Petroleum news

page 2 Ford Lake shale shows promise; Interior shale play data collected

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Oxy taking hard look at Alaska? Crude oil price predictions upbeat

RUMORS THAT OCCIDENTAL PETROLEUM is taking another look at Alaska have surfaced in the past few weeks — the latest spurred by the state's upcoming SALSA lease sale.

Melissa Schoeb, Oxy's vice president of corporate affairs, told Petroleum News July 31 that as a matter of company policy she could not comment on the rumors.

Oxy is an American multinational petroleum and natural gas exploration and production company headquartered in Houston, Texas, that used to be involved in Alaska as a minority owner of the North Slope Milne Point oil field.

The Alaska Division of Oil and Gas is combining

see **INSIDER** *page 10*

Newfoundland cuts deal with Equinor, Husky, for Bay du Nord

Newfoundland has taken a major step toward a new era of offshore oil development in Atlantic Canada at a time when that region seemed destined to join other frontier plays in a steady slide into oblivion.

The provincial government announced an agreement with Norwegian-based Equinor Canada (formerly Statoil) to proceed with plans to develop the deepest oil site at Bay du Nord where a find of 300 million to 600 million barrels was estimated five years ago.

That discovery was seen as a breakthrough for the greater basin of Flemish Pass, 300 miles east of the Newfoundland capital of St. John's, where another six fields have been iden-

see **NEWFOUNDLAND DEAL** *page 8*

ANWR 1002 scoping report out; environmental impact questioned

The federal Bureau of Land Management has published a report on the comments that the agency has received for determining the scope of an environmental impact statement for a proposed oil and gas lease sale program for the coastal plain of the Arctic National Wildlife Refuge. The comments highlight concerns about the possible impacts of oil and gas industrial activities on the wildlife and fauna of the refuge, and on local communities.

The overall purpose of developing the EIS is to evaluate the potential environmental impacts of oil and gas activities in the ANWR coastal plain, to determine what mitigation measures may be need for environmental protection or whether the proposed activities should proceed.

see **SCOPING REPORT** *page 6*

RCA staff reviews standards as Railbelt moves to unified system

In conjunction with moves towards a more unified approach to the management and operation of the Alaska Railbelt electrical system, during a July 11 Regulatory Commission of Alaska public meeting commission staff reviewed a new set of Railbelt reliability standards that the utilities are in the process of implementing. The objective of the standards is to specify a set of technical criteria and procedures that minimizes the likelihood of a failure in the electrical system.

Critically important

A reliable electricity supply is critically important in Alaska, especially in the winter when people depend on elec-

see **RCA REVIEW** *page 10*

EXPLORATION & PRODUCTION

Thomson quest

Technically savvy ExxonMobil struggles to keep high pressure field online

By KAY CASHMAN

Petroleum News

The Point Thomson project, operated by ExxonMobil, was designed to produce 200 million cubic feet of recycled gas and 10,000 barrels of condensate a day. ExxonMobil continues to face technical challenges in the high-pressure sands of the eastern North Slope field. The company is determined to conquer those challenges — good news for all eastern North Slope prospect owners that someday hope to use Point Thomson's pipeline to carry their oil to the trans-Alaska oil pipeline at Pump Station No. 1.

DARLENE GATES

Point Thomson output over the last six months has ranged from approximately 5,200 barrels per day of condensate to 9,100 bpd, with days online varying from a low of nine in June to a high of 31 in May. Over the six months, the field has been online an average of 22 days a month.

Currently, the facility is "safely shut down … to conduct maintenance," Hans Neidig, Exxon's public and government affairs manager for Alaska, told Petroleum News. "The advanced equipment at the facility requires rigorous inspection and maintenance protocols to ensure safe operation."

The company and its contractors "are working

see **THOMSON QUEST** *page 11*

FINANCE & ECONOMY

Conoco earnings up

2nd quarter adjusted earnings $1.3B, $418M from Alaska, 32% of total

By KRISTEN NELSON

Petroleum News

ConocoPhillips reported $1.3 billion in second-quarter adjusted earnings on July 26, compared to second-quarter 2017 adjusted earnings of $178 million, the company said July 26 in reporting results for the quarter.

RYAN LANCE

For Alaska, the figures are adjusted net income of $418 million, compared to $167 million in the 2017 second quarter.

The company attributed the higher year-over-year second-quarter adjusted earnings primarily to higher realized prices, with a total realized price of $54.32 per barrel of oil equivalent in the second-quarter of this year, compared to $36.08 in the second quarter of 2017, crediting both stronger prices "and a more liquids-weighted portfolio."

"We've positioned ConocoPhillips to deliver top-tier performance through cycles by focusing on free cash flow generation and following clear priorities to maximize returns," said Ryan Lance, chairman and chief executive officer. "We're benefitting from higher oil prices, but also driving underlying cash flow expansion," he said.

The company's estimated obligations to the

see **CONOCO EARNINGS** *page 12*

FINANCE & ECONOMY

BP profits climbing

Profit for quarter $2.8 billion; company continues to assume $50 to $65 oil prices

By ALAN BAILEY

Petroleum News

In a July 31 earnings call, reporting BP's results for the second quarter of this year, the company's group chief executive, Bob Dudley, commented that BP's underlying global profit for the quarter had been $2.8 billion, compared with $2.6 billion in the first quarter and $700 million a year earlier. Dudley attributed this strong performance to the disciplined execution of the strategy that the company had established at the beginning of 2017.

BOB DUDLEY

BP has said that its strategy emphasizes value over volume and focuses on returns when making investments, while also maintaining a strong safety record.

Growing oil demand

Dudley said that continuing growth in the world economy is supporting strong oil demand growth. Economic growth is also supporting an increasing demand for natural gas, in particular Asian demand for liquefied natural gas. As stocks of crude oil in the developed world have dropped from the excess of recent years to more normal levels, oil prices have trended higher, supported by strong demand growth.

However, there are a number of significant uncer-

see **BP PROFITS** *page 11*

EXPLORATION & PRODUCTION

Ford Lake shale oil said to show promise

Blodgett and Sutherlin collect huge amount of data on Interior Alaska shale play that has been burning or smoldering for decades

By KAY CASHMAN
Petroleum News

Alaska Native regional corporation Doyon Ltd. might be sitting on a significant shale oil play on Windfall Mountain within the Yukon-Charley Rivers National Preserve, Anchorage-based Robert Blodgett and his colleague Steve Sutherlin told Petroleum News in late July.

Blodgett, a geologist, and Sutherlin, a strategic operative, have accumulated a large amount of paleontological and geochemical data on the area, with emphasis on the Ford Lake shale play.

The major challenge will be getting the oil to market, as the play is downstream of Eagle, Alaska (population 85), along the Yukon River, near its confluence with the Tatonduk River, Sutherlin, who enjoys problem-solving, told Petroleum News. "I have a few ideas," he said.

