

## Royale names farm-in partner

The joint venture partner Royale Energy announced, but did not name, April 10, is Australia-based Rampart Energy Ltd., listed on the Australian stock exchange as RTD.

The two companies closed their farm-in agreement at the end of May, a deal giving Rampart the ability to earn up to 38,000 net onshore acres of Royale's 96,000 acre Alaska North Slope holdings that are prospective for both conventional and unconventional oil.

The transaction includes Rampart funding the drilling of two wells with horizontal legs in the Western Block of Royale's acreage by March 31, 2015. The 10-year leases were issued to Royale by the State of Alaska in December.

Formerly a Vancouver, B.C., geothermal firm called Earth Heat Resources Ltd., in February shareholders approved a change of registration to Australia, followed in April by a change in name to Rampart Energy Ltd., which is more in keeping with its move away from geothermal energy in favor of conventional and unconventional oil and gas opportunities in mature petroleum provinces, specifically regions "that

*The transaction includes Rampart funding the drilling of two wells with horizontal legs in the Western Block of Royale's acreage by March 31, 2015.*

see **ROYALE PARTNER** page 14

## Utilities gain breathing space for decision on gas importing

With contracts in the offing for gas supplies through to 2018, the Southcentral Alaska utilities have gained some welcome breathing space in making a decision over whether and how to import gas into the Southcentral region, as supplies from aging Cook Inlet gas fields decline, John Lau, director of engineering for Enstar Natural Gas Co., told the Regulatory Commission of Alaska on May 29.

Previously, with gas deliverability likely to run short during the winter of 2014-15, the utilities had been faced with fast-tracking a capability to import gas as liquefied or compressed natural gas, probably from western Canada. But with Hilcorp Alaska, the company that has taken over Chevron's and Marathon's Cook Inlet assets, forging ahead with a determined program of field refurbishment and development, it now appears certain that adequate gas supplies can be continued for at least an additional four years.

Lau said that he feels comforted by the new gas supply time horizon, given the very aggressive schedule that would have been required to meet that earlier 2014 import deadline.

At this point no one knows what the gas supply situation will be beyond 2018. And so, to be prepared for the eventuality of having to import gas, the utilities are moving ahead, preparing the ground for a possible gas import facility. The plan now is to do some preliminary engineering for a facility and to obtain feedback from the Federal Energy Regulatory Commission, or FERC, on the permitting issues that would

see **GAS SUPPLIES** page 15

### FACILITIES

# AIDEA gets energy

Some 4 years after strategic planning process, gains importance in O&G sector

By **ERIC LIDJI**

For Petroleum News

One of the most ambitious players in the Alaska oil and gas sector is not a producer, or a pipeline company, or even an oil field services company. It's a public corporation.

After decades with limited involvement in the largest private industry in the state, the Alaska Industrial Development and Export Authority is currently involved in drilling, infrastructure and distribution projects on the North Slope, Cook Inlet and the Interior.



**TED LEONARD**



**JAMES HEMSATH**

Just five years ago, AIDEA was involved in only a handful of energy projects, including the Snettisham Hydroelectric Dam and the Healy Clean **1 2** **SERIES** Coal Project.

But a strategic plan in 2008 and 2009 kicked off a new era for the public corporation, which the Alaska Legislature created in 1967 to promote economic development in the still-young state.

When the state created AIDEA, it charged the

see **AIDEA ENERGY** page 16

### NATURAL GAS

# Shadura gas in jeopardy?

FWS options for road access give pause to firm proposing project in Kenai refuge

By **WESLEY LOY**

For Petroleum News

Federal land managers have released a final environmental impact statement for the proposed Shadura natural gas development on Alaska's Kenai Peninsula. And the company pursuing the project apparently is uneasy with some of the alternatives still on the table.

The U.S. Fish and Wildlife Service is taking public comments on the EIS until June 23.

The 538-page document analyzes NordAq Energy Inc.'s proposed gas development in the northwestern section of the Kenai National Wildlife Refuge.

NordAq is assured of the right to tap the gas.

*"NordAq is unwilling to accept the financial costs and complications associated with the SRU access route, and would not move forward with its project were the SRU route imposed," the company said.*

The main question is how the company may access its drilling and production pad. The EIS looks at five alternatives.

Under NordAq's proposal (Alternative 2), the company would put in a 4.3-mile gravel road from the north, off the Kenai Spur Highway. Buried gas

see **SHADURA GAS** page 14

### FINANCE & ECONOMY

# Sales search bogs down

Alberta oil sands pulls assets off block due to pipeline challenges, capital costs

By **GARY PARK**

For Petroleum News

When the Canadian Association of Petroleum Producers issues its annual crude oil forecast in June it expects to stick with last year's target of a doubling of oil sands output to 3.8 million barrels per day over the next 20 years. Others show signs of being less bullish.

