Petroleum news

Vol. 19, No. 32 • www.PetroleumNews.com

A weekly oil & gas newspaper based in Anchorage, Alaska

Week of August 10, 2014 • $2.50

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FINANCE & ECONOMY

Conoco: $627M in Alaska

ConocoPhillips sees profits drop as production declines, spending increases

By ERIC LIDJI

For Petroleum News

ConocoPhillips reported adjusted earnings of $627 million in Alaska in the second quarter, a year-over-year decline on falling production and increased capital expenses.

But profits were up from the first quarter, due to rising commodity prices and, to a lesser extent, the resumption of liquefied natural gas exports from the Nikiski terminal.

Although prices increased, ConocoPhillips paid slightly less in taxes during the second quarter than during the first, a reflection of recent revisions to the tax code. The More Alaska Production Act, which Gov. Sean Parnell signed in May 2013, eliminated a progressive feature that had increased the production tax rate as oil prices increased.

> *Through the first half of 2014, ConocoPhillips has spent $805 million on capital projects in Alaska, up from $545 million over the same period last year.*

Even with the decrease, ConocoPhillips still paid some $872 million in state and federal obligations during the quarter, including some $553 million in state taxes and royalties.

ConocoPhillips reported an effective income tax rate of 35.6 percent in Alaska during the quar-

see **CONOCO EARNINGS** *page 16*

FINANCE & ECONOMY

AVCG sells properties

Three-company consortium buys stake in Alaska assets for $450 million

By ERIC LIDJI

For Petroleum News

A new three-company partnership is buying a major stake in the Alaska holdings of AVCG LLC and Ramshorn Investments Inc., the parties announced Aug. 5.

In a $450 million deal, Thyssen Petroleum North Slope Development LLC, JK Tech Holdings Ltd. and MEP Alaska LLC have acquired a 90 percent interest in the Alaska oil and gas business of the two North Slope independents. Through the sale, the partnership will also acquire the local operating company Brooks Range Petroleum Corp. outright.

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The deal includes $100 million in cash and more than $350 million for an initial development program at the Mustang field at the Southern Miluveach unit. The partners plan to announce details of the program later this year, but Brooks Range Petroleum Chief Operating Officer Bart Armfield said the companies expect to start work on a 15,000-barrel per day processing facility and drill three production wells later this year.

Although the initial development commitment is focused on the Southern Miluveach unit, the sale

see **AVCG SALE** *page 16*

FINANCE & ECONOMY

ASRC, Shell form JV

Arctic Slope Regional Corp., 6 North Slope village corporations, create AIO

By KRISTEN NELSON

Petroleum News

Arctic Slope Regional Corp. and six North Slope village corporations have created a new company, Arctic Inupiat Offshore LLC.

That new company, AIO, and Shell Gulf of Mexico have entered into a binding agreement to allow AIO the option to acquire an interest in Shell's Chukchi Sea acreage and activities.

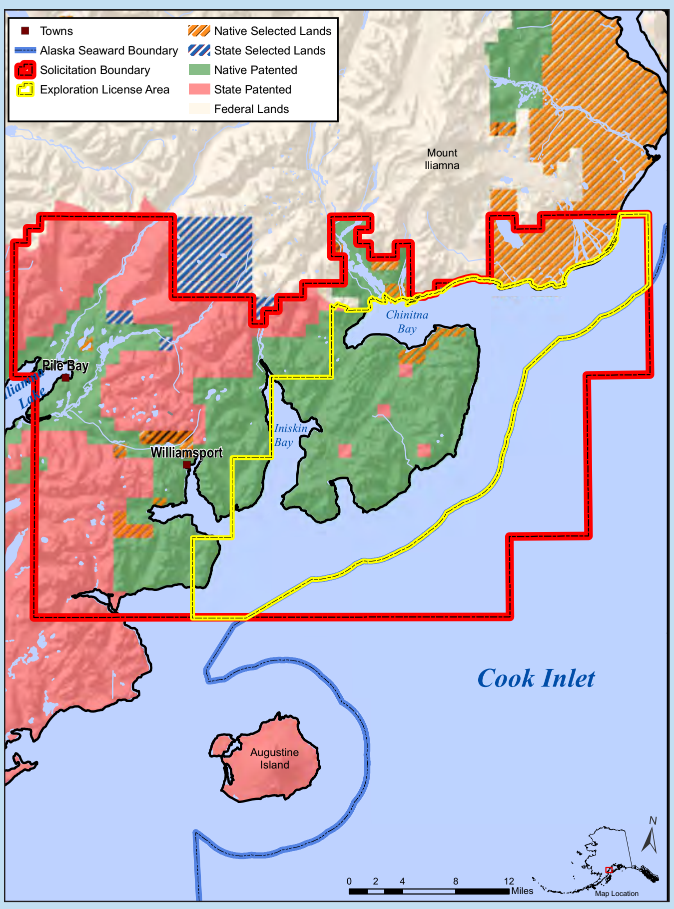
AIO said members include ASRC, Ukpeagvik Inupiat Corp., Tikigaq Corp., Olgoonik Corp., Kaktovik Inupiat Corp., Atqasuk Corp. and Nunamiut Corp. The six village corporations represent Barrow, Point Hope, Wainwright, Kaktovik, Atqasuk and Anaktuvuk Pass.

AIO said in a statement released July 31 that through the option agreement Shell would assign AIO an overriding royalty interest in oil and gas produced from specific Chukchi Sea leases, and AIO would have the option to participate in project activities by acquiring a working interest at the time Shell makes the decision to proceed with development and production.

> *"I am humbled to acknowledge that this arrangement balances the risk of OCS development borne by our coastal communities with the benefits intended to support our communities and our people."*
> **—Rex A. Rock Sr., ASRC president, CEO, and AIO president**

AIO also said Shell and AIO will hold quarter-

see **JV FORMED** *page 15*



Cook Inlet Energy bids $1.5M for Iniskin exploration license

When the Alaska Division of Oil and Gas asked for comments and competing proposals on a proposed Southwest Cook Inlet exploration license it received in April 2013, it received a competing proposal.

Because of that, division Director Bill Barron said at the Aug. 6 bid opening, the state was required to hold a sealed bid opening.

In a finding issued June 20 the division found that offering the license, in the Chinitna Bay and Iniskin Bay area across Cook Inlet from Homer, was in the state's best interest.

And because the division had received a competing proposal, it requested bids from the two companies.

In the end, Cook Inlet Energy was the only company to submit a final bid.

Barron said that while the state has issued exploration licenses previously, "today marks the first ever sealed bid

see **BID OPENING** *page 15*

Apache muddies BC waters, pulls out of Kitimat LNG for onshore

In abandoning what the British Columbia government once viewed as the launching pad for a multibillion dollar LNG industry, Apache has also created a void that will not easily be filled and added to a darkening cloud over the province's hopes of building a new, profitable industrial sector.

Only three years ago, Premier Christy Clark declared that by adopting a "more aggressive approach" to exploiting the province's natural gas riches, Kitimat could become operational in 2015, a bold target that even Apache agreed was achievable.

But, under extreme pressure from activist investor Jana Partners, Apache has unloaded its 50 percent stake in the Kitimat LNG project and its 13 percent share of Australia's Wheatstone LNG operation, as part of jettisoning US$10 billion in assets over the past 18 months to make North American onshore operations the focus of its business.

The LNG move reflected more than just industry dissatisfaction with the British Columbia government's determination to

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GOVERNMENT

Pro and con — Senate Bill 21 recall vote

Rep. Les Gara, Sen. John Coghill: Opposing views on the upcoming move to dispose of new oil & gas production tax, return to ACES

By STEVE QUINN
For Petroleum News


SEN. JOHN COGHILL

Sen. John Coghill has been immersed in tax debates since things heated up in the Legislature in 2006 with the Petroleum Profits Tax.

Now the North Pole Republican and Senate Majority Leader is again fielding questions. In this case whether Alaskans should approve or reject a ballot measure to repeal the state's new oil tax.

1 2 SERIES

That's Gov. Sean Parnell's Senate Bill 21, which replaced the net tax known as ACES.

Coghill spoke to Petroleum News about the Aug. 19 vote.

Q AND A

Petroleum News: Why do you support SB21 and a no vote on Measure 1?

Coghill: Let's just put it under the category of goals that I agree with and really the Senate got behind. That was to stem the decline of the pipeline. We knew we were going to have to get more oil out of the ground. I know people will debate on how much oil we can get, but we know there is oil up there. We need to get more oil out of the pipeline. Then the tax that we had was getting investment in oil fields but it wasn't bringing any more oil. One of the goals was get investment in the oil fields to get more oil for more revenue, not just more spending in the North Slope. The other goal was long-term production. With the ACES tax, we put ourselves in a situation that on the high end (of oil prices) we weren't going to get the kind of investment we wanted. In the medium range, we weren't too sure it was going to go into production other than just improving infrastructure.

