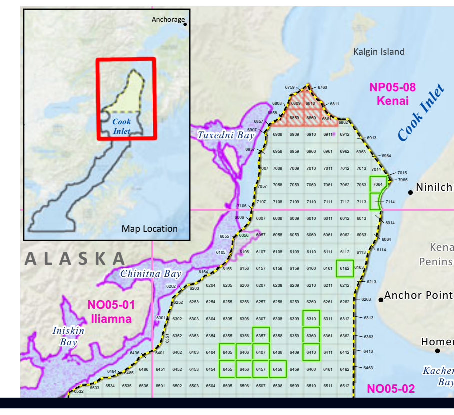
Petroleum news



page 4 BOEM issues Cook Inlet draft EIS; October tentative lease sale date

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White awaits notice for filing opening brief in well bond suit

ON OCT. 15 ANCHORAGE ATTORNEY James Gottstein filed an administrative appeal with the Alaska Superior Court against the Alaska Oil and Gas Conservation Commission on behalf of Alaskan Crude Corp., which is headed by Jim White.

There was some confusion about how to pay the filing fee, which resulted in a dismissal notice from the court that has since been resolved and the new filing date of the appeal was Nov. 9.

"We should receive a 30-day notice for filing the opening brief in the not too distant future," Gottstein told Petroleum News Jan. 17.

Alaskan Crude's appeal of AOGCC's decision and order on reconsideration made two points. First, that imposing the bond retroactively was an "unconstitutional ex post facto law," violating Article 1, § 15 of the Alaska Constitution. Second, that the regulation went beyond the commission's statutory authority, which only allowed bonding to secure the obligations to "plug

see INSIDER page 10

Nine ANWR leases issued, Biden signs exec order halting progress

GOV. MIKE DUNLEAVY

As part of 17 executive orders, memorandums and proclamations signed shortly after his inauguration on Jan. 20, President Joe Biden signed a sweeping executive order on climate change that halts the oil and gas leasing program in the non-wilderness part of the coastal plain of the Arctic National Wildlife Refuge (the 1002 Area), revokes a key permit for the Keystone XL pipeline (see story this issue), and carries out several other environmental protection actions.

Biden's order places "a temporary moratorium on all activities of the federal government relating to the implementation" of the 1002 Area leasing program, as established by a Record of Decision signed Aug. 17. (The second title of H.R. 1, the Tax Cuts and Jobs Act, which Trump signed into law in December 2017, authorizes the surface development of up to 2,000 federal acres of the 1002 area in the 19.3 million acre

see ANWR LEASES page 8

Line 5 showdown set; Enbridge faces Michigan injunction request

The drawn-out battle between Calgary-based Enbridge and Michigan Democratic Gov. Gretchen Whitmer over the future of Line 5 is fast approaching a crunch point, putting at risk more than half of the state's propane needs and thousands of jobs in the U.S. and Canada.

Whitmer has given Enbridge until May to shutter Line 5 by canceling an easement that allows the pipeline to carry 540,000 barrels per day of light crude, light synthetic crude and natural gas liquids from Western Canada to Michigan and southern Ontario by crossing under the Straits of Makinac between Lake Michigan and Lake Huron.

Enbridge has responded by warning of "devastating consequences" if Whitmer delivers on her threat, describing the governor's actions as a "distraction from the fundamental facts" that Line 5 "remains a safe … essential source of energy" for five U.S. states.

When the crossing was built in 1953 by Bechtel Corp. it featured a durable enamel coating and pipe walls that are still three times as thick as a typical pipeline.

see LINE 5 SHOWDOWN page 8

LAND & LEASING

Smith Bay interest

Company is acquiring leases with intention to appraise major oil find

By ALAN BAILEY

For Petroleum News

Smith Bay Company Alaska is in the process of completing its acquisition of oil and gas leases in Smith Bay, on the Beaufort Sea coast towards the western end of the North Slope.

In 2016 Caelus Energy Alaska announced a major oil find, named the Tulimaniq discovery, in the Torok formation at a depth of 5,000 feet under the bay, following the drilling of two wells in state leases. The company estimated the possibility of at least 6 billion barrels of oil in place. Caelus anticipated that there may be around 2 billion barrels of recoverable oil but has not been able to conduct appraisal drilling in the discovery.

Following the completion of the lease transfers Smith Bay Company Alaska plans to raise money and seek partners to conduct an appraisal program, to build on the work that Caelus conducted in 2015-16.

David Pfeiffer, CFO of Smith Bay Company Alaska, has told Petroleum News that his company was formed with the objective of holding the Smith Bay leases, and that the company anticipates conducting appraisal work in the leases. There are 26 state leases and three federal leases in the area of interest, Pfeiffer said.

see SMITH BAY page 11

FINANCE & ECONOMY

ANS remains above $56

Eyes on stimulus and 2021 demand, traders shake off short-term headwinds

By STEVE SUTHERLIN

Petroleum News

Alaska North Slope crude rose 66 cents Jan. 19 to close at $56.83 per barrel, after diving $1.28 Jan. 15 to close at $56.17.

U.S. prices recovered Jan. 19 after Janet Yellen, U.S. President-elect Joe Biden's nominee for Treasury Secretary, told the U.S. Senate Finance Committee to "act big" on new coronavirus relief, arguing that the economic benefits far outweigh the risks of a higher debt burden. West Texas Intermediate gained 62 cents to close at $52.98, but Brent fell 35 cents to $55.10.

Brent price action Jan. 19 may have been influenced by the extension of pandemic lockdowns in

The IEA expects global oil demand to recover by 5.5 million barrels per day to 96.6 million bpd in 2021, following an unprecedented collapse of 8.8 million bpd in 2020.

Germany until mid-February.

Prices fell Jan. 15 after China announced new widespread lockdowns due to an unexpected outbreak of COVID-19 cases, leading to the first weekly decline in three weeks. WTI fell to $52.36, down $1.21, and Brent slipped $1.32 to $55.10.

Prices jumped in early trading Jan. 20 —

see OIL PRICES page 12

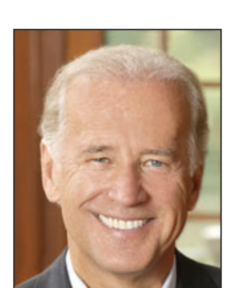
PIPELINES & DOWNSTREAM

Going down in a rage

Biden's decision to rescind Keystone XL approval enrages Alberta's premier

By GARY PARK

For Petroleum News



JOE BIDEN

JASON KENNEY

TC Energy was not alone on Jan. 20. If it felt reluctant to air its seething anger it quickly found a friend in Alberta Premier Jason Kenney, who lashed out at newly installed U.S. President Joe Biden and Canadian Prime Minister Justin Trudeau over their role in the apparent collapse of TC Energy's 13-year battle with U.S. courts and regulators to build the Keystone XL pipeline.

More than 2,000 pipeline construction workers on both sides of the border were left with one lasting memory of Biden's triumphant Inauguration Day — they got pink slips from TC Energy even before the president attached his signature to an executive order rescinding a presidential permit by Donald Trump for work to proceed on the pipeline link from Alberta's oil sands top Gulf Coast refineries.

'Gut punch'

In the midst of what Kenney called a "gut

see KEYSTONE XL page 7

● EXPLORATION & PRODUCTION

Northstar, Duck Island PODs approved

Two of Northern Alaska's smaller units get green light from Division of Oil and Gas for period from Feb. 13 through Feb. 12, 2022

By KAY CASHMAN

Petroleum News

Hilcorp Alaska's Duck Island and Northstar units' annual plans of development were approved by the Alaska Department of Natural Resources' Division of Oil and Gas on Jan. 11 and Jan 14, respectively. The two units are among the smallest of the North Slope producing fields.

Formed Aug. 21, 1978, the Duck Island unit currently encompasses 17,587.62 acres, including three participating areas: Endicott, Sag Delta and Eider.

Jointly managed by the division and the U.S. Department of the Interior, Bureau of Safety and Environmental Enforcement, the Northstar unit was formed Jan. 24, 1990, and contains four state leases and three federal leases, totaling 20,134.70 acres. The Northstar unit has three participating areas: Northstar, Fido and Hooligan.

Northstar is operated from a 5-acre man-made gravel island offshore the central North Slope in the Beaufort Sea. The unit, 6 miles off the Beaufort Sea coast, straddles state nearshore waters and waters of the federal outer continental shelf.

The 39th POD for Duck Island and 17th POD for Northstar cover the period of Feb. 13, 2021, through Feb. 12, 2022.

Duck Island production

Hilcorp said Duck Island production is from the Kekiktuk reservoir in the Endicott PA; the Ivishak and Sag River reservoirs in the Eider PA; and the Sag River reservoir in the Minke tract operation.

Hilcorp has been holding Duck Island production fairly steady.

