Petroleum news

page 5 ANS competition: 14 of 20 tankers at Calif. ports anchored indefinitely

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ConocoPhillips logs $1.7B loss, cuts its Alaska output by half

BREAKING NEWS

On April 30 ConocoPhillips reported a net loss of nearly $1.74 billion, or $1.60 per share, for the first quarter of 2020, which compares to $1.8 billion, or $1.60 per share, in earnings for the first quarter of 2019. At the same time the company said it was cutting June production by 420,000 net barrels of oil equivalent per day, 100,000 barrels of which will come from its Alaska's North Slope daily production — specifically from the Kuparuk River unit, GMT-1 and the Colville River unit.

The other June production cuts will be 260,000 barrels a day from the Lower 48 and 100,000 barrels a day from Canada at Surmont.

see **CONOCO LOSSES** *page 6*

Hilcorp to start gas flowing from Anchor Pt Seaview field this year

A newly discovered natural gas field — Hilcorp's Seaview — will soon be online on the southern Kenai Peninsula.

This is not a large development: there is a single pad with one well in place and two more planned, one this year and one next.

The Alaska Department of Natural Resources' Division of Oil and Gas said April 27 that Hilcorp has filed for authorization for the development phase of the project near Anchor Point, which includes construction of a new natural gas production facility and up to two new wells.

Hilcorp drilled stratigraphic tests in the area in 2017 and applied to the state in the summer of 2018 for an exploration

see **SEAVIEW FIELD** *page 8*

North Slope explorer 88 Energy set to buy NPR-A lessee XCD

DOUGAL FERGUSON

Alaska-focused oil explorers 88 Energy and XCD Energy are looking at merging their North Slope assets.

According to April 27 press releases from both publicly traded Australia-based companies, XCD received a non-binding takeover offer late Friday April 24 to acquire all of the fully paid ordinary shares and listed options on issue in XCD Energy, with discussions between the two ASX-listed firms continuing through the weekend.

The unsolicited non-cash offer for 100% of XCD's shares involved each XCD shareholder receiving 1.67 88 Energy shares

see **88 ENERGY BUY** *page 9*

Amendment to Enstar contract with Hilcorp extends pact 10 years

Enstar Natural Gas Co. has applied to the Regulatory Commission of Alaska for approval of an amendment to a gas sale and purchase agreement between Alaska Pipeline Co. and Hilcorp Alaska LLC which would extend the existing agreement by 10 years and, the company says, reduce the cost of gas to consumers.

While the agreement is between Alaska Pipeline Co. and Hilcorp, Enstar said RCA regulates Enstar and Alaska Pipeline Co. as a single entity, and its use of Enstar includes both APC and Enstar.

The existing agreement, approved by RCA in 2016, covers supply of natural gas between April 1, 2018, and March 31, 2023.

see **GAS CONTRACT** *page 8*

FINANCE & ECONOMY

BP confirms sale

Upstream, midstream Alaska assets sale to Hilcorp may close separately

By KRISTEN NELSON

Petroleum News

JANET WEISS

JASON REBROOK

Market and regulatory hiccups have raised questions from some quarters over whether BP's sale of its Alaska assets to Hilcorp would go through. Since the deal was announced in August, the COVID-19 pandemic has decimated demand on top of existing over supply.

On April 26 BP confirmed that it plans to go ahead with sale of its Alaska assets to Hilcorp and said in a statement that while the total sale consideration remains at the $5.6 billion disclosed when the sale was announced in August, financial terms have been adjusted to reflect the market.

BP said it continues to expect sale completion in mid-2020, following renegotiation of financial terms "to respond to the current environment."

But the sale may occur in two phases — upstream first and then midstream.

see **BP SALE** *page 11*

FINANCE & ECONOMY

Furie favors Hex deal

Furie attorney: potential buyers must make deal with lenders, as Hex did

By STEVE SUTHERLIN

Petroleum News

When Furie Alaska Operating LLC and affiliated companies filed a voluntary petition for Chapter 11 in the U.S. Bankruptcy Court for the District of Delaware Aug. 9, 2019, the sale of the debtors' Cook Inlet area production assets and the Kitchen Lights unit was scheduled to close in early January 2020 — not later than 150 days from the petition date.

The January date has come and gone, and two deals have fallen through. Now the debtors are working toward gaining court approval for a third deal with Anchorage-based Hex LLC, which is relying on a loan from the Alaska Industrial Development and Export Authority to close the transaction.

Hex was also the proposed buyer from the first deal — now defunct — which was based on Hex's high bid in the scheduled auction for the Furie assets last year.

In the meantime, a fourth proposal has surfaced, from Escopeta KLU Operating LLC, a company led by Danny Davis, former president of Escopeta Oil — original operator of the Kitchen Lights unit.

Davis told Petroleum News April 17 that Escopeta KLU had made a competing offer for the Furie assets, but the offer was rebuffed without serious consideration by the debtors.

"We were offering more cash; when you have cash you can get out of a bankruptcy quicker, the company is stronger because the Hex deal has a

see **FURIE DEAL** *page 11*

FINANCE & ECONOMY

Alaska oil biz unknowns

How low can TAPS go? How high must ANS crude climb to restart drilling?

By KAY CASHMAN

Petroleum News

Alaska's oil industry has entered uncharted waters thanks to a combination of falling demand from the reduction in worldwide economic activity related to the coronavirus and the oil price war between Saudi Arabia and Russia that was in part aimed at quashing the U.S. shale industry. Both hit particularly hard on the U.S. West Coast where most of Alaska's crude is sold.

Major impacts to Alaska's oil industry to date include North Slope explorer and producer budget cuts; the shutdown of BP and ConocoPhillips development drilling at the fields they operate, including biggies Prudhoe Bay, Kuparuk and

see **UNCHARTED WATERS** *page 12*

Nothing unusual

MICHELLE EGAN

The operator of the trans-Alaska pipeline system says its recent 10% slowdown of the oil flowing through the 800-mile line is not unusual, nor is it connected to the drop in oil prices and the coronavirus pandemic.

In an April 24 interview with Michelle Egan, a member of the leadership team and chief communications

see **TAPS OPERATOR** *page 12*

● UTILITIES

IGU defers LNG plant expansion decision

Collapse in oil price because of COVID-19 raises uncertainties over gas demand in Fairbanks and questions over project economics

By **ALAN BAILEY**
For Petroleum News

The Interior Gas Utility has decided to postpone a final investment decision for the proposed expansion of the Titan liquefied natural gas facility near Point Mackenzie on Cook Inlet. The plant expansion forms part of the Interior Energy Project, an Alaska Industrial Development and Export Authority sponsored initiative to bring increased supplies of affordable natural gas to Fairbanks and its surrounds. Gas competes with fuel oil for heating buildings. And the economics of the gas supply expansion depends critically on projected rates of conversion to the use of natural gas for powering furnaces.

Gas is delivered to Fairbanks in the form of LNG, carried by road tanker from the Titan plant. As a next step in the expansion of gas supplies, IGU has planned to increase the capacity of the plant from 50,000 gallons per day to 150,000 gallons per day, with the possibility of a subsequent further 100,000 gallons-per-day expansion. The Fairbanks based utility had commissioned a front-end engineering and design study for the expansion, with that study leading to a final investment decision for the first stage of the expansion.

Following completion of the FEED project, the IGU management had recommended that the IGU board should proceed with the investment. And AIDEA had approved the issue of bonds that would be required to fund the project.

Changed recommendation

The IGU board scheduled a special meeting on April 21, to determine whether to agree with the IGU management's FID recommendation. But before the formal start of the meeting Dan Britton, IGU general manager, announced that he is now recommending that the FID needs to be deferred as a consequence of uncertainties relating to the COVID-19 pandemic. The board has concurred with Britton's assessment of the situation.

Britton told the board that his original FID recommendation had been based on certain assumptions and information that were known at the time. Since then there has been a sustained drop in the oil price coupled with challenges in the economy that together will likely impact IGU's forecasts for future gas demand in the Fairbanks region, Britton said. He said that he still believes an expansion by IGU of the LNG plant represents the best long-term solution for IGU's customers but that it is not possible to ignore the short-term realities relating to an unprecedented situation.

