Three more key members of Dunleavy team know oil biz; AIDEA award; Lynden land swap

IN ADDITION TO SOON-TO-BE CHIEF OF STAFF Tuckerman Babcock and Commissioner of Natural Resources Corri Feige, there are three other key members of Gov.-elect Mike Dunleavy’s team who are knowledgeable about oil and gas — former Alaska Gov. Sean Parnell, Rep. Dan Saddler and Brett Huber.

All three are men are members of the transition team; Parnell as special adviser on the proposed $43 billion Alaska liquefied natural gas project, Saddler as director of the transition policy council, and Huber as both senior policy advisor to the governor and assistant director of the Department of Natural Resources’ Office of Policy.

Lag niappe to explore

North Slope, Beaufort Sea sales generate $28.1 million high bids

The Alaska Division of Oil and Gas received $28.1 million in apparent high bids in its 2018 annual Beaufort Sea and North Slope oil and gas sales. Bids were opened in Anchorage on Nov. 15. The state received no bids in the other sale offered, the North Slope Foothills (see map on page 11).

Division Director Chantal Walsh said after the sale that the North Slope sale, at $27.3 million, was the third largest since 1998 when areawide sales began. And the average bid per acre in that sale, $121, was the highest since 1998, she said.

The state received 147 bids on 153 tracts, 223,680 acres, in the North Slope sale from six bidding groups. A new bidder, Lagniappe AK LLC, was the high bidder on 120 tracts, the division said (see page 1 story on Lagniappe).

Another methane hydrate test well planned for the North Slope

Apparent BP is planning to drill another methane hydrate test well on Alaska’s North Slope. On Nov. 15, during a talk to the Resource Development Council’s annual conference, Tom Walsh, managing partner of PetroTechnical Resources of Alaska, commented that the plan is to start drilling the well in December and to use the well to test the long-term production of natural gas from the hydrates. Both BP and ConocoPhillips have been involved with the U.S. Department of Energy in North Slope methane hydrate research. The Japan Oil, Gas and Metals National Corp. has also been involved in the research.

According to data published by the Alaska Oil and Gas Conservation Commission, the well is called the Hydrate 01 Block 13.

Milne Point progresses

Drilling about to start at Moose Pad; polymer flooding proving successful

Hilcorp Alaska is moving ahead, upping the oil production from the Milne Point field on the North Slope, David Wilkins, the company’s senior vice president for Alaska, told the Resource Development Council’s annual conference on Nov. 14. The company is about to start drilling on the new Moose Pad at the western edge of the Milne Pad unit. The company has also seen success in injecting water and polymer into the field reservoir to boost the production of viscous oil, Wilkins said.

The Moose Pad, the first new well pad at Milne Point since 2002, can accommodate 50 to 70 wells and, unusually for the North Slope, has processing facilities on the same pad as the wells, Wilkins said. Construction of the 14-acre pad began in 2017 and, including the construction of a three-mile access road, cost $120 million. Construction also included the installation of a 15-megawatt turbine generator plant. The processing facility can handle 85,000 barrels of fluid per day. Hilcorp anticipates an eventual price tag of about $400 million for the development, with a potential to recover some 60 million barrels of oil. That represents a development cost of $6 to $7 per barrel, Wilkins said.

“...We need more of that and we’ve got more ideas, with our partner BP,” Wilkins said. In 2014 Hilcorp
AGDC OKs 8-Star limited liability company

By KRISTEN NELSON

Keith Meyer, president of Alaska Gasline Development Corp., told the board Nov. 8 that the project structure for the Alaska liquefied natural gas project will include two new limited liability companies. The first LLC, 8-Star Alaska LLC, will be controlled by AGDC and will have both public and third-party financial investors.

At the Nov. 8 meeting the board unanimously approved two resolutions related to 8-Star. The first notes that the Alaska Legislature tasked AGDC with establishing the operating structure for a natural gas pipeline project and allowed it to acquire ownership or participation interest in an Alaska LNG project or an entity that has ownership interest in or is engaged in the project. The resolution further states that “AGDC’s liquefied natural gas project has advanced to the point where potential customers, investment bankers, and investors require an understanding of the operating structure,” and to that end “AGDC seeks to acquire an ownership interest in a Delaware limited liability company with the name of 8-Star Alaska, LLC, or a name that is available and substantially similar thereto.”

The board approved a purchase price not to exceed $10,000 for purchase of interest in 8-Star. The second resolution authorizes AGDC to “license, share, transfer, or otherwise convey corporate assets to 8-Star which AGDC deems appropriate or necessary to advance an Alaska liquefied natural gas project and facilitate 8-Star’s business operations,” including but not limited to “Alaska LNG Project or ASAP content and agreements, permits and authorizations, rights-of-way, and geographical information system databases.”

The 8-Star LLC will allow Alaskans and others to invest in the project at the appropriate time. The second entity, Alaska LNG LLC, will be controlled by 8-Star, have strategic partner investors and hold project assets. Both the LLCs will be tax pass-throughs. Alaska LNG will be the entity which will construct, own and operate the project.

The new administration

Meyer said AGDC is working with the incoming administration and Legislature. Gov.-elect Mike Dunleavy has named former Gov. Sean Parnell to be his special advisor on the AKLNG project. A draft environmental impact statement for the Alaska LNG project is scheduled from FERC in February.
IEA predicts a volatile world oil market

By ALAN BAILEY

Petroleum News

In its recently published World Energy Outlook 2018 report, the International Energy Authority sees major changes impacting world energy markets, with the growing use of electrical power, the increasing use of renewable energy sources, instability in oil markets and the globalization of natural gas markets, as gas demand grows.

