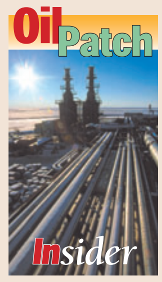
Petroleum news

Vol. 26, No. 3 • www.PetroleumNews.com | A weekly oil & gas newspaper based in Anchorage, Alaska | Week of January 17, 2021 • $2.50

page 6 88 Energy buys Umiat oil field in NPR-A at a bargain price

Talitha well spud; ANWR outsider; All not dire for oil under Biden



PANTHEON RESOURCES PLC, the AIM-quoted oil and gas exploration company with working interests of 89.2% to 100% in Great Bear North Slope projects, said it spud the Talitha A well ahead of schedule on Jan. 13. The well, which the company describes as an appraisal well and the state labels an exploration well, is some 8 miles west of the trans-Alaska oil pipeline and Dalton Highway Milepost 386.7.

Drilling is planned to a total vertical depth of approximately 10,000 feet and will "target the shallowest Shelf Margin Deltaic horizon as the primary objective and will also drill through a

see **INSIDER** page 11

NOAA fisheries proposes large Arctic seal critical habitat areas

NOAA Fisheries has proposed designating critical habitat areas for ringed and bearded seals, two seal species which inhabit Arctic waters off the coast of Alaska. Both species have previously been designated as threatened under the Endangered Species Act. The critical habitat areas encompass all U.S. waters of the Chukchi Sea and substantial areas of U.S. waters of the Beaufort and the northern Bering seas, including nearshore waters.

Critical habitat designations can impact the permitting of planned activities within the habitat areas. Opponents of the listings argue that the listings will have negative impacts on Alaska's economy and the subsistence economy of Alaska

see **SEAL HABITAT** page 10

Navy delivers strategy for Arctic ops as countries compete for oil

On Jan. 5 the U.S. Navy rolled out a strategic blueprint for Arctic operations which are expanding due to reduced ice coverage that is making northern sea routes more accessible to resource hungry countries such as China and Russia.

"A Blue Arctic" provides an outline of planned operational changes for the military's sea services in and around Alaska, including the Navy, Coast Guard and Marine Corps.

The services will operate a full range of missions, adapt to Arctic operations and work with local and Indigenous communities to build regional security, the Navy said.

The Navy highlighted the regional strategy as receding sea ice blamed on climate change makes mineral and biological resources more accessible to nations that can exploit them.

see **ARCTIC STRATEGY** page 8

EIA 2019 reserves report shows Alaska proved reserves up 259M

Alaska had the largest annual net increase of proved reserves of crude oil and condensate of any state in 2019, 259 million barrels, the U.S. Energy Information Administration said in its annual proved reserves report for 2019, released Jan. 11.

The total includes both producing and proved nonproducing reserves.

EIA has this information because of a requirement under the Federal Energy Administration Act of 1974 that operators sampled by the EIA fill out Form EIA-23L, reporting annual domestic oil and gas reserves.

Proved reserves, EIA said in the 2019 survey year report, "are the estimated volumes of all liquids defined as crude oil, which geological and engineering data demonstrate with reasonable cer-

see **RESERVES REPORT** page 9

LAND & LEASING

Slope sales draw $7M

Great Bear top bidder at $3.3M, Oil Search at $2.1M, Lagniappe at $1M

By KRISTEN NELSON
Petroleum News

The Alaska Department of Natural Resources' Division of Oil and Gas unveiled results from its North Slope, Beaufort Sea and North Slope Foothills areawide sales Jan. 13, with the Slope drawing some $6.8 million and the Beaufort just over $200,000 in bids; there were no bids in the Foothills sale.

There were also no overlapping bids among the 112 the state received for the North Slope sale and three for the Beaufort Sea sale.

Both North Slope and Beaufort Sea sales saw increases in the number of tracts receiving bids, acres sold and number of bidders compared to the 2019 fall sales, the division said.

> *"We're essentially taking what we have learned about the Nanushuk at Pikka and extending the play eastward." —Bill Armstrong, Lagniappe Alaska*

"This is good news for Alaskans," said division Director Tom Stokes. "We look forward to working with these companies to ensure Alaska's future in energy development."

Many of the tracts receiving bids have been previously leased and have well or seismic data available.

see **SLOPE SALES** page 10

FINANCE & ECONOMY

ANS crude clears $57

Major indexes near one-year highs as 'perfect storm' levitates prices

By STEVE SUTHERLIN
Petroleum News

Alaska North Slope crude cleared the $57 mark Jan. 12, vaulting $1.08 to close at $57.23 per barrel, a new post-pandemic high.

Major crude indexes joined ANS to hit levels not seen since February 2020, approaching one-year highs.

Brent crude rose 92 cents to close at $57.23, and U.S. West Texas Intermediate closed at $53.21, up 96 cents.

The remarkable turnaround in oil prices was supercharged by an early January announcement by Saudi Arabia that it would unilaterally cut its own production by a million barrels per day in February and March.

> *E&P companies worldwide have pulled the plug on exploration and development expenditures as the pandemic pinched prices and demand in early 2020. Turning up the taps takes investment, and it takes time.*

Saudi Arabia is already cutting supplies, according to a Jan. 13 Reuters report.

Two North Asian refiners have received a 10% supply cut from state-owned Saudi Aramco, and

see **OIL PRICES** page 11

PIPELINES & DOWNSTREAM

TMX coming to a boil

Climate and Indigenous activists mull road, rail blockages in British Columbia

By GARY PARK
For Petroleum News

JUSTIN TRUDEAU

Expansion of Trans Mountain's oil pipeline across British Columbia is being dragged into the spotlight to face what could be the ultimate test of its hopes to start pumping an extra 590,00 barrels per day of oil sands bitumen to a Vancouver export terminal by late 2022.

While attention on the C$12.6 billion tripling of capacity on the Trans Mountain system has been obscured over the last 10 months by the preoccupation with COVID-19, a period of relative quiet for the pipeline contractors is about to be overtaken as work advances into the hot zone where thousands of protesters are expected to blockade road and rail links serving TMX this spring and summer.

Climate activists are threatening "non-violent" efforts to stop construction as they join forces with some Indigenous land defenders.

Moderately upbeat view

In delivering a moderately upbeat view of the outlook, Ian Anderson, chief executive officer of the Canadian-government owned Trans Mountain system, said TMX is advancing despite threats.

see **TMX TEST** page 10

EXPLORATION & PRODUCTION

US drilling rig count rises by 9 to 360

By KRISTEN NELSON

Petroleum News

The Baker Hughes U.S. rotary drilling rig count continues to rise, up by nine to 360 for the week ending Jan. 8, but still down substantially, by 421, from a count of 781 a year ago.

When the count hit 244 in mid-August last year, it was not just the low for 2020, but the lowest the count has been since the Houston based oilfield services company began issuing weekly U.S. numbers in 1944.

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

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

The Jan. 8 count includes 275 rigs targeting oil, up eight from the previous week but down 384 from 659 a year ago, 84 rigs targeting gas, up one from the previous week but down 35 from 119 a year ago, and one miscellaneous rig, unchanged from the previous week and down two from a year ago.

Twenty-two of the holes were directional, 320 were horizontal and 18 were vertical.

Alaska count up by one

New Mexico (69) was up by four rigs from the previous week; Pennsylvania (21) was up by two.

Alaska (3), California (7), Oklahoma (18) and West Virginia (9) were each up by one rig.

Rig numbers were unchanged from the previous week in Colorado (6), Louisiana (43), North Dakota (11), Texas (161), Utah (3) and Wyoming (4).

The count in Ohio (4) was down by one rig from the previous week.

Baker Hughes shows Alaska with three active rigs Jan. 8, up by one from the previous week but down by four from a year ago.

The rig count in the Permian, the most active basin in the country, was up by four from the previous week at 179, but down 218 from a count of 397 a year ago.

International count down by 4

In a Jan. 8 release of monthly international rig counts (a number which excludes North America) Baker Hughes said the December count of 665 was down by four rigs from November with land rigs unchanged at 509 and offshore rigs down four to 156.

The U.S. rig count — for which this release shows a monthly average — was 339 in December, up 29 from November's average of 310 but down 465 from the December 2019 average.

The worldwide rig count, international and North America, was 1,104 in December, up by 30 from November and down 939 from 2,043 in December 2019. ●

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contents

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FINANCE & ECONOMY

EIA: Brent to stay in mid-$50s in 1st quarter

US crude production forecast to fall again this year; US natural gas exports as LNG expected to exceed pipeline exports by 2022

By KRISTEN NELSON
Petroleum News

The U.S. Energy Information Administration said Jan. 12 in its Short-Term Energy Outlook that Brent crude oil spot prices are forecast to average $53 per barrel in both 2021 and 2022, compared with a 2020 average of $42 per barrel.

