Petroleum news

page 4 Injection totals 72.1 bcf at Hilcorp's Kenai, Pretty Creek storage leases

Vol. 26, No. 26 • www.PetroleumNews.com A weekly oil & gas newspaper based in Anchorage, Alaska Week of June 27, 2021 • $2.50

## Court allows limited use of rig in inlet for abandonment, nearby wells

In a May 27 ruling U.S. District Court Judge Sharon L. Gleason is allowing Hilcorp to use a drilling rig in Cook Inlet — with required towing — for a planned well abandonment this summer and the drilling of two planned production wells close to the well abandonment site.

Plaintiffs Cook Inletkeeper and the Center for Biological Diversity sued the National Marine Fisheries Service in 2019 asking that its decisions allowing Hilcorp Alaska to shoot seismic and do oil and gas exploration and production activities in Cook Inlet from 2019 to 2024 be overturned.

In an initial ruling in March, Gleason upheld NMFS' mitigation and monitoring measures for Hilcorp's seismic surveying in Cook Inlet but found "arbitrary and capricious" the agency's determination that noise from tugs towing a drilling rig would not cause take or harassment of Cook Inlet beluga whales.

Gleason ordered supplemental briefing on the appropriate remedy, briefing which is now complete, the judge said in a May 27 order on remedy.

Defendants are the U.S. Secretary of Commerce and NMFS; Hilcorp and the State of Alaska are interveners in the case.

see **RIG RULING** page 10

## 88 Energy to cash out tax credits; sale made to large US company

88 Energy Ltd has entered into an agreement to sell outstanding Alaska oil and gas production tax credit certificates with a face value of $19.1 million, for $18.7 million, the company said in a June 21 release.

The proceeds of the sale will be applied toward full repayment of the company's outstanding debt of $16.1 million, and the residual $2.6 million will be added to its cash holdings and applied towards its working capital requirements, the company said, adding that following the closing of the transaction, 88 Energy will be debt free.

"The purchaser is a large oil and gas company in the United States with multiple exploration and production assets and has capacity to fund transactions of this nature," the company said.

The tax credit certificates are held by Accumulate Energy Alaska Inc., a 100% owned subsidiary of 88 Energy, the company said. Post-transfer, Accumulate will have no outstanding Alaska tax credit certificates.

"Transfer of the certificates and payment of the proceeds is

see **CREDIT SALE** page 10

## Tourmaline tops Canadian natural gas producers; BC gaining ground

The latest shuffle of Canada's natural gas cards has dealt a winning hand to Tourmaline Oil, which will emerge as the king of Canadian producers when it closes the purchase of privately held Black Swan Energy in a deal valued at C$1.1 billion.

Founded in 2008 by Mike Rose, who remains Tourmaline's chief executive officer, the company has made a staggering rise in its relatively short life.

By adding more than 50,000 barrels of oil equivalent per day of Black Swan volumes to its portfolio, Tourmaline will push its output over 500,000 boe per day.

The acquisition is the Calgary-based company's biggest catch since five years ago when it acquired the shale oil and gas assets of Royal Dutch Shell for C$1.4 billion.

Over the last 18 months, in the thick of the COVID-19 pandemic, Tourmaline has locked up six deals in the Alberta Deep Basin and British Columbia's booming Montney formation, ranked as one of the four biggest plays in North America.

see **GAS SHUFFLE** page 11

EXPLORATION & PRODUCTION

# Going for Interior

*Hilcorp plans Yukon Flats basin test drilling program for this summer*

**By ALAN BAILEY**
*For Petroleum News*

Hilcorp Alaska is planning a stratigraphic test drilling program in the Yukon Flats basin in the Alaska Interior this summer, Luke Miller, Hilcorp manager for Alaska government and public affairs, has told Petroleum News.

"This summer, we plan to execute a shallow stratigraphic test program to better understand the geology of the Yukon Flats basin," Miller said. "We are working closely with Doyon and nearby communities to minimize impacts, including transporting the portable drilling rig via helicopter. We remain optimistic about the resource potential of the Yukon Flats basin and the local economic activity it could generate if successful."

*According to data published by the Alaska Oil and Gas Conservation Commission, the company has obtained permits to drill up to 15 wells in the basin.*

According to data published by the Alaska Oil and Gas Conservation Commission, the company has obtained permits to drill up to 15 wells in the basin. The potential wells are all located in a block of Doyon Ltd. subsurface land around the villages of Birch Creek and Fort Yukon, in the central part of the basin.

see **YUKON FLATS** page 11

FINANCE & ECONOMY

# ANS, Brent top $75

*Highest levels since Oct. 2018 on surprise US crude oil inventory draw*

**By STEVE SUTHERLIN**
*Petroleum News*

Alaska North Slope crude and Brent crude closed above the psychologically important $75 per barrel mark June 23. ANS gained 42 cents to close at $75.06, Brent rose 38 cents to close at $75.19 and West Texas Intermediate moved 2 cents higher to close at $73.08.

Brent made a session high of $76.02 and WTI made a high of $74.25, for each the highest level since October 2018, after the U.S. Energy Information Administration announced a surprise drawdown from U.S. crude inventories of 7.6 million barrels for the week ended June 18, to 459.1 million barrels.

*Despite oil trading above $70 per barrel, investment activity remains low, Rystad said in a June 23 release.*

Analysts had anticipated a 3.9 million-barrel drawdown, according to a Reuters poll.

U.S. crude oil inventories are 6% below the 5-year average for this time of year, the EIA said.

The stage for new highs was set with a price surge at the beginning of the week June 21, as ANS leapt $1.44 to close at $74.63, WTI surged $2.02 to

see **OIL PRICES** page 8

EXPLORATION & PRODUCTION

# Saving Terra Nova

*Suncor Energy could boost stake to 48%; several current owners expected to quit*

**By GARY PARK**
*For Petroleum News*

The Newfoundland government, oil industry associations and labor unions may have moved what most thought was immovable.

Suncor Energy, under intense pressure, has crafted an 11th-hour tentative agreement with its six co-owners to extend production at its Terra Nova offshore field.

If all parties endorse the agreements in principle announced on June 16, there will be a shuffle of the ownership positions and short-term funding for the project that Suncor was on the cusp of decommissioning.

"Although this agreement in principle is not a guarantee, it sets a path forward in the next few months to secure a return to operations for many years to come," said company Chief Executive Officer Mark Little.

*By Suncor's estimate Terra Nova still has 80 million barrels of recoverable crude after recovering 425 million barrels since the project came onstream in 2002 and peaked at about 76,000 barrels per day.*

### 80 million barrels remaining

By Suncor's estimate Terra Nova still has 80

see **TERRA NOVA** page 8

● EXPLORATION & PRODUCTION

# US rotary rig count gains 9, now at 470

By KRISTEN NELSON
*Petroleum News*

The Baker Hughes U.S. rotary drilling rig count was 470 the week ending June 18, up by nine from 461 the previous week and up by 204 from 266 a year ago.

When the count bottomed out at 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 June 18 count includes 373 rigs targeting oil, up eight from the previous week and up 184 from 189 a year ago, 97 rigs targeting gas, up by one from the previous week and up by 22 from 75 a year ago, and no miscellaneous rigs, unchanged from the previous week and down by two from a year ago.

Twenty-five of the rigs reported June 18 were drilling directional wells, 425 were drilling horizontal wells and 20 were drilling vertical wells.

## Alaska rig count unchanged

Wyoming (10) was up by three rigs from the previous week.

Pennsylvania (18) and Texas (221) were each up by two rigs.

California (7), Colorado (10), North Dakota (17), Ohio (9) and Utah (10) were each up by a single rig.