From Jan. 1 through Aug. 31, Duck Island unit production averaged 7,174 barrels per day, a volume which includes both black oil and natural gas liquids, the company said.

In the 38th POD, submitted in November 2019, Hilcorp reported that from Jan. 1, 2019, through Sept. 30, 2019, unit production (black oil and NGLs) averaged 7,100 bpd.

The 37th POD, in November 2018, reported an average of 7,242 bpd (black oil and NGLs) from Jan. 1, 2018, through Sept. 30, 2018.

Duck Island activities

The previous 38th POD had included plans for up to three workover operations; the company also anticipated continuing to pursue efficiencies through well optimizations, including evaluation of shut-in wells for potential return to service.

see PODS APPROVED page 3

contents

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ON THE COVER

EXPLORATION & PRODUCTION

LAND & LEASING

continued from page 2

PODS APPROVED

"Hilcorp did not complete any of the anticipated workover operations," the company said in reporting on 38th Duck Island unit POD activities, "as the rig and capital allocated for those projects were diverted elsewhere."

Non-rig well work operations to optimize wells at Duck Island were completed, as was continued optimization of the water separation train.

In the 39th POD application, Hilcorp said long-range activities included performing a "tracer study to understand injector/producer response to target potential future drilling targets."

Planned well work and workover operations included converting MPI 01-25 from a producer to a gas injector; up to two additional workovers as needed; various non-rig well work operations.

Hilcorp said it plans a facility turnaround at the Duck Island unit in the summer for maintenance activities.

Northstar production

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.

The 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.

Northstar activities

Hilcorp did not plan on drilling any new wells during the 16th Northstar POD period but anticipated maintaining and enhancing production while completing the following

> *"Hilcorp did not complete any of the anticipated workover operations," the company said in reporting on 38th Duck Island unit POD activities, "as the rig and capital allocated for those projects were diverted elsewhere."*

projects:

- Acidize one or more Kuparuk producers and/or gas injectors to increase production/injectivity;
- Complete surface casing repair of NS-25, an active Ivishak producer in the Northstar PA;
- Construct an ice road for chiller module deliveries;
- Install support frames, set chiller modules, and install associated chiller system piping; and
- Commission chiller during summer 2020 for improved NGL recovery during warmer ambient temperatures.

Hilcorp successfully completed most of their anticipated projects for the 16th Northstar POD period. Hilcorp, however, did not acidize any Kuparuk PA producers due to undervoiding in the Kuparuk oil pool, but successfully installed a subsurface safety valve in the NS-25 well and added perforations in the NS-05 and NS-11 wells to increase the production rate, which were not originally planned for this POD period.

In its initial 17th POD, Hilcorp had no specific plans for exploration or delineation but anticipated maintaining Northstar production and committed to performing the following workover projects:

- Convert the NS-20, which has been shut-in since May 2019, from Ivishak producer to Kuparuk gas injector to help offset the voidage ratio in the Kuparuk horizon; and
- Replace corroded tubing in the NS-10 disposal well.

Additionally, Hilcorp committed to constructing an ice road for workover operations and anticipated a planned summer outage of eight to 10 days to perform maintenance activities.

In the amended 17th POD, Hilcorp cancelled the workover plans it committed to in its originally proposed 17th Northstar unit POD, which included the construction of an ice road, but now commits to converting the NS-15 well from a producer to an injector to increase gas injection and maintain production at Northstar.

Approval stipulates more info

Both the Duck Island and Northstar unit PODs were approved by the division on the basis they protect the public interest, promote conservation, prevent waste, and protect the parties' interests.

In both cases the division said it believes it would best serve the interests of Hilcorp, the state and the public for Hilcorp to provide in all its subsequent proposed Duck Island and Northstar unit PODs the following information:

- a table reflecting the well status of all wells within the units;
- a detailed status update for all wells within the units (regardless of whether the wells are shut-in); and
- a description of and all substantive information regarding the work or projects under evaluation by Hilcorp (even where final decisions have not been made on the work or projects).

"Hilcorp's provision of this information to the Division is similar to the information Hilcorp already provides to the Bureau of Land Management Branch of Energy and Minerals for the Beluga River unit," the division wrote in its approval letters to Hilcorp.

This information "will benefit both Hilcorp and the Division as it will provide a basis for practical and essential discussion for purposes of evaluating and reviewing the proposed POD(s)," the agency added. ●

Contact Kay Cashman at publisher@petroleumnews.com

EXPLORATION & PRODUCTION

US drilling rig count jumps by 13 to 373

The Baker Hughes U.S. rotary drilling rig count continues to rise, up by 13 to 373 for the week ending Jan. 15, the largest week-over-week increase since the rig count began to grow in mid-August, but still down by 423 from a count of 796 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. 15 count includes 287 rigs targeting oil, up 12 from the previous week but down 386 from 673 a year ago, 85 rigs targeting gas, up one from the previous week but down 35 from 120 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, 332 were horizontal and 19 were vertical.

Alaska count unchanged

The largest increase, up eight from the previous week, was in Texas (169), which has the most active rigs in the country.

Louisiana (47) was up by four; Colorado (8) and West Virginia (11) were each up by two rigs; New Mexico (70) was up by a single rig.

Rig numbers were unchanged from the previous week in Alaska (3), California (7), Ohio (4), Utah (3) and Wyoming (4).

Pennsylvania (19) was down by two rigs from the previous week; North Dakota (10) and Oklahoma (17) were each down by one.

Baker Hughes shows Alaska with three active rigs Jan. 15, unchanged from the previous week but down by three from a year ago.

The rig count in the Permian, the most active basin in the country, was up by 10 from the previous week at 189, but down 214 from a count of 403 a year ago.

—KRISTEN NELSON

● LAND & LEASING

BOEM issues draft EIS for Cook Inlet sale

Area identified for proposed October OCS sale is 224 blocks in northern portion of planning area, same area offered in last sale

By KRISTEN NELSON

Petroleum News

The U.S. Department of the Interior's Bureau of Ocean Energy Management said Jan. 13 that the area to be considered for leasing in proposed 2021 OCS Cook Inlet lease sale 258, tentatively scheduled for Oct. 20, is 224 blocks toward the northern part of the inlet, some 1.09 million acres, from Kalgin Island in the north to Augustine Island in the south.

BOEM released a draft environmental impact statement for the sale on Jan. 15, with a 45-day public comment period on the draft EIS closing March 1. The agency said it will provide more information, including instructions for commenting via a virtual meeting room at www.boem.gov/CookInlet2021, with three virtual meetings to be held Feb. 9 from 2-4 p.m., Feb. 10 from 6:30-8:30 p.m. and Feb. 11 from 2-4 p.m., all Alaska time.

Deferred areas

In the Federal Register notice for the DEIS, BOEM said certain areas were deferred from consideration "due to potential conflicts with resources of high ecological and subsistence value."

The majority of the area designated as critical habitat for beluga whale and northern sea otter is deferred, along with all of the critical habitat for Stellar sea lions and the North Pacific right whale. Some of these are in the planning area for the sale, which extends much farther south than the proposed sale, to the southern end of Kodiak Island.

Areas are also deferred creating a buffer between the proposed leasing area and the Katmai National Park and Preserve, the Kodiak National Wildlife Refuge and the Alaska Maritime National Wildlife Refuge.

Also deferred are "many of the subsistence use areas for the Native Villages of Nanwalek, Seldovia, and Port Graham," identified in the process for an earlier Cook Inlet sale.

The most recent BOEM Cook Inlet sale, Sale 244, was held June 21, 2017, with 224 blocks offered, some 1.09 million acres. BOEM said it received 14 bids on 14 tracts, more than $3 million in high bids.

"The LS 244 offered the same area recommended here for proposed LS 258," BOEM said in its area identification recommendation.

Sale 244 was part of the 2012-17 National OCS Program.

The 2017-22 National OCS Program, which includes LS 258, was approved in January 2017.

Comments

BOEM issued a call for comments in September and got responses from the State of Alaska and the Seldovia Village Tribe, a federally recognized tribe near the southern boundary of the Cook Inlet program area.

The state encouraged the agency to

see **COOK INLET SALE** *page 5*

BOEM exploration, development scenarios

In its draft environmental impact statement for lease sale 258 in Cook Inlet, the Bureau of Ocean Energy Management looks at exploration and development scenarios for oil and gas that might be found on blocks in the lease sale area. The agency notes that, unlike other Alaska outer continental shelf planning areas, Cook Inlet "has a nearby market for both oil and gas. As a result, the current Cook Inlet E&D scenario does not defer gas sales until oil production is depleted."

There is an existing natural gas distribution system in Cook Inlet which "could be extended to transport gas from the Cook Inlet OCS to the greater Anchorage and Kenai Peninsula areas."

Federal lease sales have been held in Cook Inlet since 1977 and four exploration wells have been drilled in the current lease sale area as a result of sales in 1977 and 1981, BOEM said.