The IEA sees oil consumption continuing to grow, driven by petrochemical, trucking and aviation demand. However, in the absence of an uptick in the number of conventional oil development projects, shale oil development could experience difficulty in keeping up with that increasing demand, possibly leading to a supply gap in the early 2020s.

Demand for natural gas continues to rise as China becomes a major gas consumer. The use of solar photovoltaic power is expanding rapidly, but there is a need to drive other low-carbon technologies and to push for further improvements in energy efficiency, the IEA suggests.

Three scenarios

The report considers three possible future energy scenarios: the continuation of current energy policies, the introduction of new policies and energy targets that have been announced; and the implementation of more radical policies that fully address the need to meet global climate change goals. In all cases the report sees government policies as decisive in determining what route energy usage and supply will take.

In general, energy demand is expected to grow, as the center of gravity for energy consumption continues to shift towards Asia. In its new policies scenario, the report anticipates global energy demand increasing by more than 25 percent by 2040, requiring more than $2 trillion per year in investment in new energy supplies.

“Our analysis shows that over 70 percent of global energy investments will be government driven and as such the message is clear — the world’s energy destiny lies with government decisions,” said Dr. Fatih Birol, IEA executive director. “Crafting the right policies and proper incentives will be critical to meeting our common goals of securing energy supplies, reducing carbon emissions, improving air quality in urban centers, and expanding basic access to energy in Africa and elsewhere.”

Transformation of electricity sector

The electricity sector is undergoing a particularly dramatic transformation. Its share in global energy use is approaching 20 percent and is expected to grow further. A combination of government policies and cost reductions for renewable energy sources is fueling a rapid growth in the use of renewable energy power generation. However, the characteristics of this form of electricity supply require changes in the manner in which electrical systems operate, to ensure supply reliability.

Even in advanced economies, where there are well developed electricity supply systems, major investment in the infrastructure will be needed, to accommodate changes in the power generation mix. But lack of sufficient revenues generated by wholesale power markets to finance system upgrades could compromise supply reliability, the report suggests. And continuing improvements in energy efficiency have been dampening electricity demand and causing declines in electricity usage in the developed world.

In developing countries, on the other hand, there is rapidly increasing electricity demand with, for example, the increasing use of cooling systems driven by electric motors. While the implementation of cleaner and more universally available and affordable electricity supplies plays a crucial role in economic development and emissions reductions in these countries, there are questions over whether investments will appropriately match the development needs.

Importance of solar PV

The report sees solar photovoltaic technology, referred to as solar PV, as a key technology in future electricity generation. With this technology becoming increasingly competitive, the IEA sees solar PV installed capacity moving past that of wind, hydropower and eventually coal in the coming decades. The majority of this capacity would be in utility-scale installations, although there would also be strong support for installations of the technology by individual households.

However, the IEA also predicts that the operation of electrical systems will need to become increasingly flexible, to support the intermittency of solar PV generation. The cost of battery technology is declining rapidly, enabling batteries to increasingly compete with gas-fired peaking plants in the task of leveling out the varying solar powered generation. However, conventional power plants remain the chief means of providing system flexibility, supported by new system interconnections, the use of electricity storage, and adjustments on the demand side, the IEA says.

One interesting question revolves around the extent to which the increasing use of electrically powered vehicles, the use of electric heating and improved electricity access will push up global electricity demand in the next
The IEA expects natural gas to overtake coal as a global energy source in 2030, as trade in liquefied natural gas more than doubles in response to demand from developing countries, especially China.

Climate change targets

But the IEA’s new policies scenario fails short of meeting targets for addressing global climate change. Achieving those targets would require much more aggressive moves towards the use of renewable energy sources.

Increasing electrification would bring benefits in terms of reducing local pollution, but power generation would require further decarbonization if climate change goals are to be met. And some aspects of the energy system, including road freight, shipping and aviation, are not amenable to electrification using current technologies, the IEA report says.

Impact on oil and gas demand

Alongside this increasing use of electricity in a number of energy areas, in its new policies scenario the IEA sees the use of oil-based fuels in cars peaking in the mid-2020s. However, the use of these fuels in aviation and the trucking industry, coupled with growing petrochemical demand, would drive the demand for oil to continue to grow. But the use of oil and oil products in developing countries would account for all of that demand growth.

The IEA anticipates global demand for coal remaining somewhat static. Although fewer new coal-fired power plants are now planned than has been typical in the past, a number of new plants are currently coming into operation.

The IEA expects natural gas to overtake coal as a global energy source in 2030, as trade in liquefied natural gas more than doubles in response to demand from developing countries, especially China. Although the increasing use of solar PV and wind power in Europe will likely dampen the demand for gas for power generation there, gas supplies will remain vital for the heating of buildings and for ensuring uninterrupted power supplies.

From this early step in the leasing process—The draft proposed leasing program proposes lease sales in the Beaufort Sea in 2019, 2021 and 2023, BOEM said. The last BOOM Beaufort Sea sale was in April 2007, resulting in leasing of 90 blocks and brought in more than $42 million.

