



page 3 EIA: Brent averages \$65 in March; up \$33 per barrel from March 2020

## Hilcorp: working interest owners approve no new Prudhoe IPA wells

No new drilling at Prudhoe this year — that's the message unit operator Hilcorp North Slope has been delivering as it files plans of development with the Alaska Division of Oil and Gas.

In January the company said the field's working interest owners had not approved a 2021 drilling program for the Prudhoe Bay satellite fields.

In its 2021 proposed plan of development for the main Prudhoe reservoirs — the initial participating areas — dated March 30, Hilcorp delivered the same message — no new drilling in 2021.

The Prudhoe IPA message was basically the same as the Prudhoe satellite message:

"Due to the challenging economic conditions related to the

see **PRUDHOE IPA** page 8

## Concerns are raised over ERO regs for oversight of electric grid

While work continues in the Regulatory Commission of Alaska, developing regulations for RCA oversight of electric reliability organizations in Alaska, controversy is also continuing to emerge over how prescriptive the regulations should be, and over whether or not an ERO should be regulated as a public utility. Electric utilities are questioning whether the regulations can realistically be developed by a July 1 statutory deadline.

Some recent RCA filings relating to the regulation development have focused on these issues. But during an April 7 RCA public meeting the commission decided to continue its regulatory development process, as planned.

see **ERO REGS** page 10

## Oil Search gets clearance for seawater treatment plant lines

On April 5, Alaska's Division of Oil and Gas issued Oil Search Alaska an entry authorization for five years and a conditional private, nonexclusive easement for the Pikka unit's Seawater Treatment Plant's make-up water pipeline, fuel gas pipeline and fiber optic cable. The decision, signed by Division Director Tom Stokes, was "necessary for the practicable development and production" of Pikka unit oil.

If subsequent reviews "result in the initiation of production and maintenance activities, then the Division will issue a final easement to OSA," the term of which will be 35 years, Stokes wrote.

West of the central North Slope in the Pikka unit, the Pikka project is the first of several oil developments that OSA has in

see **PIPELINE CLEARANCE** page 11

## Rail blockbuster could open way to more Canadian CBR shipments

Canadian crude exporters to the United States may benefit from a friendly blockbuster US\$25 billion takeover of Kansas City Southern by Canadian Pacific Railway which could raise hopes for increased access to Gulf Coast refineries, the world's largest complex of heavy oil processors.

But all that hangs on CP negotiating a long journey to gain approval from a U.S. regulatory agency that has a record of blocking consolidation in the rail industry by resorting to time-consuming reviews and rigorous merger rules.

Railroad combinations must clear the five-person U.S. Surface Transportation Board, which former board member Deb Miller said will have "total authority" over whether the deal proceeds.

"I think this will get a very long and hard look," she said.

see **CBR SHIPMENTS** page 10

### ANALYSIS

# Beaten to pulp

88E stock down on Merlin results; investors not reading between lines?

By **KAY CASHMAN**

Petroleum News

**D**r. Paul Craig, a veteran oil and gas investor in Alaska, told Petroleum News April 6 what other experienced North Slope operatives were only willing to say off the record: Although "88 Energy stock got beaten to a pulp on the news about the Merlin 1 well, I like the results. But the market doesn't read between the lines. Short-term investors see 'plug and abandon' and assume it's a dry hole with no commercial



**DAVE WALL**



**ERIK OPSTAD**

potential," Craig said.

Kevin Frank, a geologist and section chief of the state Division of Oil and Gas' resource evaluation team, agreed.

In an April 7 interview with PN, Frank described the results that Erik Opstad and his team at the well site did get as "encouraging."

Frank's reaction was similar to what ConocoPhillips said after it drilled its recent

see **MERLIN RESULTS** page 8

### FINANCE & ECONOMY

# US optimism lifts oil

Air travel rises as crude inventories fall; 900,000 jobs added in March

By **STEVE SUTHERLIN**

Petroleum News

**A**laska North Slope crude rose 42 cents April 7, to close at \$63.10 per barrel, while Brent crude rose 42 cents to close at \$63.16 and West Texas Intermediate gained 44 cents to a close of \$59.77.

It was the second day of gains for the crude indexes, spurred by optimism over the reopening of the U.S. economy as the pace of COVID-19 vaccine rollouts accelerated.

The United States added more than 900,000 jobs in March, the highest gain in seven months.

The Energy Information Administration reported that crude inventories had fallen for a second

*Optimism over the U.S. recovery offset pessimism surrounding new lockdowns and vaccine snafus in Europe.*

week, taking U.S. crude stockpiles down more than 3 million barrels to a five-week low.

U.S. domestic air travel continued its recovery, with Transportation Security Agency traveler throughput levels hitting a new post-pandemic high of 1,580,785 April 2, up from 129,763 on the day in 2020, but below the 2,476,884 travelers that passed TSA checkpoints on April 2, 2019.

On four of the first five days of April, TSA

see **OIL PRICES** page 7

### FINANCE & ECONOMY

# Russians coming ... perhaps

Oligarch takes foothold in small, fast-moving Canadian producer, filling void

By **GARY PARK**

For Petroleum News

**A**s Russia rolls out its grand strategy to seize a vital stake in supplying global energy, nothing is too small to be ignored.

A year after the Russian government pushed through legislation creating US\$300 billion in new incentives to build ports, facilities, pipelines and oil and natural gas developments in the Arctic region, moving its projects even closer to the Beaufort Sea, what might seem like a distantly related move occurred in Canada.

Led by Russian oligarch Igor Makarov, Swiss-based ARETI Energy acquired a 21% stake in Spartan Delta, a lively Calgary-based gas producer.

Regulatory filings revealed that ARETI gained 23.7 million shares in Spartan, fueling rumors that

prominent Russian investors have been probing deals in the Canadian oil patch that is desperately in need of outside capital for an industry that has experienced a relentless decline since the 2014 oil price crash.

The Financial Post disclosed that a day after Makarov's stake in Spartan was revealed on March 22, a filing on the System for Electronic Disclosures by Insiders, SEDI, showed the Russian sold 164,683 Spartan shares at an average price of C\$3.83 per share for proceeds of C\$631,411, leaving him with his 21% stake.

Neither ARETI nor Spartan have been forthcoming in discussing their strategies beyond ARETI's broad website comment that it is "focused on investments in the oil and gas sector."

Spartan has been on a fast track, scooping up a flood of distressed Alberta gas assets, some resulting

see **RUSSIAN INVESTORS** page 9

## ● PIPELINES &amp; DOWNSTREAM

# Hilcorp has fuel line leak in Cook Inlet

By KRISTEN NELSON  
Petroleum News

**H**ilcorp Alaska has reported a fuel gas leak in Cook Inlet.

“On April 1, 2021, a Hilcorp helicopter observed a release from a fuel gas pipeline connected to our Middle Ground Shoal offshore facilities,” Hilcorp Alaska spokesman Luke Miller said in an April 6 email to Petroleum News.

The Alaska Department of Environmental Conservation released a situation report on the leak April 5. DEC said the release was spotted at about 4:25 p.m. April 1 by a helicopter pilot during supply delivery and reported by Hilcorp to the National Response Center and DEC at 5:30 p.m. that same day.

Miller said that in addition to notifying appropriate agencies the company “immediately began shutting in the impacted facilities.”

DEC said the product being released is processed dry natural gas which is 98.67% methane, used as fuel gas for two platforms, A and C. The department said the amount released into the water is not known as this time. It said Hilcorp reported line pressure was approximately 190 psi prior to the release and as of April 2 the company had reduced the line pressure to 70 psi.

“No sheen has been observed. An assessment of the source of the leak is ongoing. No personnel or wildlife have been impacted,” Miller said in the company statement.

## Plans

Miller said Hilcorp is “monitoring ice conditions and will perform side scan sonar to gather further data on the repair location. Divers will be deployed mid-week to install a temporary clamp.”

DEC said the 8-inch line, which had a leak in 2017, is some 80 feet below the surface of Cook Inlet. The

department said Hilcorp achieved source control April 3 at about 1:30 p.m. by activating the block valves and said diving operations to identify the reason for the leak will begin when ice conditions allow.

## Previous leaks

Hilcorp installed a permanent repair in May 2017 for the fuel gas leak on this line between Platform A and Nikiski which occurred in February 2017. The leak was determined to have been caused by a large rock which caused a breach in the line.

That leak was discovered when Hilcorp conducted helicopter surveillance flights in response to observed anomalies in pipeline flow data.

Following the 2017 leak, Hilcorp had to shut down the Middle Ground Shoal field until repairs could be made, which began with installation of a temporary

see **FUEL LINE LEAK** page 4

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● FINANCE & ECONOMY

# EIA: Brent spot price averaged \$65 in March

Up \$33 from March 2020, \$3 from February, on expectations of rising oil demand as vaccination rate, economic activity increase

By **KRISTEN NELSON**  
Petroleum News

The Brent crude oil spot price averaged \$65 per barrel in March, the U.S. Energy Information Administration said April 6 in its Short-Term Energy Outlook, up \$3 per barrel from February, and up \$33 from March 2020 at the beginning of the coronavirus pandemic in the U.S.

“As economic activity recovers and petroleum consumption rises globally, EIA expects international benchmark Brent crude oil prices to average \$64 per barrel this summer, up from \$36 per barrel last summer,” EIA Acting Administrator Steve Nalley said in a statement accompanying release of the April Outlook. “Production restraint on the part of OPEC and its partner countries also contributes to our price expectation,” he said.



