



page 4 Dubler, AGDC interim president, retires; cost, permit work ongoing

## Rig moves from Deadhorse to Charlie 1; AK's unique oil owner

ON SATURDAY FEB. 22 Accumulate Energy Alaska in partnership with Cruz Construction moved the Nordic 3 drill rig down the Dalton Highway from Deadhorse to Mile 386 and then 34 miles west on its ice road to the Charlie 1 exploration well ice pad.

Per an announcement by the Alaska Department of Transportation, the move was expected to take until 9 a.m. Sunday Feb. 23, which was when Petroleum News received an email from Accumulate general manager of operations Erik Opstad with a photo of the rig onsite (see earlier shot of rig on the ice road in



see INSIDER page 12

## North Slope continues to yield golden eggs for Oil Search

In an analyst and shareholder meeting in Sydney on Feb. 25, Oil Search executives Keiran Wulff and Bruce Dingeman provided updates on the company's recent activities on Alaska's North Slope, with emphasis on the implications of the encouraging results from their Mitquq 1 exploration well and related geophysical work.

Just east of the core Pikka area, Mitquq 1 intersected 17 feet of net gas pay and 180 feet of net oil pay in the Nanushuk 9 reservoir, as well as 33 feet of net oil pay and nearly 20 feet of net gas pay in the underlying Alpine C interval.

In sidetracking the well to about 1,640 feet away, Dingeman who is president of Oil Search Alaska, said they

see OIL SEARCH page 11

## Teck bails on megaproject, shelves plans for Frontier oil sands mine

On the afternoon of Feb. 23 an upbeat Alberta government announced an agreement with two First Nations, giving it the support of all 14 Indigenous nations affected by the Teck Resources' C\$20 billion Frontier oil sands mine.

Two hours later the party mood was shattered when Teck abandoned its project application, which was scheduled for a final verdict by Feb. 29 from the cabinet of Prime Minister Justin Trudeau, ending 12 years of regulatory review.

The result was defeat for the largest oil sands mine in Canadian history that would have generated 7,000 construction jobs and permanent work for 2,500 when the plant started producing up to 260,000 barrels per day of crude bitumen.

see TECK DECISION page 10

## Blank check for Alaska investment?

Caelus Energy LLC CEO James Musselman, once quite active in Alaska through subsidiary Caelus Energy Alaska LLC, has stirred some excitement lately in the state due to his post as a director of Alussa Energy Acquisition Corp., a blank check company incorporated in the Cayman Islands.

The New York Stock Exchange listed company announced in November that it closed an initial public offering of 25,000,000 units at \$10 per unit, resulting in gross proceeds of \$250 million.

BTIG LLC later exercised an option to purchase an additional

see ALUSSA ENERGY page 10



JAMES MUSSELMAN

### FINANCE & ECONOMY

## Dueling KLU buyers

Order authorizes Furie to enter into sale agreement; HEX counteroffers

By STEVE SUTHERLIN

Petroleum News

Judge Laurie Selber Silverstein has signed an order authorizing Furie Operating Alaska LLC to enter into an acquisition by foreclosure agreement with a new buyer: Kachemak Exploration LLC, a Delaware corporation recently formed by John Upton's GFR Holdings of Fort Worth, Texas, and Melody Capital Partners L.P., represented by Melody executive Blake Yarialian.

The order, signed Feb. 21 in the U.S. Bankruptcy Court for the District of Delaware, opens the door to replace Anchorage-based HEX LLC — which was previously named the successful bidder in the sale process of the Chapter 11 bankruptcy case of Furie

The assets in the sale are primarily the Cook Inlet Kitchen Lights offshore unit, related infrastructure such as the Julius R offshore natural gas platform, together with onshore processing facility and related pipelines.

and its related companies.

The assets in the sale are primarily the Cook Inlet Kitchen Lights offshore unit, related infrastructure such as the Julius R offshore natural gas platform, together with onshore processing facility and related pipelines.

see DUELING BUYERS page 10

### LAND & LEASING

## Another Armstrong buy

Company purchases 72% working interest in Borealis Alaska's Castle West prospect

By ALAN BAILEY

For Petroleum News

Armstrong Oil & Gas Inc., through its subsidiary North Slope Energy LLC, has acquired a 72% working interest in the leases of Borealis Alaska Oil Inc.'s Castle West prospect in the National Petroleum Reserve-Alaska. The more than 92,000-acre lease block appears to lie immediately east of the eastern end of the 950,000 acres that North Slope Energy won in last year's NPR-A lease sale. The leases sit to the immediate west of ConocoPhillips' Harpoon prospect, within the highly prospective Nanushuk play fairway. Exploration within the



BILL ARMSTRONG

Nanushuk in recent years has resulted in a number of major oil finds.

"We definitely have plans to drill it, but we don't know the timing of that drilling yet. We're taking the lessons we learned from Pikka and applying them there," Armstrong Oil & Gas CEO Bill Armstrong told Petroleum News on Feb. 24.

"We are excited about our new partnership with Borealis at Castle West," Armstrong commented in a news release announcing the working interest acquisition. "The Nanushuk play on the North Slope of Alaska is currently the world's hottest, conventional, onshore oil play. Since our discovery of

see ARMSTRONG BUY page 12

### EXPLORATION & PRODUCTION

## Milne on track to double

ANS averages 529,271 bpd in January, up from December, but down from January '19

By KRISTEN NELSON

Petroleum News

January North Slope crude oil and natural gas liquids production was up almost 1% from December, averaging 529,217 bpd, a month-over-month increase of 4,302 bpd, but a decrease of 1.5% from 537,493 bpd in January 2019.

ANS crude oil averaged 468,446 bpd in January, up 0.3%, 1,223 bpd, from a December average of 467,224 bpd, but down 2.7% from a January 2019 average of 481,178 bpd. North Slope NGLs averaged 60,770 bpd in January, up 5.3%, 3,083 bpd, from a December average of 57,688 bpd, and up 7.9% from a



JASON REBROOK

January 2019 average of 56,316 bpd.

Production data reported here is from the Alaska Oil and Gas Conservation Commission, which provides volumes by field and well on a month delay basis.

### Milne Point

Milne Point averaged 31,729 bpd in January, up 5.3%, 1,605 bpd, from a December average of 30,124 bpd, not the largest per-barrel or percent month over month increase — but at 41.7%, up from 22,385 bpd in January 2019, production growth at the field year-over-year on a percent basis topped

see ANS OUTPUT page 7

• ALTERNATIVE ENERGY

# Alaska's geothermal energy resources

*With many hot springs and volcanoes, Alaska has potential to make some use of natural sources for heat and power generation*

By **ALAN BAILEY**

For *Petroleum News*

In recognition of the potential to make use of natural geothermal energy in Alaska, the state Legislature is considering Senate Bill 161, which would enable the Alaska Department of Natural Resources to issue licenses for geothermal exploration. The licensing arrangements would be similar to those for oil and gas exploration licenses in areas of the state where oil and gas lease sales are not conducted. A geothermal facility involves the use of natural subsurface heat for power generation or other purposes.

DNR has in the past issued leases for geothermal exploration on the southern flank of the Mount Spurr volcano and on Augustine Island, both on the north side of Cook Inlet. But no geothermal development resulted from these leases.

During a meeting of the Senate Resources Committee

on Feb. 21 Steve Masterman, director of Alaska's Division of Geological and Geophysical Surveys, gave an overview of Alaska geothermal resources, as background to discussions on the proposed geothermal legislation.

## Multiple factors

Masterman commented that the potential to use geothermal energy as a viable heat source, to create steam or generate electricity, depends on a number of factors. There needs to be an elevated geothermal gradient in a geologic setting that allows the migration of fluids through subsurface rocks, he said. The thermal system needs to be large enough to support the desired operations. The location of the system is critical both in terms of the development costs for a geothermal facility, and in terms of viable access to an



**STEVE MASTERMAN**

*In general, there are two distinct types of geothermal system in Alaska: systems associated with the cooling of subsurface granite bodies, and systems associated with volcanoes along the Alaska Peninsula and the Aleutian Islands.*

appropriately sized population or a commercial operation that can use the geothermal energy. Proximity to a power transmission system may also be important.