Another thing as a goal with SB 21, we tried to encourage new oil companies to work in Alaska. It was a little different than the credits for exploration. This was credits for production. And so Caelus and Repsol are probably two examples and the relationship between Conoco and Doyon. We have been pushing hard to get gas commercialized off the North Slope. That meant if we took all the cash off the table, it's going to be harder to incentivize. Those were the goals.

Petroleum News: What do you make of this partnership between Doyon and ConocoPhillips? You used it as an example. Do you really make a connection between this and SB 21?

Coghill: The catch phrase we've used when we were debating SB 21 is making it attractive for investment. I think it shows it in fact did that.

Petroleum News: When ACES was drafted, it was a very different time politically. The industry was in public, and in some cases legislative disfavor. You even said back then you didn't trust the industry. What's changed? Have the earned your trust back?

Coghill: It became real clear we had to have a better trust but verify relationship on both accounts. So we changed some of our ethics laws in the Legislature. Certainly the tax change for the oil companies was meant to kick the door open for smaller companies, different companies coming to Alaska, which actually worked. The exploration credits actually got more work up there.

If there is a success story in ACES, that's one of the big successes, that we actually did get people up there. What happened was the production barrier on paying the tax rate was so high all we could get was people putting money into exploration so we had a lot of that and the state picked up a significant chunk of that. When it came time to invest into

see COGHILL Q&A *page 13*

By STEVE QUINN
For Petroleum News


REP. LES GARA

House Rep. Les Gara says the state's old tax system known as ACES needed reworking but the new regime under Senate Bill 21 not only went too far but will not serve its intent: boost production.

Gara, an Anchorage Democrat, says ACES can be fixed the right way, but first voters need to repeal SB 21 at the polls on Aug. 19.

1 2 SERIES

Gara spoke to Petroleum News about his positions.

Petroleum News: To start why do you want to repeal SB 21?

Gara: I want to rewrite a law that gets us something better than what something Scott Goldsmith admits is zero or negative value oil. We can't run a state on oil that gets us negative net worth. Even Scott Goldsmith, hired by the vote no people, has buried in his report that all oil fields after 2003 get us either near zero or negative production tax value.

Q AND A

Petroleum News: You're being out spent nearly 100-to-1, do you really believe you have a chance?

Gara: If the spending was one-to-one Alaska would easily vote yes. Folks in the Legislature did a few tricky things. Number one, they tried to keep away a bunch of working class voters from this initiative by playing this trick where by extending the session, they moved all of the working class, pro fishing stream initiatives that would have been in the August ballot and attracted people to vote in August off to November's general election to try to get those people off the August ballot. That was the oil companies and their allies in the Legislature. I still think we can win. The polling says it's very close. It's unfortunate that people are allowed to lie on TV. That's what the oil companies are doing saying that fields that were moving forward under ACES are really brand new fields.

Petroleum News: What areas do you believe they were misleading?

Gara: With $12 million you can spread a lot of misinformation. Number one, every field they are talking about moving forward, was moving forward under ACES. Unfortunately, fields take from five, seven, 10 years to go from first investment to production. The most notable myth was that recent PR trip they took reporters up to so they could see Point Thomson. It is definitely moving forward. What they left out of their PR campaign was that Point Thomson is only moving forward because under ACES we sued them, we settled with them and under ACES they finally started producing a field that they had left idled for 30 years. So the Point Thomson is the poster child for what the oil companies are doing. Pretending investment that started under ACES is somehow brand new. The only thing that SB 21 does for all this oil moving forward and all this development moving forward is that instead of getting production tax revenue, we get what Scott Goldsmith says on page 19 of his report — something the oil companies have buried — are either zero value for those fields or negative value for a tax that never pays for the deductions and credits we give to these companies to develop these fields.

Petroleum News: When ACES passed and in ensuing years, supporters wanted critics to give it time before making changes and let the plan work. Why not give the SB 21 supporters the same consideration?

Gara: What was moving forward

see GARA Q&A *page 13*

● GOVERNMENT

Alberta — squandering riches?

Fraser Institute report says province's finances in worse shape than other energy-producing jurisdictions, blames too much spending

By GARY PARK
For Petroleum News

Based on a couple of new statistics, there would seem to be little to find for nitpicking with Alberta's economic performance.

The oil- and gas-laden province has posted a net employment gain over the past year of 81,800 jobs, while the rest of Canada lost 9,500. For May alone, Alberta reported a trade surplus of C$7.4 billion, close to the deficit in the other nine provinces.

Bloomberg has calculated that a continuation of these trends would see Alberta sail past Quebec to become the second-largest provincial economy after Ontario within three years.

Benjamin Reitzes, a senior economist at BMO Capital Markets, said "higher oil prices will only exacerbate the regional split," as energy starts to outpace the manufacturing exports from Quebec and Ontario.

Livio Di Matteo, a co-author of the study, said Alberta has been loaded up with debt because of increased spending, not a shortage of revenues.

But the question raised by the Fraser Institute, a right-wing think tank, is how well Alberta is managing its windfall.

It has found room to point an accusing finger at Alberta, arguing the government's finances are in worse shape than other energy-producing jurisdictions in Canada and the United States, notably Saskatchewan, Newfoundland, Alaska, North Dakota and Texas.

A 66-page report said that Alberta was one of only three among the 10 jurisdictions it studied to post a deficit in 2011-12, the most recent period for which comparable data was available.

Drawing on savings

The institute said Alberta has drawn on its savings to pay for operations, driving program spending up by C$22 billion in the four years since the budget year of 2005-06.

Livio Di Matteo, a co-author of the study, said Alberta has been loaded up with debt because of increased spending, not a shortage of revenues.

A spokeswoman for Finance Minister Doug Horner insisted spending did not exceed population growth in the years before 2013, adding that one of the government's key priorities is "bringing our operating spending in check. The concerns (raised by the Fraser Institute) are concerns that we have already addressed," she said.

The official noted that the province has already turned a projected deficit of C$1.97 billion in 2013-14 into a surplus of C$755 million.

She said Alberta is the "lowest tax jurisdiction by far" of all Canadian provinces, while U.S. states are not saddled with the same health care costs.

The report estimated that when resource revenues were removed, Alberta dropped from having the fourth highest average surplus (C$763 per capita) over 2000-11 to having the second largest average per capita debt (C$1,626).

It said Alberta's net debt position declined from a net asset position of C$31.5 billion in 2007-08 to C$12.1 billion in 2012-13

Savings trust at US$12 billion

Although Alberta's Heritage Savings Trust Fund, based on surplus resource revenues, is about US$12 billion, its value per capita is one-twentieth that of Alaska's Permanent Fund of US$44.85 billion in 2012-13 (based on the relative value of the two currencies), with the per capita value at US$61,321 in Alaska compared with US$3,084 in Alberta.

The Alberta fund was estimated at one-third the value of Wyoming's sovereign wealth fund and less than half the value of New Mexico's, with Alberta recording the slowest growth of six funds at 24 percent from 2001 to 2013, while New Mexico grew by one-third, Alaska by three-quarters and Wyoming by threefold.

The Fraser Institute said that over the 2000-11 period, Alaska maintained the highest average per capita spending of US$14,033, with Alberta at US$6,948, with the ratio of average government expenditures to gross domestic product at 25 percent in Alaska and 13.1 percent in Alberta.

As of Jan. 1, 2013, general corporate income tax rates were 9.4 percent in Alaska and 10 percent in Alberta, with neither jurisdiction collecting general sales taxes.

The report said that based on its comparisons "it is clear that Alberta has an opportunity to improve its mix of taxes by shifting away from income taxes, both personal and corporate, and introducing a sales tax."

In taking that step, Alberta would not only bring its tax mix in line with competing energy-producing provinces and states but would improve the efficiency of its tax system, the institute said. ●

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Petroleum News and its supplement, Petroleum Directory, are owned by Petroleum Newspapers of Alaska LLC. The newspaper is published weekly. Several of the individuals listed above work for independent companies that contract services to Petroleum Newspapers of Alaska LLC or are freelance writers.

OWNER: Petroleum Newspapers of Alaska LLC (PNA)
Petroleum News (ISSN 1544-3612) • Vol. 19, No. 32 • Week of August 10, 2014
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518
(Please mail ALL correspondence to:
P.O. Box 231647 Anchorage, AK 99523-1647)
Subscription prices in U.S. — $98.00 1 year, $176.00 2 years
Canada — $185.95 1 year, $334.95 2 years
Overseas (sent air mail) — $220.00 1 year, $396.00 2 years
"Periodicals postage paid at Anchorage, AK 99502-9986."
POSTMASTER: Send address changes to Petroleum News, P.O. Box 231647 Anchorage, AK 99523-1647.

