



page 3 20 years ago: Kustatan facilities online; Redoubt slowed by tankers

Dunleavy signs Alaska's carbon offset bill, effective immediately

Governor Mike Dunleavy signed Senate Bill 48 into law during the Alaska Sustainable Energy Conference on May 22, making the bill immediately effective.

SB 48, which Dunleavy introduced earlier this year, gives the State of Alaska authority to develop carbon management projects on state lands and sell carbon offset credits and to lease state lands for carbon management purposes. The law will generate new revenue for the state, enable more active forest management, and ensure continued public access and use of state lands, the governor's office said.



GOV. MIKE DUNLEAVY

"Today is a historic day for Alaska," said Dunleavy. "Our constitution requires us to develop, utilize and conserve Alaska's natural resources for the maximum benefit of the people. This legislation allows us to do that in a new way and will generate new revenue for the state without taxing Alaskans or Alaskan businesses."

"Senate Bill 48 empowers the State of Alaska to grow our

see **CARBON OFFSET** page 5

Hilcorp requests vertical pool expansion at Kenai gas field

Hilcorp Alaska has applied to the Alaska Oil and Gas Conservation Commission to expand Sterling gas pool 3 within the Kenai field.

As currently defined in the conservation order for the field, Kenai Sterling gas pool 3 is the accumulation of gas common to and correlating with that found from 4,175 feet to 4,412 feet measured depth in the KU 21-6 well.

Hilcorp is requesting a vertical expansion of the pool, with the definition changed to the interval from 3,715 feet to 4,412 feet MD.

In its request the company said it plans to perforate and produce various sands above Sterling gas pool 3 as currently defined and told the commission various wells have already been perforated in the proposed expansion area, the undefined Sterling, work which required spacing exceptions.

"Any additional perforations in the Undefined Sterling will also require individual spacing exceptions from AOGCC,"

see **HILCORP REQUEST** page 6

Results of Chugach election: 3 directors, charity bill roundup

Chugach Electric Association Inc. members elected three directors to the utility's seven-member board of directors. Election results were announced May 19, at the electric cooperative's annual meeting.

There were 264 members who registered at the meeting, held at ChangePoint in Anchorage, and an estimated 450 in total attendance. Chugach members re-elected current board chair Bettina Chastain and elected Susanne Fleek-Green and Jim Nordlund to the Chugach board of directors.

In the 2023 election 14,156 members cast ballots, a voter turnout of 15.7%.

Of the members who voted 14,091 voted electronically or by paper ballot before the annual meeting, and 65 members cast ballots in person at the meeting.

Chugach members also approved a bylaw amendment creating a bill roundup program that will allow members to roundup their monthly bill to the nearest dollar. Once the program is created, donations made to the program will be managed by a

see **CHUGACH ELECTION** page 6

LAND & LEASING

No forcing Shell

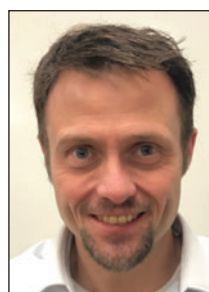
Narwhal's request to compel major to combine leasehold in Harrison Bay denied

By KAY CASHMAN

Petroleum News

On Dec. 20 Anchorage-based Narwhal LLC asked the Alaska Department of Natural Resources' Division of Oil and Gas to expand Shell Offshore Inc.'s West Harrison Bay unit to include Narwhal's leases. On May 23, Division Director Derek Nottingham denied that request in a written decision.

The West Harrison Bay unit encompasses roughly 81,131 acres offshore of Alaska's North Slope; approximately 7 miles north of ConocoPhillips' Bear Tooth unit in the National



DEREK NOTTINGHAM

"Narwhal neither is a party to the WHBU Agreement nor possesses any working interest ownership in the WHBU leases," Nottingham wrote.

Petroleum Reserve-Alaska where the Willow project is located. Narwhal's proposed West Harrison Bay unit expansion area, which includes Narwhal's leases, is roughly 50,180 acres for a total of 131,311 acres in the shallow state waters.

see **NARWHAL DENIED** page 7

FINANCE & ECONOMY

Tight market, oil up

Massive US crude inventory draw vs debt ceiling impasse risk-off mood

By STEVE SUTHERLIN

Petroleum News

Alaska North Slope crude jumped 95 cents May 24 to close at \$77.82 per barrel, as West Texas Intermediate leapt \$1.43 to close at \$74.34 and Brent leapt \$1.52 to close at \$78.36.