There are wide variations in subsurface heat flow rates around the state, with known hot springs and potential geothermal resources in a number of places. Particularly critical is the temperature of the geothermal water: The higher the water temperature, the more power can be generated. Chena hot springs in the Interior, for

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Alaska's source for oil and gas news

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# Alaska-Mackenzie Rig Report

Rig Owner/Rig Type      Rig No.      Rig Location/Activity      Operator or Status

## Alaska Rig Status

### North Slope - Onshore

<b>Doyon Drilling</b>			
Dreco 1250 UE	14 (SCR/TD)	Milne Point, M-35	Hilcorp
Dreco 1000 UE	16 (SCR/TD)	Standby	
Dreco D2000 Uebd	19 (SCR/TD)	Kuparuk, 3H-35	ConocoPhillips
AC Mobile	25	Alpine, Rhea1	ConocoPhillips
OIME 2000	141 (SCR/TD)	Alpine, Tinmiaq-20	ConocoPhillips
	142 (SCR/TD)	Kuparuk Standby, KRU H2	ConocoPhillips
TSM 700	Arctic Fox #1	NPRA, Stirrup 1	Oil Search
<b>Hilcorp Alaska LLC</b>			
	Rig No. 1	Milne Point	Hilcorp Alaska LLC
<b>Kuukpik Drilling</b>			
	5	Deadhorse	Available
<b>Nabors Alaska Drilling</b>			
AC Coil Hybrid	CDR-2 (CTD)	Deadhorse, 03-07B	BP
AC Coil	CDR-3 (CTD)	Kuparuk, CD5-32i	ConocoPhillips
Dreco 1000 UE	7-ES (SCR-TD)	Kuparuk, Mitquq 1	Oil Search
Mid-Continental U36A	3-S	Stacked	Available
Oilwell 700 E	4-ES (SCR)	Stacked	Available
Dreco 1000 UE	9-ES (SCR/TD)	Stacked	ConocoPhillips
Oilwell 2000 Hercules	14-E (SCR)	Deadhorse	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked	Brooks Range Petroleum
Oilwell 2000 Canrig 1050E	27-E (SCR-TD)	Stacked	Glacier Oil & Gas
Oilwell 2000	33-E	Deadhorse	Available
Academy AC Electric CANRIG	99AC (AC-TD)	Stacked	Repsol
OIME 2000	245-E (SCR-ACTD)	12 Acre Pad, stacked	ENI
Academy AC electric CANRIG	105AC (AC-TD)	Stacked	Oil Search
Academy AC electric Heli-Rig	106AC (AC-TD)	Stacked	Great Bear Petroleum
<b>Nordic Calista Services</b>			
Superior 700 UE	1 (SCR/CTD)	Deadhorse	Available
Superior 700 UE	2 (SCR/CTD)	Deadhorse, stacked	Available
Ideco 900	3 (SCR/TD)	Charlie #1	Accumulate Energy Alaska
Rig Master 1500AC	4 (AC/TD)	Oliktok Point	ENI
<b>Parker Drilling Arctic Operating LLC</b>			
NOV ADS-10SD	272	Prudhoe Bay, J-31	BP
NOV ADS-10SD	273	Stacked in Deadhorse	Available

### North Slope - Offshore

<b>BP</b>			
Top Drive, supersized	Liberty rig	Inactive	BP
<b>Doyon Drilling</b>			
Sky top Brewster NE-12	15 (SCR/TD)	Spy Island FN5-L1	ENI
<b>Nabors Alaska Drilling</b>			
OIME 1000	19AC (AC-TD)	Oooguruk Stacked	Caelus Energy LLC

### Cook Inlet Basin – Onshore

<b>BlueCrest Alaska Operating LLC</b>			
Land Rig	BlueCrest Rig #1	Stacked	BlueCrest Alaska Operating LLC
<b>Glacier Oil &amp; Gas</b>			
	Rig 37	West McArthur River Unit Workover	Glacier Oil & Gas
<b>All American Oilfield LLC</b>			
IDECO H-37	AAO 111	Stacked in the Peak yard	Available
<b>Hilcorp Alaska LLC</b>			
TSM-850	147	Stacked	Hilcorp Alaska LLC
TSM-850	169	Stacked	Hilcorp Alaska LLC

### Cook Inlet Basin – Offshore

<b>Hilcorp Alaska LLC</b>			
National 110	C (TD)	Platform C, Stacked	Hilcorp Alaska LLC
	Rig 51	Steelhead Platform, Stacked	Hilcorp Alaska LLC
	Rig 56	Monopod A-13, stacked	Hilcorp Alaska LLC
<b>Nordic Calista Services</b>			
Land Rig	36 (TD)	Kenai, stacked	Available
<b>Spartan Drilling</b>			
Baker Marine ILC-Skidoff, jack-up		Spartan 151, stacked at Rig Tenders where pre mobilization work is being performed	Hilcorp Alaska LLC
<b>Furie Operating Alaska</b>			
Randolf Yost jack-up		Nikiski, OSK dock	Available
<b>Glacier Oil &amp; Gas</b>			
National 1320	35	Osprey Platform, activated	Glacier Oil & Gas

## Mackenzie Rig Status

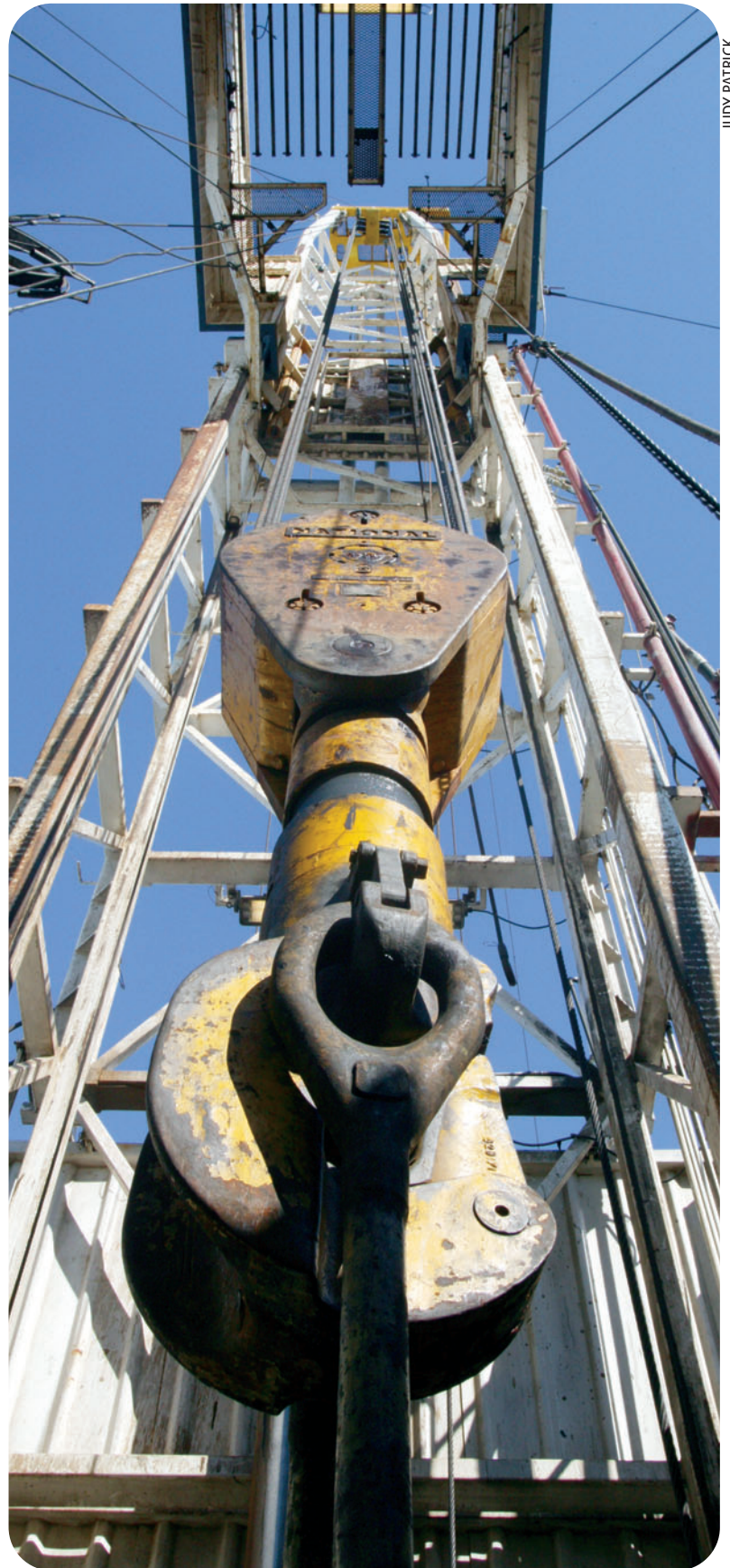
### Canadian Beaufort Sea

SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

The Alaska-Mackenzie Rig Report as of Feb. 26, 2020.  
Active drilling companies only listed.

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

This rig report was prepared by Marti Reeve



JUDY PATRICK

### Baker Hughes North America rotary rig counts\*

	Feb. 21	Feb. 14	Year Ago
United States	791	790	1,047
Canada	244	255	212
Gulf of Mexico	22	23	19

### Highest/Lowest

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

\*Issued by Baker Hughes since 1944

The Alaska-Mackenzie Rig Report  
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## NATURAL GAS

### Dubler, AGDC interim president, retires

At the end of a Feb. 20 Alaska Gasline Development Corp. board meeting, Dave Cruz, chairing the meeting in the absence of board Chair Doug Smith, said the board had received a retirement letter from Joe Dubler, interim president since early 2019, and would be reviewing options for succession in the next week.

The Dubler appointment was part of a change at AGDC under Gov. Mike Dunleavy. In addition to new commissioners on the board, Dunleavy replaced two public members and at the board's January 2019 meeting it passed a resolution removing AGDC President Keith Meyer and named Dubler interim president.

In reviewing AGDC's work plans for the board, Dubler said first quarter work efforts were continuing regulatory de-risking by pursuing major state and federal permits.

Included in first quarter work efforts are development of a draft tactical business plan and beginning work on documents for requests for interest on both the in-state line, ASAP, the Alaska Stand Alone Pipeline, and AKLNG, the export project.

AGDC contracted with Fluor Corp. last fall to evaluate cost reduction opportunities and update the Class 4 cost estimate to fourth quarter 2019 dollars. Dubler told the board good progress was being made on reviewing cost estimates: Some costs have gone up and some costs are going down, he said. Frank Richards, AGDC senior vice president of program management, said Fluor was progressing with its cost estimate reduction and with estimating costs to fourth quarter 2019 dollars.

Two of three workshop sessions have been held in Houston, Richards said, with focus areas the use of high value engineering centers, optimized contracting strategy and optimized project management team. He said the ExxonMobil team under the joint venture was 120 and would have grown, so one goal was to look for ways to streamline that.