Faced with opposition from all sides to pipeline expansions out of Alberta, rising capital costs, tighter Canadian government limits on foreign investment, wild swings in Canadian crude prices and softening returns, the investment community seems to have tempered its enthusiasm for the resource.

*Kayande said a West Texas Intermediate price of US\$83 per barrel is the breakeven price for thermal recovery projects, compared with US\$60-\$70 for light oil production in the Permian basin of West Texas.*

Calgary-based investment bank Peters & Co. estimated in late May that 11 billion barrels of recoverable oil sands reserves valued at an estimated C\$17 billion were put up for sale in 2012.

A handful of oil sands owners have been stalled

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# Alaska - Mackenzie Rig Report

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

## Alaska Rig Status

### North Slope - Onshore

<b>Doyon Drilling</b>			
Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay X-02, workover	BP
Dreco 1000 UE	16 (SCR/TD)	Milne Point MPE-11	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD1-49	ConocoPhillips
AC Mobile	25	Prudhoe Bay U-16	BP
OIME 2000	141 (SCR/TD)	Kuparuk 1F-16A	ConocoPhillips

<b>Kuukpik</b>	5	Rigged up on Umiat Disp#1 to spud December 2013	Linc Energy Optrations Inc.
----------------	---	---	-----------------------------

<b>Nabors Alaska Drilling</b>			
Trans-ocean rig	CDR-1 (CT)	Prudhoe Bay	Stacked
AC Coil Hybrid	CDR-2	Kuparuk 2F-18	ConocoPhillips
Dreco 1000 UE	2-ES (SCR-TD)	Prudhoe Bay	Available
Mid-Continental U36A	3-S	Prudhoe Bay	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay	Available
Dreco 1000 UE	7-ES (SCR/TD)	Kuparuk	ConocoPhillips
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay	Available
Oilwell 2000 Hercules	14-E (SCR)	Prudhoe Bay	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Prudhoe Bay	Available
Oilwell 2000	17-E (SCR/TD)	Prudhoe Bay	Stacked
Emsco Electro-hoist -2	18-E (SCR)	Prudhoe Bay	Stacked
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Prudhoe Bay	Stacked
Emsco Electro-hoist	28-E (SCR)	Prudhoe Bay	Stacked
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Prudhoe Bay	Available
Oilwell 2000	33-E	Prudhoe Bay	Available
Academy AC Electric CANRIG	99AC (AC-TD)	Prudhoe Bay	Available
Academy AC Electric CANRIG	105AC (AC-TD)	Prudhoe Bay preparing to mobilize	Doyon Ltd.

<b>Nordic Calista Services</b>			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site D-31B	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Well Drill Site F-26C	BP
Ideco 900	3 (SCR/TD)	Kuparuk Well 1E-28	ConocoPhillips

<b>Parker Drilling Arctic Operating Inc.</b>			
NOV ADS-105D	272	Prudhoe Bay currently on F pad	BP
NOV ADS-105D	273	Prudhoe Bay projected to move to W-51 drill site on Wednesday, May 13	BP

### North Slope - Offshore

<b>BP</b>			
Top drive, supersized	Liberty rig	Inactive	BP

<b>Nabors Alaska Drilling</b>			
OIME 1000	19AC (AC-TD))	Oooguruk ODSN-02	Pioneer Natural Resources
OIME 2000	245-E (SCR-ACTD)	Oliktok Point	ENI

<b>Doyon Drilling</b>			
Sky Top Brewster NE-12	15 (SCR/TD)	Spy Island SI 19-FN2	ENI

### Cook Inlet Basin - Onshore

<b>Kenai Land Ventures LLC (All American Oilfield Associates, labor contract)</b>			
Taylor	Glacier 1	Kenai Loop Drilling Pad #1	Buccaneer Energy Ltd.

<b>All American Oilfield Associates</b>			
IDECO H-37	AAO 111	On the West side for NordAq Energy's Tiger Eye Central Well	NordAq Energy

<b>Aurora Well Service</b>			
Franks 300 Srs. Explorer III	AWS 1	Waiting on the completion of the pad for the NCU 14	Aurora Gas

<b>Doyon Drilling</b>			
TSM 7000	Arctic Fox #1	Swanson River SCU 41A-04	Hilcorp Alaska LLC

<b>Nabors Alaska Drilling</b>			
Continental Emsco E3000	273E	Kenai	Available
Franks	26	Kenai	Stacked
IDECO 2100 E	429E (SCR)	Kenai	Available
Rigmaster 850	129	Kenai	Available
Academy AC electric Heli-Rig	106-E (AC-TD)	Kenai	Avaiable

### Cook Inlet Basin - Offshore

<b>XTO Energy</b>			
National 110	C (TD)	Idle	XTO

<b>Spartan Drilling</b>			
Baker Marine ILC-Skidoff, jack-up		Spartan 151 Upper Cook Inlet KLU#1	Furie

