AWS-1 rig at North Fork

A group of leading state legislators on Dec. 4 asked Gov. Sean Parnell for a raft of information on the plans for the Arctic.

And Imperial has vented its frustrations in a letter to Canada’s National Energy Board, warning that the latest hitch raises questions about the “attractiveness of investing in Canada’s North.”

Stalled on one hand by a drawn-out decision-making process for the Mackenzie Gas project they now face another obstacle in the Beaufort Sea.

The NEB has told the joint partners in a Beaufort exploration program their request for an advance ruling on drilling plans has been stalled.

\*FINANCE & ECONOMY\*

Seeking answers

15 lawmakers ask Parnell if state oil tax policy helps or hurts Alaska investment

By WESLEY LOY
For Petroleum News

A group of leading state legislators on Dec. 4 asked Gov. Sean Parnell for a raft of information on the plans for the Arctic.

The tenor of the group’s letter to Parnell was one of skepticism about the tax change, known as Alaska’s Clear and Equitable Share or ACES, is working to the state’s advantage.

“…We think that there are some issues there with the ACES language and we’d like to get some clarifications on the rules so that we can determine if the legislation is working properly, or if we need to make changes,” said House Speaker Mike Chenault, R-Nikiski. “We’re focusing on how it affects job opportunities and exploration opportunities today, versus when it was enacted.”

\*NATURAL GAS\*

Unintended consequences?

Balash: Without exemption cap-and-trade scheme could sink NS gas line

By ALAN BAILEY
Petroleum News

Without some form of exemption for the planned gas treatment plant at the Prudhoe Bay end of a future gas pipeline from Alaska’s North Slope, current climate change legislation working its way through Congress could add $14 to the cost of every British thermal unit of gas flowing through the pipeline, thus sucking the viability of the pipeline project, Joe Balash, special assistant to the governor for energy and natural resource development issues, told Law Seminars International’s Energy in Alaska conference on Dec. 7.

“That is something that frankly is going to push the project under water,” Balash said. “…At a minimum Congress needs to be sure to address that clearly, and not leave it ambiguous, so as to allow the investors and private sector enterprises to consider that as we move forward.”

Carbon allowances

The problem is the cost of any carbon dioxide allowances that the pipeline operator might have to purchase under a carbon dioxide cap-and-trade scheme, if the carbon dioxide stripped out of North Slope gas in the gas treatment plant is treated as a carbon dioxide emission, even if that carbon dioxide is re-injected into field reservoirs for enhanced oil recovery.

Prudhoe Bay natural gas typically contains about 12 percent carbon dioxide when it flows through the pipeline, thus sinking the viability of the pipeline project, Joe Balash, special assistant to the governor for energy and natural resource development issues, told Law Seminars International’s Energy in Alaska conference on Dec. 7.

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The Minerals Management Service has conditionally approved Shell’s 2010 exploration plans.

But it’s basically approval for data gathering — drilling won’t be allowed until litigation over lease sale issues is resolved. The company also needs federal and state permits.

The company also needs federal and state permits.

For Petroleum News

LNG bulls running again

By ALLEN BAKER
For Petroleum News

Gloom and doom about Asia’s long-term demand for liquefied natural gas are evaporating as fast as the fuel itself does at room temperature. Big money deals are being signed between utilities and suppliers, and a $15 billion project near Australia just got the green light.

One of the biggest LNG supply contracts ever was signed Dec. 4. Chevron announced the deal with Tokyo Electric Power Co. to deliver up to 4.1 million metric tons of LNG annually for up to 20 years from its proposed Wheatstone Project in northwestern Australia. The deliveries amount to the equivalent of 189 billion cubic feet a year, at an estimate cost of about $82 billion over the life of the contract.

A few days later, ExxonMobil made a final investment decision on a $15 billion LNG project...
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Arctic future at risk; Imperial wants NEB to expedite ruling

Shell’s Chukchi exploration plan gets conditional MMS OK

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- Commercial analysis
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For information about PRA including background material and a complete listing of our consultant staff, please visit our web site at www.petroak.com.
When the State of Alaska released its revenue forecast in December 2008, guessing the price of oil in the coming year seemed as reliable as guessing the weather in the coming year. In the previous six months, the price of a barrel of oil fell $100, among the fastest declines ever.

“With a difference a year makes… At this time last year, I was talking about how humbling it was to be a prognosticator of oil prices,” Revenue Commissioner Pat Galvin said on Dec. 10, as he unveiled the state’s forecast of revenue for the coming year.

Through the remainder of fiscal year 2010, the state expects oil prices to average $66.93 a barrel, bringing $4.8 billion in revenue to the state. That projection shows increased confidence in the stability of oil prices. In its forecast in April, the state predicted oil prices would average $58.29 a barrel in fiscal year 2010, bringing $3.2 billion in revenue.

For fiscal year 2011, the state expects average oil prices to jump to $76.35 a barrel, bringing revenues of $5.2 billion to the state, and to continue rising through the next decade, eventually topping $100 a barrel again sometime around fiscal year 2019.

“Oil continues to dominate the budget,” Galvin said. The state expects oil production to provide more than 87 percent of the unrestricted revenue coming to the state through fiscal year 2019.

The fiscal year ends June 30.

Production to rise, then fall

While the state expects oil prices to stabilize and rise slightly in the near term, it expects oil production from the North Slope to actually increase in the middle of the decade.

“We continue to see the two-decade-long decline in production of oil from the North Slope, although the rate of decline is moderating,” Galvin said.

Oil production fell 3.3 percent between FY 2008 and FY 2009, and the state expects production to fall 4.8 percent in FY 2010, down to 659,000 barrels per day.

In FY 2011, the forecast calls for production to fall 5.4 percent, down to 623,000 bpd.

But while the state expects production to drop again, to 617,000 bpd, in FY 2012, it forecasts increases in FY 2013 and FY 2014, as the Nikaitchuq unit and new Alpine satellites come into production and offset declines.

The expected arrival of production from the Point Thomson unit in FY 2015 is also projected to stem declines.

Gov. Sean Parnell recently said the state planned to examine the current tax structure to see whether it continued to work as intended, but Galvin said there is a “disconnect” between what industry is saying in public and the expense projections it is providing to the state.

“We’re trying to figure out where that disconnect is coming from,” Galvin said.

Galvin said the state has asked the industry to back up claims that the current tax regime is shifting investment, but that no companies have provided that information so far.

Exploration & Production

DGGS publishes C1 research findings

Alaska’s Division of Geological and Geophysical Surveys has published the preliminary results of a 2006-07 research into the geology of the Homer and Kachemak Bay area of Alaska’s Cook Inlet. The primary purpose of the research, part of a multiyear Cook Inlet study that also involves scientists from Alaska’s Division of Oil and Gas, the University of Alaska Fairbanks and Purdue University, is to assemble information that will help explorers find the subtle stratigraphic traps where much of the remaining undiscovered natural gas in the Tertiary strata of Cook Inlet is thought to be located.

The research team carried out detailed mapping, measuring and sampling of Tertiary rocks that outcrop along the shore and in sea inlets, in and around Kachemak Bay, toward the southern end of the Kenai Peninsula. The report pulls together many of the results from this work and contains a wealth of maps, diagrams and photographs that illustrate the geology.

The U.S. Geological Survey is currently working in conjunction with DGGS to carry out a new source evaluation of the Cook Inlet basin.

The DGGS report can be found in the publications section of the DGGS Web site at www.dggs.dnr.state.ak.us/pubs/pubs?querytype=citation&ID=20161.

— ALAN BAILEY

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Petroleum News • Week of December 13, 2009

Finance & Economy

State: oil at $67 in FY 2010

State expect prices to rise through 2019, production to rise slightly in 2013 before falling again; Galvin says spending expected to be $4.5B in FY 2010, $5B in FY 2011

By ERIC LJUJ
For Petroleum News
Testing big leagues with new technology

Juniors bring talent to table, advancing ‘next big thing’ in Alberta oil sands by embarking on pilot projects in carbonate rocks

By GARY PARK
Far Petroleum News

Investment banker Tristone Capital (now Macquarie Capital) observed last year that the Alberta oil sands region covers an area the size of Florida. Thus, it suggested, a chunk equivalent to Disneyland has the potential to support a $100,000-barrel-per-day project “begrudgingly material for a C$100 million company.”

All of which explains why a host of small, privately held companies, having secured footholds in the region by experienced management and technical teams, have found footholds in the industry, securing working interests in undeveloped bitumen that could be worth $3 billion per barrel. But, as Tristone noted, moving from land acquisition to pilot or commercial project development is far from plain sailing.

“Not all land contains oil sands resources and not all bitumen in-place resource estimates will result in economically recoverable reserves,” the research report on junior oil sands companies said.

Increased recoveries expected

Genuity Capital Markets, in a November report, suggested that new in-situ technologies are expected to increase total recoverable bitumen to about 300 billion barrels, with a yet-to-be-determined contribution from Saskatchewan.

Authorised by Philip Skolnick and Benny Wung, the Genuity report said in-situ technology is in its infancy and innovative changes could positively impact recovery potential and reduce costs.

It suggested those gains could stem from work being done by Cenovus (the new China oil sands joint venture), Suncor Energy, Ivanhoe Energy, Petbank Energy and Resources, Oilsands Quest and Alberta Oil Sands.

Meanwhile, the report identified Husky Energy, Laricina Energy, OSUM Oil Sands, Royal Dutch Shell and Sunshine Oilsands as companies seeking a breakthrough in the emerging bitumen carbonates formation of Alberta.