Potential costs

There are potential costs associated with the decision delay. Britton commented that, although a short delay of around a couple of weeks would not trigger significant impacts, the likely delay beyond that could raise a series of issues. For example, the vendor selected for the Titan plant expansion has priced the components required for

see **PLANT EXPANSION** page 4

contents

Petroleum News | *Alaska's source for oil and gas news*

Alaska-Mackenzie Rig Report

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Milne Point, M-43	Hilcorp
Dreco 1000 UE	16 (SCR/TD)	Standby	
Dreco D2000 Uebd	19 (SCR/TD)	Standby	
AC Mobile	25	Standby	
OIME 2000	141 (SCR/TD)	Standby	
	142 (SCR/TD)	Standby	
TSM 700	Arctic Fox #1	Standby	
Hilcorp Alaska LLC			
Rotary Drilling	Innovation	Milne Point, I Pad	Hilcorp Alaska LLC
Kuukpik Drilling	5	Deadhorse	Available
Nabors Alaska Drilling			
AC Coil Hybrid	CDR-2 (CTD)	Deadhorse, Cold Stacked at Nabors Deadhorse Yard	BP
AC Coil	CDR-3 (CTD)	Kuparuk, Cold Stacked at 12 Acre Pad	ConocoPhillips
Ideco 900	3 (SCR/TD)	Deadhorse, Stacked	Available
Dreco 1000 UE	7-ES (SCR-TD)	Kuparuk, Cold Stacked	Oil Search
Mid-Continental U36A	3-S	Stacked	Available
Oilwell 700 E	4-ES (SCR)	Stacked	Available
Dreco 1000 UE	9-ES (SCR/TD)	Stacked	ConocoPhillips
Oilwell 2000 Hercules	14-E (SCR)	Deadhorse	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked	Brooks Range Petroleum
Oilwell 2000 Canrig 1050E	27-E (SCR-TD)	Stacked	Glacier Oil & Gas
Oilwell 2000	33-E	Deadhorse	Available
Academy AC Electric CANRIG	99AC (AC-TD)	Stacked	Repsol
OIME 2000	245-E (SCR-ACTD)	12 Acre Pad, stacked	ENI
Academy AC electric CANRIG	105AC (AC-TD)	Stacked	Oil Search
Academy AC electric Heli-Rig	106AC (AC-TD)	Stacked	Great Bear Petroleum
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Deadhorse	Available
Superior 700 UE	2 (SCR/CTD)	Deadhorse, stacked	Available
Rig Master 1500AC	4 (AC/TD)	Oliktok Point	ENI
Parker Drilling Arctic Operating LLC			
NOV ADS-10SD	272	Deadhorse, Stacked	Available
NOV ADS-10SD	273	Deadhorse, Stacked	Available

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
BP			
Top Drive, supersized	Liberty rig	Inactive	BP
Doyon Drilling			
Sky top Brewster NE-12	15 (SCR/TD)	Standby	
Nabors Alaska Drilling			
OIME 1000	19AC (AC-TD)	Oooguruk Phase 1	ENI

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
BlueCrest Alaska Operating LLC			
Land Rig	BlueCrest Rig #1	Stacked	BlueCrest Alaska Operating LLC
Glacier Oil & Gas	Rig 37	West McArthur River Unit Workover	Glacier Oil & Gas
All American Oilfield LLC			
IDECO H-37	AAO 111	Stacked in the Peak yard	Available
Hilcorp Alaska LLC			
TSM-850	147	Stacked	Hilcorp Alaska LLC
TSM-850	169	Kenai Gas Field, well 24-32	Hilcorp Alaska LLC

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Hilcorp Alaska LLC			
National 110	C (TD)	Platform C, Stacked	Hilcorp Alaska LLC
	Rig 51	Steelhead Platform, Stacked	Hilcorp Alaska LLC
	Rig 56	Monopod A-13, stacked	Hilcorp Alaska LLC
Nordic Calista Services			
Land Rig	36 (TD)	Kenai, stacked	Available
Spartan Drilling			
Baker Marine ILC-Skidoff, jack-up		Spartan 151, stacked at Rig Tenders where pre mobilization work is being performed	Hilcorp Alaska LLC
Furie Operating Alaska			
Randolf Yost jack-up		Nikiski, OSK dock	Available
Glacier Oil & Gas			
National 1320	35	Osprey Platform, activated	Glacier Oil & Gas

Mackenzie Rig Status

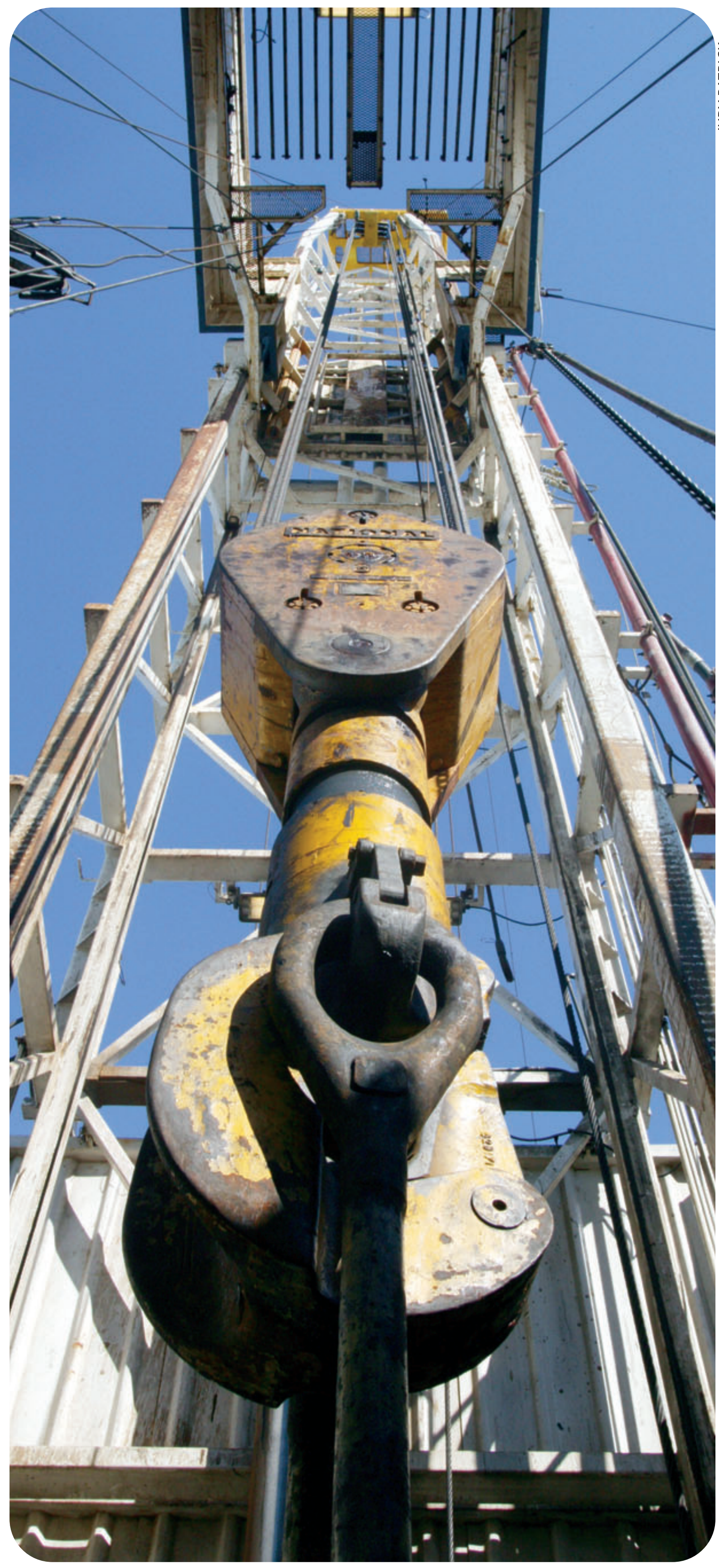
Canadian Beaufort Sea

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

The Alaska-Mackenzie Rig Report as of April 30, 2020.
Active drilling companies only listed.