CORRECTION

Budget for IH pad $450 million

An article in Petroleum News' Explorers 2014 publication ("ConocoPhillips still leads North Slope exploration") contained two errors. The article listed ConocoPhillips as having drilled 22 wells in the National Petroleum Reserve-Alaska since 2000, which was gleaned using information from the U.S. Bureau of Land Management, updated through 2013. Through the 2014 exploration, ConocoPhillips has drilled 25 exploration wells in the NPR-A. The article also listed the budget for the ongoing Northeast West Sak 1H pad as $50 million. The actual budget is $450 million. Petroleum News regrets the error.


COOK INLET
Unlocking
Alaska
OSPREY PLATFORM

● EXPLORATION & PRODUCTION

ANS July production down 16% from June

Driven by planned maintenance Prudhoe Bay down 35%, largest drop; largest increase at Lisburne, up 182%, as maintenance ends there

By KRISTEN NELSON
Petroleum News

With the summer maintenance season in full swing on Alaska's North Slope, ANS crude oil production for July averaged 420,420 barrels per day, down 16 percent from a June average of 500,525 bpd, that volume a drop of 7.5 percent from May.

The largest month-to-month drop, 35.3 percent, was at the BP Exploration (Alaska)-operated Prudhoe Bay field, which averaged 190,543 bpd in July, down from 294,537 bpd in June.

BP Alaska spokeswoman Dawn Patience said the drop in Prudhoe production was due to planned maintenance, or "turnaround," staggered from June to September.

"There are three major facilities undergoing turnaround this season," Patience told Petroleum News in an email: "the Central Gas Facility, Gathering Center 2 and Flow Station 3."

"These temporary facility shutdowns took more than two years to plan and take advantage of other planned pipeline shutdowns and the milder arctic climate," she said.

July production data is from the Alaska Department of Revenue's Tax Division which reports North Slope oil production consolidated by major production centers and provides daily production and monthly averages. More detailed data, including Cook Inlet and individual North Slope fields and pools, is reported by the Alaska Oil and Gas Conservation Commission on a month-delay basis.

Prudhoe Bay volumes include satellite production from Aurora, Borealis, Midnight Sun, Orion, Polaris, Sag River and Schrader Bluff, as well as production from the BP-operated Milne Point field. BP is in the process of selling a 50 percent interest in Milne Point to Hilcorp Alaska and that independent, currently Cook Inlet's largest producer, will take over as operator at Milne Point when the sale closes, projected for the end of the year.

Production from Milne Point averaged 20,310 bpd in June, the latest month for which AOGCC data is available; that volume was basically flat, up just 0.5 percent, from a May average of 20,209 bpd.

Lisburne back online

The BP-operated Lisburne facility, which includes production from Point McIntyre, Niakuk and Raven, had the largest month-over-month increase, 181.8 percent, averaging 24,815 bpd in July, up from 8,806 bpd in June, when the field was completely offline for the better part of two weeks, and had below-normal production for most of the rest of the month, due to turnaround. Lisburne is part of Greater Prudhoe Bay.

The ConocoPhillips Alaska-operated Kuparuk River field also saw a month-over-month increase, up 8.33 percent to 146,833 bpd in July from 135,538 bpd in June. Kuparuk volumes include satellite production from Meltwater, Tabasco, Tarn and West Sak NEWS, s well s from the Eni-operated Nikaitchuq field and the Caelus Alaska-operated Oooguruk field.

Nikaitchuq averaged 23,563 bpd in June, up 8 percent from a May average of 21,813, which Oooguruk production averaged 4,623 bpd in June, down 64 percent from a May average of 13,012 bpd.

Other month-over-month declines

Other areas for which North Slope production volumes are reported — BP-operated Endicott and ConocoPhillips-operated Alpine — also saw month-over-month declines.

Endicott averaged 9,074 bpd in July, down 1.2 percent from a June average of 9,183 bpd. Endicott production includes Eider, Minke and Raven, as well as the Savant-operated Badami field. Savant is in the process of being acquired by Miller Energy, parent company of Cook Inlet Energy, a deal expected to close in August.

AOGCC data for June shows Badami production at 1,087 bpd, down 3.3 percent from a May average of 1,124 bpd.

Alpine production averaged 49,155 bpd in July, down 6.3 percent from a June average of 52,461 bpd. Alpine production includes satellites Fiord, Nanuq and Qannik, all in the Colville River unit. A turnaround at Alpine will begin in late August and is estimated to take several days. Alyeska Pipeline Service Co. said the second scheduled long-duration summer shutdown of the trans-Alaska oil pipeline will take place Aug. 29-30.

Cook Inlet drops below 16,000 bpd

Cook Inlet production dropped below 16,000 bpd for the first time since July 2013, averaging 15,394 bpd in June, down 4.23 percent from a May average of 16,073.

The largest month-over-month drop was at Middle Ground Shoal field, operated by ExxonMobil subsidiary XTO. That field averaged 604 bpd in June, down 70.3 percent from a May average of 2,033 bpd.

Cook Inlet Energy's Redoubt Shoal field was also down month-over-month, averaging 1,118 bpd in June, down 9.8 percent from a May average of 1,239 bpd.

Other fields with month-over-month drops in production had minor declines: the Hilcorp Alaska-operated Beaver Creek field averaged 128 bpd in June, down 0.9 percent from a May average of 130 bpd; Cook Inlet Energy's West McArthur River field averaged 1,287 bpd in June, down 0.5 percent from a May average of 1,294 bpd; and the Hilcorp-operated Trading Bay field averaged 2,560 bpd in June, down 0.3 percent from a May average of 2,567 bpd.

The largest month-over-month increase was at the Hilcorp-operated McArthur River field, Cook Inlet's

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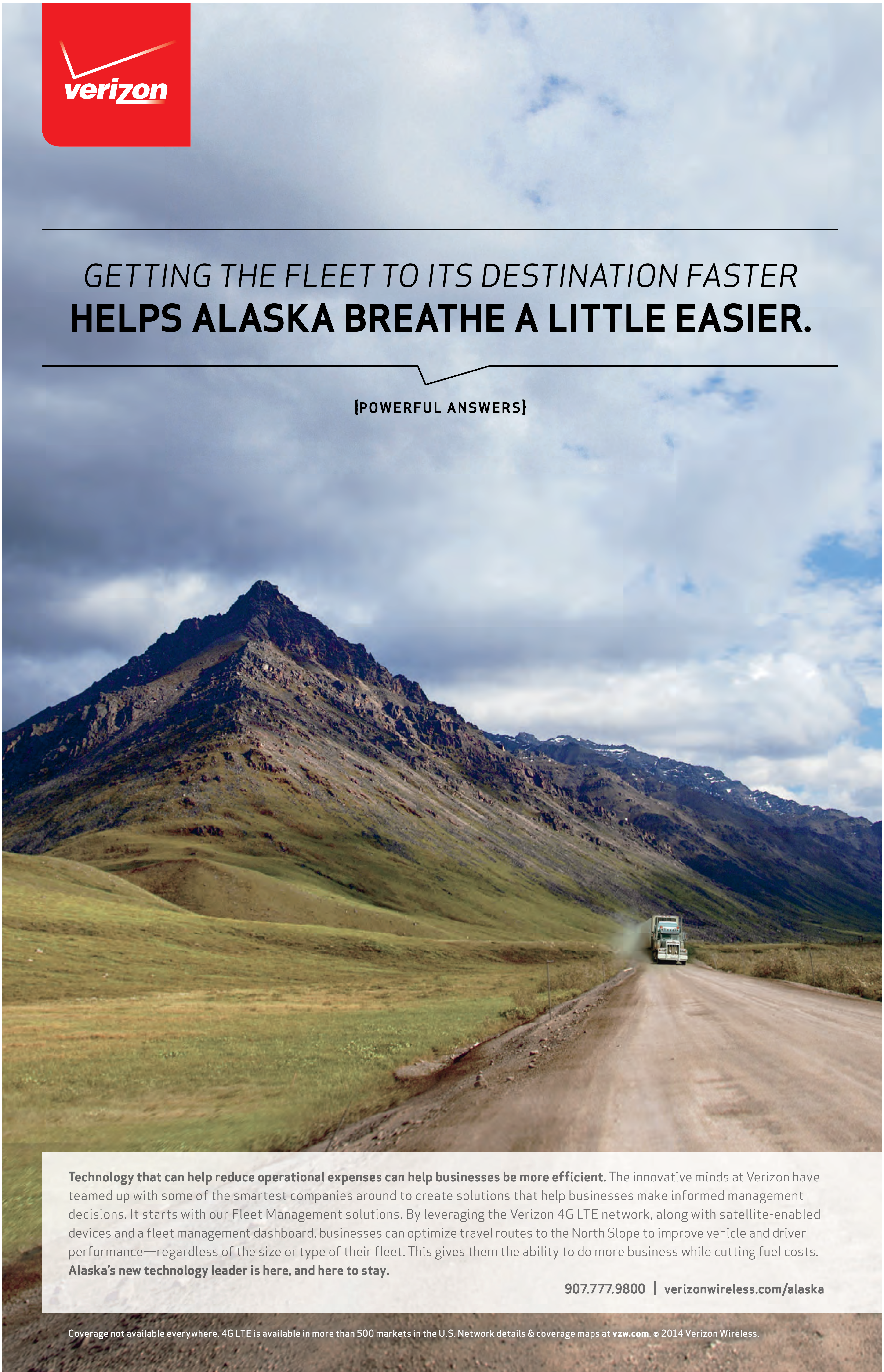
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● EXPLORATION & PRODUCTION

Linc permitting up to 5 exploration holes

Company continuing work north of Tyonek to evaluate resource for underground coal gasification on Mental Health Trust license area

By KRISTEN NELSON
Petroleum News

Linc Energy Operations Inc. is in the processing of permitting up to five exploration holes to evaluate coal seams on the west side of Alaska's Cook Inlet for potential underground coal gasification development.