It said, “a positive shift-change in the economics and recoveries of new resources, such as the carbonates,” could be a catalyst for mergers and acquisitions.

Carbonates in Grosmont

The consensus view rates the carbonate rocks in the Grosmont formation — where companies of various sizes have invested hundreds of millions of dollars to lock up rights — as the next generation of oil sands development, leaving behind the conventional, unsightly surface mining operations that have blighted the landscape and allowed the critics to heap scorn on the industry.

“We’re always testing (in-situ development) as the future of oil sands development,” said Michael Burt, executive director of the In Situ Oil Sands Alliance.

The primary thrust now involves the injection of steam or solvents into deposits that are too deep for strip mining to melt the bitumen and force it to the surface, as a technique that is being tailored to specific reservoirs, including carbonates.

Since pilot tests were run in the 1980s, the carbonates were off the radar screen until Shell, through its subsidiary in the Americas, invested almost C$500 million in 2006 for rights to the formation.

Others to trumpet their stakes in the carbonates include Husky Energy, Laricina and Athabasca Energy, which sold 60 percent working interests in two carbonate plays, with its Grosmont profile for 30 years.

Based on 58 core holes within an area of 60,000 acres, Sunshine estimated original bitumen-in-place of 9.1 billion barrels, with a “best case” recoverable resource of 1.3 billion barrels.

Sunshine is about to take its first step into the reality of pilot projects by gaining ERCB approval to conduct a single-well cyclical steam stimulation test of under 1,000 barrels per day, setting the stage for 2,000 barrels from a commercial operation in 2014 followed by two 20,000 bpd phases, due to come on stream in 2017 and 2020.

The private company’s eventual plans for all of its 1 million acres of land holdings include a conventional heavy oil project and a 180,000 bpd production profile for 30 years.

No proven technology

However, to date, no proven technology is known to exist for recovering bitumen trapped in the carbonate rock and opening a new geological and technological frontier for Alberta oil production.

Shell has made it clear from the outset that it is taking a long-term approach to the formation, indicating it is unlikely to proceed with a commercial project before 2015.

But the importance of the resource was underscored when it asked Alberta Energy Resources Conservation Board to grant at least eight years of confidential status to its Grosmont field test — a process the company says has been successfully tried in Colorado shales and to upgrade bitumen in conventional oil sands near Peace River in northwestern Alberta.

Shell told the Alberta regulator that public disclosure of information obtained from its research project “may seriously jeopardize (Shell’s) competitive position and result in undue economic hardship.”

Asked by the ERCB to further justify its request, Shell cited the “sensitive nature of this type of technology” and the need to protect its intellectual property as it works on a design for a potential commercial project.

Sunshine planning pilot

While Shell keeps a blanket over its activities, Laricina and Sunshine are taking a higher public profile as they advance plans for pilot projects that some analysts believe could establish a market for foreign state-owned entities, such as PetroChina and Korea National Oil Corp., as they ponder their next moves in the oilsands.

Skolnick said in a research report that in-situ events could “dramatically improve the economics and increase Canada’s expected recoverable bitumen potential. This could be analogous to what has happened in the tight North American oil and natural gas plays,” such as the Montney and Bakken.

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Based on 58 core holes within an area of 60,000 acres, Sunshine estimated original bitumen-in-place of 9.1 billion barrels, with a “best case” recoverable resource of 1.3 billion barrels.

The pilot will test the application of a thermal recovery process that is expected to improve the feasibility of heavy oil recoveries from the Grosmont formation.

Sunshine Chief Executive Officer Doug Brown said the regulatory approval is “a significant element in the progressing of our business plan. This in-situ pilot will move the evaluation of our carbonate resources already substantially.”

Laricina has inventory

Laricina has assembled an extensive inventory of potential resources in both the established oil sands region and the carbonate plays, with its Grosmont prospects, where it has accumulated...
Obama picks Persily as new coordinator

Veteran of state government, journalism will replace Pearce, lead small agency designed to streamline work on Alaska gas pipeline

By WESLEY LOY
For Petroleum News

President Obama on Dec. 9 announced he’ll nominate Larry Persily of Juneau for the job of federal coordinator for Alaska natural gas transportation projects. If confirmed by the Senate, Persily will replace Drue Pearce, who was the first person to hold the position and who has said she’s resigning at the president’s request effective Jan. 3.

Persily had confirmed to Petroleum News in November that he was under consideration for a federal post.

The coordinator’s office was created with the Alaska Natural Gas Pipeline Act of 2004. It is headquartered in Washington, D.C., with a second office in Anchorage.

The intent of Congress was for an office to help coordinate and spur along the many regulatory agencies that would be involved in permitting a potentially $30 billion megaproject to tap the vast natural gas reserves on Alaska’s North Slope.

Two corporate partnerships are now proposing pipelines to carry gas out of Alaska and across much of Canada, and both are approaching key open seasons next year to try to recruit customers.

Persily’s background

Persily, 58, has held a variety of jobs in state government as well as in journalism.

He currently works as a legislative aide to state Rep. Mike Hawker, an Anchorage Republican and co-chairman of the powerful House Finance Committee.

A press release from the Obama administration noted Persily’s work under three Alaska governors, including his time as deputy state revenue commissioner.

“Mr. Persily is known statewide for his bipartisan credentials — he has worked for Democrats and Republicans — and his knowledge on oil and gas matters, particularly the history of the 40-year effort to develop a North Slope natural gas pipeline,” the press release said.

The release cited his work as editor of about 1,000 feet. Petroleum News, said he assumes the job will pay $100,000-plus, but added he never asked about the salary.

He said his first priority as coordinator will be to “listen and learn.” That means talking with the agency staffers as well as “all the players” in the gas pipeline derby, including the major energy companies now advancing projects.

“We’ve started gas line projects before in the last 40 years and haven’t gotten over,” he said. “What can we do this time to make it different?”

Contact Wesley Loy
at wloy@petroleumnews.com

continued from page 4

TECHNOLOGY

180,000 acres, lying at an average depth of about 1,000 feet. The lands have been verified by GLJ Petroleum Consultants as having estimated contingent resources of 4.1 billion-7.7 billion barrels.

The Germain zone has a potential 1.5 billion barrels net to Larcina and the potential for 180,000 bpd of production using Larcina’s patent-pending recovery process.

The company has received regulatory approval for a 1,800 bpd pilot and is eying a 5,000 bpd commercial demonstration project to startup by late 2012 at an initial cost of $250 million.

The Saleski zone has a net 1.4 billion barrels and the potential for gross output of 270,000 bpd. Approvals are so far in place for a 1,800 bpd pilot. •

Alaska has many natural resources, and a constitutional mandate to develop them responsibly. So we plan ahead

Alaska Natural Gas Pipeline”

Persily formerly was editorial page editor for the state’s largest newspaper, the Anchorage Daily News, and he also was a writer for Petroleum News.

He has a journalism degree from Purdue University.

Congressional delegation applauds

Alaska’s congressional trio commended Obama’s choice of Persily.

“With more than 30 years experience in Alaska and more than a decade working on oil and gas issues for three governors, Larry is an excellent choice for this important position. Few people can match his depth of knowledge and history on Alaska oil and gas issues,” said U.S. Sen. Mark Begich, a Democrat. “His credentials are outstanding and I look forward to working with Larry to move an Alaska natural gas pipeline project to reality.”

“I’ve known Larry for years. He has solid knowledge of oil and gas industry finance and the state’s regulatory process,” said Republican Sen. Lisa Murkowski.

“Commercializing Alaska’s vast reserves of natural gas is vital not only for the economy of the state, but the energy security of the nation as well. We’ve waited decades for this project to get under way. I have faith that the new coordinator will do his utmost to see it completed successfully.”

“I appreciate the president’s commitment to the natural gas pipeline,” said U.S. Rep. Young, a Republican and Alaska’s lone congressman. “I look forward to seeing Larry continue the good work done by Drue Pearce, a great supporter of the natural gas pipeline and a wonderful advocate for Alaskan resources.”

First things first

Most likely, the coordinator’s office will have an interim chief pending Senate confirmation of Persily.

That will be Thomas Barrett, now serving as deputy federal coordinator. Barrett is a retired vice admiral who formerly headed the U.S. Coast Guard in Alaska. He also ran the U.S. Department of Transportation’s Pipeline and Hazardous Materials Safety Administration.

Persily, in an interview with Petroleum News, said he assumes the job will pay $100,000-plus, but added he never asked about the salary.

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New economic age for Canada

By GARY PARK

For Petroleum News

The pieces are now in place for a Canadian regulatory hearing that carries profound overtones for Canada’s economic future, now that Prime Minister Stephen Harper has rated the Asia-Pacific region ahead of the United States and Europe.

The Canadian Environmental Assessment Agency and Canada’s National Energy Board issued an agreement Dec. 7 on the terms of reference for a review of Enbridge’s proposed Northern gateway pipeline project.

The project consists of a 252,000-barrel-per-day, 36-inch crude oil pipeline to deliver oil sands production from Edmonton to Kitimat’s deepwater port in British Columbia and a 20-inch line to transport 193,000 bpd of condensate in the reverse direction.

The current timetable for Northern Gateway includes an estimated 18 months of regulatory hearings and three years of construction, pointing to pipeline commissioning and startup in the 2015-16 period. But Enbridge is not expected to make an official application until late in the first quarter of 2010.

Preliminary construction costs were set in 2005 at C$4.5 billion, but have not been publicly updated since then.

An Enbridge spokesman said crude from Northern Gateway would be primarily directed at Asia and possibly California, which are “important markets that are currently underserved.”

An Enbridge spokesman said crude from Northern Gateway would be primarily directed at Asia and possibly California, which are “important markets that are currently underserved.”