TD = rigs equipped with top drive units WO = workover operations
CT = coiled tubing operation SCR = electric rig

This rig report was prepared by Marti Reeve



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	April 24	April 17	Year Ago
United States	465	529	991
Canada	26	30	63
Gulf of Mexico	17	17	21

Highest/Lowest		
US/Highest	4530	December 1981
US/Lowest	404	May 2016

*Issued by Baker Hughes since 1944

● EXPLORATION & PRODUCTION

Alberta's survival at stake

Province weighs salt caverns for excess storage, lobbies for tri-lateral North American pact to ban imports from Saudi Arabia, Russia

By GARY PARK

For Petroleum News

The search for answers to the collapse of oil demand, prices and storage capacity is turning frantic in Canada, where the industry's key lobby organization has warned the outcome of the current turmoil could turn grim.

Canada's storage capacity of 40 million-45 million barrels (compared with up to 800 million barrels in the United States) is estimated by the Canadian Association of Petroleum Producers to be 75% full with the remaining 25% likely be claimed "in just a matter of weeks."

Ben Brunnen, CAPP's vice president of fiscal and economic policy, suggested to the Globe and Mail that the rise in storage volumes poses a "very substantial risk to the survivability of Canada's oil and gas sector."

He said producers are "confronted with very difficult decisions and ultimately will be forced to shut in some of their production."

As of now, the industry says shut-ins are at 400,000 barrels per day of total output capacity of 4.3 million bpd, though analysts believe the actual figure is closer to 700,000 bpd and could top 1 million bpd if commodity prices remain in a slump.

Extreme storage pressures in the U.S. have seen traders fill tankers with volumes exceeding those needed by refiners and estimated at 160 million barrels.

The dramatic slide in demand is forcing producers and pipelines to "review every option," including the creation of reserve storage, said a spokesman for Alberta Energy Minister Sonya Savage.

ATCO Group, a diversified global corporation based in Calgary, said it is trying to determine whether salt caverns north of Edmonton could hold 10 million barrels, but noted that conversion could take up to three years to drill and clean.

However, Bob Myles, an executive vice president at ATCO, said shrugging off the idea because of the time-lag would be a poor excuse if the industry faced another oil price downturn in three years.

Trilateral pact proposed

The other solution is the creation of a trilateral Canada-United States-Mexico oil pact, which supporters — mostly in Alberta in Saskatchewan — believe would ensure security of supply and a more sensible pricing arrangement than hoping for commonsense to take hold in OPEC and Russia.

While that idea is so far triggering little debate in the U.S., it is being vigorously promoted by Alberta Premier Jason Kenney.

On the flipside, a number of analysts are cautioning against any attempt to negotiate a continental price-fixing arrangement.

Grant Bishop, associated director of research at the highly regarded C.D. Howe Institute, warned that a "Fortress North America" oil market would require tariffs on oil imports, thus creating a "price floor" on barrels sold.

He said such a plan would likely violate international trade treaties, though he noted that President Donald Trump is not known for observing multilateral trade rules.

Bishop said "a price floor is bad economics and it's the wrong policy to support Canada's oil producers."

He said any attempt to tie Canadian oil to a cartel arrangement "would inefficiently subsidize high-cost producers, interfere with market structure, discourage petrochemical investment and impose a hidden transfer from consumers to oil producers."

Bishop said governments should "enable market access and provide a bridge over (the current) collapse of demand. However, if governments protect high-cost oil producers that cannot compete that cannot compete with

see ALBERTA SURVIVAL page 6

continued from page 2

PLANT EXPANSION

the Titan plant expansion — that pricing expires at the end of April. There is a construction cost inflation risk and an interest risk for the project funding. IGU's bond rating expires in June: There is risk and cost associated with the rating renewal.

Another issue relates to an expectation that some of the money raised through new bonding would be used to fund expansion of the gas distribution infrastructure in Fairbanks North Star Borough. The cost of a smaller bond placement, just to cover these expenses, would be high in relation to the amount of bonding when compared with the relative cost in conjunction with a substantially larger bond issue, Britton commented.

Britton said that he also needs to determine whether project approvals by the impacted boroughs will remain valid for an extended period of time.

Board members Gary Wilken and Jack Wilbur commented that, while they support the need for a decision delay in the light of current uncertainties, they are also concerned about the potential to lose an opportunity to move ahead with the project.

"I'm bullish on the project," Wilken said. "I do not want to use this (situation) as an excuse not to do this project until there is such evidence that it is clear that we should not."

At the end of last year IGU completed the construction of a new 5.25 million-gallon LNG storage facility in central Fairbanks. The utility is also in the process of installing new storage facilities in North Pole. The additional storage, while built to accommodate increased LNG production from the Titan plant, will also allow the warehousing of summer produced LNG from the existing plant — that will enable some increase to IGU's customer base, regardless of the Titan plan expansion. ●

Contact Alan Bailey at abailey@petroleumnews.com

CORRECTION

Unified command includes US Coast Guard

A story in the April 26 issue of Petroleum News, "Response continues at VMT oily water spill," incorrectly listed the U.S. Marine Corps as part of the unified command for the Valdez Marine Terminal oily water spill.

That is incorrect.

Members of the unified command are Alyeska Pipeline Service Co., the U.S. Coast Guard and the Alaska Department of Environmental Conservation.

Petroleum News apologizes for the error.

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Kay Cashman	PUBLISHER & FOUNDER
Mary Mack	CEO & GENERAL MANAGER
Kristen Nelson	EDITOR-IN-CHIEF
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Steve Sutherlin	CONTRIBUTING WRITER
Judy Patrick Photography	CONTRACT PHOTOGRAPHER
Forrest Crane	CONTRACT PHOTOGRAPHER
Renee Garbutt	CIRCULATION MANAGER

ADDRESS
P.O. Box 231647
Anchorage, AK 99523-1647

NEWS
907.522.9469
publisher@petroleumnews.com

CIRCULATION
907.522.9469
circulation@petroleumnews.com

ADVERTISING
Susan Crane • 907.770.5592
scrane@petroleumnews.com

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FINANCE & ECONOMY

Tough competition for Alaska crude

14 of the 20 tankers at the Los Angeles and Long Beach ports are anchored indefinitely at the gateway to ANS oil's largest market

By KAY CASHMAN

Petroleum News

COURTESY OF MARINE EXCHANGE OF SOUTHERN CALIFORNIA

Los Angeles and Long Beach anchorages. A mix of vessel types — cruise ships at the berth (taking bunkers in the foreground), several at anchor, and then tankers anchored down the coast go the right (note the white superstructures).

The recent softness of Alaska North Slope crude prices is indicative of more competition in the U.S. West Coast market where most Alaska oil is sold, including competition from Saudi Arabia, combined with falling demand due to the coronavirus pandemic, which has stifled worldwide economic activity.

CAPT. J. KIP LOUTTIT

There is no better illustration of the oil market glut than the oil tankers anchored along the southern California coast off Los Angeles and Long Beach, which has turned into floating storage for as much as 20 million barrels of crude, according to an April 27 report by Business Insider.

Of the 20 tankers, 14 are expected to remain for an indefinite or extended period and six are supposed to unload and move in the next five days. The New York Times reported that the largest tankers are commanding a price of as much as $200,000 per day.

One of the 20 tankers anchored at Los Angeles and Long Beach, the Polar Discovery, came from Valdez, the terminus of the trans-Alaska pipeline system that carries North Slope crude 800 miles south to be loaded onto tankers. The Polar Discovery anchored April 23 and is due to shift to Berth T-121 at Long Beach to unload on April 29, departing for Valdez April 30.

The Washington is scheduled to arrive from Valdez May 1 and will anchor awaiting berth.

The Polar Endeavor will also arrive from Valdez on May 1 and is going directly to Berth T-121 at Long Beach for unloading.

The U.S. Coast Guard is monitoring the increasing number of large vessels around the two California ports.

More than half full

"As of this morning, there were 28 ships at anchor. There are 48 anchorages in total at the ports of Los Angeles and Long Beach, so 20 anchorages remain available for more ships," Captain J. Kip Louttit told Petroleum News April 28.

Louttit is the executive director of the Marine Exchange of Southern California, an arm of the U.S. Coast Guard in charge of vessel traffic service.

There are also five cruise ships at anchor.

There's plenty of space, he says. And if they ever did run out of anchorages, they have pre-designated "drift boxes" in the ocean where they can ask vessels captains to go to drift within 1 mile of each other.