"None of the four exploration wells discovered oil or natural gas in economic quantities and the last exploration well drilled was plugged and abandoned in 1984," after testing prospects which, given knowledge at the time, were believed to have the best prospects for large volumes of oil and gas.

In the current exploration and development scenario, the high activity case estimates that eight exploration and delineation wells would be drilled over a 3-year period.

BOEM said its geoscientists and engineers believe Tertiary oil and gas plays will be the main attraction within the proposed lease area "because of their proven petroleum potential in the northern part of the Cook Inlet Basin and their past performance in hosting commercial oil and gas fields."

The range of activities estimated for low, medium and high activity levels includes a low case where one natural gas field is discovered and developed; a

see **DRAFT EIS** *page 7*

CORRECTION

Bradley Lake award also credits Seward

The Jan. 10 issue of Petroleum News carried a news brief titled "Battle Creek Division project wins award." A correction to a quote in the news item was sent to PN from the Alaska Energy Authority, owner of the Bradley Lake facility, which is operated under contract by the Homer Electric Association and managed by a committee of representatives from the Alaska Railbelt electric utilities. The Bradley Lake facility is one of the cheapest sources of power on the Railbelt grid. AEA asked that a quote in PN's news brief be changed in our online archive to include a missing representative, the City of Seward. The quote now reads "What we were able to accomplish in collaboration with our project partners Chugach Electric Association, Homer Electric Association, Matanuska Electric Association and the City of Seward is something to be proud of," said AEA Executive Director Curtis Thayer.

—PETROLEUM NEWS

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continued from page 4

COOK INLET SALE

hold lease sale 258 as an areawide sale, which is how the state offers its major areas for lease, a request similar to that it made during development of the 2017-22 National Program.

But BOEM said the 2017-22 program "introduced a targeted leasing model to the Alaska OCS lease sale process," the goal of which "is to focus oil and gas leasing on the most promising OCS blocks, while protecting important habitats and critical subsistence activities. The result is an area that is more geographically limited in scope and that eliminates many areas of environmental concern."

Seldovia Village Tribe requested exclusion of blocks that overlap designated critical habitat for Cook Inlet beluga whale and northern sea otter, and BOEM said those proposed exclusions "helped inform the range of alternatives" for the proposed sale.

Proposed action

BOEM's proposed action, alternative 1, would offer all leases available in northern portions of the planning area, some 1.09 million acres, 224 blocks, approximately 20% of the total planning area.

BOEM said because of targeted leasing, the proposed sale area:

•Focuses on areas closer to existing infrastructure.

•Focuses on areas closer to active OCS and state oil and gas leases.

•Avoids "the vast majority" of areas designated as beluga whale and northern sea otter critical habitat.

•Avoids completely Steller sea lion critical habitat.

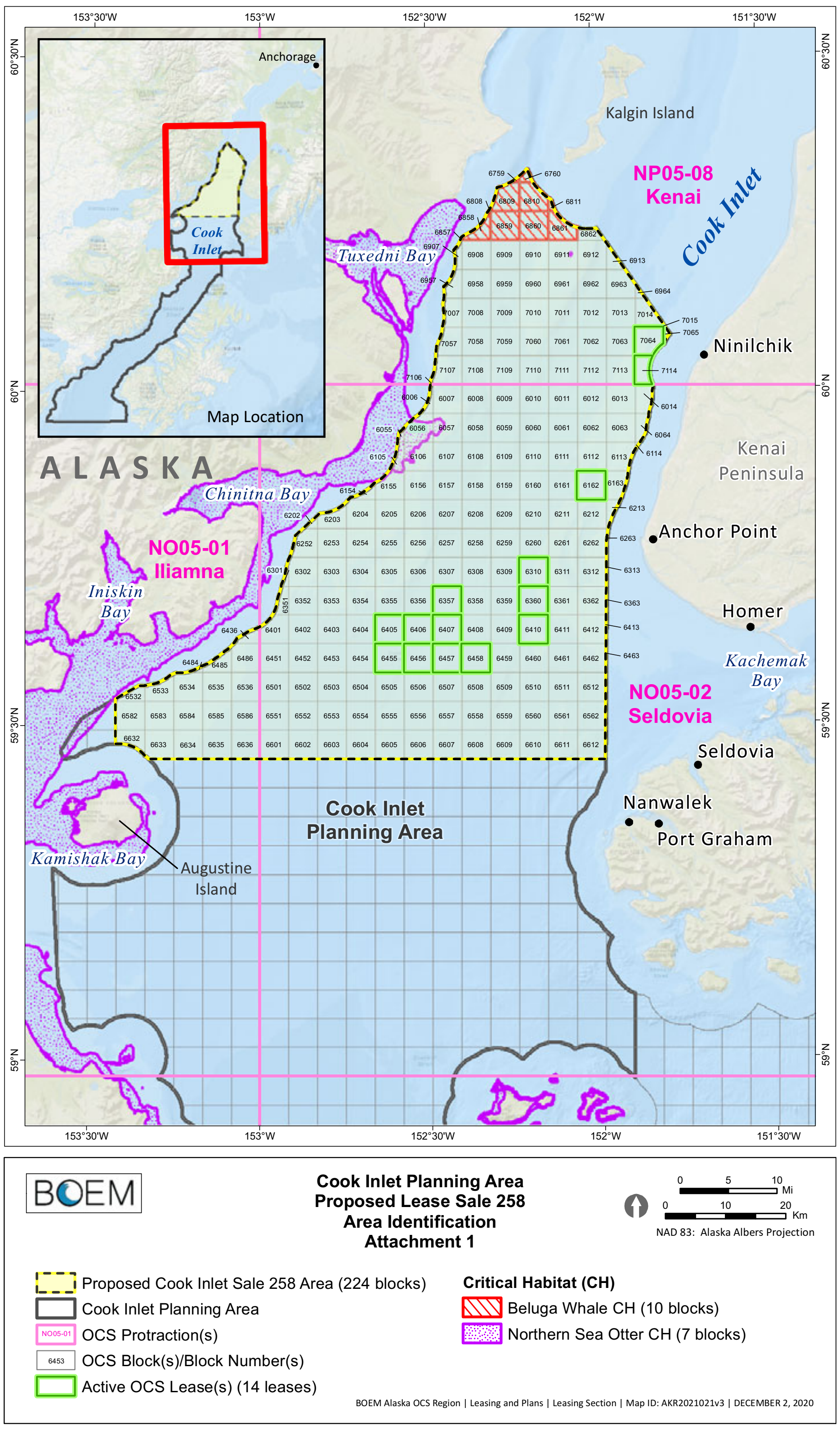
•Reduces effects to national parks, preserves and wildlife refuges.

•Excludes much of subsistence use area for Alaska Native villages of Nanwalek and Port Graham identified in 2004.

Other alternatives

The no action alternative, alternative 2, would result in no lease sale being held.

Alternatives 3A, 3B and 3C address potential impacts to distinct population segments of the beluga whale in Cook Inlet. 3A would exclude the 10 OCS blocks overlapping beluga whale critical habitat at the northern tip of the proposed sale area, 29,373 acres. 3B would offer all available blocks in the proposed sale area, but no on-lease seismic surveys or exploration drilling would be allowed on the 10 northern blocks between Nov. 1 and April 1 when beluga are most likely to be present. 3C would offer all blocks in the proposed area, with seasonal mitigation to protect belugas, with certain seasonal mitigations applied to all OCS blocks between Nov. 1 and April 1; and additional seasonal mitigation applied to 146 OCS blocks wholly or partially within 10 miles of major anadromous streams.



Alternatives 4A and 4B address northern sea otter critical habitat; 4A would exclude seven blocks overlapping northern sea otter critical habitat, 29,388 acres. 4B would offer all available blocks but with additional mitigation on 14 blocks within 1,000 meters of northern sea otter critical habitat.

Under Alternative 5 all blocks would be offered, but with additional mitigation in all blocks north of Anchor Point to reduce potential for conflicts with the Cook Inlet drift gillnet fishery affecting all or parts of 117 OCS blocks, 503,927 acres. No on-lease seismic surveys would be allowed during the drift gillnetting season and United Cook Inlet Drift Association would have to be notified of any temporary or permanent structures planned during the drift gillnetting season. Alternative 5 is all blocks, partial or whole, north of Anchor Point.

Alternatives not analyzed

A number of alternatives were dismissed without detailed analysis.

A prohibition of drilling discharges was analyzed in detail for the 2017 sale, BOEM said, and the agency determined then "that the minimal decrease in environmental effects associated with the alternative was offset by an increase in impacts associated with barging muds and cuttings to shore." In addition, the agency said, discharges of muds and cuttings are regulated by the Environmental Protection Agency through the National Pollutant Discharge Elimination System, which "allows such discharges only if they would not cause unreasonable degradation of the marine environment."