Prices reacted accordingly on the 24th as U.S. Energy Information Administration data confirmed a large draw on U.S. commercial crude reserves that was called a day prior by the API.

Commercial inventories for the week ending May 19 — excluding the Strategic Petroleum Reserve — plummeted 12.5 million barrels from the previous week to 455.2 million barrels — 3% below the five-year average for the season, the EIA said. The mam-

moth draw was a surprise; analysts had expected an increase of 800,000 barrels for the week.

Total motor gasoline inventories fell 2.1 million barrels for the week, ending 8% below the five-year average for the time of year.

The SPR also fell, ending at 358.0 million barrels

see **OIL PRICES** page 5

NATURAL GAS

Court supports FERC

5th Circuit dismisses petition against Alaska LNG Project by CBD, Sierra Club

By KRISTEN NELSON

Petroleum News

The U.S. Court of Appeals for the District of Columbia Circuit has rejected an appeal by the Center for Biological Diversity and the Sierra Club for a review of the Federal Energy Regulatory Commission's order granting authorization to the Alaska Gasline Development Corp. to build and operate the Alaska Liquefied Natural Gas Project.

In its May 16 decision, the court said that in approving the project FERC complied with the Natural Gas Act, the National Environmental Policy Act and the Administrative Procedure Act.

"Some of the issues CBD raises were not exhausted, and we lack jurisdiction to consider them," said Judge Neomi Rao, writing for the court, in the opening paragraph of the opinion. "We reject CBD's other arguments on the merits. FERC's decision to authorize the Alaska Liquid Natural Gas Project was lawful and reasonable. We dismiss the petition in part and deny it in part."

In the concluding paragraph of the opinion Rao said:

"In approving the Alaska Liquid Natural Gas Project, the Commission complied with the NGA, NEPA, and the APA. CBD fails to provide any

see **PETITION DISMISSED** page 6

● EXPLORATION & PRODUCTION

State OKs multiple plan amendments, 1 POD

Approvals include Prudhoe IPA plan of development; additional Kuparuk wells; Kuparuk road maintenance; Badami dock screeding

By KRISTEN NELSON
Petroleum News

Recent approvals by the Alaska Department of Natural Resources’ Division of Oil and Gas include the 2023 plan of development for the initial participating areas at Prudhoe Bay, up to 11 new wells at drill site 3S at the Kuparuk River unit, Oliktok causeway roadway maintenance — also at Kuparuk — and screeding for dock maintenance at Badami.

Prudhoe IPA

As previously reported in Petroleum News (see April 9 issue), Prudhoe operator Hilcorp North Slope is proposing as many as 38 new wells in the initial participating area during the 2023 plan of development period, which covers July 1 through June 30, 2024. In its May 18 approval of the POD, the division said that while as many as 38 wells are planned for the IPA, “some of these wells may be deferred to other areas within PBU, depending on the well economics.”

There are 12 participating areas at Prudhoe. The IPA includes the oil rim PA and the gas cap PA.

Hilcorp planned as many as 11 wells during the 2022 POD, the division said, targeting the Ivishak or Sag River, with six wells completed and a seventh planned during the remainder of the 2022 period, according to the POD sub-

A reduction in workovers is planned for the 2023 POD, the division said, as Hilcorp has worked through the backlog of broken wells at Prudhoe.

mitted in early April.

A reduction in workovers is planned for the 2023 POD, the division said, as Hilcorp has worked through the backlog of broken wells at Prudhoe. Workovers will be done as needed during the 2023 POD. During the 2022 POD, Hilcorp performed 11 workovers with another four well integrity workovers and recompletes planned prior to the end of the 2022 POD.

Hilcorp completed all proposed facility and integrity management projects under the 2022 POD, and has a number of facility upgrades planned during the 2023 POD: CCP compressor upgrades; GC2 B bank slug catcher internals redesign; drill site 18 pipeline construction; and H-pad pipeline construction.

Kuparuk DS 3S

Additional wells are the reason for an amendment to the Kuparuk River unit POD submitted by operator ConocoPhillips Alaska. In its May 22 approval, the division said ConocoPhillips requested authorization for the 11 wells at drill site 3S in early May. The work includes

installing conductors, cellar boxes and temporary mouse-holes for each well prior to drilling the wells, with well houses and “related appurtenances” to be installed after drilling.

