going to make it," she said.

—KAY CASHMAN

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TAPS FLOW

more oil," Haines said. "We need a fiscal climate that makes it attractive to produce and deliver oil to TAPS."

ConocoPhillips COVID-19 cuts not factored into prorations

Haines said that a COVID-19 related 100,000 bpd North Slope production cut announced April 30 by ConocoPhillips was not factored into Alyeska's proration research in April, which determined an equal cut to all the connectors.

"We've used the same basis because this has been a constant proration that is occurring though April now into May, and the information that is coming in from the Kuparuk connections is information that is independent from the prorations," she said.

Alyeska will look at several factors for analysis — the upstream, the capacity of the terminal and the vessel movements

"Believe it or not, (the factors) do change almost daily." Haines said. "We will certainly be looking at the information that's provided to us from all connectors as we go into the month of June."

ConocoPhillips is scheduled to phase in its announced production cuts in late May.

"The proration is the last tool that we want to use in our toolbox," Haines said. "Provided we manage the high points that we see coming at the terminal, we would like to turn back the prorations as soon as possible." ●

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● GOVERNMENT

Texas eases underground oil storage rules

By CATHY BUSSEWITZ

Associated Press Business Writer

Texas regulators are relaxing rules about where companies can store oil underground, raising concern among environmentalists about potential groundwater contamination and other dangers.

The members of the Railroad Commission of Texas voted May 5 to allow companies to store oil underground in places other than salt caverns, which are considered better at preventing leaks than other geological formations.

"This order does not suspend any rule that protects public safety, health or the prevention of pollution," said Wayne Christian, chairman of the Railroad Commission of Texas, in the live-streamed meeting. "All it does is allow operators to begin storing crude oil in all formations where it may make sense to do so."

The shift aimed to help oil producers whose wells are spewing far more crude than the world can use after the coronavirus pandemic gutted global demand for jet fuel and gasoline. Producers are running out of spaces to store the oil, leading some to pay traders to take oil off their hands as prices cratered more than 60% and tanks filled up.

But environmental groups warn that the surprise rule change, which was approved by regulators before the public had a chance to review it, could lead to serious environmental consequences.

"Using underground caverns, especially underground caverns that are not salt, where there's no barrier to prevent the liquefied oil or natural gas from leaking into aquifers, is incredibly dangerous, especially in a place like Texas," said Emma Pabst, global warming solutions associate for Environment Texas. It could risk contaminating the Edwards Aquifer, a drinking water source for 2 million people in Texas, she said.

Commissioner Ryan Sitton said he had received a copy of the proposal the day before the meeting. Nevertheless, he supported the proposal, which passed 3-0.

"I want to make sure we're being cautious. It sounds like you are," Sitton said, addressing the other commissioners. "And it's great that we're moving quickly and allowing some additional storage quickly, but I don't want to hear a story in three months of how we put oil in some sort of cave somewhere and we ended up having groundwater pollution."

Under the new rule, which was suggested by a new task force of industry groups, companies that apply to do underground storage need to show that the formation is confined to prevent the waste or uncontrolled escape of crude oil, Christian said. The exemption will last for a year, and oil will have to be removed from the wells within five years.

"It's somewhat unprecedented, but I think it is exciting that we're affording as much opportunity as possible in this emergency situation," Christian said.

The commissioners also voted to waive various fees and surcharges that producers typically pay. That decision could lead to millions of dollars in lost revenues that were used to hire inspectors and enforce environmental regulations, said Cyrus Reed, interim director of the Lone Star Chapter of the Sierra Club.