West Virginia (9) was down three rigs from the previous week and Oklahoma (27) was down by one rig.

Rig counts in Alaska (3), Louisiana (52) and New Mexico (75) were unchanged from the previous week.

Baker Hughes shows Alaska with three rigs active June 18, unchanged from the previous week and unchanged from a year ago, when the state's count also stood at three.

The rig count in the Permian, the most active basin in the country, was up by one from the previous week at 237 and up by 105 from a count of 132 a year ago.

## US well servicing rigs

The U.S. well servicing rig count increased slightly in April, the Energy Workforce & Technology Council reported June 16, but numbers are still below pre-pandemic levels.

The council, which began publishing a monthly well service rig count in 1970, compiles data from oil and gas producers and servicing companies throughout North America.

The U.S. active well service rig count was 936 in April, up 1.4% from March, and the highest level since March 2020, the onset of the COVID pandemic. The pandemic low for well services rigs was 456 in April 2020, the council said, and the April count of 936 "remains 10.5% below the February 2020 total of 1,046 rigs."

The council said the rig utilization rate remained steady at 37%, up from lows of 17% in April and May 2020, but below pre-pandemic norms around 45%.

The council does not break rig counts out by state, but by regions, with Alaska reported as part of the West Coast. Highest well servicing rig counts are in West Texas/Permian, which accounted for 300 out of the 936 total in April; there were 125 well servicing rigs active in the West Coast/Alaska region. ●

*Contact Kristen Nelson at knelson@petroleumnews.com*

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● NATURAL GAS

# Gas storage lease PODs OK'd by division

*At Hilcorp's Kenai gas pool 6 and Pretty Creek gas storage leases, cumulative injection is 72.1 bcf of gas, withdrawal 51.2 bcf*

**By KRISTEN NELSON**
*Petroleum News*

Director Tom Stokes of the Alaska Department of Natural Resources' Division of Oil and Gas has approved plans of development for two gas storage leases in Cook Inlet: Hilcorp Alaska's Kenai gas field Pool 6 gas storage lease and Hilcorp's Pretty Creek gas storage lease.

The Pretty Creek POD, approved in late April, is for the smaller of the two storage leases.

The gas storage lease at Pretty Creek, onshore on the west side of Cook Inlet, was granted to Union Oil Company of California in 2005; Hilcorp took over as operator in 2012. Stokes said that in 2015 the division approved Hilcorp's request to extend the lease for one additional term of 10 years, ending Sept. 30, 2025.

The Pretty Creek gas storage lease is some 1,999 acres and uses two horizons for storage, the Sterling 45-0 gas sands and the Beluga 51-5 gas sands, Stokes said in the division's approval letter; Hilcorp uses the Pretty Creek unit No. 4 for gas storage operations.

During the 2020 calendar year the company injected 320.65 million cubic feet and withdrew 613.99 mmcf, compared to injecting 41.91 mcf and withdrawing 177.39 mmcf in the 2019 calendar year.

In its application Hilcorp said estimated total current gas in place within the storage reservoir at Pretty Creek is 1,745 mmcf and with current compression capabilities the working volume in the 51-5 storage reservoir is 1,387 mmcf.


TOM STOKES

"In order to maximize recovery from the 51-5 Pretty Creek storage reservoir during the final 'blowdown', a secondary compressor will likely be installed at the Pretty Creek pad," the company said, allowing for production down to lower pressures at surface.

The division approval said allowing the reservoir to depleted to a lower pressure would maximize recovery.

Hilcorp said it has not yet determined when the secondary compressor would be installed. "The timing will be contingent on the results of native gas production projects in PC-2 and/or any future drill wells."

The division's approval of the 17th POD for the storage lease is for June 1 through May 31, 2022.

### Kenai gas field, Pool 6

The division approved Hilcorp's 17th POD for the Kenai gas field, Pool 6 gas storage lease in mid-June.

Kenai Pool 6 is in the Kenai unit on the east side of Cook Inlet. It was formed in 2006 with Marathon Oil Co. as operator; Hilcorp took over as operator in 2013. In 2016 the division approved a request from Hilcorp to extend the lease for an additional 10-year term, expiring in 2026, Stokes said in the current approval letter. There are some 2,638 acres in Pool 6 and as of April 30, 65.444 billion cubic feet of gas had cumulatively been injected into the pool and 45.031 bcf withdrawn.

*There are some 2,638 acres in Pool 6, the division said, and as of April 30, 65.444 billion cubic feet of gas had cumulatively been injected into the pool and 45.031 bcf withdrawn.*

In the 16th POD Hilcorp planned to look for opportunities to increase Pool 6 gas distribution and replenishment, including bailing sand from the KU 31-07X well, Stokes said, and there was also the potential that the company would drill a new Kenai Pool 6 well and add perforations to the KU 13-06 well to increase deliverability for that week.

The division approval letter said Hilcorp reported drilling a new Kenai Pool 6 producer, the KU 44-01B, brought online in January producing from the Sterling sands.

For the 2020 calendar year, Stokes said, Hilcorp injected 1.916 bcf of gas and withdrew 7.347 bcf from Kenai Pool 6.

In the 17th POD the company proposed recompleting the KDU-01 to the Kenai Pool 6 storage reservoir and recompleting the KU 31-07X from the storage reservoir to other native gas sands in the Kenai unit, with recompletion of KU 31-07X dependent on success of the recompletion of KDU-01.

KDU-01 is shut-in and last produced from the Tyonek sands in 2018; KU 31-07X is a shut-in Kenai Pool 6 injector and producer.

The division approval letter said it was the intention that the two wells, KDU-01 and KU 31-07X, would "essentially swap functions, thereby improving the deliverability of the Kenai Pool 6 through the recompletion of KDU-01 while increasing native gas production in the KU through the recompletion of KU 31-07X."

The approved plan is effective Aug. 1 through July 31, 2022.

In its application Hilcorp said maximum storage capacity at Pool 6 is estimated at 40.94 bcf, with total estimated working capacity of 34.98 bcf.

The company estimated that total gas in place as of the end of 2020 was 18.27 bcf, with working gas in storage estimated at 12.3 bcf.

The new producer, 44-01B, was "necessary to optimize storage operations," Hilcorp said.

There are no long-range plans at Pool 6, the company said, but it is reviewing recompletion of KDU-01 to the Pool 6 gas storge reservoir, and if that is successful, 31-07X will be recompleted, "isolating the Pool 6 storage sand and moving to separate native gas sands."

"KDU-01 currently sits in a favorable location for high productivity from Pool 6, while 31-07X has been exhibiting declines in deliverability, potentially due to fines migration," the company said. ●

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## EXPLORATION & PRODUCTION

# NM threatens ND's No. 2 oil ranking

North Dakota has ranked as the nation's second-biggest oil producer for nine years, but it's on the verge of losing that status because oil production is soaring in New Mexico.

Texas continues to lead the nation in oil production. The Permian Basin spans parts of New Mexico and Texas, and it's arguably the biggest competition for North Dakota's Bakken oil patch. The southern oil-producing region is closer to major refineries and export terminals, and it attracts significant drilling and investment within the oil and gas industry.

*Texas continues to lead the nation in oil production. The Permian Basin spans parts of New Mexico and Texas, and it's arguably the biggest competition for North Dakota's Bakken oil patch.*

The U.S. Energy Information Administration reported June 14 that New Mexico produced 1.16 million barrels of oil per day in March, the most recent month for which data is available from all states. North Dakota's daily oil output that month was 1.11 million barrels, according to data from the state Oil and Gas Division.

But the figures reported by the federal government for New Mexico differ from the numbers produced by the state's own regulators. A state agency there put New Mexico's output at 1.05 million barrels per day, the Bismarck Tribune reported.

