



page 3 February ANS output down 1.3% from January; Cook Inlet up

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The 'Beast' headed to Alpine to spud first ERD well in late April

Doyon Drilling's new extended reach drilling rig is on its way to the North Slope Colville River unit to spud its first well in late April for ConocoPhillips Alaska.

From CD2 pad, the giant ERD rig will target the Fiord West Kuparuk reservoir, which was discovered in 1996, but because it's in an environmentally sensitive area along the coast it couldn't be accessed.

Rig 26, which is being transported in seven modules, can drill targets some 7 miles from its surface location, whereas other rigs are designed to drill about 22,000 feet from a pad. This means the 9.5 million pound high-tech ERD rig will be able to develop 154 square miles of reservoir versus the standard 55 square miles.

see **ERD RIG** page 12

Furie/Kachemak asset sale craters; HEX, with AIDEA loan, in running

An acquisition by foreclosure agreement between Chapter 11 debtor Furie Operating Alaska LLC and acquirer Kachemak Exploration LLC for the sale of Furie's Cook Inlet assets appears to have broken down.

Kachemak — a Delaware corporation recently formed by GFR Holdings of Fort Worth, Texas, and Melody Capital Partners L.P. — is seeking to acquire the Cook Inlet Kitchen Lights offshore unit, related infrastructure such as the Julius R offshore natural gas platform, together with an onshore processing facility and related pipelines.

According to a Law360 report, Furie told Judge Laurie Selber Silverstein that the deal collapsed last week, during a March 25

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Kenai refinery turnaround delayed to fall due to coronavirus concerns

Marathon Petroleum Corp. said it has postponed a mid-April turnaround operation at its Kenai refinery due to coronavirus concerns.

"It's a pretty extraordinary measure," Casey Sullivan, Marathon government and public affairs manager, told Petroleum News March 24. "This is a program that is tens and tens of millions of dollars; it's hundreds and hundreds of contractors; it's kind of a big ship and it is a hard thing to turn — or turn off.

"Lots of things in the air. We've been able to do it, with teams working really hard to do that ... to pause it as best you can."

The company plans to get the turnaround back on the

see **KENAI REFINERY** page 8

DEC hears concerns regs would be weakened, others urge updating

Last year the Alaska Department of Environmental Conservation sought input on requirements for its oil discharge prevention and contingency plan requirements. The department said that based on feedback it "may consider amending contingency plan regulations" in 18 Alaska Administrative Code 75, Article 4, and said it was "also accepting comments on the related statutes that authorize the Article 4 regulations."

"I've heard from many Alaskans that contingency plans are unnecessarily burdensome while lacking corresponding environmental benefits," ADEC Commissioner Jason Brune said. "To achieve Governor Dunleavy's goal of being open for busi-

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EXPLORATION & PRODUCTION

Juggling windows

Jade's plan schedules Sourdough work to maintain economic viability

By **KAY CASHMAN**

Petroleum News

A couple of days after it was filed on March 17 Alaska's Division of Oil and Gas approved Jade Energy's second Plan of Development for the Sourdough prospect on the southeastern edge of the Point Thomson unit.



ERIK OPSTAD

Jade is both the majority owner of and operator of PTU Tract 32 in Area F of the eastern North Slope lease ADL 343112.

Tract 32 holds two mid-1990's oil discovery wells, Sourdough 2 and 3, that were drilled by BP,



TOM STOKES

which at the time estimated the prospect held 100 million barrels of recoverable oil.

The essential difference in Jade's new POD, which covers the period April 1 through Dec. 31, is to drill the first new Sourdough appraisal well, Jade 1, in the winter of 2021-22, versus next winter. Jade worked closely with the

division to come up with a plan that maintained the economic viability of the project, which is the furthest east of all North Slope developments.

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UTILITIES

SB 123 goes to governor

Legislature passes bill enabling formation of electric reliability organization

By **ALAN BAILEY**

For Petroleum News

The Alaska Legislature has passed Senate Bill 123, a bill designed to enable the formation of an electric reliability organization, in particular for the Alaska Railbelt electricity system. The bill also enacts a statute that gives the Regulatory Commission of Alaska authority to regulate the construction of new major generation and transmission facilities in the electricity grid, and to regulate integrated resource planning for the system. The bill now goes to the governor for his signature.

The purpose of the legislation is to ensure a more coordinated and efficient approach to the overall management and operation of the electrical

In December all six of the Railbelt utilities signed a memorandum of understanding for the formation of the Railbelt Reliability Council, in effect an electric reliability organization for the Railbelt.

system in the Railbelt, to minimize the cost of electricity for consumers while also assuring a high level of supply reliability.