Draft alternatives

BOEM said the Federal Register notice is a continuation of information gathering and “is published early in the environmental review process in furtherance of the goals of NEPA.”

The agency said comments received during scoping would help inform the EIS for the lease sale, and if a decision is made to hold the lease sale, “that decision and the details related to the lease sale (including the lease sale area and any mitigation) will be announced in a Record of Decision and Final Notice of Sale.”

BOEM said there are draft alternatives on which it is also seeking public input. “Offshore whale area alternative — proposed to minimize conflicts between subsistence whale hunting and oil and gas activities; “Environmental importance areas alternative — proposed to reduce impacts to known environmentally important areas, Barrow Canyon, Harrison Bay/Cuvillo River Delta, the Holder Patch and Kaktovik; “Deepwater exclusion alternative — focuses environmental analyses while offering leases in areas with highest known resource potential.

BOEM said maps and more details on the alternatives can be found at https://www.boem.gov/beaufort2019. The agency said the draft alternatives are based on previous OCS oil and gas leasing programs and on response to stakeholder comments during development of the 2019-24 draft proposed program.
Study finds healthy polar bears in Chukchi

By DAN JOLING
Associated Press

The first formal count of polar bears in waters between the United States and Russia indicates they’re doing better than some of their cousins elsewhere.

Polar bears are listed as a threatened species because of diminished sea ice due to climate change. But university and federal researchers estimate a healthy and abundant population of nearly 3,000 animals in the Chukchi Sea off Alaska’s northwest coast, according to a study published Nov. 14 in Scientific Reports.

“It’s the near-term, it’s absolutely good news,” said lead author Eric Regehr, who with others in the field estimated the polar bear population with Canada.

The study is part of a global effort to gather data on polar bears worldwide as more bears are moving south due to a loss of sea ice, which is essential for hunting.

The world’s polar bears are divided into 19 subpopulations, including two in U.S. waters. Besides Chukchi bears, the United States shares the southern Beaufort Sea population with Canada.

The study shows there is variation among the world’s polar bears in the effects of sea ice loss on polar bears, he said Nov. 15.

“Some subpopulations are already declining while others are still doing OK,” he said.

Polar bears are classified as marine mammals because they spend most of their lives on sea ice. Less sea ice means less productive time to hunt ice seals, more time on shore and longer, energy-sapping swims.

Fewer cubs were surviving into their second year and adult males weighed less and had smaller skulls, the U.S. Geological Survey found. Researcher Steven Amstrup, a U.S. Fish and Wildlife Service biologist and last year joined the University of Washington’s Polar Science Center.

In the longer term, it doesn’t mean the Chukchi Sea bear population will not be affected.

“Polar bears need ice to hunt seals, and the ice is projected to decline until the underlying problem of climate change is addressed,” Regehr said.

The study shows there is variation around the world in the effects of sea ice loss on polar bears, he said Nov. 15.

“Some subpopulations are already declining while others are still doing OK,” he said.

AGDC has been operating on what Meyer has called an austerity budget, stretching funds previously allocated by the Legislature. During the session Meyer said he wanted third-party funding negotiations are on the table for both a two-train and a phased three-train scenario.

DNR, she said, is using their project economic model in the department’s royalty best interest finding process.

AGDC Senior Vice President of Program Management Frank Richards reviewed fulfillment of Federal Energy Regulatory Commission data requests and noted that on the Alaska Stand Alone Pipeline the U.S. Army Corps of Engineers and the federal Bureau of Land Management are expected to sign a joint record of decision in mid-November. A draft environmental impact statement for the Alaska LNG project is scheduled from FERC in February.

After the state takeover of the project, it moved ahead but funding has been an issue. In the last legislative session Walker budgeted for designated program receipts for AGDC, allowing it to accept money from third parties. As proposed, the authority was opened ended, allowing AGDC to accept any amount of money from third parties.

The House limited the amount to $1 billion for the fiscal year ending June 30, 2019. The Senate dropped the $1 billion provision, but left references to designated program receipts in the bill.

AGDC has been operating on what Meyer has called an austerity budget, stretching funds previously allocated by the Legislature. During the session Meyer said he wanted third-party funding in place in 2018 to keep up the pace of the project, so funding issues won’t cause slippage in the schedule to have first gas in 2024-25.

He has said that as long as the project is in construction in 2020, AGDC can make the 2024-25 online schedule.

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AGDC COMPANIES

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project. Parnell, responsible for passage of Senate Bill 138 in 2014 which allowed state equity participation in an LNG project, was defeated in a re-election bid by Gov. Bill Walker, who engineered the state takeover of the Alaska LNG project when industry partners BP, ConocoPhillips and ExxonMobil wanted to put the project on hold for economic reasons.

In discussing the Parnell appointment, Tuckerman Babcock, Dunleavy’s chief of staff, told KTUU “no one knows more about the project than the former governor.” Babcock said Parnell had moved the project to a point never achieved before.

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Project updates

In an update on negotiations, Lieza Wilcox, AGDC vice president commercial and economics, said Chinese parties visited Alaska in October to advance the joint development agreement. Sales and purchase agreement negotiations are ongoing she said, with workshops for key parties planned in November.

Meyer noted that a delegation from Vietnam visited Oct. 22 and said the JDA parties’ top negotiators were in town Oct. 22-26, advancing agreements and conducting upstream resource reviews.