The commission also discussed a proposal to enact a coordinated production cut to help ease oversupply, but they killed the proposal, in part because producers were already slashing production. Texas produces about 40% of the oil in the United States, and about 5% of the oil in the world. ●

Petroleum news — Oil Patch Bits

New Foss Maritime Asd-90 tug arrives in Long Beach

COURTESY FOSS

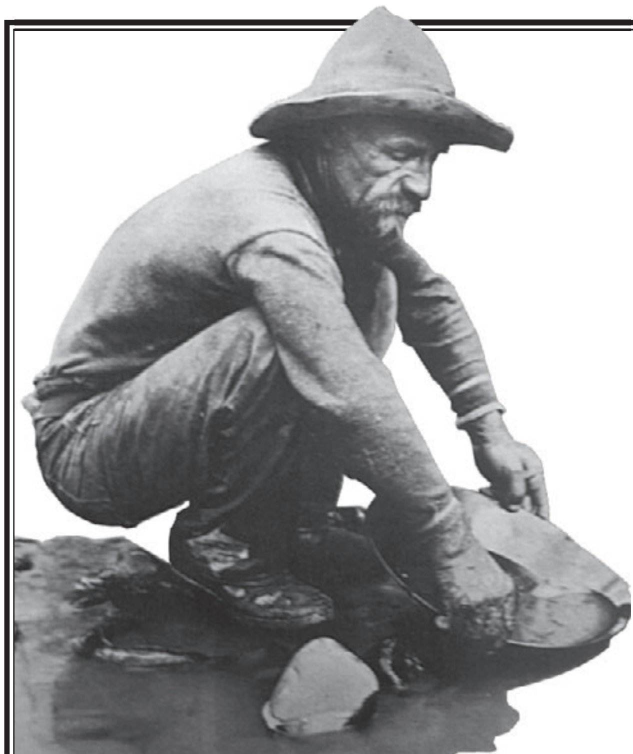
Foss Maritime said May 2 that the Jaime Ann, the first of four new ASD-90 tugs constructed by Nichols Brothers Boat Builders for the Saltchuk family of companies, arrived in her new homeport of Long Beach. Powerful enough to escort the largest tankers and container ships calling on ports in the U.S. West Coast, Jaime Ann will provide tanker escort and assists for Foss Maritime's customers in the Ports of LA/Long Beach area.

Along with her 6866 horsepower and 90ST bollard pull, the Jaime Ann was built to the most stringent emission standards. Her two MTU Tier 4 engines meet the EPA's highest standards, reducing particulate and nitrogen oxide emissions to near zero through a selective catalytic reduction system. The vessel's upgraded safety features are equally impressive and focus on crew safety on deck, wheelhouse visibility, winch operations and sound abatement in the engine room and staterooms.

"The Jaime Ann was built to satisfy the requirements of the State of California — requirements we believe will soon be required of the rest of the country and the world," said Janic Trepanier, Foss Maritime project manager. "Her innovative design offers greater operating efficiencies by producing lower emissions resulting in less maintenance down time."

The Jaime Ann is the first of four ASD-90 tugs constructed at Nichols Brothers Boat Builders in Freeland, Washington. Her three sisters: the Sarah Averick, the Leisa Florence and the Rachael Allen, are due to deliver this year for service within the Saltchuk Marine family of companies.

Companies involved in Alaska's oil and gas industry



PAID ADVERTORIAL

THE TRUE BACKBONES OF ALASKA ARE THE ALASKA NATIVES, PRE-STATEHOOD RESIDENTS AND HOMESTEADERS THAT VOTED AND CREATED THIS GREAT STATE OF ALASKA ARE THE FORGOTTEN REAL HEROES OF ALASKA

"RESULTS ALWAYS DEFINE INTENT"

Alaska has been a state the last 60+ years. Since Alaska became a state some 60 years ago, not one sole resident Alaskan has been able to explore or produce a single drop of oil or gas from his or her property. As a result, the immense wealth generated by Alaska's oil and gas has gone outside the state rather than staying in the hands of individual Alaskans.

Something is terribly wrong with this "result." So, let's try to get to the heart of how we got here and what we can do to change it.
After buying Alaska from Russia coaxing more citizens to come to the new territory of Alaska to homestead became a strategic necessity for the defense of the lower 48 states of America.