Stretching 1,980 miles in length the Yukon River is the third longest watercourse of North America. The

see FORD LAKE SHALE page 5

The fire at Windfall Mountain from exposures of the Ford Lake shale has been cited on several web sites starting in 2012.

contents

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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, Summer Maintenance	Hilcorp
Dreco 1000 UE	16 (SCR/TD)	Standby	
Dreco D2000 Uebd	19 (SCR/TD)	GMTU, MT6-08	ConocoPhillips
AC Mobile	25	Standby	
OIME 2000	141 (SCR/TD)	Stacked	
	142 (SCR/TD)	Kuparuk 1H-108B	ConocoPhillips
TSM 700	Arctic Fox #1	Stacked	
Hilcorp Alaska LLC	Rig No.1	Milne Point	Hilcorp Alaska LLC
Kuukpik Drilling	5	Deadhorse	Available
Nabors Alaska Drilling			
AC Coil Hybrid	CDR-2 (CTD)	Stacked in Deadhorse	BP
AC Coil	CDR-3 (CTD)	Kuparuk, 3H-31	ConocoPhillips
Dreco 1000 UE	2-ES (SCR-TD)	Stacked	Available
Mid-Continental U36A	3-S	Stacked	Available
Oilwell 700 E	4-ES (SCR)	Stacked	Available
Dreco 1000 UE	7-ES (SCR/TD)	Stacked	ConocoPhillips
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)	Stacked	ENI
Academy AC electric CANRIG	105AC (AC-TD)	Stacked in Deadhorse	Doyon Ltd
Academy AC electric Heli-Rig	106AC (AC-TD)	Stacked	Great Bear Petroleum
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay	Available
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay	Available
Ideco 900	3 (SCR/TD)	Prudhoe Bay	Available
Rig Master 1500AC	4 (AC/TD)	Oliktok Point	ENI
Parker Drilling Arctic Operating Inc.			
NOV ADS-10SD	272	Prudhoe Bay DS 18	BP
NOV ADS-10SD	273	Prudhoe Bay DSW-59	BP

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)	Spy Island NN-01	ENI
Nabors Alaska Drilling			
OIME 1000	19AC (AC-TD)	Cold Stacked	Caelus Energy LLC

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	Anchor Point, drilling production section of H14	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	In All American Oilfield's yard in Kenai, Alaska	Available
Aurora Well Services			
Franks 300 Srs. Explorer III	AWS 1	Stacked out west side of Cook Inlet	Available
Saxon			
TSM-850	147	Stacked	Hilcorp Alaska LLC
TSM-850	169	Stacked	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 51	Monopod Platform, Drilling	Hilcorp Alaska LLC
Spartan Drilling			
Baker Marine ILC-Skidoff, jack-up		Spartan 151, Stacked Seward	
Furie Operating Alaska			
Randolf Yost jack-up		Nikiski, OSK dock	Furie
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

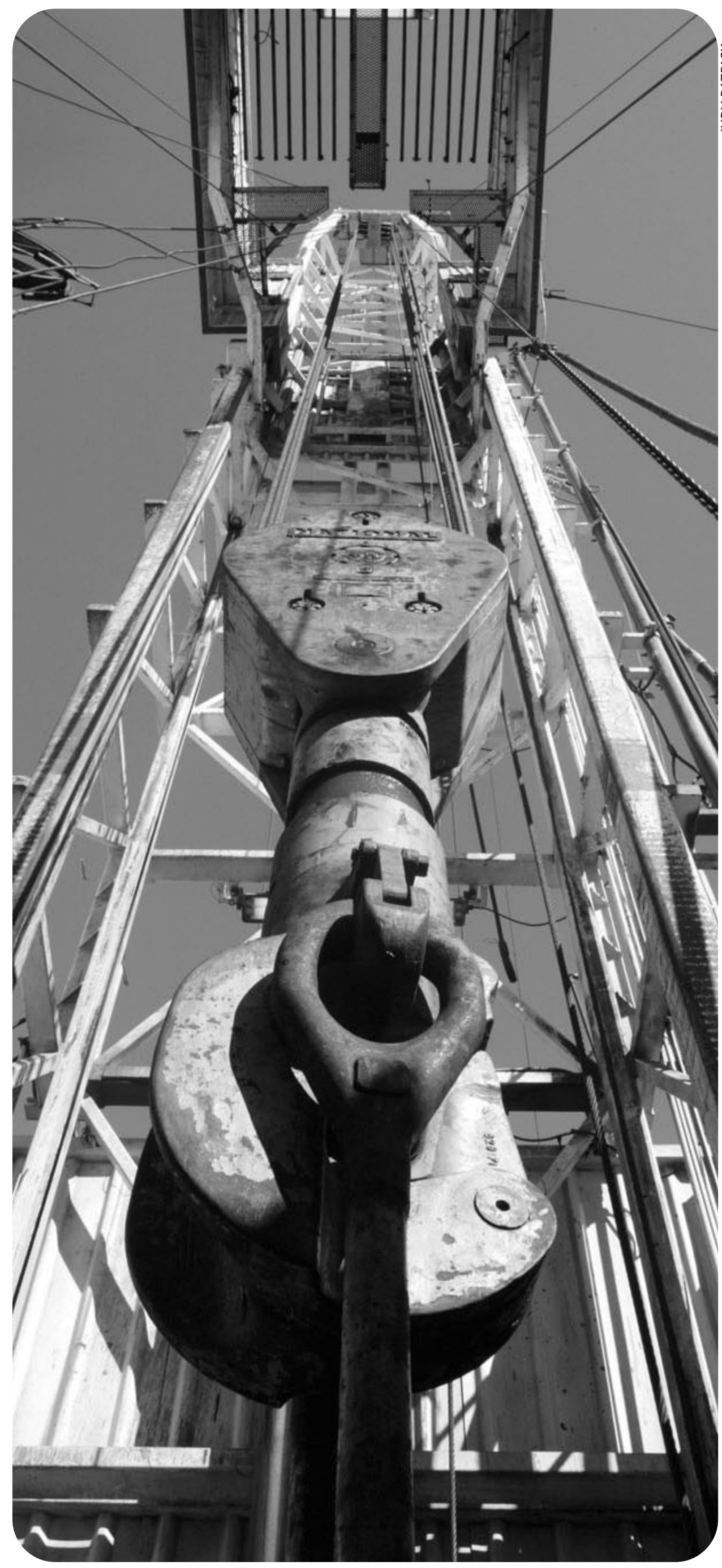
Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Akita			
TSM-7000	37	Racked in Norman Wells, NT	Available

The Alaska - Mackenzie Rig Report as of August 1, 2018.
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*

	July 27	July 20	Year Ago
United States	1,048	1,046	958
Canada	223	211	220
Gulf of Mexico	15	17	23

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

*Issued by Baker Hughes since 1944

The Alaska - Mackenzie Rig Report is sponsored by:

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● FINANCE & ECONOMY

EIA anticipates growing energy demand

2018 International Energy Outlook sees steady increase in use of all energy types except coal, primarily in developing countries

By ALAN BAILEY
Petroleum News

In its International Energy Outlook 2018 report, the U.S. Energy Information Administration anticipates economic growth in developing countries driving an increase in global energy consumption over the next couple of decades.

While energy consumption by countries outside the Organization for Economic Cooperation and Development first exceeded consumption within the OECD in 2007, the non-OECD countries will account for 64 percent of world energy use by 2040, according to the Energy Outlook's base case. Global energy consumption may increase from 575 quadrillion British thermal units in 2015 to 739 quadrillion Btus in 2040, but with OECD consumption only increasing slightly to 266 quadrillion Btus during that same time period, the report says.

Although energy consumption is likely to increase significantly in a broad spectrum of non-OECD countries, with Asia factoring particularly high in the overall increase, the Energy Outlook report particularly focuses on China, India and Africa.

Consumption of liquid fuels, natural gas and renewables are expected to account for much of the increased energy usage, but with nuclear power usage also increasing. However, the EIA anticipates coal usage declining somewhat. The industrial use of energy tends to be the largest form of energy consumption.

China, India and Africa

Although energy consumption is likely to increase significantly in a broad spectrum of non-OECD countries, with Asia factoring particularly high in the overall increase, the Energy Outlook report particularly focuses on China, India and Africa. These regions have large populations and high levels of anticipated economic growth. And an examination of some of the future economic possibilities in these regions illustrates the extent to which future energy consumption will depend on the trajectory of global economic growth, and on the manner in which this growth takes place.

China, for example, may see a more rapid transition from an export-led to a consumption-led economy than is assumed in the Energy Outlook's base case for energy consumption: That could increase the annual growth rate of the country's gross domestic product from 4.7 percent to 5.7 percent. However, the resulting shift from manufacturing industries towards service industries would actually depress the rate of growth in energy demand. And in the past few years China has seen a slowing of its GDP growth rate, together with a slowing in the growth rate of its energy usage, the report says.