Wilcox said AGDC has been working with the Department of Revenue and the Department of Natural Resources on aligning economic model assumptions. She said AGDC provided assumptions for both a two-train and a phased three-train scenario.

DNR, she said, is using their project economic model in the department’s royalty best interest finding process.

AGDC Senior Vice President of Program Management Frank Richards reviewed fulfillment of Federal Energy Regulatory Commission data requests and noted that on the Alaska Stand Along Pipeline the U.S. Army Corps of Engineers and the federal Bureau of Land Management are expected to sign a joint record of decision in mid-November. A draft environmental impact statement for the Alaska LNG project is scheduled from FERC in February.

Contact Kristeen Nelsen
at kristeen@gettysunseas.com
HILCORP PRODUCTION

purchased 50 percent of BP’s interests in Milne Point and became field operator. Gross production from Milne Point is currently flowing at about 23,000 barrels of oil per day. Wilkins said that production could increase to around 24,000 or 26,000 barrels per day by the end of the year, depending on which new wells come on line by then. Hilcorp will have two drilling rigs operating in the field next year and anticipates drilling more than 20 wells, bringing the production up to around 35,000 barrels per day by the end of 2019.

Viscous oil

One challenge at Milne Point is the increasing proportion of viscous oil coming from the field reservoir. Currently around 10,500 barrels per day of the field production, Hilcorp has installed a small rock. relatively high viscosity and that, therefore, 10,500 barrels per day of the field produc- tion, he said. But, with the current polymer plant being quite small, there is potential to expand the use of this technology.

“T’ll think it’s going to play a big role on the North Slope,” Wilkins said.

In total there are 1.3 billion barrels of rel- atively heavy oil at Milne Point. If, say 40 percent of that could be recovered, that would represent a major boost to oil produc- tion, he said.

In many ways Hilcorp’s efforts at Milne Point reflect the company’s core business, targeted at squeezing as much production as possible from aging oil and gas assets.

“We do something different. We focus our whole company . . . on the tail end of the asset life,” Wilkins said.

Liberty

In Alaska, however, Hilcorp has also been forging ahead with some projects aimed more at the front end of field life. In particular the company is planning to develop- Liberty oil field from a gravel island on the federal outer continental shelf of the Beaufort Sea. Liberty will involve a more than $1 billion investment for Hilcorp, with the potential to produce more than 70,000 barrels per day of oil and a field life of 20 to 30 years. In October the Bureau of Ocean Energy Management issued a record of decision, approving development of the field essentially in the manner that Hilcorp had proposed.

The development plan involves the con- struction of a 9.3-acre gravel island in 19 feet of water, and the laying of 5-6 miles of a pipe-within-a-pipe pipeline to deliver oil to the onshore Badami pipeline. Hilcorp has commented that the field design reflects the design of other Beaufort Sea offshore fields.

“Keep it simple and work on what’s worked in the past,” Wilkins said.

Wilkins commented that Hilcorp needs to talk to its partners about the approved development plan and to obtain a federal permit for the pipeline design. The compa- ny anticipates obtaining a Bureau of Safety and Environmental Enforcement permit for a worst-case discharge contingency plan- ning. This should happen at some time in the first half of next year, following which the project should move ahead.

Cross-inlet pipeline project

In the Cook Inlet region, Hilcorp recently completed its cross-inlet pipeline project. This project has connected the oil produc- tion infrastructure on the west side of the inlet via a subsea pipeline to the oil refinery at Nikiski on the Kenai Peninsula. The new pipeline arrangements have eliminated the need for the Drift River oil terminal on the west side of the inlet, a terminal beset with safety concerns because of its proximity to the Redoubt Volcano. At this point the reconfigured pipeline system is delivering 15,000 barrels of oil per day to the Nikiski refinery, Wilkins said. The project also involved laying a new sub- sea gas pipeline, to maintain the capacity of cross-inlet gas transportation. During the past summer Hilcorp laid 24 miles of pipeline and reconfigured 115 miles of existing pipeline. The project, which cost $90 million, provided 300 construction jobs, involving 300,000 manhours of work and 53 contractors, Wilkins said. Wilkins commented on the successful coordination with government agencies, with 92 permits being issued without delaying the project.

“Everybody wanted to see the project done right and wanted to see it done the right way,” he said.

Wilkins also commented on Hilcorp’s philosophy of pushing responsibility to the lowest possible level in the company’s organization, making work enjoyable and encouraging people to be creative. He par- ticularly commented on Hilcorp Alaska safety record, which has been improving steadily since the company started operat- ing in the state. It seems that 2018 is seeing a particularly low rate of recordable safety incidents.

CHUKCHI BEARS

at the time said the trends were consistent with changes in nutritional status likely associated with declines in sea ice.

A more recent study by USGS researcher Karyn Rode found that Chukchi bears spend more time on shore and have almost 30 fewer days to hunt seals on ice than 20 years ago, Regehr said. However, he doesn’t appear to have affected the population, he said. Polar bears have an amazing ability to build fat reserves, Regehr said, and the Chukchi’s abundant seal population appar- ently allows bears to compensate for the loss of hunting time. The difference with the southern Beaufort was obvious from an air- plane, he said.

When ice melts, many Chukchi bears rest on Russia’s Wrangell Island, where they occasionally can find a whale or walrus car- cass.

The Chukchi population study used data collected by sampling about 60 polar bears between 2008 and 2016. Some were fitted with GPS transmitters. The data was used in a model designed to estimate population size for highly mobile large carnivores.