Following world war II, the US government desperately needed to have more new settlers to come, reside and settle in the new territory of Alaska to attempt to provide needed local civilian contract personnel in Alaska and produce fresh food and milk to service the thousands of soldiers and sailors who were being stationed in the territory of Alaska that were providing the 1st line of defense to protect the lower 48 states from any threats of any foreign nation.

Since Alaska's gold rush, the US had been trying to entice new citizens to come to the territory of Alaska. The US government promise to any new settler was that they could come pick a new homestead in the territory of Alaska. The US Interior Department rules were clearly understandable by any new Alaskan homesteader. If he or she lived on that homestead for two years and made certain improvements on the land, then they could keep the land and all the oil or gas that might be produced beneath it. That was how the Katalla Oil Field, Alaska's first oil field, was developed and was the enabling fact that allowed the Kennecott Copper mine to profitably produce and sell Alaska's copper for the next 30 years. To this day, this shallow oil field of wells less than 1000 feet deep is still owned by private citizens.

Many lower 48 citizens came up to the frigid new territory of Alaska to attempt to prove-up a new Alaskan homestead. These new folks soon found out living in the Alaskan brush was an arduous task that required some cash, but a whole lot of extreme physical work, extreme privation, and a lot of ingenuity just to prove up his new homestead and survive for the two year requirement. To be awarded a homestead they had to live in an area having few if any roads, few neighbors, a lot of big bears, and no electricity or running water. But they knew if they toughed it out, they would end up owning the land and everything below it to call their own.

This all changed when Swanson River Oil Field was discovered on the Kenai Peninsula in 1957. Suddenly there was a major push to stop any homesteader anywhere in Alaska from being able to own their oil and gas beneath their property. It took an act of congress to ensure that the pre-1957 homesteaders got to keep their oil and gas, but everyone else was out of luck. Those that homesteaded their property after 1957 did not even get to keep the gravel, much less the oil and gas beneath their land. The state government could clear the trees off their property and take the gravel if they needed it to build a road.

But the pre-1957 homesteaders were different; they owned the oil or gas beneath their lands **ONLY IF** they could get it to the surface and could cash in on it. The bottom line is this, if you cannot get the oil or gas beneath your property to the surface, you don't frickin own it.

In the 1970's the federal government only required a $10,000 bond to drill on federal lands. On homesteader's land, the state of Alaska in its infinite wisdom set a bonding requirement that was ten times higher. Before any homesteader could even think about drilling even a shallow oil or gas well on their own land they would have to come up with $100,000 cash bond. How many homesteaders do you know had an extra $100,000 laying around in 1970? It is important to note that there are thousands of oil and gas wells in the lower 48 that produce from less than a couple hundred feet below the surface.

But wait, it gets even better. The state of Alaska has now raised the homesteader's bonding requirement from $100,000 to $400,000! Even though the homesteader or their heirs technically own their oil and gas if they can get it to the surface, the high bonding requirements deprives them of their ability to get it to the surface where it can actually be sold and put into their bank account.

Another thing, the high $400,000 drilling bond cost is just another form of state-imposed taxation. Unfair taxation was the premise that caused the 1770-settlers of Boston to dump all its English tea into the Boston Harbor.

This is a double whammy! The land is already required by law to be pledged as collateral to pay all well plugging costs beneath his own homestead regardless, even if someone else had drilled the well. Even though there are only a couple of hundred of pre-1957 homesteaders, the state of Alaska bureaucrats who are pushing for higher bonding amounts are effectively throwing the homesteader who helped create this great state of Alaska under the bus.

The end result of these unreasonable excessive drilling bonds is that not one Alaskan resident has ever been able to produce or sell a single drop of Alaska's oil or gas since Alaska became a state some 60 years ago.

You might be thinking, "But what about the environment? If we let people drill on their own land, won't they trash it?" This land is their life. The homesteaders love their land more than anyone. They and their heirs know the tremendous sacrifice and effort they had to put in to get this land. It is preposterous to say they don't care about what happens to their land.