Just one of the holes is expected to be drilled this year.

The program Linc is permitting is on its 107,497-acre Alaska Mental Health Trust underground coal gasification license areas. Linc has two blocks on the west side of Cook Inlet, the Tyonek UGC exploration license area, some 25,375 acres, and the Kenai UCG exploration license area, some 82,123 acres.

The company is proposing to drill to an estimated maximum depth of 3,500 feet and take cores and associated samples, tests and physical information for evaluation.

One drill hole, TYEX02 in the Tyonek exploration license area, will be drilled this year.

Initial site mobilization was planned to begin in early August, with drilling estimated to begin Sept. 1.

Linc will use the LECR No. 1, a Buffalo American Recon AR-250 drill rig, which is a helicopter portable rotary rig capable of drilling to 5,000 feet; the planned depth of TYEX02 is 3,000 feet.

The Department of Natural Resources, Division of Mining, Land and Water, issued a preliminary findings of fact for the project July 23 and has it out for public review for 30 days.

Unconventional program

Linc, an Australian independent, is working toward development at the Umiat field on the North Slope and has completed the first flow test in decades at that oil conventional oil field, which has been known for decades.

In Cook Inlet, however, the company is now focused on unconventional development.

Underground coal gasification, UCG, involves igniting coal underground and injecting air and water into the coal seams. The mixture of heat and oxygen produces methane.

Peter Bond, Linc's chief executive officer, said in 2010 when the company came to Alaska that Linc had been looking at Alaska because of the state's coal reserves.

The company drilled TYEX01 in late 2011 and the TYEX01X in early 2012 in the Tyonek area, less than three miles from Chugach Electric Association's Beluga power plant. In 2011 and 2012, Linc acquired 2-D seismic over both its Cook Inlet properties and another Mental Health UCG license area which it holds in Interior Alaska.

The rig which the company is using for core drilling is a purpose-built rotary core rig the company commissioned, allowing for faster drilling and greater borehole stability. ●

Contact Kristen Nelson at knelson@petroleumnews.com

● GOVERNMENT

Maine city girds for battle with petroleum industry

By GARY PARK
For Petroleum News

A small coastal city in Maine is ready to do battle with any companies that attempt to move crude from the Alberta oil sands through what has been an oil import point for up to 600,000 barrels per day of heavy Venezuelan and other crudes.

The city council of South Portland has set the stage for a showdown with the petroleum industry by voting 6-1 against allowing Portland Pipeline Co. (principally owned by Canadian oil sands producers and refiners Suncor Energy, Imperial Oil and Shell) to reverse the flow of its pipeline.

The council's zoning bylaw, labeled the "Clear Skies Ordinance," would prohibit the loading of bulk crude on to tankers at its port, effectively preventing any reversal of the 230-mile pipeline that connects with Suncor's refinery at the east end of Montreal.

Although rated as the second largest oil port on the U.S. Atlantic Coast, it has seen the facility decline to half its capacity over recent years, partly the result of declining shipments from Venezuela.

A citizen movement mobilized against any move to reverse the flow of the pipeline when Canadian producers received permission from the Canadian government to reverse Enbridge's Line 9B to allow crude from Alberta to reach the Montreal refinery.

Even if all of the Line 9B capacity of 300,000 bpd was earmarked for export from North America, observers say that would not be sufficient to justify a reversal.

Other export plans

Enbridge and its rival TransCanada have also been working on plans to start exporting crude from the East Coast of Canada and the United States to Europe, the Middle East and Asia.

Portland Pipeline Vice President Tom Hardison told the city council that his company has no plans to reverse its pipeline, but argued the environmental concerns were based on emotion, not fact.

He said in a statement that the vote was "against jobs, energy and the waterfront (and was) the culmination of a rush to judgment led by councilors over the past several months that has ignored plain science in favor of fear, promoted by a vocal group of off-oil extremists."

Hardison said his company is evaluating several options to challenge this "job killing ordinance," while the American Petroleum Institute has vowed to take action.

Attorney questions legality

Maritime attorney Len Langer told Reuters that South Portland's ordinance raises a question of legality.

"The real question here is, can a municipality regulate interstate and foreign commerce? If the answer is 'yes' then we'll see a lot more municipalities more aggressively regulating commerce within their borders," he said.

South Portland Mayor Jerry Jalbert said the ordinance was simply a local regulation that reflected the concern of citizens that oil sands crude "could be damaging to the community and they have asked us to act."

Several other municipalities along the pipeline's route in Vermont and New Hampshire have passed resolutions against the movement through their jurisdictions of "dirty oil" from the oil sands region.

Burt Russell, vice president of operations at Sprague Energy, said the energy industry is constantly evolving and limiting crude oil development could limit the chances of innovation.

He said South Portland has extended its perception of an "imminent risk" posed by the oil sands to all crude.

"That send a signal that if they can do that with this product, they can do it with all other projects," he said. ●

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JULY PRODUCTION

largest field, which averaged 4,894 bpd in June, up 20 percent from a May average of 4,082 bpd. Hilcorp's Swanson River field averaged 2,075 bpd in June, up 3.6 percent from a May average of 2,002 bpd. Hilcorp's Granite Point field was basically flat, averaging 2,727 bpd in June, up 0.04 percent from a May average of 2,725 bpd.

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

Contact Kristen Nelson at knelson@petroleumnews.com

● FINANCE & ECONOMY

First Nation tests petroleum waters

By GARY PARK

For Petroleum News

An Alberta First Nation is taking steps to become an influential player in the petroleum industry, forming a joint venture with a Chinese company to develop its oil and gas resources and challenging an asset swap involving two major pipelines.

The Stoney Nakoda First Nation, which is located 40 miles west of Calgary, signed an agreement July 28 with Hong Kong-based Huatong Petrochemical Holdings to explore and develop oil and gas deposits on 120,000 acres of reserve land.

Huatong will provide the necessary financial backing — which could run to hundreds of millions of dollars — and Nakoda Oil & Gas will become the primary operator of the JV.

"The magnitude of this agreement ... will hopefully bring us one step closer to self-sufficiency for our nation and people," said Bruce Labelle, chief of the Chiniki Nation, one of the Stoney Nakoda communities.

Large volumes of natural gas have been processed over more than 60 years at the Jumping Pound plant on the Stoney Nakoda land. Separately, the First Nation is seeking to apply a recent landmark Supreme Court of Canada verdict to complicate a pipeline deal that includes an asset swap between the TransCanada unit Nova Gas Transmission and ATCO Pipelines.

As an intervener at a National Energy Board hearing into the asset exchange, the Stoney Nakoda are demanding that an ATCO pipeline that runs through their land from Calgary to Banff, but is not part of the proposed swap, should be transferred to TransCanada, bringing it under NEB jurisdiction, not the Alberta Utilities Commission, which regulates ATCO pipelines.

The asset swap, which involves C$170 million of assets, has been in the works for five years.

If approved, it would allow the pipelines to operate under a single set of rates and services, cutting costs for the companies.

The Stoney Nakoda is contesting the transaction, claiming compensation for alleged breaches of aboriginal title and rights by the governments of Canada, Alberta, British Columbia and Saskatchewan, as well as the NEB.

The Supreme Court ruling in June makes it easier for the Stoney Nakoda to establish title over lands that were used for hunting, fishing and other activities before contact with European settlers.

The court requires governments to justify economic development on aboriginal land.

Nova Gas argues the asset swap would not have any physical impact on the Stoney Nakoda because no new facilities are being constructed. It also said the Stoney Nakoda have provided no evidence that the pipelines are on traditional land. ●

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EXPLORATION & PRODUCTION

Canadian upstream on the upswing

Upstream activity in the Canadian oil patch is on the rebound, with drilling forecasts for 2014 raised to 11,460 wells, but a shortage of rig workers poses a challenge in meeting that goal.

The Petroleum Services Association of Canada set the new target at 660 wells above its original forecast, while noting that operators across Canada completed drilling 11,102 wells in 2013, a gain of 1 percent over 2012.