Construction equipment for the work will include an excavator, pile driver, crane, skid-steer loader and other equipment as needed. All work will be done on the pad. The project is scheduled to begin June 15.

Oliktok causeway, road maintenance

On May 22 the division approved an application from ConocoPhillips Alaska for an amendment to the Kuparuk River plan of operations for Oliktok causeway and roadway maintenance.


This approval involves placement of 750 cubic yards of clean gravel fill onto 0.45 acres of wetlands to support maintenance of the existing Oliktok causeway and roadway in the Kuparuk River unit.

In addition, 39,250 cubic yards of fill will be placed onto the existing gravel road to restore it to a minimum thickness of 5 feet, protect the underlying permafrost and stabilize the road to support the transportation of heavy equipment.

Work includes mining and hauling gravel from mine site E; gravel placement; compaction of gravel.

The division said an envirovac will be placed at the 12-

see **DOG APPROVALS** page 4

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THIS MONTH IN HISTORY

Forest Oil's Kustatan fully operational

20 years ago this month: Delayed tankers at Drift River terminal slow Redoubt Shoal oil sales after onshore facilities completed

Editor's note: This story appeared in the May 18, 2003, issue of Petroleum News Alaska.

By KRISTEN NELSON
Petroleum News

Forest Oil's Redoubt Shoal development in Cook Inlet, Alaska, is online, although perhaps not as fast or as smoothly as the company would have liked.

Craig Clark, Forest's president and chief operating officer, told analysts May 9 that the company's main Redoubt facilities were completed in the first quarter, with "full start-up of our Kustatan oil and electrical generation facilities." The Kustatan facilities are onshore on the west side of Cook Inlet, drilling is from the company's Osprey platform in the inlet.

The company has also added two wells, he said, including the drilling and completion of the sixth well in April with production at more than 800 barrels of oil a day and 1,000 barrels of water. Forest is producing "around 4,000 barrels of oil a day from four wells," he said. The Redoubt Shoal No. 3 has been completed as a gas well and the Redoubt Shoal No. 4 is being sidetracked as an oil well.

But while the Kustatan facilities became fully functional in February, oil from the company's new Redoubt Shoal field hasn't added as much as it could have to the company's bottom line because of tanker delays at Drift River where the oil is loaded for shipment.

"Oil inventory buildup in Alaska as a result of the delayed tanker liftings cost us approximately 6 million (cubic feet per day equivalent)," said Dave Keyte, the company's executive vice president and chief fiscal officer. "That is, sales volumes for the quarter were under the actual volumes by 6 million (cubic feet equivalent) a day."

Production not at top end of range

For all its operations, the company reported 256.3 million cubic feet of gas a day and 23,100 barrels of oil per day, with net daily sales volumes of 394.7 million cubic feet equivalent per day. Redoubt Shoal is averaging approximately 4,000 bpd of oil from four wells.

Comparing first-quarter performance to projections, Keyte said: "in general we've reduced the top end of our production range due to being slow out of the chute at Redoubt Shoal."

The company reported that its Kustatan onshore production facilities and electrical generators became fully opera-



An aerial view of the Forest Oil Kustatan facilities are onshore on the west side of Cook Inlet. Drilling is from the company's Osprey platform in the inlet.

But while the Kustatan facilities became fully functional in February, oil from the company's new Redoubt Shoal field hasn't added as much as it could have to the company's bottom line because of tanker delays at Drift River where the oil is loaded for shipment.

tional in February, and the Redoubt Unit No. 5A well was placed on production in the first quarter.

The Redoubt Unit No. 6 well was completed and placed online in April at a rate of 881 barrels of oil and 1,078 barrels of water per day.

Clark said near-term challenges include increasing production at Redoubt.

In its first-quarter operational update Forest said recent activity at Redoubt has included repairing the electrical submersible pump in the Redoubt Unit No. 1 well and completing the No. 3 as a gas well. That well recently tested at 8.6 million cubic feet a day. The company is sidetracking the previously drilled No. 4 well, and said it plans to produce

the No. 3 as a gas well and complete the No. 4 as an oil well prior to beginning the drilling of the No. 7. The company plans to have eight completed wells at Redoubt by the end of this year, seven oil wells and one gas well, which will mean adding three more wells this year, Clark said.

Clark said the company also has production of approximately 3 million cubic feet a day from its onshore West Foreland gas well, which is used to reduce Redoubt and Trading Bay field use. The No. 3 gas well at Redoubt may be used for either fuel gas or gas sales, he said.