A requirement for directional drilling from shore was suggested during scoping meetings, BOEM said, a method used at the Cosmopolitan unit north of Anchor Point. It said directional drilling could be considered as part of the National Environmental Policy Act evaluation for a specific plan, but said "it is not feasible as a lease sale alternative here where the vast majority of the Proposed Lease Sale Area is beyond the limit of directional drilling technology and geologic conditions are not necessarily conducive to safe and effective directional drilling." The technology has a limit of some 7.6 miles, the agency said, but that was achieved at Sakhalin, which has different geology. "Wells of this nature could be very high risk in Cook Inlet due to the highly complex nature of the geology and the presence of coal seams that could squeeze (flow) into the wellbore trapping the drill stem," BOEM said. All the OCS blocks are at least 3 miles from shore and only 20.42% of the proposed area is within 7.6 miles from shore. Because 80% of the blocks would not be reachable, directional drilling would not meet the purpose and need for the proposed action.

Another alternative which was not analyzed would prohibit any seismic surveys when migrating salmon are present. This was suggested during scoping. BOEM said the goal of targeted leasing is to identify areas with high resource potential and indications of industry interest, "while appropriately weighing environmental protection and subsistence use needs."

The agency said peak salmon abundance in Cook Inlet is from June through August when "migrating aggregations occur nearshore and in freshwater streams" — areas outside the lease sale area. Since salmon are prey for beluga whales, an alternative proposed for beluga protection would also extend to migrating salmon, making the suggested alternative duplicative of an existing alternative.

see **COOK INLET SALE** *page 7*

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continued from page 1

KEYSTONE XL

punch," and an "insult" the premier said the "leader of our closest ally retroactively vetoed approval for a pipeline that already exists (including a cross-border link finished last year) — directly attacking by far the largest part of the Canada-U.S. trade relationship, which is our energy and exports."

"In my books that's not how you treat a friend or ally," he said, dismissing Biden's pledge to immediately start rebuilding alliances that have been turned to rubble by Trump's sledgehammer.

Kenney noted that oil and natural gas exports, mostly from Alberta, are valued at C$90 billion a year, about double the second largest commodity — auto vehicles and parts.

He called on the Trudeau government to press the Biden administration to review its Keystone XL decision, insisting trade sanctions should be implemented if that fails.

"If, however, the U.S. government refuses to open the door to a constructive and respectful dialogue about these issues, then it is clear that the Government of Canada must impose meaningful trade and economic sanctions in response to defend our country's vital economic interests."

Possible actions

Kenney did not outline what specific actions could be taken, but the options include imports of U.S. oil and gas to Eastern and Atlantic Canada.

What he wants is something to match Canada's showdown with the U.S. when Trump threatened to impose tariffs on imports of Canadian steel and aluminum and Canada threatened to retaliate with countervailing duties — a threat it did not have to carry out.

In other energy disputes within Canada in the 1970s, Alberta talked off turning off the flow of oil and gas to other provinces — again a measure that was never implemented.

What annoys Kenney most is that Trudeau and his Foreign Affairs Minister Marc Garneau have so far expressed only "disappointment" with Biden's actions while acknowledging that the president's decision merely fulfills an election campaign promise.

Otherwise, Trudeau said his government will use "all available channels" to voice its concern to the Biden administration, an offer Kenney views as inadequate.

Jobs issue

There has been one glimmer of hope from the U.S., with the Consumer Energy

see **KEYSTONE XL** *page 11*

continued from page 4

DRAFT EIS

medium case based on one oil field discovered and developed with associated natural gas which would also be produced; a high case with both fields in the low and medium case discovered and developed.

In the high case, a maximum of four 24-slot platforms would be required, with 65 wells — production and service — drilled.

Seismic and geohazard surveys are assumed in the analyses.

Mobile offshore drilling units, MODU, would be employed for exploration drilling, and BOEM said it estimated that three wells per drilling rig could be drilled, tested, plugged and abandoned during a season. The assumption is that only one MODU would be used, BOEM said, noting that "historically there has only been one MODU working in the proposed lease sale area at one time," although as of December there are two MODUs in Cook Inlet both out of service.

Following delineation drilling, permitting would occur for development, with submission of a development and production plan.

If there are multiple platforms, the first would serve "as a hub, connecting pipelines from other platforms to the main pipelines to shore," BOEM said.

Subsea pipelines are the preferred method to transport oil and gas to shore from a platform, with the nearest landfall location "likely on the southern Kenai Peninsula near either Homer or Nikiski, depending upon where the first commercial oil discover is located."

Because of the location of existing pipelines in upper Cook Inlet, "it is not anticipated that any of the production platforms from new discoveries in lower Cook Inlet will be able to utilize any existing pipelines," the agency said.

Because of Cook Inlet's history of oil and gas production from offshore state leases, BOEM said it assumed that existing onshore infrastructure has capacity to support OCS exploration and development without major expansion or modification.

The exploration drilling timespan is estimated at 3 years, followed by a 3-year environmental analysis process between delineation and development.

The time needed to install platforms and drill wells after discovery is the main driver of the development and production phase, with 7 years estimated to install four production platforms in the event separate oil and gas fields are discovered and developed, Wbased on a construction estimate of 3 years for a platform before installation.

"Each platform is installed, commissioned, and producing in its first year of operation," BOEM said. Wells are assumed to have an average economic life expectancy of about 20 years, and if first wells begin production 7 years after discovery, and last development wells drilled in year 14, decommissioning would begin after year 34.

—KRISTEN NELSON

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continued from page 5

COOK INLET SALE

An alternative to prohibit exploration or drilling activities from June to September when waters outside Cook Inlet in the Gulf of Alaska are important for right whales was suggested during scoping. North Pacific right whales and right whale critical habitat are outside the area of the proposed sale, BOEM said, and it determined "additional exploration activity restrictions based on considerations for North Pacific right whales were not warranted and the alternative was not analyzed in detail."

An alternative to exclude all OCS blocks north of Anchor Point was recommended in scoping. BOEM said that would remove 117 OCS blocks and reduce the proposed area for the sale by 503,928 acres, 46.05%. The objective was to reduce potential for interaction with the drift gillnet fishery and interaction with beluga whales, but the agency said it determined this alternative would not meet the purpose and need of the sale due to relatively high industry interest in the area and that the goals of the alternative are addressed by the proposed action

> *"The LS 244 offered the same area recommended here for proposed LS 258," BOEM said in its area identification recommendation.*

and measures proposed under alternatives 3A, 3B and 3C, as well as Alternative 5.

A lower Kenai Peninsula exclusion in an earlier lease sale consisted of 34 whole or partial OCS blocks off Port Graham, Nanwalek, Seldovia and the tip of the lower Kenai Peninsula. BOEM said most of this area had already been excluded through the area identification process and target leasing, with only nine of the OCS blocks in the former exclusion within the proposed lease sale area.

The agency said subsistence uses in OCS waters off the lower Kenai Peninsula "are inherently seasonal and BOEM expects that potential conflicts can be avoided through other mitigation included in the Proposed Action," and therefore a lower Kenai Peninsula exclusion was not evaluated in detail for this EIS. ●

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continued from page 1

LINE 5 SHOWDOWN

Line 5 was also built in an area that would minimize potential corrosion due to lack of oxygen and the cold-water temperature.

The straits crossing has never experienced a leak in its lifetime of operation.

But Michigan Attorney General Dana Nessel has filed a legal action seeking to force Enbridge to cease operating Line 5 because of Enbridge's "long-standing, persistent and incurable violations" of the easement's conditions.

Impacts of shutdown

Cancellation of the easement would result in a shortage of 14 million gallons of gasoline per day, along with cutting off transportation fuels in Ontario, Quebec, Wisconsin, Indiana, Ohio and Pennsylvania.

Line 5 accounts for 65% of the propane consumed in Michigan's Upper Peninsula and 55% of the statewide propane needs. Whitmer has yet to explain how her state expects to make up the shortfall beyond saying it is studying alternative sources.