It's unclear what accounts for the discrepancy. North Dakota officials say they believe the federal government takes estimates into account. Either way, the states are neck and neck.

"It's a horse race," said Lynn Helms, North Dakota's mineral resources director.

Aside from bragging rights, a state's position holds other implications. Rankings can affect an oil company's ability to find investors to fund a project in a state, Helms said. And North Dakota's ranking matters as the state seeks to "flex its muscle" with federal agencies on issues such as methane emissions rules and oil leasing on public lands, he said.

North Dakota became the nation's second-biggest oil producer early in the Bakken oil boom as horizontal drilling and fracking technology sent the state's oil production skyrocketing. It surpassed Alaska to take second place in 2012.

**—ASSOCIATED PRESS**

Congratulations

# Congratulations ConocoPhillips!

Hats off to ConocoPhillips Alaska President Erec Isaacson and his people on reaching a major milestone for the Willow project in NPR-A.

Two recent things occurred that bode well for the eastern NPR-A project. First, the U.S. Department of Justice filed a legal brief favoring the oil and gas development. This success was followed by the U.S. Department of the Interior finishing its review of the record of decision for the Willow Master Development Plan and finding the ROD consistent with the Biden administration's executive orders on addressing climate change.

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Worley
Yukon Fire Protection

PIPELINES & DOWNSTREAM

# Dakota Access foes seek review updates

By JAMES MACPHERSON

*Associated Press*

Dakota Access oil pipeline opponents asked a judge June 11 to require the pipeline company and the U.S. Army Corps of Engineers to provide detailed monthly status reports while the federal government conducts an extensive environmental review of the project.

The request comes after U.S. District Judge James Boasberg ruled in May that the pipeline, which carries oil from North Dakota to a shipping point in Illinois, may continue operating while the Army Corps of Engineers conducts the review known as an environmental impact statement.

In court documents, attorneys for the pipeline company said Boasberg should not require the monthly reports and also renewed their longstanding request to have the case dismissed.

Boasberg issued his May ruling after attorneys for the pipeline's Texas-based owner, Energy Transfer, argued that shuttering the pipeline would be a major economic blow to several entities, including North Dakota, and the Mandan, Hidatsa and Arikara Nation, in the heart of the state's oil patch.

Earthjustice attorney Jan Hasselman, who represents the Standing Rock Sioux and other tribes, said a decision on whether to appeal that order could come later.

Attorneys for the Standing Rock Sioux and other tribes say the pipeline is operating illegally without a federal permit granting easement to cross beneath Lake Oahe, a Missouri River reservoir near the Standing Rock reservation that is maintained by the Corps. They said preventing financial loss should not come at the expense of the other tribes, "especially when the law has not been followed."

The Standing Rock Sioux, which more than four years ago sued the Corps for granting permits that led then-President Donald Trump to approve pipeline construction, draws its water from the Missouri River and says it fears pollution. The company has said the pipeline is safe.

The $3.8 billion, 1,172-mile pipeline began operating in 2017, after being the subject of months of protests during its construction. Environmental groups, encouraged by some of President Joe Biden's recent moves on climate change and fossil fuels, were hoping he would step in and shut down the pipeline. But the Biden administration left it up to Boasberg.

Attorneys for the tribes on June 11 also requested that Boasberg's court retain jurisdiction over the litigation until the environmental work is completed and a new easement is issued.

Boasberg ordered further environmental study in April 2020, after determining the Corps had not adequately considered how an oil spill under the Missouri River might affect Standing Rock's fishing and hunting rights, or whether it might disproportionately affect the tribal community. ●

FINANCE & ECONOMY

# Alaska Supreme Court rules against Exxon

*Affirms superior court ruling, advisory bulletin not a regulation, cannot be challenged under Alaska Administrative Procedure Act*

By KRISTEN NELSON

*Petroleum News*

In a June 11 opinion the Alaska Supreme Court affirmed a superior court ruling in a suit brought by Exxon Mobil Corp. against the Department of Revenue over an advisory bulletin on applicability of tax credits against the production tax.

Exxon had appealed a superior court ruling in the department's favor; the Supreme Court concurred with the superior court, saying the advisory bulletin cannot be challenged under the Alaska Administrative Procedure Act because an advisory bulletin is not a regulation.

The superior court had granted summary judgment to the department; the Supreme Court agreed.

"Exxon alleged that issuing the advisory bulletin violated APA rulemaking requirements, that the bulletin is contrary to law, and that equitable estoppel should bar the Department from applying the bulletin retroactively," the Supreme Court said.

*The issue arose over a 2017 advisory bulletin which the department issued in response to inquiries from taxpayers and holders of tax credit certificates.*

Both parties sought summary judgment; the superior court granted the department's summary judgment motion, concluding that Exxon's claims were not ripe, so there was no actual controversy.

## 2017 advisory bulletin

The issue arose over a 2017 advisory bulletin which the department issued in response to inquiries from taxpayers and holders of tax credit certificates.

The Supreme Court said for an agency's interpretation to be a regulation under the APA it must implement, interpret or make specific law enforced or administered by the agency and, second, it must affect the public or be used by the agency in dealing with the public.

"Obvious, common sense interpretations of existing law are not regulations under the APA," the Supreme Court said.

"We conclude that the advisory bulletin is not a regulation because it does not satisfy the second prong; the advisory bulletin does not affect the public, and the Department does not rely on the bulletin in its interactions."

The Supreme Court said the Legislature authorized the department to issue interpretations to inform and guide producers without going through APA rulemaking procedures.

"Because we conclude that the nonbinding advisory bulletin is not a regulation under the APA, we also reject Exxon's argument that the advisory bulletin is a prohibited retroactive regulation," the Supreme Court said.

## Claim not ripe

On the issue of summary judgment, the Supreme Court said the superior court held Exxon's claim was not ripe because the department had not yet assessed a tax and noted that Exxon would have had to exhaust administrative remedies before turning to the courts if a tax were assessed.

The Supreme Court said Exxon argued that its challenge was ripe for review because the advisory bulletin retroactively exposed the company to tax liability and civil penalties on tax filings already made, as well as exposing it to future liability, and also said the issue was fit for judicial review because it was a purely legal question that would not get more ripe.

The Supreme Court said the department's response was that Exxon's claim did not represent an actual controversy, and it sought relief from taxes, penalties and interest the department had not assessed. The department argued tax cases were not ripe until a tax assessment was issued following an audit.

"Exxon's claim is not fit for judicial decision because there is no existing tax dispute between the parties, and any injury Exxon eventually may suffer is speculative," the Supreme Court said, and noted that while Exxon presented validity of the advisory bulletin as a purely legal question, "the advisory bulletin is not the Department's final legal determination of Exxon's tax liability."

"We decided that the advisory bulletin is not a binding regulation; the bulletin's interpretation, by its terms and by statute, is not binding on the Department or Exxon," the Supreme Court said.

There is a risk the taxing authority will disagree with the taxpayer's interpretation of credits or write-offs and the taxpayer will be required to pay the tax plus penalties and interest.

"Exxon's position is no different," the Supreme Court said. "The advisory bulletin provided Exxon additional information that may have changed its risk calculation, but a nonbinding guidance document does not create a hardship if there was none before."