Goal to improve production

Clark said that the company had some downtime built into its Redoubt Shoal production figures for the first quarter, "and really the tanker lifting was the only shortfall." He said the goal at Redoubt is to reduce downtime and improve production beyond the average of 1,000 barrels per day per well.

"Our peak days are better than that," he said.

Clark said the company's ability to sustain higher

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● EXPLORATION & PRODUCTION

US rotary rig count again down sharply

Count drops 11 for week ending May 19, following 17-rig drop May 12; only 2 states have week-over-week increase; 4 have decreases

By **KRISTEN NELSON**
Petroleum News

The Baker Hughes’ U.S. rotary drilling rig count was down by 11 to 720 the week ending May 19, from 731 on May 12 (when the count dropped by 17 rigs from May 5) and the lowest the count has been since May 2022. The May 19 count is down by eight from a count of 728 for the same period a year ago.

The count dropped in six of the past eight weeks, with the current count down from 755 eight weeks ago and down from a high so far this year of 771 on Jan. 20. The high for 2022 was a count of 784 rigs at the beginning of December.

When the count dropped to 244 in mid-August 2020, it was the lowest the domestic rotary rig count had been since the Houston based oilfield services company began issuing weekly U.S. numbers in 1944.

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

The count was in the low 790s at the beginning of 2020 prior to the COVID-19 pandemic, where it remained through mid-March, when it began to fall, dropping below what had been the historic low in early May with a count of 374 and continuing to drop through the third week of August 2020 when it gained back 10 rigs.

The May 19 count includes 575 rigs targeting oil, down by 11 from the previous week and down by one from 576 a year ago, with 141 rigs targeting natural gas, unchanged from the previous week and down nine from 150 a year ago, and four miscellaneous rigs, unchanged from the previous week and up by two from a

Baker Hughes shows Alaska with eight rotary rigs active May 19, unchanged from the previous week and unchanged from a year ago when eight rigs were also active.

year ago.

Fifty-one of the rigs reported May 19 were drilling directional wells, 650 were drilling horizontal wells and 19 were drilling vertical wells.

Alaska rig count unchanged

New Mexico (109) and Wyoming (15) each added one rig from the previous week.

Texas (357) dropped nine rigs.

Colorado (18) was down by two rigs week-over-week while California (2) and Louisiana (68) were each down by a single rig.

Rig counts in other states were unchanged from the previous week: Alaska (8), North Dakota (37), Ohio (10), Oklahoma (51), Pennsylvania (24), Utah (14) and West Virginia (15).

Baker Hughes shows Alaska with eight rotary rigs active May 19, unchanged from the previous week and unchanged from a year ago when eight rigs were also active. Eight of the Alaska rigs were onshore, unchanged from the previous week, and no rigs working offshore, also unchanged the previous week.

The rig count in the Permian, the most active basin in the country, was down by four from the previous week at 349 and up by six from 343 a year ago. ●

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DOG APPROVALS

acre pad to support construction activities. The project is scheduled to begin in August.

Badami dock maintenance screeding

In early May the division approved an amendment to the unit plan of operations at Badami for Badami dock maintenance screeding.

The request, from Savant Alaska, the Badami operator, is for screeding operations on the Beaufort Sea seafloor in preparation for docking barges at the

Badami dock.

“The screeding operations involve scraping the seafloor with a blow mounted to a barge and flattening the area to a consistent depth of 6.5 feet (local datum),” over an area of approximately 600 feet by 300 feet, 4.1 acres, north of the dock.

The division said no seafloor sediments will be removed and no outside material will be placed.

The screeding operations are planned to begin in May and will be conducted, as needed, during the ice-free season. ●

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CARBON OFFSET

economy by more fully utilizing the state’s forests and tidelands,” said Department of Natural Resources Commissioner John Boyle. “By incentivizing active forest management through carbon offset projects, we can increase the health and productivity of our forests, reduce wildfire risk, and create new jobs and opportunities for Alaskans across the state. I’d like to thank

Governor Dunleavy and the legislature for recognizing this nascent opportunity and setting a new benchmark for environmental stewardship and responsible resource development.”

In addition to establishing the framework for carbon offset projects, the bill also gives the Alaska Oil and Gas Conservation Commission the authority to pursue primary authority over Class VI underground injection wells. Class VI wells are used for geologic sequestration of carbon dioxide.