Grants from China, India and other Asian countries (with this region and that also should give us somewhat of a privileged position.”

Without making any specific reference to Northern Gateway or other proposed energy links with Asia, including Kitimat LNG’s proposed Kitimat terminal, he has set the stage for a crucial test case when the Enbridge application faces regulators and anticipated strong opposition from environmentalists, First Nations, local governments and landowners.

The terms of reference for the environmental and regulatory review allow a full airing of concerns from all stakeholders, notably environmental groups which will raise the issue of increased greenhouse gas emissions from oil sands production that will underpin Northern Gateway.

The joint review panel has a mandate to consider whether the pipeline is likely to cause significant adverse environmental impacts and whether it is in the public interest.

No tanker moratorium

In issuing the agreement, the panel discredited a widely held belief that there is a moratorium on tanker traffic off the British Columbia coast.

“It is the government of Canada’s position that there is presently no moratorium,” it said, noting that tanker traffic already uses the ports of Vancouver, Kitimat and Prince Rupert.

The environmental group Forest Ethics wasted no time attacking the terms of reference, claiming they “fall short of what is required for a project of this magnitude,” based on more than 2,000 comments that were made on the draft terms.

“The process the federal government has selected for considering this project turns a blind eye to the climate impacts of tar sands expansion,” said Forest Ethics campaigner Nikki Skuce. “This is a review process that has historically approved 99 percent of the projects it has considered.”

FINANCE & ECONOMY

ExxonMobil expects rising energy demand

Asia’s amazing growth over the last decade or so is likely to continue after a brief speed bump for the 2009 recession. That’s the conclusion of ExxonMobil’s newly released “Outlook for Energy: A View to 2030.”

In that report, issued Dec. 8, the company says it expects natural gas consumption in Asia to reach around 110 billion cubic feet a day by 2030, up nearly fourfold from the 30 bcf per day in 2000.

Exxon expects to ramp up LNG production from its own projects and affiliates from the current 35 million metric tons annually to about 100 million metric tons a year (equivalent to 4.6 trillion cubic feet, or roughly 13 billion cubic feet daily). That’s equal to a couple Alaska gas pipelines at 6 bcf daily.

According to Exxon’s outlook, natural gas demand worldwide will grow 55 percent by 2030, compared with 2005, an average annual rate of 1.8 percent. All of that growth will come from increased demand by developing countries, according to Exxon’s estimates.

Energy demand to rise

Demand for electricity in developing countries such as China and India will double by 2030, and overall energy demand will increase by 60 percent in those nations as the world adds 1.3 billion souls to the current population of 6.7 billion and living standards rise in poorer nations, Exxon figures.

Electric generation will soak up 40 percent of the energy consumed in 2030, far more than industrial demand, transportation, and residential/commercial demand, in that order.

Economic activity will rise 50 percent in the developed nations, Exxon estimates, but energy conservation will improve enough to keep demand steady at current levels.

Overall world energy demand will be 35 percent higher in 2030, the company predicts, as oil demand rises 0.8 percent annually and coal consumption 0.5 percent. Nuclear and renewables will have larger increases, but from a small base, and fossil fuel will remain the source for 80 percent of the world’s energy.


— ALLEN BAKER

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A lacka officials have again decided that an exploration license in the Holitna basin is in the best interests of the state, returning in a 2005 ruling that had previously been overturned.

In a decision released Dec. 9, Department of Natural Resources Commissioner Tom Irwin and Division of Oil and Gas Director Kevin Banks decided that the potential benefits of allowing exploration in the Holitna basin outweigh possible adverse impacts.

An exploration license would allow Holitna Energy Co. LLC to explore exclusively for natural gas in a 26,791-acre area of state land near the confluence of the Holitna River and Basket Creek, about 10 miles southeast of Nenana, in Southwest Alaska.

Although actual drilling in the remote region is likely some ways off, and the likelihood of natural gas in the region remains uncertain, a sizeable discovery could heat and power communities in a section of the state with notoriously high fuel costs, and could also give power to the proposed Donlin Creek Mine, which would need considerable electricity.

A large enough find could theoretically also supply power to the proposed Pebble Mine.

State skeptical
The state is skeptical about the natural gas prospects in the Holitna Basin, calling the potential “poor to fair,” but acknowledged that the whole point of the licensing program is to encourage exploration in areas where very little is known about resource potential.

The state also said that Holitna Energy “submitted new information that stated the potential for conventional gas was higher than previously thought.”

The decision is the latest in a series of rulings and appeals made over the past six years.

After signaling plans to approve the license back in 2005, the state received considerable opposition and concern from local communities and ultimately denied the application.

Holitna Energy provided additional information, hoping the state would reverse that ruling. When the state ultimately upheld its decision, Holitna Energy appealed the case to the state superior court. The state eventually asked the court to remand the State turns on three points
In the reconsideration, the state said that Holitna Energy’s decision to give up any rights to drill for coalbed methane in the area “significantly reduces the scope of the license application and avoids many potential environmental effects in the license area.”

The state also dismissed its previous concerns about the size of the licensing area.

The state originally worried that buffers and protective measures required in the area would cover the entirety of the relatively small licensing area, effectively negating the license.

According to the state regulations, an exploration license must be between 10,000 and 500,000 acres. At 26,791, the proposed Holitna Basin exploration license fell within that spectrum, but the state worried that its location would “make it difficult to condition the license in a manner that allowed exploration activities to occur baseline with the other uses in the area and without impact to sensitive fish and wildlife resources.”

In asking the state to reconsider its ruling, Holitna Energy claimed that the acreage remaining after taking mitigation measures into account is enough for developing enough natural gas to serve “the Donlin Creek Mine and the regional population for many generations.”

The state ultimately agreed, saying that its original decision “did not explain why it found the license area adequate in size to successfully implement mitigation strategies in the preliminary finding, but then found the license area ‘too small’ in the final finding.”

Finally, the state said it had been “premature” to say the project didn’t have enough community support, because it failed to consider Holitna Energy’s “commitment to working with local residents.” When the state denied the application, it also denied Holitna Energy’s request for 120 days to “to develop and document local support.”

In the most recent ruling, the state addressed public concerns by saying, “future public involvement will continue to shape the project, and concerns of local residents will be taken into account during permitting that occurs in phases subsequent to licensing.”

Project dates to May 2003
Holitna Energy’s efforts to explore the Holitna basin date to May 2003, when it applied for the right to shoot seismic and drill in potential shallow gas deposits in the area.

The company made that application under the Shallow Gas Leasing Program, which the state Legislature repealed in January 2004. In getting rid of the program, though, state lawmakers let companies convert their applications into requests for exploration licenses.

The state created the exploration license program to encourage companies to look for oil and natural gas in parts of the state not traditionally known to be resource basins.

Since the state began the program, companies have asked for permission to explore basins in Southern Alaska, and this past summer, Rampart Energy actually drilled for natural gas in the Nenana area using an exploration license.

An early step in the licensing process requires the Department of Natural Resources to determine whether or not a proposed license serves the best interest of the state.

In its preliminary finding in August 2005, the state decided that an exploration license in the Holitna basin did serve the interests of the state. But DNR reversed that decision in its final finding in October 2006, after reconsidering the application in light of concerns that emerged in public hearings held in several communities around Southwest Alaska.

Holitna Energy appealed that decision, and asked for time to bring more information to the table that might bolster its case for a license. The state agreed to take another look, but in June 2007 ultimately decided to uphold its decision to deny the application.

In July 2007, Holitna Energy appealed the case to the state Superior Court, arguing that the denial lacked a “reasonable basis” and asking that the case be remanded, or sent back to DNR for another look. The court agreed to remand the case in March 2008.

The Dec. 9, 2009, ruling is the final finding in the case, and can be appealed for 30 days.

The finding does not guarantee drilling. “Licensees must obtain approval of a detailed plan of operations from the director before conducting exploration, development, or production activities,” the state wrote.

Contact Eric Lidji at elidji@petroleumnews.com
The Alberta government may not be putting all of its climate-change strategies in one basket, but it’s coming close as it pursues recognition as a world leader in advancing carbon capture and storage technologies.

It is now close to doling out the promised C$2 billion to four projects that it hopes will turn demonstration projects into full-scale commercial ventures, creating thousands of jobs, billions of dollars in additional royalties from enhanced oil recovery schemes and put it on the leading edge globally in proving the worth of CCS projects and facilitate its broader use,” Stelmach said. “The knowledge garnered here will be shared, which will further reduce the cost of carbon capture projects and facilitate its broader use,” Stelmach said.

He said the project will be able to store 14.6 million metric tons of CO2 per year when it starts operations in 2012, initially transporting 5,100 metric tons per day of compressed CO2 over 145 miles from an Agrim fertilizer plant near Edmonton to a depleted oil field in central Alberta. The CO2 volumes, which will eventually reach 40,000 metric tons per day, will be used to rebuild reservoir pressures to recover oil from a field which has so far produced 70 million barrels of light crude from 166 million barrels of discovered petroleum initially in place.

The pipeline will advance a joint Fairborne Energy and Enhance CO2 project by extending the producing life of the Clive field by another 20 years, Fairborne Energy President Susan Cole claimed in a statement.

The company said an estimate of its own 60 percent working interest points to a contingent resource associated with the CCS project of 24 million barrels.

The Canadian government is contributing C$635 million, which Natural Resources Minister Lisa Raitt said demonstrates Canada’s desire to “show international leadership in CCS technology.”