LNG facility modularization and best country sourcing were also discussed.

He said alternatives were being considered for liquefaction technology, gas treatment technology and for optimization of CO2 compression.



JOE DUBLER

—KRISTEN NELSON

## PIPELINES & DOWNSTREAM

# Opposition to TMX project grows

Critics doubt finished expansion could attract buyer, leaving taxpayers to carry costs, with no certainty of crude bitumen buyers

By GARY PARK

For Petroleum News

The tide keeps turning across Canada against the Trans Mountain pipeline expansion, TMX, prompting opposition political parties and environmentalists to seize the chance and urge the federal government to halt the project.

A Nanos poll of 1,003 Canadians extensively probed the mood on TMX since the government paid C\$4.5 billion to acquire the existing 390,000 barrels per day system to an export terminal in Vancouver, then updated the estimated cost of adding 500,000 bpd by twinning the pipeline.

The latest calculation puts a price tag of C\$12.6 billion on completing the project, up C\$5.2 billion on the initial estimate.

Alexandra Woodworth, a campaigner for the British Columbia-based Dogwood Initiative, said that "if there is no profit to be made in the future, if we are going to have trouble finding buyers (in Asia), we still have the opportunity to save these billions and invest in renewable energies. ..."

Since the government of Prime Minister Justin Trudeau came to the rescue of TMX in 2018 by paying C\$4.5 billion for the existing 65-year-old line and the investment in the unfinished twinning plan, it has spent C\$2.5 billion to manage the effects of delays in TMX, while saddling itself with the expected C\$8.4 billion to complete the expansion and C\$1.7 billion in financing charges.

In answer to several questions, the Nanos poll showed that 16% of respondents

Forty-seven percent said Canada and the world need resource projects such as TMX to create jobs compared with 43% who said such projects should be halted because of their impact on climate change, while 10% were unsure.

agreed the government should spend whatever it costs to complete TMX; 43% said the venture should cost Canadian taxpayers nothing; 21% said taxpayers should fund the currently expected completion costs; 17% said the twinning should be cancelled; and 40% favored selling the pipeline to the highest bidder.

Forty-seven percent said Canada and the world need resource projects such as TMX to create jobs compared with 43% who said such projects should be halted because of their impact on climate change, while 10% were unsure.

Patrick Bonin of Greenpeace said it is "very clear that (TMX) will have no buyer," insisting that if the government "insists on moving forward" it should place all of the details on the table, leaving Canadians in no doubt about where the money will come from. The opposition New Democratic Party's Bloc Quebecois and Green Party also urged Trudeau to stop work on TMX, agreeing with those who are alarmed by the soaring costs. ●

Contact Gary Park through [publisher@petroleumnews.com](mailto:publisher@petroleumnews.com)

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## CORRECTION

### Tracts from 2018 North Slope lease sale

The Alaska lease report titled "Alaska lease transfers, terminations" in the Feb. 23 issue of Petroleum News, said that a 51% working interest in 12 tracts won by Repsol in the most recent state North Slope areawide oil and gas lease sale had been transferred to Oil Search. While the lease transfer did take place, Repsol picked up the tracts in the November 2018 North Slope lease sale, not the 2019 sale. (The online HTML version of the lease report has been corrected.)

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OWNER: Petroleum Newspapers of Alaska LLC (PNA)  
Petroleum News (ISSN 1544-3612) • Vol. 25, No. 9 • Week of March 1, 2020  
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518

(Please mail ALL correspondence to:  
P.O. Box 231647 Anchorage, AK 99523-1647)  
Subscription prices in U.S. — \$118.00 1 year, \$216.00 2 years  
Canada — \$206.00 1 year, \$375.00 2 years  
Overseas (sent air mail) — \$240.00 1 year, \$436.00 2 years  
"Periodicals postage paid at Anchorage, AK 99502-9986."

POSTMASTER: Send address changes to Petroleum News, P.O. Box 231647 Anchorage, AK 99523-1647.

● EXPLORATION & PRODUCTION

# Hilcorp files for Milne S Pad expansion

By **KAY CASHMAN**  
Petroleum News

On Feb. 20 the Alaska Division of Oil and Gas posted a 30-day public notice for Hilcorp Alaska's proposed Milne Point S Pad expansion. The purpose of the project is to provide space for drilling 10 new development wells in the North Slope unit to increase heavy oil production from the Ugnu reservoir. Unlike the Schrader Bluff viscous oil produced from Milne, Ugnu crude is much thicker, colder and more difficult to extract.

The expansion, which would require 16,000 cubic yards of gravel, is expected to be 330 feet by 300 feet at its widest points, adding approximately 2.04 acres on the west side of S Pad.

## Proposed schedule

In its Jan. 29 application to the division, Hilcorp's schedule for the project was to place gravel for the pad

extension starting March 20, finishing it by May 1.

Well drilling was to begin next and be done a year later on May 1, 2021.

June 1 was the proposed start date for the installation of piping, tie-ins and associated infrastructure, with completion by July 1, 2021.

Hilcorp said half the new wells would be "Jet Pump producers and half injectors as currently planned." But as drilling continued results might "necessitate adjustments to the pumping mechanism or ratio of producers to injectors."

Additional infrastructure, "including a traditional test separator, heaters, polymer facilities, and pump drives, may be installed on pad, but these will be permitted separately once we have the design finalized," the company said in its application.

## Past and future

Hilcorp took over operatorship of the mature Milne

Point oil field in November 2017 from BP Exploration (Alaska) and filed the 38th plan of development for the Milne unit with the division Oct. 15. The new plan was effective Jan. 13 and runs through Jan. 12, 2021.

Since Jan. 1, 2019 Hilcorp competed 26 new wells at Milne, including two S pad Ugnu wells.

The Milne Point field has four oil pools; starting with the shallowest, they are Ugnu, Schrader Bluff, Kuparuk River and Sag River.

The state-designated unit encompasses the Kuparuk participating area, or PA, the Schrader Bluff PA and the Sag River PA. Additionally, the unit includes tract operations C-15A, S-90, C-23, K-33, MPS-37, MPS-39, MPS-41, MPS-43, B-30, C-46 and S-203.

In its 38th plan Hilcorp said it planned to continue to evaluate potential undeveloped resources in the unit. ●

Contact Kay Cashman  
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*continued from page 2*  
**GEOTHERMAL**

example, supports local power generation. The surface temperature is 60 C, while hot water entering boreholes for power production is at 80 C. The result is generation at a scale of hundreds of kilowatts, Masterman said. On the other hand, test drilling at Makushin, at Akutan in the Aleutian Islands, has revealed a temperature of nearly 200 C at a depth of a few hundred meters — this could support tens of megawatts of electricity generation, Masterman said.

However, other aspects of the geothermal resource quality are also extremely important. For example, the presence of reservoir rock with good permeability and porosity supports the flow of geothermal water, thus enabling the flow of water to a geothermal well and the replenishment of hot water in the subsurface. And the shallower the resource, the less expensive it will be to develop.

## Alaska geothermal systems

In general, there are two distinct types of geothermal system in Alaska: systems associated with the cooling of subsurface granite bodies, and systems associated

*One distinctive fairway of granite-associated warm and hot springs runs east from the Seward Peninsula across the Alaska Interior.*

with volcanoes along the Alaska Peninsula and the Aleutian Islands. The volcanic systems tend to be hotter, with magma near the surface capable of generating larger volumes of hot water. And, while the sometimes relatively porous and permeable volcanic rocks can form particularly effective geothermal reservoirs, in the granites the water tends to flow in fractures that need to be intersected by geothermal bore holes, Masterman said.

One distinctive fairway of granite-associated warm and hot springs runs east from the Seward Peninsula across the Alaska Interior. This region includes the well known hot springs at Chena, Circle and Manley, in the Fairbanks region. Geothermal power generation at the Chena resort has a 400-kilowatt capacity and has reduced the cost of local electricity from 30 cents to 5 cents per kilowatt hour, Masterman said. There is the potential to generate considerably

more power by accessing geothermal water at higher temperatures at depth, he said.

Masterman commented that the most interesting hot spring on the Seward Peninsula is the Pilgrim hot spring, to the north of Nome. This spring has a temperature of 92 C at a depth of 120 meters, with a potential reservoir temperature of 150 C, and a theoretical electrical power capacity of about 4 megawatts. The source of the hot water has yet to be found, but the geothermal resource has the potential to provide power for Nome, or for a potential mine towards the village of Teller to the northwest.

There is another area of granite related hot springs in southeast Alaska, running from a zone west of Juneau southeast to the Ketchikan region. There are a number of hot springs of potential interest in this area, including two springs, the Goddard and Baranof hot springs, that are particularly well situated on either side of Sitka, Masterman said. These two springs, which are based on fractures in the rocks, have been investigated to a certain extent for power generation for Sitka, he said.

## Volcanic systems

In the volcanic systems along the

Aleutians and the Alaska Peninsula people are investigating the potential use of the Makushin geothermal system to generate power for Dutch Harbor and for the local fish processing facilities. The potential is to build an 18 or 24 megawatt plant that could produce power for as little as 14 cents per kilowatt hour, a cost that would be competitive with current production using diesel generation, Masterman said. There is a similar geothermal system on the island of Akutan that could be used to support a fish processing system there, he added. And there are other geothermal systems at False Pass, Cold Bay and King Cove, he said.