STEVE NALLEY

EIA said it is forecasting an average \$65 per barrel Brent price in the second quarter, \$61 per barrel during the second half of the year and \$60 per barrel in 2022. The price is expected to average \$62 per barrel this year — with both the 2021 and 2022 forecasts up from March, reflecting higher forecast draws from global inventories this year, particularly in the second quarter, reducing global oil inventory levels through the forecast period. EIA said the larger inventory draws are based on lower expected OPEC production in the second quarter.

## Consumption, supplies

“EIA estimates that worldwide consumption of petroleum and liquid fuels will grow by 6% in 2021 and an additional 4% in 2022,” Nalley said. “We forecast that the world’s oil consumption next year will grow and reach levels from 2019.”

The agency said it estimates that worldwide consumption of petroleum and liquid fuels was 96 million barrels per day in March, up 4.7 million bpd from March 2020. The forecast for 2021 is an average of 97.7 million bpd, up 5.5 million bpd from 2020. Consumption is forecast to increase by 3.7 million bpd in 2022 to average 101.3 million bpd.

## US crude production

EIA said U.S. domestic crude oil production was 11.1 million bpd in January and is estimated to have declined by 800,000 bpd in February, “mostly because of cold temperatures that affected much of the country, particularly Texas.”

It is forecast to average 10.9 million bpd in the second quarter and increase to almost 11.4 million bpd by the fourth quarter and is expected to average 11.9 million bpd in 2022, based on an expectation, EIA said, that West Texas Intermediate will remain above \$55 per barrel through the forecast period.

The agency said its forecasts for U.S. crude production of 11 million bpd this year and 11.9 million bpd in 2022 are lower by 100,000 and 200,000 bpd, respectively, than last month because, in spite of higher forecast oil prices, “we now forecast that rig activity in producing areas outside the Permian — such as Bakken, Eagle Ford, and Anadarko — will be lower than previously expected.”

## Domestic natural gas

The Henry Hub natural gas spot price averaged \$2.62 per million British thermal units in March, down from \$5.35 in February, “primarily because the cold weather and related high demand and market disruptions that drove prices to recent heights in February abated in March,” EIA said.

Henry Hub is expected to average \$2.73 per million Btu in the second quarter and \$3.04 for the entire year, up from the 2020 average of \$2.03 per million Btu.

The agency said it expects that continued growth in exports of liquefied natural gas exports, combined with just a slight increase in dry natural gas production, will result in an average price of \$3.11 per million Btu next year.

Production of dry natural gas is forecast to average 91.4 billion cubic feet per day this year, about the same as last year’s average, falling to a low of 90.8 bcf per day in May and then rising through most of the rest of the year to reach a high of 92.4 bcf per day in November.

“The increase in production in 2021 reflects higher forecast natural gas prices as well as higher forecast crude oil prices, which we expect will contribute to more associated natural gas production, especially in the Permian region,” EIA said.

## Financing issues

“Since September 2020, debt and equity issuance has increased in all but one month, suggesting that increasing crude oil prices are encouraging U.S. crude oil producers to raise money to refinance debts, resume drilling activities, or purchase acreage,” the agency said.

Debt and equity issuance announcements among publicly traded independent U.S. exploration and production companies totaled \$4.4 billion in March, EIA said, which was the highest since last August and higher than the 2016-20 five-year median of \$2.4 billion.

Low interest rates have lowered the cost of issuing debt and likely contributed to recent growth in debt and equity issuance, EIA said.

“Although primarily a result of higher crude oil prices, high capital availability for U.S. producers also supports EIA’s forecast for U.S. crude oil production to increase from 10.7 million b/d in first-quarter 2021 to 12.2 million b/d by fourth-quarter 2022,” the agency said. ●

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## ● EXPLORATION &amp; PRODUCTION

# PODs describe work on Cook Inlet fields

Hilcorp submits plans of development for its offshore fields, including rig and non-rig work, drilling and facility maintenance

By KRISTEN NELSON

Petroleum News

Hilcorp Alaska submitted plans of development, PODs, with the Alaska Department of Natural Resources' Division of Oil and Gas April 1 for proposed plans for work at its existing offshore Cook Inlet fields. The PODs cover July 1 through June 30, 2022.

Hilcorp owns and operates fields which produce from 15 of the 17 oil and gas platforms in Cook Inlet.

The majority of the platforms were installed in the 1960s, beginning with Platform A at Middle Ground Shoal in 1964. All of Hilcorp's platforms, with the exception of Steelhead, which was installed in 1986, date from the 1960s.

Two platforms, Osprey at Redoubt Shoal (owned by Glacier Oil & Gas Corp.'s Cook Inlet Energy, installed in 2000) and Julius R at Kitchen Lights (owned by Furie Alaska, installed in 2015), the most southern and northern of the inlet platforms, are not owned by Hilcorp.

## Granite Point unit

At the Granite Point unit, Hilcorp

Alaska produces from three platforms: Anna, Bruce and Granite Point, among the most northerly of Cook Inlet platforms.

2020 calendar year production from the Granite Point platform was 825.3 million standard cubic feet, MMSCF, of natural gas and 734.9 thousand barrels of oil, Hilcorp told the division in its POD.

Alaska Oil and Gas Conservation Commission data show both volumes were up considerably from 2019, when the Granite Point platform produced 476.4 MMSCF of natural gas and 555.4 thousand barrels of oil.

Cumulative production from the Anna platform for 2020 was 296.0 thousand barrels of oil and 267.1 MMCF of natural gas, not much changed from 2019 at 294.5 thousand barrels of oil and 282.8 MMCF of natural gas, AOGCC data show.

The Bruce platform produced 229.9 MMCF of gas and 103.2 thousand barrels of oil in 2020, compared to 2019 when AOGCC data show natural gas production was 260.8 MMCF and oil production was 105.8 thousand barrels.

In its report on activities under the 2020 POD the company said it had planned to install a production separator

and do electrical upgrades, but that work did not occur "due to capital constraints."

The company did two workovers which were not anticipated: installation of a coil tubing inner string on the Granite Pt. St. 18742 20RD well, which was returned to production; and an unsuccessful re-perforation of an undefined gas zone in the Granite Pt. St. 18742 46 well.

Hilcorp said that during the 2021 POD period it would further evaluate additional rotary wells; perform mud acid jobs; and test the feasibility of multilateral coil tubing drilling and identify future candidates.

The company said it anticipates sidetracking the GPP 03-23 well in 2021, and does not anticipate any workover operations, but said "workovers will be executed to maintain and enhance production as needed."

## Middle Ground Shoal unit

In its 2021 plan of development for the Middle Ground Shoal unit Hilcorp Alaska told the Alaska Division of Oil and Gas that under the 2020 POD the company produced 452.1 thousand barrels of oil and 100.9 million standard cubic feet of natural gas from the unit. The volumes are a decrease in oil and an increase in gas, compared to 2019, AOGCC data show: In 2019 the unit had production of 459.0 thousand barrels of oil and 91.1 MMSCF of natural gas.

The company completed upgrades/operations on the platforms that it proposed in the 2020 POD: Platform A work included leg wrap inspection/repair and subsea flange inspection. A close interval survey on the A1 and B1 pipelines on Platform A will be completed before July 1, the company said.

Platforms A and B are in production; the Baker and Dillon platforms do not account for any current production.

At Baker, Hilcorp had an obligation under a settlement with PHMSA, the federal Pipeline and Hazardous Materials Safety Administration, to clean and tem-

porarily abandon in place the B gas pipeline and the company told the division that work had been accomplished, along with a subsea platform brace joint inspection. At the Dillon platform, also to meet a PHMSA settlement obligation, Hilcorp cleaned and temporarily abandoned in place the A gas pipeline.

The company said it achieved all operations planned for the 2020 POD, including workover operations on four wells, coil tubing cleanouts and safe acid soaks.

In its 2021 POD, Hilcorp said it is "continuing to pursue rate add opportunities off both A and C platforms," and if economic hurdles are met, it "plans to update completion designs to minimize scale formation, squeeze water producing intervals, add perforations, clean out scale in producer/injection wells, and repair damaged wells."

It has also been looking at drilling "several rotary drill wells along with some coil tubing drilling wells."

Hilcorp said it is evaluating subsurface work from the past two years "for potential development scenarios from Platforms A, C, and Baker," including rotary drill infill wells, coil tubing sidetracks and stepout exploration wells.

Workover operations are planned for six wells.

## North Cook Inlet

In its 2021 POD for the North Cook Inlet unit Hilcorp told the division that it produced 5,915.2 million standard cubic feet of natural gas from the unit in calendar year 2020, up from AOGCC reported data of 5,134.2 MMSCF for calendar year 2019.

Production is from the Tyonek platform, one of the most northerly in Cook Inlet.

Under the 2020 POD the company said it completed well workover operations on two wells, adding production in June and July.

see **COOK INLET PODS** page 5

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## FUEL LINE LEAK

clamp in April.

The company's business model focuses on bringing new life to aging oil and gas assets.

Platform A in the Middle Ground Shoal field is the oldest in the inlet, installed in 1964. Platform C at Middle Ground Shoal was installed in 1967. The line currently being used to transport fuel gas is encased in concrete; it was installed in 1965 and its design does not allow use of in-line inspection tools.