As for the risk of interest and penalties, the Supreme Court said: "Exxon conceded at oral argument to us that it has another remedy if it wishes to begin the administrative process sooner — Exxon is permitted to pay production taxes under protest and then request a refund from the Department." ●

*Contact Kristen Nelson at knelson@petroleumnews.com*

● LAND & LEASING

# State approves 2 North Slope easements

*Subsurface easement at Milne Point allows drilling from Moose Pad across corner of KRU; Pikka surface easement is for tie-in pad*

By KRISTEN NELSON

*Petroleum News*

The Alaska Department of Natural Resources, Division of Oil and Gas, has approved two easements at North Slope units, a subsurface easement at Hilcorp Alaska's Milne Point field and a surface easement at Oil Search Alaska's Pikka unit.

Both easements are private, non-exclusive and both June 16 decisions may be appealed within 20 calendar days of that date.

## Milne Point

At Milne Point, Hilcorp has two wells planned from its Moose Pad on ADL 025514 within the Milne Point unit that cross the unit boundary and pass through the Kuparuk River unit on ADL 025519 before returning to the Milne Point unit on ADL 025517.

The division said wellbore M-27 (Frostlands wellbore) is planned as a producing well targeting the Schrader Bluff OA sands and would pass through some 692 feet of ADL 025519 at an approximate depth of 3,600 feet.

The second wellbore, M-33 (New Natanan wellbore) is planned as a polymer water injector well targeting Schrader Bluff OA sands; it would pass through some 192 feet of ADL 025519 also at an approximate depth of 3,600 feet.

"The Moose Pad wells will not be producing hydrocarbons from KRU and no pay zone will be open within 500 feet of the MPU boundary," the division said, with the nearest KRU well, 3K-108, some 5,900 feet from the proposed wellbores at the closest point.

"Moose Pad is the only suitable surface location because there are no other pads nearby that can feasibly drill in the Schrader Bluff Reservoir," the division said.

The scope of the decision is limited to whether it is in the state's interest to issue the easement. "The subject of this decision is to review the portions of the Moose Pad wellbores project impacting state land, which would support Moose Pad production."

The easement is within the Kuparuk River unit on an active oil and gas lease held by ConocoPhillips Alaska. "Hilcorp has received a letter of non-objection from CPAI for activities proposed in the Moose Pad M-27 and M-33 wellbore easement areas," the division said.

The decision, signed by division Director Tom Stokes, said the division found the proposed wellbores necessary for development of Hilcorp's Milne Point resources. The term of the easement is 35 years.

Hilcorp brought the Moose Pad online in April 2019. In a 2018 presentation to the Resource Development Council, David Wilkins, the company's senior vice president for Alaska, said the Moose Pad would be the first new pad built at Milne Point since 2002. He said the pad could accommodate 50 to 70 wells. Pad construction began in 2017; processing facilities at the pad can handle 85,000 barrels of fluid per day.

Hilcorp acquired a 50% interest in the Milne Point unit as part of its 2014 acquisition from BP of properties on the North Slope. BP had been the field's operator since 1994. The Milne Point discovery was made in 1969 by Standard Oil Company of California and the field was delineated and developed by Conoco Inc. beginning in 1980, with regular production beginning in 1985 from the Kuparuk River oil pool.

Hilcorp acquired the remaining 50% working interest at Milne as part of its acquisition of BP's Alaska assets, a sale which was announced in August 2019 and closed in December 2020, following conditional approval by the Regulatory Commission of Alaska.

Moose Pad is on the western edge of the unit. The initial target from Moose Pad is oil in the Schrader Bluff formation on leases ADL 25514, ADL 25515 and ADL 25509, the company said in permitting submitted in 2016, with both production and injection wells planned.

## Pikka

A June 16 private non-exclusive easement signed by division Director Tom Stokes for Oil Search Alaska is for construction of a tie-in pad on state land within the Kuparuk River unit. The proposed easement will be on ADL 25654, a lease held by ConocoPhillips Alaska. The tie-in pad will be part of the Pikka project southeast of the East Channel of the Colville River Delta and west of the Kuparuk River unit.

In April 2020, Oil Search asked the division to put the easement adjudication process on hold due to the market condition changes as a result of the COVID pandemic. This April, Oil Search notified the division it was ready to move forward with the easement and confirmed that there had been no significant change in project details during the hiatus.

The purpose of the project, the division said, is to produce hydrocarbons from previously inaccessible areas from onshore drill sites on state land. This decision only authorizes a private non-exclusive easement for the tie-in pad on state land near Kuparuk Central Processing Facility 2 in the Kuparuk River unit.

"The TIP location will provide space for the tie-in of Pikka pipeline infrastructure to existing North Slope facilities," the division said. The pipelines will include a sales oil line, fuel gas lines and seawater lines, with infrastructure on the TIP to include a pig receiver, metering skid, transformer skid, pipe rack, shutdown valve, laydown area, communication tower and remote electrical and instrumentation module.

Surface dimensions of the pad will be 260 feet by 150 feet, 0.9 acres, wit the requested easement to include the pad and an easement buffer around the pad varying in width to accommodate existing infrastructure. The requested construction easement is some 385 feet by 255 feet, 2.2 acres.

The division said the decision grants Oil Search Alaska an entry authorization for 5 years after issuance of the easement and a private non-exclusive easement with a term, once terms and conditions of the entry authorization have been met, of 35 years from the date of the decision.

The division said the easement is within the Kuparuk River unit on active oil and gas lease ADL 25654, issued to ConocoPhillips Alaska and is near the Kuparuk Transportation Co. pipeline right of way. Oil Search has engaged KTC, the division said, "and will continue to coordinate activities to avoid any unreasonable interference with existing operations in the vicinity of the proposed TIP."

Access to the area will be through existing KRU infrastructure and oilfield roads, regulated by security checkpoints in Deadhorse and under agreements for the use of those improvements, and the division said the decision does not authorize use of other improvements. ●

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## TERRA NOVA

million barrels of recoverable crude after recovering 425 million barrels since the project came onstream in 2002 and peaked at about 76,000 barrels per day.

Production was halted at the end of 2019 while the consortium pondered whether to either bail out of the venture or embark on upgrades costing an estimated C$600 million, mostly involving its floating production, storage and offloading vessel that has storage capacity of 960,000 barrels.

Suncor said that in addition to needing ratification from its partners it requires confirmation of a previously announced offer of C$500 million in royalty adjustments and financial support from the Newfoundland government, which had previously rejected a request from the companies to take a 15% equity stake.

Little said that "despite numerous setbacks, Suncor, as operator, continued to persevere and explore options to achieve an economic return for our investors" while protecting the employment of hundreds of Newfoundlanders.

Until the agreements are finalized there will be no further disclosure of the details, including which companies will be selling their stakes and for how.

### Direct employment down to 445

Since production was halted, Terra Nova Has reduced its direct employment to 445 from just over 1,000.

Dave Mercer, president of Unifor Local 2121, said the reversal was an enormous relief for workers who faced the loss of employment and possibly their mortgages.

"Don't get me wrong," he said. "There is still a lot of paperwork to be done. But it's the best we could have hoped for at this time."

Newfoundland Premier Andrew Furey and Energy Minister Andrew Parsons said they were "optimistic there will be even brighter days ahead for the employees and our province."

Parsons said the tentative agreement validates his government's decision to offer royalty relief and cash.

"The offer we made was good and right," he said.

The present ownership positions are Suncor at 38%, ExxonMobil 19%, Equinor 15%, Cenovus Energy 13%, Murphy Oil 10.475%, Mosbacher Energy 3.85% and Chevron 1%.

Sources in the consortium have said Suncor is prepared to raise its share to 48%.

They also expect to see ExxonMobil, Equinor, Mosbacher and Chevron bail out of the partnership. ●

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## OIL PRICES

close at $73.66, and Brent popped $1.39 to close at $74.90.

The test of the top half of the $70 range added authority to a claim on a new normal trading range in the $70s, which ANS and Brent have occupied since the beginning of June. WTI first closed above $70 June 8.