In summary, Masterman commented that Alaska does have several locations with potential geothermal resources. These resources, where technically and economically feasible to develop, can form an excellent source of sustainable energy. And the technology for geothermal development is evolving, with new technologies and production methods allowing a wider range of geothermal systems to be developed, enabling a broader definition of viable geothermal resources. ●

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• GOVERNMENT

# Leg Council holds initiative hearing

Certification in March; Legislature could void petition by enacting 'substantially the same' legislation; likely on general election

By KRISTEN NELSON

Petroleum News

The Legislative Council held a hearing on the oil and gas tax initiative, as required by law, on Feb. 25, hearing from the Department of Law, Legislative Legal and the Department of Revenue.

Assistant Attorney General Cori Mills said the department had been asked to go over what the initiative process entails going forward. The petition was certified in October, signatures were gathered and turned in Jan. 17. The Division of Elections has 60 days to certify signatures and determine whether they meet the qualifications in the constitution, Mills said: a number equal to at least 10% of those who voted in the preceding general election, who are residents in at least three-quarters of the house districts in the state and who equal at least 7% of those voting in the preceding general

*Wallace said there has been some litigation on how far the Legislature can go in amendments, and the Alaska Supreme Court would look at whether an amendment makes changes that go too far.*

election in each of those house districts.

By March 17 it will be known if the petition is certified.

## Substantially same

The Legislature can void the petition through enactment of substantially the same measure, a determination which would be made by the lieutenant governor with the concurrence of the attorney general, Mills said, after such a bill becomes law.

Asked about the issue of substantially

similar, and whether proceedings in legislative hearings would affect the Department of Law's opinion, Mills said there are two main cases, and the test from the court is scope, purpose and means. The court must determine the scope and gives the Legislature leeway depending on how broad the law is. The court would look at whether the general purpose is the same general purpose as the initiative, or whether it is just a hollow gesture to bypass the people's initiative power. The legislative record could be used to argue either side, she said.

Asked about a hollow gesture in the context of this initiative, Mills said she couldn't speculate, but would advise paying attention to the focus of the initiative.

As to means, she said the court must consider whether the means is the same in both legislation and initiative, and said it would be necessary to do a close examina-

tion of the initiative and compare it section by section with any legislation passed.

Any public statements made on the record during the legislative process can be brought into a court process to support a view of the law, but ultimately, Mills said, the court has looked at the specifics of the law — what do the provisions say.

Once the initiative is certified, it has to appear on the first statewide election more than 120 days after the Legislature adjourns, so an April 19 adjournment would be required for the initiative to appear on the primary; after that it would be the general.

If the initiative passes, it would be effective 90 days after the election results are certified and would be effective whether or not regulations are in place.

## Where in statute

On the issue of where the initiative would be placed in statute, Megan Wallace director of the Legislature's Legal Services, said the initiative's language does not specifically amend any existing Alaska statutes, although it refers to AS 43.55. Determination of where to place it would be up to the revisor of statutes, but likely it would be placed in 43.55 as its own article and would also likely be placed in statute exactly as it looks today.

Leg legal wouldn't do any cleanup, she said, and any technical cleanup would likely take two to three years.

Asked about terms in the initiative which appear vague, Wallace said the revisor cannot make any changes that would have the effect of changing the meaning of law — those would be policy changes that only the Legislature can make.

The Legislature has the power to amend the initiative at any time, although it can't drop the initiative for two years. Wallace said there has been some litigation on how far the Legislature can go in amendments, and the Alaska Supreme Court would look at whether an amendment makes changes that go too far.

She said the Department of Revenue and the administration would identify how the initiative would be carried out and the Legislature can examine that, and if the Legislature determines clarification is needed, that would need to occur in a bill. Discussion on those changes would be part of what would be considered on whether changes went too far and probably there would be a high chance of litigation if backers of the initiative felt the Legislature went too far.

## Costs to implement

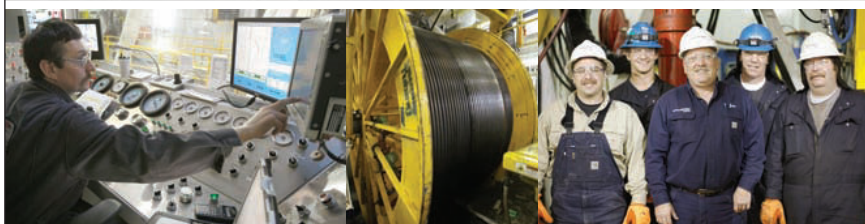
Colleen Glover, director of the Tax Division at the Department of Revenue, said the department would implement the initiative 90 days after certification, and would have to have the system available for taxpayers for the next month's filing, including internal programming and the customer user interface. The estimate to update those systems is \$7.5 million, she said, with most of the work in programming, and would be a big lift to do in 90 days.

Work would begin on needed regulations, Glover said, but completion of those could be six months to a year depending on the complexity of the regulations and based on the time it has taken for previous tax changes. ●

Contact Kristen Nelson  
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## ANS OUTPUT

other fields by a wide margin.

Field operator Hilcorp Alaska highlighted Milne Point production in a Feb. 24 press release, and said it was on track to double production at the field.

Hilcorp said Milne Point production reached 34,000 bpd in late January, the highest production since May 2008. AOGCC data reports volumes by month so the 31,729 bpd from its data is the average for January.

Hilcorp said when it took over as Milne Point operator in November 2014 the field was averaging 18,400 bpd — it expects to reach 40,000 bpd at Milne by the end of 2020.

Jason Rebrook, president of Hilcorp Energy Co., called the production increase at Milne “an important milestone for the state of Alaska and Hilcorp. By empowering our employees closest to the wellhead, driving efficiencies, and innovating, we’re increasing production at Milne Point and putting more oil in TAPS. Our goal is to apply these successes at Prudhoe Bay and beyond,” he said.

Hilcorp said that since 2014 it and fellow working interest owner BP have invested more than \$700 million at Milne, and Hilcorp has drilled 60 wells with another 29 planned for this year.

At Moose Pad, targeting viscous oil, Hilcorp and BP invested more than \$270 million. That 14-acre pad began producing in April 2019 and can handle 85,000 barrels of fluid per day. Hilcorp said there are currently 10 producing wells at Moose Pad.

Hilcorp announced the acquisition of all of BP’s Alaska upstream and mid-stream interests in August for \$5.6 billion, including interests in Hilcorp-operated Milne Point, ExxonMobil-operated Point Thomson and Prudhoe Bay, where BP Exploration (Alaska) is the operator. Hilcorp said the transaction is expected to close in the second quarter, pending regulatory approval.

### Month over month increases

The largest month-over-month volume increase was at the BP-operated Prudhoe Bay field, the Slope’s largest, which averaged 280,004 bpd of combined crude oil and NGL production in January, up 0.9%, 2,603 bpd, from a December average of 277,402 bpd, but down 1.6% from a

January 2019 average of 284,588 bpd.

Prudhoe crude averaged 223,474 bpd, down 0.1%, 305 bpd, from a December average of 223,779 bpd, and down 3.8% from a January 2019 average of 232,329 bpd. NGL production at Prudhoe averaged 56,530 bpd in January, up 5.4%, 2,908 bpd, from a December average of 53,623 bpd, and up 8.2% from a January 2019 average of 52,259 bpd.

In addition to the primary reservoir, production volumes from Prudhoe include Aurora, Borealis, Lisburne, Midnight Sun, Niakuk, Polaris, Point McIntyre, Put River, Raven and Schrader Bluff.

The ConocoPhillips Alaska-operated Kuparuk River field averaged 104,716 bpd in January, up 1.8%, 1,891 bpd, from a December average of 102,825 bpd, but down 1.2% from a January 2019 average of 105,984 bpd.

In addition to the main Kuparuk pool, Kuparuk produces from satellites at Meltwater, Tabasco and Tam, and from West Sak.

Eni’s Oooguruk field averaged 9,173 bpd in January, up 12.3%, 1,002 bpd, from a December average of 8,170, but down 1.8% from a January 2019 average of 9,336 bpd.

Badami, operated by Savant Alaska, a Glacier Oil & Gas company, averaged 1,410 bpd in January, up 4.3%, 58 bpd, from a December average of 1,351 bpd, but down 39.3% from a January 2019 average of 2,323 bpd.

### Month-over-month declines

All other North Slope fields had month-over-month production declines.

The largest drop was at ConocoPhillips’ Greater Mooses Tooth in the National Petroleum Reserve-Alaska, which averaged 5,264 bpd in January, down 16.4%, 1,033 bpd, from a

see ANS OUTPUT page 8

## EXPLORATION & PRODUCTION

### US drilling rig count up by 1 to 791

Baker Hughes reports the number of rigs drilling for oil and natural gas in the U.S. the week ending Feb. 21 is up by one from the previous week to 791 but down by 256 from 1,047 a year ago.

In its weekly rig count the Houston oilfield services company said 679 rigs targeted oil, up one from the previous week and down 174 from a year ago, while 110 targeted natural gas, unchanged from the previous week and down 84 from a year ago. There were two miscellaneous rigs active, unchanged from the previous week and up by two from a year ago.

The company said 45 of the holes were directional, 714 were horizontal and 32 were vertical.

The rig count in Alaska was up by three from the previous week.

New Mexico was up by two rigs and Oklahoma was up by one rig.

Rig counts were unchanged from the previous week in North Dakota, Ohio, Pennsylvania, Texas, Utah and West Virginia.

Texas, at 397, has the most active rigs in the country.

California, Louisiana and Wyoming were each down by one rig from the previous week. Colorado was down by two rigs.