—PETROLEUM NEWS

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OIL PRICES

May 19 versus 359.6 million barrels May 12. The nation’s emergency crude cache stood at 532.0 million barrels on May 20, 2022.

The May 24 gains capped a three-day rally sparked by a warning to short sellers early in the week by Saudi Arabian Energy Minister Prince Abdulaziz bin Salman to “watch out.”

The warning led to speculation that the Organization of the Petroleum Exporting Countries and allied exporting nations may be eyeing another output cut ahead of the 49th Meeting of the Joint Ministerial Monitoring Committee scheduled for June 4.

ANS leapt \$1.27 May 23 to close at \$76.87, while WTI jumped 92 cents to close at \$72.91 and Brent jumped 85 cents to close at \$76.84.

ANS rose 46 cents May 22 to close at \$75.60, as WTI rose 44 cents to close at \$71.99 and Brent rose 41 cents to close at \$75.99.

Debt ceiling woes spark risk-off stance

On Friday May 19, however, prices fell as traders fretted that President Biden and U.S. House Republicans had paused talks on raising the federal government’s \$31.4 trillion debt ceiling.

Biden left the talks and jetted to Hiroshima, Japan, for a G7 economic summit, pushing a potential agreement into the future.

According to the Treasury Department, the government could be unable to pay all its bills as early as June 1 if a pact is not reached.

ANS cratered May 19, sliding \$1.99 to close at \$75.14. WTI and Brent fell also, albeit less abruptly, with the former off 31 cents to close at \$71.55 and the latter off 28 cents to close at \$75.58.

Biden, asked about the debt ceiling at a press conference in Japan said, “This goes in stages, I’ve been in these negotiations before,” according to a May 20 Fox News account.

“I still believe we’ll be able to avoid a default and we’ll get something decent done,” Biden said.

Remarks May 19 from Federal Reserve chair Jerome H. Powell threw additional cold water on risk sentiment.

Powell said that inflation continued “far above” the central bank’s target but that no decisions had been made to raise rates at the Fed’s June meeting.

“The data continues to support the committee’s view that bringing inflation down will take some time,” he said.

The Fed remarks along with debt ceiling woes took U.S. equity prices, Treasury yields and the dollar lower.

May 18 was an off day for oil as well. ANS fell 82 cents to close at \$77.13, WTI dropped 97 cents to close at \$71.86 and Brent slid \$1.10 to close at \$75.86.

Oil was up on May 17 however, and ANS neared the \$78 mark but missed after a leap of \$2.16 to close at \$77.95. WTI jumped \$1.97 on the day to close at \$72.83

and Brent rode a gain of \$2.05 to close at \$76.96.

Data coming out of China cast some hope into the mix of sentiment for the week, showing that the country’s April oil refinery throughput had risen 18.9% from 2022 to the second-highest level on record, according to a May 19 Reuters report.

China refiners maintained high run levels in response to robust recovering domestic fuel demand and to bolster transportation fuel stockpiles ahead of the summer travel season.

On a Wednesday-to-Wednesday basis, market factors balanced demand destruction fears and ANS retraced a rebound rally from its May 3 low on bank failure contagion fears which slashed the Alaskan benchmark to \$70 and change. ANS ultimately trimmed just 13 cents over the period from its May 17 close of \$77.95 to \$77.82 May 24.

ANS never broke above \$78 over the week but Brent did, reaching \$78.36 May 24. In the process, Brent deprived ANS of its short-lived premium over Brent that began when ANS overtook Brent on May 9 after the European benchmark’s extended reign over Alaska crude.

The short duration of the ANS premium over Brent eroded the case for a major market shift on May 9, but rather a hiccup brought on by market volatility.

Perhaps the ANS premium reflected a thirst for Pacific oil cargoes springing from the high April refinery runs in China and/or West Coast pricing disruptions brought on by shut in production due to wildfires in Canada.

Volatility is likely to continue. As Petroleum News went to press May 25, the debt ceiling impasse remained, while WTI and Brent were off 1.88% and 1.67% respectively in early trading. ●

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FINANCE & ECONOMY

Pantheon raises \$22M for Alaska activities

On May 17, Pantheon Resources announced that it raised approximately \$22 million in an oversubscribed fundraise and retail offer.

Several existing and new institutional investors participated by way of a placing of 104,179,027 new shares in the AIM-quoted company.