Stelmach said the oil produced from the EOR technology will be subject to royalties and taxes to both his government and freehold landowners over the life of the project. Enhance President Susan Cole claimed the investments will enable Alberta to “lead the world in CO2 management and … in turn, generate C$15 billion of royalties to the province.”

She estimated it will cost C$600 million to build the pipeline and another C$200 million for operating costs. To date, there has been no opposition from 400 landowners along the pipeline route, Cole said.

They have agreed to contribute a combined C$865 million to a Royal Dutch Shell plan to capture 1.2 million metric tons per year of CO2 beginning in 2015 at its Scotford refinery on the outskirts of Edmonton and a C$774 million plan to capture CO2 at a TransAlta coal-fired power plant to be used for EOR in nearby conventional oil fields, starting in 2015 with the capture of 1 million metric tons per year.

SwanHills final recipient

The final recipient of government money is expected to be SwanHills Synfuels, which is working on a C$350 million demonstration project to turn ultra-deep coal deposits into synthetic natural gas.

If it receives the additional C$300 million, the privately held company plans to replicate its demonstration project with 20 pairs of wells over a section of land, supplying enough syngas for an initial eight years of power generation by a 300-megawatt clean-energy plant, which is planned to be in service by 2015.

SwanHills President Douglas Shaigec said the demonstration project has clearly demonstrated that the prospects of turning deep coal (about 4,600 feet deep) into energy are immense. “It was a demonstration of what has been done in the world previously, taking the proven process and applying it to the deep coals we have in Alberta,” he said. “We made some excellent quality syngas. It was all very much in line with what the theory had predicted.” Shaigec said.

CO2 created from the conversion of coal into gas will be used by local firms for enhanced oil recovery.

Alberta touts carbon capture prospects
Speakers highlight oil's importance

Goldsmith, Langland, Samuels urge more attention for oil industry if Alaska is to have vibrant economy, avoid state budget crisis as production declines in next few years

By WESLEY LOY
For Petroleum News

A n economist, a banker and a politician sounded a familiar alarm Dec. 8 at a special luncheon of the Resource Development Council for Alaska: The state’s vital oil production is running out, the industry needs some serious attention and Juneau is spending too much.

It adds up to a bad end for Alaska unless action is taken soon, the trio said.

“Without oil and gas, we just don’t have the ability to have a vibrant economy,” said Marc Langland, chairman and chief executive of Anchorage-based Northern Bank.

The other speakers were Scott Goldsmith, an economist with the University of Alaska Anchorage Institute of Social and Economic Research, and former state Rep. Ralph Samuels, an Anchorage Republican who after the luncheon announced he’ll run for governor next year against the Republican incumbent, Sean Parnell.

Nothing the three said was particularly new.

But everything they said bears repeating over and over because oil and gas is so crucial to Alaska’s economic health.

RDC Executive Director Jason Brune told Petroleum News.

He denied the luncheon was held to support a Dec. 4 call from the RDC luncheon crowd.

Budget crunch coming

Samuels, now working as an executive for cruise ship operator Holland America Line, is known as the only legislator to vote against AGIA, which Sarah Palin pushed at the height of her political power as governor.

“Quite frankly, the state government doesn’t have a problem next year or the year after or the year after that,” Samuels told the RDC luncheon crowd.

But in five years, assuming oil production declines by 5 percent a year, the state won’t be able to balance its budget unless oil pays $94 per barrel, he said. And that would be a barebones budget, he added.

Recent high oil prices and record employment in the oil patch are highly seasonal and anyway not nearly as lucrative as oil, he said.

Without oil, Alaska might look very much as it did at the time of statehood in 1959, Goldsmith said, “small, thin, seasonal, poor.”

Goldsmith is well-known for his “fiscal gap” concept, the idea that oil production someday will decline to such an extent that the state government will face enormous budget deficits. He was writing and speaking about the fiscal gap in 1989, and he still is 20 years later.

Speaking to an audience of 300 people at the Dena’ina Civic and Convention Center in downtown Anchorage, Goldsmith laid out what Alaska might look like without oil, and described how vital petroleum is today.

Imagine, he said, that a terrorist set off an atomic bomb under-neath Prudhoe Bay, rendering all the state’s oil radioactive and unsalable.

“About one-third of Alaska jobs would be gone,” Goldsmith said.

Oil is a rock of stability for the state, unlike tourism and fishing, which are highly seasonal and anyway not nearly as lucrative as oil, he said.

Without oil, Alaska might look very much as it did at the time of statehood in 1959, Goldsmith said, “small, thin, seasonal, poor, dominated by the federal government.”

Recent high oil prices and record employment in the oil patch have masked the fact that production today is only about a third of its peak of more than 2 million barrels a day in the late 1980s, he said.

The state has made a number of failed attempts to diversify its economy, but the most important move it could make is directing more attention to petroleum resources, Goldsmith said.

Bad policy?

Langland said Alaska’s got a leadership problem among its elected officials.

Alaska, with its high costs, huge risks and distance from markets, already is an expensive place for industry to invest and state decisions haven’t helped, he said.

When oil prices spiked, Alaska two years ago “got pretty greedy” and hiked taxes with passage of a policy known as Alaska’s Clear and Equitable Share or ACES, Langland said.

ACES as well as AGIA, the Alaska Gasline Inducement Act of 2007, need changes to entice companies to invest here as opposed to elsewhere in the world, he said.

Right now Alaska is having trouble attracting dollars to explore, to develop difficult deposits such as the North Slope’s heavy oil, and to build a natural gas pipeline, he said.

Much has changed since ACES and AGIA were passed, Langland said.

“In today’s global economy, we can’t afford to stick with bad policy,” he said.

After the luncheon, in announcing his run for governor, Samuels vowed to look at the tax structure for ways to stem the production decline and spur more exploration.

Contact Wesley Loy at wloy@petroleumnews.com
Response team finds source of oil leak

Overpressure from expanding ice plugs likely caused 24-inch rupture in pipeline between Lisburne drill pad and production center

By ALAN BAILEY
Petroleum News

In a situation analogous to the bursting of a frozen water pipe during the winter, it appears that pressure from expanding ice plugs inside the 18-inch pipeline that carries three-phase fluids from Lisburne drill pad L-3 to the Lisburne Production Center caused the oil spill discovered Nov. 29 at one of the pipeline’s vertical support members. The Lisburne field lies within the BP-operated Prudhoe Bay unit on Alaska’s North Slope.

Safety concerns

In the initial response to the spill, the response team had been unable to examine the leak site on the pipeline because of concerns that possible high fluid pressures caused by ice plugs in the pipeline might place the responders at risk. However, after making x-ray images of the line to determine the positions of ice plugs and fluids, specialists were able to determine that it was safe to approach the area of the leak, albeit with appropriate precautions for possible toxic fumes.

So, on Dec. 5 responders started entering a previously off-limits 40-foot diameter safety zone around the spill source, to start removing snow that was heavily contaminated with oil and produced water — the responders had previously cleared away more lightly contaminated snow farther out from the spill location. On Dec. 7, when it became possible to closely examine the pipeline, a visual inspection revealed a 24-inch lengthwise rupture in the line, with the rupture displaying characteristics consistent with pressure inside the line having ripped the line open.

It appears that expanding internal ice plugs on either side of the rupture point had built up the fluid pressure in the line, BP spokesman Steve Rinehart told Petroleum News Dec. 8.

“We had ice plugs on either side of this leak. There’s roughly 1,300 feet in between the ice plugs,” Rinehart said. “… Ice expands as it freezes and those ice plugs growing on each side would … have exerted significant pressure on that material between them.”

In fact, the x-ray survey has indicated extensive ice plugging in the line, with one ice plug measuring 1,500 feet in length.

46,000 gallons

On Dec. 5 the spill response unified command published an estimated spill volume of about 46,000 gallons, a volume determined using mapping and surveying techniques applied at the spill site. That preliminary estimate will be later superseded by a more accurate estimate based on volumes of material recovered from contaminated snow. Fluid is no longer leaking from the pipeline.

The majority of the spilled material had semi-frozen into a large dome-shaped mass occupying about one-quarter of an acre around the pipeline leak. Another half-acre of snow around the heavily contaminated area had been impacted by light oil misting.

The spilled fluid consists of a mixture of crude oil and produced water. BP does not know the relative proportions of oil and water in the spilled material, but the damaged line typically carried a mix of 75 percent water and 25 percent oil, Rinehart said.

The estimated spill volume can be compared with the approximately 200,000 gallons of crude oil spilled in the largest North Slope spill, the 2006 Prudhoe Bay field spill that resulted from corrosion in a transit line between a Prudhoe Bay gathering center and pump station 1 of the trans-Alaska oil pipeline.

Rinehart declined to speculate on how the ice plugs had formed in the Lisburne line, saying that an investigation into the cause of the problem was already under way. The failed line is paired with a parallel 24-inch line carrying Lisburne three-phase fluids along the same route, with a temperature sensor at the downstream end of each line. BP has assessed its other North Slope pipelines and has determined that the same ice-plug situation is not developing elsewhere, Rinehart said.

“We’ve got other lines that operate in pairs or are looped, but we’ve got the systems in place to monitor them,” he said.

There are means of dealing with ice plugs, an uncommon but not unknown cause of the problem was already under way. The failed line is paired with a parallel 24-inch line carrying Lisburne three-phase fluids along the same route, with a temperature sensor at the downstream end of each line. BP has assessed its other North Slope pipelines and has determined that the same ice-plug situation is not developing elsewhere, Rinehart said.