Baker Hughes shows Alaska with 12 rigs active for the week ending Feb. 21, down one from a year ago.

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

—KRISTEN NELSON

## PIPELINES & DOWNSTREAM

### RCA OKs Unocal’s TAPS share transfer

The Regulatory Commission of Alaska said Feb. 24 that it has approved the transfer of Unocal Pipeline Co.’s ownership interest in the trans-Alaska oil pipeline to BP Pipelines (Alaska) Inc., ConocoPhillips Transportation Alaska Inc. and ExxonMobil Pipeline Co., the remaining TAPS carriers.

Unocal suspended its TAPS operations in 2012 and requested temporary suspension from the commission pending finalizing sale of its ownership interest, just 1.36%.

Unocal had been in discussion with the other owners since 2012. It told RCA in September that sale issues had been resolved. A joint application for transfer of Unocal’s interests to the other owners was submitted to the commission in October.

The parties said in the October application that Unocal’s shares would be acquired by the remaining owners in proportion to their existing ownership per-

see TAPS SHARE page 8

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## Cook Inlet gas production up in January

Natural gas production in Cook Inlet averaged 217,174 thousand cubic feet per day in January, up marginally, 0.02%, 4,651 mcf per day, from a December average of 212,927 mcf, and up 1.2% from a January 2019 average of 214,665 mcf.

The majority of Cook Inlet gas, 82% in January, is from seven fields: Beluga River, Kenai, Kitchen Lights, McArthur River, Ninilchik, North Cook Inlet and Swanson River.

This data is from the Alaska Oil and Gas Conservation Commission, which reports production on a month-delay basis. For natural gas AOGCC reports measurements in thousands of cubic feet, mcf.

The field with the most production, Hilcorp Alaska's Ninilchik, averaged 38,800 mcf per day in January, up 17.5% from a December average of 33,017 mcf, and up 11% from a January 2019 average of 34,955 mcf per day.

Hilcorp's Swanson River averaged 34,283 mcf per day in January, up 12.6% from a December average of 30,434 mcf and up 17.4% from a January 2019 average of 29,190 mcf per day.

The Kenai gas field, also operated by Hilcorp, averaged 33,368 mcf per day in January, down 0.3% from a December average of 33,463 mcf and down 0.6% from a January 2019 average of 33,578 mcf per day.

Hilcorp's McArthur River, the inlet's largest oil producer, averaged 21,600 mcf per day of natural gas in January, down 2.6% from a December average of 22,188 mcf and down 11.9% from a January 2019 average of 24,522 mcf per day.

The Beluga River field, operated by Hilcorp, averaged 18,773 mcf per day in January, down 8.1% from a December average of 20,416 mcf and down 31.1% from a January 2019 average of 27,255 mcf per day.

Hilcorp's North Cook Inlet field averaged 17,529 mcf per day in January, up 0.6% from a December average of 17,421 mcf and up 17.7% from a January 2019 average of 14,892 mcf per day.

Furie's Kitchen Lights averaged 14,496 mcf per day in January, down 2% from a December average of 14,797 mcf and up 281.4% from a January 2019 average of 3,801 mcf per day (production was drastically reduced for a time last year due to formation of hydrate plugs in the field's gas transmission system).

### Smaller gas fields

Hilcorp's Beaver Creek averaged 6,944 mcf per day in January, down 5.5% from a December average of 7,347 mcf and down 19% from a January 2019 average of 8,567 mcf per day.

Hilcorp's Cannery Loop averaged 5,344 mcf per day in January, down 8.7% from a December average of 5,854 mcf and down 12.7% from a January 2019 average of 6,124 mcf per day.

Kenai Loop, operated by AIX, averaged 5,223 mcf per day in January, down

see **INLET PRODUCTION** page 9

continued from page 7

## ANS OUTPUT

December average of 6,297 bpd and down 56.4% from a January 2019 average of 12,077 bpd.

ConocoPhillips' Colville River averaged 53,984 bpd in January, down 1.7%, 957 bpd, from a December average of 54,941 bpd, but up 0.9% from a January 2019 average of 53,527 bpd.

In addition to oil from the main Alpine pool, Colville production includes satellite production from Fiord, Nanuq and Qannik.

Hilcorp-operated Endicott averaged 7,109 bpd combined crude and NGL production in January, down 4.5%, 338 bpd, from a December average of 7,446 bpd, and down 5.5% from a January 2019 average of 7,518 bpd. Endicott averaged 6,211 bpd of crude, down 4.1%, 263 bpd, from a December average of 6,474 bpd, and down 5.7% from a January 2019 average of 6,583 bpd. Endicott NGL production averaged 898 bpd in January, down 7.7%, 75 bpd, from a December average of 972 bpd, and down 4% from a January 2019 average of 935 bpd.

Eni's Nikaitchuq field averaged 20,265 bpd in January, down 1.5%, 298 bpd, from a December average of 20,564 bpd, but up 10.3% from a January 2019 average of 18,375 bpd.

The ExxonMobil Production-operated Point Thomson field averaged 5,292 bpd in January, down 3.6% from a December average of 5,491 bpd, and down 44.2% from a January 2019 average of 9,490 bpd.

The Hilcorp-operated Northstar field averaged 10,271 bpd combined crude and NGL production in January, down 0.3%, 32 bpd, from a December average of 10,304 bpd and down 13.6% from a January 2019 average of 11,890 bpd. Crude production from Northstar averaged 6,929 bpd in January, down 3.9%, 282 bpd, from a December average of 7,211 bpd, and down 21% from a January 2019 average of 8,768 bpd. NGL production averaged 3,342 bpd in January, up 8.1%,

*NGL production at Northstar accounts for 32.5% of that field's production, the most of any of the three Slope fields producing NGLs. NGLs were 20.1% of Prudhoe production in January, and 12.6% of Endicott production.*

249 bpd, from a December average of 3,093, and up 7.1% from a January 2019 average of 3,122 bpd.

NGL production at Northstar accounts for 32.5% of that field's production, the most of any of the three Slope fields producing NGLs. NGLs were 20.1% of Prudhoe production in January, and 12.6% of Endicott production.

### Cook Inlet down 1%

Cook Inlet production averaged 14,003 bpd in January, down 1%, 142 bpd, from a December average of 14,145 bpd, and down 7% from a January 2019 average of 15,048 bpd.

Hilcorp's Beaver Creek averaged 222 bpd in January, down 12.3%, 24 bpd, from a December average of 198 bpd and down 53.8% from a January 2019 average of 482 bpd.

Granite Creek, also a Hilcorp field, averaged 3,308 bpd in January, up 0.1%, 2 bpd, from a December average of 3,306 bpd and up 23.7% from a January 2019 average of 2,674 bpd.

BlueCrest's Hansen field, the Cosmopolitan project, averaged 1,073 bpd in January, down 9.1%, 108 bpd, from a December average of 1,181 bpd, and down 24.7% from a January 2019 average of 1,425 bpd.

Hilcorp's McArthur River field, Cook Inlet's largest, averaged 4,447 bpd in January, up 0.8%, 33 bpd, from a December average of 4,414 bpd, but down 13.7% from a January 2019 average of 5,151 bpd.

Middle Ground Shoal, also a Hilcorp field, averaged 1,231 bpd in January, down

see **ANS OUTPUT** page 9



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## TAPS SHARE

centages.

The parties had asked for an expedited decision by Jan. 31, but the commission said that motion was denied as it was unable to complete its review of the application by that date.

The commission said it found the remaining TAPS carriers "able and willing" as required by statute, and said the transfer was in the best interest of the public.

BP currently owns 48.441% of pipeline assets and its new percentage will be 49.1069%; ConocoPhillips goes from 29.2086% to 29.6102%; ExxonMobil goes from 20.9943% to 21.2829%.

At the Valdez Marine terminal, BP goes from 47.5881% to 48.3914%; ConocoPhillips goes from 28.1267% to 28.6015%; ExxonMobil goes from 22.6252% to 23.0071%.

—KRISTEN NELSON

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## ANS OUTPUT

2.5%, 32 bpd, from a December average of 1,263 bpd and down 15% from a January 2019 average of 1,449 bpd.

Redoubt Shoal, operated by Cook Inlet Energy, a Glacier Oil & Gas company, averaged 1,237 bpd in January, down 6.3%, 83 bpd, from a December average of 1,320 bpd, but up 26% from a January 2019 average of 981 bpd.

Hilcorp's Swanson River field averaged 770 bpd in January, up 4.5%, 33 bpd, from a December average of 737 bpd, but down 26.9% from a January 2019 average of 1,053 bpd.

Hilcorp's Trading Bay averaged 1,345 bpd in January, up 2.8%, 37 bpd, from a December average of 1,309 bpd, but down 2.7% from a January 2019 average of 1,382 bpd.

West McArthur River, operated by Glacier's CIE, averaged 368 bpd in January, down 11.8%, 49 bpd, from a December average of 417 bpd and down 18.4% from a January 2019 average of 451 bpd.

ANS crude oil production peaked in 1988 at 2.1 million bpd; Cook Inlet crude oil production peaked in 1970 at more than 227,000 bpd. ●

Contact Kristen Nelson at knelson@petroleumnews.com

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## INLET PRODUCTION

1.9% from a December average of 5,323 mcf and down 1.4% from a January 2019 average of 5,295 mcf per day.

BlueCrest's Hansen averaged 4,753 mcf per day in January, down 10.3% from a December average of 5,298 mcf and down 53.6% from a January 2019 average of 10,233 mcf per day.