The line was pressure tested in 2005 and Hilcorp conducts annual side-scan or multi-beam echo-sounder surveys, but those do not provide enough information to allow the company to determine whether there are problems such as eroded pipe, rock impingements, dents, gouges or missing concrete coating.

The federal Pipeline and Hazardous Materials Safety Administration noted in 2017 that this line suffered two previous leaks, the earliest in 2014.●

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## COOK INLET PODS

In addition to planned rig workovers, Hilcorp said it performed non-rig related projects on five wells, some of which the company said were unsuccessful, but with successful projects including cement isolation of Stray X sand and opening Stray 1/2/3 sands to production and adding perforations in Beluga A and B sands.

Hilcorp said it had rig and non-rig related projects planned to be completed during the remainder of the 2020 POD period, including adding perforations, coil cleanout and recompletion in a suspended well, with additional well work possible in preparation for potential sidetracks in the 2021 POD period.

A number of surface facility operations were performed on the Tyonek platform as planned during the 2020 POD.

One workover was not done as planned, Hilcorp said, when, after a successful workover at the NCI-A-07 well it was determined that workover operations at the NCI-A-04 well “were not required at this time to recover the targeted resource.”

For the 2021 POD period, Hilcorp said there are four sidetrack well prospects “identified during the NCIU field study,” although some of those probably won’t be drilled in the 2021 POD but will be drilled in future POD periods.

The company said it “plans further review of gas potential in the Beluga and Sterling accessible via RWO or sidetracks of existing wells.”

“Due to commodity price volatility, and large capital necessary, the potential development plans for the deep oil prospect have been deferred.”

As many as three sidetrack operations targeting the Beluga and Sterling formations from existing shut-in wells are among 2021 POD proposed operations, along with various rig and non-rig well projects, including preparations for potential sidetracks, coil cleanout operations, adding perforations of additional gas sands and recompletions for gas production or for use as Class II disposal.

Facility upgrades and modifications are planned on the Tyonek platform as part of effort to develop the field’s remaining gas reserves and the deep oil

prospect, Hilcorp said.

## Trading Bay unit

Hilcorp’s Trading Bay unit includes the McArthur River field and the Trading Bay field.

The company told the division that 2020 production from the McArthur River field was 1,444.8 thousand barrels of oil and 9,213.5 million standard cubic feet of gas, compared to AOGCC-reported volumes for 2019 of 1,704.4 thousand barrels of oil and 8,347.0 MMSCF of natural gas, a drop in oil production but an increase in gas.

Hilcorp said it did two planned well workover operations, one a replacement of a failed electric submersible pump and the other a conversion from ESP to gas lift completion. In addition to planned rig workover projects, the company performed 17 rig and non-rig related projects, some of which were successful and some not so, including adding perforations, recompleting shut-in and active gas wells to add sands, replacing failed ESP completions, adding perforations and recompleting and replacing ESP.

Three additional projects, involving ESPs or perforations, are planned during the remainder of the 2020 POD period.

Included in the 2020 POD was surface facility work, including cathodic protection repair at the Trading Bay Production Facility, in-line inspection on Dolly Varden platform oil and gas lines and in-line inspection on the Steelhead platform gas pipeline (the last two items are anticipated by June).

An in-line inspection on the Grayling gas pipeline was postponed to 2024.

At the Trading Bay field, production for 2020 was 466.6 thousand barrels of oil and 960.2 MMSCF of gas from the Monopod platform, down from AOGCC reported 2019 volumes of 488.6 thousand barrels of oil and 1,068.9 MMSCF of gas.

Hilcorp did not perform an anticipated A-15RD2 well workover “due to lack of power needed for planned ESP completion in Hemlock reservoir in the McArthur River Field,” the company said. Surface facility operations completed included in-line inspection on oil and gas pipelines.

By the end of the 2020 POD period Hilcorp said it will complete an ongoing quarters replacement on the Monopod and replace a 4,100-foot section of oil pipeline.

During the 2021 POD, work at the McArthur River field will include contin-

uing “evaluation of existing completions for rig workover opportunities to optimize the drawdown and lift mechanism” at the field’s wells, and continuing work on a field study to identify additional subsurface opportunities.

Various rig and non-rig well projects are planned for the McArthur River field.

No major facility upgrades are planned for the Dolly Varden or Grayling platforms.

At the King Salmon platform, an in-line inspection is planned of oil and gas pipelines; an in-line inspection is also planned for the Steelhead platform gas pipeline.

At Trading Bay, Hilcorp said it is working on a field study “to identify additional rig workover, rotary sidetrack, perforation adds, fill cleanouts, and waterflood reactivation opportunities.”

The company said it is evaluating potential well work opportunities that could include rig and/or non-rig work, and may include ESP repairs or replacements, coil cleanout operations, well gaslift operations and adding perforations. ●

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• EXPLORATION & PRODUCTION

# US rotary rig count jumps by 13 to 430

By KRISTEN NELSON

Petroleum News

The Baker Hughes U.S. rotary drilling rig count, 430 on April 1, was up by 13 from 417 the week ending March 26 and down 234 from a count of 664 a year ago.

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

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

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

The April 1 count includes 337 rigs targeting oil, up 13 from the previous week and down 225 from 563 a year ago, 91 rigs targeting gas, down one from the previous week and down nine from 100 a year ago, and two miscellaneous rigs, up one from the previous week and unchanged from a

year ago.

Nineteen of the holes reported April 1 were directional, 391 were horizontal and 20 were vertical.

## Alaska unchanged from previous week

Texas (209), with the most active rigs in the country, was up by four rigs from the previous week.

New Mexico (70) was up by three rigs, while Oklahoma (19) and Utah (6) were each up by two rigs.

Colorado (10), Louisiana (47) and Pennsylvania (19) each gained a single rig.

West Virginia (11) was down by one rig from the previous week.

The count in all other states was unchanged: Alaska (3), California (7), North Dakota (14), Ohio (9) and Wyoming (5).

Baker Hughes shows Alaska with three rigs active April 1, unchanged from the previous week and down by five from a year ago, when the state's count stood at eight.

The rig count in the Permian, the most active basin in the country, was up by three from the previous week at 224, but down by 127 from a count of 351 a year ago.

## International count up

Baker Hughes said April 1 that the international rig count for March (which excludes North America) was up 14 rigs from February at 715, with land rigs up 10 to 546 and offshore rigs up four to 169, but down 344 rigs from last year when the count stood at 1,059, with land rigs down 269 and offshore rigs down by 75.

The average U.S. rig count for March was 408, up 10 from a February count of 398 and down 364 year-over-year.

In Canada the March rig count averaged 108, down 62 from a February count of 171 and down 364 from last March.

All rigs combined — Baker Hughes' worldwide count — was 1,231 in March, down 38 from 1,270 counted in February and down 733 from 1,964 in March 2020.

Baker Hughes has issued weekly rig counts for the U.S. and Canada since 1944 and began issuing monthly international rig counts in 1975. ●

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• GOVERNMENT

# Infrastructure plan has \$16B for cleanup

By MATTHEW DALY

Associated Press

President Joe Biden's \$2.3 trillion plan to transform America's infrastructure includes \$16 billion to plug old oil and gas wells and clean up abandoned mines, a long-time priority for Western and rural lawmakers from both parties.

Hundreds of thousands of "orphaned" oil and gas wells and abandoned coal and hardrock mines pose serious safety hazards, while causing ongoing environmental damage. The administration sees the longstanding problem as an opportunity to create jobs and remediate pollution, including greenhouse gases that contribute to global warming.

Biden said in late March he wants to put pipefitters and miners to work capping the wells "at the same price that they would charge to dig those wells."

Many of the old wells and mines are in rural communities that have been hard-hit by the pandemic. Biden's plan would not only create jobs but help reduce methane and brine leaks that pollute the air and groundwater. Methane is a powerful contributor to global warming.

The Interior Department has long led efforts to cap orphaned wells — so named because no owner can be found — but does not assess user fees to cover reclamation costs. Bond requirements for well operators, when known, are often inadequate to cover full clean-up costs.

Biden's plan, which needs approval by Congress, would jump-start the well-capping effort and expand it dramatically.

Similarly, the White House plan would exponentially boost an Abandoned Mine Land program run by Interior that uses fees paid by coal mining companies to reclaim coal mines abandoned before 1977. About \$8 billion has been disbursed to states for mine-reclamation projects in the past four decades, but Biden's plan would ramp up spending sharply.

Sen. Joe Manchin, the West Virginia Democrat who chairs the Senate Energy and Natural Resources Committee, has long pushed to expand the mine-lands program, which he calls crucial to his state.

"It cannot be forgotten that West Virginia coal miners powered our country to greatness," Manchin said. While many mine lands in coal communities have been reclaimed, "there is still much more work to be done to clean up damage to the land and water in those communities," he said.

Wyoming Sen. John Barrasso, the top Republican on the Senate energy panel, ridiculed Biden's overall plan as "an out-of-control socialist spending spree."

The proposal "starts with the punishing policies of the Green New Deal and builds back worse from there," Barrasso said in statement. The plan would hike taxes and "spend trillions of dollars on the left's radical agenda," he added.

A spokeswoman said Barrasso has "has been very active in trying to re-evaluate and improve" the Abandoned Mine Land program. Barrasso is working with Manchin and other committee members to "responsibly reauthorize AML fee collection and facilitate reclamation (of mine sites) across the country," spokeswoman Sarah Durdaller said.