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Independent Trio Petroleum plans to drill first well in Selawik basin in late 2010, permitting for both oil and gas

By KAY CASHMAN
Petroleum News

Bakersfield, Calif., independent is preparing to drill an oil and gas well next year in one of North America’s last unexplored basins — northwest Alaska’s Selawik basin, in more recent years referred to as the Kotzebue basin. The project manager for the program is longtime Alaska geologist Arlen Ehm, whose 44-year career in the state stretches from the National Petroleum Reserve-Alaska and the coastal plain of the Arctic National Wildlife refuge in the far north to Cook Inlet basin in the south.

Ehm spent several days this past summer staking four well locations in three different areas within the 2.2 million acres Trio has under lease from NANA Regional Corp., the Alaska Native regional corporation that owns the subsurface rights to the acreage.

Trio executives spent five days with Ehm in August visiting with locals, whose village corporations control large chunks of the surface of the 2.2 million acres, and with officials from NANA and the Northwest Arctic Borough. More visits and discussions are expected in 2010, specifically to the villages of Noorvik, Selawik, Buckland and Deering, he said.

“Trio’s agreement with NANA requires them to hire as many NANA shareholders as possible … and to use NANA subsidiaries and joint ventures whenever possible,” Ehm told Petroleum News in early December. “I am looking at trying to arrange to train shareholders at the roughneck school in Seward, but the company man, the toolpushers and the drillers will all have to have Arctic drilling experience.”

Archaeological surveys first

The four wells staked by Ehm are as follows (see map). They are listed in the order that they are likely to be drilled, although sidetracks and second wells at each location might be drilled, depending on drilling results:

• Kuugauraq No. 1 near Melville Channel, named for NANA shareholder Billy Sheldon;
• Tigluaq No. 1, at Cape Espenberg north, named for NANA shareholder Gilbert Karmun;
• Tiñuk No. 1, at Cape Espenberg south, named for NANA shareholder Herbie Nayokpuk; and
• Siqquiñña No. 1, Baldwin Peninsula, named for NANA shareholder Sigwien Savok.

Ehm said archaeological surveys on “approximately two acres surrounding each of the drill sites were conducted at the time that the wells were staked” this past summer.

Additional archaeological surveys of the “proposed staging areas, roads and airstrip areas for the Kuugauraq No. 1...
Alaska Gov. Sean Parnell is planning to propose $8 million in his fiscal year 2011 budget for the Department of Transportation and Public Facilities to permit a road to Umiat.

A road to Umiat, a staging area along the Colville River near the northern foothills of the Brooks Range, would allow year-round access to oil and gas prospects in the region. On Dec. 8, Parnell said transportation costs account for 40 percent of exploration in remote areas like the foothills, which he claimed has delayed production in the region.

“Getting this road built will significantly lower costs for the explorers and will likely speed up production of the first gas and oil from the region,” Parnell said in a statement. “Development of these fields will provide jobs for Alaskans and revenue for the state.”

The project is a carry-over from the final months of the Palin administration, with roots in the Murkowski administration, based on ideas that go back decades in Alaska politics. In her State of the State address in January 2009, then-Gov. Sarah Palin announced plans to commission “preliminary” work on a road to Umiat as a way to “access our resources.”

This past summer, DOT&PF studied five potential corridors for the road and is currently leaning toward a route running northwest to Umiat from Galbraith Lake. The DOT&PF studied five potential corridors for the road and is currently leaning toward a route running northwest to Umiat from Galbraith Lake.
Canada makes ‘absolute’ shift

By GARY PARK
For Petroleum News

The Canadian government has entered the Copenhagen climate change summit hinting that it may be ready to make a fundamental course correction in its environmental policy by imposing absolute emission caps and abandoning intensity-based reduction targets.

Environment Minister Jim Prentice, just prior to leaving for Denmark, indicated to a parliamentary committee that the government is “talking about a cap-and-trade system that involves absolute emission reductions, not intensity targets.”

The intensity-based approach, under which reductions would be imposed on units of production, such as a barrel of oil, has been scorned by domestic and international critics as too weak, while rigorously defended by Prentice, Prime Minister Stephen Harper and industry leaders.

The apparent change of heart coincides with growing momentum in the United States to legislate cap-and-trade and set absolute emissions targets, regardless of increasing production.

Gary Leach, executive director of the Small Explorers and Producers Association of Canada, said that assessing the impact of “absolute” targets is not possible until the industry knows exactly how such a policy would be implemented and over how many years.

He endorsed the Alberta government’s per-unit approach, which he said focuses on large industrial emitters, but allows for economic growth.

Leach said Western Canada, which relies heavily on energy exports, could pay a heavy price if faced with absolute caps, particularly if that would result in a transfer of wealth from the region under a carbon permit trading system.

But he said a bill passed in the U.S. House of Representatives, giving the coal industry a “free pass” on most of its emissions, could point to a possible solution for Canada’s oil and gas industry.

For now, the proposal President Barack Obama will take to Copenhagen, setting a reduction target of 17 percent below 2005 levels by 2020, is still roughly in line with the Western Canada’s pledge to cut greenhouse gas emissions by 20 percent from 2006 levels by 2020, then chase a goal of lowering 2006 emissions by 60-70 percent by 2050.

Prentice said he is confident Canada holds “several strategic cards … not the least of which is our plan to harmonize our approach with that of the United States. Harmonization is absolutely crucial for Canada and for the U.S.”

Newfoundland Premier Danny Williams, one of the harshest opponents of the Harper government on several fronts, expressed sympathy in a Calgary speech Dec. 3 for the challenges Harper and Prentice face in Copenhagen.

He called for all 10 Canadian provincial governments to offer a unified position to the federal government by agreeing to a measured, cooperative approach to climate change that would work best for all.

Williams said it is not right for the rest of Canada to abandon Alberta in the climate change fight after benefitting for so many years from the transfer of Alberta’s economic wealth across the country.

continued from page 14

UMIAT ROAD

In his recent announcement, Parnell suggested the road could eventually be extended into the National Petroleum Reserve-Alaska, a remote, but resource-rich corner of the state.

Parnell said the Umiat reservoir “holds about 250 million barrels of economically recoverable oil, with the potential for hundreds of millions more in place,” and NPR-A holds an “estimated 12 billion barrels of oil and 73 trillion cubic feet of natural gas.”

While a road from the Dalton Highway to the foothills and Umiat and farther west would significantly increase access to NPR-A, a single road could not intersect the entirety of the oil, natural gas and coal deposits spread across the 23 million-acre federal reserve.

$3 million to $4 million per mile

The $8 million proposed budget line item covers only permitting of the project. In a September 2009 talk before the Anchorage Chamber of Commerce, Parnell estimated that a road to Umiat would cost around $3 million per mile. At that rate, a 100-mile road would cost $300 million, likely higher with a bridge across the Colville.

Previous estimates have put construction costs for the road at $4 million a mile. The current push to build a road to Umiat is tied to increased exploration in the region.

Anadarko Petroleum is in the middle of a multiyear search for natural gas in the Gubik Complex, while Renaissance Alaska is judging the economics of oil exploration at Umiat.

The road project, though, isn’t new. The state requested preliminary information about a road to Umiat in 2005 and 2006.

Former Gov. Frank Murkowski created the “Roads to Resources” program to direct state dollars toward transportation projects designed to encourage development. Former Gov. Wally Hickel also proposed major road projects as a way to spur economic development.

Contact Eric Lidji
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NANA splits departments

As reported in the October edition of North of 60 Mining News, a sister publication to Petroleum News, NANA Regional Corp. said Oct. 21 that it had separated its lands and natural resources department into two separate departments to better serve the more than 12,000 Inupiat shareholders who belong to the Native regional corporation and to take advantage of current and future opportunities.

Long-time NANA employee Walter Sampson now serves as vice president of NANA’s new Department of Lands & Regional Affairs, and Lance Miller serves as vice president of the new Department of Resources.

Miller came to the regional corporation from NANA subsidiary, WHPacific, where he served as a geoscientist. His past positions include work as a project manager for exploration manager for the Juneau Economic Development Council; Eurasia project manager for Placer Dome; and chief geologist for Echo Bay Mines on the AJ project.

In a Dec. 9 interview with Petroleum News, Miller said what prompted the creation of a two separate departments was NANA’s board of directors “recognizing how important resources are for the region.”

The company, he said, is “focused on both lands and subsistence, as well as responsible resource development. It’s sort of new but in a way it is not. Years ago there used to be two departments — lands and resources. It folded into one for a number of years.”

NANA has the Red Dog mine, which began producing in 1989, but “it will not last forever. We’re planning for the future,” Miller said.

It took only a decade of discussions with the region and villages before Red Dog moved into development.

Miller does not see that long of a timetable for Trio, which first heard about the area in 2000 and “began discussions with NANA in 2006. … It’s not like we did a quick deal with them.”

And “Red Dog was a much bigger project,” he said.

Still, NANA has “very significant” oil potential.

“A major zinc mine in the region, Red Dog, which sits on land owned by NANA, is currently testing the properties of shale gas formations in the region. Resources unknown

How much natural gas and oil does Trio expect to find?

Ehm, however, wouldn’t commit to specific numbers.

But in a February interview with Petroleum News, a sister publication to this publication, Stan Eschner, a geologist, was enthusiastic about the potential of the undeveloped Kotzebue basin.

“There’s good analog in Cook Inlet … a thick tertiary section … a lot of sequences of coal, sand and shale. … The natural gas could be in the order of cubic feet … several trillion,” he said.

He also said that he believes the basin has “very significant” oil potential.

“On the seismic we have a lot of sizeable structures that have never been drilled … big fat anticlines that have never had a well,” he said.

But neither Eschner nor Trio’s other top executive, Vice President Steve Rowlee, was willing to comment on the amount of oil and gas that might be commercially extractable from the acreage.