This writer believes that the current elected governmental officials are trying to do their best to restore equity back to the individual citizens of Alaska. We just need to make sure they do the right thing by lowering the bonding requirements so that individual Alaskans can be capable to rightfully explore for oil or gas on their own property.

Please again carefully remember, it is only when the oil or gas has come to the surface of the homestead can any homesteader be able to convert this produced oil and gas to cash-in-hand, and be deposited in the homesteader's own bank account.

The state should be compelled to disclose all its findings for these drastic measures penalizing and depriving pre-statehood homesteaders of the option to convert any or all of their oil and gas beneath their pre-statehood homestead to the homesteader's ownership.

-Jim White

continued from page 1

DEAL REVISIONS

The drop in oil price, the health response to COVID-19 and the ongoing transition, all created uncertainty for employees, he said, and management in both companies wanted to decrease that uncertainty.

There were three primary changes made to the purchase and sale agreement so that it would work better at today's oil price, Bilbao said. (BP announced changes to the agreement and its commitment to the sale on April 27.)

The $5.6 billion total consideration remains the same, but the structure and phasing of payments was modified in the revised agreement, Bilbao said, with lower completion payments in 2020 and interest bearing vendor financing, a commonly used tool for lending money from seller to buyer.

The changes also created the option of bifurcating the close of the upstream sale from the close of the midstream sale.

Bilbao said bifurcation addressed uncertainty for employees around the closing date, but said June 30 is still the goal.

Closure is subject to regulatory approvals, he said, but if the companies don't have midstream approval they would go ahead with the upstream closing and continue to work on the midstream.

The third change is in staffing, with up to 50 BP employees scheduled for early retirement June 30 to remain, as BP employees, and continue to support Prudhoe operations for 90 days. Bilbao said BP was working to notify those employees by May 15.

RCA submittals

BP and Hilcorp submitted additional information to the Regulatory Commission of Alaska, which is working the midstream assets transfer, on May 4, almost 9,700 additional pages in response to RCA's March request, Bilbao said, with the response as comprehensive and complete as the companies could make it.

Most of the RCA's questions focused specifically on sensitive information and as a result, so did the responses, he said. Addressing the need for confidentiality he said 75% of the confidential information falls into three categories: risk assessments; DR&R, dismantlement, removal and restoration; and minutes of TAPS owners and Alyeska Pipeline Service Co. meetings.

The first two categories are protected as confidential because they are critical energy infrastructure information with the potential for misuse by someone in preparation for a terrorist attack. Insurance information comprises 17% and contains competitively sensitive information. Of the remainder, 80% are confidential documents — operating agreements, PSA terms — already found confidential by RCA, Bilbao said.

The data is available to commissioners and staff, he said, but is not shared publicly.

The Department of Natural Resources also received this information since both RCA and DNR are entrusted with decisions on asset transfer and have full access to the full response, Bilbao said.

Interest bearing vendor financing

Bilbao said interest bearing vendor financing is a commonly used tool in merger and acquisition transactions and said is a fancy way of saying the seller loans to the buyer and the buyer repays as it would any loan.

He said he couldn't speak on behalf of Alaska regulators, but one of the reasons industry sometimes uses vendor financing is because it reduces uncertainty on financing — it's clear where the loan is coming from. He said it is BP's understanding that the restructuring of the PSA does address some of the regulators' concerns.

Submittals to RCA

The May 4 submittals to RCA included a public version of the companies' responses and a petition for confidential treatment of filings which the companies identified as confidential.

The companies said they "have provided narrative and documentary responses to many of the requests … without asserting confidentiality and thereby making the responses and documents public."

They cited state and federal statutes backing their request that other documentation and narrative responses be held confidential.

Among the arguments for confidentiality the companies cited federal statutes protecting critical energy infrastructure information.

Minutes of the TAPS owners' meetings "address certain areas that have traditionally been considered confidential, such as attorney-client privileged communications."