Hilcorp's Deep Creek averaged 3,998 mcf per day in January, down 5.3% from a December average of 4,220 mcf and down 4.3% from a January 2019 average of 4,179 mcf per day.

Hilcorp's Granite Point averaged 3,299 mcf per day in January, up 1% from a December average of 3,267 mcf and up 16.3% from a January 2019 average of 2,836 mcf per day.

North Fork, operated by Cook Inlet Energy, a Glacier Oil & Gas company, averaged 3,225 mcf per day in January, down 10% from a December average of 3,583 mcf and down 19.4% from a January 2019 average of 4,003 mcf per day.

Hilcorp's Trading Bay averaged 2,540 mcf per day in January, down 19.3% from a December average of 3,149 mcf and down 16.7% from a January 2019 average of 3,049 mcf per day.

Hilcorp's Lewis River averaged 1,465 mcf per day in January, down 5.6% from a December average of 1,552 mcf but up 438.9% from a January 2019 average of 275 mcf per day.

Hilcorp's Nikolaevsk averaged 414 mcf per day in January, up 2.9% from a December average of 402 mcf but down 8.7% from a January 2019 average of 453 mcf per day.

Hilcorp's Ivan river averaged 316 mcf per day in January, down 3.8% from a December average of 329 mcf, and down 11.9% from a January 2019 average of 359 mcf per day.

The CIE-operated Redoubt Shoal averaged 274 mcf per day in January, down 6.1% from a December average of 292 mcf per day but up 10.9% from a January 2019 average of 247 mcf per day.

Hilcorp's Middle Ground Shoal averaged 232 mcf per day in January, up 9.8% from a December average of 211 mcf but down 33% from a January 2019 average of 346 mcf per day.

Amaroq Resources' Nicolai Creek field averaged 222 mcf per day in January, down 21.9% from a December average of 285 mcf and down 45% from a January 2019 average of 404 mcf per day.

CIE-operated West McArthur River averaged 69 mcf per day in January, down 13% from a December average of 79 mcf and down 32.6% from a January 2019 average of 102 mcf per day.

Cook Inlet natural gas production peaked in the mid-1990s at more than 850,000 mcf per day.

—KRISTEN NELSON

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# Petroleum news

## Oil Patch Bits

### Hydroelectric project will move Kake off diesel power

As reported by Lynden News Feb. 13, construction is under way for a new hydropower facility in Kake, Alaska, and Alaska Marine Lines is supporting the project by transporting penstock pipe and other materials. Local electrical utility Inside Passage Electric Cooperative is building the facility at an old hatchery near town. The plant will allow the community of 630 people to move from diesel power and generators



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to a cheaper, cleaner and more efficient power source. It is estimated that the new plant will save 2 million pounds of CO2 per year. According to Arrowhead Transfer Operations Manager Adam Davis, the first shipment of pipe was delivered last summer, but the project has been in the works for more than a year. "We started working on the project in 2018 with contractor Rock N Road," he said. "We've already handled 60 loads of concrete and aggregate weighing between 20,000 to 66,000 pounds each to build pillars, thrust block and other features." Many of the deliveries tested Davis' driving skills as they required backing a fully loaded 40-foot trailer down a long, one-lane driveway. The trailer was too wide for the narrow bridge so the excavator was used to unload the pipe at the job site.

IPEC is scheduled to finish the \$10 million project this year. Pictured, 54-inch penstock pipe is stacked for delivery at the Alaska Marine Lines yard in Kake.

# Companies involved in Alaska's oil and gas industry

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## TECK DECISION

The message from Teck Chief Executive Officer Don Lindsay was blunt when he placed Frontier “squarely at the nexus” of growing tensions in Canada over the impact on climate change of natural resource extraction and unresolved First Nations land claims.

“The promise of Canada’s potential will not be realized until governments can reach agreement around how climate policy considerations will be addressed in the context of future responsible energy sector development,” he said in a letter to Trudeau.

“Without clarity on this critical question, the situation that has faced Frontier will be faced by future projects and it will be very difficult to attract future investment, either domestic or foreign,” Lindsay said.

He said Canada lacks a “framework in place that reconciles resource development and climate change.”

### Showdown avoided

The shelving of Frontier avoided showdown between the government and First Nations, who were directly and indirectly involved in rail blockades against the Coastal GasLink pipeline to provide feedstock to the LNG Canada liquefaction plant and tanker terminal at Kitimat.

The protesters had blocked rail lines across Canada, virtually shutting down the ports at Halifax, Vancouver

and Prince Rupert and halting the movement of freight and passenger trains from coast-to-coast, stranding an estimated C\$428 million worth of goods every day.

After days of sidestepping the issue, while trying to negotiate with the protesters, Trudeau finally conceded that no talks were possible if only one side showed up at the bargaining table.

Under pressure from members of Parliament in his own Liberal party and demands from provincial government premiers and industrial leaders who had already laid off thousands of workers and were faced with a critical shortage of materials, including propane gas, he made a demand for the protesters to remove their barricades.

### No partner

But the signs from analysts pointed to the collapse of Frontier when Teck was unable to attract a partner and was faced with oil prices well below its US\$65 make-or-break level. The company warned on Feb. 21 that a negative decision by the Trudeau cabinet would result in a C\$1.13 billion impairment charge following a write-down of C\$910 million of production from its 21.3% stake in the Fort Hills oil sands mine operated by Suncor Energy.

However, Lindsay did hold out hope that Teck’s financial returns from Fort Hills could rise over the next couple of years as more export pipeline capacity came online.

A February poll by Angus Reid Institute found that

support for Frontier outpaced opposition by 49% to 40%, with Albertans favoring the venture by 78% to 17% (with 5% undecided) and 62% to 38% in Saskatchewan.

### Kenney blames Trudeau

Alberta Premier Jason Kenney blamed the Teck decision on “federal inaction” under Trudeau, suggesting the timing was “not a coincidence ... this was an economically viable project, for which the company was advocating (in the last week of February). Something clearly changed very recently.

“It is what happens when governments lack the courage to defend the interests of Canadians in the face of a militant minority,” that shut down the rail system.

He warned Trudeau in a letter that losing the Frontier project will further weaken national unity and fuel the campaign in Alberta for separation from Canada.

Andrew Scheer, leader of the federal Conservative Party, said Trudeau’s “inaction has emboldened radical activists and public safety concerns are now shutting down nation-building energy projects.”

In its last attempt to sway federal decision-makers Teck had promised to reduce carbon emissions from its entire minerals and energy operations to zero by 2050, matching Trudeau’s pledge for all of Canada.

—GARY PARK

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## DUELING BUYERS

The order authorizes each of the debtors and the acquirer to enter into and perform, consummate and implement the escrow letter, together with all additional instruments and documents that may be reasonably necessary or desirable to implement the letter and to take any and all further actions to perform its obligations.

The order said the debtors have demonstrated at this time good, sufficient and sound business purposes and justifications for entry into the agreement.

The acquirer has made a deposit into escrow of \$200,000 as part of the acquisition agreement.

In connection with the acquisition, the acquirer agrees to pay the debtors an amount equal to \$2 million, to be used solely to satisfy allowed fee claims and allowed administrative claims.

According to a support declaration by Scott Pinsonnault, Furie interim COO, filed on Feb. 18, “\$1,050,000 in cash will be paid to certain creditors for the benefit of the debtors to resolve matters settled pursuant to the stipulations and settlements.”

The declaration said the consideration includes forgiveness of \$3 million in principal owed to the Melody Lenders under the debtors’ debtor-in-possession financing facility, and that \$103 million in debt secured by the assets of the reorganized debtors will be provided to the debtors’ prepetition and remaining DIP lenders in full and final satisfaction of such lenders’ claims.

Pinsonnault said Melody Capital has provided financial statements and evidence demonstrating the acquirer’s ability to consummate the transaction.

### Notice of alternative offer filed by HEX LLC

According to documents filed in the bankruptcy case, HEX LLC was unable to raise funds needed to complete the transaction.

According to the support declaration by Scott Pinsonnault, Furie interim COO, filed on Feb. 18, HEX failed to make good faith deposits on Dec. 24 or Jan. 10 or provide proof of financial wherewithal to consummate a transaction by Jan. 10, each as required under the terms of its bid.

The unpaid good faith deposits were to be \$500,000 and \$750,000 respectively, according to Pinsonnault.

Pinsonnault said: “the Debtors determined, in the exercise of their fiduciary duties, that HEX was unable to consummate the transactions contemplated by the subsequent HEX bid and, therefore, was no longer a Qualified Bidder.”

But HEX disagrees with that assertion and has made a counteroffer to the debtors’ counsel, per the Feb. 21 clerk’s docket.

In a notice of alternative offer filed Feb. 20 by HEX, HEX said it was unable to complete financing for the purchase primarily due to uncertainty created by the pending royalty dispute with the RWIO (royalty and working interest owners) group, adding that HEX could not forecast its future income and expenses, therefore its lenders were unwilling to commit.

The debtors filed a Feb. 18 motion for approval of a settlement between the debtors, the lender parties, the buyer, the Webb litigants and the RWIO parties.

Also on Feb. 18, pursuant to the settlement agreement and mutual release, counsel for Giza Holdings LLC, Taylor Minerals LLC, Allen Lawrence Berry, the 2007 Allen Lawrence Berry Trust and Danny Davis withdrew the objections of the royalty and working interest owners

(RWIO Litigants) — which were filed with the court on Dec. 17.

“HEX disputes the assertion that it has not operated in good faith. HEX needed to know exactly what it was buying,” HEX said in its notice of alternative filing, adding that without the settlements which were established Feb. 18, HEX was unable to complete the transaction.