“We think we have in the trillions of cubic feet for natural gas,” Rowlee said, “but we don’t really know what we have until we drill.”

Ehm did say it would take a very major project to make development economic, “although energy for local use could be a tremendous boon to the local populace.”

Trio was founded in 1983 by former Occidental Petroleum executives, two of whom are Eschner and Rowlee.

Contact Kay Cashman at pkashman@petroleumnews.com

Editor’s note: The State of Alaska reimburses up to 40 percent of the cost of exploration on state, federal, Native and private acreages in Alaska. And the state’s tax take increases and decreases with oil prices and the level of investment: The more you invest, the less you pay. The state also offers credit for capital investments, plus a 25 percent credit for net losses.
By KRISTEN NELSON

RCA workshop on gas storage issues

Cook Inlet Natural Gas Storage, Enstar, electric utilities, wrestle with how third-party storage should be regulated, role of RCA

RCA held a workshop on gas storage issues in January. The utilities are still negotiating with CINGS and would have to complete that process before RCA could review those contracts. Regulatory Affairs and Public Advocacy, which represents the public interest in utility matters before RCA, is in the process of formulating views on storage regulation, but an assistant attorney general with RAPA said his personal view is that there would be two inquiries: a determination that gas storage was valuable and needed by the market, with just and reasonable rates, leading to a certificate of public convenience and necessity for the storage facility if it was regulated as a utility; then a determination of whether it was reasonable and prudent for a utility to acquire storage vs. other measures it could take to encourage conservation and reduce peak demand.

Fugro wraps up Shell survey in Chukchi

Fugro GeoServices has successfully completed the fieldwork portion of a shallow hazards survey in Alaska’s Chukchi Sea for Shell E&P. Fugro’s survey involved equipment customized for the Arctic, and was conducted in part to meet U.S. Minerals Management Service permitting requirements.

State lands still closed for tundra travel

The Dec. 4 Alaska Department of Natural Resources report on the status of off-road travel restrictions on state lands in northern Alaska indicated that all areas remained closed at that time. In coastal areas the soil temperature had dropped below the minus 5 degrees C threshold for off-road travel but the snow cover was still too thin for a tundra travel opening. In contrast, in the Brooks Range foothills there was adequate snow cover but the soil temperatures were mostly too high. However, DNR said that it had approved the pre-packing of ice roads using summer-approved off-road vehicles for several projects, with the possibility of ice-road construction being allowed in coastal areas because the ground is still too thin for a tundra travel opening. Companies wanting to construct ice roads need to submit a request for approval to DNR.

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Data processing from the two-month survey is under way, with the first set of interpretation scheduled for delivery at the end of December. Additional reporting work is expected to continue into 2010.

Noting the importance of cleared sites for the company’s 2010 exploration plans, Shell Alaska’s exploration operations coordinator, told Scandinavian Oil and Gas in early December, “The 2009 season has been extremely successful and positions us well for 2010 and beyond.”

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News reports that the U.S. offshore division of Fugro GeoServices has successfully completed the fieldwork portion of a shallow hazards survey in Alaska’s Chukchi Sea for Shell E&P were confirmed Dec. 9 by Curtis Smith with Shell Alaska External Affairs.

Data processing from the two-month survey is under way, with the first set of interpretation scheduled for delivery at the end of December. Additional reporting work is expected to continue into 2010.

Noting the importance of cleared sites for the company’s 2010 exploration plans, Shell Alaska’s exploration operations coordinator, told Scandinavian Oil and Gas in early December, “The 2009 season has been extremely successful and positions us well for 2010 and beyond.”

Fugro’s survey involved equipment customized for the Arctic, and was conducted in part to meet U.S. Minerals Management Service permitting requirements.

--- PETROLEUM NEWS ---

State lands still closed for tundra travel

The Dec. 4 Alaska Department of Natural Resources report on the status of off-road travel restrictions on state lands in northern Alaska indicated that all areas remained closed at that time. In coastal areas the soil temperature had dropped below the minus 5 degrees C threshold for off-road travel but the snow cover was still too thin for a tundra travel opening. In contrast, in the Brooks Range foothills there was adequate snow cover but the soil temperatures were mostly too high. However, DNR said that it had approved the pre-packing of ice roads using summer-approved off-road vehicles for several projects, with the possibility of ice-road construction being allowed in coastal areas because the ground is still too thin for a tundra travel opening. Companies wanting to construct ice roads need to submit a request for approval to DNR.
Corps begins work on Point Thomson EIS

**SHELL**

the exploration plan until the suspension of operations has been terminated.

Shell said in a Dec. 7 statement that the approval was another positive step toward the company’s goal of drilling in 2010.

The company said the conditional approval of the Chukchi exploration plan adds significance to the fact that the Environmental Protection Agency has not yet issued an air discharge permit for the drilling rig. Shell said it is critical that it receives that permit in a timely manner “to enable a go-ahead decision on our 2010 program.”

**Responsible exploration**

“A key component of reducing our country’s dependence on foreign oil is the environmentally responsible exploration and development of America’s renewable and conventional resources,” Secretary of the Interior Ken Salazar said in a statement on the conditional approval. “By approving the Exploration Plan, we are taking a cautious but deliberate step toward developing additional information on the Chukchi Sea.”

Shell paid $2.1 billion for Chukchi Sea leases in an MMS outer continental shelf lease sale in 2008.

The exploration plan — approved but stayed — is for drilling up to three exploration wells during the July-October open water drilling season.

Shell plans to use one drillship, one ice management vessel, an ice-class anchor handling vessel and oil spill response vessels.

The 2007-12 OCS plan is undergoing review in response to an order of the appeals court which required additional environmental analysis. Interior said the decision on the remaining plan “is forthcoming.”

**No significant impact**

In a finding of no significant impact for the 2010 exploration drilling program at Burger, Crackerjack and SW Shoebill, MMS said drilling activities using the M/V Frontier Discoverer are planned to begin about July 4.

Shell Alaska Vice President Pete Sloan said in a statement that “Shell believes the Chukchi Sea could be home to some of the most prolific, undiscovered hydrocarbon basins in North America. We will continue to work closely with regulators, local communities and the State of Alaska as we move closer to responsibly exploring for oil and gas reserves that could ultimately lead to tens of thousands of jobs, extended life for the trans-Alaska pipeline and increased domestic energy security for decades to come.”

**Appeal pending**

In addition to pending litigation against the 2007-12 OCS lease sale program, Shell’s exploration plan is also an issue in an appeal by the Native Village of Point Hope, the Inupiat Community of the Arctic Slope and 12 environmental organizations against the 2008 Chukchi lease sale. Briefing in the case is on hold pending issuance by MMS of an amended lease sale environmental assessment which the agency is preparing at the direction of the appeals court in the ruling against the 2007-12 OCS lease sale program.

MMS told the court in mid-November that it had made substantial progress but had not yet completed the required work; another status report on the work is due in mid-December.

Shell has indicated that it needs to make a go-or-no-go decision on its 2010 Chukchi drilling plans by early in 2010.

**PETROLEUM NEWS**

Contact Kristen Nelson
at knelson@petroleumnews.com

**NATURAL GAS**

**PETROLEUM NEWS**

 ExxonMobil is moving ahead with development permitting for its Point Thomson project. The U.S. Army Corps of Engineers published a notice Dec. 4 of intention to prepare a draft environmental impact statement for the project, including construction and operation of the proposed development of the Thomson Sand reservoir.

The corps said the Environmental Protection Agency issued a notice of intent to prepare a DEIS in 2002 for a similar proposal, potentially including designation of ocean dredged material disposal sites. The corps said EPA was the lead on that project because it would have required authorization under the Marine Protection, Research and Sanctuaries Act.

In October ExxonMobil submitted a new project which would not require authorization under the MPRSA but would require authorization from the corps under Section 10 of the Rivers Harbors Act of 1899 and Section 404 of the Clean Water Act.

The application included construction and operation of a minimum of five wells from three pads. Natural gas would be produced from the reservoir and liquid condensate would be recovered, with residual gas re-injected. Offshore portions of the reservoir would be developed using long-reach directional drilling techniques from onshore pads.

The liquids would be shipped through a new 22-mile, elevated pipeline that would tie into the existing Badami common carrier pipeline, which would deliver liquids to the trans-Alaska oil pipeline system.

In addition to the three drilling pads the project includes a gravel airstrip, a bulkhead and dolphins, in-field gravel roads, ice roads, in-field pipelines and a gravel mine. The corps said dredging may be required at the bulkhead.

Scoping for the draft EIS will begin Jan. 11 and end Feb. 25. The corps said it expects to hold scoping meetings mid-January in Anchorage, Barrow, Fairbanks, Kaktovik and Nuiqsut, and said further information on the meetings will be published in advance of the meetings.

Information will be available at the project Web site, www.pointthomsonproject.com, prior to the meetings.

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**Exxon has begun Point Thomson drilling**

ExxonMobil Production Co. said in a Dec. 9 statement that it has resumed drilling at two wells started earlier in the year at Point Thomson.

The company said it is on schedule to reach total depth at the two wells by the end of 2010.

Each of the wells was drilled to approximately 5,000 feet over the summer, as deep as possible during the ice-free season. Drilling into deeper formations is permitted only between Nov. 1 and April 15.

“We are making real progress at Point Thomson, and are on schedule to start production in 2014,” Dale Pittman, Alaska production manager for ExxonMobil, said in the company’s statement.