"EIA expects restrained oil production from OPEC+ countries will likely keep Brent crude oil prices in the mid-$50 per barrel range during the first quarter of 2021," EIA Administrator Dr. Linda Capuano said in a statement accompanying the outlook release.

EIA noted that Brent crude traded in a wide range in 2020, averaging $64 per barrel in January, dropping to an average of $18 per barrel in April, "the lowest monthly average price in real terms since February 1999," the result of significant consumption declines resulting in a sharp rise in global inventories. Prices increased throughout much of the rest of 2020 as "rising oil demand and reduced production caused global oil inventories to fall," the agency said.

Brent rose to a monthly average of $50 per barrel in December, the agency said, and prices in early January this year "reached their highest levels in 10 months after Saudi Arabia announced a one-month unilateral cut to its crude oil production for February that is in addition to its OPEC+ commitments."

EIA said that despite rising forecast oil prices early in the year, it "still expects upward price pressures to be limited through the forecast period because of high global oil inventory levels and surplus crude oil production capacity."

"Growing global supply and demand lead EIA's January Short-Term Energy Outlook forecast for petroleum and other liquid fuels through 2022," Capuano said. "Reduced economic activity related to the COVID-19 pandemic caused sharp declines in 2020; however, we expect consumption and production to return to 2019 levels in early 2022," she said.

Brent is forecast to average $51 per barrel in the second half of 2021 following "moderate il price pressures" at the beginning of the second quarter, EIA said, "when global oil production is forecast to rise and cause inventories to draw at a slower pace."

LINDA CAPUANO

West Texas Intermediate is forecast to average some $3 per barrel less than Brent this year and $4 less in 2022. This compares to the current discount of WTI to Brent of $2 on average in the second half of 2020, which, EIA said, "reflects significant declines in U.S. crude oil production and reduced available volumes of U.S. crude oil for export to distant markets relative to other global benchmarks," the agency said.

US crude production to fall

U.S. crude oil production was a record 12.2 million barrels per day in 2019 — falling to 11.3 million bpd in 2020 — and EIA said it expects annual average production to fall again this year to 11.1 million bpd before rising to 11.5 million bpd in 2022.

The drop in 2020 production was "a result of well curtailment and a drop in drilling activity related to low oil prices," the agency said.

Most Lower 48 crude oil, excluding Gulf of Mexico production, is tight oil. Lower 48 production hit a record 10.4 million bpd in November 2019, dropping to 8 million bpd in May, reflecting both a decline in drilling activity and well curtailment. By August, Lower 48 production had increased to 8.9 million bpd, "largely because operators reduced curtailments," but with much of curtailed production back online, the agency said it "expects drilling activity and decline rate dynamics to again be the main drivers of production levels going forward. Because tight oil wells have steep decline curves in early years of production, continuous drilling of new wells is required to maintain average production in a region."

EIA said that despite rising forecast oil prices early in the year, it "still expects upward price pressures to be limited through the forecast period because of high global oil inventory levels and surplus crude oil production capacity."

Lower 48 production is expected to continue to decline through February "because declining legacy well production will offset production from new wells." The agency said changes in oil prices affect tight oil production with about a six-month lag, and said it expects recent price increases will more active rigs will contribute to growth beginning in the second quarter, with average 2021 Lower 48 production expected to average 8.9 million bpd in 2021, 3% lower than 2020 levels.

Capuano said the U.S. exported more crude oil and petroleum products in 2020 on an annual basis than it imported "for the first time in EIA's data series that dates back to 1949. EIA expects the United States to return to importing more crude oil and petroleum products than it exports on an annual basis in 2021 and 2022," she said.

Natural gas

EIA said it estimates that U.S. production of natural gas averaged 90.8 billion cubic feet per day in 2020, down 2.5%, 2.3 bcf per day, from 2019, with production falling "as a result of low natural gas and oil prices thar reduced drilling activity." Natural gas production is expected to decline again this year, to an annual average of 88.2 bcf per day, the agency said.

Net natural gas exports are forecast to rise from an average of 6.5 bcf per day in 2020 to 9.8 bcf per day in 2021 and 10.7 bcf per day in 2022. The U.S. has been exporting more gas than it imports since the second quarter of 2017, EIA said, with both liquefied natural gas and pipeline exports rising.

The U.S. is estimated to have exported 9.8 bcf per day of LNG in December, up 0.4 bcf per day from a record set in November, "driven by rising international natural gas and LNG prices in Europe and Asia, reduction in global supply because of several unplanned outages at LNG export facilities worldwide, and cold weather in key LNG consumption markets, particularly in Asia," EIA said.

The U.S. also increased pipeline exports as Mexico has built more infrastructure, with pipeline exports averaging 8 bcf per day in 2020, up 2.5% from 2019.

Net natural gas pipeline imports, almost all from Canada, decreased, EIA said, continuing a trend which began in 2008.

"As a result of reduced natural gas production, EIA expects U.S. benchmark Henry Hub natural gas spot prices to increase by nearly one dollar in 2021. Rising natural gas prices will reduce natural gas use in the electric power sector as other fuel sources for producing electricity become more competitive," Capuano said.

Henry Hub spot prices averaged $2.03 per million British thermal units in 2020 and are expected to increase to an average of $3.01 per million Btu in the first quarter of 2021, based on expectations of slighter cooler-than-normal weather in the first quarter. ●

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UTILITIES

IGU OKs Canadian LNG supply contract

During its Jan. 5 meeting the board of the Interior Gas Utility approved the signing of a liquefied natural gas supply agreement with Vancouver, British Columbia, LNG producer Cryopeak LNG Solutions Corp.

IGU, which supplies natural gas in the Fairbanks region, obtains its gas in the form of LNG from the Titan LNG plant that it owns on Cook Inlet near Point Mackenzie. The purpose of the new contract with Cryopeak is to have access to an alternative LNG source, should there be an emergency stoppage at the Titan plant, or should there be some price advantage in obtaining LNG from Canada, Dan Britton, IGU general manager, told the IGU board.

The agreement provides a contractual framework for a future LNG supply but does not commit to any specific volumes of Canadian LNG that IGU may purchase.

The agreement provides a contractual framework for a future LNG supply but does not commit to any specific volumes of Canadian LNG that IGU may purchase. Nor does it include any pricing commitment, Britton said. The idea is to be able to quickly establish an LNG supply from Canada, based on a negotiated price for an LNG order, if the LNG is sought by IGU and is available. Currently, it is cheaper to obtain LNG from the Titan plant than from Canada, Britton said.

In the event of purchasing LNG from Cryopeak, the LNG could be transported to Alaska from Canada by barge using Cryopeak LNG trailers — this procedure was tested in 2020, Britton said.

In anticipation of the increased use of natural gas for heating buildings in Fairbanks, IGU has completed and put into operation a new 5.25 million gallon LNG storage tank in central Fairbanks. The utility is also constructing new storage facilities in North Pole, in anticipation of serving new customers there.

The utility has been planning to expand the Titan LNG plant in support of potential increased Fairbanks gas demand. However, a decision on whether to proceed with that expansion has been placed on hold, given uncertainty over future gas demand because of the fall in the price of fuel oil as a consequence of the COVID-19 pandemic.

IGU's efforts form part of the Alaska Industrial Development and Export Authority's Interior Energy Project, a project aimed at bringing increased supplies of affordable natural gas to the Fairbanks region. The desire to increase gas usage in Fairbanks is in part motivated by the need to reduce winter air pollution in the region.

—ALAN BAILEY

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● EXPLORATION & PRODUCTION

Hilcorp files amended Northstar ops plan

By KAY CASHMAN
Petroleum News

On Jan. 6 Hilcorp Alaska LLC filed an amended 17th plan of development for the Northstar unit with Alaska's Division of Oil and Gas. The POD, which also includes an updated progress report for work done under the 16th POD, covers Feb. 13, 2021, through Feb. 12, 2022.

The Northstar oil field is operated from a five-acre man-made gravel island offshore the central North Slope in the Beaufort Sea. The unit, which is six miles off the Beaufort Sea coast and a little over 11 miles northwest of Prudhoe Bay, straddles state nearshore waters and waters of the federal outer continental shelf.

The Alaska Department of Natural Resources' Division of Oil and Gas and the U.S. Department of Interior's Bureau of Safety and Environmental Enforcement jointly manage the four state and two federal leases in the Northstar unit, which is comprised of three oil sand accumulations — the Ivishak sands in the Northstar participating area, the Ivishak sands in the Fido PA and the Kuparuk sands in the Hooligan PA.

Northstar production began in November 2001 under the operatorship of primary leaseholder BP, who in 2014 brought privately held Hilcorp's Alaska subsidiary in as a significant working interest owner and operator. Then in August 2019 the two companies signed an agreement for BP to sell the rest of the unit's working interest to Hilcorp.