The settlements were negotiated without HEX’s participation, the notice said.

“On Feb 18 HEX was advised the debtors considered HEX in default and were proceeding with ... an alternative transaction,” the notice said. “At the same time HEX was informed that the disputes with Bruce Webb and the RWIO group will be settled for about \$500,000 each, plus restructuring of the RWIO royalties to a 10% working interest carried on capex (as far as HEX is aware).”

“The proposed transfer and settlement documents take up over 700 pages on the docket, and HEX has not had sufficient time to digest them fully,” the notice said. “HEX was invited late on February 18th to submit a counter offer and HEX made a proposal to debtor’s counsel.”

HEX indicated that the new proposed sale was a significant departure from the structure previously set forth in the bidding procedures for Furie’s assets.

“Although originally advertised as an asset sale, the auction was conducted as a sale of the debtors’ equity as it appeared important to retain the debtors as operating entities in order to receive tax credit payments due from the state of Alaska,” the notice said. “The tax credits are by far the most valuable assets of the debtors, and with an equity sale the debtor’s lenders will retain rights to receive those payments.”

HEX indicated it will stay in the running to buy the

see **DUELING BUYERS** page 12

continued from page 1

## ALUSSA ENERGY

3,750,000 units at the initial public offering price to cover over-allotments.

Alussa formed “for the purpose of effecting a merger, share exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses,” it said, adding, “the company intends to focus on businesses in the production, operation and development of crude oil and natural gas wells and related infrastructure.”

Given Musselman’s knowledge of Alaska, some small companies and investors seeking capital for prospects in the state told Petroleum News they are hoping some of that money might find its way to projects in Alaska.

*Alussa formed “for the purpose of effecting a merger, share exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses,” it said, adding, “the company intends to focus on businesses in the production, operation and development of crude oil and natural gas wells and related infrastructure.”*

In 2016, Caelus said it made an oil discovery with its two-well Tulimaniq exploration program in Smith Bay off the coast of the National Petroleum Reserve-Alaska, featuring announced estimates of 6 billion to 10 billion barrels of oil in place.

But Tulimaniq had challenges. Located in a remote, environmentally sensitive part of the North Slope, the geology suffers from relatively poor reservoir quality. Both wells have yet to be tested.

Caelus sold 124 eastern North Slope exploration leases to Eni — and dropped others — in 2018.

Caelus sold its 70% operating interest in its flagship Ooguruk field to Eni in 2019 and wound down its Alaska operations. The transaction gave the Milan-based major a 100% working interest in the field.

Caelus told Petroleum News in April that it is winding down its Alaska operations, but it is not entirely divested from the state yet. It said it is looking for an investor or partner to appraise its Tulimaniq discovery in Smith Bay.

Alussa commenced trading on the

NYSE under the ticker symbol “ALUS.U” in November. Each unit consists of one of the company’s Class A ordinary shares and one-half of one redeemable warrant. Each whole warrant entitles the holder to purchase one Class A ordinary share at a price of \$11.50 per share.

Beginning Jan.10, holders of the 28,750,000 units sold in the initial public offering can elect to separately trade the Class A ordinary shares and warrants included in the units. Class A ordinary shares and warrants that are separated will trade on the NYSE under the symbols “ALUS” and “ALUS.WS,” respectively, the company said in a January announcement.

—STEVE SUTHERLIN

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## OIL SEARCH

encountered the same Nanushuk reservoir. No oil-water contact was penetrated in Mitquq 1 drilling.

Furthermore, new seismic acquisition and reprocessing and the merger of 15 3D seismic data sets, suggest that there are “multiple prospects close to” the planned Pikka development, none of which are included in Ryder Scott’s estimate of 728 million barrels of recoverable oil within the Nanushuk 3 and Alpine C reservoirs in the core Pikka development.

Results from Mitquq 1 “further enhance prospectivity” along the trend between Mitquq and the core Pikka development, the company said in an accompanying presentation slide.

Subject to the testing of Mitquq 1, the prospect has the potential to provide additional high value volumes for the Pikka unit’s planned Nikaitchuq processing facility. It is only about 6 miles from the ConocoPhillips-operated Kuparuk River unit’s central processing facility 2, or CPF 2, where Oil Search now says it expects to transport crude oil for processing for early Pikka unit production in 2022.



KEIRAN WULFF



BRUCE DINGEMAN

When Managing Director Wulff was asked whether commercial arrangements to share neighboring infrastructure had been concluded, he said “We’re very, very close. The financial arrangements are largely finalized. We’re just completing some of the outstanding sort of legal issues at the moment, but it’s very close. Early production is in the interest of all parties, in the interest of our joint venture, it’s also in the interest of ConocoPhillips at Kuparuk. So we’re very confident that there will be an agreement made in the not-too-distant future.”

### Stirrup looks promising

The second exploration well drilled by Oil Search this winter is the Stirrup 1, some 93 miles to the southwest of the core Pikka development.

“At Stirrup ... we intersected the Nanushuk 9 and we’ve encountered hydrocarbon shows. Currently, we’re coring, logging and evaluating the zone of interest,” Dingeman said, noting that what they have seen is encouraging enough “to support a well test.”

Success at the Stirrup prospect, which is close to the Horseshoe Block, “could de-risk additional fairways to underpin a possible standalone” Horseshoe development, the company previously said, noting Stirrup was a direct analogue to the Horseshoe 1 Nanushuk discovery.

Wulff said the company was in the process of mobilizing testing equipment to both the Mitquq and Stirrup well sites.

### Setting records

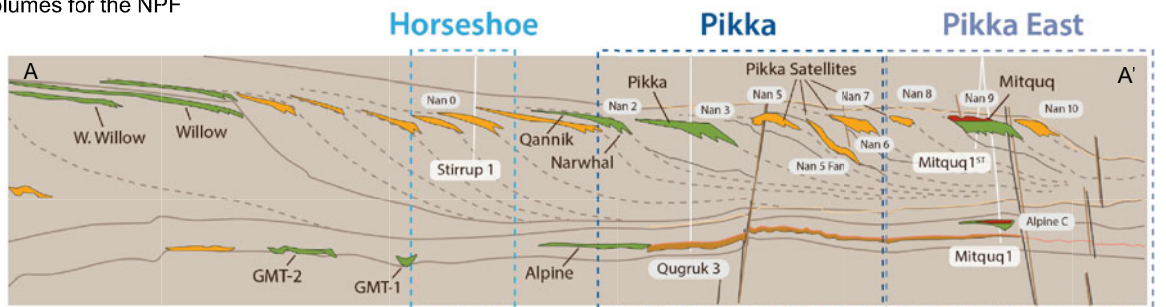
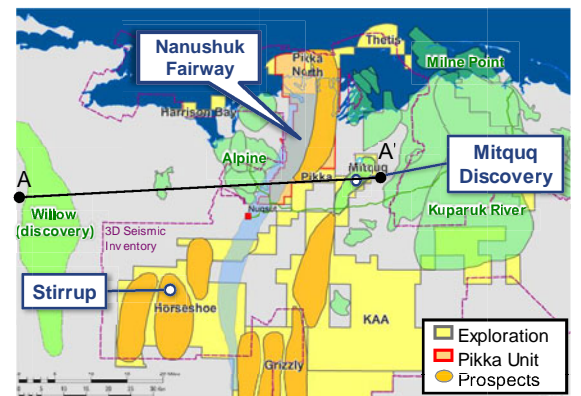
Other Oil Search winter operations include civil works for the Pikka development that involved nearly 30 miles of gravel roads and pads. The early work “will be a key part of our early production system,” Dingeman said.

“This is the largest gravel program undertaken in over 20 years on the North Slope,” he said. “We’re pulling from two mine sites, running over 40 trucks from one mine site and 25 trucks from the other site. So continuous operation activity.”

## MITQUQ IMPLICATIONS

### PROVEN RESERVOIRS AND EMERGING PLAY FAIRWAY

- ◆ Alaska North Slope “super-basin” contains three world-class oil-prone rocks with >18 billion barrels of oil produced to date<sup>1</sup>
- ◆ World class “yet-to-find” in existing and emerging play fairways (>6 billion in Nanushuk<sup>2</sup>). Exceptional portfolio depth across Oil Search acreage with Nanushuk “play-master” position
- ◆ Results from Mitquq further enhance prospectivity along trend between Mitquq and Pikka
- ◆ New 2,969 km<sup>2</sup> reprocessing and merge of 15 3D seismic data sets:
  - ◆ Multiple prospects close to proposed & existing facilities
  - ◆ Subject to test, Mitquq has potential to provide additional high value volumes for the NPF



<sup>1</sup> Source: <http://www.tax.alaska.gov/sourcesbook/AlaskaProduction.pdf>  
<sup>2</sup> Source: United States Geological Survey (USGS) <https://pubs.usgs.gov/fs/2017/3088/fs20173088.pdf>

The company set another record, Dingeman said: “Additionally, for the drilling activities, we beat last year’s record of spudding the earliest (off-road winter season) well in 43 years,” referring to the Dec. 25 spud date for Mitquq 1.

“Our FEED (front-end engineering and design) activities are underway, and we continue to target FID (final investment decision) in the second half of this year,” he said.

“Finally ... we’ve commenced our divestment process seeking to sell down a 15% working interest share and have had positive initial response from the market in that regard,” Dingeman said.