The U.S. dollar has given up steam after posting its largest single-day gain in 15 months June 16 on comments from the Federal Reserve that it may raise interest rates more quickly than expected. A weaker dollar makes oil more affordable in other currencies.

The Organization of the Petroleum Exporting Countries and its affiliated producing countries will hold its 18th OPEC and non-OPEC Ministerial Meeting July 1 to consider additional tapering of its current production curbs in August. Falling inventories and growing demand point to a likely production boost by the cartel.

### $80 oil coming in Q3?

Jeff Currie of Goldman Sachs said commodities in general are in the early innings of a super-cycle, and oil is currently the commodity with the most upside.

The baton of pandemic reopening is being passed from the United States to Europe, to the emerging markets, Currie said in a June 15 CNBC interview, adding that even India is recovering.

Currie said little new investment is being made despite inventory drawdowns and falling unconventional well production curves, in the face of relatively inelastic supply, "leaving OPEC as the only game in town."

"Our target in third quarter is $80 per barrel," he said.

Francisco Blanch, Bank of America Merrill Lynch head of global commodities said Brent crude oil could hit $100 a barrel in 2022.

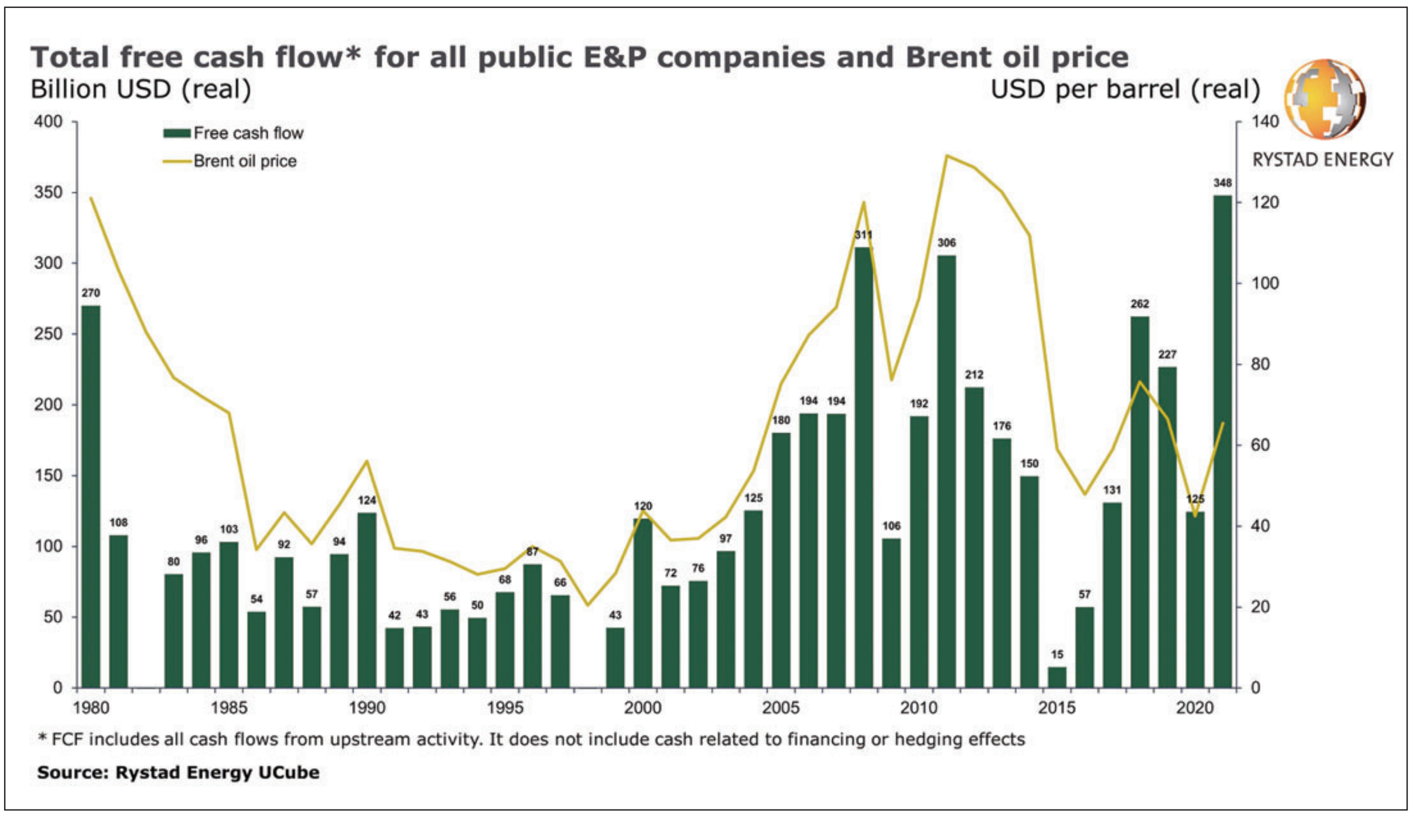
Blanch told CNBC Closing Bell June 21 that OPEC+ is likely to hold back supply for an additional 12 to 18 months.

Demand is only starting to recover, Blanch said, adding that while air travel and road traffic are bouncing back in the United States, the rest of the world is behind.

"I think emerging markets are going to come out of this in 12 months," he said. "Probably by sometime next year, the vaccination campaigns will gather pace, and allow for price to rise as demand recovers."

Blanch said people worldwide are reluctant to use mass transit due to COVID-19, and even if they work at home, they will spend more time in their cars.

On the supply side, a lack of investment will lead to shortage, made worse by government policy and investor pressure on oil companies to address climate change, he said.



* FCF includes all cash flows from upstream activity. It does not include cash related to financing or hedging effects

Source: Rystad Energy UCube

### Record E&P free cash flow 2021

Publicly traded exploration and production companies worldwide are set to generate record-breaking free cash flows in 2021, according to Rystad Energy.

Despite oil trading above $70 per barrel, investment activity remains low, Rystad said in a June 23 release.

The combined free cash flow for the group is expected to surge to $348 billion this year, topping the previous high of $311 billion in 2008.

Rystad estimated that total gross revenue for all public upstream companies will increase by up to $500 billion in 2021, up 55% from last year, excluding hedging effects. It expects the investment level of the companies to grow by 2% in 2021, leading to significantly higher profits.

The turnaround in the U.S. tight oil industry is a key driver of higher results.

Historically, the tight oil segment has struggled to generate positive returns, but that could change in 2021, Rystad said, adding that it estimates that all public tight oil companies will make $60 billion in free cash flow this year, before hedging effects.

The conventional onshore supply segment will earn $160 billion — behind the record set in 2011, Rystad said.

Both deepwater and offshore shelf are recovering this year, each approaching $60 billion in free cash flow, but tight oil is expected to surpass both offshore segments in 2021, it said.

"Oil demand has gradually increased after the initial shock of the Covid-19 pandemic, and OPEC+ continues to hold back volumes from the market," said Espen Erlingsen, Rystad head of upstream research. "The consequent high price movement has been further supported by a slow ramp-up in U.S. tight oil activity. In conjunction with the persisting low investment environment, E&Ps are enjoying super-profits."

Merger and acquisition activity transaction values in 2021 increased 30% compared to 2020, and new projects are also making a comeback, Rystad said.

Greenfield investment sanctioned as of June has matched the full year 2020 total, Rystad said, adding that it expects the full year 2021 level to be double that of last year. ●

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● PIPELINES & DOWNSTREAM

# Court affirms approval of Line 3 pipeline

By STEVE KARNOWSKI
*Associated Press*

The Minnesota Court of Appeals on June 14 affirmed state regulators' key approvals of Enbridge Energy's Line 3 oil pipeline replacement project, in a dispute that drew over 1,000 protesters to northern Minnesota the week of June 7.