Updated annual report

In its 16th POD, which covers the period from Feb. 13, 2020, through Feb. 12, 2021, Hilcorp said it anticipated Northstar production would be maintained. Northstar output averaged 9,221 barrels per day of oil from Jan. 1 through Sept. 30, a volume including both black oil and natural gas liquids. The previous POD reported an average of 10,095 bpd (also black oil and NGLs combined) for Jan. 1, 2019, through Aug. 31, 2019.

Northstar field averaged 6,912 bpd in November, down 1,952 bpd, 22%, from an October average of 8,864 bpd and down 28.2% from a November 2019 average of 9,629 bpd. Crude oil represented 83.3% of the field's production in November, 5,758 bpd, up 7.6% from October and down 18.3% from November 2019. Northstar NGL production for November averaged 1,154 bpd, 16.7% of the field's production, down 67.1% from October and down 55.3% from November 2019.

During the 16th POD period Hilcorp had not expected to do any grassroots or sidetrack drilling. Rather, the company intended to implement a workover program and perform some surface facility operations that would bolster production, the bulk of which is black oil.

Surface facility work was to include building an ice road for the Northstar Propane Chiller Project module deliveries, and then install support frames, set chiller modules and install associated chiller system piping. The chiller was to be commissioned during the summer for improved NGL recovery when ambient temperatures were warmer.

What Hilcorp and its contractors have accomplished so far is the NS-25 well casing repair, the ice road and all the planned surface chiller work.

They also did the following to increase flow rates from three Northstar wells:

- Installed a subsurface safety valve in the NS-25 well.
- Added perforations to the NS-05 well, though results from this effort were minimal.
- Added perforations to the NS-11 well, which also yielded negligible results.

Hilcorp said it did not acidize any Kuparuk PA producer wells due to "undervoiding" in the Kuparuk oil pool: "With a current voidage replacement ratio of less than one, acidizing a Kuparuk producer well would exacerbate the undervoidage. Therefore, the decision was made to defer any acidizing projects until there is a more favorable voidage replacement ratio."

17th plan of development

The same long-range development work included in the 16th POD is in 17th plan activities, such as the intention to delineate and bring into production all underlying oil or gas reservoirs, exploring the possibility of importing gas for reinjection from the Prudhoe Bay unit via the

see **NORTHSTAR PLAN** page 5

● PIPELINES & DOWNSTREAM

Stakes are high for Keystone XL

Canada hopes for favorable Biden hearing on jobs, curbing GHG, trust in Canadian crude exports, could lose on environmental front

By GARY PARK
For Petroleum News

The odds-makers figure they have a sure winner in betting on Joe Biden putting Keystone XL out of its misery by ending 13 years of costly, tortuous struggles by TC Energy (previously TransCanada) to secure enough legal and regulatory victories in the United States to proceed with construction of the 1,600-mile pipeline.

Now everything hangs on whether the incoming president will stick to his pledge last May to waste no time scrapping permits for the US$14.4 billion project to ship 830,000 barrels per day of oil sands bitumen to Gulf Coast refineries.

And if Biden shows any wavering he's likely to get a sharp jolt from his nominated Energy Secretary Jennifer Granholm, a former Michigan governor who is one of the hardest line anti-fossil fuel proponents in the Biden cabinet, coupled with a like-minded John Kerry, President Barack Obama's Secretary of State and now Biden's special presidential climate envoy with a seat at the cabinet table.

Canada's lobbying campaign

Against that formidable line-up, Canada has mounted a relentless government and industry lobbying campaign to remind Biden that Canada has set a net-zero target for greenhouse gas emissions by 2050, a clean fuel standard to reduce emissions by 30 million metric tons a year by 2030 and the promise of construction jobs that figure large in Biden's immediate agenda.

The hope in Canadian quarters is that Biden will see a chance in Keystone XL to reward organized labor and construction unions for their financial and ballot-box support to help nudge him into the White House. That includes estimates of 42,000 direct and indirect jobs along the pipeline route.

Also on the table is Canada's case as a long-term and reliable provider of oil and natural gas, not least as the leading source of crude imports into the United States.

Canada currently accounts for 48% of those imports, followed by Mexico at 7%, Saudi Arabia 6%, Russia 6% and Colombia 4%, with smaller portions from such dubious states and outright dictatorships as Algeria, Libya, Nigeria, Venezuela, Iran and Iraq.

Alberta hopes

No one in Canada has more reason to hope that at the very least Biden will be open to negotiations than Alberta Premier Jason Kenney whose government has a C$1.5 billion equity stake in TC Energy and a C$6 billion financial commitment last spring to the project.

"If there is a cancellation (of permits by Biden) that will likely lead to a significant writedown on our investment. But I think we'll have to wait and assess that in collaboration with TC Energy," he said.

"I'm not going to start doing accounting based on a hypothesis. It's our jobs to do everything possible to keep the project going," he told the Calgary Herald.

TC Energy has taken its own steps to broaden its base of support for the pipeline by reaching an agreement with four key U.S. unions and selling an equity stake to Natural Law Energy, a group of five First Nations in Western Canada.

The Canadian government has also been making its case to the Biden transition team that the climate action measures Canada is implementing are part of a strategy that will measure up to global objectives.

They include a carbon tax and a clean fuel standard that Natural Resources Minister Seamus O'Regan said "will help us make the case for projects such as Keystone XL because it will help diversify our energy mix and reduce emissions."

He said the pipeline is "an absolute priority" for the government of Prime Minister Justin Trudeau. "Getting access to new markets for our energy is one of the highest national priorities," O'Regan said.

Project doubters, issues

However, there is no shortage of doubters, including Phil Skolnick, an analyst with Eight Capital in New York, who said the array of former Obama administration figures in Biden's inner circle convinces him that Keystone CXL is headed for the scrap heap.

He said there are also questions about whether Keystone XL is vital to Canadian oil producers, especially if Enbridge's Line 3 and Trans Mountain are completed.

"It would be a long time before Canada needs another pipeline" if Trans Mountain comes into service at 890,000 barrels per day by late 2022 or early 2023, he said.

Chris Bloomer, chief executive officer of the Canadian Energy Pipeline Association, said tying a clean fuel standard to Keystone XL is like "trying to force a square peg into a round hole. I don't understand where the link is."