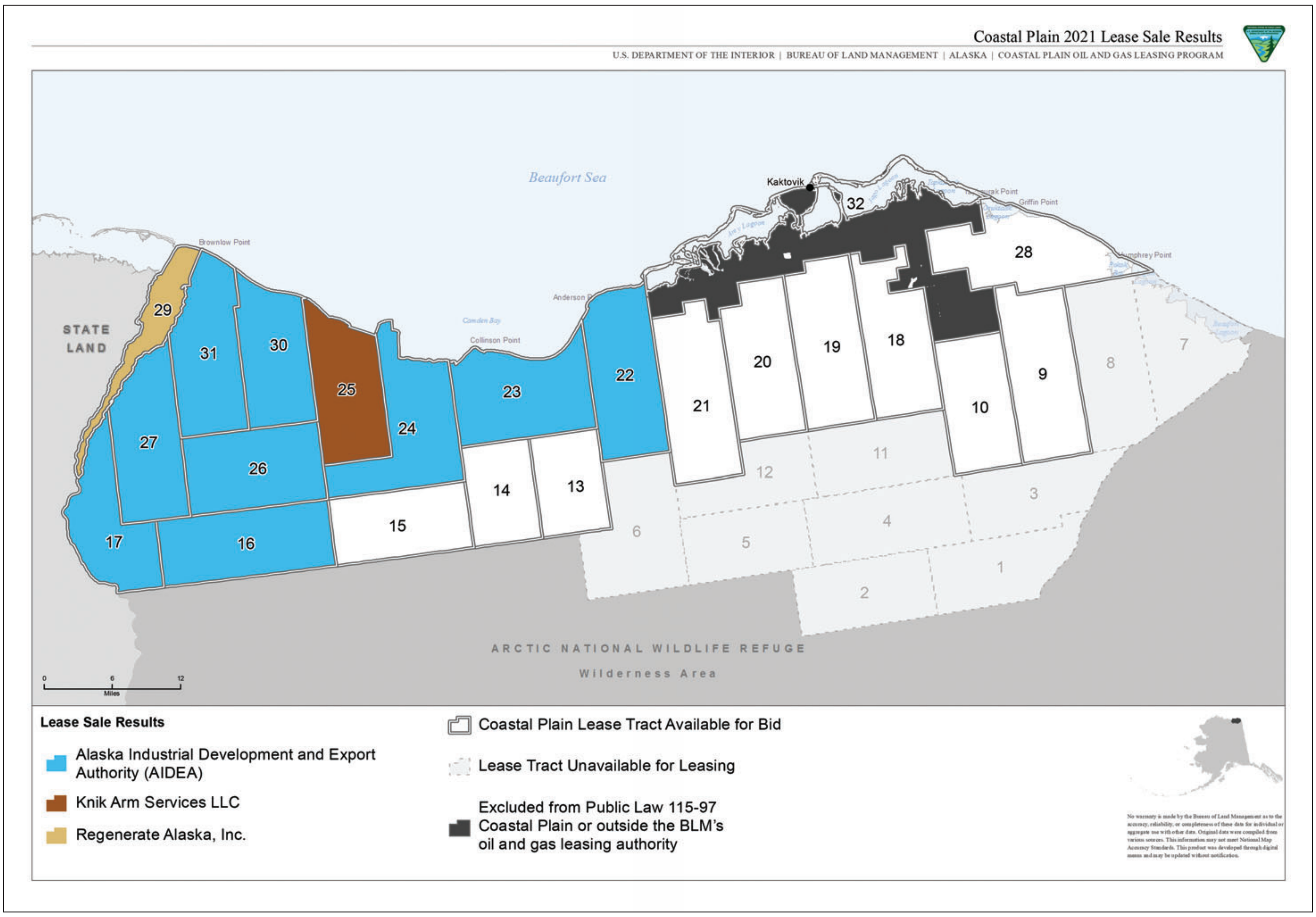
Sarnia Mayor Michael Bradley estimates 4,900 refinery and petrochemical jobs in his area are at risk, while a Kabir union in Sarnia estimates up to 6,000 direct employees could lose their jobs in a city of 72,000.

Ontario Energy Minister Greg Rickford said a permanent shutdown of Line 5 would result in more product being carried by trucks and rail, generating more greenhouse gas emissions and heightening the prospect of a destructive accident.

Bradley said scrapping the easement would violate a Transit Pipelines Treaty negotiated by former Canadian prime minister Pierre Elliott Trudeau (the father of the current prime minister) and then-U.S. President Jimmy Carter. The treaty was voted for by then senator and now U.S. President Joe Biden.

Enbridge has filed a suit in the Michigan Court of Claims "to establish the constitutional validity and

see **LINE 5 SHOWDOWN** *page 9*



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ANWR LEASES

refuge and requires two 1002 lease sales by the end of 2024.)

The new executive order comes just one day after Interior's Bureau of Land Management issued nine of 11 leases from the first 1002 lease sale on Jan. 6. Dropping the two most easterly leases that the Alaska Industrial Development and Export Authority bid on, the other nine leases were issued to AIDEA (7 leases) and one each to Knik Arm Services and 88 Energy's Alaska operating subsidiary Regenerate Energy (see adjacent map in the print and pdf versions of this story).

When asked why only nine of the 11 leases were issued on Jan. 19, Lesli J. Ellis-Wouters of BLM's Alaska office told Petroleum News in an email, "We issued leases for those tracts that we received the required paperwork."

As for Biden, his executive order came as no surprise because he opposes oil and gas leasing in ANWR and promised to "permanently" protect it during his presidential campaign. The temporary moratorium stops short of his campaign pledge to permanently ban oil and gas leasing and development on public land and waters, but during a Jan. 20 press briefing White House Press Secretary Jen Psaki indicated there was more to come to honor that commitment.

Dunleavy, delegation outraged

Alaska Gov. Mike Dunleavy issued a statement Jan. 20 on Biden's order, saying, "As a candidate, Joe Biden campaigned on stopping oil and gas development on federal lands. Make no mistake about it, President Biden appears to be making good on his promise to turn Alaska into a large national park."

"Alaska does responsible oil and gas development in the Arctic better than anyone, and yet our economic future is at risk should this line of attack on our sovereignty and well-being continue. Development in the National Petroleum Reserve-Alaska, building roads to resources, the mining of critical minerals and rare earths, connection to life saving air transport for villagers in King Cove and more are all in the hands of an Administration that looks at Alaska as a territory or colony, as opposed to an equal State in the Union," he said.

U.S. Senators Lisa Murkowski, Dan Sullivan, and U.S. Congressman Don Young, all R-Alaska, also issued statements of outrage after Biden announced the temporary moratorium.

"Not only has Alaska proven time and time again we have the highest environmental standards when it comes to our responsible resource development, but this right was guaranteed by the federal government more than 40 years ago when ANILCA was enacted," Murkowski said. "It is time to hold true on this long overdue promise."

In 2017, she noted, "I was proud to author Title II of the Tax Cuts and Jobs Act. … The Biden administration must faithfully implement the law" and allow for the "good progress" made under the Trump administration "to continue."

"Well that was fast," Sullivan said. "Today, in his inaugural address, President Biden called for national unity and healing. However, just hours earlier, his administration took their cues from radical environmentalists in issuing punitive and divisive actions against Alaska, many other resource development states, and whole sectors of our economy."

"Let me be clear: As we are struggling to rebuild our economy, these directives announced today will cause real harm to millions of Americans, and thousands of Alaskans," Sullivan continued. … The American people did not give President Biden a mandate to kill good-paying jobs and curry favor with coastal elites, and I will do everything in my power — working with the delegation, the state, and all of my fellow Alaskans — to fight back against these job-killing orders and regulatory reviews," he said.

Young was not surprised, though it was "no less disappointing that President Biden is continuing Obama-era attacks against Alaska. By reviewing federal rules that Alaska benefits from, and by placing a moratorium on energy development in ANWR, President Biden has surrendered to his party's environmental extremists."

Working group reestablished

Biden's Jan. 20 executive order also directs agencies to review national monument boundaries and reestablishes the Interagency Working Group on the Social Cost of Greenhouse Gases, which was formed under the Obama administration. It sought to account for harm caused by emissions in agency rulemaking.

The Obama administration assessed a $50 per metric ton price on carbon, while the Trump administration a mere $7 per metric ton cost.

—KAY CASHMAN

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continued from page 8

LINE 5 SHOWDOWN

enforceability of previous agreements … in order to remove obstacles to building (a new tunnel under the straits) as quickly as possible and ensure energy security and environmental protection for Michigan."

Ontario Premiere Doug Ford said in a December letter to Whitmer that the shutdown of Line 5 "would threaten over 1,000 unionized jobs in Michigan and Ohio and result in a shortfall in regional fuel supply."

The Canada Energy Regulator shows six refineries in Ontario and the U.S. Midwest rely on Line 5 for the bulk of their feedstock, while additional refineries in Quebec and the U.S. rely heavily on Line 5. In addition, petrochemical plants on both sides of the border making plastic or fracturing heating fuels throughout the region also use the line.

A Canadian subsidiary of Houston-based Plains All American Pipeline said its three facilities in Ontario, Wisconsin and Michigan would close if Whitmer refuses to seek a compromise.

Warning of price spike

Sterling Koch, Plains Canadian vice president, warned that shutting down the Michigan and Wisconsin facilities would case a massive price spike in both states for heating fuel.

"In the medium term, propane shortage-induced price impacts would be expected to be much more severe and lasting that those experienced during the polar vortex induced shortages in the winter of 2013-14 that prompted Michigan and several other surrounding states to declare a state of emergency," he wrote in a letter to Whitmer.