A three-judge panel ruled 2-1 that the state's independent Public Utilities Commission correctly granted Enbridge the certificate of need and route permit that the Canadian-based company needed to begin construction on the 337-mile Minnesota segment of a larger project to replace a 1960s-era crude oil pipeline that has deteriorated and can run at only half capacity.

Pipeline opponents said they are considering an appeal to the Minnesota Supreme Court, but that their main focus is trying to persuade President Joe Biden to intervene and the continuing protests. The Biden administration hasn't taken a clear position on Line 3, but a legal challenge is pending in federal court on the U.S. Army Corps of Engineers' approval of a wetlands permit that activists say should be withdrawn.

### Appeals court ruling

Tribal and climate change groups, plus the Minnesota Department of Commerce, had asked the appeals court to reject the approvals. They argued that Enbridge's oil demand projections failed to meet the legal requirements. But the court said there was reasonable evidence to support the PUC's decision.

"With an existing, deteriorating pipeline carrying crude oil through Minnesota, there was no option without environmental consequences," wrote Judge Lucinda Jesson, joined by Judge Michael Kirk. "The challenge: to balance those harms. There was no option without impacts on the rights of Indigenous peoples. The challenge: to alleviate those harms to the extent possible. And there was no crystal ball to forecast demand for crude oil in this ever-changing environment."

But Judge Peter Reyes dissented, agreeing with opponents that the oil demand forecast was flawed. He said the project benefits Canadian oil producers but would have negative consequences for the hunting, fishing, and other rights of the Red Lake and White Earth tribes, and would provide no benefit to Minnesota.

*A three-judge panel ruled 2-1 that the state's independent Public Utilities Commission correctly granted Enbridge the certificate of need and route permit that the Canadian-based company needed to begin construction on the 337-mile Minnesota segment of a larger project to replace a 1960s-era crude oil pipeline that has deteriorated and can run at only half capacity.*

"Such a decision cannot stand. Enbridge needs Minnesota for its new pipeline," Reyes wrote. "But Enbridge has not shown that Minnesota needs the pipeline."

Tribal and environmental groups welcomed Reyes' dissent and vowed to keep fighting. They said their primary strategy going forward won't hinge on appeals, given they could take nine months to a year. Enbridge hopes to put the line into service in the fourth quarter.

"There's a good chance we'll appeal because we should ... but I don't think a remedy's going to come out of it that's going to be meaningful for us," said Frank Bibeau, an attorney for the White Earth Band of Ojibwe and other pipeline opponents.

### Enbridge sees confirmation

Enbridge said in a statement that the court's decision is confirmation that the commission thoroughly reviewed the project and gave the appropriate approvals.

"Line 3 has passed every test through six years of regulatory and permitting review, including 70 public comment meetings, appellate review and reaffirmation of a 13,500-page (environmental impact statement), four separate reviews by administrative law judges, 320 route modifications in response to stakeholder input, and multiple reviews and approvals by the Minnesota Public Utilities Commission for the project's certificate of need and route permit."

At least 1,000 activists from across the country gathered at construction sites near the headwaters of the Mississippi River the week of June 7. They urged Biden to cancel the project, as he did the Keystone XL pipeline on his first day in office. Nearly 250 people were arrested, in addition to more than 250 arrests since construction began in December. A smaller group marched June 10 to the Minneapolis office of Democratic Sen. Amy Klobuchar.

### Project nearly complete

The Line 3 replacement would carry Canadian tar sands oil and regular crude from Alberta to Enbridge's terminal in Superior, Wisconsin. The project is nearly done except for the Minnesota leg, which is about 60% complete.

Opponents of the more than $7 billion project say the heavy oil would accelerate climate change and risk spills in areas where Native Americans harvest wild rice, hunt, fish, gather medicinal plants and claim treaty rights.

Enbridge says the replacement Line 3 will be made of stronger steel and will better protect the environment while restoring its capacity to carry oil and ensure reliable deliveries to U.S. refineries.

Activists are vowing to keep up a summer of resistance against the project amid the escalating battle over energy projects and rising awareness that racial minorities suffer disproportionate harm from environmental damage. And they're drawing parallels with the fight over the Dakota Access pipeline, which was the subject of major protests near the Standing Rock Reservation in the Dakotas in 2016 and 2017.

"Our resistance is clearly growing. We cannot stop and we will not stop," said Tara Houska, founder of the Giniw Collective, one of the Indigenous groups behind the protests. ●

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## RIG RULING

In her March order Gleason found Incidental Take Regulations, the Biological Opinion and the Environmental Assessment/Finding of No Significant Impact for Hilcorp activities in Cook Inlet over five years violated the Marine Mammal Protection Act, the Endangered Species Act and the National Environmental Policy Act.

### The vacatur issue

Plaintiffs argued that the agency's actions should be vacated.

Flawed rules may be left in place "when equity demands" while the agency corrects its error, Gleason said, noting that the 9th Circuit Court of Appeals has said remand without vacating the actions is appropriate only in limited circumstances, with the court to weigh the seriousness of errors against disruptive consequences of vacating the agency's actions in whole or in part.

Plaintiffs argued for vacating the agency's actions while defendants and intervenors argued for remand without vacating the actions.

The federal defendants noted that in the March ruling Gleason upheld portions of NMFS' analysis regarding impacts of some of Hilcorp's activities, including seismic surveys.

Hilcorp said remanding without vacating would not present risk to the beluga whale because of limited use of towing rigs in the Year 3 letter of authorization activities, Gleason said.

She said Hilcorp "states that it plans to implement numerous mitigation measures focused on the tug boats that will render 'the potential for incidental Level B harassment of beluga whales … to be at or near zero.'"

"NMFS may well need to require additional mitigation measures for authorized tug activities in order to meet its statutory obligation," Gleason said. Errors pertained, however, to only a limited set of activities — and did not affect Hilcorp's seismic operations, which mitigation measures, the judge specifically upheld in the March decision. NMFS' errors, she said, affect only "a discrete set of tug operations."

Plaintiffs argued that environmental impact, not economic impact, is what matters in environmental cases such as this, while Hilcorp asserted that partial or full vacating of the agency's decisions would prevent it from undertaking any activities requiring incidental take authorization and would present significant risks to human health and environmental integrity and reliability of energy from Cook Inlet by preventing activities covered by the Year 3 letter of authorization, Gleason said in her order on remedy.

The state noted that it had ordered Hilcorp to plug and abandon a well and said further delay would create higher likelihood that hydrocarbons from that well would migrate into other strata or to the surface. The state also cited the significance of revenue streams from oil and gas activities.

### Disruptive consequences

Gleason said the disruptive consequences of vacating all the actions "would foreclose Hilcorp's planned platform and pipeline maintenance activities, thereby impacting the safety and reliability of Hilcorp's oil and gas production."

The 9th Circuit, she said, has "explicitly considered the economic consequences of vacatur."

Gleason also said Hilcorp's planned maintenance activities do not involve tugs towing drill rigs "and thus are not directly implicated in the Court's order granting partial summary judgment."

There could be harmful environmental consequences from prohibiting pipeline and platform maintenance and preventing the well decommissioning activity planned for this June and, Gleason said, "the risks posed to beluga whales by allowing the use of tugs for the well abandonment will be tempered by Hilcorp's proposed mitigation measures. Those measures resemble or exceed the measures included in a biological opinion for similar oil and gas activities that Plaintiffs described as a 'careful analysis' of the effects of tug noise, and that found the effects of tug noise discountable with those litigation measures," Gleason said, and did not order vacating agency actions with respect to planned maintenance and well commissioning.