see **KEYSTONE STAKES** *page 6*

continued from page 4

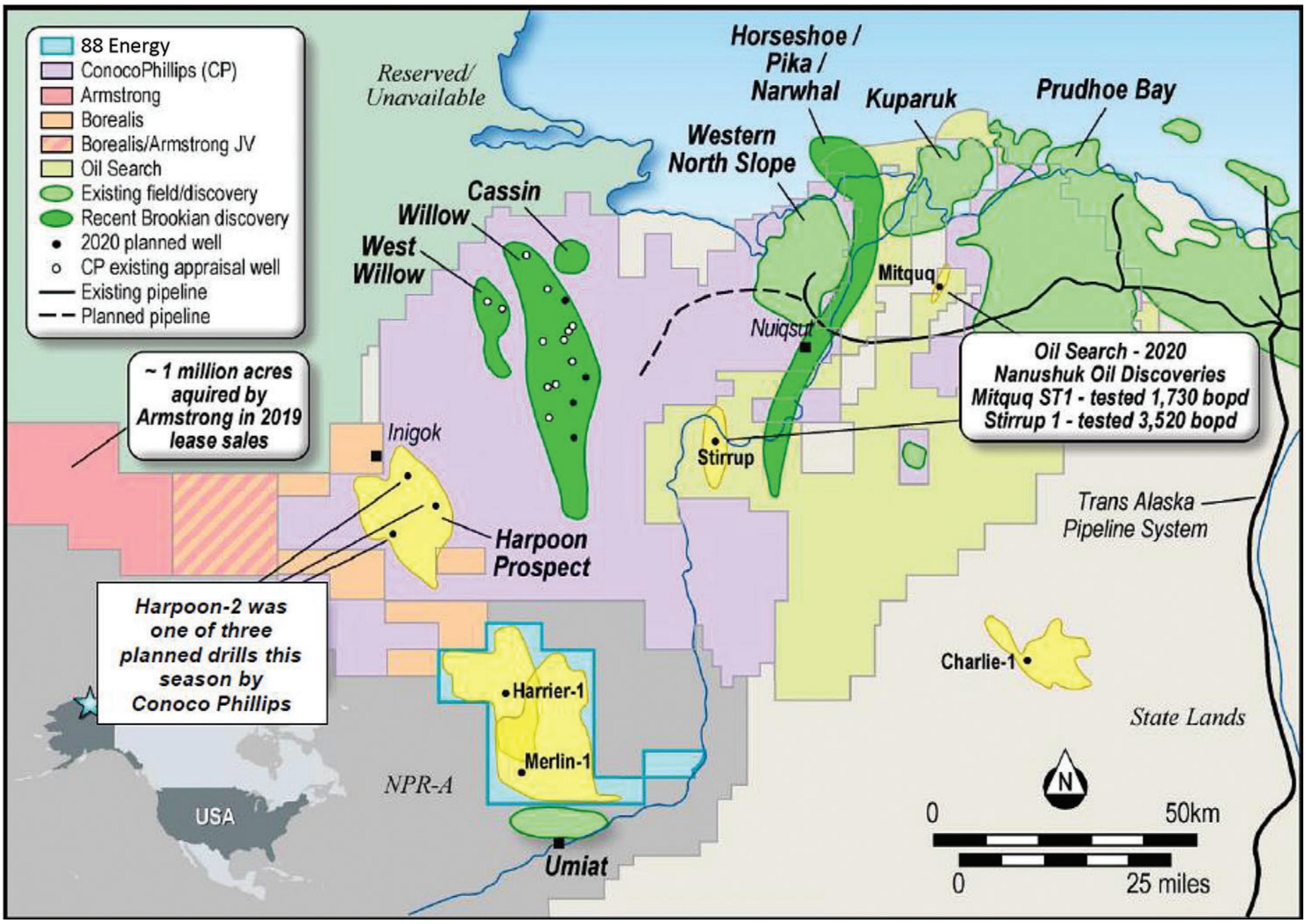
NORTHSTAR PLAN

existing Northstar Island gas pipeline that runs from the Central Gathering Facility to Northstar, and to confirm the existence of the Kuparuk oil rim.

Hilcorp does not plan any exploration or delineation activities in the unit that are outside the existing three PAs, nor does it anticipate any sidetrack or grassroots drilling during the 17th POD period.

Hilcorp does, however, intend to convert existing Kuparuk oil pool producer NS-15 well to an injector to increase gas injection; plus, it will interrupt output for eight to 10 days this summer for maintenance activities. ●

Contact Kay Cashman at publisher@petroleumnews.com



COURTESY 88 ENERGY

The outline of the Umiat oil field unit is not shown on this map but the Umiat oil pool is.

● LAND & LEASING

88 Energy buys Umiat oil fields' 2 tracts

Ahead of this winter's Project Peregrine drilling at Merlin and Harrier firm buys NPR-A unit directly to south in bargain deal

By **KAY CASHMAN**

Petroleum News

88 Energy said Jan. 11 that on Jan. 8 its wholly owned subsidiary Emerald House acquired the Umiat oil field in the National Petroleum Reserve-Alaska from Malamute Energy and Renaissance Umiat. The purchase price was a 4% overriding royalty interest on the two federal leases in the Umiat unit, as well as the "assumption of liability of abandonment" (estimated cost US$1 million) of two Umiat wells — 18 and 23H — drilled by Linc Energy in 2013/2014.

An independent reserve estimate released by Ryder Scott on Dec. 1, 2015, put the gross 2P reserves at 123.7 million barrels of oil. (In 2014 the Umiat-23H well was flow tested at a sustained flow rate of 200 barrels of oil per day with no water and a max daily flow rate of 800 bbl.)

Per 88 Energy there were no 1P reserves estimated because there was no plan of development in place that included all the necessary approvals required to enter the Umiat unit into production. 3P reserves were 57.16 million barrels.

Discovered in 1945 in "shallow Brookian (Nanushuk) sandstones," Umiat is south of, and adjacent to, the southern boundary of Project Peregrine, where this winter 88

see **UMIAT DEAL** page 7

continued from page 5

KEYSTONE STAKES

James Coleman, a professor in pipeline law at Southern Methodist University in Dallas, said Alberta and TC Energy, based on their U.S. approvals and the billions of dollars they have already invested, could file a claim against the U.S. government under the revised free trade pact if Keystone XL is scuttled by Biden.

Even so, he said, "no matter how good your facts are, no one has ever won one of these cases against the U.S.," referring directly to more than 20 court and regulatory body battles British Columbia has lost in its softwood lumber fight with the U.S.

Whatever the arguments, Biden's first move on such a pivotal bilateral issue could set the tone for Canada-U.S. relations at a time when Canada is desperate to start rebuilding that friendship after four years of endless turbulence in its dealings with Donald Trump. ●

Contact Gary Park through publisher@petroleumnews.com


COURTESY 88 ENERGY

Rig 111 commissioning work in early January.

continued from page 6

UMIAT DEAL

Energy operating subsidiary Accumulate Energy Alaska will be drilling two wells, Merlin 1 and Harrier 1. The wells will be about 6,000 feet deep and target the Nanushuk formation, 88 Energy said in its Jan. 11 announcement.

Merlin is considered a direct analogy to ConocoPhillips' Willow oil discovery, while ConocoPhillips' Harpoon prospect is interpreted to lie on the same sequence boundaries as Harrier.

The 17,633-acre Umiat unit was formed in September 2019 with an initial 10-year term and requirements that call for an exploration or appraisal well to be drilled by Aug. 31, 2022.

Umiat full field review

88 Energy said it will "now undertake a full field review to determine at what oil price Umiat may be commercial as a stand-alone development and whether optimization of the previous development plan is possible." If a discovery is made at Project Peregrine this winter, where the company said drilling is "imminent," it is expected that "Umiat would contribute significant value to any development."

Per 88 Energy, oil price assumptions used in Ryder Scott's independent report were "estimated to average $67.49 a barrel for 2015, $66.03 for 2016, $86.66 for 2017, $89.06 for 2018, $97.51 for 2019, $109.54 for 2020, $112.61 for 2021, $114.92 for 2022, $119.61 for 2023, $124.34 for 2024 and held constant thereafter."

In 88 Energy's ASX reporting notes operating costs were assumed to be $15 per barrel, development costs $10.34 per barrel with peak production of 30,000 barrels per day with the "average price received during production" being $109.

Subject to standard regulatory approvals, 88 Energy said it was 100% working interest owner and operator via its fully owned subsidiary Emerald House, and that the two leases in the Umiat unit were AKAA-081726 and AKAA-084141.

The company also noted that the "classification of reserves" was based on data from "14 historical well penetrations in the field and subsequent engineering work. The total plan calls for 35 wells, 24 producers and 11 injectors."

Finally, the ASX reporting notes made by 88 Energy said numerous environmental and engineering studies have been undertaken to confirm various paths to market with oil sales via the Trans Alaska Pipeline System where crude is predominantly sold based on the Alaska North Slope West Coast oil price. ●

Contact Kay Cashman at publisher@petroleumnews.com

Promise of deeper oil in northern lease

An article in the Feb. 2, 2020, edition of Petroleum News, reported that the new Umiat unit not only contained the shallow Umiat oil field, but possibly a deeper oil target in the northern of its two leases.

Discovered in 1945, Umiat was never produced because its reservoir was shallow, partially frozen in permafrost and low pressure.

The field's distance from infrastructure was also a challenge, but now Umiat sits in a hot location — south of ConocoPhillips' big Willow discovery and southwest of Oil Search's even larger Pikka and Horseshoe discoveries.

Because the 12 wells drilled at the prospect between 1945 and 1952 by the U.S. Navy and the two modern wells drilled by former operator Linc Energy in 2013 and 2014, Umiat carried a unique public record of reserve estimates over the 70 years since its discovery.

In 2015, Ryder Scott estimated 2P reserves of nearly 99 million barrels of oil equivalent at the shallow Umiat field — down from 154.6 million in its previous report before oil prices tanked.

In a Jan. 16, 2020, letter, then Umiat operator Malamute Energy President Leonard Sojka said the company's focus since acquiring Umiat in 2016 had been to de-risk technical challenges in the field, "in hopes of attracting an oil industry partner."

Malamute conducted a multidisciplinary reservoir workshop and extensive tests on Umiat oil and those tests, he said, "confirmed that both the gasoline and the diesel fractions are low in total sulfur and have less than detectable readings for dibenzyl disulfide," making Umiat oil a good candidate for producing and selling ultra-low sulfur fuels to the North Slope market.

Malamute completed a total of three technical studies with the University of Alaska Anchorage.

Anadarko seismic lines

Anadarko Petroleum saw promise in the area in 2002, having conducted two proprietary seismic seasons and three field seasons as part of an assessment of the Brooks Range Foothills petroleum system.

"Seismic line across Umiat show hydrocarbons are reservoired in both the hanging wall and the foot wall of the structures," Anadarko's Greg Hebertson said.

"The seal capacity of traps — data from Umiat wells and field work and based on our analysis … show the seals are there and certainly capable of holding large hydrocarbon columns."

Sojka also said Malamute was looking to find deeper oil at Umiat.

Paul Craig, who won the northernmost lease with a partner in a June 2002 federal lease sale, said Jan. 29, "when we purchased it our geological thinking was that the oil in the permafrost at Umiat was seepage from an oil field deep and to the north."