Environmental groups hailed the announcement, saying unplugged wells and abandoned mines pose a significant environmental threat. Some former drilling or mining sites have sat unattended for decades.

"From launching a visionary Civilian Climate Corps and reclaiming abandoned mines and orphaned wells to restoring America's lands, waters, wetlands, grasslands and coasts, the president's plan proposes strategic investments that will make communities more resilient and healthier," said Collin O'Mara, president and CEO of the National Wildlife Federation.

An oil industry group said it shares the administration's goals of safety and environmental stewardship.

"Our industry is fully committed to complying with existing state and federal requirements for abandoned wells" and "will continue to support efforts to plug these wells and further reduce methane emissions," said Frank Macchiarola, senior vice president of the American Petroleum Institute.

The National Mining Association said it supports the renewed focus on abandoned mine lands but wanted to see more details. "We're eager to work with Congress on legislation around the president's initiative, while bringing reform to the coal AML program and standing up durable, bipartisan solutions on hard-rock" mining sites, spokesman Conor Bernstein said.

Environmental groups and Democrats have called for stronger bonding requirements for oil and gas companies that drill on public lands, as well as changes to bankruptcy law that make it harder for companies to evade responsibility for cleaning up old sites. ●

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GOVERNMENT

# Dunleavy asserts control of waterways

Alaska Gov. notifies Biden Administration state will assume management of navigable rivers and lakes under the Statehood Act

By STEVE SUTHERLIN

Petroleum News

Alaska Gov. Mike Dunleavy is taking action to give the state stronger control over its own destiny in the face of federal overreach into the affairs of the state, with a focus on Alaska's lands and natural resources.

In a March 26 letter to President Joe Biden, Dunleavy put the administration on notice, affirming the State's ownership of the more than 800,000 miles of navigable rivers and 30 million acres of navigable lakes in Alaska and asserting the right to manage these areas for the benefit of Alaskans.

"After 62 years of federal delay and obstruction, the State of Alaska is asserting its management rights over the vast network of navigable waters and submerged lands it received at statehood and will move aggressively to promote their use and enjoyment to serve the interests of the Alaska people," Dunleavy said.

The action was based on Alaska's sovereignty, supported by recent state and federal court decisions, including the 2019 unanimous U.S. Supreme Court decision in

Sturgeon v. Frost.

Under the U.S. Constitution and the Alaska Statehood Act, the State of Alaska assumed ownership and control of navigable waters and the underlying submerged land immediately upon statehood, with the right to access navigable waters affirmed in the State Constitution.

"Alaska's destiny lies in full ownership of and access to our natural resources," Dunleavy said in a press conference announcing the action. "These actions are a first step in 'Unlocking Alaska' — an initiative that I will continue to advance in the coming months. My administration will not rest until Alaska has achieved the foundational promises of statehood, and every Alaskan is granted unfettered access to our lands and waters."

Dunleavy also released his "Unlocking Alaska Initiative," a blueprint to expand public access to Alaska's lands and natural resources, and to dramatically improve the efficiency of state and federal processes for managing lands.



GOV. MIKE DUNLEAVY

The initiative said that uses allowed on state waters but restricted by federal regulations will be allowed in the state-owned navigable waters, subject to state permitting as applicable.

Dunleavy has asked Alaska Department of Natural Resources Commissioner Corri Feige to meet with federal leaders to discuss how to coordinate state and federal management.

DNR will make an updated, comprehensive submerged lands layer in the state navigable waters map available to Alaskans and the public, and DNR leaders will communicate with Alaska-based federal officials to coordinate state and federal management, the initiative said.

"We at DNR have worked with our federal counterparts for many years to secure quiet title to Alaska's submerged lands beneath navigable waters," Feige said. "Unfortunately, our good faith efforts have been met with delay, denial, and resistance that have cost the state time and money, and further deprived many Alaskans of the opportunity to enjoy their statehood birthright." ●

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## OIL PRICES

throughput numbers exceeded 1.5 million travelers, raising hopes that jet fuel demand is finally catching up with the bounce back in demand for other transportation fuels.

Demand optimism was further stoked April 2 by International Monetary Fund comments stating that unprecedented public spending to combat the effects of COVID-19 would push global growth to 6% in 2021, a rate not seen since the 1970s.

Optimism over the U.S. recovery offset pessimism surrounding new lockdowns and vaccine snafus in Europe. AstraZeneca Plc's COVID-19 vaccine continues to fall under scrutiny, having been pulled from the market in some countries, while the U.K. is advising that people under the age of 30 should be offered an alternative shot if available.

Pessimism over Europe, new strains of the coronavirus and surging cases in India set the tone as trading opened for the week April 5. ANS plummeted \$2.53 to close at \$62.60, Brent slumped \$2.71 to close at \$62.15, and WTI dropped \$2.80 to \$58.65.

The U.K. said it was considering an extension of restrictions on global travel beyond May 17 if infections continue to surge around the world, and Italy extended travel restrictions for its citizens.

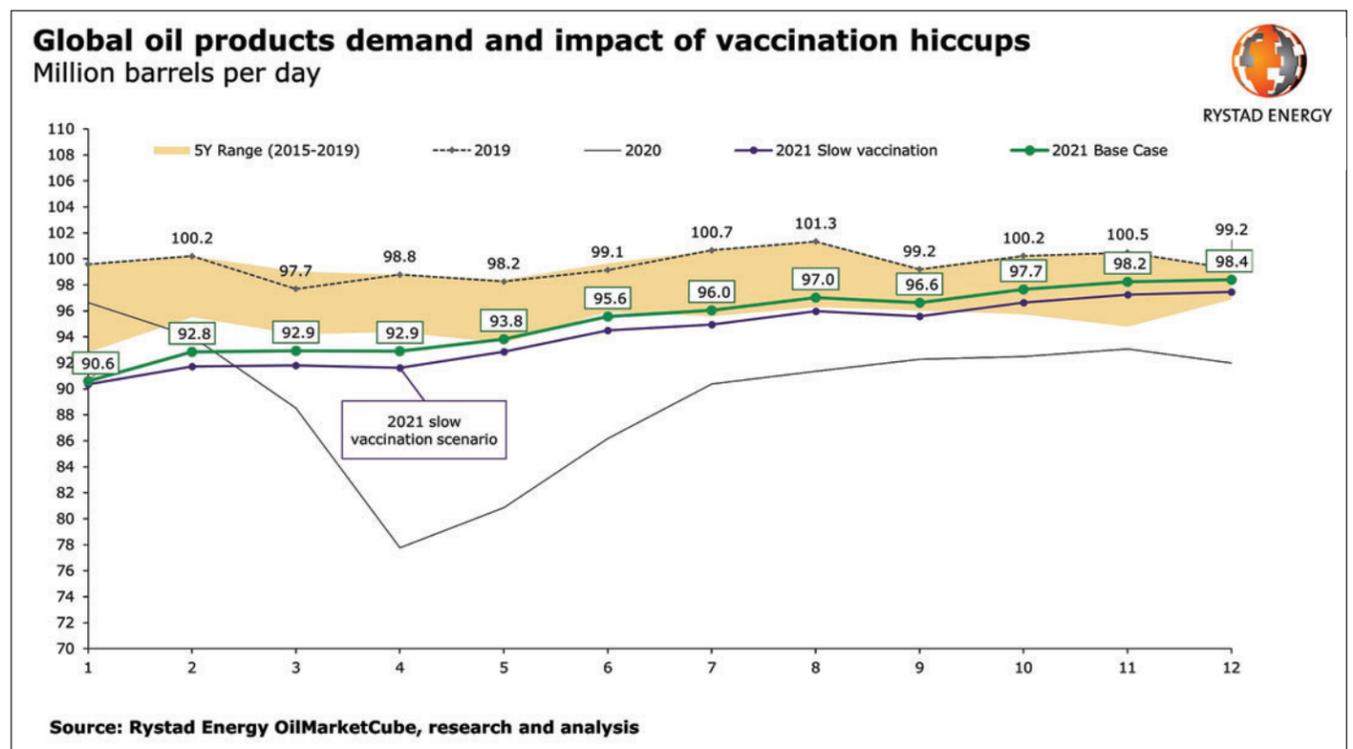
### OPEC+ to increase production

The Organization of the Petroleum Exporting Countries and its allied oil producing countries have decided to ease production levels higher in May and through the summer. The matter was decided at the 15th OPEC and non-OPEC Ministerial meeting April 1.

OPEC+ will raise daily oil production by 350,000 barrels in May, 350,000 barrels in June and by 441,000 barrels in July, Saudi Arabia Minister of Energy Prince Abdulaziz bin Salman said in a press conference.

OPEC Secretary General Mohammad Sanusi Barkindo said there are many positives to focus on in the oil market, such as the rollout of vaccines, further fiscal stimulus — particularly the huge \$1.9 trillion package in the U.S. and the continued commitment of OPEC+ on sustained market stability and bringing down inventory levels.

"On the demand front, we continue to



see a divergence between the first and second half of 2021; the first half has again been adjusted lower, primarily on the back of extended measures and new lockdowns in many key parts of Europe," Barkindo said. "Oil demand growth in the second half, however, remains intact. This reflects prospects for a stronger economic recovery with the positive impact of further vaccination rollouts."

