Petroleum news

Vol. 29, No. 24 • www.PetroleumNews.com

A weekly oil & gas newspaper based in Anchorage, Alaska

Week of June 16, 2024 • $2.50

page 3 Record US crude output expected: 13.2 million bpd in 2024

Spring sales draw just three bids as Hilcorp fills in around units

The state's spring areawide oil and gas lease sales drew just three bids, all in the Cook Inlet areawide sale, on 4,441 acres, all from Hilcorp Alaska, for leases close or adjacent to existing Hilcorp units on the Kenai Peninsula and on the west side of Cook Inlet. The cash bonus portion of the sale was $177,636.

The Alaska Peninsula areawide sale drew no bidders, as has been the case with recent sales in that area, where there are no active leases.

JOHN BOYLE

"While the State of Alaska is disappointed by the low level of interest in this sale, it is encouraging to see Hilcorp continuing to invest in oil and gas leases in Southcentral Alaska," said Department of Natural Resources Commissioner John Boyle.

In the Cook Inlet sale, there was a fixed cash bonus of $40 per acre with a minimum 5% net profit share the variable. Hilcorp bid the 5% net profit share minimum on all three leases.

DNR said the sale was the second in Cook Inlet to offer net profit share revenue terms, and said this sale, combined with the December 2023 sale, also in fiscal year 2024, resulted in sales of more than 19,000 acres, higher than the five-year average of 13,418 acres for Cook Inlet, although less than the combined 27,865 acres of the two top Cook Inlet sales, both held in 2022.

Tract locations

Two of the three tracts on which Hilcorp bid are on the Kenai Peninsula, east of the company's Kenai-area Cannery Loop field and north of Soldotna. Tract 121 includes 501.91 acres and tract 122 includes 1,379 acres.

DNR said those leases were at the closed Sterling unit, which had a history of gas production. Alaska Oil and Gas Conservation Commission data show Sterling produced from

see **SPRING SALES** *page 7*

Division conditionally approves Hilcorp's N Trading Bay unit POD

The Alaska Department of Natural Resources' Division of Oil and Gas has given Hilcorp Alaska a specific set of conditions it must meet or the division will terminate the North Trading Bay unit.

The NTBU is made up of three state leases in Cook Inlet, adjacent on the northeast to the much larger Trading Bay unit. North Trading Bay hasn't been in production since 2005 when it was operated by Marathon Oil, the division said in its June 4 conditional approval of Hilcorp's 2024 plan of development for the unit, signed by division Director Derek Nottingham.

DEREK NOTTINGHAM

Alaska Oil and Gas Conservation Commission data show NTBU production began in 1968 with cumulative production over the unit's life of 27.4 million barrels of oil and 13.1 billion cubic feet of natural gas. The two platforms in the unit, Spark and Spurr, were built by Marathon in 1967 the division said.

Hilcorp acquired the unit in 2013 and has recently been trying to access gas resources at North Trading Bay from the Monopod in the Trading Bay unit. Spark and Spurr are light-housed, with the crane and helidecks functional, but not the crew facilities, and Hilcorp told the division in its 2017 POD that returning either platform to production would not be economically or technically feasible.

The division said that in its 2018 POD Hilcorp proposed

see **TRADING BAY POD** *page 7*

EXPLORATION & PRODUCTION

Pikka expanding

Phase 2 pads, roads may be built as early as 2025-2026 winter season

By KAY CASHMAN
Petroleum News

Santos Limited's operating subsidiary in Alaska, Oil Search (Alaska), or OSA, is looking to expand the 77,744-acre Pikka unit by 19,664 acres of state land. The Pikka unit is located on the North Slope of Alaska, along the Colville River. The proposed expansion area is south of and adjacent to leases in the current OSA-operated Pikka unit and to leases in the OSA-operated undeveloped Quokka unit.

BRUCE DINGEMAN

The expansion application was filed at the end of March with the Alaska Department of Natural Resources' Division of Oil and Gas and with Arctic Slope Regional Corp. A public notice from DNR about the application to expand Pikka was posted June 9.

OSA's expansion application included an amendment to the 2024 Pikka Unit Plan of Development, or POD, as well as the Pikka Unit Plan of Exploration, or POE, specifying activities proposed for the Pikka unit expansion area.

Pikka Phase 2

The amended 2024 POD describes additional activities to advance Pikka Phase 2, which like Phase 1 is designed to produce 80,000 barrels of oil per day.

These include "Concept Select" activities and the drilling of a produced water disposal well into the proposed expansion area which will include an enhanced data gathering program.

The amended 2024 POD also describes proposed Pikka Phase 2 infrastructure.

Concept Select activities for Phase 2 consist of the following:

•Conceptual engineering studies
•Cost estimation and schedule development
•Project concept feasibility and economic analysis
•Pre-FEED engineering activities
•Long lead permitting activities
•FEED bid development

Subject to favorable economic conditions and further project progress, the working interest owners, OSA and Repsol E&P USA, plan to move from the Concept Select stage to the FEED stage in late 2024 or early 2025.

FEED activities will consist of the following:

see **PIKKA EXPANDING** *page 6*

EXPLORATION & PRODUCTION

Looking for equality

Last year HEX paid $8M in royalties at 25% rate, others paid 13%

By KAY CASHMAN
Petroleum News

John Hendrix, owner of the HEX companies, which include Furie Operating Alaska, the operator and owner of the Cook Inlet Kitchen Lights unit, said June 11 that he is primarily looking for an equalization of royalty rates.

JOHN HENDRIX

Royalties are paid from gross oil and gas production income. Those receiving royalties do not pay any portion of the cost of drilling or operating a lease. Royalties must be paid even if the operator is losing money.

All royalties are controlled by, and have to be approved by, the state.

Taxes are applied to net income after expenses. Therefore they don't burden the operator as much as royalties.

"We pay more in royalties at 25% in the Kitchen Lights unit than any other oil and gas field on the North Slope and the Cook Inlet basin," Hendrix said.

The average producer royalty rate in Cook Inlet is 13%.

"Even the state Supreme Court understands the issue and ruled in 2023 that royalties, which include overriding royalties, should not exceed 20% on oil and gas properties," Hendrix said.

Since buying Furie "we have been fixing its 'foundation,'" he said, and "trying to resolve this issue and many more. I am proud of our people and what they have done to get us to where we are today. We have now operated this field longer than any other group before us. Currently we are celebrating our fourth year over ownership of the field," Hendrix said.

"But to move forward with major capital spending and drilling we have to fix the royalty burden," he added.

First and foremost, Hendrix's goal at Kitchen Lights is to make it economic to drill new gas wells.

"The state can undo some of the burdens it placed on the unit. But it needs to act soon for us to drill Cook Inlet gas this year," he said.

"Say a well comes in at two-thirds of what we expect. Our margin is so low, we could lose money by putting it on production," Hendrix said.

"We'll continue to produce Kitchen Lights as I bought it. But if you want more gas the state has to fix the royalties to aid in making it economic, competitive and sustainable to help provide gas to

see **ROYALTY RATES** *page 8*