Enbridge's president of liquids pipelines Vern Yu said the twin lines under the Straits of Makinac "are safe and in full compliance with the (Canadian) pipeline safety standards that govern them."

He said Enbridge has no intention of shutting down Line 5 based on Michigan's unspecified allegations that the pipeline poses a danger.

Repeated offers by Enbridge over the past year to meet with Michigan state officials to discuss issues of concern, to provide technical information and to discuss matters that might be helpful in the state's review of the easement have been ignored or dismissed.

Eric Pardini, a director with Lansing-based Public Sector Consultants, who led a state-commissioned study outlining pathways to transition the Upper Peninsula's propane sector, said he has "optimism" in that prospect, "but it doesn't give me peace."

He said that sets up a "game of chicken" between the industry and the Whitmer administration over urgent changes that are vital to save thousands of jobs in the Upper Peninsula.

—GARY PARK

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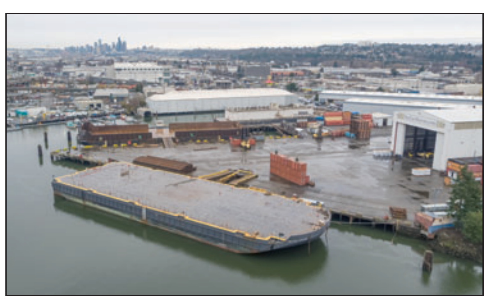
Petroleum news

Oil Patch Bits

SeaTac Marine Services increases barge capacity to Alaska



SEATAC MARINE SERVICES

SeaTac Marine Services, based in Seattle, said Jan. 19 that it has acquired a new heavy deck cargo barge. Built in 2010, the SeaTac Atlas can haul up to 11,000 tons and with nearly 30,000 square feet of deck space, is one of the larger barges in the Pacific cargo trade. At 300 feet in length and 100 feet wide, the barge was purchased from Signet Marine in late 2020. Specializing in general cargo and heavy lift machinery, the Atlas will fit well into SeaTac Marine's regular shipping schedule to Anchorage and Seward. SeaTac Marine is modifying the barge to maximize cargo protection and space. "We are looking forward to increased opportunities and optimizing service for new and existing customers," said Walter Seay, SeaTac Marine's president. Sited on its own 12-acre parcel along the Duwamish river, the terminal specializes in break bulk cargo, lumber, heavy lift machinery, and bulk commodities.

Alaska Textiles and Carhartt help those in need

Alaska Textiles said recently that it, along with donations from Carhartt, handed out 1,000 hats to first responders and those in need in Anchorage, Alaska; Memphis, Tennessee; and Jackson, Mississippi.

ALASKA TEXTILES

"I would like to thank Carhartt for working with us at Alaska Textiles to get nice warm hats on people in need and first responders during these tough times," said Clif Burnette, president, Alaska Textiles.

Alaska Textiles was also awarded the flame-resistant clothing contract for ConocoPhillips in October. The five-year contract was given to Alaska Textiles due to its ability to supply both women's and men's FRC to meet ConocoPhillips exceptional safety requirements, locally commercially competitive pricing, extraordinary expertise in the field of FRC, comfortable and convenient customer purchasing experience, ability to supply add-on services such as custom embroidery and alterations, and proven high level of quality and performance.

For more information contact Clif Burnette at clif@alaskatextiles.com or visit alaskatextiles.com

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

continued from page 1

INSIDER

each dry or abandoned well or the repair of wells causing waste" per AS 31.05.030(d)(4), Gottstein noted in an email to PN.

"The commission asked questions at the hearing about Alaskan Crude's plans to plug and abandon three existing wells, which was not relevant to the request for reconsideration, but I addressed them anyway and the commission spent much of its decision on these irrelevant issues," Gottstein said, "The commission never addressed the ex post facto law defect and essentially admitted Alaskan Crude is right on number 2."

AOGCC "should not even be allowed to contest that the retroactive bonding requirement is unconstitutional because it didn't include it in its decision," he told PN.

With respect to exceeding its authority, the commission's decision concluded, "AOGCC is authorized to require a bond for the performance of the duty to plug wells and the duty to repair wells causing waste."

Gottstein said Alaskan Crude agreed with that, but said the commission's regulation required, "security to ensure that each well is drilled, operated, maintained, repaired, and abandoned and each location is cleared in accordance with this chapter." This, he said, was "more than the duty to plug wells and repair wells causing waste and therefore exceeded its statutory authority."

AOGCC decision, order

On July 2, 2019, the commission sent Alaskan Crude a letter about new bonding requirements in 20 AAC 25.025. This letter, Gottstein told the Superior Court in his filing, advised that under AOGCC's new regulation Alaskan Crude's three permitted wellheads increased the company's bonding level to $1.2 million.

Because Alaskan Crude had a $200,000 bond in place, an additional $1 million in bonding was required, payable in two annual installments of $500,000.

On July 25, 2019, the company asked AOGCC to reconsider its decision.

On Jan. 23, 2020, the commission held a hearing on Alaskan Crude's request for reconsideration. After the hearing, the record was left open until July 31, 2020, to give the company time to provide any additional evidence it wanted considered.

AOGCC findings

Based upon the evidence presented by Alaskan Crude, AOGCC found as follows, Gottstein told the court:

1. Alaskan Crude was the operator of record for the Mike Pelch 1, the Burglin 33-1 and the Katalla KS-01 wells.

2. Alaskan Crude's July 25, 2019, request for reconsideration claimed AOGCC's bonding regulation was an illegal ex post facto law and that the bonding regulation was beyond the scope of AOGCC's authority under its enabling act.

3. At the Jan. 23, 2020, hearing Alaskan Crude added an argument, "that you can't really tell what it (AOGCC's bonding regulation) means." At the conclusion of the hearing, AOGCC left the record open until Feb. 19, 2020, to allow Alaskan Crude time to submit additional information, including its plans for the three wells.

4. In correspondence dated Feb. 19, Alaskan Crude added another claim that AOGCC lacked the authority to require the plugging and abandonment of wells prior to termination of an owner's rights in the property upon which the well was located. As to its plans for its wells, Alaskan Crude "asserted it lacked the authority to plug and abandon the Katalla well, that it had been absolved of any responsibility for plugging and abandonment of the Burglin well and that it lacked the authority to plug and abandon the Burglin well, and that the Pelch well had a permit to be re-entered and re-worked so plugging and abandoning the Pelch well would be premature."

Alaskan Crude also said it filed for bankruptcy in 1990 and that the bankruptcy "may have discharged its bonding obligation." The company requested the record remain open until June 30 to allow it to investigate the bankruptcy issues. Due to the COVID-19 outbreak, the record was ultimately left open until July 31.

5. On July 29 Alaskan Crude again claimed the bonding obligation had been discharged in its 1990 bankruptcy but provided no support for its position. The company also said that it was a completely different entity from the entity that went bankrupt in 1990. The company also demanded that AOGCC provide copies of any bankruptcy documents in AOGCC's file. Alaskan Crude was told that to the extent any such documents existed, they were available on AOGCC's website.

6. Alaskan Crude requested a $1 million reduction of its new AOGCC bonding amount, leaving it with the bonding requirement of $200,000.

AOGCC's conclusions

On Oct. 15, the commission denied Alaskan Crude's request for reconsideration, listing the following conclusions, per Gottstein's filing:

1. AOGCC was authorized to require a bond for the performance of the duty to plug wells and the duty to repair wells causing waste. Every operator was required to have a bond in place to ensure compliance those duties. Any bankruptcy that occurred in 1990 could not remove subsequent bonding obligations.

2. Since Alaskan Crude was the operator of record for the Katalla KS-01, Burglin 33-1 and Mike Pelch 1 wells, the company was required to have a bond in place for all three wells.

3. A bond does not confer any rights on an operator.

4. Alaskan Crude provided no written documentation of any change of operator for any of the three wells. Therefore, the company remained the operator of record and was responsible for the plugging and abandonment of the wells. Further, Alaskan Crude had provided no evidence to support its assertion that it was prohibited from plugging and abandoning any of the wells. Absent written proof of either the landowners having prohibited Alaskan Crude from entering the properties to plug and abandon the wells or that the landowners had agreed to assume responsibility to plug and abandon the wells, Alaskan Crude remained responsible to do so.

5. On July 23, 2018, Alaskan Crude applied for sundry approval to abandon Burglin 33-1. AOGCC approved the sundry Aug. 29, 2018. As of, Oct. 15, the Burglin well had not been plugged and abandoned. In addition to the bond required, AOGCC reserved the right to pursue enforcement action in connection with the failure to properly plug and abandon the well. The commission then ordered that Alaskan Crude's request for reconsideration denied and the company was ordered to pay $1 million.