That would keep all the ships organized and safe, Louttit says.

There is also currently one bulk carrier at anchor, which is scheduled to move in the next five days. (A bulk carrier is a merchant ship specially designed to transport unpackaged bulk cargo, such as grain, coal, ore, steel coils and cement.)

There are also two vehicle carriers, Louttit says, one of which is "scheduled to remain for an indefinite or extended period of time" and one is supposed to move in the next five days.

In term of what's expected he says:

• Two tankers and one tug/barge expected today (April 28) but all three are going to the berth to discharge.

• One tanker and one tug/barge April 29 going to the berth to discharge.

• One tug/barge going to the berth April 30 to discharge.

• On May 1, one tanker is arriving to go to the berth to discharge but a second one will join the tankers at anchor for an "indefinite or undetermined length of time" (presumably the Washington, although that was not confirmed by Louttit).

All safely anchored

In terms of safety, "the anchorages are all out of the way and not in the shipping lanes," Louttit says. "A good analogy is that the ships are in the maritime equivalent of a big parking lot with designated parking places. We place them carefully based on their length, draft, next port, purpose of stay, length of stay, and other factors. Then we, the Coast Guard, and others monitor them while at anchor to ensure they are safe."

The Los Angeles and Long Beach ports had "as many as 36 container ships at anchor during the October 2014-May 2015 timeframe when there was a congestion of container ships, so the 28 out there today is triple the usual, but nothing we have not safely handled before," Louttit says. ●

Contact Kay Cashman at publisher@petroleumnews.com

ENVIRONMENT & SAFETY

On water recovery efforts continue at VMT

Barrels of oil and water recovered from the Valdez Marine Terminal sump incident totaled 1,253 as of April 29, an update from the unified command reported at 6 p.m. that day.

Alyeska Pipeline Service Co., the U.S. Coast Guard and the Alaska Department of Environmental Conservation said some 15 barrels of oil had been metered from the oil and water recovered offshore; on land, less than 1 barrel of oil has been recovered.

Alyeska Pipeline Service Co., the U.S. Coast Guard and the Alaska Department of Environmental Conservation said some 15 barrels of oil had been metered from the oil and water recovered offshore; on land, less than 1 barrel of oil has been recovered.

The spill was discovered April 12, ADEC said in situation reports on the incident, and the source identified as the 58-SU-3 Admin Sump.

ADEC said the oil traveled beneath the snow-covered surface and came out near the head of Berth 4 into Port Valdez. A system was put in place at the shoreline to capture sheen from the outflow of a pipe carrying snowmelt and rainwater before it enters the VMT small boat harbor.

The unified command said the system, put into place the week ending April 24, "ties into the pipe carrying snowmelt and rainwater and helps capture the sheen before it gets to the small boat harbor. Further work to divert outflow from the pipe to other containment before it reaches the shoreline system continues."

"The outflow of the spill to the harbor is a buried perforated pipe from early VMT construction, which ends at the shoreline," the command said April 24.

Gradual decommissioning of crafts and crews from the vessel of opportunity program was authorized by the unified command April 24, with vessels to be cleaned before release from duty. "As many as 19 vessels and their crews have been part of the efforts: 15 vessels and crews from Valdez have worked the entirety of the incident; four from Valdez performed a specific booming assignment and departed once completed," the command said.

Recovery efforts are ongoing on the water, with participants down to one vessel. The boomed area continues to decrease and is now less than three-quarters of its original size, with deployed boom reduced to 17,720 feet from maximum deployment of more than 26,000 feet.

The source of the spill, a sump about a quarter mile uphill from the harbor, was isolated and secured April 13.

The unified command said excavations are continuing to identify the flow path.

Crews excavating have identified segments of the underground flow path, the unified command said April 27, "including a pipe that is suspected of moving the sheen along with snow melt and other natural discharge to the outflow area."

—KRISTEN NELSON

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CONOCO LOSSES

ConocoPhillips Alaska said April 30 in a separate statement that its first quarter Alaska production was approximately 218,000 net equivalent barrels a day of the state's total output of approximately 500,000 barrels per day.

The company is making production curtailment decisions on a month-by-month basis. In May no production reductions were made in Alaska, although development drilling in ConocoPhillips operated North Slope fields was deferred, per a mid-March announcement.

In fourth quarter ConocoPhillips produced an average of 205,000 barrels per day on the North Slope, while in first quarter of this year 198,000 barrels a day came from Alaska, the parent company said.

In its separate April 30 statement, ConocoPhillips Alaska quoted the 218,000 barrel a day figure and said "the ramp down to reduce production will begin in late May. … Any extensions of the curtailment beyond June will be determined on a month-to-month basis. The curtailment is not expected to impact operations of the trans-Alaska Pipeline."

The decision to cut production "was made in response to unacceptably low oil prices resulting from global oil demand destruction caused by the impacts of the COVID-19 pandemic, combined with a global oversupply of oil. The curtailment will essentially leave the oil stored in the reservoirs, available for resumption of production at a later date. The actions ConocoPhillips Alaska is taking with this production curtailment underscore the extraordinary challenges currently facing the oil and natural gas industry in Alaska and elsewhere."

Alaska earnings, operations

Adjusted earnings from Alaska in first quarter were $201,000, as compared to $364,000 in fourth quarter.

ConocoPhillips reported that income tax rates were about 24.3% in Alaska in first quarter, as compared to 22.3% in the Lower 48 and 26.8% in Canada.

In Alaska, ConocoPhillips said it progressed construction on its multi-year North Slope GMT-2 project, which remains on track for startup in late 2021. The company also completed drilling two Tinmiaq wells to further appraise the Willow discovery and one rank exploration well to test the Harpoon prospect, prior to early termination of the 2020 winter exploration program to minimize risks associated with the coronavirus.

Scott Jepsen, ConocoPhillips Alaska's vice president of external affairs and transportation, told the Alaska Support Industry Alliance Sept. 12 that GMT2's estimated peak gross production will be 35,000-40,000 barrels per day from 48 wells.

Upcoming operational activities for the company include several seasonal turnarounds and maintenance projects typically conducted in the second and third quarters each year. These activities are planned in Alaska, Norway and various areas in the Asia Pacific region. Headquartered in Houston, Texas, ConocoPhillips had operations and activities in 17 countries, $65 billion of total assets, and approximately 10,400 employees as of March 31. Production excluding Libya averaged 1,278 MBOED for first quarter, and proved reserves were 5.3 BBOE as of Dec. 31, 2019.

The company ended first quarter with approximately $14 billion of liquidity, including $6 billion of available revolving credit facility.

—KAY CASHMAN

Contact Kay Cashman at publisher@petroleumnews.com

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ALBERTA SURVIVAL

lower-cost oil supply, they risk building a bridge to nowhere."

Other agreements reached

But the chances of negotiating a trilateral deal, whether permanent or just long enough to ride out the COVID-19 crisis, should pose no qualms given the success among the three partners of initially agreeing to the North American Free Trade Agreement and lately of achieving a revised version of NAFTA that is tentatively scheduled for implementation on July 1.

Advocates of a trilateral oil pact insist that is the only way to end price shocks and ensure regional energy independence, the ingredients of which already exist with the U.S. and Canada producing as much oil as Saudi Arabia and Russia combined and able to raise those volumes to meet domestic demand.

In 2019, Canada exported about 3 million bpd to the U.S. and the U.S. shipped 1 million bpd to Eastern Canada, whose Irving Oil refinery in Saint John, New Brunswick, imported 500,000 bpd from Saudi Arabia, Norway, the United Kingdom, Nigeria and Azerbaijan.

U.S. output of 12 million bpd was bolstered by imports from Canada and another 2 million bpd from Saudi Arabia, Russia, Mexico and Colombia.

Closing the door to offshore oil would free up 2.5 million bpd for U.S. and Canadian producers. ●

Contact Gary Park through publisher@petroleumnews.com

GOVERNMENT

AOGCC recognizes USGS bonding exemption

The U.S. Geological Survey has formally requested, and the Alaska Oil and Gas Conservation Commission has granted, a waiver from AOGCC bonding requirements.

The bonding is to ensure that wells are properly plugged and abandoned and to ensure that the state does not become responsible to P&A any abandoned or orphan wells.