In passing SB 123 the legislators added the text of another bill, Senate Bill 81, presumably to allow the simultaneous passage of both bills. SB 81

see **SB 123** page 10

GOVERNMENT

Waiting game for Alberta

No sign of promised O&G sector bailout beyond individual, company support

By **GARY PARK**

For Petroleum News

Facing growing unease as the spread of COVID-19 accelerates and its economic underpinning crumbles, energy-driven Alberta is waiting for the Canadian government to deliver a promised bailout package to keep the province's oil and gas industry functioning.

A spokeswoman for Natural Resources Minister Seamus O'Regan said all options are being weighed, including financial backing for skilled workers to remediate the environmental liabilities associated with abandoned, or orphan wells.



JASON KENNEY

So far, the government of Prime Minister Justin Trudeau has limited itself to gaining approval of Parliament in an emergency session to release C\$27 billion in direct support for individuals and companies and grant C\$55 billion in deferred taxes.

But Trudeau was forced by the opposition parties to back off a measure that would have given the government sweeping new powers for the next 21 months to unilaterally spend, borrow and tax Canadians without obtaining the approval of Parliament.

In the midst of this swirl the Trudeau administration released C\$5 billion for the agriculture sec-

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SB 123

makes changes to the statutes governing the operation of electrical and telecommunications cooperatives — the existing statutes date from 1959 and need updating to reflect the use of modern technologies and communication capabilities.

Fragmented grid management

The Railbelt electrical system, which runs from the southern Kenai Peninsula through Southcentral Alaskan north to the Fairbanks region, is owned and operated by six independent electric utilities and the State of Alaska. And, while the utilities have achieved a high level of reliability in supplying electricity to their customers, there are significant concerns regarding the need for a more coordinated approach to the provision and maintenance of generation and transmission facilities across the system, and for open access to the system for independent power producers. There are also concerns relating to the need for a consistent set of mandated reliability standards, including standards for cybersecurity and physical security.

RRC agreement

In December all six of the Railbelt utilities signed a memorandum of understanding for the formation of the Railbelt Reliability Council, in effect an electric reliability organization for the Railbelt. The RRC will maintain and mandate reliability standards; administer rules for open access to the grid; conduct Railbelt-wide system planning; and investigate the

economic value of security constrained economic dispatch for all or part of the system. Economic dispatch involves the continuous use of the most cost effective power generation that is securely available.

But the RRC also requires RCA regulation and oversight, something that is not possible under current statutes defining how the RCA can operate. Hence part of the urgency to pass SB 123, to enable the implementation of the RRC to proceed this year.

Started in 2014

The passage of SB 123 and the initiative to form the RRC are outcomes of a process that started in 2014, when the Legislature directed the RCA to investigate the manner in which the Railbelt electrical system was operated. Although covering a large geographical area, the Railbelt grid is small in terms of its electrical load and generation capacity. But the evolution of the system through its fragmented ownership has resulted in inefficiencies. There has been a lack of coordination in the development of new generation capacity, for example. The pancaking of electricity transmission fees across sectors of the grid owned by different entities elevates transmission costs. The business economics of making major upgrades to the transmission system are very challenging. And it is difficult for independent power producers, including purveyors of renewable energy, to connect to the system.

2015 report

In 2015 the RCA responded to the Legislature by submitting a report, rec-

ommending various changes to the management of the system. The commission recommended the implementation of merit-ordered economic dispatch; the formation of a single transmission company, to operate the transmission grid; and the implementation of a single set of enforced reliability standards. The commission also opened a docket to investigate the formation of some form of unified operator, to oversee the management of the entire electrical system.

Since then the commission has been encouraging voluntary efforts by the utilities to follow the commission's recommendations.

The utilities had been making significant progress towards the implementation of economic dispatch, especially in Southcentral Alaska. However, the initiatives for achieving this were placed on hold, pending the proposed purchase of Anchorage based Municipal Light & Power by Chugach Electric Association.

In April 2018 the utilities filed an agreed set of reliability standards and have since added cybersecurity standards. Maintenance and enforcement of these standards would become a function of the RRC, with regulatory oversight by the RCA, enabled by the passage of SB 123.

In March 2019 four of the utilities and the American Transmission Co. filed an application for RCA certification of a transmission company. However, this application was withdrawn later in the year following objections from some utilities about the manner in which the proposed transco was structured and would operate. Key concerns included the governance of the proposed company, which

would have operated as a for-profit corporation.