India: high growth, low per capita consumption

Although India is forecast to have both the world's largest population and the world's fastest growing economy in the coming decades, the country's total energy use and energy consumption per capita will likely remain lower than those of China and the United States. However, a transition in India towards a more export-led economy would cause the growth of the manufacturing sector, a factor that could increase forecast energy consumption by as much as 33 percent by 2040. Other scenarios that assume higher than anticipated Indian economic growth result in similar increases in energy consumption.

The regional economy of Africa is currently dominated by the service industries — higher than expected rates of economic growth in the region would likely result from an expanding manufacturing sector. That, in turn, could lead to a 30 percent increase in per-capita energy consumption in 2040, relative to AEA's base case, the Energy Outlook report says. ●

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CORRECTIONS

Pikka, Willow API gravity

An item in the July 29 issue of Petroleum News, "Narwhal, Willow in Nanushuk; investors unworried w. oil price," confused the API gravities of Pikka/Horseshoe oil and Willow oil.

Willow oil is lighter, with an API gravity of 42 to 43, while Pikka/Horseshoe is heavier oil, with an API gravity of 30.

Petroleum News apologizes for the error.

SALSA — tract groupings, not prospects

The Alaska Division of Oil and Gas has pointed out that wording in a story, "Bids on blocks," in the July 29 issue, is not accurate.

The story said the state was acting as an aggregator with the SALSA, Special Alaska Lease Sale Areas, to be offered in the fall areawide oil and gas lease sales and referred to the SALSA blocks as prospects.

No prospects have been identified on the blocks.

"In reality," the division said in an email, "we have been trying very hard to avoid the misimpression that the state has identified and analyzed prospects on each of these SALSA blocks. The state does not warrant or imply that each of the SALSA blocks cover identified prospects. We are simply grouping leases together that are covered by publicly released tax credit seismic, and have done a lot of legwork to point explorers to where they can collect the relevant data needed to evaluate the acreage and decide whether to bid on it at our lease sales."

Petroleum News apologizes for the misstatement.

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NATURAL GAS

DOE expedites small-scale export approvals

The U.S. Department of Energy has announced that it is speeding up the approval process for the small-scale export of natural gas, including liquefied natural gas, from U.S. export facilities to non-free trade agreement countries.

The regulatory change says that DOE will approve an application for the export of up to 51.75 billion cubic feet of gas per year, without a public interest review, provided that the proposed export qualifies for a categorical exclusion from a review under the National Environmental Policy Act.

The export of natural gas to countries that have a free trade agreement with the United States is already allowed, being considered to be in the public interest under the terms of the Natural Gas Act. The new DOE rule will enable qualifying small-scale exports to non-free trade countries to also be viewed as being in the public interest.

The new rule is primarily aimed at the gas trade with countries in the Caribbean, Central America and South America. In recent years a market has developed for the small-scale shipment of LNG to some of these countries.

"The finalization of this rule will expedite the permitting of certain small-scale exports of natural gas," said Secretary of Energy Rick Perry. "The so-called 'small-scale rule' will further unleash American energy by reducing the regulatory burden on American businesses while also providing significant benefits to our trading partners in the Caribbean, Central America and South America."

—ALAN BAILEY

FINANCE & ECONOMY

Exxon profit surges, just not enough

Rising oil prices pushed second-quarter profit at Exxon Mobil Corp. up by 18 percent, but the results July 27 fell short of Wall Street expectations, and shares dropped in early trading.

Exxon earned $3.95 billion in the second quarter, or 92 cents per share.

Analysts were looking for $1.26 per share, according to a survey by Zacks Investment Research. Exxon does not adjust results based on one-time events such as asset sales, which totaled $307 million in the quarter.

Exxon earned $3.95 billion in the second quarter, or 92 cents per share.

Exxon is a global producer, and the price of benchmark international crude is up more than 50 percent from a year ago.

With the higher prices, Exxon's revenue jumped 27 percent to $73.50 billion, despite a 7 percent decline in production of oil and natural gas. The company said production in the Permian Basin of Texas and Bakken field in North Dakota rose 30 percent, but that couldn't offset declines in other areas.

Exxon is spending more to look for new sources of energy, however. It reported that capital spending — which was cut sharply during the price collapse that started in 2014 — jumped 69 percent after a 36 percent increase in the first three months of the year. Exploration work and drilling are notably rising in Brazil, the Permian Basin and Indonesia.

Natural gas output fell 10 percent, however, partly because the company is focusing its U.S. shale operations on producing more oil and partly due to lower demand for gas in Europe.

Profit margins in Exxon's refinery business rose, with a higher number of facilities down for maintenance. In trading before the opening bell, shares of Irving, Texas-based Exxon were down $3.62, or 4.3 percent, to $80.61.

—ASSOCIATED PRESS

continued from page 2

FORD LAKE SHALE

river's source is in British Columbia, Canada. From there it flows through the Yukon with its lower half lying in Alaska where it turns north, eventually flowing into the Bering Sea.

The area has interested Blodgett "since the time of his M.S. thesis study in the area (1977-1978) and his concurrent work with Louisiana Land & Exploration Co. in the Kandik basin," Sutherlin said.

"The formation is latest Devonian (Famennian) through early Mississippian age and has been subject to a number of fiery outbursts caused by lightning strikes on hydrocarbon-enriched exposures of the formation on Windfall Mountain," the colleagues said in an email to Petroleum News.

The data the two have collected addresses the "underlying chert and shale member of the McCann Hill chert (middle-late Devonian). The McCann Hill chert is similarly a deep-water unit, which has significant red burnished outcrops which also were probably sites of shale oil fires caused by lightning strikes. The McCann Hill is laterally equivalent to the Canol shale of the Northwest Territories and Yukon to the east. The Canol is currently regarded as a highly economically significant shale oil resource," Blodgett and Sutherlin said.

The area has interested Blodgett "since the time of his M.S. thesis study in the area (1977-1978) and his concurrent work with Louisiana Land & Exploration Co. in the Kandik basin," Sutherlin said.

The fire at Windfall Mountain from exposures of the Ford Lake shale has been cited on several web sites starting in 2012. The National Park Service said the fire erupted in 2012, however, "unpublished sources I have indicate that it has existed for a much lengthier time on a smaller scale, including a report to me by Don Hartman (first and former head of the Alaska Division of Geological & Geophysical Surveys) that he and his Texaco field party had observed a small fire at this site in 1971. In addition, it has been rumored that there have been undocumented observations of a small fire in the same general locality as far back as the late 1950's," Blodgett wrote. ●