USGS said in an April 21 request for waiving the bonding that USGS, along with the State of Alaska, plans to drill research core holes on the North Slope.

"USGS states federal law prohibits USGS from agreeing to provisions requiring insurance coverage or indemnification unless specifically authorized by the United States Congress," the commission said in an April 27 order waiving bonding requirements when USGS acts as operator.

"Based on the status of the United States as a self-insured sovereign, a waiver of the bonding requirements" contained in the commission's regulations is approved, the commission said in its order.

—KRISTEN NELSON

EXPLORATION & PRODUCTION

US rig count below 500 at 465, down 64

The U.S. drilling rig count hit a low of 404 in May 2016 and appears to be headed in that direction now.

Baker Hughes reported April 24 that the number of rigs drilling for oil and natural gas in the U.S. was 465, down 64 from the week ending April 16 and down 526 from a year ago.

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

In its weekly rig count the Houston oilfield services company said 378 rigs targeted oil, down 60 from the previous week and down by 427 from a year ago, while 85 targeted natural gas, down four from the previous week and down 101 from a year ago. There were two miscellaneous rigs active, unchanged from the previous week and up by two from a year ago.

The company said 23 of the holes were directional, 426 were horizontal and 16 were vertical.

No states had week-over-week rig counts increases.

Rig counts were unchanged in Alaska (3), Ohio (9), Pennsylvania (25), Utah (5) and Wyoming (6).

The rig count in Texas, which at 231 has the most active rigs, was down by 31 from the previous week and down by 260 from a year ago.

New Mexico (70) was down by 14 rigs and North Dakota (27) was down by seven.

Oklahoma (20) was down by four rigs.

California (5) and West Virginia (7) were each down by three rigs.

Colorado (15) and Louisiana (40) were each down by one rig.

Baker Hughes shows Alaska with three active rigs, down by three from a year ago.

The largest rig count drop by basin was in the Permian, which also has the most active rigs at 246. The count in that basin was down 37 from the previous week and down 283 from a year ago.

The U.S. rig count peaked at 4,530 in 1981. It bottomed out in May 2016 at 404.

—KRISTEN NELSON

UTILITIES

Governor signs electric system bill

On April 29 Gov. Mike Dunleavy signed into law Senate Bill 123, a bill that will, among other things, give the Regulatory Commission of Alaska authority over an electric reliability organization, in particular for the Alaska Railbelt electricity system. The bill, a major milestone in moves to improve the efficiency of the supply of electricity in the Railbelt, also authorizes the RCA to regulate the construction of major new generation and transmission facilities in the electricity grid, and to regulate integrated resource planning for the system.

In December all six of the utilities that operate the Railbelt electrical system signed a memorandum of understanding for the formation of the Railbelt Reliability Council, a form of electric reliability organization for the Railbelt. The RRC, regulated by the RCA, will maintain and enforce reliability standards; administer rules for open access to the grid; conduct Railbelt-wide system planning; and investigate the economic value of security constrained economic dispatch, a protocol for making maximum use of the most efficient available power generation.

The passage of SB123 into law will now enable the establishment of the RRC to proceed, with the new organization potentially in place by mid-2021.

"The Regulatory Commission of Alaska thanks Governor Dunleavy for signing SB 123," said RCA Chairman Robert Pickett. "A cooperative effort of legislative leadership, the RCA, utilities, independent power producers and other public interest representatives contributed to this successful outcome, which started in 2014 at the direction of the Legislature. The Alaska public will benefit from more reliable and effective electric utility service."

"SB 123 will foster cooperation among the interconnected utilities and ensure consumer needs are efficiently and reliably met," said Sen. John Coghill, R-North Pole, chairman of the Special Senate Railbelt Electric System Committee.

—ALAN BAILEY

LAND & LEASING

ASRC Exploration drops Beaufort leases

ASRC Exploration has relinquished 21 leases in the Beaufort Sea on Alaska's outer continental shelf.

The federal Bureau of Ocean Energy Management accepted the relinquishments April 16, the same day they were submitted by ASRC Exploration President Teresa Imm.

ASRC Exploration, AEX, acquired the leases from Shell in 2016. They include the 20-lease Taktuk unit and one additional lease and are in Camden Bay some 8 to 25 miles off the northern shore of Alaska's North Slope, north of the boundary between state land and the Arctic National Wildlife Refuge.

The Sivulliq and Torpedo oil prospects are both in the western part of the bay, approximately north of the Point Thomson field.

The federal Bureau of Safety and Environmental Enforcement deferred expiration of the leases in 2018. Most of the leases had been due to expire in 2017, but AEX requested a suspension of operations on the grounds that an environmental analysis of proposed offshore operations was needed.

The Taktuk unit included two exploration wells, Hammerhead No. 1 and Hammerhead No. 2, drilled by Union Oil in 1985 and 1986.

Shell acquired the leases in 2005 and in 2006 proposed drilling four wells: Sivulliq N and Sivulliq G and Torpedo H and Torpedo J. The company began drilling Sivulliq N in 20012, but only a portion of the well was drilled before the program was canceled.

Taktuk included the Sivulliq prospect, previously called Hammerhead.

In November 2016, after AEX acquired the leases, Imm told Petroleum News that with questions raised over the likelihood of future lease sales for the Arctic outer continental shelf, ASRC had wanted to ensure that there were continuing OCS exploration and development options.

—KRISTEN NELSON

GOVERNMENT

AOGCC schedules hearing after remand

Hollis French, formerly a commissioner and chair of the Alaska Oil and Gas Conservation Commission, petitioned the commission in 2019 to hold a hearing on a complaint of waste from a North Slope well.

The commission denied the petition on the basis that circumstances surrounding release of gas from the well were the subject of an ongoing investigation.

French appealed to Alaska Superior Court which issued a decision remanding to the commission for a hearing. Superior Court Judge Herman Walker Jr. ruled April 7 that legislative history suggests the Legislature intended that the commission's clients, among them concerned citizens, have "a forum to raise their concerns and an opportunity to be heard."

The commission is a quasi-judicial agency, the judge said, and "it is in the public interest that the Commission follow through with the mandate to provide hearings when requested by interested persons and be granted discretion to set hearings in accord with timelines for investigation."

He said the commission is required to fix a date for the hearing, provide notice, hold the hearing and issue an order.

The commission has scheduled a hearing for June 23 at 10 a.m., and said that due to health mandates, the hearing may be held telephonically.

The petition from French, the commission said, "alleges waste occurred 'from a well identified as DS02-03B, operated by British Petroleum Alaska.' According to French's petition, 'the well leaked gas into the atmosphere at a very high rate for several days beginning April 14, 2017,'" the commission said in its hearing notice.

The commission will also accept written comments and said to be considered at the hearing, written comments must be received no later than 4:30 p.m. June 22, the day prior to the hearing.

—KRISTEN NELSON

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SEAVIEW FIELD

plan which included construction of the Seaview pad and two exploration wells. The pad is on private land at an operating mine site near Anchor Point between the Sterling and Old Sterling highways.

The discovery well, Seaview 8, was completed in December 2018 to a vertical depth of 10,148 feet. Hilcorp said the well was tested for gas in May 2019.

Dave Buthman, Hilcorp senior geologist, told the Alaska Geological Society March 17 that Seaview was one result of the "modern exploration toolbox" — modern airborne gravity gradiometry and magnetic surveys, geologic field surveys, drainage anomaly studies and seismic surveys — the company has brought to the search for natural gas to serve Cook Inlet area markets. He said that Hilcorp would be putting the Seaview pad online this year (see story in March 22 issue of Petroleum News).

The wells

Hilcorp plans to bring the Seaview 8 online as a gas production well late this year, with drilling of the Seaview 9 planned for late this year.

Seaview 8 was drilled some 10,500 feet measured depth to the west-southwest of Seaview pad, with approximately the first 5,500 feet of wellbore perforated to evaluate gas zones and the bottomhole location evaluated for oil.

In May 2019, Hilcorp confirmed gas, perforating and testing Seaview 8 within multiple zones, with targeted gas reservoirs including the Lower Sterling, Beluga and Tyonek formations between 350 and 5,500 feet total vertical depth.

"Based on testing, Hilcorp proposes bringing the well to production for gas and drilling additional delineation/production wells," the company said. Seaview 9, approved along with Seaview 8 as part of the company's exploration plan, will extend some 10,000 feet measured depth to the northwest of the pad.