As for Hilcorp financial data, the companies argue, as they have before, that Hilcorp has made a choice to be privately held, shielding them from "public shareholder and market analyst pressures that many of their public peers in Alaska are facing, which is causing them to either exit the State of Alaska or reduce their activity."

Making the company's financial data public "would essentially saddle the Hilcorp Entities with the disadvantages of being a publicly-held company without conveying any of the advantages."

—KRISTEN NELSON

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AID PLAN

lenders. To qualify, companies will have to show annual revenues of at least C$300 million and demonstrate a need for financing of at least C$60 million.

Trudeau said the federal money, which will come from the government's practically unlimited ability to borrow at low rates, will go only to those who place limits on shareholder dividends, share buybacks and executive pay, as well as demonstrating they are setting zero limits on greenhouse gas emissions by 2050.

Trudeau said the financing will be off limits to any company that has been convicted of tax evasion, while the government will review corporate records for any signs of "tax avoidance."

Response mixed

The Canadian Association of Petroleum Producers and the Alberta government welcomed the sign of support from the government but said it would have been more helpful if the assistance has been available a month ago.

A spokeswoman for Cenovus Energy, one of the largest oil sands producers, said her company wants more specifics before it can determine the benefits of LEEFF.

She also said that if low crude prices extend over a long period it will be important for the Trudeau administration to continue offering liquidity support for companies that employ tens of thousands of Canadians.

Kevin Krausert, president of Calgary-based Beaver Drilling, which is a key player in exploring the prospect of thermal energy development, said the next step in federal aid "needs to be stimulus funds for energy diversification ... where's the capital for us to kick-start that program."

Divisions within cabinet

Sources within government indicated the delay in rolling out LEEFF stemmed mostly from sharp divisions within cabinet, with one faction adamantly ruled out to any efforts to protect big players in the fossil-fuel industry.

The level of that opposition outside of government circles was apparent on May 6 when Green Party leader Elizabeth May and Bloc Quebecois, BQ, leader Yves-Francois Blanchet declared the oil industry to be "dead" and insisted help should only be offered to help Alberta petroleum industry workers to "transition" to renewable sources of energy.

Blanchet, ignoring the fact that his own province of Quebec imports 160,000 barrels per day of crude, said the oil sands have been "condemned ... oil is never coming back. Putting money into that business is a very bad idea."

His BQ has an overriding objective to advance Quebec nationalism and promote Quebec separation from the Canadian confederation.

The BQ and/or the Greens have sufficient votes in the House of Commons to keep the Trudeau Liberals in power.

May said the COVID-19 pandemic "in a very real way, as horrific as this is at many, many levels, gives us an opportunity to stop and think about how we get this economy back on its feet."

Trudeau only mildly disagreed with the "oil is dead" claim, but Alberta Premier Jason Kenney said Blanchet is "obsessed with attacking the people of Alberta" for generating tens of billions of dollars in equalization payments from federal taxes that have helped Quebec pay for education, health care and social services. ●

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PRODUCTION RECORD

this year — performance that BP Vice President Darian Bilbao recently said bodes well for future exploitation of Prudhoe Bay's remaining resources when Hilcorp's acquisition of the giant oil field from BP closes (see related story in this issue of Petroleum News.).

Double gut punch

While taking safety precautions to guard its workers against the coronavirus, Hilcorp has largely continued its operations in Alaska's oil and gas fields, only deferring minor work that can be done later.

"We're facing a double gut punch — a global pandemic coupled with a drop in demand, a global oversupply," Wilkins told the committee. "I am proud to say Hilcorp's drilling and production operations have continued. The credit for that goes largely to our field employees and our contractors and vendors."

"Of course, nobody knows what the future holds, and those things may change," Wilkins said.

"We still have three drilling rigs operating in Alaska — two on the North Slope and one in Cook Inlet. On the North Slope we expect most drilling operations to continue as planned — the Innovation rig, which is operated by Parker Drilling, and the Doyon 14 rig," he said.