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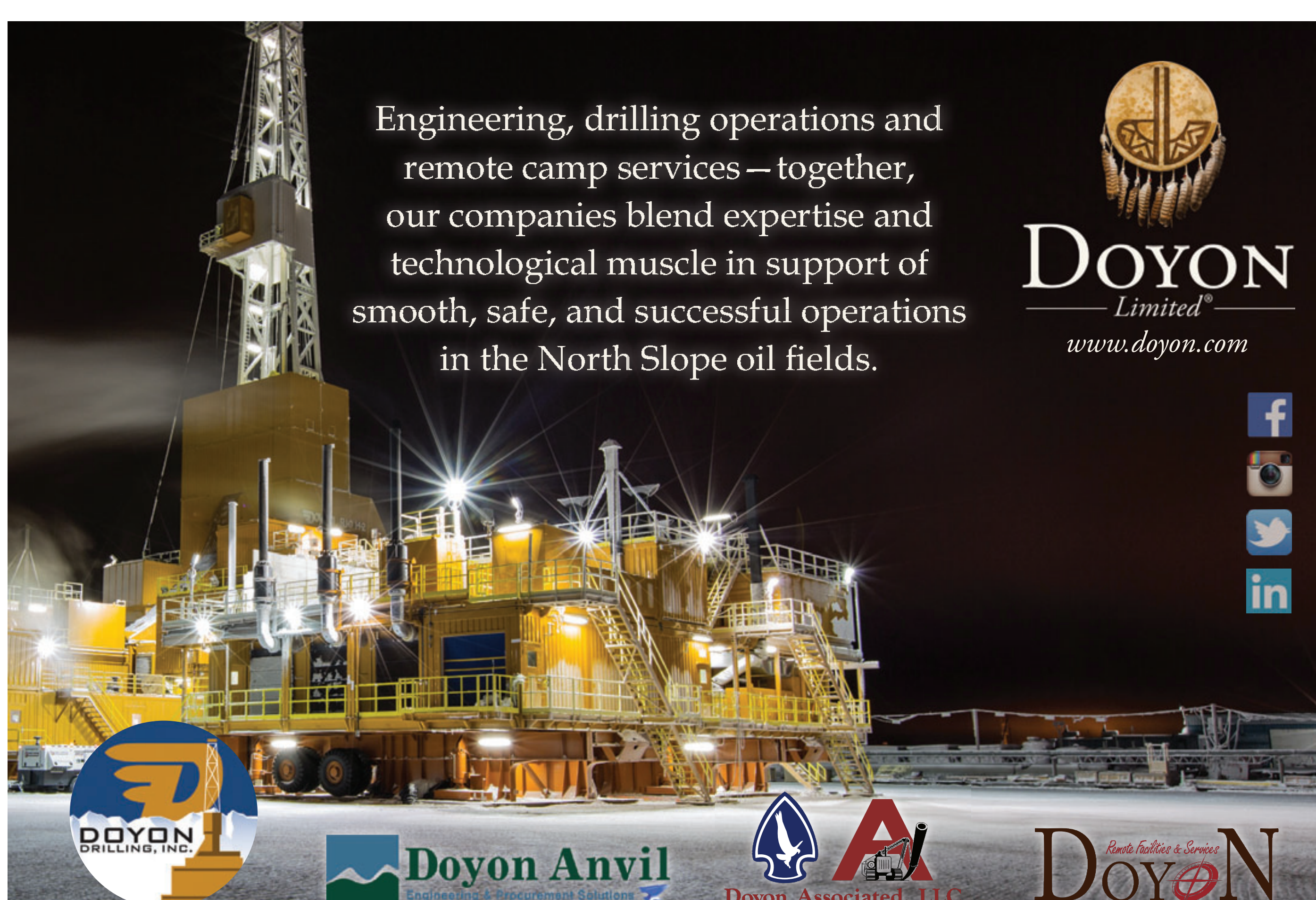

● PIPELINES & DOWNSTREAM

DA pipeline builder wants suit dismissed

THE ASSOCIATED PRESS

The company that built the Dakota Access oil pipeline wants a North Dakota judge to throw out a lawsuit over its ownership of agricultural land, claiming it's not violating a Depression-era state ban on corporate farming that it calls unconstitutional anyway.

Attorneys for Dakota Access LLC also asked the judge in court documents filed July 24 to prevent North Dakota Attorney General Wayne Stenehjem from enforcing the state's anti-corporate farming law. It prohibits large corporations from owning and operating farms in order to protect the state's family farming heritage.

Stenehjem's office filed a civil complaint July 3 alleging that the pipeline company's continued ownership of ranch land it bought in September 2016 violates the law. He wants the court to fine the company $25,000 and order it to sell the land within a year or face more fines.

Dakota Access LLC was formed by Texas-based Energy Transfer Partners to build the $3.8 billion pipeline to move North Dakota oil through South Dakota and Iowa to a shipping point in Illinois. The company bought 12 square miles of ranchland in an area of southern North Dakota where thousands of pipeline opponents gathered to protest in 2016 and 2017. It cited the need to protect workers and help law officers monitoring the protests.

Stenehjem deemed the purchase temporarily necessary to provide a safer environment and reached a deal with the company under which he agreed not to immediately sue. The agreement expired at the end of June, and he sued. He declined comment July 25 on the company's formal response.

Dakota Access attorney Lawrence Bender argues that the company's ownership of the land falls within an exception within the anti-corporate farming law that allows for companies to own farmland if it's necessary for an industrial project. He also said the land continues to be used for agriculture.

Bender also maintains North Dakota's anti-corporate farming law violates several clauses of the U.S. Constitution, including one that bars infringements on interstate commerce. ●

continued from page 1

SCOPING REPORT

Fast-track preparation

BLM has indicated that it wishes to fast-track the EIS preparation as part of a new Department of the Interior policy to cut the time taken for EIS development. The next stage in the EIS process is the preparation of alternative scenarios for conducting lease sales, with that stage to be followed by an evaluation of the environmental consequences of each alternative. According to a tentative schedule presented at public meetings held during the scoping period, BLM hopes to publish a draft EIS this fall. Following a public review of the draft document, the agency hopes to publish a final EIS in the spring of 2019.

The EIS development results from a provision within the Tax Cuts and Jobs Act of 2017, requiring the Department of the Interior to conduct oil and gas lease sales for the ANWR coastal plain, otherwise known as the 1002 area. The tax statute requires at least two areawide lease sales in the 1002 area by December 2024. However, the EIS may also evaluate post-lease activities, including seismic surveying, drilling, exploration, development, and the transportation of oil and gas. The EIS will consider the environmental impacts of various leasing alternatives, including areas to be offered and the stipulations that would be specified for lease operations. BLM is also considering potential impacts on subsistence resources and users. The tax statute says that the surface footprint of any production and support infrastructure within the 1.6 million-acre 1002 area must be limited to 2,000 acres.

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Meetings and consultations

The EIS scoping report says that the EIS scoping procedure included public meetings in four North Slope communities, Anchorage, Fairbanks and Washington, D.C. BLM also issued invitations to 14 Native tribal entities on the North Slope and in the Alaska Interior to participate in government-to-government consultations. BLM subsequently held consultation meetings with Arctic Village Council, the Native Village of Venetie Tribal Government, Venetie Village Council and the Native Village of Kaktovik. BLM has also agreed to conduct consultations with the Circle Village Council and the Native Village of Eagle.

BLM held scoping meetings with government agencies involved in the EIS development. Those agencies consist of the U.S. Fish and Wildlife Service, the Environmental Protection Agency, the state of Alaska and the North Slope Borough. Four tribal entities have also signed up to participate in the EIS project.

BLM is managing the ANWR lease sale program, while Fish and Wildlife manages the ANWR surface environment. Both agencies are within the Department of the Interior.

Thousands of comments

In addition to feedback received through public meetings and tribal consultation, BLM received written statements that contained a total of 4,546 substantive comments, the scoping report says. The majority of the comments came from individual people rather than organizations or government entities. Comments covered a wide range of topics, including the potential impacts of oil and gas activities on various components of the natural environment, socioeconomic concerns, the uses of natural resources in the 1002 area, and the EIS process itself.

In terms of the EIS process, some commenters questioned whether the streamlined timetable for the EIS development and a planned limit to the size of the EIS document would result in hasty decision making and the hindrance of adequate public involvement. And some people requested an extension to the public comment period for the scoping process.

Some commenters asked that BLM consider a wide range of alternatives, including a "no action" alternative, for the ANWR lease sale proposal.

Some people commented that oil and gas project impacts, including possible oil spills, would likely extend beyond the allowed 2,000-acre surface footprint for development. And some asked for greater clarity in how the 2,000-acre disturbance limit would be defined. Some said that the EIS must consider the cumulative impacts of oil and gas activities, taking into account activities elsewhere on the North Slope and in neighboring areas of Canada.