"A third well, Seaview 10, is proposed to be drilled in 2021," Hilcorp said.

Construction in August

The division said Hilcorp proposes to begin facilities work this August with work expected to last until next February, with 75 days of facility construction expected and drilling operations to follow.

The facility infrastructure will support gas production from the Seaview 8, 9 and 10 wells.

The company said bringing the Seaview Pad online will involve installing gas production facilities on the existing pad and building a gas pipeline from the pad to tie into the existing Enstar gas transmission pipeline.

Seaview will not be a manned facility but will be monitored by personnel staged out of the Ninilchik unit Susan Dionne pad control room.

Proposed infrastructure includes up to three heater separator unit skids, two compressor skids, two dehydration units, a vent stack with a vent scrubber for venting gas when needed, control room, microturbine building, two 200-barrel double-walled produced water tanks and a meter building.

—KRISTEN NELSON

Contact Kristen Nelson at knelson@petroleumnews.com

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GAS CONTRACT

Enstar said it is not seeking to modify its tariff and asks for commission approval by June 1. The company said that would allow it "to begin delivering substantial savings to customers" when the amended agreement goes into effect July 1, and "ensure gas supply certainty for the coming winter and beyond."

Benefits to customers

Enstar said savings to customers would be approximately 7% or $53.6 million through the end of March 2023, when the current agreement is scheduled to expire.

The amendment will also benefit customers through assurance of supply, Enstar said, noting that Cook Inlet natural gas production "has declined significantly in the last 15 years, as had the available deliverability from Cook Inlet producers."

Enstar said that under the amended termination date of March 31, 2033, "Hilcorp is committing to continue its development of gas reserves in order to supply firm gas" for the next 13 years.

"This gas supply certainty is vital in a time of growing scarcity," Enstar told the commission.

Hilcorp has delivered 82% of Enstar's gas requirements in 2019 and is expected to delivery 80% in 2020, Enstar said, noting that "Hilcorp has proven to be a secure and reliable supplier with multiple gas production fields, as well as producer-owned gas storage fields."

Optionality

Enstar said it negotiated for "extensive gas purchase flexibility" in the amendment, "including call option provisions that, if exercised, will impose a firm obligation on Hilcorp to deliver additional gas on a daily and annual basis."

Enstar said that under the amended agreement it may purchase up to 97% or 32.5 billion cubic feet of gas supply requirements, but may also purchase as little as 64% or 21.7 bcf, providing it flexibility in managing its gas supply requirements, allowing it to "decrease purchases to secure gas from reliable third-party producers, to the extent such additional supply is available or economical," and "may adjust its purchases and timely respond to changes in customer demand due to changing weather patterns and economic factors."

Sales price

Gas under the amendment will be $7.55 per thousand cubic feet in the first contract year, subject to adjustment in each subsequent year depending on performance of three defined price indexes, all published monthly by the U.S. Bureau of Labor Statistics. The sales price cannot increase by more than 1.5% nor can it decrease by more than 1%.

During the term of the amendment the price has a floor of $7.55 per mcf and a ceiling of $8.89 per mcf.

Enstar said that in previous contracts with Hilcorp it had agreed to fixed inflation rates, 2% in the existing agreement. Enstar said it "does not believe that an inflexible, always-positive inflation factor appropriately reflects how production costs increase and decrease over time."

In the proposed amendment the companies agreed to index the sale price to both consumer-driven and producer-driven inflation indexes, Enstar said, ensuring the producer is compensated when prices rise, but allowing customers to benefit from downward price pressures in the market.

—KRISTEN NELSON

Contact Kristen Nelson at knelson@petroleumnews.com

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88 ENERGY BUY

for every 1 XCD share and 0.5 of an 88 Energy share for every 1 XCD quoted option held.

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

Veteran Alaska investor Paul Craig who is an XCD shareholder told Petroleum News April 28 that "a legitimate offer to acquire the company warrants careful scrutiny. Both companies have excellent management. If there is merit to consolidating the assets of the two companies, and if the structure of the deal is in the interest of shareholders, then the acquisition would make good sense for all concerned." 88 Energy's managing director is David Wall; XCD's managing director is Dougal Ferguson.

XCD holds Nanushuk prospect

XCD holds 100% of the North Slope Peregrine project, a shallow onshore Nanushuk play within an area of 195,373 acres made up of 17 leases within the National Petroleum Reserve-Alaska.

88 Energy's key North Slope leased areas are in Project Icewine in the central North Slope south of Prudhoe Bay, as well as its Yukon leases on the eastern North Slope, which include BP's 1993 Yukon Gold oil discovery well. In total, 88 Energy subsidiaries hold approximately 480,000 North Slope acres (250,000 net acres).

DAVID WALL

The XCD leases are about 22 miles south of ConocoPhillips' Willow discovery, which XCD said is estimated to contain up to 800 million barrels of oil equivalent.

ConocoPhillips "is drilling four appraisal wells at Willow and up to three exploration wells at its Harpoon prospect, located about 15 km (9 miles) northwest of XCD's Harrier prospect. The Willow oil field is considered a direct analogy to XCD's Merlin prospect while Harpoon is interpreted to lie on the same sequence boundaries as the Harrier prospect," Ferguson told Petroleum News Jan. 21.

According to Ferguson, "this is based on the 2D USGS data that we reprocessed where we have lines over both Willow and Harpoon. We …. assume they (ConocoPhillips) must be confident in what they see on the 3D."

XCD has said its acreage has a mean unrisked recoverable prospective resource of 1.6 billion barrels of oil.

Unfortunately, only one of the three Harpoon wells and two of the four Tinmiaq wells in the Willow area were drilled by ConocoPhillips this past winter due to its shutting down the winter off-road drilling season early to due COVId-19 concerns.

Offer subject to conditions

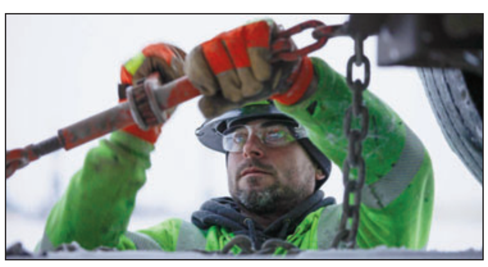
XCD said the offer from 88 Energy is subject to 90% minimum acceptance from its shareholders, as well as other conditions such as "no material adverse changes, absence of third party rights on a change of control … no material acquisitions or disposals and no prescribed occurrences."

One of the major shareholders in XCD is Wall, who was quoted in 88 Energy's press release as saying: "In a combined company, XCD Energy shareholders and listed option holders will be able to leverage from 88 Energy's geological and operational expertise, specific to the North Slope of Alaska, where we have drilled four wells as operator and acquired several 2D and 3D seismic surveys over the last five years. This includes extensive technical knowledge of the regionally successful Brookian oil plays, in which 88 Energy retains significant upside exposure via its highly prospective portfolio of exploration/appraisal projects."

—KAY CASHMAN

Petroleum news — Oil Patch Bits

Lynden employees keep freight moving



COURTESY LYNDEN

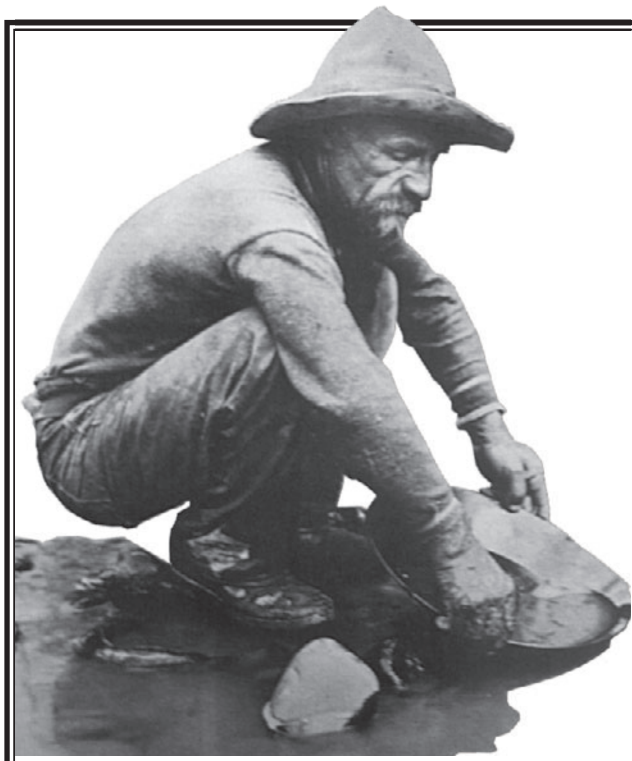
As reported by Lynden News April 24, Lynden employees are stepping forward to meet the needs of customers, keeping the freight moving as Lynden companies have always done during difficult times. Lynden has maintained regular business operations since the COVID-19 situation arose in late February with no disruption to global shipments or supply chains.