Blaine Griffen, an associate professor of biology at Brigham Young University, said the study was good news.

“It’s nice to see that there’s at least one population that’s doing better than others,” he said.

The difference may be geography, he said. The Chukchi Sea has a more extensive continental shelf area with primary produc- tivity that enables the food chain to support seals.

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continued from page 1

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INSIDER

PETROLEUM NEWS

Sean Parnell ‘well positioned’

Petroleum News

Erkmann Ward told Dan Saddler’s role

sworn in on Dec. 3, as advis-
er and co-chair of the transition policy

council. While Parnell and Huber will con-
tinue to serve in the position of special

adviser on AK LNG and senior policy

adviser/special assis-
tant, respectively,
difficult, it’s been

rare to see,” transition team

spokesperson Sarah Erkmann Ward told

Petroleum News

Nov. 18.

According to Babcock the transition will not have separate teams working on each policy area like previous transitions.

Instead, the policy council will form separate advisory teams as needed. The coun-
cil’s job is to take the policy statements that Dunleavy made during the campaign and flesh them out for the commissioners of each state government department.

Sean Parnell ‘well positioned’ to work on LNG project

Parnell, who was the state’s 10th gov-
er from 2009 to 2014, will be analyzing the Alaska LNG project as it stands today and making recommendations to Dunleavy on the next steps.

Babcock said Parnell is “well posi-
tioned for the task: “No one knows more about the proj-
et than the former governor. Sean Parnell, in his previous work on AK LNG, moved the project along to a point it had really never reached before. And he stands ready to evaluate where we are as we move forward and advise the governor-elect.”

The former governor took over from Gov. Sarah Palin when she stepped down today and making

down.
continued from page 1

OVER A BARREL

“The differential has blown out to such an extreme level for two reasons: the lack of access to markets and the fact that we have only one customer (the U.S.),” said Tim McMillan, chief executive officer of CAPP.

He suggested the cloak of secrecy that surrounds transportation and marketing makes it impossible to get a precise estimate on how much the discounts are costing, but said it is entirely possible the real costs could reach C$100 billion a year.

Campaign for curtailment

Cenovus Energy and Canadian Natural Resources — accompanied by junior producers Athabasca Oil and Westcap Resources — are campaigning for the Alberta government to temporarily curtail oil output in the province to cope with the bottleneck in pipelines.

Athabasca CEO Ron Broen said the government has legislation on the books to ask producers to restrain production and that would “have an immediate impact on the (price) differentials.”

He said Premier Rachel Notley should determine “what is best for the people of Alberta and not any particular company or big industry.”

Cenovus CEO Alex Pourbaix said Canadian crude is “now the lowest-price oil in the world. This is a crisis for governments, the industry and every person in Alberta who relies on services that depend on resource revenues.”

The company said, “this is an extraordinary situation brought on by extraordinary circumstances.”

“Our inability as a country to build critical new pipeline projects means we are now in a situation where we can’t get our growing oil production to market. This has resulted in a market failure.”

Pourbaix pointed out that Alberta used the current legislation nearly 40 years ago to impose mandatory production cuts during a dispute with the Canadian government over a national energy program, adding that “government has a duty to protect the value of its oil resources on behalf of Albertans.”

Pourbaix said companies on both sides of the issue are unable to negotiate a settlement because that would be seen as collaboration, whereas the Notley government can use its existing legislation to order a temporary reduction to alleviate the price discounts.

Integrated companies don’t want cuts

On the other side of the fence, the leading integrated companies — Suncor Energy, Imperial Oil and Husky Energy — show no signs of endorsing the campaign for production cuts.

They all argue that market forces should prevail, which means the lower the price of WCS the cheaper they can acquire feedstock for refineries.

That view was endorsed by Martin King, an analyst with GMP FirstEnergy, who said it would be simply better to let the market deal with excess supplies than to have the province intervene.

“It’s going to be ugly to watch, but the market will end up correcting this faster than any kind of government edict would bring about,” he told the Calgary Herald.

Whitecap CEO Grant Fagerheim said he generally prefers market solutions, but he noted the transportation system is broken because of the Canadian government’s inability to see construction proceed on pipelines such as the Trans Mountain expansion and Enbridge’s Northern Gateway.

He said a market failure caused by governments can only be fixed through political intervention, calling for a “reasonable discussion” to determine the benefits of suspending output.

Report: Voluntary reduction

A report by Peters & Co. estimates the industry has already voluntarily reduced production by about 140,000 barrels per day of bitumen and heavy oil.

Pourbaix estimated that an effective solution would need cutbacks of 200,000 to 300,000 bpd.

So far, the Notley government has skirted a public debate on the issue of curtailment, opting instead to lobby the Canadian government to buy more tanker cars to boost crude-by-rail shipments out of Alberta, while pressing for more pipelines to be built.

Alberta Energy Minister Marg McCuaig-Boyd said the crude-by-rail option is currently receiving the most attention.

Warning letter from large investor

The sense of urgency, as companies start preparing capital budgets for 2019, got a sharp jolt from Darren Peers, an analyst at Los Angeles-based Capital Group, which runs about US$1.7 trillion in global assets, including a stake of US$80 billion in Canada’s oil patch and is the largest shareholder in Suncor, Canadian Natural, Enbridge and Keyera, along with significant stakes in TransCanada, Cenovus and Whitecap.