The order on reconsideration was the final order of AOGCC, the agency said and as such could be appealed to Alaska's Superior Court.

Note: Another independent oil and gas company filed an administrative appeal against AOGCC in Superior Court on constitutional issues and that was Amaroq Resources (see Oil Patch Insider in the Jan. 3 edition of Petroleum News).

—KAY CASHMAN

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continued from page 7

KEYSTONE XL

Alliance, the largest organization of its kind in the U.S., expressing "deep disappointment" in the cancellation of Keystone XL.

"Instead of choosing to keep Americans working through the post COVID-19 recovery, supporting private investment that will augment America's world-leading emissions reductions and strengthening North American economic and energy security, President Biden bowed to the demands of a handful of special interests … at the expense of American laborers, workers, families and small businesses who depend on reliable energy," the alliance said.

What disturbs Kenney is the thought that Biden might now be emboldened to order a halt to the upgrading of Enbridge's Line 3 to double capacity to 760,000 barrels per day of Alberta crude on the route to Superior, Wisconsin, at a cost of C$5.3 billion and US$2.9 billion and improvements to Line 5, which delivers 540,000 bpd to Michigan and southern Ontario, but which Michigan Gov. Gretchen Whitmer is seeking a court approval to shutter.

He also fears that Biden, encouraged by an anti-fossil fuel faction in the White House, might initiate action to close the 500,000 bpd Keystone pipeline, which started operations 10 years ago. ●

> *What annoys Kenney most is that Trudeau and his Foreign Affairs Minister Marc Garneau have so far expressed only "disappointment" with Biden's actions while acknowledging that the president's decision merely fulfills an election campaign promise.*

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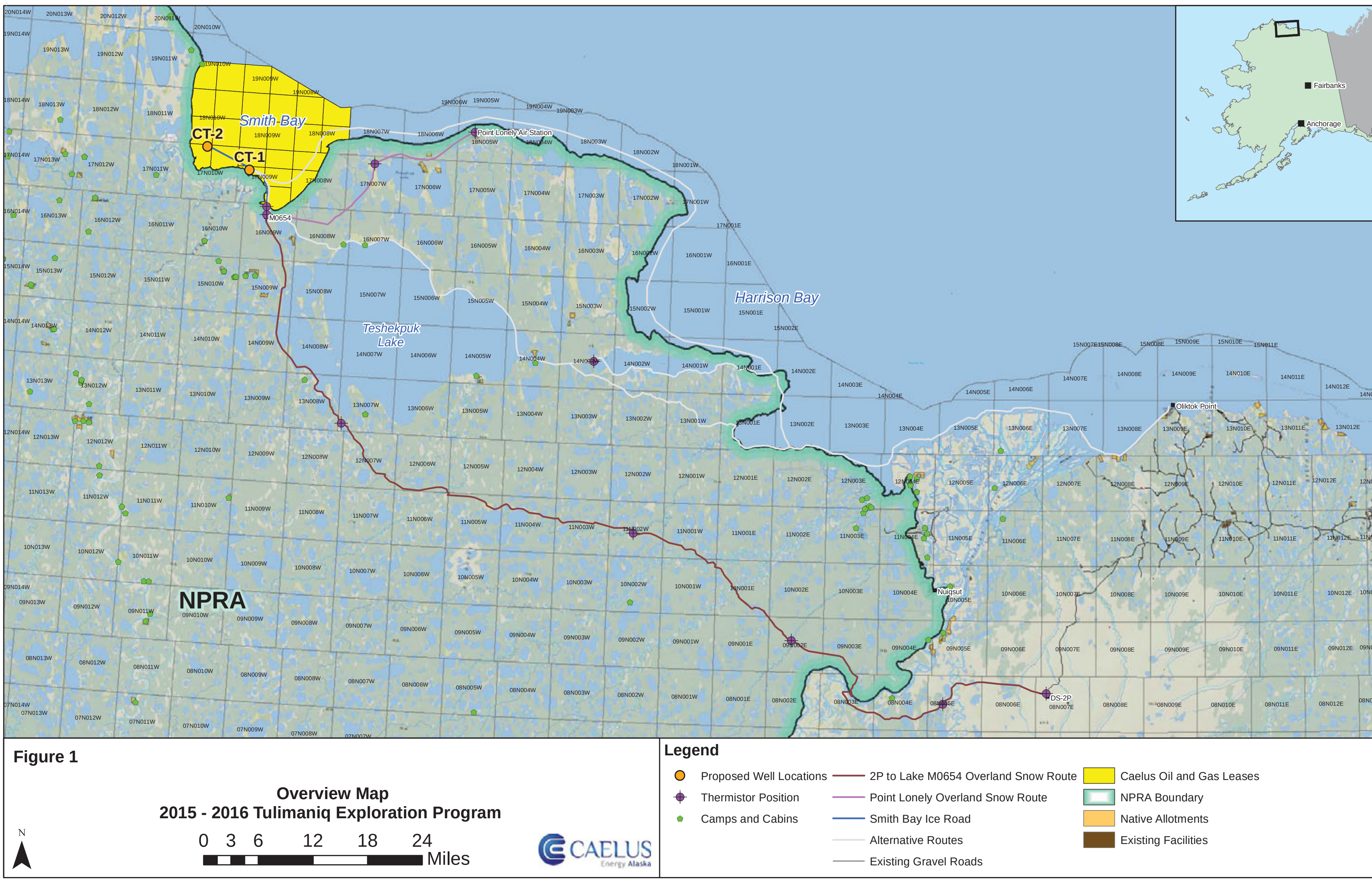

CAELUS ENERGY ALASKA

Map from Caelus Energy Alaska's 2015-2016 Tulimaniq exploration in Smith Bay. The company drilled two wells, CT-1 and CT-2, which found a major oil resource in the Torok formation.

continued from page 1

SMITH BAY

At this point Smith Bay Company Alaska has completed the transfer of Borealis Alaska Oil's 17.5% interests in the state leases. The company has entered into an agreement for the acquisition of Caelus Energy's lease interests and is waiting for state approval of the transfer of these interests. Borealis has previous told Petroleum News that it was divesting its Smith Bay lease holdings, having decided to pursue opportunities elsewhere on the North Slope.

Once all of the lease transfers have been completed Smith Bay Company Alaska will have ownership interests of 100% in the federal leases and 92.5% in the state leases. L 71 Resources LLC will own the remaining percentage of the state leases, Pfeiffer said.

Appraisal program

Following the completion of the lease transfers Smith Bay Company Alaska plans to raise money and seek partners to conduct an appraisal program, to build on the work that Caelus conducted in 2015-16. Pfeiffer anticipates continuing work in the field, presumably conducting some appraisal drilling, potentially in 2022, 2023. Meanwhile, the company could proceed with some long lead time work such as permitting, Pfeiffer said.

Smith Bay Company Alaska also anticipates seeking to have its Smith Bay leases unitized and sees parallels with Shell's move to unitize state leases in western Harrison Bay, to the east of Smith Bay.

There is modern 3D seismic data for Smith Bay. As part of its deal with Caelus Energy, Smith Bay Company Alaska is acquiring the Caelus operated company that was involved in the Caelus Smith Bay project and that holds much of the Caelus data relating to the bay, Pfeiffer said.

Confident of viability

One of the main challenges at Smith Bay consists of the cost of conducting operations or developing an oil field in such a remote location, distant from the existing North Slope oil infrastructure. However, the large scale of the oil prospect at Smith Bay is enough to create interest, Pfeiffer said, commenting that, given the promising findings from Caelus' work, his company is confident of being able to prove the viability of the development of the significant oil in place.

"It's definitely a challenge. It's an expensive project," he said. "But it's also got a lot of upside. We've got some people who are excited about it."

Light oil

Following its Smith Bay discovery, Caelus provided information about the nature of the find. The company's two wells had discovered light oil with an API of around 41, 42 in sands of an ancient submarine fan structure in the Cretaceous-age Torok formation. The Torok, a part of the relatively shallow Beaufortian rock sequence, was typically deposited at the bottom of the margin slope of an ancient marine basin. The formation is associated with the Nanushuk formation that has been the focus of recent major oil discoveries under the western North Slope — the Nanushuk tends to have been deposited higher on the basin margin.

It is possible that the oil originated from the HRZ, one of the major oil source rocks in Arctic Alaska — the HRZ lies immediately below the Torok at Smith Bay. There is, however, some uncertainty over the oil's source, given that the thermal maturity of the HRZ at Smith Bay appears a little too low to have generated the light oil.

Adding to the evidence for prolific oil at Smith Bay is the existence of oil seeps in the region, including a long-known seep at Cape Simpson. Bathymetric highs detected in Smith Bay seismic data suggest the presence of active oil seeps on the seafloor in the bay.