As for the two planned production wells at the Tyonek platform, Hilcorp said they are within about a half mile of the abandonment activities, and by drilling them this summer, the drill rig would only have to make one 40-mile round-trip from Nikiski to the North Cook Inlet unit.

The court is allowing that planned production drilling.

However, a partial vacatur applies to Hilcorp's use of tugs to tow drilling rigs for exploratory wells and all production drilling activities other than the planned 2021 production drilling at the Tyonek Platform.

Gleason also ordered Hilcorp to "implement all of the mitigation measures outlined in its opening brief while engaging in well plugging and abandonment in the North Cook Inlet Unit authorized in the Year 3 Letter of Authorization and while engaging in production drilling at the Tyonek Platform."

—KRISTEN NELSON

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## EXPLORATION & PRODUCTION

# Hilcorp requests MGS suspension of prod

Hilcorp Alaska has submitted a request for suspension of production and operation for its Middle Ground Shoal unit in Cook Inlet.

In a June 22 request to Tom Stokes, director of the Alaska Division of Oil and Gas, Hilcorp said it was requesting the suspension of production operations "as all unit production has temporarily ceased due to a leak in a fuel gas pipeline that travels from Platform A to the East Forelands Delivery Facility. As a result of the leak the entire unit fuel gas system has been shut down, prompting the shut-in of all wells and platforms."

Hilcorp said the suspension would be until the fuel gas system is evaluated, repaired and returned to operational status. The company noted that its 2021 Middle Ground Shoal plan of development had conditional approval, with a requirement that the company provide written updates to the division on the evaluation and repair of the fuel gas system.

The leak in the fuel line was reported April 1 and the federal Pipeline and Hazardous Materials Safety Administration issued a corrective action order April 3, requiring reduced pressure in the fuel gas line, the Middle Ground Shoal A pipeline, completion of a temporary repair within 15 days and shutdown of the line if that deadline could not be met. On April 6 PHMSA amended the corrective action order, requiring Hilcorp to replace the line between Platform A and shore.

The amended CAO requires that the MGS-A line remain shut-in and not operated until authorized by the PHMSA director. Hilcorp then had 45 days to submit a replacement work plan and 365 days from the April 6 date of the amended CAO to complete the replacement.

Alaska Oil and Gas Conservation Commission data show only a single day of production from Middle Ground Shoal in April and no production thereafter.

When the Alaska Department of Environmental Conservation, Division of Spill Prevention and Response, issued a final situation report on the leak in early June, it said an investigation into the cause of the release was ongoing, overseen by PHMSA. DEC said PHMSA has approval authority for repairs and that DEC was taking no further response.

—KRISTEN NELSON

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## CREDIT SALE

anticipated to occur within the next few weeks, subject to Alaskan Department of Revenue approvals and processes" the company said. The proceeds will be payable upon completion of the sale and transfer of the outstanding tax certificates.

The debt of $16.1 million, which 88 Energy plans to retire, is held by FCS Advisors, LLC d/b/a Brevet Capital Advisors, 88 Energy said. The debt was due to mature on Dec. 30, 2022. Early repayment penalties have been waived by FCS.

88 Energy said that under its current estimates, the tax credits — had they not been sold — would not have been fully paid out by the state until 2026.

The early repayment of debt will eliminate future cash payments that would have been made towards interest.

"This is a transaction which accelerates the realization of value of the Alaskan Oil and Gas Tax Credits and the early repayment of outstanding debt due to be repaid by the end of 2022," said Ashley Gilbert, 88 Energy managing director. "As a result of the transaction, the company is now set to be debt free with reduced annual overheads of over US$1 million in associated finance costs."

The overall impact of this transaction is not considered material to 88 Energy, the company said.

88 Energy trades on ASX as 88E, on AIM as 88E and on OTC as EEENF.

Over the winter of 2020j-21, 88 Energy drilled the Merlin 1 exploration well in its Peregrine project in the National Petroleum Reserve-Alaska, targeting the prolific Nanushuk reservoir.

88 Energy Ltd. spent $11.8 million on exploration and evaluation in Alaska during the first quarter 2021 — ending March 31 — primarily associated with expenditure on the Merlin 1 well, the company said in its quarterly report issued April 20. It spent $ 1.5 million on the project in the previous quarter.

—STEVE SUTHERLIN

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# YUKON FLATS

## Doyon land

Doyon, the Alaska Native regional corporation for the Alaska Interior, owns several blocks of prospective subsurface land in the basin and has long been interested in the potential for finding and developing oil or gas in its land holdings. As previously reported in Petroleum News, in late 2019 Hilcorp entered into an oil and gas exploration agreement with Doyon for the basin. And in the summer of 2020 Hilcorp conducted an aerial gravity survey of the entire basin. Hilcorp has expressed particular interest in exploration of the Birch Creek area. The company has previously indicated an intent to conduct a seismic survey prior to carrying out any drilling, but now appears to be proceeding with drilling using existing basin data.

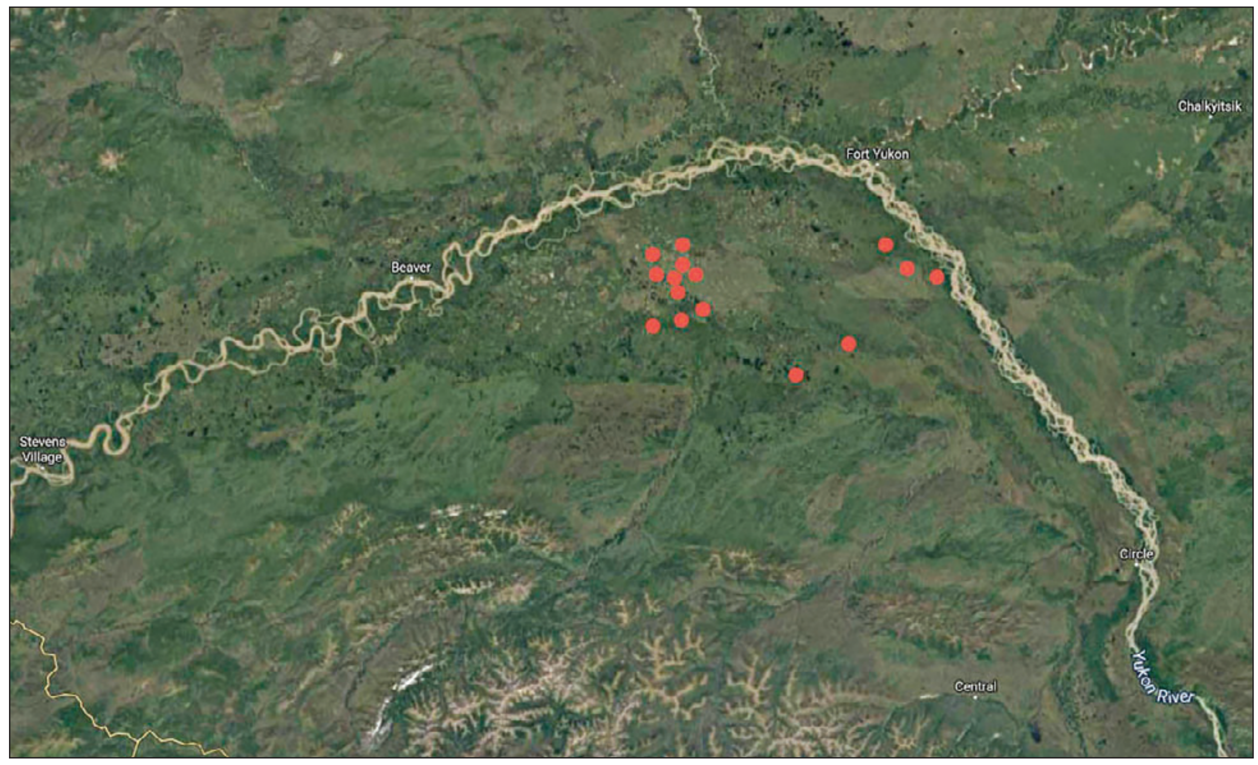
"We're really excited to see what comes next with the program as Hilcorp moves forwards with their plans," Aaron Schutt, president and CEO of Doyon, said in September 2020 in response to Hilcorp completing its gravity survey.