In a letter to Prime Minister Justin Trudeau, Peers warned that investors and companies will avoid the Canadian energy sector unless more is done to improve market access.

“Capital Group’s energy investments are increasingly shifting to other jurisdictions and that is likely to continue without strong government action,” he wrote.

METHANE WELL

well. The well location appears to be on the western side of the Prudhoe Bay unit. BP is operator for the well, but there is no public information about how the well would be funded.

Methane hydrate is a solid in which molecules of methane, the primary component of natural gas, are held inside a lattice of water molecules. Huge quantities of the material, which remains stable within a certain range of relatively high pressures and low temperatures, are known to exist around the base of the permafrost under the North Slope. The material represents a major gas resource with the possibility of commercial production, should a viable production technique be developed. Production would involve some combination of reducing the pressure or increasing the temperature around the hydrates.

Several methane hydrate test wells, including two on the North Slope, have been drilled in various parts of the world in the past. So far, although short-term gas production from hydrates has been demonstrated, no one has demonstrated sustained production. In addition to the technical feasibility of achieving gas production over extended periods of time, it would be necessary to assess the development and production costs, to determine whether production is economically viable.
said “desperate times call for desperate measures,” but he would sooner see the industry come up with a solution that have the government impose one. Where the province could play an important role would be to involve oil executives to mediate an industry-led agreement. A spokeswoman for Canada’s Natural Resources Minister Amarjeet Sohi said the government understands “that market access is an essential component to Canadian competitiveness and that is why we are working hard to expand to non-U.S., global markets.”

— GARY PARK

Contact Gary Park through pubeditor@petroleumnews.com

Over a Barrel

“I hope that your government will be even more proactive in securing market access which will assure the competitiveness of Canadian energy companies.”

Peers candidly warned Trudeau that if market access continues to be under threat “global investors will seek opportunities elsewhere and the Canadian companies will be further impaired. (They) will struggle to access capital, create jobs, develop resources and provide a significant access capital, create jobs, develop Canadian companies will be further opportunities elsewhere and the threat “global investors will seek companies.”

Sohi said the government understands “market access is an essential component to Canadian competitiveness and that is why we are working hard to expand to non-U.S., global markets.”

— GARY PARK

Continued from page 8

Insider

between the federal government and a private owner would give Jansen complete ownership of a roughly 11-acre stretch of federally owned tideland from Lash Dock to Shannon’s Point in Womens Bay south of the city of Kodiak, the Kodiak Daily Mirror reported.

The Coast Guard funding bill, if signed into law, would allow the swap of the privately owned Ayakulik Island off southwest Kodiak Island in the Kodiak Archipelago for the Womens Bay acreage.

Tiny Ayakulik Island is a nesting place of the Aleutian Islands but observed infrequently on Kodiak. The 11-acre island would be set aside for conservation under the U.S. Fish and Wildlife Service.

The land in Womens Bay is in an area of Coast Guard activity. The Coast Guard has final authority on development in the area and can place “operative restrictions on commercial activity,” the bill states.

Republican Sen. Dan Sullivan introduced the land swap provision in the bill.

“The land transaction could occur without congressional involvement, were it not for the need to provide the U.S. Coast Guard with the tools necessary to protect operations,” the senator’s office said in a statement.


— ASSOCIATED PRESS

Air Liquide selected for Pertamina refinery in Indonesia

Air Liquide Engineering & Construction said Nov. 14 that it has been selected as a technology licensor by Pertamina, the state-owned national oil and gas company of Indonesia, engaged in the oil, gas and renewable energy sectors. Air Liquide Engineering & Construction will provide a license and basic engineering for a hydrogen production unit, steam methane reformer, with a production capacity of 120,000 Nm 3 /h to be installed on Pertamina’s refinery site in Balikpapan, Borneo Island, Indonesia. This contract is part of a refinery development master plan undertaken by Pertamina. TheROMP will increase the Balikpapan refinery’s crude processing capacity as well as enable production of cleaner fuels conforming to Euro 5 standard.

Air Liquide Engineering & Construction’s core expertise in industrial gases, energy conversion and gas purification, enables sustainable, customized technology and process solutions. Air Liquide Engineering & Construction commented, “We appreciate the confidence Pertamina has placed in Air Liquide Engineering & Construction.

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Air Liquide Engineering & Construction builds Air Liquide group production units, mainly air separation and hydrogen production units, and provides external customers with efficient, sustainable, customized technology and process solutions. Air Liquide Engineering & Construction’s care expertise in industrial gases, energy conversion and gas purification, enables customers to optimize natural resources.

Companies involved in Alaska’s oil and gas industry

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NEW PLAYER
Armstrong and its partners are developing their acreage west of the central Slope.

Lagniappe top exec speaks
Petroleum News, or PN, tracked down Lagniappe’s founder and top executive who said the company planned to aggressively explore the block, which is exactly what Armstrong did when it acquired its leases in the Cook Inlet basin and west of the central North Slope where it found a huge oil deposit that was missed by previous drilling and is currently being developed by Armstrong partner Oil Search (Repso is also a major partner).

Beyond that, PN was sworn to secrecy until the company is ready to say more.

As reported by a PN news bulletin on Nov. 15, titled “Lagniappe connected to Armstrong?” another similarity with Armstrong is that Lagniappe used a different company name and agent for a major lease sale transaction.