—KAY CASHMAN

NATURAL GAS

Two LNG carriers on Northern Sea Route

Two icebreaking LNG carriers are currently transiting Russia's Northern Sea Route and are about to pass each other in the East Siberian Sea, The Maritime Executive reported on Jan. 11. The vessels are operating without icebreaker escorts, The Maritime Executive said.

For a number of years Russia has been promoting its Northern Sea Route, the route that traverses the edge of the Arctic Ocean around the country's northern coast, as a means whereby commercial shipping can cut the transit time between Europe and East Asia. The country operates a fleet of icebreakers that can assist vessels navigating the route.

In August 2017 and July 2018 single icebreaking LNG carriers traversed the route without icebreaker assistance. However, the operation of two LNG carriers without the need for icebreakers in the middle of winter seems to mark a new advance in the use of the route.

Icebreaking LNG carriers use swiveling "azipod" propulsion systems that enable the vessels to travel forwards in open water, but in reverse through sea ice.

As previously reported in Petroleum News, Alaska-based Qilak LNG Inc. is investigating the feasibility of exporting LNG from the Point Thomson field on Alaska's North Slope using icebreaking LNG carriers. A challenge for the North Slope is the relatively shallow nearshore waters — Qilak anticipates the installation of an offshore LNG terminal.

—ALAN BAILEY

UTILITIES

Battle Creek Division project wins award

The Alaska Energy Authority said Jan. 5 that its West Fork Upper Battle Creek Division has been selected by the American Council of Engineering Companies of Montana for the organizations' 2021 Montana Grand Project Award.

The project, designed by DOWL, will increase annual energy production from the Bradley Lake Hydrocarbon Project by 10% by diverting more water to Bradley Lake, providing some 37,000 megawatt hours of renewable energy per year, AEA said.

The project includes a diversion dam and 2 miles of pipeline to divert water from the Upper Battle Creek basin to the Bradley Lake Reservoir.

The award recognizes a project with unique or innovative technologies, enhanced awareness for the engineering profession, use of social, economic and sustainable design and successfully meeting client/owner's needs, including schedule and budget.

The Bradley Lake facility, one of the cheapest sources of power on the Alaska Railbelt electricity grid, is owned by AEA and operated under contract by Homer Electric Association and managed by a committee consisting of representatives of the Railbelt electric utilities.

The project was financed by bonds authorized by the AEA board in late December 2017. Work on the project began in May 2018; it was completed in the summer of 2020, with a ribbon cutting ceremony Aug. 25.

see **AEA AWARD** page 11

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ARCTIC STRATEGY

Trade routes are expected to open, allowing access to shipping lanes previously closed by sea ice.

The U.S. and China have invested in expanded icebreaker fleets to support northern operations, while Russia has expended vast amounts of resources to modernize its northern fleet. (While China's borders are nowhere near the Arctic circle, China obtained a "permanent observer" status at the Arctic Council in May 2013.)

"The coming decades will witness significant changes to the Arctic Region," the Navy said. "Encompassing about six percent of the global surface, a blue Arctic will have a disproportionate impact on the global economy given its abundance of natural resources and strategic location."

Those natural resources include oil and gas and minerals.

America's interests stretch from Maine in the North Atlantic across the Arctic Ocean through the Bering Strait and Alaska in the North Pacific to the southern tip of the Aleutian Island chain.

Sullivan: Make Alaska home port

Republican U.S. Rep. Don Young of Alaska said in a statement that the U.S. must ensure its waters are navigable and the military has the necessary equipment and training "to keep the peace in a rapidly evolving climate."

"We must remember that the United States is not the only country working to pursue new opportunities in the Arctic — our adversaries are as well," Young said, noting he was the only House member "from inside the Arctic Circle."

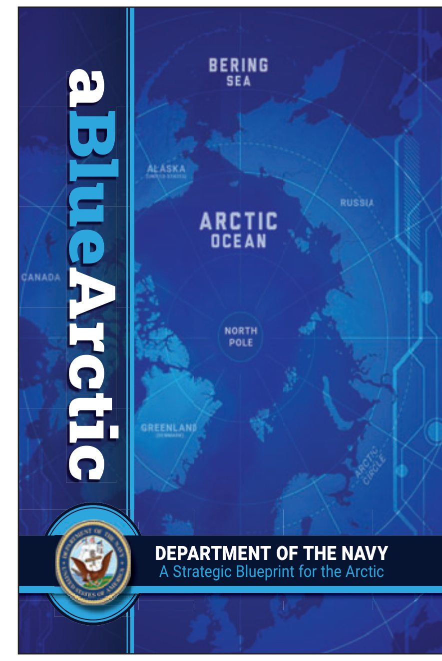
REP. DON YOUNG

"I will continue doing all that I can to keep Alaska front and center in America's Arctic strategy," Young said.

Republican U.S. Sen. Dan Sullivan of Alaska said in a statement that the Navy recognizes the critical importance his state has in the region.

While acknowledging the need to evolve U.S. forces in the far north, the strategy "lacks some of the urgency needed to drive the development of critical capabilities that are required to effectively compete with our rivals in the Arctic," Sullivan said.

Sullivan advocates further changes — including making Alaska the home port



for one or more Coast Guard icebreakers.

The report delivers an outline for the next two decades and provides strategic guidance on how the Department will apply naval power in the Arctic region. It is no "revolution" however, as explained to Naval News by Timothy Choy, a specialist in Arctic and Maritime Security issues.

A Blue Arctic also challenges the Navy-Marine Corps-Coast Guard team to evolve and expand the range of integrated capabilities to achieve enduring national interests in the region.

SEN. DAN SULLIVAN

The blueprint places focus on the rising maritime activity spurring from Arctic states, including Russia and China, which posture their navies to protect sovereignty and national interests while enabling their ability to project power.

"The time has come to write the next great chapter in the history of our Department, to prepare for an Alaskan Arctic and a Blue Arctic where America's Navy-Marine Corps team, alongside our allies and partners, will be called to protect our interests and people and ensure this region remains peaceful and prosperous for future generation," the blueprint said in its forward, which was signed by Kenneth J. Braithwaite II, Secretary of the Navy; Michael M. Gilday, Admiral, U.S. Navy Chief of Naval Operations; and David H. Berger, General, U.S. Marine Corps, Commandant of the Marine Corps.

—KAY CASHMAN

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RESERVES REPORT

tainty to be recoverable in future years from known reservoirs under existing economic and operating conditions."

Nonproducing reserves, also included in the total, are defined as "Quantities of proved liquid or gaseous hydrocarbon reserves that have been identified, but which did not produce during the last survey year regardless of the availability and/or operation of production, gathering or transportation facilities. This includes both proved undeveloped and proved developed nonproducing reserves."

Volumes for proved reserves of crude oil and condensate in Alaska have been: 2014, 2.857 billion barrels; 2015, 2.104 billion barrels; 2016, 1.574 billion barrels; 2017, 2.016 billion barrels; 2018, 2.421 billion barrels; and 2019, 2.680 billion barrels.

Barrels of proved nonproducing reserves for Alaska, which are merged into the total, are: 2014, 548 million barrels; 2015, 412 million barrels; 2016, 216 million barrels; 2017, 317 million barrels; 2018, 387 million barrels; and 2019, 395 million barrels.

EIA said proved U.S. reserves of crude oil and lease condensate grew by 0.1% in 2019, with Alaska having the largest year-over-year increase.

Texas has the most reserves, almost 20 billion barrels, followed by North Dakota, the Gulf of Mexico, New Mexico and Alaska, with Oklahoma and California rounding out the EIA's list of top seven U.S. oil reserves states for 2015-19.

Proved reserves are operator estimates, the agency said, and for the United States the total was 44.2 billion barrels in 2019, up 0.8% from a 2018 total of 43.8 billion barrels.

The annual average West Texas Intermediate spot price was down 15% in 2019, from $65.66 in 2018 to $55.77 per barrel in 2019. "Lower WTI prices caused many operators to decrease previous proved reserves estimates, which offset increases from extensions and discoveries," EIA said.

Including lease condensate with crude oil raises the estimate to 47.1 billion barrels in 2019, up 0.1% from a 2018 total. Natural gas reserves were 494.9 trillion cubic feet in 2019, down 1.9% from a 2018 total of 504.5 trillion cubic feet.

EIA said proved reserves of oil and natural gas in the U.S. rose annually by at least 9% in 2017 and 2018, "a trend interrupted by relatively low oil and natural gas prices."

The reserves increase for Alaska, 259 million barrels of crude oil and lease condensate, was followed by New Mexico with 226 million barrels and Texas with 179 million barrels.

"The largest increase in crude oil and lease condensate reserves in New Mexico and Texas resulted from the development activity in the Permian Basin," EIA said.

The largest year-over-year decrease in proved reserves of crude oil and lease condensate was in Colorado, down 154 million barrels, followed by Oklahoma, down 142 million and Utah, down 134 million barrels.