"The safety of our people and serving our customers are our priorities during these challenging times. We've been keeping freight moving to Alaska since 1954, and we're not planning to stop now," says Chairman Jim Jansen. "Lynden companies provide critical cargo services throughout Alaska and beyond and we are committed to delivering essential supplies and services to our customers and communities."

Lynden barges, trucks and planes deliver cargo to all points in Alaska including providing a supply lifeline to much of the state whose only surface supply line is Lynden and its dedicated people. "Our customers need our support to keep their businesses operating during this time and we are also supporting state and federal agencies. Keeping delivery routes open and supplies moving is our main focus and goal," explains Lynden President Jon Burdick. "We have dealt with earthquakes, oil spills, floods and other obstacles. This situation is no different."

According to Alaska Marine Trucking President Scott Hicks, employees are demonstrating the Lynden can-do attitude each day. "I have been so proud of our teams in Alaska," he says. "They are a shining example of the personal commitment required to keep businesses open and the economy moving. I know Lynden employees are doing the same in all locations."

Safety is one of Lynden's core values and many protocols have been implemented to ensure employees are operating in a safe and secure manner throughout all Lynden areas. Lynden's safety teams maintain active communication with local and federal agencies and comply with recommendations by the Centers for Disease Control.



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

"RESULTS ALWAYS DEFINE INTENT"

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

-Jim White

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BP SALE

The upstream vs. midstream issue was addressed in an April 26 statement from Janet Weiss, BP Alaska president, who said: "If necessary due to timing of approvals, we will complete part of the deal in June, transferring the upstream business to Hilcorp, while continuing to work with regulators for approval of the sale of the midstream."

Regulatory issues around the transfer of upstream assets appear to be moving along, but midstream issues are tangled in disputes before the Regulatory Commission of Alaska, including whether Hilcorp's financial information can be held confidential by RCA, an issue which has now moved into Alaska Superior Court.

Generational change

The deal sees an international integrated major, BP, exiting a mature oil province as an independent, Hilcorp, which specializes in producing more oil from declining fields, moves into the state. BP was one of the original developers — along with ARCO (now ConocoPhillips) and ExxonMobil — of Alaska's North Slope, an effort which took the financial muscle only large corporations could bring.

Hilcorp came to Alaska in 2011 when it bought into Alaska's first oil province, Cook Inlet, as another major, Chevron, moved out. Chevron had Cook Inlet assets through its acquisition of Union Oil Company of California, which with some remaining assets belonging to Marathon Oil and ConocoPhillips, since acquired by Hilcorp, was the last of the original Cook Inlet developers active in the basin.

$5.6 billion unchanged

While the total consideration for the sale, $5.6 billion subject to customary closing adjustments, remains unchanged, BP said, "the structure of the consideration and phasing of payments has been modified."

"We have worked closely with Hilcorp to reconfirm our commitment to completing this deal," BP Chief Operating Officer William Lin said in BP's statement.

"The agreed revisions respond to market conditions while retaining the overall consideration," Lin said. "We look forward to progressing swiftly to completion and for Hilcorp to take over the operation of this important business."

BP said the original agreement provided for Hilcorp to pay $4 billion in the near term and $1.6 billion "through an earnout thereafter." Hilcorp has paid a $500 million deposit.

BP said there have been modifications, with the revised agreement adjusting "the structure and phasing of the remaining consideration to include lower completion payments in 2020, new cash flow sharing arrangements over the near-term, interest-bearing vendor financing and potentially, an increase in the proportion of the consideration subject to earnout arrangements."

"The revised agreement is expected to maintain the majority of the value of the transaction," BP said, but with flexibility "to phase and manage payments to accommodate current and potential future volatility in oil prices."

The sale was announced in August. Alaska Department of Revenue records show a price for Alaska North Slope crude on the West Coast of $61.81 per barrel on Aug. 1. By April, the price plunge drove ANS to a negative $2.68 (April 20), recovering to $11.55 per barrel by April 23 but dropping to $8.56 per barrel on April 28.

Challenging times

"These are incredibly challenging times," Weiss said. "Our priority remains the health and safety of our workforce, and safe operations at Prudhoe Bay."

"We will continue to work with regulators to answer their questions and demonstrate that BP remains committed to completing the sale, even in these volatile and difficult market conditions," she said.

"The future will be tough and I believe the best thing for a more rapid economic recovery for Alaska is the timely completion and approval of this deal, enabling more competitive oil down TAPS."

Jason Rebrook, president of Hilcorp Energy Co., said Hilcorp is excited about its future in Alaska and looks "forward to continuing to safely develop Alaska's natural resources. In the weeks ahead, we will continue to work with BP, the State of Alaska, and others to ensure a seamless transition process as we complete this transaction."

"We are proud of the work we have done in Alaska over the last eight years, and plan on being an important part of the Alaska economy and community for many years to come," Rebrook said. ●

Contact Kay Cashman at publisher@petroleumnews.com

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FURIE DEAL

$22.5 million loan against it just to start," Davis said. "I think we would be able to develop it faster because we won't have any serious debt except for the $15 million that goes to pay the DIP (debtor in possession) financing."

Debtors have a deal with Hex

The debtors have a deal with Hex, according to Timothy Walsh of McDermott Will & Emery LLP, counsel to the debtors.

"That deal has been solidified with definitive documents including a purchase agreement and a plan of reorganization that has been submitted to the bankruptcy court for approval," Walsh told Petroleum News in an April 27 interview. "The document was subject to significant negotiations among many constituents in the case including the debtor and all of its lenders."

Walsh said the plan of reorganization currently before the court reflects a meeting of the minds between all the major constituents in the case, and it includes resolution of substantial litigation that was outstanding, including that of a royalty and working interest owner group of which Davis is a part.

"The debtor did receive other indications of interest from various parties including Escopeta," Walsh said. "Unfortunately none of the (other offers) entailed a settlement agreement with the debtors' existing lenders. That's very important because there is an existing DIP facility that needs to be satisfied."

When asked about the $15 million secured DIP loan proposed to be issued as a part of the Hex transaction, Walsh said, "Currently that's contemplated by the plan that's before the court, but any of the parties that has an interest in doing a deal with the debtor would need to get the same terms from the lender, and so anyone that comes to the debtor and says I have a better deal, but it's being ignored because mine has more cash in it, well it's not being ignored by the debtors, but the debtors can't commit unless we know that that deal will account for payment or a rollover of (of the DIP facility) and no deal that was presented to us had that except for the Hex deal."

"And that's really it in a nutshell: Hex right now has a deal with the lenders; nobody else does," Walsh said. "The Hex deal is the deal that's before the court, and that's what we're pushing to get approved within about the next month."

"From my perspective, where I sit representing the debtor, I have a deal," he said. "I have a signed deal with Hex, so if that deal doesn't close for whatever reason, if it doesn't get approved by the court, I'm happy to listen to any other deal, but right now that's the deal that we're pushing forward, and we're hopeful that it will close and we think that it will close."

Walsh said the debtors were uncertain about Escopeta's ability to fund the transaction.

"If we were to go forward with his bid, we would want to know that he has the financing," Walsh said. "When he first presented his bid we asked him for proof of financing, which he was unable to provide."

"We have a settlement with him as a participant in the royalty working interest owners, and we looked at his bid, but the bottom line is that he didn't have a settlement agreement with the banks, and that's where we're at."

"There was no disparate treatment that he received — he needed to have a deal with the lenders, which he didn't," Walsh said.