Questions over the impact of ANWR oil production on climate change were also raised.

see **SCOPING REPORT** *page 9*

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NEWFOUNDLAND DEAL

tified.

Bay du Nord, which followed earlier discoveries labeled Mizzen and Harpoon, is now scheduled for sanctioning in 2020, with first oil expected in 2025.

First project negotiated

It is the first project to be negotiated under Newfoundland's generic oil royalty regulations, which are part of the government's Advance 2030 — The Way Forward on Oil and Gas, which it hopes will position the province as a globally preferred location for oil and gas development.

Newfoundland Premier Dwight Ball said the commitment and investment of the partnership of Equinor as operator and Husky Energy "highlights the attractiveness of our industry and the potential that exists within this province in our offshore."

He said the advance of Bay du Nord will allow Newfoundland to "take our first step into the new frontier, we mark a new era of deep-water exploration as well as the opening of a new basin — the Flemish Pass. The future of our offshore begins today."

The council estimates there are more than 37 billion barrels to be drilled off the coast of Newfoundland, of which only 7 percent is covered by licensed drilling operations, and 133 trillion cubic feet of gas potential, which is targeted for commercial production in 2030.

Charlene Johnson, Chief Executive Officer of the Newfoundland Offshore Industries Association, predicted that by early 2020 there could be as many as five drilling platforms operating in the region.

"This place is going to be on wheels from 2020 to 2025," she said. "Let's hope it's oil that they find."

Until now, Newfoundland has relied solely on the Jeanne d'Arc Basin for oil output from the Hibernia, Terra Nova, White Rose and since last year Hebron-Ben Nevis, which is pumping at 150,000 barrels per day.

The prospective benefits listed for Bay du Nord include a capital layout of C$6.8 billion, more than C$14 billion in economic activity (in 2017 dollars), about 11,000 person years of employment for the province alone, C$3.5 billion in government revenues, in-province fabrication of 5,000 metric tons for a floating production storage and offloading, FPSO, unit and a minimum C$75 million in research and development, and education and training expenditures over 10 years to help position Newfoundland as a "deep-water center of excellence."

Target 650,000 bpd

While the rest of Canada has become bogged down in feuding over oil sands expansion and the challenge of building pipelines to the United States and export terminals in British Columbia, Quebec and New Brunswick, Newfoundland has escaped the spotlight while quietly pushing towards its target of drilling more than 100 new exploration wells and tapping into multiple basins to produce more than 650,000 barrels per day from new and existing projects.

The province's Oil and Gas Industry Development Council is providing the government with 17 focus areas ranging from short- to long-term.

The council estimates there are more than 37 billion barrels to be drilled off the coast of Newfoundland, of which only 7 percent is covered by licensed drilling operations, and 133 trillion cubic feet of gas potential, which is targeted for commercial production in 2030.

To open up that resource, the province aims to reduce the development time for offshore projects to seven years — a plan Ball has called "ambitious, but achievable."

Despite the Canadian government's determination to impose a nation-wide carbon tax and the growing trend towards green energy, Ball said there is no reason to pull back from oil projects at time when there is "still a thirst for oil and gas throughout the world."

He has committed Newfoundland to laying a foundation for an industry that "will be in full swing within 12 years."

"We already know there are tremendous reserves (within the province's territorial waters). If we do not put targets in place and the mechanism to get there ... and challenge people it will never get done," Ball said.

Asked to reconcile the additional greenhouse gas emissions that will be generated by Bay du Nord and other ventures, he said Newfoundland produces fewer carbon units per barrel of oil than the global average, adding that an informed decision on carbon pricing has yet to be reached in Canada.

"If you're going to use oil, I can tell you (Newfoundland) is the greenest place to get that oil," Ball declared.

Natural Resources Minister Siobhan Coady expressed the hope that development of Bay du Nord will attract further investment in other unexplored deep-water basins.

UN agreement

An unresolved question hanging over Bay du Nord is the impact of an agreement signed by Canada in 2003 under the United Nations Convention on the Law of the Sea, requiring countries to make payments to a UN body called the International Seabed Authority for the exploitation of non-living resources (such as oil) on the continental shelf beyond Canada's 200-mile limit.

To date those payments have never been enforced anywhere in the world, but Ball is adamant that the Canadian government and not his province must shoulder the burden of payments to the UN.

"This is an agreement (the federal government) has entered into and this will be their responsibility," he told the Canadian Broadcasting Corp. "I would not expect any national government to back out of an agreement it has made to the United Nations."

Any payments due to the UN will not start until five years after production starts and would progressively ramp up after that, topping out at 7 percent of production value.

The government of Prime Minister Justin Trudeau made no comment on who should make the payments, but notes prepared in 2004 by then federal natural resources minister John Efford pointed to a looming federal-provincial showdown by warning "this issue bears significant impacts" for both levels of government.

Currently, the Canadian government collects offshore oil royalties and transfer 100 percent of those to Newfoundland, while both governments collect tax revenues linked to offshore resource extraction.

Federal briefing notes to 2016 said the minister of reign affairs "is responsible for payments to international organizations," but added that the "source for payments has not been identified."

—GARY PARK

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SCOPING REPORT

Concerns about caribou

One area of contention, particularly for the Gwich'in people of the Alaska Interior and northern Canada, is the possibility of oil and gas development having adverse impacts on the Porcupine caribou herd that uses the ANWR coastal plain as an area for calving during the summer. Commenters requested that BLM fully analyze the ways in which the proposed leasing program may impact caribou calving, insect relief habitat and migration routes. A long list of questions over potential caribou impacts included requests for analyses of habitat use, concerns about the possible displacement of caribou from their normal habitats, and concerns about the possible impact of oil developments on the vegetation that caribou calves feed on.

Other questions were raised about numerous other environmental issues, including potential impacts on migratory birds, on special status species such as polar bears, and on other marine wildlife. People made comments on the need to avoid noise disturbance to wildlife and to prohibit the refueling of aircraft, including helicopters, near bodies of water.

Some questioned how the lease sale program proposal could be reconciled with a Fish and Wildlife Service recommendation in 2015, in conjunction with the agency's ANWR conservation plan, that the coastal plain of the refuge should be designated as wilderness.

Other issues include access to land for local residents for subsistence hunting and fishing. And some people questioned whether the benefits of local jobs resulting from oil and gas activities would be sufficient to compensate for the negative impacts on local communities, including impacts on tourism and the local Native economies.

—ALAN BAILEY

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Petroleum news

Oil Patch Bits

Stork awarded contract renewal by Ecopetrol

COURTESY FLUOR

Fluor Corp. announced July 26 that Stork, part of Fluor's diversified services segment, was awarded a five-year contract renewal by Ecopetrol S.A. to operate and maintain its surface facilities on the Cusiana and Cupiagua gas fields in Colombia. These facilities process 30 percent of the Colombian industrial and domestic gas consumption. Fluor booked the undisclosed contract value in the second quarter of 2018.

Stork will provide integrated operations and maintenance services to the gas compression facilities and the power generation systems until 2023. In addition, Stork will plan and execute the overhauls of the Ecopetrol turbomachinery and related equipment during this timeframe.

"We are pleased that Ecopetrol has extended Stork's contract to continue work in Cusiana and Cupiagua. We have been supporting these gas fields since 2013, and this contract renewal demonstrates the valuable partnership we have established with Ecopetrol," said Taco de Haan, Stork's president. "Under this contract, Stork will continue to drive field efficiency improvements and will use new techniques to further assist Ecopetrol to improve the overall equipment effectiveness."

Lynden gets it done for North Slope customer

Lynden International said July 20 that its Anchorage crew has coordinated many charters, but rarely do they involve one of the world's largest commercial cargo aircraft, the Antonov 124. "When one of our customers 'rings the bell' and needs an 82,000-pound, 60-foot-long, 11-foot-high mud pump house for their North Slope exploration project, guys like Jeff Pennell, regional operations manager with Lynden International, answer the call," said Senior Account Executive Nick Karnos.