Point Thomson, a natural gas and condensate field, holds an estimated 8 trillion cubic feet of natural gas and some 200 million barrels of condensate. The company said development of the resources “will present significant technical challenges, including drilling and production of a high pressure gas reservoir.”
Application for early verdict

Imperial had applied to the federal regu-

lator to get an early verdict on “same-season relief well” capability in the Beaufort.

In a Nov. 19 letter, the NEB said it has
decided the application will be considered
as part of a generic policy review that will be
done by way of a written process.

Imperial geosciences manager Michael
Peacock replied that Imperial, although
welcoming the NEB’s decision to undertake
a comprehensive review of the same-season
relief well policy, is “very concerned” that
Imperial’s application will have to wait for
the review results.

He said that has “very serious implica-
tions” for Imperial’s ability to meet the
terms of Exploration License 446, which
was awarded to Imperial and ExxonMobil
in mid-2007, after the two companies made
a joint work commitment of CS$85 million
to secure exploration rights to 508,000
acres.

Peacock said the restricted Beaufort
drilling season could remove an entire year
from the nine-year license.

He noted that Imperial has so far spent
CS$150 million on its plans for a well,
including the acquisition of 3-D seismic and
engineering for a new Arctic drillship,
which is now ready for a corporate decision
to proceed with construction.

The Imperial response said the “continu-
ing regulatory uncertainty introduced by the
delay in our SSRW application increases the
risks associated with these investments.”

“Deferral of the additional investment to
allow for the comprehensive policy review
by the NEB will jeopardize Imperial’s abil-
ity to procure the Arctic drillship, obtain the
necessary permits, drill an exploration well
and conduct the formal evaluations neces-
sary to make an application for a
Significant Discovery License before the
EL 446 expires in October 2016.”

Important of timely consideration

Peacock said Imperial made every effort
to update the NEB on the importance of
timely consideration of its same-season
relief well application.

In blunt terms, he told the NEB the delay
“would further increase the costs and add to
the already onerous inhibitions to develop-
ment of Canada’s Arctic resource.

“A one-year drilling delay to accommodate
this policy review will add an addition-
al year of overhead costs and project delay
costs…”

“This will be viewed by the industry and
northern stakeholders as another example of
the regulatory system slowing down
development and will further reduce, from a
global perspective, the attractiveness of
investing in Canada’s North.”

Imperial has urged the NEB to apply its
mandate and deal with the company’s
SSWR application without waiting for
completion of the review.

To date, Imperial and ExxonMobil have
remained coy about their plans for the
Beaufort, beyond insisting from the outset
that the substantial work commitment is
separate from the lead roles in the
Mackenzie project.

They have given no indication whether
they view the exploration license area as an
oil or natural gas target.

However, Devon Canada reported in fall
2007 it has made the first oil discovery in 25
years in the Canadian Beaufort on
Exploration License 420, south of the
Imperial-ExxonMobil property, estimating
the recoverable oil at 240 million barrels.

— GARY PARK

continued from page 10

LISBURNE SPILL

problem in Arctic pipelines, he said.
In parallel with determining how the
Lisburne spill happened, response crews
have been clearing away contaminated
snow from the spill site. Responders have
been scooping the material into bins using
small mechanical loader vehicles called
bobcats, Rinehart said. And according to a
response situation report, the material is
being moved to an ice pit at the Prudhoe
Bay East Dock, for later melting and meas-
urement. Presumably, the contaminants
will then be disposed of by recycling them
through the field production facilities.

The responders have also placed on site
a steamer device with a 4-foot square
stainless steel head, to melt the contami-
nated snow for removal using a vacuum
truck. However, mechanical removal
using bobcats is proving to be the most
successful technique, Rinehart said.

BP is building an ice road from the
spill site to enable trucks to remove the
hills of excavated material but is mean-
time shifting the material by rollagon, a
special tundra-certified vehicle, Rinehart
said.

The damaged 18-inch pipeline was out
of operation at the time of the spill and BP
has been able to maintain production
from the Lisburne field through the par-
allel 24-inch line.

— ALAN BAILEY

Contact: Alan Bailey
abaily@evelandsسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسسsss
Bernie Nidowicz, P.E., Chief Operating Officer

Bernard "Bernie" Nidowicz, P.E. has been named Chief Operating Officer for UIC. With more than 30 years of engineering and management experience throughout Alaska, Nidowicz holds a Master of Science in Civil Engineering from the University of Alaska Fairbanks. His project experience includes leading programs involving operations for major resource development clients. He has demonstrated his management ability by showing consistent growth of operations under his leadership, including his most recent role as General Manager of UMIAQ, a subsidiary of UIC.

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Companies involved in Alaska and northern Canada’s oil and gas industry

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All of the companies listed above advertise on a regular basis with Petroleum News.
The cost of obtaining allowances, if they were imposed upon producing companies at the wellhead, would flow through our tax system and be felt in the Treasury,” Balash said.

“IT will become marginally more expensive to move gas, and if that occurs you are adding another level of risk and challenge to the economics of the pipeline.”

Written testimony

The state has provided written testimony to Congress with regard to the proposed climate-change legislation; the state supports a transition to a lower carbon economy, renewable energy but is questioning how to reach that low carbon future, Balash said.

“There are potential economic consequences and threats to both Alaska and the nation in the current (climate change) legislation,” he said.

And Balash emphasized the importance of a North Slope gas line as a factor in reducing U.S. carbon emissions.

“We have estimated that if just half of the gas delivered by the natural gas pipeline is able to meet markets in the Lower 48, you could do without 120 to 190 coal-fired plants. The difference in emissions is staggering,” Balash said.

And if natural gas does not come from Alaska people will seek alternative solutions, either from overseas of from more expensive domestic productive effort, he said.

Oil industry

Cap-and-trade regulation of greenhouse gas emissions could have a major impact on the North Slope oil industry, with its 1970s and 1980s era facilities that emit huge amounts of greenhouse gas. The cost of retrofitting those facilities with more efficient, modern equipment would dramatically impact the economies of producing new Arctic resources, Balash said.

“If retrofits are too expensive, there could be a decision to just live out the useful life that’s left and that would again hurt domestic (fuel) supplies,” Balash said.

Balash also expressed concern that the cost to the Alaska oil and gas industry of carbon dioxide allowances would significantly impact state oil revenue, given that those revenues are in part calculated net of production costs.

“It’s likely that the cost of obtaining allowances, if they were imposed upon producing companies at the wellhead, would flow through our tax system and be felt in the Treasury,” Balash said.

The revenue impact could be anywhere from $600 million to $1 billion over 34 year period, he said.

And, if the cost of carbon dioxide allowances were to be added to gas pipeline tolls that would reduce the wellhead value of the gas, thus reducing the state’s natural gas royalty and tax take.

Oil refineries

Balash also expressed major concern about the possibility of the state’s three oil refineries going out of business as a consequence of the cost of carbon dioxide allowances, under the terms of the current versions of the federal legislation. The Alaska refineries are simple plants that don’t process the whole of the crude oil stream and, thus, are not as profitable as many refineries elsewhere, he said.

“The cost of the allowances to keep those refineries in operation, we’ve estimated, in a mid-case scenario would approach $6 billion over 34 years,” Balash said.

“That cost is tremendous, and if those refineries aren’t able to deal with those costs, either through increased pricing for consumers or the failure to attract the necessary capital from their owners to keep them operating, then we face the possibility that they would shut down.”

The shutdown of the refineries would result in fuel having to be shipped to Alaska, with a consequent major increase in tanker traffic to the Port of Anchorage and a need for a huge increase in Alaska fuel storage capacity. Loss of a viable source of jet fuel in Fairbanks could put the international airport there out of business.

And the lack of locally available fuel supplies would massively increase the length of the supply chain for fuel for Alaska’s military installations, Balash said.

Contact Alan Bailey

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continued from page 1

**ANSWERS**

Pat Galvin, the state revenue commissioner and one of the architects of ACES, told Petroleum News on Dec. 9 the administration was happily compiling the information the lawmakers requested. He also said he believes industry investment has been robust under ACES, even as it takes in more revenue for the state.

**Election year perils**

The request from the mostly Republican lawmakers sets up an interesting situation with Parnell, also a Republican.

When the Legislature passed ACES in a special session in November 2007, Parnell was lieutenant governor under then-Gov. Sarah Palin, and the administration had huge popular support at that time for pushing the tax reform.

Oil prices and company profits were extraordinarily high at the time. And Palin and many legislators regarded a prior oil tax overhaul only the year before — the Petroleum Production Tax or PPT initiative — as tainted because some legislators were hit with federal corruption charges in connection with that legislation.

Palin, of course, has moved on and Parnell took over as governor on July 26 after she resigned.

Parnell is running for re-election next year, as are legislators. So the idea of reopening the huge subject of oil taxes, possibly to make some concessions back to oil companies in hopes of spurring more exploration or development spending, is tricky business politically for elected officials.

**What they’re saying**


Most of the legislators contributed a comment to a “quote sheet” distributed with the four-page letter to the governor. A sampler:

“Alaskans who are losing jobs that were dependent upon a robust oil patch economy want to know if the significant tax increases enacted by ACES are attracting or discouraging the new oil field investment needed to put them back to work. The administration needs to hear these questions and provide tangible evidence supporting their answers,” said Hawker, the House Finance Committee co-chairman.

“As a returning legislator not involved in the nitty-gritty of the ACES debate, and listening to those legislators who were involved, I’m of the opinion that it’s time to take a look at it as a potential detriment to the state of Alaska and the investments in our oil patch,” said Austerman, the House majority whip.