Barkindo said there remains a need to stay watchful, and to tread a prudent path.

"There remains many impediments and potential obstacles to the recovery, including further lockdowns; the uneven rollout of vaccines across the world; the prevalence of COVID-19 variants; sovereign debt levels in many regions; and inflationary pressures and central bank responses," he said.

From the supply perspective, non-OPEC liquids are forecast to grow by almost 1 million barrels per day in 2021, compared to 0.7 million bpd expected at the group's previous meeting, Barkindo said, adding, "One important point of reference is that the U.S. liquids supply forecast remains unchanged, with growth of 0.16 million bpd in 2021."

The EIA backed up OPEC's expectations of modest gains in U.S. production, adjusting its U.S. output forecast for 2011 to 11.04 million bpd, down from the previous month estimate of 11.15 million bpd due to the cold

snap February that hammered production in Texas. It also dropped its output forecast for 2020 by 100,000 bpd.

### Vaccine hiccups slow demand

Rystad Energy said vaccination campaign hiccups put the recovery of up to 1 million bpd of oil demand at risk in 2021, depending on the duration of the setbacks.

The temporary ban of the AstraZeneca vaccine in several EU and Asian countries is the culprit, Rystad said.

Rystad forecasted that the AstraZeneca vaccine would make up 2.6 billion of the

total global 11 billion global vaccine doses produced in 2021.

A ban or delay in vaccine distribution in Europe could likely be filled by other vaccine producers, but not without delays, Rystad said.

Rystad forecasts global oil demand in 2021 at 95.2 million bpd, but under a slow vaccination scenario, demand in 2021 could average at as low as 94.2 million bpd. ●

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## PRUDHOE IPA

COVID-19 global pandemic, the PBU working interest owners did not approve a drilling program for 2021," Hilcorp said. "The resumption of drilling activity in 2022 will depend on market conditions and approval from working interest owners. Hilcorp North Slope will continue to evaluate drilling projects for future years."

Drilling at the field was shut down in April 2020 due to the coronavirus pandemic.

The Prudhoe Bay unit has 254,235 acres, with average ownership of 26.36% Hilcorp, 36.4% ExxonMobil Alaska Production, 36.08% ConocoPhillips Alaska and 1.16% Chevron U.S.A.

There are 12 participating areas, including the initial participating areas, the western satellites and the Point McIntyre PA.

### Proposed activities

The 2021 POD, covering July 1, 2021, through June 30, 2022, includes as many as 15 workovers or well completions in the IPA, Hilcorp said, drawn primarily from wells that have failed mechanically, but which could also include profile modifications or injector/producer conversions.

Hilcorp said that during the 2021 POD period it "anticipates flat to increasing well intervention activity," with focus on maintaining existing well stock, "returning wells to service or increasing existing production through non rig rate enhancement work."

On the facilities side, Hilcorp said it anticipates several projects:

- Seawater Treatment Plant maintenance and upgrades including inlet dredging, retrofitting cathodic protection, sea ice trenching, chemical tank reinstatement and repair and reinstatement of deaerator tower.

- At Gathering Center 2, reinstating the B slug catcher sand jetting system to improve solids and water handling capabilities.

- A turnaround at Flow Station 2 to include tank inspection, valve replacements and crude cooler install.

- Continuing the power upgrade to increase field wide power reliability.

- Pig launch/receiver valve installations for common lines 12B and 9A to improve pigging operations.

- Continued subsidence related repairs and improve-

ments to pipelines and facilities.

### Long-range activities

Under the category of long-range activities Hilcorp said it continues to evaluate future drilling opportunities "and plans to continue to evaluate potential undeveloped resources."

In 2019 BP, then the Prudhoe operator, acquired new seismic data across most of the Greater Prudhoe Bay area. That 3D data was merged with the 2015 North Prudhoe Bay survey.

Hilcorp said interpretation of the recently acquired seismic would be completed prior to June 30, "and will be utilized to guide post-2021 development drilling as well as reservoir characterization and management studies."

Hilcorp said it also plans to continue to monitor SWOP, the Sea Water Optimization Plan, performance and complete evaluation of PAVE, Pressure and Vaporization Enhancement, working toward a sanction decision for PAVE.

SWOP ends seawater injection at two Prudhoe drill sites and increases seawater injection in the gas cap (see story in Feb. 16, 2020, issue of Petroleum News titled "Fine tuning Prudhoe: Seawater injection switch to add barrels").

### 2020 POD review

In its summary of the 2020 POD for the IPA, Hilcorp included a summary of calendar year 2020 production, which for the IPA was some 2.728 trillion cubic feet of natural gas and 60.668 million barrels of oil, for an average of 166,587 barrels per day in 2020.

The company said 798 producers and 220 injectors contributed to production or injected water and gas into the IPA.

"A focus on returning idle wells to service, optimizing production through the existing surface infrastructure and improved operational efficiency lead to an increase in fluid handling from calendar year 2019 to calendar year 2020," Hilcorp said.

The efforts offset decline and increased the 2020 oil rate above that for 2019, with gas production for 2020 up by 422 million cubic feet per day over 2019 rates and water production up 164,000 bpd.

Alaska Oil and Gas Conservation data show Prudhoe crude oil production (for the entire field, not just the IPA) for 2020 at 78,550,002 total barrels, up by more than 2 million barrels from a 2019 total of 76,385,711 barrels.

Hilcorp said the efforts "increased IPA online well count

by an average of 35 wells a day from calendar year 2019 to 2020."

Gas cap water injection was increased significantly in 2020, with 166,000 bpd of water injected over 2019 rates. Factors contributing were facility maintenance which increased plant reliability and implementation of SWOP seawater injection in August of 2020.

"The intent of the SWOP program is to increase ultimate recovery by improving the gas vaporization process within the IPA," Hilcorp said.

The 2020 POD drilling program saw two rotary wells drilled, a producer and an injector, and six coil tubing sidetracks, one injector and five producers.

Hilcorp said the 2020 drilling program was primarily focused on the miscible injectant sidetrack program at drill site 3.

"The 2020 rig program was successful at adding additional oil rate at the IPA," the company said.

In April 2020 drilling activity was halted due to COVID-19 and Hilcorp said it "is not expected to resume during the remaining 2020 POD period."

Two wells, an injector and a producer, were worked over during the 2020 POD, allowing both wells to return to service.

"Hilcorp North Slope plans to start a workover campaign in the IPA in Q2 2021," the company said.

While well work activity was slowed in April due to COVID, Hilcorp did increase the pace of well work when it took over operatorship on July 1, with some 730 well interventions executed at Prudhoe, including all the participating areas, 461 of those jobs at the IPA. The work "included well stock sustainment, rate enhancement and well surveillance work."

Major facility projects completed in 2020 included:

- Maintenance activities at the Sea Water Treatment Plant.

- New transformer, line relays and insulators installed on the Central Power Station, Central Gathering Facility and Central Compression Plant.

- All required integrity inspections completed.

- Water injection line pig launcher replacement at drill site 14 completed.

- Compressor controller upgrades at CGF.

—KRISTEN NELSON

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## MERLIN RESULTS

Harpoon well. It was P&A'd and declared a dry hole, but the company has no intention of abandoning the "promising" prospect and plans to go back in to drill Harpoon in the future.

"I think they (88 Energy) have done a good job," Frank said, following a lengthy

meeting with members of the division's resource evaluation team. "They've collected well information from targets in the Nanushuk," which is the hottest oil play on the North Slope because of Pikka, Willow and other recent substantial discoveries.

"They have reported shows, as described in their April 6 operations update, including evidence of oil in the cuttings that were brought to the surface while drilling. One of the characteristics of the oil in the cuttings is that oil fluoresces under UV light. They saw this," Frank said.

"88 Energy conducted logging while drilling, or LWD and were encouraged by what they saw in multiple intervals. Additional data was collected via wireline run collecting a triple combo logging suite with the addition of a nuclear magnetic resonance, NMR, tool," he said.

The triple combo measures "gamma-ray, resistivity and density of the formation while the NMR provides an estimate of the mobility of the fluid present. In aggregate this data can be interpreted to gain insight into the clay/sand content, fluid type, porosity of the rock and mobility of the fluid in the rock," Frank said.

That was 88 Energy's first run on wireline.

The second run, he said, "sounds like a downhole sampler to take fluid samples. After setting the tool, fluid is run through an optical fingerprint sensor to evaluate the fluid prior to opening the sample chamber. This allows fluids that were introduced by the drilling process to clean up prior to taking a sample that is more representative of the reservoir fluid," he said.

"They had troubles with the tool because of a power problem and so did not

get a fluid sample," Frank said and so did 88 Energy's April 6 update, which popped in Alaska on April 5 but was dated April 6 because it came from Australia.

"Getting a representative sample would have been nice. Unfortunately, they were unable to get that," Frank said.

"After remedying the power problem, they made a second attempt but due to deteriorating hole conditions, the tool got stuck. They were able to pull the tool free," Frank continued.

"They then made the decision that it was too risky so made a decision to call it a season and come back in the future to try again after the hole has been cleaned up. Given the late point in the season it sounds like they decided to demob before their snow road deteriorated. It makes complete sense to not risk stranding equipment on the tundra," Frank said.

When asked if these situations are common, he replied, "Yes, very common on the North Slope when you've got projects working off of snow and ice roads and pads."

Operators, Frank said, try to prioritize by getting the most meaningful information first.