## The Yukon Flats basin

The Yukon Flats consist of an 11.1 million-acre lowland area around the Yukon River, between the trans-Alaska oil pipeline and the Canadian border. Much of the land in the flats comprises the Yukon Flats National Wildlife Refuge. However, in addition to the blocks of Doyon subsurface, some surface land is owned by village Native corporations.

The Yukon Flats basin consists of a sunken region filled with sedimentary strata under the flats, probably deposited within the past 70 million years. There are several relatively deep sub-basins within the overall basin. The likely relatively high temperatures deep in these sub-basins could be conducive to the formation of oil and gas. Hence, the prospectivity of the basin.

In 2004 the U.S. Geological Survey published a new assessment of the basin. The assessment estimated that there might be anywhere within the range of zero to almost 600 million barrels of technically recoverable oil in the basin, with a mean of about 173 million barrels. The corresponding figures for natural gas consisted of a range from zero to almost 15 trillion cubic feet, with a mean of about 5.5 trillion cubic feet. Natural gas liquids estimates range from zero to 350 million barrels, with a mean of almost 120 million barrels. The zeros at the lower ends of these ranges presumably reflected the fact that nobody had yet demonstrated the definite existence of any technically recoverable oil and gas in the basin — this is a promising but truly frontier play.




DATA PUBLISHED BY THE ALASKA OIL AND GAS CONSERVATION COMMISSION

**The locations of 15 potential Hilcorp stratigraphic test wells permitted by the Alaska Oil and Gas Conservation Commission for drilling in the Yukon Flats basin. The basin lies around the Yukon River, between the trans-Alaska pipeline and the Canadian border. The permitted well locations lie between the villages of Birch Creek and Fort Yukon, in the central part of the basin.**

*The Yukon Flats consist of an 11.1 million-acre lowland area around the Yukon River, between the trans-Alaska oil pipeline and the Canadian border. Much of the land in the flats comprises the Yukon Flats National Wildlife Refuge.*

## Existing data

There are some existing gravity, magnetic and seismic data sets for the basin. In 2011 Doyon commented on its recent interpretation of the data, saying that the Birch Creek sub-basin has subsurface structures that could have trapped oil or gas. The Native corporation has also been interested in another sub-basin at Stevens Village, in the western side of the overall basin.

Petrotechnical Resources of Alaska, a consultancy firm that has worked for Doyon in its investigations of the basin, conducted an assessment of the basin a number of years ago. The company commented that there could be an oil field on the scale of the North Slope Alpine field somewhere in the basin.

## Hilcorp's exploration interests

Hilcorp's traditional business model focuses on the rejuvenation of aging oil and gas fields. On that basis the company originally entered the Alaska oil and gas industry to take over operatorship of many of the legacy oil and gas fields in the Cook Inlet basin. Later, the company bought into some of the oil fields on the North Slope, subsequently becoming a major North Slope field owner and operator.

In recent years, however, the company has taken significant interest in exploring for new oil and gas resources in the Cook Inlet region. The company's exploration in the region has included new drilling at Deep Creek on the Kenai Peninsula; drilling at Seaview and Whiskey Gulch near Anchor Point on the peninsula; seismic surveying on the Iniskin Peninsula on the west side of Cook Inlet; and a continuing exploration project in the federal waters of Cook Inlet southwest of Kachemak Bay. The company's new project in the Yukon Flats basin appears to be a continuation of this exploration interest. ●

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# GAS SHUFFLE

Rose said Deep Basin and Montney are Canada's "two best and most profitable gas plays and that's where our largest presence is."

He said the Black Swan takeover is a "generational opportunity" to consolidate Tourmaline's production in the two formations.

"If commodity prices keep going up, or even hold where they are, I think (other merger and acquisition opportunities) will disappear."

Under the deal, Tourmaline will issue 26 million of its shares for Black Swan and assume up to C$350 million of debt.

Tourmaline said the deal represents a key part of its ongoing North Montney consolidation strategy to dominate development of the key sub-basin for supplying Canadian LNG.

## Analysts hail acquisition

The latest acquisition was unreservedly hailed by analysts, with Robert Fitzmartyn, the head of energy research at Stifel FirstEnergy, noting that the "high-quality assets (of Black Swan) are being put in the hands of what the market views as a consolidator."

"This not only reinforces Tourmaline as a North American energy stock, but it's emerging on a global scale now."

Rose said his company keeps growing "efficiently to maintain our low costs. We figured out how to be profitable at C$1.75 (per thousand cubic feet) by having such a low-cost structure. Now that's a little nicer with gas in the C$2.75-C$3 range."

Fitzmartyn said he believes investors want to own Tourmaline shares because of their value.

*The CER's Chief Executive Officer Gitane De Silva said the growth of British Columbia's natural gas production could see the province become the largest source of gas in Canada by 2040, knocking Alberta off what was thought to be its unassailable perch.*

He said Rose is a "low-cost guy, so stewardship of the capital is amongst the best."

Tourmaline's hope is to gain offshore buyers for its gas as LNG markets come on stream in about 2025, relying heavily on Montney for its feedstock.

Phil Skolnick, an analyst with Eight Capital, said the improving gas sector economics should see more M&A deals by producers with strong balance sheets.

"It's just the beginning," he said. "There is a good amount left to be done in the Montney."

He said one of the goals of engaging in M&A activity is "to gain more relevancy. The bigger you get the more attention you'll get from investors."

## Gas as wind, solar backstop

Almost unnoticed in this swirl of activity is a development that was almost unthinkable until recently as gas fills the void created by the decline of coal and crude oil.

The Canadian Energy Regulator, a federal government agency, said the trend towards low-carbon gas is essential as customers demand a firm source of power to backstop the intermittent wind and solar power supplies.

The CER's Chief Executive Officer Gitane De Silva said the growth of British Columbia's natural gas production could see the province become the largest source of gas in Canada by 2040, knocking Alberta off what was thought to be its unassailable perch.

Timothy Egan, president of the Canadian Gas Association, said his organization has delivered to the federal government a list of 70 "shovel ready" natural gas related projects worth a total of C$12 billion that are poised to go ahead.

He said "roughly half of them are in British Columbia."

Canadian producers argue that natural gas and LNG from B.C. should qualify for a "green" premium because the province limits the use of flaring and venting at well sites and is implementing regulations to further reduce methane emissions from production by 45%.

The B.C. government has also been investing in new transmissions lines to deliver hydro power to northeast B.C. to drive gas plants and pipelines that would otherwise burn gas.

Another boost for gas producers occurred earlier in June when Ontario Premier Doug Ford, leader of Canada's most populous province, announced a plan to spend C$234 million to provide new gas connections offering heat to 43 rural, remote and Indigenous communities.

The province is also working on a plan to increase the role of gas in electricity generation as Ontario's nuclear reactors are taken offline around 2025.

The Ontario Power Generator, a provincial utility, has already spent C$.8 billion buying three existing gas plants from TC Energy.

**—GARY PARK**

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