“While we enjoyed the short-term bump to the state treasury, we need to focus on the long view in light of recent decisions coming from the companies on the North Slope. It is clear the oil and gas industry has changed the way they approach Alaska business decisions, and we need to make sure those long-term investments come back on track for future generations,” said Millet, the House Special Committee on Energy co-chair.

In their letter to Parnell, the legislators noted recent “disconcerting” announcements from oil companies. For example, ConocoPhillips, historically the state’s top North Slope explorer, said it will not drill any new exploration wells for the first time since 1965, the letter said. And a BP executive said other areas of the world, such as the Gulf of Mexico, are more attractive for capital investment.

Plans by some companies to explore Alaska’s Outer Continental Shelf is good news, the letter said, but “we all know those leases are in federal waters and will not result in any production tax or royalty for the state.”

**The data requests**

The legislators pose nine questions seeking information from the revenue, natural resources and labor departments and the Alaska Oil and Gas Conservation Commission, which regulates downstream activity.

Among the data requests and questions:

- The average number of operating oil wells and average dollar amount per acre in state lease sales from 2005 through this year.
- Actual and forecasted employment numbers attributable to the oil and gas industry in recent years.
- A read on whether the number of new drilling permits has fallen since enactment of ACES and PPT.
- The number of active drilling rigs and new holes drilled per month from 2005 through the current year.
- A read on whether the industry has “increased its level of exploration and development in general,” especially with respect to smaller fields.
- Considering the tax rates and credits under ACES, is the law fostering new exploration, development and enhanced recovery projects?
- What recommendations does the administration have for changing ACES?

**Galvin’s take**

Revenue Commissioner Galvin told Petroleum News he believes it’s “completely appropriate” for the legislators to ask the questions now that ACES is two years old, and the global economy has been in such upheaval.

But Galvin said he believes ACES is working well, and that some people are overstating the state’s oil production decline to “create a sense of crisis.”

Yes, oil production has been declining in recent years, but nothing indicates the decline is accelerating, he said.

The administration is heartened by the level of “lease expenditures” oil companies are claiming today and expect to claim in the future, Galvin said. Operators provide the state with their projections of operating and capital spending for up to five years into the future.

“That number is significantly higher than it was a few years ago,” he said.

The Department of Revenue, in presenting the state’s new revenue forecast on Dec. 10, said spending on the North Slope is expected to continue at or above current levels with lease expenditures of $4.5 billion and $5 billion in fiscal years 2010 and 2011 respectively.

Galvin added: “We’ve got companies that have never been on the North Slope drilling wells.” This is typical of mature oil provinces that lose the interest of the majors but subsequently see a “renaissance” as smaller companies move in, he said.

Asked flatly whether the state oil production tax is too high, Galvin said: “I don’t believe so based on the evidence of today.”

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**One Solution**

The legislators pose nine questions seeking information from the revenue, natural resources and labor departments and the Alaska Oil and Gas Conservation Commission, which regulates downstream activity.

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in Papua New Guinea, and immediately started letting construction contracts. ExxonMobil’s investment announcement Dec. 7 came just after TEPCO signed a deal for LNG from that project, on top of the Wheatstone contract a couple days earlier. Talk about a Christmas shopping spree.

ExxonMobil and its partners will ship TEPCO 1.8 million metric tons each year for two decades from the Papua New Guinea project. China’s Sinopec committed on Dec. 3 to take 2 million metric tons a year for 20 years.

Huge Deals
The deal between TEPCO and Chevron is the biggest Australian LNG deal ever signed, according to the Western Australia government, which put the value at an eyebrow-raising $82 billion (U.S.).

Calculating dollar values for confident long-term contracts is iffy at best, but it is clear the Asian utilities want to lock in supply, and are willing to pay rates that are basically at par with prices for a similar amount of energy from oil.

Some analysts had speculated earlier that the economic downturn would create an LNG glut, and that a significant spot market would develop as large LNG projects come on line in the next year or so in Qatar, Yemen, and elsewhere.

There are a few cargoes on the spot market, but few onshipped are coming to the United States as storage fills up elsewhere. U.S. LNG imports have amounted to 1.3 bcf per day so far in 2009, according to the Energy Information Administration, up from 1.0 bcf per day in 2008, when imports were depressed. But so far, it doesn’t look like a glut

Asia’s LNG demand holds
At this point, Asian demand is down only slightly from 2008 levels, and the International Energy Agency is predicting Asian consumption will rise 3.8 percent a year through 2030.

Since 1999, the largest LNG importer, shipments in the first half of 2009 were 31.6 million metric tons, down 8 percent from the same period a year earlier. Oil imports dropped 14.8 percent in the same period and coal imports more than 20 percent. Japan’s LNG imports peaked at 66.8 million tons in 2007.

Tokyo Electric, or TEPCO, brings in about 20 million metric tons a year, the output of three good-size LNG projects. It’s been in the LNG import business since 1969, when it and Tokyo Gas Co. Ltd. started importing the fuel from — you guessed it — the Nikiski LNG facility in Alaska. TEPCO has been generating electricity with Alaska gas ever since, though the amount has dwindled to relative insignificance in recent years.

Across the rest of Asia, demand hasn’t shown a big drop despite slowing economies. KOGAS, the state-owned monopoly importer for South Korea, expects a slight decline in LNG sales from the 2008 total of 26 million metric tons blaming a slack economy that cut demand for electricity. Taiwan purchased 917,000 metric tons in October, up slightly from 915,000 tons a year earlier, paying about $8.80 per million Btu. That price is down from the peak in the $20 range, but still about double the price in the U.S. domestic market.

Exxon motors ahead
Exxon’s Dec. 8 decision to proceed with its Papua New Guinea LNG project was followed the next day with the announcement of five construction and engineering contracts, including one with Chiyoda Corp. of Japan to build the liquefaction trains to produce 6.6 million metric tons a year.

With TEPCO taking 1.8 million tons and Sinopec 2 million, the project could add another major customer or a couple smaller ones.

The ExxonMobil project will represent the largest foreign investment ever for Papua New Guinea, an impoverished former colony of Australia that shares its island with Indonesia, and could provide a major boon to its economy.

The island has a wretched of ethnic groups and has been prone to violence. The project will require a 190-mile overland pipeline plus a 250-mile underwater pipe to reach the proposed loading facility near Port Moresby, the capital. That makes it a dangerous proposition.

But ExxonMobil has some partners with experience in the country, notable Australia’s Oil Search, which has a 34 percent stake to 41.5 percent for Exxon and its affiliates. Santos Ltd., also of Australia, has 17.7 percent, Nippon Oil 5.4 percent, and a couple others the remainder.

The government of Papua New Guinea will get an equity stake later.

First shipments are expected late in 2013 or early in 2014.

Chevron coup
Chevron’s huge sale to Japan’s TEPCO gives a big boost to the Wheatstone project in northwestern Australia, and may hurt other Australian developers looking for anchor customers — as well as scarce Australian laborers.

TEPCO is taking a 15 percent equity share in the offshore Wheatstone field licenses, as well as an 11.5 percent interest in the processing facilities to be constructed near Onslow on the coast.

A final investment decision won’t come until 2011, but landing the big Japanese customer is a good start. TEPCO will take nearly half of the initial annual capacity of 8.6 million metric tons.

“TEPCO is among the most experienced LNG buyers in the world,” noted John Gass, president of Chevron Global Gas. “Their commitment to secure long-term LNG supplies from Wheatstone is a strong demonstration of their confidence in Chevron and represents an important step forward for the project.”

Korea’s KOGAS has also said it’s interested in a share of the Wheatstone LNG.

Earlier this year, Chevron took on a couple of partners for Wheatstone, gaining added supply in the bargain. Subsidiaries of Apache Corp. and Kuwait Foreign Petroleum Exploration Co. agreed to become 25 percent equity partners and to supply 25 percent of the inlet gas from their Julimar and Brunello fields. Apache has 16.25 percent and KUPEEC 8.75 percent.

Chevron’s Wheatstone field is field is 650 feet of water and was discovered in 2004. The nearby lago field, another potential source, was found in 2000.

So far, there’s no firm cost estimate for the development. Chevron awarded a front-end engineering and design contract last July.

Huge gambles
LNG projects represent major gambles for the companies involved — even firms such as ExxonMobil that generate monster cash flows.

The capital involved is billions of dollars; the timelines are long; the projects are complex and prone to overruns as well as expensive delays. Shell found that out at Sakhalin when the cost estimate doubled.

When Gorgon got investment approval this past fall, the development cost equaled a quarter of Chevron’s market capitalization. Chevron has a 50 percent share of the $37 billion project.

Still, profits from LNG also can be immense, and LNG represents one of the few growth areas available for major private-energy companies, as national oil companies take over more and more of the world’s oil fields and gas pipelines.

“The world’s growing demand for gas will challenge our industry to deliver projects on a scale that was barely considered even a decade ago,” said Tom Walters, president of ExxonMobil Gas and Power Marketing Co., at the International Petroleum Technology Conference in Doha, Qatar, Dec. 8. “The ability to conceptualize, commercialize and execute large-scale, multibillion-dollar projects has become an increasingly important differentiator, which will remain over the coming decades.”

With its lower carbon output, efficiency and flexibility, gas will be the largest growth area in the traditional energy arena over the next couple of decades, according to ExxonMobil analysts.

“Not only will energy demand be much larger in 2030 than it is today, the mix of fuels used to meet that demand will change as well,” Walters said. “Gas in particular will play an increasingly important role in meeting the world’s future energy needs, growing at 1.8 percent over the 2005 to 2030 period.

“The common wisdom is that LNG demand will double from today’s levels by 2020, hitting 400 million metric tons a year by then. Common wisdom, of course, can be wrong.”

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