Did 88 Energy do that? "Yes, I would say so. They were subject to time restraints. Adjustments and contingencies are to be expected," he said, adding "you'd hate to get your data but end up stranding your rig or other equipment out there" until the next winter drilling season began — and having to pay rental rates for it the entire time.

"One point they make is that they did not get a chance to evaluate the two most prospective intervals they saw on their logs — so they have a strong impetus to ...

return for farther evaluation in the future," he said.

"They found something they had not anticipated — a new prospective horizon in the Nanushuk formation that was not one of their pre-drill targets. It's always nice to find something you hadn't expected," Frank pointed out.

Was what 88 Energy did find promising? "There is still uncertainty, but they have reduced it by getting some positive signs," he said.

"I think it is encouraging — what they did get," Frank said.

His comments were endorsed by his boss, Division of Oil and Gas Director Tom Stokes: "88 Energy has actively explored the North Slope for many years. It is encouraging to see the results they achieved during this winter's drilling activities," he told PN April 7.

### The Reddit crowd

88 Energy Ltd. is the parent of various Alaska subsidiaries such as Emerald House, which holds its National Petroleum Reserve-Alaska acreage, including the Peregrine project in which the Merlin prospect well was just drilled, and Accumulate, Regenerate and Captivate. 88 Energy trades as a penny stock on ASX as 88E, on AIM as 88E, and on OTC as EEENF.

Until first quarter 2020, penny stocks were viewed by most investors as high risk.

But the pandemic triggered a flight from stocks into cash, and penny stocks became popular.

In the April 6 edition of Investor Place,

see **MERLIN RESULTS** page 9



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## RUSSIAN INVESTORS

from an exodus of international companies, notably BP, Royal Dutch Shell, Norway's Equinor, France's Total.

Its deal making has included an C\$87 million takeover a year ago of insolvent Bellatrix Exploration, boosting its output from 200 barrels of oil equivalent per day to 25,000 boe per day, while the company's share value rocketed over the past year by 7,800%.

More recently Spartan has pulled two more companies into its fold — Cequence Energy and Inception Exploration, whose controlling shareholder was Makarov, estimated by Forbes magazine to have a net worth of US\$2.1 billion.

The Financial Post noted that ARETI is an anagram of Itera Oil and Gas, which was established by Makarov in 1992 to supply natural gas from Turkmenistan to former USSR countries and Eastern Europe.

Having grown to become the largest private oil and gas company in Russia, Itera was sold to state-owned Rosneft in 2013, after which Makarova renamed his remaining companies to ARETI.

It will likely take more transactions to establish whether Makarov is just shuffling his minor holdings in Canada or has grander visions in his sights, especially in the Arctic, where plans for the Beaufort Sea have been put on ice.

### Russia's Arctic plans

Russia's plans for its slice of the Arctic Ocean include a doubling of maritime traffic in the Northern Sea Route, giving a lift to the giant state-owned enterprises such as Gazprom, Lukoil and Rosneft to embark on increased off-shore exploration and development, filling the void created in Canada and the U.S.

The Russian government is offering tax incentives for Arctic developments, including a reduced 5% production tax for the first 15 years of developments, with ventures in the eastern Arctic qualifying for a 12% tax cut.

Massive incentives for infrastructure are seen as a key to opening up remote resources plays estimated at 44 billion barrels of oil in Eastern Siberia and the Chukchi Sea, while sending more goods through the Northern Sea Route could wipe thousands of miles off that journey.

In late November, Rosneft announced it was starting

development of the massive Vostk Oil project to create a "new oil and gas province" in Eastern Siberia at a cost of US\$170 billion, aiming to start deliveries of 600,000 bpd through the Northern Sea Route in 2024, building to 2 million bpd.

Tim Pickering, president of Calgary-based Auspice Capital Advisors, told the Canadian Energy Center in December that Russia and Saudi Arabia will do "what's right (in oil production) for the economics and security of their nations."

At the same time, Canada will pay the price for what Eric Nuttall, a partner with Toronto-based Ninepoint Partners, said is "unquestionably a negative bias towards (the Canadian) energy sector."

In the view of Pickering and other analysts, the Vostok project is a clear sign that Canada is passing up a huge opportunity to supply responsibly produced oil to meet a growing world demand, but the entry of Makarov could be a tentative sign that outsiders are not prepared to erase Canada from their list of prospects. ●

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## MERLIN RESULTS

contributor Robert Lakin warned that "a penny stock favorite of the Reddit trading crowd raised some questions" about 88 Energy's Merlin 1 drilling results.

"Watch for shares of 88 Energy Limited (OTCMKTS: EEENF) to tank this morning, as they follow the more-than-65% drops of the London and Sydney-listed shares of the Australian oil explorer."

"What's behind the expectations for EEENF stock today?" wrote Lakin.

"It wasn't the 'good news' part of its earlier update on its Peregrine project in Alaska ... Last week the company announced it had detected potential hydrocarbon-bearing zones while conducting drilling operations for Peregrine."

"Instead," Lakin wrote, "it's likely the 'bad news' of this morning's update from

88 Energy managing director Dave Wall."

Wall "revealed a power outage due to equipment failure and other issues," preventing the company from sampling its two highest-prospective zones. As well, further drilling may be required to confirm a discovery," Lakin noted.

"Popular with penny stock investors," EEENF stock was "discovered" in the Reddit zone," he wrote, adding, "88 Energy has been one of the most buzzworthy Reddit penny stocks. Recent posts on the eponymous subreddit include claims that shares are 'lottery tickets' and takeover rumors."

But the most recent buzz from the Reddit crowd is less positive, he said, which appears to be part of the reason for the major sell-off of 88 Energy's shares and its plummet in price after its latest operations update on Merlin 1.

At one point the shares were at 33

cents, but more recently they were trading on ASX at 2.4 cents.

Lakin is described on Investor Place as a veteran financial writer and editor, following fintech, agtech and property tech startups. He said he did not hold any 88 Energy shares at the time he filed the article.

### Much to applaud

In its April 6 update, 88 Energy pointed out that it achieved the Merlin 1 results from a "wildcat exploration well drilled on sparse 2D seismic, 60 kilometers (37.3 miles) from the nearest control well, in the middle of the Arctic winter."

The company also was pleased about finding a "new prospective horizon" in the Nanushuk formation that may all be within its Peregrine acreage and was not one of the pre-drill targets in Merlin 1.

One solid PN source said he understood

the new interval might be 1,000 feet thick. No corroboration was provided by 88 Energy on April 6.

But Wall did say: "Particularly encouraging is the apparent presence of oil in a zone that has not previously been targeted in NPR-A. Whilst the potential volumetric size of this zone is not yet known — as it was not a mapped target in Merlin-1 — the formation could be extensive based on initial interpretation."

The "other most prospective zone with good shows and petrophysical characteristics is shared with the Harrier Prospect and will likely high grade that for drilling in 2022," 88 Energy reported.

In closing, as one PN source described Merlin 1 results: "If it walks like a duck, quacks like a duck, and swims like a duck, well...." ●

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AT&T	.12	HDR Engineering, Inc.		Security Aviation	
Avalon Development		ICE Services, Inc.		Shoreside Petroleum	
<b>B-F</b>		Inlet Energy		Soloy Helicopters	
Bombay Deluxe		Inspirations		Sourdough Express	
BrandSafway Services		Judy Patrick Photography	.3	Strategic Action Associates	
Brooks Range Supply		Little Red Services, Inc. (LRS)		Tanks-A-Lot	
C & R Pipe and Steel		Lounsbury & Associates		Weston Solutions	.10
Calista Corp.		Lynden Air Cargo		Wolfpack Land Co.	
Caltagirone Legal, LLC		Lynden Air Freight		Yukon Fire Protection	
ChampionX		Lynden Inc.			
Colville Inc.		Lynden International			
Computing Alternatives		Lynden Logistics			
CONAM Construction		Lynden Transport			
		Maritime Helicopters			

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## CBR SHIPMENTS

However, she said this merger stands a better chance of success than one proposed in 2016 by CPR and Norfolk Southern which raised concerns from other railroads and shippers.

Miller said a combination of Kansas City Southern and CP which would provide a continuous link from Canada through the U.S and into Mexico as part of a 20,000-mile north-south network, should not raise concerns about displacing rivals' east-to-west service.

### Early responses positive

Two large shareholders — the Chilton Investments in Kansas City Southern and London-based Egerton Capital in CP — said they will vote for the takeover.

Richard Chilton of Chilton Investments said his hedge fund has been a railroad investor for “a long time and we know the industry very well. This really is a terrific combination.”

Edward Molson, a senior partner with Egerton, said the deal would create value for shareholders while fostering competition and shifting truck-borne freight to

*Jennifer Hedrick, executive director of the National Industrial Transportation League, an association of shippers, told Bloomberg that while her organization is “optimistic” about the deal any merger “on this scale will be viewed with healthy skepticism based on prior history and experience of rail mergers.”*

trains in a benefit to the environment.

However, the large institutions that dominate shareholders in both railroads have yet to comment. No dates have been set for shareholder votes.

Jennifer Hedrick, executive director of the National Industrial Transportation League, an association of shippers, told Bloomberg that while her organization is “optimistic” about the deal any merger “on this scale will be viewed with healthy skepticism based on prior history and experience of rail mergers.”