In his 32 years at Lynden, Pennell says there have only been a handful of times he had to hire an aircraft this big to haul freight. "It's no big deal to make this type of move happen," he said modestly. "This is no different than any of the other charters we set up, the freight and the airplane are just a little bigger."


COURTESY LYNDEN

But, in fact, the move was a big deal. The customer was losing almost a million dollars a day waiting for the emergency freight with a crew and drill rig standing by. It required finding the specialized aircraft, coordinating the movement of freight from the shipper in Houston to the airport, loading equipment on the ground, ground handling and the subsequent movement from Fairbanks to Alaska's North Slope. Pennell relied on the expertise of Steve Willford, project manager with Alaska West Express in Fairbanks for specialty equipment and handling. Once the freight arrived in Fairbanks, it was unloaded, trans-loaded to a separate trailer, then sent 400 more miles to Deadhorse. From Deadhorse, it went over an ice road to an island in the Arctic Ocean where crews were waiting.

Nabors announces second quarter 2018 conference call

Nabors Industries Ltd. invites you to join Anthony G. Petrello, chairman and CEO, and William Restrepo, CFO, Aug. 1 at 10 a.m. Central Time for a discussion of operating results for the second quarter ended June 30. Nabors will release earnings after the market closes on July 31.

Please call 10 to 15 minutes ahead of time to ensure proper connection. The conference call will be recorded and available for replay for one week, by 1 p.m. Central Time on Aug. 1. To hear the recording, please call 877-344-7529 domestically or 412-317-0088 internationally and enter participant elite entry number: 9124694.

Nabors will have a live audio webcast of the conference call available on its website at www.nabors.com. Navigate to the investor relations page and then select events calendar to join the webcast. An electronic version of the earnings release and supplemental presentation will also be available to download from the website.

Companies involved in Alaska's oil and gas industry

All of the companies listed above advertise on a regular basis with Petroleum News

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INSIDER

unleased acreage backed by a multitude of information on those leases to offer three blocks of leases in Special Alaska Lease Sale Areas to be held concurrently with its fall oil and gas lease sale.

One of the large, contiguous acreage SALSA blocks is 23,040 acres at Gwydyr Bay on the central North Slope coast between Milne Point and Northstar north of Prudhoe Bay (see July 29 article in Petroleum News titled "Bids on Blocks").

There are six wells in the Gwydyr Bay SALSA block, including Northstar 3, Long Island 1, Gwydyr Bay wells either drilled in or with bottom holes in the block, and the Sak River 1A which has a bottom hole in the block.

Each of the SALSA lease blocks has 3-D seismic available; data which was acquired through the state's tax credit program and is available through the Alaska Department of Natural Resources for a modest fee, the division said.

Unless a separate deal is announced earlier, Oxy's level of interest in Alaska should be revealed at that time.

World supply risks bolster oil prices

IN EARLY JULY ANALYSTS AT SANFORD C. BERNSTEIN & CO. warned crude could rise past $150 a barrel on chronic capital underinvestment.

This prediction was followed by a flurry of liquidations by hedge funds and other money managers profiting on their bullish positions in crude futures rather than concern that a downturn was ahead.

But very real-world supply risks once again took hold July 30 to boost Alaska North Slope crude $1.12 to $76.40 a barrel, West Texas Intermediate oil $1.44 to $70.13, and Brent crude 68 cents to $74.07.

The reaction was instigated by Syncrude Canada's oil sands facility near Fort McMurray, Alberta, not returning to full production as soon as expected but longer term and more worrisome supply concerns include ongoing declines in Venezuela, fluctuating production in Libya and Nigeria, the loss of Iranian oil due to U.S. sanctions and an emerging U.S.-China trade war.

Other analysts have recently concurred that a shortfall in supply is possible and could result in a super-rise in prices, potentially much larger than the $150 a barrel spike that occurred in 2008.

That said, they also indicate the increase to $150 a barrel or above won't be smooth or fast. There are still bumps in the road, such as on July 31 the American Petroleum Institute reported a crude oil inventory build of 5.59 million barrels in U.S. inventories for the week ending July 28, compared to analyst expectations that the week would see a draw in crude oil inventories of 2.794 million barrels.

Walker gets poor grade for Alaska

ALASKA GOV. BILL WALKER, AN INDEPENDENT, says the budget deal he recently signed into law will help Alaska recover from its current economic woes.

The budget legislation creates a formula to allow the state to continue tapping into Permanent Fund earnings, plus it provides more than $30 million for public safety next year, and $50 million in new school funding over the next two years.

Walker called his budget and the restructuring of the Permanent Fund "the biggest steps Alaska has taken in the last five years to turn the corner toward a stable future."

But not all Alaskan agree, including business people across the state who benefit from citizens spending their annual dividends; not to mention the men, women and children whose dividends have already been cut by the governor and his supporters (dropping this year's dividend to $1,600 from the original estimate of $2,700).

Seeking a second term in November, Walker faces Republican and Democrat opponents that intend to make the dividend cuts a central issue in their campaigns.

Alaska under the Walker administration has recently been relegated to the bottom of CNBC's Top States for Business rankings while fellow oil producing state Texas has taken the No. 1 position, despite also having to deal with lower oil prices since 2014.

According to CNBC, it scores all 50 states on more than 60 measures of competitiveness, developed with input from a broad and diverse array of business and policy experts, and official government sources.

—KAY CASHMAN

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RCA REVIEW

tricity for lighting and for powering the heating systems in buildings.

Until recently the Railbelt electricity grid has operated under two similar but different reliability standards. The commission is concerned that there needs to be a single, consistent set of standards that is enforced for all six of the utilities that operate the Railbelt electrical system. The utilities have worked together to merge the two existing sets of standards and they filed a unified set of standards in April. The utilities are also looking to implement an organization called the Railbelt Reliability Council, which, among other things, would enforce the use of the standards.

Perform to specification

Jay Layne, an RCA staff engineer, characterized electrical reliability as the ability of the system to perform close to its specifications, including, for example, the maintenance of an alternating current frequency near 60 hertz. The electricity also needs to be delivered within required voltage specifications. In addition to ensuring the continuity of the electrical supply itself, a key challenge is to meet those frequency and voltage parameters in a situation where the electrical load is continuously varying, and where an electricity generator may break down or go offline. A particular nightmare is the type of cascading blackout that could occur if there is a loss of generation capacity without an adequate, compensating shedding of electrical load.

Another reliability issue that has been emerging in recent years is the possibility of a physical or cyber attack on the electrical system.

The reliability standards need to address the means of ensuring that the electricity meets the required technical standards, while also ensuring that there are appropriate procedures for handling supply emergencies. Personnel need to be appropriately trained and qualified, and facilities appropriately maintained.

NERC standards

The huge interconnected electricity grid in the Lower 48 has federally mandated standards overseen by the North American Electric Reliability Corp., or NERC. The isolated Alaska Railbelt does not have to conform to the NERC standards but has standards, many of which are modeled on those of NERC. Each utility in the Railbelt has its own electricity load balancing area but also interchanges power with other utilities within what is a single system, interconnected through the Railbelt transmission grid. The interconnected nature of the system means that a problem encountered by one utility can impact other utilities on the grid, Layne commented.

Eight categories

The Railbelt standards are grouped into eight categories, including the balancing of power generation and electrical load; the design of facilities; facility connection standards; the interchange of power between different load balancing areas; protection against load shedding; the maintenance of reserve power; and transmission planning.

The Railbelt standards do not currently encompass physical and cybersecurity — as previously reported in Petroleum News, the utilities have established a working group to address this issue and anticipate filing a draft set of cybersecurity standards by the end of this year.