In Armstrong’s case it was 70 & 148 LLC, the latitude and longitude coordinates for Prudhoe Bay, then North America’s largest oil field, bidding about $1.5 million on 200,000 acres plus in the October 2008 state North Slope and Beaufort Sea area-wide lease sales and using Bill Armstrong’s assistant’s name and address as the agent. (Google maps showed her apartment was close to Armstrong’s Denver office.)

Armstrong and its partners could have as much oil at their Pikka and Horseshoe discoveries west of the central North Slope as that of Prudhoe Bay, says former Commissioner of Natural Resources Mark Myers, who has seen the well logs. The discoveries prompted a re-think of North Slope oil potential and new exploration and development, although it is still in its early stages.

Armstrong on Dunleavy
So what does Bill Armstrong of Armstrong Oil & Gas think of Gov-elect Mike Dunleavy?

“T’m very happy Dunleavy wants to be in Alaska. Politically, maybe the best it has been in the 17 years I have been working in the state. Republicans control both houses and there is a pro-development governor,” he told Petroleum News Nov. 19.

“The new governor, Mike Dunleavy, is a really smart guy who appreciates the importance of proper resource (oil and gas) development. Gov. Dunleavy knows that Alaska, particularly the North Slope, still has a lot of remaining potential and realizes that the state can work together with the industry for smoother regulatory permitting/ issues, access to infrastructure, buildout of roads and facilities, the importance of a fair, stable fiscal regime, etc.,” Armstrong said.

“The governor’s appointment of Sean Patcell as adviser on the AK LNG project is a good example of his practical understanding the business. He has been in the oil business prior to public service and he knows the relationships between government and industry well. As governor, Sean put in place a fair, competitive tax law, SB 21, that replaced the disastrous ‘windfall profits’ tax (called ACES). Sean and the new governor know the importance of a gas pipeline and what it could do for the state,” he continued.

Corri Feige is another good example of Dunleavy’s practicality. Corri was DNR Division of Oil and Gas director before. She knows the importance of working with big and small companies alike. She understands that the state can work hand in hand with the industry and everyone can win.”

— KAY CASHMAN

LEASE SALE
Preliminary results from the sale show Lagniappe bidding a total of $14.1 million, an average of more than $72 per acre for 195,260 acres, a large block south of Badami.

This acreage is immediately east of a block of 12 tracts held by Oil Search, and south of a large block of acreage which Eni acquired earlier this year from Caelus Energy Alaska. The tracts drew no competing bidders.

Repso E&P, a partner at Pikka, was apparent high bidder on 12 tracts, some 26,560 acres, for $13.1 million, an average of $492 per acre, on tracts primarily east of Pikka.

Two of those were the only unleased tracts between Repsol and Oil Search acreage some 14 miles south of Pikka.

One of the Repsol tracts is on the southeastern tip of the Pikka unit. The remaining nine are generally between Brooks Range Petroleum and that company’s Southern Miluavee unit south of Kuparuk in an area east of Pikka.

On four those tracts Repsol placed the highest bid per acre in the sale, $586. The totals bid for those four tracts, more than $1.5 million each, were also the highest bonus bids on sale tracts.

Prior to the sale Repsol held 234,533 acres of state oil and gas leases.

A bidding group of J. Andrew Bachner, 90 percent, and Keith C. Forsgren, 10 percent, tied with Repsol and Regenerate Alaska Inc. (each bidding $26.11 per acre) for a tract on the eastern edge of the sale, adjacent to existing Repsol acreage and ExxonMobil acreage south of Point Thomson.

Regenerate is an 88 Energy subsidiary, and currently holds some 14,194 acres of state oil and gas acreage. Bachner and Forsgren are frequent oil and gas lease sale bidders. Bachner currently holds some 15,913 acres of state oil and gas leases; Forsgren holds some 1,724 acres.

ASRC Exploration LLC and Caracol Petroleum LLC were unsuccessful bidders in the North Slope area-wide sale.

Hilcorp will have two drilling rigs operating in the field next year and anticipates drilling more than 20 wells, bringing the production up to around 35,000 barrels per day by the end of 2019.

Caracol is a working interest owner in the Southern Miluavee unit and currently holds some 25,789 acres of state oil and gas leases; ASRC Exploration is the operator of the Placer unit and currently holds some 14,715 state oil and gas lease acres. Neither of those units are in production.

Beaufort Sea sale
Oil Search dominated the Beaufort Sea sale, taking four of eight tracts in that sale for $529,368 of the $484,196 bid. The state received 12 bids on eight tracts, 20,270 acres, in that sale.

The Oil Search tracts are north of Pikka, operated by Oil Search, and adjacent to existing Oil Search acreage. The company bid from $48.03 to $57.17 per acre for the tracts, which range in size from 4,000 to 2,880 acres, a total of 10,080 acres.

Hilcorp Alaska took a single tract, 1,680 acres, for $57.52 per acre, at the northwestern corner of the Liberty prospect which Hilcorp is in the process of developing. Hilcorp is a Cook Inlet and North Slope producer, with some 329,677 acres of state oil and gas leases prior to this sale.

J. Andrew Bachner, 90 percent, and Keith C. Forsgren, 10 percent, took three of the seven tracts on which they bid, losing out to Oil Search on the other four. The bidding group paid $26.11 an acre for a total of 10,080 acres. The three tracts are adjacent to each other at Harrison Bay.