The annual Henry Hub natural gas price decreased by 21% from $3.35 per million British thermal units in 2018 to $2.63 per million Btu in 2019. The largest 2019 net decrease in natural gas reserves was in Texas, down 12 trillion cubic feet.

—KRISTEN NELSON

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Petroleum news Oil Patch Bits

Paul Verhagen to leave Fugro after 7 years as CFO

PAUL VERHAGEN

The supervisory board of Fugro NV announced Jan. 12 that its Chief Financial Officer Paul Verhagen has decided to leave the company. Verhagen, who joined Fugro as CFO and member of the board of management in 2014, will step down after the annual meeting of shareholders on April 22. He will be nominated to become CFO and member of the management board at ASM International NV effective June 1. Harrie Noy, chairman supervisory board, said: "We respect Paul's decision to take on a new challenge after having served as our CFO for 7 years but of course it is unfortunate that he leaves. We are very grateful to him for what he achieved based on his business acumen, commitment and perseverance. Paul played a key role in the substantial refinancing of Fugro which was recently successfully completed. This brings the company in a stable situation, providing Fugro with the financial flexibility to execute on its Path to Profitable Growth strategy."

Mark Heine, CEO, said: "I want to thank Paul for all that he has done for Fugro. Under his leadership, the finance function throughout the company has been professionalized. Moreover, he made a significant contribution in our transition towards a more cohesive, agile and resilient organization with a more diversified business. He is a great colleague and team player. We wish him every success in this next step in his career."

Verhagen said: "I have truly enjoyed my time at Fugro. Although market circumstances have been challenging during most of that period, we have been able to transform the company and I am proud to have been part of this journey. I have every confidence in the future success of Fugro, supporting the energy transition, climate change adaptation and sustainable infrastructure development." The supervisory board has initiated the process for the succession of Paul Verhagen and will communicate about the progress in due course.

Lynden Transport receives SmartWay Award from EPA

As reported by Lynden News Jan. 12, Lynden Transport earned a SmartWay High Performer Award from the Environmental Protection Agency for operating efficiencies in its flatbed and reefer fleets. The company is included in the top 20% of national carriers for reducing carbon emissions and achieved top-ranking performance for all metrics, including fuel efficiency. Fewer than 10% of all SmartWay carriers operate fleets efficient enough to make the SmartWay High Performer list for carbon emissions.

"This award recognizes the efforts throughout the Lynden companies to work efficiently and reduce our carbon footprint," said Lynden Transport President Paul Grimaldi. "It also confirms the efforts of employees to make this happen on a daily basis. We have achieved impressive scores for continual improvement in operations as well as energy efficiency by using electric forklifts, streamlined trip routing and other measures."

Carbon is a leading indicator of fuel use. SmartWay High Performers consume less fuel for every mile they travel and for every ton of freight moved. For example, for every trip they make, the carriers pack their trailers more efficiently and move heavier loads — all while reducing consumption by thousands of gallons annually as compared to their SmartWay peers.

Editor's note: Some of these news items will appear in the next Arctic Oil & Gas Directory, a full color magazine that serves as a marketing tool for Petroleum News' contracted advertisers. The next edition will be released in March.

Companies involved in Alaska's oil and gas industry

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

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SEAL HABITAT

Natives. NOAA Fisheries says that the designation of critical habitat would not impact the subsistence harvest of the seals.

Dependent on sea ice

The seals form part of a series of wildlife species that depend on sea ice habitat and that are, therefore, impacted by the loss of the ice as a consequence of climate change. The question of whether climate change threatens the future survival of a species that is currently abundant remains controversial, since it depends on the reliability of long-term climate change forecasts and issues regarding the extent to which the animals may be able to adapt to the changing Arctic environment. Recent decades have seen a fairly continuous decline in the Arctic sea ice extent, as the climate warms.

NOAA Fisheries says that both seal species use the sea ice for pupping, basking and molting, and for primary prey resources. Bearded seals also use the acoustic conditions in the ice for effective communications for breeding purposes. The proposed critical habitat areas are large, in particular because of the high variability in the sea ice extent and because of the broad distribution of the seals, the fisheries service says.

Listed in 2012

The fisheries service listed the ringed and bearded seals in 2012 following a petition by the Center for Biological Diversity. In 2018 the U.S. Court of Appeals for the 9th Circuit rejected three appeals against the ringed seal listing. And in December 2020 NOAA Fisheries turned down a petition by the State of Alaska, the North Slope Borough, the Arctic Slope Regional Corp. and the Inupiat Community of the Arctic Slope to delist the ringed seals.

The critical habitat designations follow the settlement of a lawsuit claiming that NOAA Fisheries had not designated the habitat, as required by law, within one year of listing the species under the ESA. The fisheries service had previously designated critical habitat for ringed seals in December 2014 but, given the length of time since that designation, the agency decided to issue a revised proposal for the designation, the agency says.

Comments on the critical habitat designations must be filed with NOAA Fisheries by March 9. And the agency is scheduling public hearings in Alaska.

—ALAN BAILEY

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SLOPE SALES

"This means new bidders will be able to leverage available data to refine exploration targets to develop our resources for the benefit of all Alaskans," the division said.

The state switched to online bidding last year, initiating that process with its 2020 Cook Inlet and Alaska Peninsula areawide sales. This is the first time the North Slope area sales have been held online.

Great Bear Petroleum Ventures II bid the most in the North Slope sale, $3,274,329.60 on 66,240 acres, 46 tracts, 47.8% of the dollars bid for an average of $49.43 an acre on 36.1% of the acreage.

Great Bear also had the highest per-acre bids in the sale, bidding over $100 an acre on four tracts.

Oil Search Alaska LLC bid $2,090,347.20 on 46 tracts, 66,240 acres, 30.5% of the dollars bid for 36.1% of the acreage, paying an average of $31.56 per acre.

Lagniappe Alaska had bids totaling $971,468.8 on 33,280 acres, 14.2% of the dollars bid for 18.1% of the acreage, an average bid of $29.19 an acre.

A new player, Arctic Circle Exploration LLC, bid $510,873.60 for 17,920 acres, 7.5% of the dollars bid for 9.8% of the acreage, an average of $28.51 per acre.

Hilcorp North Slope, the Hilcorp entity which took over as operator at Prudhoe Bay, was the only bidder in the Beaufort Sea sale, with bids totaling $206,379.36, each of its bids at $27.27 per acre.

Filling in around acreage

Great Bear took tracts in the vicinity of its Talitha unit south of Prudhoe along the Dalton Highway, with the highest bids for tracts immediately abutting the company's Talitha unit on the west.

Great Bear is a Pantheon Resources company. In a statement after the sale Pantheon said the leases are in two areas "contiguous to our current acreage on our northwestern, western, and eastern boundaries."

Talitha "contains four independent geological horizons, each with different reservoir trap geometries, qualities and risk profiles," all four of which were penetrated by Pipeline State No. 1, a historic well on the company's acreage, Pantheon said. "Today's lease acquisition included acreage affecting the resource potential across these zones including the resource potential of the SMD horizon" which the company will access in the Talitha A well.

Oil Search Alaska took tracts south and east of existing company acreage, including an unleased block in the middle of existing company acreage.

"The awarded tracts are adjacent to the Company's existing lease holdings and represent an opportunity to strengthen our land position in an area where we have had exploration success," Amy Burnett, U.S. media and communications manager for Oil Search told Petroleum News in an email. She said Oil Search is among the top three leaseholders in Alaska, "and our participation in the state is further demonstration of our commitment to the state."

Lagniappe took tracts north of its existing acreage on the eastern side of the Slope, including tracts immediately south of Badami.

Bill Armstrong, head of Lagniappe, told Petroleum News that after the sale the position Lagniappe and Oil Search hold in the eastern block is some 340,000 acres.

"We're essentially taking what we have learned about the Nanushuk at Pikka and extending the play eastward," Armstrong said. "Drilling depths are a little deeper but the reservoir rocks and oil quality are better."

Armstrong called the Nanushuk play "the hottest onshore oil play in the world" and said "our activity in today's lease sale rounds out our land position.

"On our lease position there have only been three wells drilled — three wells in a 530 square mile area. All three had good oil shows and — arguably — bypassed pay on logs."

"It is amazing how underexplored the North Slope is," Armstrong said.

Arctic Circle Exploration's tracts are a group west of the Dalton Highway and south of Prudhoe, most formerly held by Eni.

The LLC, formed in August, is out of Kansas and has a familiar name as manager member — Will Darrah, the son of Bo Darrah, one of the group, including Bart Armfield, who formed Alaska Venture Capital Group in the late 1990s.

Will Darrah told Petroleum News after the sale that the leases Arctic Circle took are "just an entry, our core acreage. We'll be picking up more." He said Armfield will be the company's man on the ground in Alaska.