> *The Petroleum Services Association of Canada set the new target at 660 wells above its original forecast, while noting that operators across Canada completed drilling 11,102 wells in 2013, a gain of 1 percent over 2012.*

PSAC said it was basing its revised prediction on average commodity prices of C$4.75 per thousand cubic feet at the AECO trading hub in Albert and West Texas Intermediate crude prices of US$100 per barrel, along with an assumption that the Canadian dollar will average 90 cents U.S.

PSAC President Mark Salkeld said the changed well count was "based on a stronger than anticipated performance during the first two quarters, with 245 more wells drilled during that period."

"We are confident this performance trend will continue and we are forecasting an additional 415 wells to be drilled in Q3 and Q4."

The well count for British Columbia, Alberta and Saskatchewan is expected to increase, but that for Manitoba is down 10 percent.

PSAC said 2,862 oil wells and 509 gas wells were drilled in the first half of 2014, with horizontal drilling accounting for 84 percent.

The latest survey of 135 Canadian oil, gas and utility companies by human resources consulting firm Mercer showed that even with a modest growth assumption for those companies which currently employ 82,500 people, there will be a need to hire 24,000 new employees this year. That adds weight to an outlook report by the Petroleum Human Resources Council of Canada that is counting on a severe labor crunch by early 2015, pointing to the need for 100,000 new workers over the next decade, with the greatest demand to replace staff who reach retirement age.

Don Herring, president of the Canadian Association of Oilwell Drilling Contractors, said the challenge facing his sector is "to recruit people to work on rigs that we are forecasting will run over the summer and into the fall."

The Mercer survey found that 40 percent of the Canadian energy industry is made up of people aged 45 and older, while those under the age of 35 account for only 30 percent. The consultant said employees who receive 5 to 15 percent of their base pay in bonuses are less likely to switch employers than those who receive no bonus.

—GARY PARK

COURTESY NOAA

● GOVERNMENT

Threatened status for bearded seals nixed

Judge vacates NMFS listing, remands matter back to agency; state, oil industry representatives argued listing was groundless

By WESLEY LOY
For Petroleum News

An Alaska federal judge has overturned the 2012 listing of the Beringia population of bearded seals as threatened.

U.S. District Judge Ralph R. Beistline's July 25 decision cheered state officials and oil industry representatives, who argued the National Marine Fisheries Service had no grounds to make the threatened listing.

The listing was based on the idea that the bearded seals, toward the end of this century, could face a significant threat due to diminishing sea ice related to climate change.

Beistline wasn't buying it.

"Troubling to this court," he wrote, was that it didn't appear from the NMFS listing that any significant threat to the Beringia population was contemplated before 2090.

"Even as to that date, NMFS acknowledges that it lacks any reliable data as to the actual impact on the bearded seal population as a result of the loss of sea ice," the judge wrote. "Under the facts in this case, forecasting more than 50 years into the future is simply too speculative and remote to support a determination that the bearded seal is in danger of becoming extinct."

Two distinct populations

In recent years, animals such as polar bears and seals have figured prominently in the debate over climate change and the production and use of fossil fuels.

NMFS in December 2012 issued a final decision to list two distinct populations of bearded seals as threatened under the Endangered Species Act – the Beringia population, found in Alaska waters, and the Okhotsk population found off the coast of Japan and Russia.

Bearded seals are the largest species of arctic seal, reaching weights of 575 to 800 pounds. They are commonly associated with sea ice, which they use for resting, feeding and rearing young.

After the listings, a range of interests filed suit, including the Alaska Oil and Gas Association, the American Petroleum Institute, the state of Alaska, the North Slope Borough, and a number of other local government and Alaska Native organizations.

The Center for Biological Diversity entered as an intervener on the side of NMFS.

Beistline, in his ruling, addressed only the listing of the Beringia population of bearded seals.

Ruling hailed

Beistline held that the decision to include the Beringia bearded seals as threatened was "arbitrary, capricious and an abuse of discretion."

He noted "the lack of any articulated discernable, quantified threat of extinction

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● EXPLORATION & PRODUCTION

Heavy lift vessel arrives for install

Furie's Kitchen Lights monopod first Cook Inlet platform since 2000; pipe already delivered, onshore facilities work under way

By KRISTEN NELSON
Petroleum News

The SAL MV Svenja, a heavy lift vessel, was in Homer at the end of July, on its way to begin work installing Furie Operating Alaska's offshore platform at its Kitchen Lights unit in Cook Inlet.

Furie President Damon Kade told Petroleum News in a July 31 email that offshore installation "will be commencing over the next 3-5 days." Kade said the template which will be installed over the KLU No. 3 well prior to pile installation is also in Homer.

A picture which Damon provided in an Aug. 4 email shows the heavy lift vessel and the template to be set on the KLU No. 3 well.

KLU Platform A will be the 17th Cook Inlet platform, and the first new platform in the inlet since Forcenergy installed the Osprey platform at Redoubt Shoal in 2000.

Pipe for the gas gathering system from the platform to shore arrived earlier and is staged at Port MacKenzie; work is under way at the project's onshore gas processing facilities near Nikiski.

Natural gas production is expected to begin by the end of the year.

FURIE OPERATING ALASKA

Heavy lift ship MV Svenja with template to be set at Kitchen Lights unit KLU Platform A

Template to be used

Kade told Petroleum News earlier in July that platform installation will begin with the placement of the template over the KLU 3 well on the seafloor, to act as a guide for driving the first piles in place. Placement will be done by cranes on the ML Svenja.

Once the template is removed, the monopod's caisson will be lowered into position using the initial piles as guides; then additional piles will be installed to secure the platform structure into position.

Furie drilled three exploration wells and a sidetrack well in the Corsair block since it began drilling in 2011 and has begun drilling an exploration well, KLU 4, in the North Block.

The Corsair block is in the central portion of the Kitchen Lights unit and the platform will be some 10 miles northwest of Boulder Point, near Nikiski.

In its May operating plan approval the Alaska Department of Natural Resources, Division of Oil and Gas, said the Kitchen Lights unit is expected to initially produce up to 200 million cubic feet per day of natural gas for delivery into the Southcentral Alaska gas distribution system. The division's approval is for surface operations on the part of the unit area consisting of state oil and gas lease ADL 389197. ●

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Petroleum news

Oil Patch Bits

Lynden named 2014 Green Supply Chain partner

The Lynden family of companies was once again included in Inbound Logistics magazine's annual Top 100 3PLs and 75 Green Supply Chain Partner lists. Lynden is profiled in the June issue of the magazine for "meeting and exceeding environmental regulations, maximizing fuel efficiency and monitoring and guarding against accidents, emissions and avoidable pollution." The Top 100 3PL list appears in the July issue.

The lists are compiled by surveys and polls of supply chain professionals. The Top 100 3PL Providers list is the result of editors soliciting questionnaires from more than 400 3PLs, detailing the services they provide and their areas of expertise such as warehousing capabilities, web services and vendor management. "Companies like Lynden lead by example, demonstrating excellence and measurable progress each year," says Felecia Stratton, Inbound Logistics editor.

The Green Supply Chain Partner selection considers a company's involvement in three areas: participation in public-private partnerships, corporate sustainability initiatives and collaborative customer-driven projects. According to the magazine, "Lynden's truck fleet is among the most fuel-efficient in the nation based on the EPA's SmartWay program criteria. The company has continued to improve its equipment with more efficient engines; aerodynamic side skirts, tanker, and trailer design; wide-base single tires; and idle-reduction equipment. The improved use of routing software has similarly improved fuel savings, as well as on-time delivery."

Tux Seims joins URS team

TUX SEIMS

URS Corp. says Tux Seims recently joined its team as an environmental and infrastructure intern. Seims is currently in route to receiving his bachelor's degree in civil engineering from the University of Alaska Fairbanks and has experience in ocean mariculture, assisting with building and designing structures based on coastal needs, and water sampling. His current duties at URS include supporting engineering efforts, Donlin transportation analysis, supporting marketing pursuits and construction management support.

Crowley christens new ocean class tugboat in Houston

Crowley Maritime Corp. recently christened the third of four tugboats in the ocean class series, Ocean Sky, in Houston. The ceremony served to formally welcome the third dynamic positioning tugboat to the company's expanded ocean towing fleet, which has been involved in most of the major offshore oil production installations in the U.S. Gulf of Mexico over the past 16 months.

Todd Busch, senior vice president and general manager of Crowley's solutions group, opened the ceremony to approximately 140 guests. He was followed by a series of speak-

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

All of the companies listed above advertise on a regular basis with Petroleum News

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COGHILL Q&A

the production capacity, we couldn't get there.

What's changed with me has been that once we went through hours and days and weeks and months of consultants telling us about the international field, we began a learning process that was very, very different.

That was we began comparing ourselves with a variety of different regimes across the world and try to winnow down where we fit in the investment part of the world. That showed me companies will look out for their best interest. It was up to us to look out for ours.