"We are looking forward to having this deal finalized with the state and approved by the bankruptcy court in the next month and a half," Walsh said. "Right now, it looks like it will be."

When asked about remarks made by an AIDEA official that the proposed loan to Hex is conditioned on defining the agreement between Hex and the royalty and working interest owners group, Walsh said the deal with the RWIO group is finalized.

"They can't hold up the closing of the Hex deal, and I don't think that they want to," he said. "That's my understanding."

Asked if it was a problem for the debtor to continue to fund operations if the asset sale is further delayed., Walsh said, "Exactly, it's problematic."

"The debtor and Hex are moving the process forward," he said. ●

Contact Steve Sutherlin at ssutherlin@petroleumnews.com

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UNCHARTED WATERS

Alpine; cancellation of Oil Search's 2020-21 winter exploration/appraisal drilling; postponed drilling by the new extended reach drilling rig at ConocoPhillips' Fiord West field; and Oil Search's cancellation of early Pikka production.

The most recent impact came as this issue of Petroleum News was going to press the morning of April 30: ConocoPhillips is cutting its 200,000 barrel a day Alaska output in half for the month of June — the 100,000 barrel reduction represents about 20% of the state's 500,000 barrel per day production (see page 1 breaking news story).

The company is making global production curtailment decisions on a month-by-month basis. While the latest announcement appears to be negative news, it means less North Slope crude will be sold at prices that lose the company and the state of Alaska revenue; plus, suspending wells creates work for ConocoPhillips contractors.

The bright spots for Alaska's oil industry so far in 2020 are Oil Search's impressive exploration drilling results near Pikka and Horseshoe; Hilcorp's continued drilling with two rigs in the North Slope Milne Point unit; and ConocoPhillips April 30 announcement that the North Slope GMT-2 project remains on track for late 2021 startup.

No plans to shut down pipeline

The operator of the trans-Alaska pipeline system has no plans to shut down the 800-mile oil line, Michelle Egan, chief communications officer for pipeline operator Alyeska Pipeline Service Co., told Petroleum News April 24.

But given the price of North Slope crude, which has been running below both the Brent and West Texas Intermediate oil prices, instead of above them which has been the norm for the last few years, oil producers are likely to reduce output by first suspending their low-performing, higher-cost wells. Some wells, including some of the high producers, can't be shut in and easily restarted, such as those with artificial lift.

The Alaska Oil and Gas Conservation Commission sent a letter to all producers on April 14 asking how they would respond to production cuts because of COVID-19 and/or the drop in demand for oil.

Commission Chair Jeremy Price told Petroleum News that the goal of the letter was to "start a conversation to identify ahead of time any actions that could be required of AOGCC," which is the quasi-judicial agency responsible for protecting the public interest in exploration and development of Alaska's petroleum resources through the application of conservation practices designed to ensure greater ultimate recovery including preventing the waste of oil and gas.

To suspend a well, Price said, an oil company would have to submit an application for sundry approval to ensure they follow AOGCC regulations.

"To suspend a well, the operator must demonstrate to AOGCC that the well is mechanically sound, fluids can't migrate, recovery of oil and gas won't be impaired, and there's no threat to public health," he said April 27.

Although there is no penalty from the state for suspending a well, the producing company would have to cover the suspension costs, including such things as injecting freeze protection fluids in the well cellar, a material similar to mineral oil.

When asked about the far-fetched possibility of a massive shut down of all North Slope wells, he said: "There's a host of problems associated with a slope-wide shut down. I'd be hesitant to comment on anything like that because I agree, it's pretty far-fetched."

What's the magic price?

How high must the Alaska North Slope crude prices climb for explorers and producers to restart exploration, appraisal and development drilling?

The key word tossed around by oil executives in Alaska's oil and gas industry is "stabilize." The prices must stabilize for a period of time, stay flat or slowly climb, although none have said exactly what price is acceptable for Alaska crude.

Following is what they HAVE said.

Alaska's biggest spender among producers and explorers, ConocoPhillips, said it was voluntarily reducing oil production in May in the Lower 48 and Canada by about 225,000 barrels a day gross but was not curtailing output in Alaska. But that could change in future months, per company CEO Ryan Lance, COO Matt Fox and CFO Don Wallette Jr., who participated in an April 16 market update webcast.

The reason Alaska's North Slope didn't see any production reductions in May was because trading for ANS crude begins a little earlier than it does for Lower 48 and Canadian crude, and the ANS price at the time was acceptable.

A Petroleum News source in the company said at the time there will be natural attrition in production from the North Slope due to the reduction in development drilling that was previously announced, although ConocoPhillips expects output to stay relatively flat for 2020. That could change with the company's April 30 conference call (see story on the side of page 1 in this issue).

Regarding major proposed North Slope oil developments, the first is the Pikka Nanushuk development operated by Oil Search, which at peak is expected to yield 135,000 barrels of oil per day.

The company's Alaska spokeswoman Amy Burnett told Petroleum News April 27 that the current Pikka development project breakeven is in the mid-$40s per barrel, and "we are focused on evaluating opportunities to reduce this."

Tie-backs and extended reach drilling will decrease long term break-even estimates, the company said in September.

Oil Search has not released a breakeven oil price for its next proposed development at and near its Horseshoe discovery wells.

In September, Wood Mackenzie estimated the breakeven oil price for ConocoPhillips' giant Willow development is $42 per barrel.

Painter: Costs higher than price

Alexei Painter, fiscal analyst at the Alaska Legislative Finance Division, said in a mid-April briefing to the House Finance Committee that at a $10 per barrel ANS sales price many of the Alaska producing fields would operate in the red.

Painter told Petroleum News April 28 that North Slope per barrel costs for oil producers are as follows: $9.68 for transportation (pipeline and tanker), $25.74 for operating expenditures, and $40.75 for combined operating and capital expenditures.

The Alaska Department of Revenue reported the trading price of ANS crude at market close of on April 29 was an estimated $10. 67 a barrel (Brent $22.54, WTI $15.06).

How low can TAPS go?

So, if North Slope producers begin suspending wells until the price of North Slope crude increases, how low can the amount of oil transported through the trans-Alaska pipeline go?

In answer to that question Alyeska's Egan responded with this statement in an April 28 email: "The short answer is that we are continually pursuing technical ways to operate at lower throughput. Data analysis to date suggests that with additional investment, it may be technically possible to safely operate down to annualized throughput rates as low as 200,000 barrels per day."

However, "technical capability is not the same as economic viability," she added. "The long-term sustainability of TAPS may ultimately be limited by per barrel transportation costs." ●

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TAPS OPERATOR

officer for pipeline operator Alyeska Pipeline Service Co., she told Petroleum News the 50,000 barrel-per-day reduction that began earlier that day is simply part of the day-to-day management of the pipeline.

"We are not a storage facility," Egan said. "We have a dynamic system. Oil comes in at the North Slope, it flows down the pipeline to Valdez, where it's loaded onto tankers."

Alyeska currently has 14 storage tanks in Valdez.

What the company does on a daily basis in any circumstances, not just under the current circumstances, is exchange information on tanker schedules and their capacities, as well as projected crude volumes from the North Slope producers and "we balance the inventory and if we see we are getting high inventory of over 75%, we have two levers we can pull, so to speak," she said.

The first lever and the most common thing Alyeska does is work with the tankers and their schedules to see if an adjustment can be made with them to pick up more, or less, crude.

For example, "last week we pulled the first lever and worked through some high inventory; this time of year, high inventory is not uncommon" Egan said.

The other lever is to ask the producers to "send us less oil and that's a proration. We looked at the 28 day and 60 day forecasts and we have some high inventory points in the month of May," she said.

"The 10% reduction in incoming oil is to manage some of these high inventories points we see that are around until end of May."

"But things could change," Egan said.

"There could be a tanker schedule change that would change the proration — say a couple of large tankers coming into Valdez. We look at that every day and make adjustments as we have to," she said, noting Alyeska strives to have a steady and light proration to minimize impact.

"I've been with Alyeska for 11-plus years … larger prorations for a shorter period of time are more common. This one is a little different because it's for a longer duration (through the end of May) but for a smaller amount (of crude)," Egan said.

"The fact is as we get better and better at managing inventory and doing projections."

—KAY CASHMAN

Contact Kay Cashman at publisher@petroleumnews.com