Darrah said they plan to drill, but first they want to make sure they have all the science to pick drilling locations. He said they may eventually shoot seismic but said have access to some of Eni's seismic in the area.

The three Beaufort Sea tracts on which Hilcorp North Slope bid are adjacent tracts off the northern edge of the Prudhoe Bay unit. ●

—Kay Cashman contributed to this story

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TMX TEST

"We've got some major elements of the project to still do, but they're all on track and there's no critical path items that I'm worried about at this point," he said, noting that TMX is expected to be 50% complete within a year.

Calgary-based Cenovus Energy used Trans Mountain last summer to deliver Alberta crude to the long-established Vancouver shipping terminal, fill an oil tanker and send it through the Panama Canal to an Irving Oil refinery at Saint John, New Brunswick.

Anderson said there is no current plan to duplicate that feat, but the success of the trial shipment to open up a new market for Alberta oil illustrates what is possible for TMX's 13 contracted shippers, who currently account for 80% of TMX's capacity of 590,000 bpd.

"We will increasingly see movements to China and Southeast Asia as those markets open up. Right now, producers have very limited access to Asia because we've got such limited capabilities of moving oil on to tankers (destined for that region)," he said.

Anderson said the existing Trans Mountain line ended 2020 on a high note, operating at its capacity 300,000 bpd after a year when the flow averaged 231,700 bpd for export markets and 62,900 bpd for Canadian destinations during one of the most challenging periods on record for Canadian production. "I fully expected to lose some volume, but we didn't," he told the Canadian Broadcasting Corp.

Accidents kill one

There was, however, a grim ending to 2020 for TMX, with one contract worker killed in October at a pipeline site in British Columbia and another getting seriously injured at the Burnaby terminal, prompting TMX to shut down operations for two weeks. Although not directly linked to TMX, a late-December accident at Suncor's Fort Hills mine in Alberta killed two workers. Suncor is one of the major shippers on Trans Mountain.

For now, Anderson is not concerned about the threat by incoming U.S. President Joe Biden to rescind Keystone XL permits.

"I don't think there is a material direct effect of Keystone XL (or Enbridge's Line 3 across Minnesota) on Trans Mountain," he said. "The markets we're serving are different. And I think the attractiveness of those markets is what our shippers are looking for."

Indigenous ownership

In the meantime, the Canadian government is engaging with more than 120 Indigenous communities on future ownership of Trans Mountain, or some other form of economic participation, but both Trans Mountain and the federal Department of Finance say the pipeline hasn't been "derisked" with only 20% of the project complete, so no sale is likely in the near term.

Canadian Prime Minister Justin Trudeau said his government spent C$4.5 billion in 2018 to acquire Trans Mountain with one over-riding objective — ending Canada's reliance on the United States as its only oil export market.

"We cannot simply remain prisoners of the American market," he said.

Dale Swampy, president of the National Coalition of Chiefs, said the communities will decide among themselves if they want to acquire a "certain percentage or a large percentage" of Trans Mountain equity.

That decision will give the Canadian government "some headway about how they are going to deal with us," he said.

Opponents gearing up

But opponents of Trudeau's commitment to Trans Mountain are gearing for a showdown with the TMX, with a group of climate activists known as Extinction Rebellion taking its initial step by briefly disrupting rail traffic in the Burnaby area in late November.

"We are responding to calls to action from Indigenous peoples," said a spokesperson, Solene Tessier.

"Indigenous peoples have been on the front lines protecting land and water for a long time. Extractive and fossil fuel projects that lack and ignore scientific and traditional knowledge put our future in grave jeopardy."

Grand Chief Stewart Phillip, president of the Union of British Columbia Indian Chiefs and a long-time opponent of Trans Mountain, insisted there is no way TMX "is anywhere near viable or feasible," given COVID-19's impact on the economy.

He said the Trudeau government is "waiting for the expansion to collapse under its own weight of economic uncertainties."

Phillip said opposition to TMX will swell as work crews move into the British Columbia Interior and trigger a repeat of 2014 when barriers were erected in the Burnaby area, lading to 100 arrests. ●

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OIL PRICES

February allocations for at least three Indian refiners have been cut between 15% and 26%, sources said on the condition of anonymity.

A number of factors heaped fuel on the flames, creating as near a perfect storm for price acceleration as could be expected under the circumstances, with COVID-19 cases on the rise and coronavirus mutations leading to lockdowns and travel restrictions.

Goldman Sachs reiterated its $65 price target for Brent in 2021, sweetening its outlook by calling for the price target to be hit in July, rather than year-end as previously forecast.

Damien Courvalin, Goldman head of energy research, unveiled an unexpected near-term source of oil demand, suggesting that it will be boosted by at least 1 million bpd in the coming weeks as cold weather spurs the use of diesel for power generation.

Courvalin cited frigid temperatures in Asia and Europe in the face of LNG supply issues, leading to a surge in local gas prices, according to a Jan. 13 OilPrice.com report.

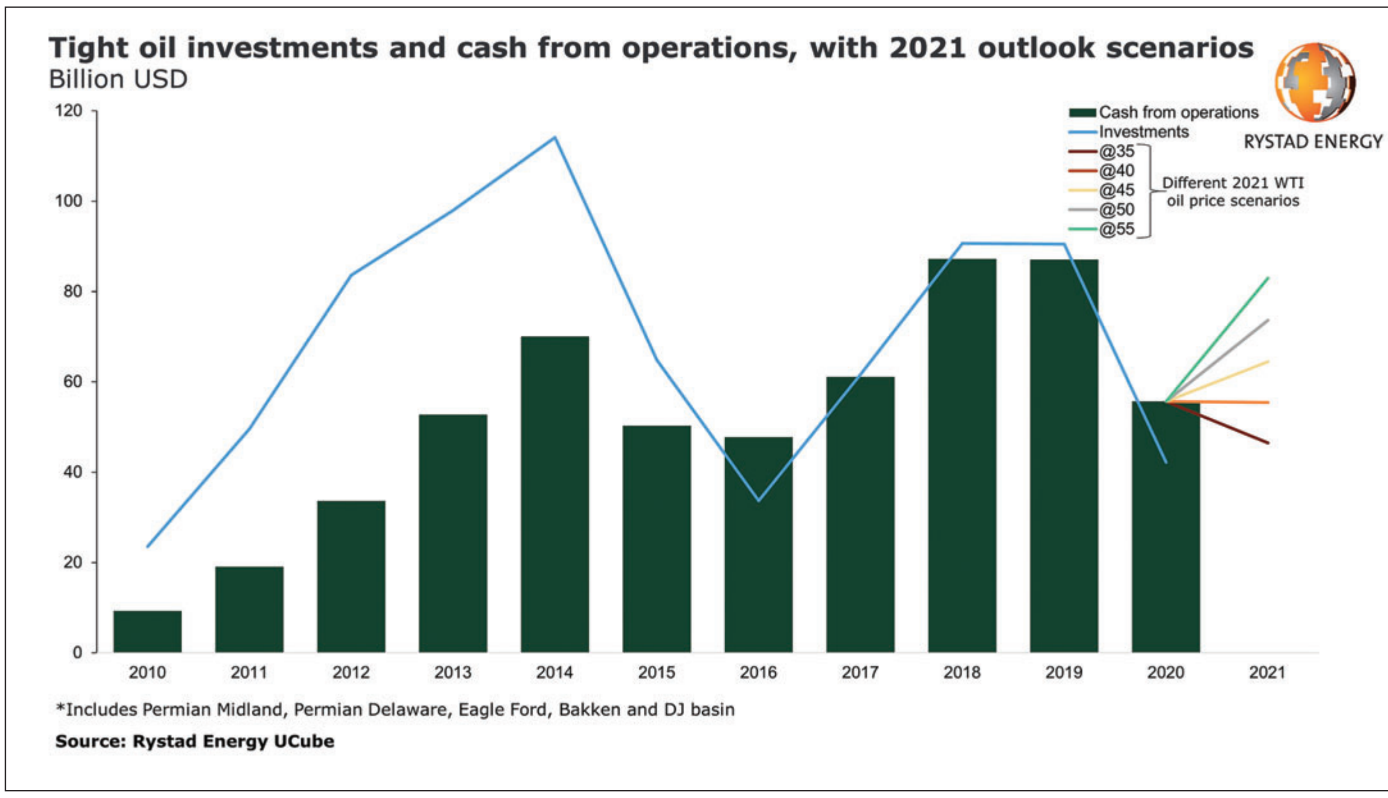
The latest round of U.S. economic stimulus is already being disbursed and reports out of Washington indicate that more stimulus is in the works for the near future, once the Biden administration takes the helm. The additional liquidity bodes well for demand, and it stokes expectations for repricing of commodities in general, while exerting downward pressure on the dollar — all bullish for oil prices.