Petroleum News: So do you believe the state has looked out for its best interest — and I don't mean just money in the state's coffers — with SB 21?

Coghill: This is how I look at it. I look at what are the principles? You go back to the constitution, right? The maximum benefit to Alaskans, right? A lot of people are saying let's get the most cash now. My attitude is the constitution was written for multiple generations. The maximum benefit has to be an investment that's good for this generation and good for the next generation. And so if we price ourselves so high that we've taken investment out of Alaska, we aren't doing the next generation any good. So the maximum benefit to Alaska. Certainly being attractive to investors in Alaska. We went through years of looking at how we fit in the world. Yes, you can get somebody to pick one of those things from one of the consultants and say look at this. We took all of the assumptions and we tried to figure out where do we fit as the most attractive given the circumstances Alaska was under. Probably for me the idea of how do you keep a tax simple, clear, predictable and enforceable were things I looked at. As we looked at ACES, we lost on predictable, and simple and clear. Enforceable, probably. Because we tied several parts to progressivity and there were four moving parts, based on price, production and spending cost. They were all different ever month, cyclical annually and cyclical almost daily based on price. Very difficult to be predictable. It comes down to the principles of having a long-term strategy, benefit to Alaska, something attractive to investors and a simple quarterly tax.

Petroleum News: So then why do you believe this will still put more oil in the pipeline? I'm not talking about federal oil.

Coghill: Well, I think it's been said many times that Kuparuk and Prudhoe are the fields that are going to be the paying fields for a little while. They are going to require more investment. It's just an economic and geologic fact that the harder oil costs more to get. And so in order for us to keep people here who will invest dollars into getting that oil here, we need a tax strategy that connects longer term to an investment strategy. That includes heavy oil, viscous oil and new oil. I believe between metering and geology we can tell what the new oil is but we want that new oil coming up. It's there. Geologically, we know it's there.

Petroleum News: But the state projections still predict a long-term decline. How does that work into the argument of keeping SB21?

Coghill: It's a mature field. If you are going to ask people to come in and invest into a mature field, whether it's a big oil company or the Repsols of the world, they are going to take investment strategies that are long term and costly. Will we ever get back to 2 million barrels? I sure wish. I know we have more reserves than we ever thought. Then the other thing is, there are smaller oil fields, if we can get the gas off of them and commercialize them, then the smaller fields become more attractive to produce. If we can keep our pipeline flowing somewhere around 500,000 barrels a day, everybody wins. If we go down to 300,000, we start losing. We need to get what oil recovered we can.

Petroleum News: You mentioned natural gas. Do you believe a no vote is really a yes vote for a natural gas pipeline? There have been a lot of links to this tax regime and the prospects of advancing a gas line project.

Coghill: If you put it that simply, probably yes. I've heard the rebuttal to that is "you're trying to put pressure on us or you're trying to blackmail us." I think once again it ends up as an investment strategy question. I guess the only way I can portray it is the way I did to a lady the other day. I said, 'how would you like to invest in your house and to keep that house, but I was going to change the rent on you every other week. How much would you invest?' I think that is the question we have to ask ourselves, if Alaska is going to, through years of public debate, put a tax structure in and then have it turned out based on a campaign that is probably less substantive and more emotional. ●

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GARA Q&A

under ACES — which frankly I would make better with improvements rather than gut so we get no money in the future and have to keep firing teachers — what ACES got us was fields that were moving forward. Kuparuk was being expanded under ACES. CD-5 in the National Petroleum Reserve was committed to and moving forward under ACES. Mooses Tooth and Bear Tooth in the National Petroleum Reserve were all being explored and invested in under ACES. Point Thomson was moving forward under ACES. More companies came up to Alaska under ACES than had ever come to Alaska before, and those companies are developing on the North Slope because of ACES. I would certainly improve ACES, but throwing out a law that built up a $17 billion surplus, that brought a development forward that is still moving forward is not the smart thing to do. The smart thing to do would be to revisit ACES, look at things to make it better, but not adopt a law that gets us a zero value for our production tax on all fields after 2003 and all new fields. That's going to bankrupt the state, kill jobs, kill teacher jobs, kill construction jobs and only benefit the oil industry.

Petroleum News: The word giveaway has been used a lot. Is it really a giveaway or is it taking less? What's the difference?

Gara: I don't like that term so much. It's terrible policy if you care about having an economy that supports teachers, road construction, jobs. I think it's terrible policy unless you believe getting zero worth on a production tax on fields after 2003 or all new fields is OK. It's just a terrible idea. The giveaway thing, I can take that term or leave that term. But Scott Goldsmith who the oil industry quotes all the time admits in a part of his report they don't quote that if SB 21 were in place in 2011 and 2012 it would produce roughly $2.5 billion to $3 billion less in revenue than ACES did at a time when the Big 3 were making $2 billion a year in profits in Alaska. They weren't suffering. They are just getting even more money than they are now.

Petroleum News: Now ACES did not meet the production projections by any stretch. How do you account for that?

Gara: The Parnell administration came up with what it calls the best oil production forecasting process ever. It came up with that in April 2013. It does a biannual report on production forecasts. It predicts as of April 2014 that oil production will fall under SB 21 by roughly 40 percent by 2023. If you look at the last production forecast they did under ACES, under the same forecasting method in April 2013, they actually show more oil in 2022, the last year they are projected for ACES, than they do under SB 21 in 2022. So SB 21 is leading to the same or greater decline than ACES did. It's giving us far less revenue for losing the same amount of oil. Instead what we should do is come up with incentives that tell companies you can't take your tax breaks and invest them in Libya, Azerbaijan and Russia. That doesn't work when oil is a world commodity. What you have to do is say we will give you incentives if you develop the heavy oil underground. We want that developed. We will give you incentives if you develop in Alaska, but not if you send your money outside of Alaska. And when oil reaches very high prices and oil companies are making staggering profits, we should get a fair share so we don't have to keep firing teachers, and so we don't keep losing construction and road jobs which is the future of the state under SB 21.

Petroleum News: So what would you be willing to retool from ACES?

Gara: We have to keep the provision that has a modest tax rate but at high oil prices, when oil companies get windfall profits, we get a fair share so we aren't living in billion dollar deficit mode. At some point the tax at high oil prices has to be capped, which was the oil companies original concern before they realized they could get away with SB 21. We should add a new provision that does more for research and development so we can get that heavy oil out of the ground. SB 21 does very little for that. We need to help smaller companies get oil in the pipeline. Exploration credits are about to expire in a year and a half. We need to help them so that they can develop the North Slope at a time when BP has announced under SB 21 they are cutting back their presence in Alaska. The future of this state is keep developing big fields but to get small companies to start pushing and developing our new fields. Those are the future, but those are the ones that this current law taxes at what Scott Goldsmith admits around a zero or negative value to the state. That's just insane. ●

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APACHE MOVE

add an export tax to the royalty and corporate taxes it would collect from Kitimat.

It sent out the clearest signal yet that Apache and operator Chevron (even though it is one of the top global energy players) have been unable after several years to secure buyers for the LNG resource without relinquishing their hopes to achieve oil-indexed pricing for the LNG in Asia.

'Fundamental weakness'

Ed Kallio, director of gas consulting at Ziff Energy (a division of Solomon Associates), said that even though Kitimat is a "shovel-ready project," the partners have been struggling to deal with a fundamental weakness, with the "A-list" of Asian energy players involved in rival LNG projects for Canada's West Coast.

In particular, Korean, Chinese and Japanese companies are participating in the Shell-led LNG Canada project, with a terminal planned for the Kitimat area, and the Petronas-operated Pacific Northwest LNG project near Prince Rupert.

Those global LNG buyers who are not capable of taking an equity position in British Columbia's operations are also turning their efforts to arranging supplies from United States projects, Kallio said.

Fadel Gheit, an analyst with Oppenheimer & Co., said the "odds have increased that there will be no Kitimat," while Bill Gwozd, senior vice president of gas serves at Ziff Energy, said the commodity pricing stand-off between Asia's prospective buyers and British Columbia's LNG probably played a role in Apache's departure.

He said Apache is effectively saying it "can't afford to play around and dance. We need the market to step up and pay the right price."

Uday Turaga, chief executive officer of ADI Analytics in Houston, told Bloomberg that it's possible Chevron might attract a partner with experience in developing LNG and with contacts that missed the first wave of investment in Canada.

"I don't think there will be a dearth of suitors who want to take Apache's place," he said. "It's going to be a bit of rough weather for the project until additional partners can be lined up."

Long-term issues

George Kirkland, Chevron's vice chairman and executive vice president for upstream production, told analysts on his company's second-quarter conference call that Apache "needs to move through the issues and we need to get a new partner."

He said the project needs to reach its target of signing up long-term buyers in Asia for 60 to 70 percent of Kitimat's planned production of 11 million metric tons a year before a final investment decision can be made.