According to the company’s public relations firm the proceeds will be used to accomplish the following:

—Support flow testing of the Shelf Margin Deltaic in the shallow section of the Alkaid 2 well on Alaska’s North Slope.

—Finance two separate independent expert reports from Netherland Sewell and Associates on Pantheon’s Theta West and Alkaid projects.

—Prepare for the dynamic models and field development modelling by SLB (formerly Schlumberger).

—Complete the purchase of additional Alaska North Slope acreage.

—Provide general working capital for the group.

—PETROLEUM NEWS

Exploration plans include Sabre

The “next tranche of exploration prospects” for Forest Oil in Alaska “are off-sets to Redoubt or on the other platforms we have an interest in, followed by our onshore program” and offshore exploration in Cook Inlet, company President and Chief Operating Officer Craig Clark told analysts May 9. The company has around a million acres in the Cook Inlet area, he said.

Redoubt Shoal offsets would involve a deeper test, but the company’s philosophy is to focus on placing development wells in advantageous locations, “but not spend a lot of time on exploration,” he said.

Two additional fault blocks to the north will be offsets.

And, he said, there are some offsets that could be drilled from Unocal platforms, “basically drilling from one of their slots.”

Highly deviated wells could test prospects such as Sabre, Clark said.

—KRISTEN NELSON

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HISTORY

production should improve as the drilling rig moves to another leg. Right now, he said, it’s sitting on top of the producing wells.

On the tanker issue, Clark said the winter weather has an impact. “These are smaller tankers so they have to deal with the

weather.”

But, he said: “The delays are not acceptable and will be addressed in our new contract.”

Clark also said that startup at Kustatan alleviated some of the tanker difficulties. The company has half a million barrels of storage there, he said, “plenty of room for that oil and ... anymore that we might find.” ●

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PETITION DISMISSED

reason for this court to disturb the Commission's reasonable determination. To the extent the issues raised in the petition for review were not exhausted, we dismiss the petition for lack of jurisdiction. We otherwise deny the petition on the merits."

Delegation responds

Alaska's congressional delegation responded May 19 in a joint statement on the court's decision.

"We have proven time and time again that our resources are developed under the most stringent environmental standards in the world," said Sen. Lisa Murkowski, R-Alaska. "This ruling is the latest testament to the thorough vetting and review process undertaken by FERC and reaffirms that the project should be allowed to move forward without delay."

"Tuesday's ruling is more good news for the only fully permitted West Coast LNG project in the United States," said Sen. Dan Sullivan, R-Alaska.

"Over the last several months, my

team and I have worked relentlessly in meeting with key stakeholders — investors, producers, engineering firms, the Biden administration, and Japanese and Korean government officials — to help advance this important project further," he said.

"Alaska's natural gas resources could provide a reliable source of domestic, lower-carbon energy for local and international use while also creating jobs and economic activity across the state," said Rep. Mary Peltola, D-Alaska. "As such, I continue to believe that the Alaska LNG project should be closely studied and considered on its merits."

Project status

In early May AGDC President Frank Richards updated legislators on the project status. He said AGDC's role is to transition the project from state to private investors, while retaining a 25% minority interest, which will keep open the option for the state to invest. AGDC is transitioning Alaska LNG assets to 8 Star, which will manage Alaska LNG through final investment decision. 8 Star ownership likely will consist of a lead party with

other strategic partners taking minority stakes.

At final investment decision, 8 Star will raise construction capital for each of the three project components — the Arctic Carbon Capture facility, the 800-mile pipeline and the LNG facility at Nikiski.

Richards said Goldman Sachs is under agreement with AGDC to raise investment capital for Alaska LNG, with some \$150 million in development capital targeted to get to FID. The money would cover third-party FEED — front-end engineering and design — as well as project management, legal/commercial and 8 Star Alaska overhead.

Gas supply, LNG sales

Richards said potential investors have said gas supply terms are needed prior to investing capital, with the need for gas supply terms communicated to the North Slope producers. Department of Revenue Commissioner Adam Crum and Department of Natural Resources Commissioner John Boyle have joined meetings with producers, as has Goldman Sachs.

Gas supply precedent agreements have been transmitted to the producers, with 8 Star the buyer, so agreements would bind future investors. Fully termed gas supply agreements would need to be negotiated by the private project develop-

er prior to FID.

Engagement from producers has been mixed.