Alberta Premier Jason Kenney said that if the proposal gets a go-ahead it would be a win for crude oil export capacity from Western Canada following the loss of the 830,000 barrels per day Keystone XL project.

CP Chief Executive Officer Keith Creel noted that crude-by-rail, CBR, comprises only 5% of CP's business, and said enhancing crude oil movement did not drive the transaction, although the merger could expand those opportunities.

A veteran CBR exporter doesn't expect the blending of the two companies would make much difference.

John Zahary, chief executive officer of Calgary-based Altex Energy, which moves about 40,000 bpd of oil through its Saskatchewan terminal on the Canadian National line, said most of the crude moved to market out of Western Canada goes by CN rather than CP.

However, he conceded there could be efficiencies for shippers gaining access to CP rather than shifting from one railroad to another to gain access to the Gulf Coast refining complex.

Canadian CBR shipping has been volatile over the past year, with shipments reaching a record 412,000 bpd in February 2020, then tumbling to an eight-year low of 39,000 bpd last July before recovering to 190,000 bpd in December.

—GARY PARK

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## ERO REGS

### Implementing SB 123

The RCA is developing the regulations in order to be able to implement Senate Bill 123, a bill passed during last year's legislative session to enable the commission to regulate EROs. The primary purpose is to enable the implementation of an ERO for the Alaska Railbelt electrical system, to provide a more unified and efficient approach to the overall management of the system. The Railbelt electric utilities are in the process of forming the Railbelt Reliability Council, or RRC, as an ERO for the Railbelt. The RRC will require RCA approval before it goes into operation. And that approval will depend on an implemented set of ERO regulations.

SB 123 set a deadline of July 1 for completion of the regulations. However, some components of the regulations are clearly taking significantly longer than the commission had hoped. Normally the commission has two years, rather than one year, in which to develop new regulations.

### Statement from utilities

On March 29 the five Railbelt utilities filed a statement with the RCA, expressing concern that the ERO regulations that the commission is developing for ERO certification and governance, and for oversight of integrated resource planning, are “ambiguous, internally inconsistent, overly complex, and exceed the commission's statutory authority.” The utilities recommended that the commission request the Legislature to approve a 12-month extension to the time allowed for regulation development.

“The truncated timeline is frustrating the required public process and limiting effective, meaningful interaction with the full commission, creating concern that improv-

erly vetted and rushed regulations, unsupported by a robust, meaningful public record, will be adopted,” the utilities wrote.

### Importance of governance

Governance of an ERO is an especially important issue. ERO decisions need to represent some appropriate balance of the interests of the various stakeholders in the system, including electricity consumers; the utilities that generate, transmit and distribute the power; and independent power producers. Interest in expanding the use of renewable sources of electricity such as wind power also factors into the governance issues.

A key question arises over how prescriptive the commission should be in spelling out governance parameters such as the structure of the ERO board of directors. A more flexible approach would involve more general regulatory statements about expectations for the board and ERO governance, with the commission evaluating an ERO proposal when a potential ERO applies for certification. Under SB 123 the commission also has regulatory oversight of integrated resource planning and the development of major new electricity facilities — similar issues arise around how prescriptive these regulations should be.

And so, while the RCA is anxious to ensure that an approved ERO will oversee an electrical system in a fair and balanced manner, a prospective ERO, while needing regulatory clarity, will likely want as much leeway as possible for creativity in determining its governance structure and the manner in which it operates.

The utilities argued, in their filing, that the intent of the SB 123 legislation was to have a regulatory process that specifies what the commission wants an ERO to do, but not how an ERO does it.

In an April 1 filing with the commission, Cook Inlet Region Inc. responded to the fil-

ings by the utilities, with CIRI saying it is satisfied with the manner in which the commission is developing the ERO regulations and that it does not agree with or understand the utilities' concerns. CIRI, as operator of a wind farm on Fire Island, offshore Anchorage, is an independent power producer in the Railbelt.

“The requested delay will not be helpful to mitigate concerns outlined in the (utilities') letter, but rather will cost consumers more money and further delay the benefits of an ERO,” wrote Suzanne Settle, CIRI vice president, energy land and resources.

### A public utility?

Another legal issue has arisen over whether an ERO should be regulated as a public utility, or whether it is some other form of business. While the RCA, in developing its regulations, has been taking a view that an ERO is not a traditional utility, the state Office of the Attorney General, Regulatory Affairs and Public Advocacy Section, has expressed a view that an ERO is a public utility. The utilities, in their filing, argue that there would be questions over the RCA's statutory authority to regulate an ERO, if the ERO is not a public utility, and that the RCA needs to ask the attorney general's office to issue a formal opinion on the matter.

In an April 2 filing Matanuska Electric Association argued that the commission should view an ERO as a public utility but also recommended that the commission should resolve the issue by obtaining an official legal opinion.

### Different perspectives

During the April 7 public meeting electric utility executives expressed their support for the intent of SB 123 and the regulatory process that is needed to implement it. But the executives also reiterated their concerns about the need for well crafted regula-

tions and the amount of time needed to draft these regulations.

On the other hand, Chris Rose, executive director of Renewable Energy Alaska Project, asked why the question of an extended deadline has just come up now, given that everyone has known the July 1 deadline since the SB 123 legislation was debated and passed.

“At this point we've got legislation, we've got a lot of progress on these regulations, we've got a lot of progress with the RRC, and we should be moving on,” Rose said.

Rose also commented that, in his view, an ERO is clearly not a public utility.

### Too late for deadline change request

Extending the deadline for regulation change would require the state Legislature to pass a bill containing language making an appropriate change to the statutory language of SB123. In the course of discussions during the April 7 meeting, it became evident that the commission would have to request this statutory change through the governor's office, and that the commission had already missed a statutory deadline for making a request of this type during the current legislative session. And, so, it is not currently feasible for the commission to request to have the deadline extended.

In terms of the question of whether an ERO is a public utility, Commissioner Antony Scott, who is leading the commission's work to develop the ERO regulations, said that, regardless of whether the state attorney general publishes a formal opinion on the matter, the question would remain open to legal challenge through the courts. And Stuart Goering, assistant attorney general with the RCA, told the commission that nowadays the attorney general only issues written advice rather than formal opinions, the only question being whether that advice is published publicly. Moreover, especially given the need for the attorney general's office to support the current legislative session, there is considerable uncertainty over how quickly the office could respond to even an urgent request.

The upshot was that a majority of commissioners voted against a motion to issue an urgent request for a formal attorney general opinion on whether an ERO is a public utility. And the commission is continuing to work on the development of draft ERO regulations, under a July 1 deadline for completion.

—ALAN BAILEY

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## PIPELINE CLEARANCE

the works. It was formerly known as the Nanushuk development; hence the ND-A, ND-B, and ND-C pad and other Nanushuk names, despite the fact the project will initially target oil deposits in both the Nanushuk and Alpine C reservoirs — two of six stacked plays in the unit that might eventually be tapped. That said, Nanushuk is by far the largest reservoir in the area.

Pikka is scheduled to go online in 2025, with Phase 1 expected to produce 80,000 barrels a day.

OSA applied for the easement on Aug. 18 under AS 38.05.850, requesting authorization to build and operate a 20-inch make-up water pipeline, a 12-inch fuel gas pipeline, and a fiber optic cable. The 18.4-mile pipelines and cable will connect the proposed Seawater Treatment Plant, or STP, at Oliktok Point to the company's planned tie-in-pad, located just northwest of the Kuparuk Central Processing Facility 2, or CPF-2, within the Kuparuk River unit.

The purpose of the STP is to provide a reliable source of quality make-up water for Pikka.

The pipelines and fiber optic cable will be placed on the same horizontal support members, or HSMs, and will require approximately 2,115 new 12 to 20-inch-diameter vertical support members, or VSMs, spaced 55 to 65 feet apart. The first 0.2 miles of piping will be placed below existing gravel fill and stretch from the east side of Oliktok Point to Eni's Oliktok production pad.

From there it will run above ground, generally parallel to and within 500 feet of the existing Nikaitchuq Pipeline, Oliktok Road and Kuparuk Road. The STP pipelines project is expected to require a 626.6-acre construction easement and a 221.18-acre final operation easement once fully constructed.

The easement will be centered on the VSMs along the pipeline alignment route. The construction easement will be 300 feet wide and the operation easement 100 feet wide, with a few exceptions around existing obstacles.