"We're not going to do a project unless it's economic," Kirkland said.

While it waits on that front, Chevron will continue drilling the Liard formation in northeastern British Columbia to prove up reserves as Kitimat feedstock, while surveying the route for the Pacific Trails pipeline to deliver gas from TransCanada's Merrick Mainline system to the Kitimat liquefaction and tanker terminal.

Apache Chief Executive Officer Steven Farris told an analysts' call that Apache intends to "completely exit the Wheatstone and Kitimat LNG projects," but that won't undermine Kitimat's value.

The goal for Apache is to reposition itself for "profitable and repeatable North American onshore growth," the company said in a statement.

"Whether we're in it or not, it is a world-class project with world-class reserves and frankly Chevron and Apache at this point are way ahead of anybody else in that arena."

Farris said it makes sense for someone else who can handle the long time horizon to complete an LNG project to enter the picture.

Governments sign MOU

The Kitimat ownership shuffle quickly erased what would otherwise have been positive news from the British Columbia government, which signed a non-binding memorandum of understanding with the Chinese government, pledging cooperation and information sharing to help advance British Columbia's LNG sector.

The two sides said they will "work together with appropriate authorities to secure and facilitate the entry of foreign workers" to the province, while "respecting the priority of hiring domestic labor when possible."

Natural Gas Minister Rich Coleman said his government cannot avoid hiring temporary foreign workers — especially those that require highly specialized experience in the LNG industry — to fill some of the 100,000 jobs will be created if several LNG facilities materialize.

Still living in hopes that the British Columbia government can convert LNG revenues into a C$100 billion prosperity fund over the next 30 years, an alliance of five municipal governments in northwestern British Columbia has formed an alliance to seek a 3 percent share of those riches, while also counting on a slice of the controversial Enbridge Northern Gateway oil sands bitumen pipeline, plus gold, copper and molybdenum mines.

The government said only that it is committed to ensuring that provincial communities "realize the full potential of opportunities afforded by major industrial developments."

Fracking concerns

But, in keeping with the recent trend of one step forward, one back, a scientific review led by Simon Fraser University researchers said the environmental impacts of hydraulic fracturing to extract natural gas — an underpinning of the resources that will serve as LNG feedstock — are not well understood and could pose a threat to the province's ecosystems.

Simon Fraser conservation biologist Viorel Popescu said poor regulation and inadequate disclosure of the chemicals used for fracturing have left huge "knowledge gaps" about the downside of the process.

He warned that British Columbia is on the verge of launching a massive expansion of its gas sector without knowing the consequences.

Popescu said that the 24 states in the U.S. with active shale gas reservoirs each has a mandate and regulations, but "may not require that proprietary chemicals be disclosed," while Canada leans towards greater transparency.

But it's important to know "what we are putting into the ground, how much stays there and how it migrates," he said.

—GARY PARK

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OIL PATCH BITS


COURTESY CROWLEY

ers including Joe Huley, vice president, NC Power Systems, and Bruce Greshman, vice president, Heerema Marine Contractors, a Crowley customer who spoke about the 20-year relationship the two companies have enjoyed — a relationship, he remarked, based on "mutual trust, cooperation and responsibility to achieve the same goals."

Following an introduction of the tug's crew members and a blessing of the vessel by Father Sinclair Oubre, Jennifer Legg, Crowley's assistant treasurer and vessel sponsor, broke the ceremonial bottle of champagne across the hull of the boat.

The Ocean Sky, which features DP2 technology, is part of a feature-rich, four-vessel family of tugs ideally suited to work with Crowley's new 455 series high-deck strength barges, which measure 400 feet long by 105 feet wide. Crowley's ocean class tugs are outfitted for long-range, high-capacity ocean towing; rig moves; platform and floating production; storage and offloading unit tows; emergency response and firefighting.

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NMFS LISTING

within the reasonably foreseeable future."

Beistline also noted that "NMFS acknowledged that it lacks sufficient data on the resilience of bearded seals to cope with climatic changes."

The judge vacated the Beringia listing and remanded the matter to NMFS to "correct … substantive and procedural deficiencies."

State officials and industry representatives hailed Beistline's ruling.

"We are pleased the court agreed that the listing of the bearded seal was not warranted," Alaska Attorney General Michael Geraghty said in a July 25 press release. "The listing was based solely on speculative 100-year projections that lacked any credible scientific evidence. Because it was unnecessary the listing would only place unnecessary and costly regulatory burdens on responsible development opportunities and divert resources from helping species that truly need it."

Alaska Fish and Game Commissioner Cora Campbell added: "We are pleased that the court acted on the admission by NMFS that it lacked any reliable data as to the actual impact on the bearded seal population as a result of the loss of sea ice out to end of the century. We are also pleased with the court's finding that in this case forecasting more than 50 years into the future is simply too speculative."

"This decision is a win for science," said Kara Moriarty, president of the Alaska Oil and Gas Association. "AOGA's opinion is that these listings were not supported by the available scientific data, which show bearded seal populations to be healthy, abundant and thriving. We are gratified that Judge Beistline agreed." ●

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BID OPENING

opening for competitive exploration licenses."

The division is not releasing the name of the other company which expressed an interest.

$1.5 million work commitment

In its bid, Cook Inlet Energy committed to spend $1,501,000 over four years for an exploration license on 168,581 acres of state land on and offshore the Iniskin Peninsula. The minimum work commitment for the license was $1 million.

Barron said Cook Inlet Energy will also pay a one-time of fee of $168,581, $1 an acre, for the license.

He said the exploration license program, in which companies bid the amount they will spend to explore rather than the bonus bids the state receives in its areawide oil and gas lease sales, is intended to encourage exploration in areas not included in the state's areawide oil and gas sale program. These areas are far from existing infrastructure, have relatively low or unknown hydrocarbon potential and have a higher investment risk.

Upon completing its work commitment, Cook Inlet Energy may convert any portion of the license area to oil and gas leases with a five-year term, a royalty rate of 12.5 percent and annual rent of $3 per acre.

Cook Inlet Energy, owned by Miller Energy Resources of Tennessee, operates the Redoubt Shoal field offshore in Cook Inlet, the West McArthur River field and the West Foreland gas field on the west side. In 2013, the company acquired the North Fork gas field on the southern Kenai Peninsula, and is in the process of acquiring Savant Alaska, which operates the North Slope Badami oil field.

Cook Inlet Energy holds two exploration licenses, 62,909 acres in the Susitna Basin IV license and 45,764 acres in the Susitna Basin V license. The company has a $2.25 million work commitment in Susitna Basin IV and a $250,000 commitment in Susitna Basin V.

Site of early drilling

There are oil seeps on the Iniskin Peninsula, which drew early exploration efforts. Barron said the first well as drilled there in 1902 and drilling continuing sporadically through the 1950s.

The most recent exploration work in the area was a 41 mile 2-D seismic shoot done by SAExploration Inc. for Hilcorp Alaska between Chinitna Bay and Iniskin Bay in the summer of 2013. The seismic application said 3.1 miles of the survey would be on state land, with local land use permits required for other areas from Tyonek Native Corp., Cook Inlet Region Inc., Salamatof Native Association Inc., Seldovia Native Corp. Inc. and Ninilchik Natives Association, Inc., as well as private permits from landowners for staging areas.

As the map of the exploration area demonstrates, the state owns just four blocks on the Iniskin Peninsula in the exploration license area, so the majority of acreage Cook Inlet Energy licensed is state tidal and offshore acreage.

—KRISTEN NELSON

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JV FORMED

ly meetings to exchange information and address regional and development issues.

Rock, Edwardsen to head AIO

Rex A. Rock Sr., ASRC president and chief executive officer, will also serve as president of AIO.

"Our region has always been a leader in strategic partnerships that provide meaningful benefits to our shareholders, to our people," Rock said in a statement. "I am humbled to acknowledge that this arrangement balances the risk of OCS development borne by our coastal communities with the benefits intended to support our communities and our people."

Anthony E. Edwardsen, Ukpeagvik Inupiat Corp. president and chief executive officer, will serve as chairman of AIO.

"Our values teach us that we achieve success by putting the needs of our community at the center of what we do," Edwardsen said.

"It is important that our community has a seat at the table to represent the subsistence and economic needs of our shareholders. Through AIO we will have meaningful input into this process while providing benefits back to our shareholders."

Shell Alaska Vice President Pete Slaiby called it "an important day for our Alaska Venture."

Theresa Imm is the AIO general manager.

Shell sees opportunities for communities

Shell Alaska Vice President Pete Slaiby called it "an important day for our Alaska Venture." He said a regional alliance with Alaska Native corporations "provides Shell the opportunity to collaborate with savvy and experienced North Slope business partners going forward. It also underscores our commitment to provide opportunities for North Slope communities to directly benefit from Shell's activities offshore Alaska."

Those activities were on hold the last two years.