As part of his response to the July 11 presentation, Commissioner Robert Pickett commented that another issue that needs to be addressed is the question of how the standards will be maintained. What entity will conduct ongoing oversight of the standards, and what would be the RCA's role in the regulatory enforcement of the standards and changes to the standards?

—ALAN BAILEY

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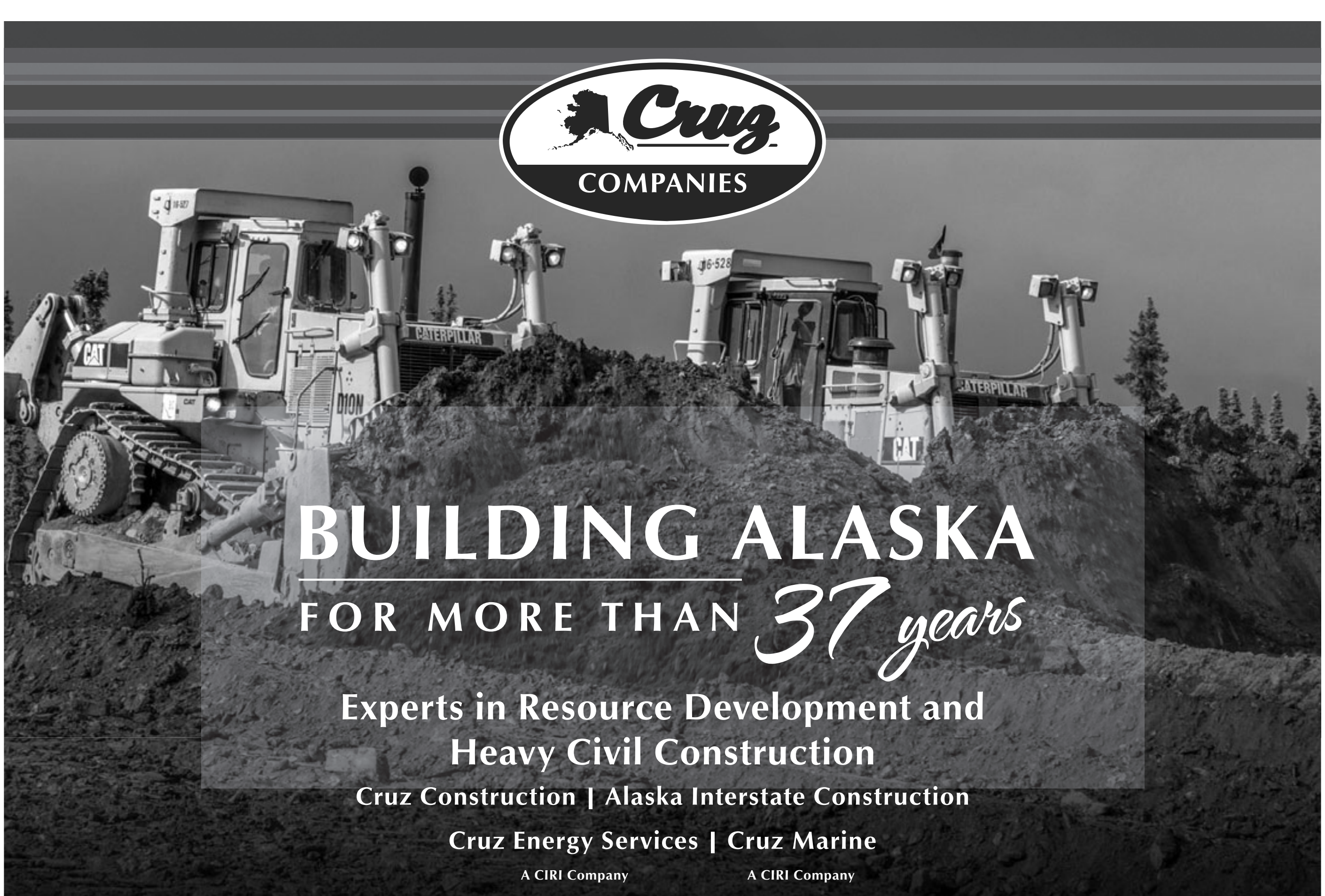

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BP PROFITS

tainties, including oil supply disruptions in countries such as Venezuela and Libya; questions over future U.S. sanctions on Iranian oil exports; and U.S oil infrastructure bottlenecks, particularly relating to the transportation of oil from the Permian basin in the Lower 48. Given these uncertainties, BP continues to plan on an oil price in the range $50 to $65 per barrel, Dudley said.

Purchase of BHP assets

In the context of high-grading the company's upstream portfolio, Dudley talked about BP's takeover of all of BHP's U.S. onshore assets in a deal that was announced on July 27. The deal will give BP access to the liquids-rich Permian-Delaware basin, and to the Eagle Ford and Haynesville basins, adding high quality assets and more than 4.6 billion barrels of oil equivalent resources to the company's Lower 48 portfolio, Dudley said.

Dudley said that BP anticipates offsetting some of the cost of the BHP assets through the sale of $5 billion to $6 billion in assets, predominantly from BP's upstream business. BHP has previously announced that it was selling its Lower 48 assets to BP for $10.5 billion.

In the long term, BP anticipates these newly acquired unconventional oil and gas assets becoming an important addition to the company's options for growth: The assets are expected to add $1 billion to the company's upstream pre-tax cash flow by 2021, Dudley said.

The Kuparuk swap

Dudley also cited BP's recently announced swap with ConocoPhillips of BP's interests in the Kuparuk River field on the North Slope for an increased BP interest in the Clair field in the North Sea as another example of the company following its strategy of high grading its portfolio. The concept is to deepen the company's portfolio in core areas while creating value by divesting assets to other companies, Dudley said.

The APEX digital technology, using sensors and data compilation, enables the company to optimize production through live monitoring and modeling of what is happening.

Dudley also commented on the implementation of the company's APEX system on more than 1,000 wells that the company operates in Alaska. The APEX digital technology, using sensors and data compilation, enables the company to optimize production through live monitoring and modeling of what is happening. During the earnings call question and answer session, Dudley commented that the use of this type of technology is evolving much faster than the company had expected and is producing astounding results through the ability to speed up decision making.

Global LNG

Asked about whether BP has a sufficiently large presence in the global LNG trade, Dudley responded that, given the company's LNG projects in various parts of the world coupled with several LNG off-take agreements, the company is currently trading a lot of LNG. He commented on the Alaska LNG project, which, he said, has been talked about for years.

"We'll see about that but it's not a burning desire in the portfolio," he said.

In May BP signed a precedent agreement for the sale of Prudhoe Bay gas to the Alaska LNG project.

In terms of BP's strategy for addressing concerns about carbon emissions and the transition towards a low carbon future, Dudley reiterated his company's strategy, announced earlier this year. That strategy involves reducing emissions from the company's own operations, improving the company's products in ways that can reduce carbon emissions, and creating new low-carbon and renewable energy businesses. ●

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THOMSON QUEST

diligently to complete the maintenance and resume production as soon as possible. Our highest priority is the safety of our workers and the environment," Neidig said. "Production will only resume when it is safe to do so. We cannot speculate on exact timing."

Because of "the equipment's unique nature, more time is needed to replace some components compared with standard, off-the-shelf equipment," he said.

Neidig was likely referring to the two industry-first compressors that are key in producing condensate and recycling gas in the field.

In a Point Thomson plan of development submitted to the state a little over a year ago, Exxon said, "production to date has been impacted by gas injection compressor availability and reliability," referring to the compressors as "industry-first," which likely explains Petroleum News sources saying the compressor serial numbers were 001 and 002.