On the LNG sale side, AGDC said active negotiations are underway with multiple LNG offtakers/buyers, with negotiations fairly advanced. Potential buyers include traditional Asian utilities, LNG traders and oil and gas companies, with all buyers creditworthy and large-scale market participants.

AGDC said the project is offering a combination of prices: Brent-linked, Henry Hub, JKM ad fixed price, with a 20-year term with an aggregate price floor covering system tolls and debt service.

In-state supply

For in-state supply, Richards said AGDC has offered agreements to Alaska utilities that will ensure the utilities receive gas supply on preferential terms, including gas provided to Alaska utilities from the project on priority terms; price to be no higher than that paid by LNG facility; Alaska utilities prioritized over LNG in the event of an interruption; supplies of up to 500 million cubic feet per day; and utilities able to adjust take-or-pay commitments in response to changes in demand or new renewable sources of energy. ●

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CHUGACH ELECTION

charitable foundation which will oversee distribution of charity support to 501 (c) (3) organizations within the Chugach service territory.

The cost to members who participate will be between \$0.01 and \$0.99 a month, for an average of \$6.00 a year.

—PETROLEUM NEWS

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HILCORP REQUEST

Hilcorp said.

Hilcorp said sands in the Sterling undefined do not appear to be abnormally pressured compared to sands which already fall in the area defined as Sterling gas pool 3, and said it expects to see a similar result in other wells.

Hilcorp is 100% working interest owner and operator of the Kenai field and said its "objective is to maximize the recovery of remaining hydrocarbons from the field," something it cannot efficiently do under the current conservation order rules for the field "without strenuous and lengthy administrative requests" and approval by AOGCC.

Change to facilitate production

While the current rules and procedures for the Kenai field "may have adequately protected correlative rights and prevented waste during the field's initial discovery

and following development, they are not applicable to the effort necessary to explore, produce and develop the remaining hydrocarbon reserves at this time," Hilcorp said.

The company said that with the requested expansion of the Sterling 3 gas pool it "can target smaller, un-drained portions of heterogeneous sand bodies that lie above the current Sterling Gas Pool 3," areas that cannot be produced currently without a spacing exception.

It said the request would allow it to produce Kenai "gas pools which otherwise could be bypassed. If AOGCC does not grant approval Hilcorp will be unable to evaluate potential Sterling pay within various KU wells, without strenuous and lengthy administrative procedures by both Hilcorp and AOGCC. Hilcorp could bypass potential pay, resulting in the premature plugging and abandonment of various KU wells after sand depletion, thus reducing the ultimate recovery."

AOGCC production data for April, the most recent available, show one well producing from the Sterling 3 gas pool, with production for the month of 15,372 thousand cubic feet, mcf. Cumulative production from the Sterling 3 gas pool, which began producing in 1965, is 335,651,418 mcf.

AOGCC has tentatively scheduled a public hearing on the request for 10 a.m. July 18 at its Anchorage offices, but said if it does not receive a request for the hearing by 4:30 p.m. June 8, it may issue an order without a hearing.

—KRISTEN NELSON


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NARWHAL DENIED

Because Narwhal has no direct interest in the West Harrison Bay unit, or WHBU, and because the activities proposed by Narwhal in its plan of exploration on its leases can be conducted on a lease-by-lease basis or Narwhal can apply to form a separate unit comprised of its own leases, expansion of the WHBU is unnecessary, Nottingham said in his decision.

Shell agreed.

On April 6, Shell International Exploration & Production, parent of Shell Offshore, WHBU operator and 100% working interest owner of the unit's leases, emailed comments to the division about Narwhal's proposed expansion. "Shell's topics of concern," Nottingham summarized, "related to Narwhal's technical data, State of Alaska regulatory criteria, and the Division's statutory scheme regarding unit expansion."

More specifically, in Nottingham's words, Shell commented that:

—Narwhal has not conducted its own seismic survey, but rather appears to rely on the same 2D and 3D seismic survey datasets used by Shell in its application to form the WHBU:

—Narwhal is not seeking to voluntarily unitize the leases to aid exploration or production, instead, Narwhal's unprecedented proposal involves the forced creation of a joint venture with Shell, the removal of Shell as the operator of the unit, and a new plan of exploration;

—Narwhal has failed to satisfy the criteria of 11 AAC 83.303;

—Involuntary expansion is contrary to the department's statutory scheme;

—Narwhal's application is untimely; and

—Although Narwhal has reached out to Shell with multiple commercial proposals, including lease combinations, and proposals to purchase Shell’s leases, “these proposals were considered in depth by Shell, but Shell declined these offers.”