In the Q&A Wulff was asked about the farm-in of a partner that would join Oil Search, currently with a 51% interest, and Repsol, at 49%, with a 15% interest. He responded, “we’ve actually seen ... a number of very interested parties. And as I said, one is ... up on the North Slope now, probably not so much enjoying themselves at minus 50 degrees. ... But it’s strongly our intention to move forward with the divestment.”

—KAY CASHMAN

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## INSIDER

the pdf and print versions of this issue).

At approximately 2.8 million pounds, DOT told Accumulate that the rig was the heaviest vehicle ever to travel the Dalton Highway.

In Accumulate's Icewine project, Charlie 1 is on state oil and gas lease ADL 393380. It will be drilled to an approximate depth of 11,000 feet and may include laterals, sidetracks or additional penetrations.

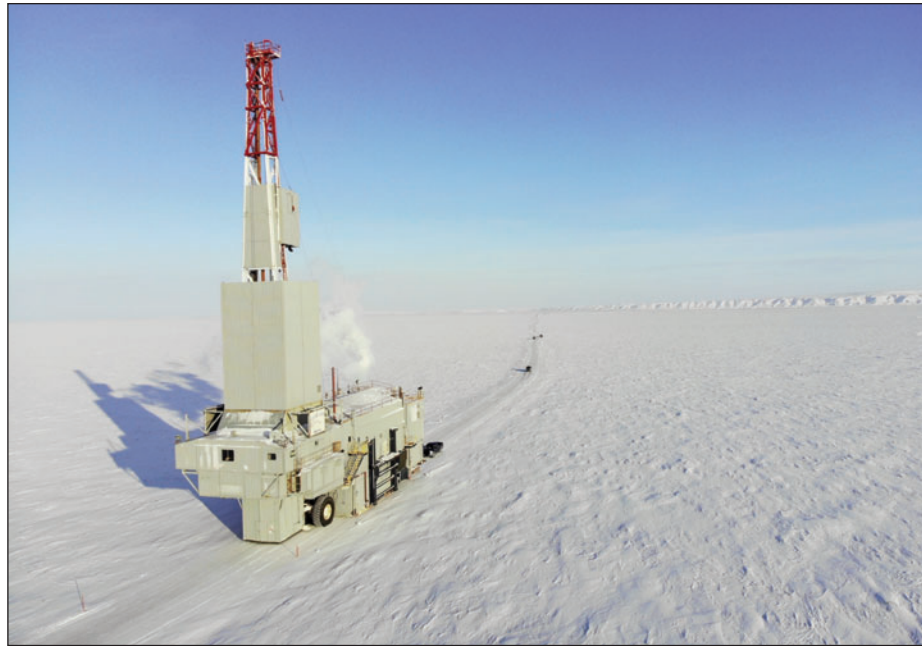
The well will intersect seven stacked prospects, four of which are interpreted as oil bearing in nearby Malguk No.1 (drilled in 1991 by BP) and are therefore considered appraisal targets, 88 Energy, Accumulate's parent, said.

The primary drilling objective is the Seabee formation.

## Alaska public oil ownership unusual

WHILE ALMOST ALL THE LAND and mineral rights in Lower 48 states is in the hands of private citizens, the state of Alaska is required to retain ownership of mineral deposits in the land it received with statehood from the federal government.

There are two basic systems governing the ownership of oil: the Napoleonic model, used by socialist countries, in which resources are owned and controlled



The Nordic 3 drill rig on its way to Accumulate Energy Alaska's Charlie No. 1 exploration well pad. Using his drone, photo taken by Sonny Kula.

by the government; and the Anglo-Saxon model, subscribed to by most capitalist countries including the United States, where personal property rights extend all the way down to the core.

"The difference between the treatment of subsurface mineral ownership has far reaching implications. And, Alaska finds itself in a strange place between the two," Alaska economist Ed King wrote in his most recent newsletter.

In the Anglo-Saxon system, "private property rights reign high," King said.

Except in Alaska, "almost all

Americans have complete ownership of the subsurface estate beneath their lands."

During the first world war, mineral and other resources became increasingly important to U.S. defense, so the federal government decided to control these strategic resources by passing the Mineral Leasing Act of 1920.

The act identified certain resources as having strategic importance to the nation — specifically coal, oil, natural gas, and some other minerals. Any of these resources under federal land would not transfer to new owners from that

point forward.

Alaska was the first state to enter the union after the Mineral Leasing Act passed. And the Alaska Statehood Act further reinforced the Napoleonic system, prohibiting private ownership of mineral rights in Alaska on lands granted to the state.

Alaska's public oil ownership status makes it unlike any other state in the union. And, its inability to include taxation in its oil contracts makes it unlike any other nation-state with oil ownership.

"The constitution prevents us from including taxes in our ownership contracts. Therefore, we cannot provide the fiscal certainty that a production sharing agreement offers," King wrote.

"In fact, using taxes to attempt to get more out of our ownership position could be, in effect, a material change in the fiscal terms of the contract with the leaseholders. And, if the higher tax rate results in less development, it directly conflicts with the statement of policy in our constitution," which essentially obligates the state to lease and encourage development of its resources.

There's more and it's worth reading. Check out King's newsletter at <https://kingeconomicsgroup.com/alaska-is-unique-when-it-comes-to-oil-ownership-and-taxes/>

—KAY CASHMAN

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## ARMSTRONG BUY

the multibillion-barrel Pikka field in 2013, the Nanushuk play has had an extremely high exploration success rate with five large new discoveries, yet the play is still in its infancy and has barely been explored."

"We are very pleased to work with Armstrong considering their prominent successes in the North Slope over the past two decades," said Doris Cheng, Borealis

Alaska Oil CEO.

### Castle Prospect trend

Borealis holds an NPR-A lease position amounting to 206,966 acres, referred to as the Castle Prospect Trend, directly southwest of ConocoPhillips' Willow oil discovery. There are six individual lower Nanushuk prospects, including the Castle West prospect, within the trend. Borealis is seeking joint ventures, to share the cost of exploration in the trend.

The Inigok No. 1 well, drilled in the trend area many years ago by the U.S.

Geological Survey, indicated a strong possibility of finding oil. Although the well was drilled deep, in search of oil in the Ellesmerian sequence, the host sequence for oil in the Prudhoe Bay field, the upper part of the well found gas with compositions indicative of the presence of light oil in the Brookian sequence, the rock sequence that includes the Nanushuk.

And testing the Brookian prospects only requires relatively shallow drilling, to depths of around 4,000 to 5,000 feet.

Borealis has been planning some

exploratory drilling, starting in the Castle North prospect, and potentially continuing in the Castle East and Central prospects. The existence of a gravel pad and 6,500-foot runway, originally built for the drilling of the Inigok well, would help with the logistics of exploratory drilling.

Borealis also holds 74,667 acres of leases at its Grey Owl Prospect Trend, 25 miles south of the Badami field, to the east of the central North Slope. ●

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## DUELING BUYERS

assets despite the bid for the assets made by Kachemak.

"HEX understands that the pending sale motion will go forward, but the debtors have agreed to work with HEX for two weeks to see if a better transaction can be structured," the notice said.

### Sale and settlement matters set for March 3 hearing

Judge Selber Silverstein will consider a number of matters in a hearing scheduled for March 3 at 2 p.m. Eastern, at the U. S. Bankruptcy Court, 824 Market Street, 6th floor courtroom in Wilmington, Delaware.

Selber Silverstein will hear the debtors' motion for approval of settlement between the debtors, the lender parties, the buyer, the Webb litigants and the RWIO parties, filed

by Furie. Objections are due by March 2.

The judge will also consider a notice of sale of property free and clear of liens, including a notice of proposed sale approval order; and an assumption and assignment of executory contracts or unexpired leases and cure amount filed by Furie. Objections are due by March 2.

The judge will hear a motion for approval of settlement between the debtors and Alaska Pipeline Co. filed by Furie, with objections due March 2.

Selber Silverstein will also hear a motion to establish administrative claims bar date, a debtors' motion for entry of an order establishing an administrative bar date and approving the form and manner of notice filed by Furie. Objections are due by March 26.

Judge Selber Silverstein signed an order Feb. 27 granting the debtors' motion for a shortened notice and objection period, an expedited hearing and an expedited ruling with respect to debtors' motion for entry of an order approving disclosure statement; establishing voting record date, voting deadline and other dates; approving procedures for soliciting, receiving, and tabulating votes on plan and for filing objections to plan; approving manner and forms of notice and other related documents; and granting related relief. The hearing on the disclosure statement motion is scheduled for March 25 at 2 p.m. prevailing Eastern Time.

In the motion, the debtors said expedited consideration is necessary to allow the cred-

itors to capture the benefits of the acquisition by foreclosure agreement dated Feb. 17 between the debtors and Kachemak Exploration as the acquirer, or any other competing offer that the debtors determine is more favorable before market conditions change.

Shortening the notice period is necessary to protect the value of the debtors' estate, the motion said. "Over the course of 7 months, the limited liquidity provided by the debtor-in-possession financing has been severely taxed by numerous contested matters, including those brought by Bruce Webb and the Webb Family Trust, certain royalty and working interest holders, and the Alaska Pipeline Company, each of which has been consensually resolved, subject to court approval," it said. "The debtors are now prepared to move forward with their cases, but the drain on the debtors' resources by these contested matters has not gone unnoticed."

Upon permission to solicit creditors, under the debtors' proposed timeline creditors would have 28 days to review and vote on the plan, and 38 days until the confirmation hearing, the motion said, adding that the debtors believe that no parties in interest will be prejudiced by shortening notice of the disclosure statement rearing as they will have ample time to review and vote on the plan. ●

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