Pressure in the field is nothing to scoff at. Development of the Point Thomson field requires handling reservoir pressures upwards of 10,000 pounds per square inch, a pressure corresponding to "the effect of an elephant standing on the end of someone's thumb," former production manager Cory Quarles said in mid-May 2016.

The reservoir pressure is the "highest in ExxonMobil's global portfolio, and probably the highest of any producing field in the world," Quarles said.

"Production will only resume when it is safe to do so. We cannot speculate on exact timing." —Hans Neidig, Exxon's public and government affairs manager for Alaska

The 10,000 psi is still used by the company in 2018.

A state official who asked not to be identified told Petroleum News July 31: "Point Thomson would be tough for any other major to deal with, but Exxon keeps whittling away at the problem. We're fortunate they're operating that field. I doubt it would ever have been developed otherwise," he said, citing "Exxon's deep pockets and technical savvy."

The latest Point Thomson production manager is Darlene Gates, who was brought on from Imperial Oil a few months ago — likely because of her technical expertise and success at Imperial's mega-oil project in northeastern Alberta.

Exxon holds a 69.6 percent interest in Imperial. ●

Note: Mug shot of Darlene Gates was taken from a larger photo of Gates and Lakeland Catholic School District Superintendent Joe Arruda from whom she accepted an award on behalf of Imperial, a reflection on her involvement in district educational programs of Cold Lake, Alberta.

See full story and sidebar in the April 18 edition of Petroleum News.

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Nanushuk – A Slice from the Heart of the Watermelon

FOR SALE or FARMOUT: All terms negotiable.

South Nanushuk Prospect. 35,423 acres. East to west – 18 linear miles covering multiple Nanushuk clinothems. The prospect covers 3 linear miles north to south. Immediately north of 1 billion-plus barrels-of-oil-in place Umiat Oil Field – a Nanushuk oil reservoir. The geological thesis for the South Nanushuk Prospect is that the Umiat oil is a tell-tale indicator of significantly larger Nanushuk oil deposits deeper and to the north of Umiat Mountain. Armstrong's discoveries located north of the South Nanushuk Prospect (i.e., Pikka and Horseshoe) have reified our Nanushuk prospect thesis. The South Nanushuk Prospect is south of the 1.2 billion barrel (proved contingent reserves) Pikka Unit and 20+ miles south of Armstrong's Horseshoe wildcat well. USGS geophysical data confirm continuity of the Nanushuk and Torok formations through the South Nanushuk Prospect leases (BLM; NPR-A). Each of the Nanushuk clinothems arcing through the South Nanushuk Prospect begin south of the Umiat Oil Field and extend north through the Pikka Unit.

For access to the data room: www.nanushuk.com.
Or contact:
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CONOCO EARNINGS

state of Alaska in the form of taxes and royalties totaled $291 million in the second quarter, ConocoPhillips Alaska spokeswoman Natalie Lowman told Petroleum News in an email.

She said that in the second quarter the company invested $581 million in Alaska, bringing the company's year-to-date total to $844 million.

"That capital spend of $581 million represents about 29 percent of the total $2 billion capital spend for ConocoPhillips overall," Lowman said.

Second quarter production in Alaska was 185,000 barrels of oil equivalent a day, almost flat compared to the 2017 second quarter, she said.

Second quarter

Excluding Libya, ConocoPhillips' production for the second quarter was 1.211 million boe per day, a decrease of 214,000 from a year ago. The company said the volume impact from closed dispositions in 2017 was 272,000 boe per day.

"Excluding the impact of closed dispositions, underlying production increased" 58,000 boe per day, or 5 percent, ConocoPhillips said, with the increase primarily from its "Big 3" Lower 48 unconventional assets — Eagle Ford, the Bakken and the Delaware (part of the Permian) basin — and other major projects, "which more than offset normal field decline."

Production from the company's Lower 48 unconventional assets grew 37 percent year-over-year.

For the first six months of the year, production, excluding Libya, was 1.216 million boe per day, compared with 1.503 million for the same period in 2017, with an impact of 337,000 boe per day from six months of closed dispositions. Excluding that impact, underlying production increased 50,000 boe per day, 4 percent. "The increase was largely driven by new production from major projects, development programs and improved well performance, more than offsetting normal field decline," the company said.

Full year production guidance has been increased to a range of 1.225 million to 1.255 million boe per day, reflecting "the higher-than-budgeted partner-operated activity, improved performance across several operating areas and completion of the Alaska Western North Slope bolt-on acquisition," ConocoPhillips said, with third-quarter production expected to be 1.215 million to 1.255 million boe per day, reflecting typical seasonal turnarounds and maintenance activity. The company said all production guidance excludes Libya.

Alaska

"In Alaska, GMT-1 drilling continued, and the project is on track to deliver first oil in the fourth quarter of 2018," ConocoPhillips said.

ConocoPhillips closed on its previously announced Alaska bolt-on acquisition on the Western North Slope in the quarter — the acquisition from Anadarko Petroleum of that company's share of Alpine and Western North Slope acreage, including Greater Mooses Tooth and Willow — and announced that it has agreed to acquire a 39.2 percent interest in the Greater Kuparuk Area from BP, while selling BP a subsidiary that will hold a 16.5 percent interest in the UK Clair field. That exchange is subject to regulatory approval.

Also in the quarter the company announced positive results from its 2018 six-well exploration and appraisal drilling program in Alaska.

Al Hirshberg, ConocoPhillips executive vice president, Production, Drilling & Projects, told analysts July 26 that second quarter production, excluding Libya, averaged 1.211 million boe per day, just above the high end of second-quarter guidance, driven primarily by outperformance in Eagle Ford and Bakken, but also reflecting an additional 5,000 barrels per day from the company's Western North Slope acquisition.

Lower 48

Hirshberg said the company's Big 3 Lower 48 unconventionals averaged 292,000 boe per day in the second quarter, 37 percent growth year-over-year. (Alaska averaged 185,000 boe per day, basically flat year-over-year). Eagle Ford averaged 182,000, Bakken 82,000 and the Delaware 28,000.

He said the company has adjusted its 2018 operating plan to reflect higher production and higher prices, compared to the company's reference price of $50 West Texas Intermediate when 2018 budgets were planned. An increase of roughly 10 percent in capital for 2018, to $6 billion, is driven by three factors, all Lower 48 — increased partner-operated activity, increased operated asset efficiency resulting in more completions with the same number of rigs and inflation. Hirshberg said ConocoPhillips is moving one unconventional Delaware rig to the Eagle Ford and laying down the company's one conventional rig in the Permian. He said the company's original plan for unconventional drilling called for six rigs in the Eagle Ford, three in the Delaware and two in the Bakken, so the total in the company's unconventional areas remains 11.

Alaska future

Hirshberg said no production from the purchase of BP's interest in Greater Kuparuk was included in the 2018 numbers, since that deal is awaiting regulatory approval. Those volumes, for a full year, would be about plus 30,000 barrels, he said.

The West North Slope position purchased from Anadarko has closed, he said, with regulatory approval in May, so those volumes are included in year-end numbers, about 7,000 barrels.

Discussing inflation pressure, Hirshberg said the steel tariffs in the U.S. are turning out to be a fairly significant item for ConocoPhillips, since the company spends, in the Lower 48 and Alaska, some $300 million a year on steel, including pipes, valves and fittings.

He said hot-rolled steel prices in the U.S. are up some 26 percent since the first of the year, although ConocoPhillips has been somewhat isolated from that increase by its supply chain position — but he said that cost would continue to grow next year.

On capex, Hirshberg said they anticipated a final investment decision on Willow in 2021, and that's when significant spending would start on that development.

As for acquisitions, Hirshberg said the Western North Slope and Kuparuk were "very special opportunities" where ConocoPhillips had partners who viewed values differently than ConocoPhillips.

He said if more deals like those two present themselves, the company would take them, but he said the company's experience has been that those deals are few and far between. ●

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