Applying for change

Hilcorp requests RCA approval for shipment of oil by pipeline under Cook Inlet

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Hilcorp Alaska pipeline subsidiary Harvest Alaska has applied to the Regulatory Commission of Alaska for commission approval of changes to Harvest's oil and gas pipeline systems, to enable the shipment of oil by pipeline west to east under Cook Inlet. The $75 million project would eliminate the use of the Drift River oil terminal on the west side of the inlet: Currently tankers use the terminal to ship oil produced from fields on the inlet's west side to Nikiski on the Kenai Peninsula. Use of the Drift River terminal is a cause for concern because of its proximity to the Redoubt volcano. Obtaining the necessary RCA approvals is a key step in the execution of the pipeline project.

"The Cross Inlet Extension Project will bring a higher level of safety and reliability for shipping oil across Cook Inlet. We think it's the right thing to do," said Sean Kolassa, president of Harvest Alaska, in a Sept. 11 press release.

In 2009 an eruption of Redoubt forced an evacuation of the Drift River terminal and an emergency drawdown of oil stored at the terminal site.

"We are pleased that Hilcorp is taking steps to shut down Drift River Terminal and transport oil via pipeline. It's certainly a safer option," said Mike Munger, executive director of the Cook Inlet Regional Citizens Advisory Council. "The council has advocated for a crude oil subsea pipeline since the reopening of the terminal after the 2009 Mount Redoubt eruption."

Two subsidiaries involved

The applications to RCA essentially involve two Harvest Alaska subsidiaries: Cook Inlet Pipeline Co., the operator of the pipeline that carries oil down the west side of the inlet to Drift River, and Kenai Beluga Pipeline LLC, the operator of a major gas transmission pipeline that ships gas under the inlet. The subsea component of KBPL's gas pipeline system actually consists of twin pipelines, originally part of the Cook Inlet Gas Gathering System, or CIGGS, a pipeline system originally designed to carry gas from oil and gas fields on the west side of the inlet to the Kenai Peninsula.

Under its current configuration CIGGS has bidirectional gas flow and its capacity is vital to Southcentral Alaska gas and power utilities for shipping gas under the inlet during periods of peak winter gas demand.

Harvest Alaska's plan is to use one of the CIGGS lines under Cook Inlet for the transportation of oil west to east, to Nikiski, while continuing to use the other CIGGS line for gas transportation. This plan requires the construction of a new 3.3-mile onshore oil pipeline to connect the northern end of the Cook Inlet pipeline to the CIGGS line at the Kaloa pipeline junction on the western side of the inlet. The pipeline changes also require a short oil line connecting the Kenai Peninsula end of the CIGGS line to the oil line from Hilcorp's Middle Ground Shoal oil field. Harvest also plans to build a new subsea gas pipeline between Hilcorp's Tyonek gas production platform and Ladd Landing on the west side of the inlet. An existing gas pipeline connects the Tyonek platform with the gas transmission infrastructure near Nikiski. The transmission of gas through the Tyonek pipeline with its new extension to Ladd Landing will, in effect, replace the transmission of gas through the CIGGS line that will be switched to oil transportation, thus enabling the gas transportation capacity under the inlet to be maintained.

In its RCA filings Harvest says that, as part of the pipeline project, it also plans to replace an 8.5-mile onshore section of the Tyonek pipeline.

CIPL incurs the cost

In the filings Harvest has made it clear that, because the primary purpose of the pipeline project is to improve the shipment of oil from the west side of the inlet, the business and regulatory arrangements proposed for the project place the cost of the project on Cook Inlet Pipeline, the oil carrier, and not on Kenai Beluga Pipeline, the gas carrier. The changes in the pipeline system will not impact the rates charged for the transmission of gas across the inlet, nor will the changes jeopardize the gas carrying capacity of the gas transmission system, Harvest told the commission.

To achieve these business objectives CIPL will acquire the existing Tyonek pipeline and make the planned modifications and extension to that pipeline system. That company will own and maintain the pipeline, while making the pipeline available for KBPL's use in the transportation of gas, under the terms of a formal agreement between the two companies.

Similarly, under the agreement, CIPL will retain ownership of both of the twin CIGGS pipelines, even although KBPL will have use of one of these lines for the transportation of oil to Nikiski. In effect, KBPL will swap gas carrying capacity on CIGGS with carrying capacity on the Tyonek system.

Approvals needed

To do all of this, Harvest has asked RCA to grant CIPL a certificate of public necessity and convenience for the carriage of gas on the Tyonek system, and KBPL a certificate for the carriage of oil on CIGGS. CIPL needs RCA approval for the recovery of the pipeline reconfiguration costs from the rates that it charges for the carriage of oil. Approval of the business agreement between CIPL and KBPL is also needed, as is approval of connection agreements for the ends of the Tyonek pipeline system. And CIPL needs a permit for the pipeline construction work involved in the project.

Other approvals that will be needed in the future consist of amendments to a CIPL tariff settlement agreement with the state of Alaska, an agreement for the connection between the CIGGS oil line and the Middle Ground Shoal line, and the approval of the decommissioning of the Drift River terminal and its connecting CIPL oil pipeline.

Complete in 2018

Harvest's plan for the pipeline project envisages onshore pipeline construction starting in December of this year, with the laying of the new offshore gas line from the Tyonek pipeline starting once the winter ice has melted in Cook Inlet in the spring of 2018. The company's goal is to have construction completed and oil flowing through the CIGGS pipeline by the end of 2018, the company says. Decommissioning of the Drift River Terminal and its associated pipeline will overlap with the start of the CIGGS oil flow, according to the company's project plan.

The company says that it has already ordered U.S. manufactured steel pipe for the project and is procuring other long-lead items.