An annual five-day rebalancing of portfolios starting Jan. 8 may also be pumping up demand. Analysts told Bloomberg rebalancing could attract as much as $9 billion buying into crude oil contracts, putting additional upward pressure on oil prices.

Rebalancing of indices to adjust weighting of assets in portfolios is done yearly to restore target allocations and risk levels, but this year may see more buyers into crude oil contracts because of a 20% oil price decline in 2020.

The supply side is abetting the surge as well.

The Organization of the Petroleum Exporting Countries, together with its allied producing countries, is showing remarkable discipline to hold the line on production as demand recovers.



U.S. crude inventories have eased lower for a fifth straight week, down by 3.2 million barrels last week, beating the expected 2.3 million barrel draw called for in a recent Reuters analyst poll, the Energy Information Administration said.

E&P companies worldwide have pulled the plug on exploration and development expenditures as the pandemic pinched prices and demand in early 2020. Turning up the taps takes investment, and it takes time.

"With vaccines being rolled out across the world, the likelihood of a fast-tightening market from 2Q 2021 is rising as the rebound in demand stresses the ability of producers to restart production," Jeffrey Currie, Goldman global head of commodities research said in a note, Platts reported Jan. 11.

Prices let off some steam, wandering slightly lower in Jan. 13 trading. Brent crude prices closed at $56.06 per barrel, down 52 cents, and WTI closed at $52.91, a loss of 30 cents.

2021 shale activity set to jump

U.S. shale operators will likely see cash from operations, CFO, boosted by 32% in 2021, allowing them to increase drilling and completion activity spending, Rystad Energy said in a Jan. 7 release.

The projection assumes a $50 per barrel price scenario for WTI crude in 2021. At a WTI oil price of $40 per barrel for 2021 CFO would be expected to remain flat.

In the United States in particular, the rebound in prices — even before WTI hit $50 per barrel — helped shale producers generate record high free cash flow in the third quarter of 2020, Rystad said.

"This increased activity has already started to manifest itself, with rig activity for tight oil up 60% since the low point in August last year," said Espen Erlingsen, head of upstream research at Rystad. "Completion activity is also recovering, measured by the number of wells started to be completed by month."

CFO — a key driver for U.S. tight oil activity — correlates with the cash available for E&P companies to invest in new wells and represents the revenue minus all operational costs, royalty payments and gross and net taxes, the consultancy said.

The 2020 low point for completion was May, with 330 wells, down 75% from January, Rystad said. By December, completion activity had doubled since May to more than 700 wells.

In 2019, the CFO of shale operators in the Permian Midland, Permian Delaware, Eagle Ford, Bakken and DJ basins reached $87 billion, but the COVID-19 pandemic downturn caused CFO to plunge to what Rystad estimates was $55.7 billion in 2020.

"If the positive trend persists and WTI averages at $50 in 2021, we expect this year's CFO to rise to $73.6 billion," Rystad said. ●

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INSIDER

number of secondary objectives including: (i) the 'Slope Fan System', (ii) the 'Basin Floor Fan', and (iii) the 'Kuparuk' horizons," Pantheon said.

Given the number of targeted formations, and subject to positive results, Pantheon intends to make full use of the available winter drilling window, "undertaking drilling and testing operations as long as weather permits."

The Talitha A well is four miles from the Pipeline State 1 well, drilled in 1988 by ARCO, and which confirmed the presence of movable hydrocarbons in the objective horizons.

"The close proximity to pipeline and transportation infrastructure offers Pantheon a number of material advantages over other Alaska North Slope projects, including lower capex costs and shorter

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AEA AWARD

AEA Board Chair Dana Pruhs thanked ACEC of Montana for the award.

"This project is an excellent example of the benefits associated with the design-bid-build delivery construction," he said, and thanked DOWL for its involvement in the project.

"What we were able to accomplish in collaboration with our project partners Chugach Electric Association, Homer Electric Association and Matanuska Electric Association is something to be proud of," said AEA Executive Director Curtis Thayer. He said the diversion of water from Battle Creek to behind the Bradley Lake dam allows "the project to deliver more lower-cost energy to the ratepayers," something, he said, squarely within the agency's mission.

—PETROLEUM NEWS

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project development timelines.," the company said.

Pantheon estimates the Talitha well will target approximately 1 billion barrels of recoverable oil across the multiple stacked (primary and secondary) objectives. An independent expert's report was completed on the updip section of the Shelf Margin Deltaic, the primary target, and confirmed a prospective resource of 302 million barrels of recoverable oil, the company said.

The Talitha A well "has been positioned to intercept our primary and shallowest objective, the Shelf Margin Deltaic, in the optimum location, structurally higher (updip) from the Pipeline State 1 discovery well where oil shows, logged pay and free oil in the mud pits were encountered in this and other zones. Our modelling predicts better reservoir qualities for the SMD in Talitha A's updip location and our other target zones," said Bob Rosenthal, Pantheon's technical director.

—KAY CASHMAN

An outsider in ANWR

MARK GRABER'S Knik Arm Services LLC took tract 25 in the Jan. 6 lease sale in the 1002 area of the Arctic National Wildlife Refuge.

Graber, an Alaska resident, describes himself as a real estate investor rather than an oil man.

"I'm just kind of an outsider, really," he said. "I had a little experience in a couple of oil and gas investments."

Graber drew on his experience for the ANWR sale.

"Being in real estate, you look at this thing as being in the sticks of the rights of real estate ownership — basically the mineral rights — and my group looked at it as a glorified real estate play," he said.

Graber said he was gratified to see that AIDEA bid on "all the blocks that everybody probably recognized as the highest potential," west of the Marsh Creek anticline.

But Graber was disappointed that only one other oil company bid in the sale. He said he rationalized that oil companies had lived through a near-death experience in 2020; oil prices were markedly lower when the sale was announced in December; the timing was bad; the sale was rushed; there was political risk.

Also, he thought, with AIDEA bidding, the companies had an option to wait until timing was better to acquire the leases.

Graber said he did not hire a geologist to choose his tract due to lack of data.

"We studied everything we could on what's available out there, which is not a lot … all I got is that old 2D seismic and whatnot," he said. "Nobody has real information, that means we're all on a level playing field; everybody's blind."

Graber said he focused on five or six tracts to the west of and within a 15-mile radius of the Marsh Creek anticline.

"Tract 25 has as much prospects in it percentagewise as any of the tracts," he said, adding that there was another tract the group liked better, but they were intimidated to bid on it, thinking they didn't have a chance.

Graber said his investors are risk takers that want to be a part of something big, and ANWR has super potential — a 6-to-7 billion-barrel mean estimate.

"It's just blows your mind big, and it's right there near infrastructure," Graber said.

"I've got a lot of my own money in this," he said. "I'm not just the front man."

—STEVE SUTHERLIN

All not dire for oil under Biden

WHILE A DEMOCRAT CONTROLLED White House and Congress will be busy working to undo many of the Trump administration's policies, political experts say a Biden administration and lawmakers will be hard-pressed to reverse several of President Trump's policies, including those on the environment, structural changes to the government itself and oil drilling on federal land.

A Jan. 13 Newsmax analysis said experts agree an instantaneous reversal of all Trump policies is highly unlikely, especially because Democrats hold such a narrow majority in the Senate: "Democrats can't lose any support from lawmakers in their own party and will have to win over some Republicans in order to overturn certain policies implemented by the Trump administration. What's more, any legal challenges filed over their changes will be met with a conservative-leaning Supreme Court."

"Many moderates are scared of doing anything to change the structure of the U.S. government fundamentally," Los Angeles-based GOP political strategist Anthony Angelini told Newsmax, noting he thinks any attempts to pack the Supreme Court or eliminate the Senate filibuster will likely be "dead on arrival."

Democrat Sen. Joe Manchin of West Virginia has announced his opposition to court packing and ending the filibuster.

Houston-based GOP political strategist Vlad Davidiuk said even with control of Congress, any overhaul to Trump's environmental regulation and oversight policies by a Biden administration will likely be difficult.

"According to Davidiuk," Newsmax wrote, "changes made to personnel at both the federal and state levels will make change hard to implement. Trump vowed to cut back on a swath of environmental regulations by loosening rules. Any changes that might require a full review process complete with public comment could take a considerable amount of time."

Over the last few months, Trump issued thousands of drilling permits, which would "sideline Biden and the Democrats' plan to curb the amount of new oil drilling that takes place on federal, public land," Newsmax wrote.

The media outlet quoted data from the U.S. Bureau of Land Management showing that "more than 3,000 drilling permit applications were submitted in a three-month period that included November's presidential election. Of the permits requested, 1,400 were approved (as of the end of December). The approvals mean drilling will take place for years unless Biden wants to undergo the costly process of forcing companies to relinquish their drilling rights."

Newsmax noted that Biden's pick for interior secretary, New Mexico Rep. Deb Haaland, has "vocally opposed fracking and drilling on public land."

—KAY CASHMAN

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