Which company savvy enough to hide identity?

In the case of Lagniappe, which means “a little extra” in Cajun, the principal in charge of the firm at the address on Lagniappe’s Alaska business license is attorney Durelle Allen of Allen & Kirmse Ltd., who declined to comment on the lease sale.

The individuals from the many national and international oil companies that gave Allen & Kirmse glowing recommendations posted on the firm’s website, in everything from land services to broker/dealings included Armstrong Vice President and minority owner Ed Kerr, who said their “technical expertise is real the very best... while their diligence and timeliness allowed us to maintain a competitive edge on our competition. Over the past 32 years,” Kerr said he has worked with Allen & Kirmse “in 12 different states as well as the Beaufort Sea.”

When PN asked Bill Armstrong if he was behind the huge North Slope lease acquisition, he said “no comment.”

So, which company with deep enough pockets to gamble $14.1 million is savvy enough to use a fake name and an agent to hide behind?

Stay tuned.

— KAY CASHMAN at pcashman@petroleumnews.com

Contact Kay Cashman

SALSA
The division had no takers for three packages of tracts, each offered as a block, for which there is publicly available data.

In announcing the block offers—called Special Alaska Lease Sale Areas or SALSA—in July, Walsh said the division “has gathered and highlighted large amounts of publicly available data that bears on the SALSA areas.

Each of the three SALSA areas, Harrison Bay, Gwydyr Bay and Storms, has 3-D seismic available, data which was acquired through the state’s tax credit program and available through the Department of Natural Resources for a modest fee, Walsh said in announcing the program this summer.

Two of the SALSA areas were in the Beaufort Sea sale area, Harrison Bay on the coast west of the Colville River unit and Gwydyr Bay on the central North Slope coast between Milne Point and Northstar north of Prudhoe Bay. Storms was in the North Slope sale area, south of Prudhoe Bay and immediately east of the Government Unit.

Bidders were required to bid on the blocks as a whole. The block sizes varied, with Harrison Bay the largest at some 66,693 acres, Storms at some 30,720 acres and Gwydyr Bay at some 23,040 acres.

— KRISTEN NELSON

Contact Kristen Nelson

petroleumnews.com
New BP system improves operational efficiency

BP is deploying a new computer system, called the Apex system, to improve operational efficiencies in the company’s global oil field operations. In Alaska the system is starting to help the company streamline the manner in which it routes fluids around the Prudhoe Bay field infrastructure, Amy Adkinson, BP systems optimization engineer, has told Petroleum News.

Much effort in maximizing field production goes into the planning and use of production and injection wells, to best access oil remaining in the field reservoir, and into the optimum use of water injection, gas injection and enhanced oil recovery techniques to maintain reservoir pressures and entice as much oil as possible to the surface.

The routing of fluids

But there is a whole other aspect of operational efficiency involving the routing of fluids coming from the wells through the complex of pipework and production facilities that enable oil to be separated and transported to the trans-Alaska pipeline for export from the North Slope, while also recycling produced water and gas back through the field. The pipelines and facilities have operating limitations, but presumably work at optimum efficiency if fully used.

At the same time, if some component of the infrastructure is working at full capacity, that might force production to be backed out somewhere else in the field. And one concern is to ensure that the velocity of fluids through the pipelines is maintained below prescribed limits, which might force production to be backed out somewhere else in the field. And one concern is to ensure that the velocity of fluids through the pipelines is maintained below prescribed limits, which might force production to be backed out somewhere else in the field.

Remote access

Holly Willman, Prudhoe Bay East Area operations support team leader, demonstrated technology in which a 3-D virtual reality headset is now used to remotely move around in and inspect facilities on the North Slope. This technology enables, for example, a facilities engineer to make measurement of pipework in a facility without having to leave BP’s Anchorage office. That enables planning to be conducted efficiently offsite, while also eliminating any personnel safety risks in operations such as inspecting flares.

Commercial data

Dakota Chastain and Bridger Vance, commercial analysts in BP’s finance department, described how new computer applications are enabling people to interact with financial data in new ways, thus enabling rapid insights into what is happening from a commercial perspective. The commercial team is also developing mobile apps that can simplify and speed up processes. That enables planning to be conducted efficiently offsite, while also eliminating any personnel safety risks in operations during the planning process.

Rapid evaluations

“We’ve got a team of engineers that are working on (the system) … trying to find all of the useful ways we can use it … to leverage what we already have,” Adkinson said. For example, if there is a plan to bring on new production in one part of the field, it is possible to use the system to simulate the impact of this on field operations as a whole — because of facility and pipeline constraints it is possible that bringing on the new production might force production to be backed out somewhere else in the field. And one concern is to ensure that the velocity of fluids through the pipelines is maintained below prescribed limits, to ensure that pipeline corrosion inhibitors mixed into the fluids will work effectively.

Rapid evaluations

Once the Apex system is fully operational, a reservoir engineer will be able to use the system to quickly evaluate the impact of some planned well work on the surface systems, more accurately assessing the impact on overall production at the field.

And it will be possible to use the system to evaluate the impact on production of reconfiguring some aspect of the surface infrastructure. The Apex system represents the next step in optimizing Prudhoe Bay operations, using technology in a new way to find things that are not intuitively evident, and then to test the impact of changes before putting those changes into effect, Adkinson said.

— ALAN BAILEY