Alaska law and WHBU Agreement

Alaska law provides that lessees and their representatives “may unite with each other, or jointly or separately with others in adopting or operating under a cooperative or a unit plan of development or operation of the pool, field, or like area, or part of it, when determined and certified by the commissioner to be necessary or advisable in the public interest,” Nottingham wrote. (The commissioner refers to

More importantly, Narwhal has not demonstrated that there exists one or more oil or gas reservoirs as defined in 11 AAC 83.395(6) extending across the current WHBU boundaries into Narwhal's leases.

the DNR commissioner, who previously authorized the division director to rule in these matters.)

Further, 11 AAC 83.303(a) provides in pertinent part that the commissioner will approve a proposed unit agreement for state oil and gas leases if he makes a written finding that the agreement “is necessary or advisable to protect the public interest considering the provisions of AS 38.05.180(p) and this section.”

In this case, Nottingham wrote, Narwhal alone seeks expansion of Shell's WHBU. Both the applicable statute and regulation, however, through use of the words "may unite," and "cooperative" evince the existence of a relationship between parties. As indicated previously, Shell declined all of Narwhal's multiple commercial offers. Further, he wrote, the WHBU Agreement must be considered.

The WHBU Agreement is a contract between the state of Alaska via the division and the lessee Shell Offshore. “Narwhal neither is a party to the WHBU Agreement nor possesses any working interest ownership in the WHBU leases,” Nottingham wrote.

Narwhal's having no direct interest in the WHBU alone would oblige the division to deny Narwhal's application, he said.

“A plain reading” of state law “supports the view that Shell and the Director, exclusively, have the discretion to apply for unit expansion,” Nottingham wrote.

No compelling reason

“A unit must encompass the minimum area required to include all or part of one or more oil or gas reservoirs, or all or part of one or more potential hydrocarbon accumulations. 11 AAC 83.356(a). Narwhal has submitted confidential geological, geophysical, and engineering data in support of its application for unit expansion.” Nottingham wrote.

The division, “upon careful consideration of AS 38.05.180(p) and 11 AAC 83.303, concludes that approval of the application is unnecessary and inadvisable to protect the public interest.”

First, he wrote, Narwhal has no direct interest in the WHBU, its exploration and development, or any lack thereof.

Second, Nottingham said, Narwhal has not demonstrated that there exists one or more oil or gas reservoirs.

Finally, any existence of potential hydrocarbon accumulations (PHAs) within the area of Narwhal's leases does not necessitate compelled expansion of the WHBU as the activities proposed by Narwhal in its plan of exploration may be conducted on its own leases on a lease-by-lease basis regardless of whether there may be one or more PHAs that extend across the current WHBU boundaries into the Narwhal leases.

Lightly explored

In regard to exploration, Nottingham noted that the “WHBU area remains lightly explored after initial efforts in the 1970’s and 1980’s. Exploration activity is much higher onshore to the south of the WHBU. No wells have been drilled in the WHBU acreage or the proposed unit expansion acreage.”

Both Shell and Narwhal have said they see Brookian potential in their West Harrison Bay leasehold.

The Nanushuk formation of the Brookian across the North Slope has had a high percentage of successful discoveries and development.

“The Pikka and Willow discoveries are both proceeding to development. Within the Colville River unit, the Qannik sandstone is also being developed. Exploration of the Nanushuk continues. The Torok formation also has had successful discoveries on the North Slope. The Colville River unit Nanuq-Nanuq participating area and the Ooguruk unit Torok participating areas produce from the Torok formation,” Nottingham wrote.

In conclusion, “Narwhal has not demonstrated that there exists one or more oil or gas reservoirs in the WHBU area,” he said.

More importantly, Narwhal has not demonstrated that there exists one or more oil or gas reservoirs as defined in 11 AAC 83.395(6) extending across the current WHBU boundaries into Narwhal's leases.

None of the activities proposed by Narwhal require unit expansion either to efficiently recover oil and gas or minimize adverse impacts, he said.

Unit expansion also would not promote the conservation of other natural resources, because the proposed plan of exploration involving Narwhal leases will not lead to a more efficient use of gravel, water, and other natural resources than would the same activities conducted on a lease-by-lease basis, Nottingham noted. ●

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Petroleum

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