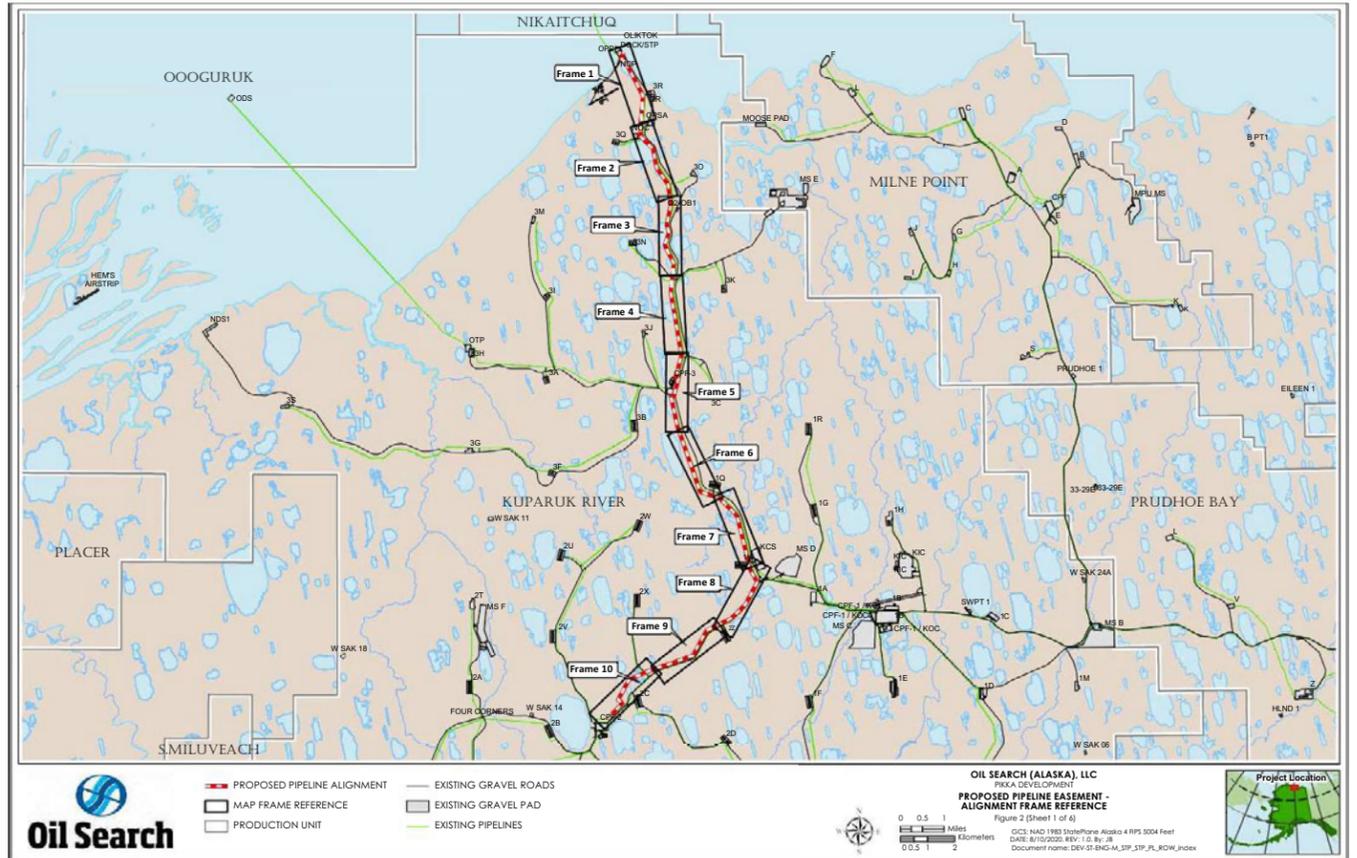
Construction activities will include driving sheet piles; driving piles; trenching; excavating; placing gravel fill; screeding; installing VSMs, pipelines, and fiber optic cable; and building ice roads and pads.

Pipeline construction will take place using ice roads and existing gravel roads for the 2022-23 and 2023-24 winter and summer construction seasons.

Surface activities will occur on ConocoPhillips oil and gas leases: ADL 25513, 25520, 25629, 25630, 25633, 25634, 25641, 25646, 25653, 25654, 355023, 355024, and 373301.

### Scope of decision

The scope of the April 5 director's decision is limited to the determination of whether issuing an entry authorization to OSA for the construction and operation of the STP project on state land is a use of the land that will be of greatest economic benefit to the state of Alaska



and the development of its resources.

The division "reviewed and evaluated the request for an easement with available land management information and, in accordance with AS 38.05.850," and concluded that it is.

The Pikka unit "needs access to seawater, which is essential to drilling and production activities. OSA has stated that results from pore throat analyses on Nanushuk reservoir rock samples provided evidence that higher levels of filtration than what is available at existing facilities will be necessary to prevent the Nanushuk reservoir pore throats from becoming clogged and inhibiting full and efficient hydrocarbon recovery over the life of the field," the director's decision said.

In applying for an easement under AS 38.05.850, OSA "has at this time provided only a conceptual design for the project. Before construction activities commence, a detailed project execution plan and schedule, front end engineering and design, or FEED, information, and additional environmental studies are required" for the agency to assess the cumulative impacts of the project, "at which time there will be an additional and final review" of the project.

To make sure that "unreasonable interference to existing operations will not occur" as a result of the STP project, the division required OSA to negotiate in good faith for an equitable use agreement with all authorized concurrent users of state land in the project area.

### Two phases

The STP project consists of two phases, with different proposed activities for each phase.

"Preconstruction and construction represent the first phase. Assuming the project can be built within parameters acceptable" to the division, termination would be the final phase.

"In other words, if the pipelines are built to design specifications substantive-

ly in the same form as those submitted in support of the Notice to Proceed for the pre-construction and construction phase, a public notice period and opportunity to comment will not be necessary prior to the director issuing the Notice to Proceed for operations. OSA shall submit a detailed summary of each phase prior to initiation of that phase," the decision said.

The agency plans to conduct further analysis of the project at each phase pursuant to its duties to take a hard look at cumulative and reasonably foreseeable impacts of the project.

The division's approval before the next

phase of the project can proceed will be in the form of a Director's Determination that includes reasonably foreseeable cumulative impacts and mitigation measures on fish and wildlife habitat and populations and their uses, subsistence uses, historic and cultural resources, and other public uses.

The determination will also include a Notice to Proceed containing specific terms and conditions the director finds necessary to protect the state's interest.

—KAY CASHMAN

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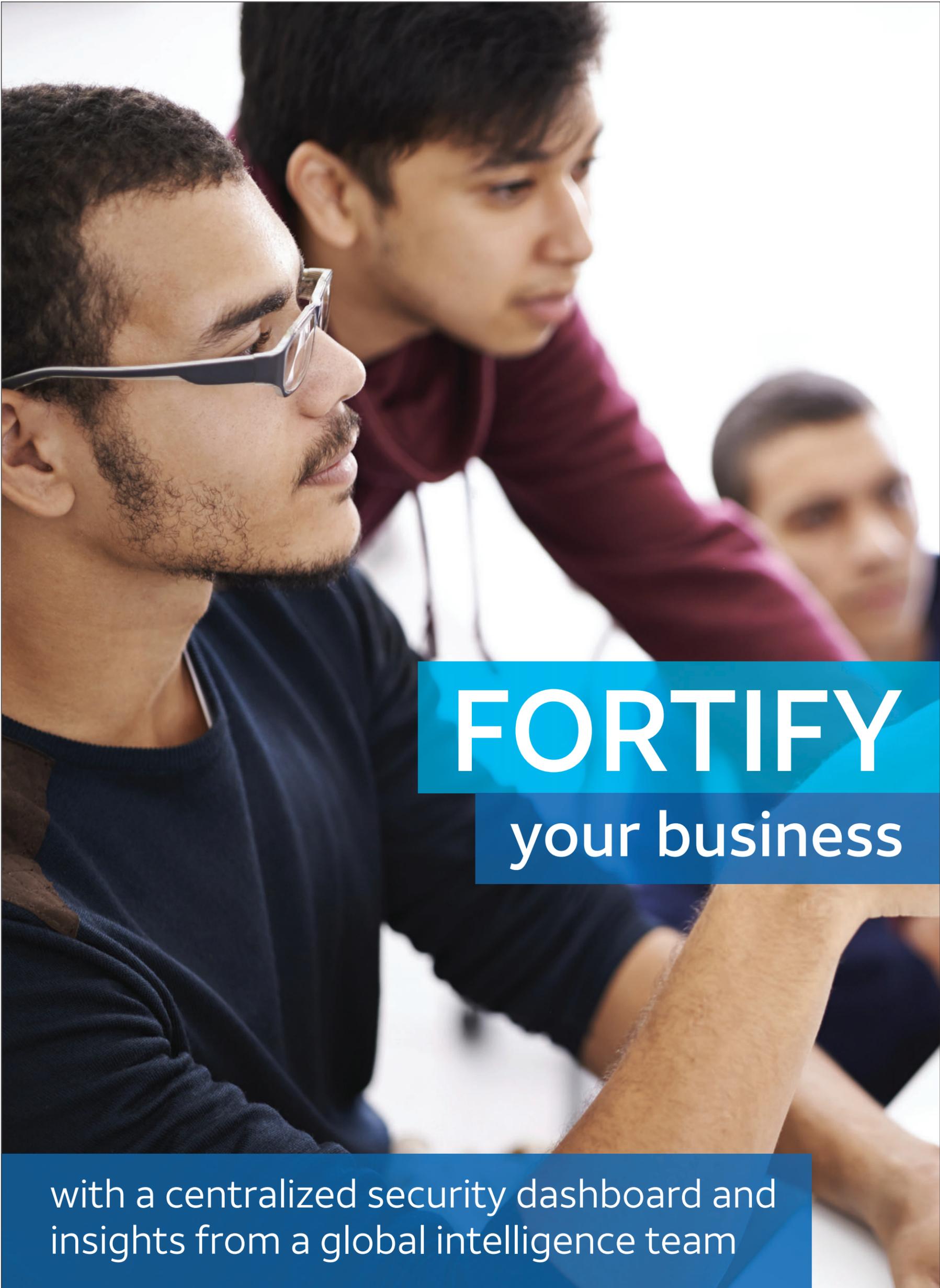
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