Some utilities expressed a view that the RRC should be formed first, to provide governance of the entire system. GDS Associates, the consultancy involved in the development of the RRC concept, has since suggested that functional control of the transmission grid could at some stage be made an additional responsibility of the RRC. However, this issue has yet to be resolved.

Governance

Effective and balanced governance will be a critical factor in the success of future oversight of the electrical system. On the one hand, the utilities have considerable expertise in the technicalities and business of operating the system. On the other hand, there are other stakeholders, including independent power producers, consumers and the state, all of whom have significant interests in the system.

The RRC will be governed by a board with six members representing the six Railbelt utilities and six independent members representing other stakeholders. The RRC CEO would have a tie-breaking vote on board decisions. Independent members would consist of two representatives from independent power producers, one member representing consumer interests, a representative from the Alaska Energy Authority and two non-affiliated members. The RCA and the state's Regulatory Affairs and Public Advocacy Section would have non-voting board seats. ●

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WAITING GAME

tor, but nothing for the petroleum industry and, as of Petroleum News press time, no sign of when or if a larger financial package will be made available for what is the largest economic sector in Canada.

For now the bleeding continues as Canadian companies slash another C\$4 billion in spending, a clawback that could cut oil production by 1.3 million barrels per day, or almost one-third of Canadian output.

All that has emerged from the national government has been a hint from Finance Minister Bill Morneau of a possible change to industry payroll taxes.

Alberta measures

Alberta Premier Jason Kenney has opted to announce his own measures in hopes of helping the energy sector bridge its way to a more significant federal program.

The Kenney administration has temporarily waived about C\$113 million in annual fees collected by the Alberta Energy Regulator from the industry and extended oil and gas tenures from 2020 to 2021, giving upstream operators more time to raise capital.

Kenney also appointed an economic advisory panel, led by economist Jack

Mintz and including former Canadian prime minister Stephen Harper to look at the province's medium- and long-term economic recovery after COVID-19.

While those small steps were being taken, word was trickling out from federal sources, including mention of a three-hour meeting between O'Regan and the Canadian Association of Petroleum Producers.

Those sources suggested federal aid could facilitate easier access to credit, especially for small- and medium-sized producers who are rapidly sinking below the surface as they get bled dry by the collapse in stock values and commodity prices.

Credit facility pushed

Meanwhile, Kenney has put pressure on the Trudeau administration introduce a credit facility similar to the U.S. Troubled Asset Relief Program, TARP, that saved banks and automobile manufacturers during the 2008-09 financial crisis.

The TARP program would see the federal government buy shares in distressed companies, along the lines of what Canada did for the auto industry in 2008.

To drive home their woes, 65 petroleum industry chief executive officers also asked the federal government to suspend plans to raise the federal carbon tax in C\$10 annual increments from C\$20 per

metric ton to C\$50 in 2022 and lower all income tax at every level, while urging banks to provide no-interest loans and loan guarantees.

What the critics don't want to see is a replay of TARP, whose money flowed to banks and wealthy shareholders.

Since the oil price crash in 2014, more than 50,000 direct jobs have been lost in Canada's oil patch and analysts doubt they will ever return, while companies have distributed massive dividends among their shareholders, reaching C\$10.3 billion to shareholders in 2019 alone.

Bronwen Tucker, an Edmonton-based research analyst with Oil Change International, said trillions of dollars will be needed to build a resilient economy after the COVID-19 crisis, but "handing money over to oil and gas corporations will leave us more vulnerable."

She said the chance should be taken to "fund a just transition from oil and gas that protects workers, communities and the climate instead of tying their future to a sun-setting and volatile commodity."

Sector still reeling

Kenney has insisted that Trudeau "do no further harm" to the oil and gas sector which is reeling from a massive drop in revenues and is in no position to handle the planned increase in carbon taxes, or

impose new limits on methane emissions that are rated as many times more potent than carbon dioxide.

The Alberta Energy Regulator says oil and gas operations are responsible for 70% of the province's methane emissions, but Kenney insists his government's own regulations to curb those emissions by 45% over the next five years are more effective than proposed new federal rules.

In addition, the Canadian government is sticking with a 2021 target for a ban on certain single-use plastics — a plan strongly opposed by major petrochemical companies that argue product demand should be market-driven and not mandated by government regulations.

The natural gas-derived plastics would be another blow to a sector that provides 7,500 direct jobs and has annual exports of C\$8.2 billion.

In February Kenney told a business conference that a company he did not identify is planning a C\$10 billion project that would create 10,000 permanent jobs.

Alberta's Natural Gas Minister Dale Nally said an aggressive federal attack on plastics would constitute an "unimaginable" overreach and flagrant attack on Alberta's economy. ●

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