Royal Dutch Shell Chief Executive Officer Ben van Beurden said at a July 31 second quarter earnings conference call that "Shell is opportunity rich and capital constrained." As reported by Seeking Alpha, van Beurden said Shell will move ahead with growth projects where Shell is in the front-end engineering and design stage. But, he cautioned, the company will be "more selective on new FEEDs" and said the company's executive committee is now reviewing FEEDs with a $500 million or greater cost.

Van Beurden said long-term plays like the Arctic and other frontier regions could deliver substantive new oil and gas fields, but said of Alaska that Shell is currently blocked by U.S. courts and won't commit to drilling until those issues are resolved.

Simon Henry, Shell's chief financial officer, said when Shell gets into Arctic drilling, "we want to be ready for it from a let's say operational perspective. We want to be able to do this completely flawlessly."

Shell began wells in the Chukchi and Beaufort seas in 2012 — the Beaufort Sea is not included in the joint venture with AIO — but did not drill in 2013 or 2014 due to legal issues with its leases and logistical problems the company encountered in moving the drilling rigs south after the 2012 drilling season.

AIO welcomed

Statewide elected officials praised the joint venture.

Alaska Gov. Sean Parnell lauded the creation of AIO and said "Shell's partnership with the Alaska Native corporations that will provide a greater voice and opportunity for the people in the region and a seat at the development table. This establishes a very positive precedent in Alaska's Outer Continental Shelf, showing strategic partnership among North Slope communities and Shell, both of which understand the importance of developing Alaska's offshore oil and gas resources," the governor said.

"This announcement ensures that the people of the North Slope Borough share directly in the oil and gas bounty off of their coast," U.S. Sen. Lisa Murkowski, R-Alaska, said in a statement. "It gives locals a say in what happens near their communities. I think that's a wise decision on Shell's part."

U.S. Sen. Mark Begich, D-Alaska, said it was exciting to see Alaska Native corporations "take a stake in responsible development in their backyard." He said "it's good to see Shell partner with local communities and corporations. Hopefully, we'll see this partnership pay off in the very near future." ●

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AVCG SALE

also includes AVCG's and Ramshorn Investments' stake in exploration prospects across the North Slope, including the Tofkat and Kachemach units between the Kuparuk River unit and the Colville River, the Beechey Point unit north of Prudhoe Bay and a package of leases on the eastern North Slope near the Savant-operated Badami unit.

"Alaska attracted us because it remains a world-class hydrocarbon basin with considerable untapped potential, near existing infrastructure and because the Parnell Administration has created a very attractive investment climate for independent oil and gas companies," Thyssen Petroleum CEO Hamid Jourabchi said in a statement.

Armfield said the recent changes to the Alaska fiscal regime instituted through the More Alaska Production Act had a "definite impact on this" deal. While much of the public conversation about the necessity of those changes has focused on the largest North Slope producer, Armfield said, the deal proves that the law "does affect the small guys as well."

The players

The Alaska Venture Capital Group became one of the most active Alaska exploration companies over the past 15 years by assembling joint ventures of small independents.

The new deal replicates that model for development.

Thyssen Petroleum North Slope Development LLC is a subsidiary of Thyssen Petroleum LLC, a privately owned oil and gas exploration company based in the British Virgin Islands, with offices in Monaco and Houston and operations in the U.S. Gulf Coast.

The Singapore-based technology company JK Tech Holdings Ltd. was founded in 1990 to provide products and services to businesses, schools and governments in the country. But in April 2014, the company announced plans to expand into the oil and gas sector by partnering with SF Ventures Pte. Ltd. and Ezion Holdings Ltd. Through the deal, JK Tech Holdings issued 13 million shares to SF Ventures and 42 million shares to Ezion, and created a wholly owned oil and gas subsidiary called JK E&P Group Pte. Ltd.

Ezion Holdings is already an active investor in Alaska.

In 2011, the Singapore-based marine company Ezion partnered with Buccaneer Energy Ltd. and AIDEA and to acquire a jack-up rig for use in shallow offshore waters of Alaska, particularly in Cook Inlet. Earlier this year, Buccaneer sold its stake in Endeavour jack up rig to Teras Investments Pte Ltd., a wholly owned subsidiary of Ezion.

In May 2014, AIDEA and the Ezion affiliate CES Oil Services Pte. Ltd. partnered to fund a nearly $225 million oil processing facility to support operations at the Mustang field.

The third partner in the deal, MEP Alaska LLC, is a newly created subsidiary of Magnum Energy Partners LLC, a relatively new exploration company based out of New York City. ●

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CONOCO EARNINGS

ter, the same rate the company paid in the first quarter of this year and the second quarter of last year. Including other taxes — a figure ConocoPhillips only reports for Alaska — the rate was up to 50.3 percent, down slightly both by quarter and by year.

Companywide, ConocoPhillips reported $2 billion in adjusted earnings in the quarter.

Production down

ConocoPhillips production continues to decline in Alaska.

The largest producer in the state reported a 2 percent or 4,000 barrels of oil equivalent per day year-over-year decline in total quarterly production to 193,000 barrels of oil equivalent per day, which the company described as "in line with the expectations." The company saw Alaska production fall 7,000 barrels of oil equivalent per day from the first quarter of the year on normal declines and higher planned downtime for maintenance.

By product, though, the picture was more nuanced.

While Alaska crude oil production fell nearly 3.5 percent to 170,000 barrels per day, Alaska natural gas production increased 18 percent to 45 million cubic feet per day. (The company produced 16,000 barrels of natural gas liquids per day during the second quarter, equal to the first quarter and up slightly over the second quarter of last year.)

ConocoPhillips attributed the increased natural gas production in the quarter to the two cargoes of LNG shipped from the previously dormant Kenai Peninsula facility.

By comparison, ConocoPhillips produced 191,000 barrels per day of oil from the Lower 48 during the second quarter. The figure is a dubious milestone: the first time in recent memory that ConocoPhillips produced more oil from the Lower 48 than from Alaska.

Historically, ConocoPhillips produced more oil in Alaska and more natural gas in the Lower 48. But with the growing influence of unconventional oil plays such as the Eagle Ford shale and the Bakken formation in the ConocoPhillips portfolio, the Lower 48 now leads Alaska in production of both commodities. ConocoPhillips produced nearly 1.5 billion cubic feet of natural gas per day in the Lower 48 during the second quarter.

Companywide, ConocoPhillips produced nearly 1.6 million barrels of oil equivalent per day during the second quarter — 605,000 bpd of oil and 4.1 million cubic feet per day of gas.

In Alaska, ConocoPhillips reported an average liquids price of $108.93 per barrel for the second quarter, up from $106.09 per barrel in the second quarter of 2013. The price includes both crude oil and natural gas liquids. In the Lower 48, ConocoPhillips reported an average crude oil price of $93.73 per barrel during the quarter. Companywide, ConocoPhillips reported an average crude oil price of $103.53 per barrel in the quarter.

Alaska natural gas prices rose even faster than oil, to $6.03 per thousand cubic feet for the quarter, up from $4.03 per thousand cubic feet during the second quarter of 2013. The large increase reflects the resumption of liquefied natural gas exports from the Kenai terminal, which are executed on a different set of contracts than the natural gas sold to local utilities.

By comparison, ConocoPhillips reported an average natural gas price of $4.43 per thousand cubic feet in the Lower 48 and $6.66 per thousand cubic feet companywide.

Spending up

The earnings also reflect the influence of increased spending.

ConocoPhillips spent $390 million on capital projects in Alaska during the second quarter, down from $415 million spent in the first quarter but up from $283 million in the second quarter of last year. Through the first half of 2014, ConocoPhillips has spent $805 million on capital projects in Alaska, up from $545 million over the same period last year.

The much-publicized increase in capital spending includes work at Kuparuk Drill Site 2S and the Kuparuk 1H Northeast West Sak or NEWS project, and the Alpine West satellite. Construction on the Alpine West or CD-5 satellite "has begun and fabrication is under way," Executive Vice President for Exploration and Production Matt Fox said during an earnings call. The project remains "on track" for startup in late 2015.

ConocoPhillips also recently commissioned a new drilling rig for the Kuparuk River unit.

The projects are expected to cost some $2 billion altogether, and could add more than 40,000 gross barrels of oil equivalent per day in production by 2018, the company said.

The balance between those capital projects, the profits ConocoPhillips is earning in Alaska and the taxes and royalties the company is paying in Alaska are at the heart of a debate about whether to keep the More Alaska Production Act, or repeal it. The quarterly earnings are the last figures available to the public before Alaska voters decide the fate of the fiscal regime in an upcoming referendum. "We certainly hope the legislation prevails," Fox said. "We believe it's important for continued oil and gas development in Alaska. We have identified and are actively developing opportunities for growth."

ConocoPhillips also reported $135 million on depreciation, depletion and amortization expenses in Alaska during the second quarter, somewhat even with prior quarters. ●

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