The Caelus wells encountered about 200 feet of net oil pay, packaged into six different sand lobes. The total thickness of the reservoir rocks was 1,500 to 1,800 gross feet.

Nature of the reservoir

The relatively low permeability of the reservoir rocks could present a challenge for oil production. However, the fact that the oil is very light presumably offsets this disadvantage.

Torok sands tend also to be prone to compartmentalization that can prove challenging for oil production. Caelus has said that, although the resolution of the available seismic is too low to determine the extent of any compartmentalization, the seismic does indicate the presence of continuous sands, especially in the lower sand body.

Drawing parallels with production techniques used in the Oooguruk field, offshore the central North Slope, Caelus has suggested that production at Smith Bay would likely involve the use of horizontal wells and fracking techniques.

Appraisal drilling, including some flow testing, would obviously be needed to determine the production characteristics of the reservoir, with further drilling also needed to confirm the lateral extent and continuity of the oil pool. ●

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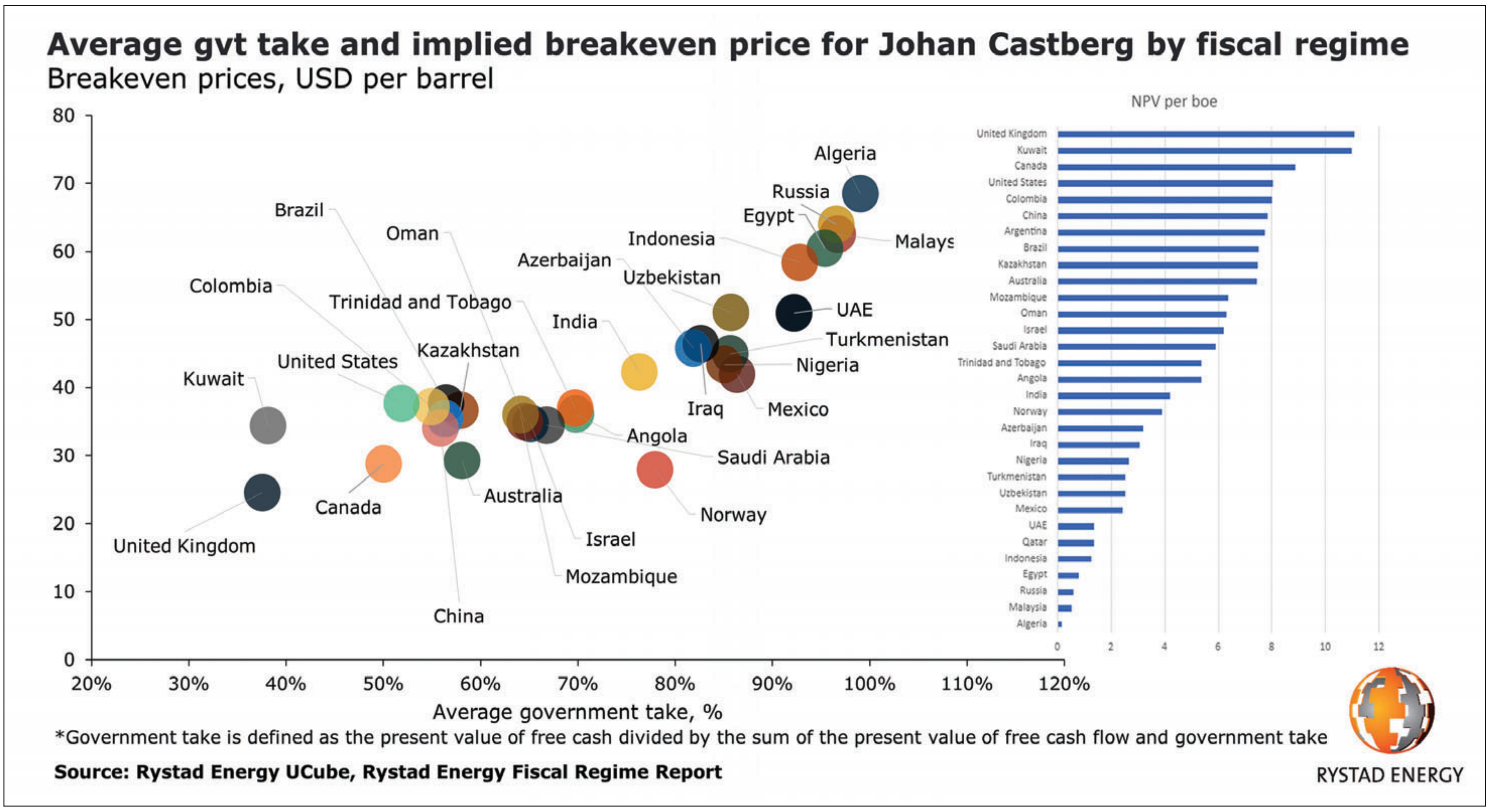

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OIL PRICES

Inauguration Day — approaching the 11-month highs hit in the previous week, but prices slid lower later in the trading day.

As of Petroleum News press time Jan. 20, WTI was at $53.24, clinging to a 26-cent gain, while Brent traded at $56.08, up 18 cents.

The International Energy Agency, in its January Oil Market Report said a resurgence of COVID-19 cases is slowing the demand rebound for now, but the widespread vaccination effort and accelerated economic activity is expected to spur stronger growth in the second half of the year.

The IEA expects global oil demand to recover by 5.5 million barrels per day to 96.6 million bpd in 2021, following an unprecedented collapse of 8.8 million bpd in 2020.

After falling by a record 6.6 million bpd in 2020, world oil supply will likely rise more than 1 million bpd in 2021, with OPEC+ increasing output more than those outside the bloc, the IEA said, adding that there may be scope for higher growth given IEA's expectations for further demand improvement in the second half.

After holding flat at 92.8 million bpd in December, global supply is rising in January due to production increases on the part of OPEC+, the IEA said.

In the United States, crude oil inventories rose 2.562 million barrels for the week ending Jan. 15, the American Petroleum Institute reported Jan. 19. For the week ending Jan. 8 the API reported a draw in oil inventories of 5.81 million barrels.

Offshore investment to rise

After 2020, when the pandemic caused sanctioning of offshore projects to dip to $44 billion from $99 billion the year before, Rystad Energy projects offshore sanctioning will rebound to at least $56 billion in 2021 and keep rising to as high as $131 billion in 2023.

"Operators are now even more focused on costs and profit margins, and majors are expected to concentrate their individual activity to fewer countries than before," Rystad said. "This means the world's resource-rich countries will have to compete more than ever to attract investments."

Rystad analyzed how each country's fiscal regime affects the profitability and breakeven price of developing offshore mega-projects.

For the purpose of modeling, Rystad used a sample project with the characteristics of Norway's Johan Castberg field, a single-phase project with plenty of available data that makes it an ideal candidate for benchmarking. The analysis does not include activity of national oil companies in their home countries.

The United Kingdom scored the highest post-tax valuation and offers the best profitability conditions for operators, with a net present value of $11.10 per barrel of oil equivalent in the country at a flat oil price of $70 per barrel. The next in line are Kuwait ($11 per boe), Canada ($8.90 per boe), the U.S. ($8 per boe) and Colombia ($8 per boe), Rystad said.

In Norway, a non-NOC company would see an NPV of $3.90 per boe, but other parameters factor in — the risk of exploration is lower as the country shoulders some of the cost for unsuccessful wells.

OPEC+ to remain vigilant, adaptable

The Organization of the Petroleum Exporting Countries and its allied producing nations (OPEC+) must remain vigilant and adaptable to changes in the economy and oil market in the face of ongoing COVID-19 uncertainties, OPEC Secretary General Mohammad Sanusi Barkindo said Jan. 19 in remarks to the Atlantic Council Global Energy Forum via videoconference.

"Our target remains stable oil markets, and to ensure that we have stability on a sustainable basis, we need to be flexible and adaptable," Barkindo said. "We all agree that the recovery is fragile: there are still uncertainties, but we are cautiously optimistic that the recovery will materialize this year."

Barkindo said that the OPEC and non-OPEC Ministerial Meeting will reconvene in March "to take stock and examine oil market conditions and developments."

"I want to use this opportunity to assure consumer countries that we have their interests in mind," he said. "Our role is to assist the market to return to stability."

OPEC enjoys effective relations with the United States and noted that OPEC's cooperation with U.S. independent oil producers has grown over the years, Barkindo said, adding that the United States made an important contribution to international efforts in April to help mitigate the devastating impact of the pandemic on the oil market.

"We congratulate President-elect Biden," he said, "and we look forward to deepening our relations with the U.S. independent producers."

UAE Minister of Energy and Infrastructure Suhail Mohamed Al Mazrouei said the COVID-19 impact last year was "extraordinary," adding that the efforts of OPEC+ have helped mitigate the pandemic's impact on the oil market.

"We see this year as the year of recovery," he said. ●

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