In the Cook Inlet basin Hilcorp is "focused on meeting its natural gas commitments to local utilities. Cook Inlet gas production is building storage during the spring and summer and we continue to drill there so we can store gas for the winter," Wilkins said. On the Kenai Peninsula the company is using Hilcorp's 169 drill rig, which is operated by Parker.

On the North Slope "shifts for the drilling crew have been extended to reduce travel frequency," he said.

"Workover operations are critical to maintaining and increasing production and remain a key component of our work plan in 2020 and beyond. On the North Slope the Hilcorp ASR workover rig has been laid down for maintenance but we anticipate we will reactivate it when the maintenance is complete later this summer," Wilkins told the committee.

Workovers in the Cook Inlet basin are being done by Hilcorp rigs 404 and 401, operated by All American Oilfield, a subsidiary of Chugach Native Corp. Their crews are 100% Alaska-based and are therefore still working on 14 day shifts, he said.

96% live in Alaska

Hilcorp Alaska employs 580 people — 96% of whom live in Alaska. Only seven employees are currently working in the company's mid-town Anchorage headquarters due to COVID-19 protocols.

"We're encouraging employees, including those supporting regular production operations, to work from home," Wilkins said.

Hilcorp took "early and decisive action to respond to COVID-19," he said, noting the company's workforce continues to be COVID-free.

"We've removed all non-essential field personal from Hilcorp locations so if it doesn't need to happen today, we have basically said 'let's just wait and not do it.'"

"We've arranged private charter flights from Anchorage to Deadhorse through Alaska Airlines to further eliminate any outside exposure," Wilkins said. ●

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CONOCO RESTART

North Slope crude before transportation costs was $26.40.

Jepsen, ConocoPhillips Alaska's vice president of external affairs and transportation, with some input from Erik Keskula, manager of North Slope integrated operations and engineering for the company, provided the information in testimony to the state House Resources Committee.

Cuts determined by facilities

ConocoPhillips Alaska's 100,000 barrel per day crude reduction for the month of June will be from the two producing units it operates on the North Slope.

Colville River, which holds the Alpine field, will ramp down to an average of 25,000 bpd from 55,000 to 60,000 bpd and the Kuparuk River unit will ramp down to 35,000 bpd from about 100,000 bpd.

The June ramp down volume is determined by "the minimum production required to run the facilities" in the units, Jepsen said, noting the curtailment amount will be "reviewed on a month to month basis."

The cuts represent about half of the oil production attributable to ConocoPhillips in Alaska.

Output is "likely to remain at this level until we start to ramp up our operations" on the North Slope, Jepsen said.

In Phase 1 for Anchorage employees

"Right now, we're working on determining when and how we bring back" Anchorage-based staff, he said. Currently, "only a handful of employees are working in the office." The rest are working remotely from their homes.

In Phase 1, which begins May 18 for the company, no more than 25% of the 600 Anchorage employees will resume work at 700 G Street.

In Phase 2 up to 50% will be asked to work in the office; in Phase 3, 100%.

This phased return to work at the Anchorage headquarters will continue unless there's another wave of Covid-19 outbreaks in the area, Jepsen said.

From 3,000 workers to 1,100

He also spoke of ConocoPhillips' April 7 announcement that it was demobilizing its North Slope rig fleet, including laying down rigs doing development drilling at Kuparuk and Alpine and early termination of the off-road winter exploration season with only three of seven wells drilled, one at the Harpoon prospect and two Tinmiaq wells near the company's proposed Willow development.

Three thousand workers — ConocoPhillips employees and contractors combined — were onsite in early February at the peak of the winter exploration season on the North Slope, Jepsen told the committee, with only 1,100 on the Slope today. The bulk of the difference is seasonal workers.

On May 5, ConocoPhillips Alaska spokeswoman Natalie Lowman told Petroleum News that total company "employee numbers today — ~1,100 — have not changed since March." ●

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