<b>Cook Inlet Energy</b>			
National 1320	35	Osprey Platform RU-1, workover	Cook Inlet Energy

<b>Hilcorp Alaska LLC (Kuukpik Drilling, management contract)</b>			
		Monopod A-13, workover	Hilcorp Alaska LLC

## Mackenzie Rig Status

### Canadian Beaufort Sea

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

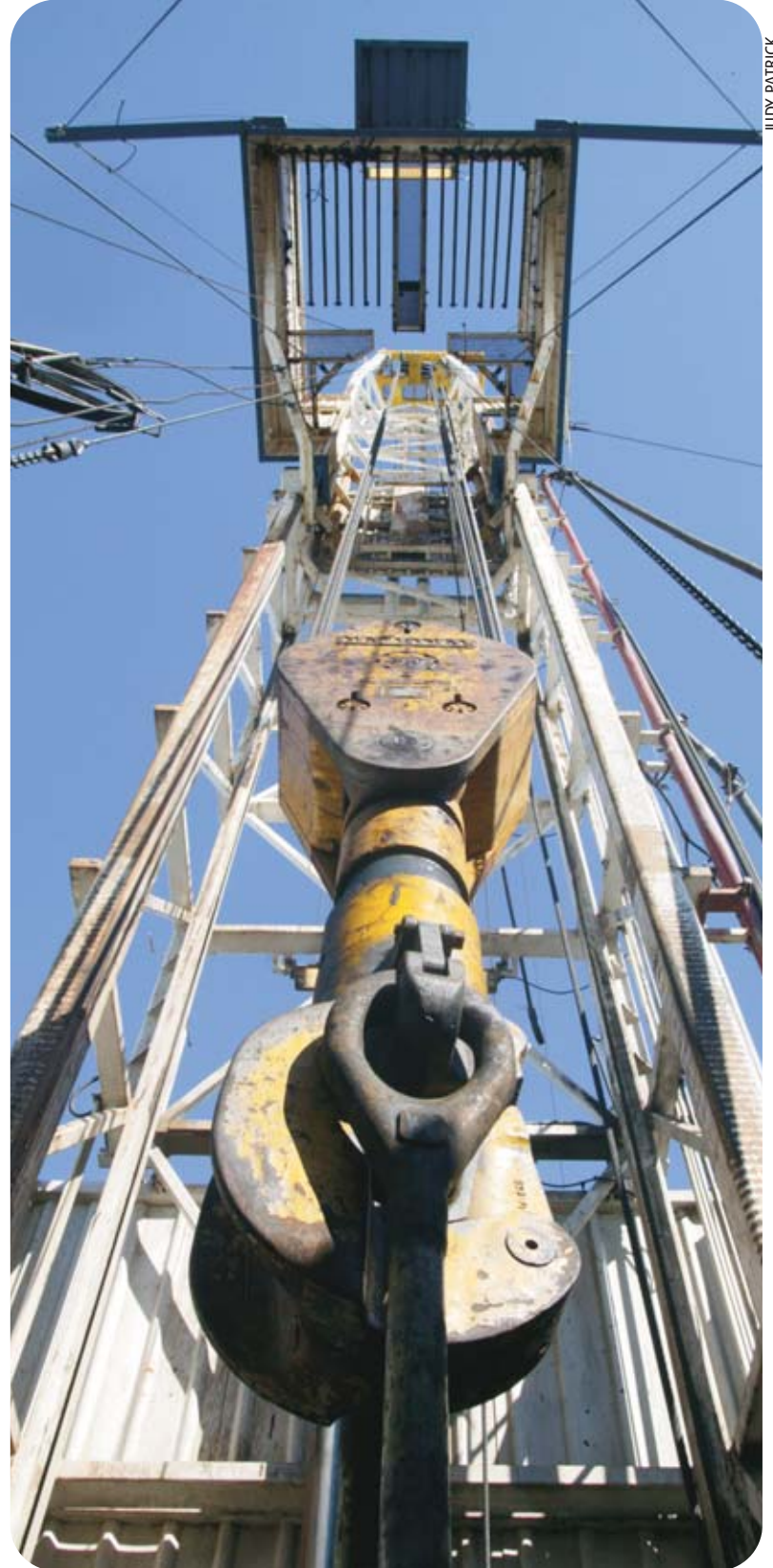
### Central Mackenzie Valley

<b>Akita</b>			
TSM-7000	37	Racked in Norman Wells, NT	Available

The Alaska - Mackenzie Rig Report as of May 29, 2013.  
Active drilling companies only listed.

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

This rig report was prepared by Marti Reeve



JUDY PATRICK

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

	May 24	May 17	Year Ago
US	1,762	1,769	1,983
Canada	131	123	158
Gulf	48	49	47

### Highest/Lowest

US/Highest	4530	December 1981
US/Lowest	488	April 1999
Canada/Highest	558	January 2000
Canada/Lowest	29	April 1992

\*Issued by Baker Hughes since 1944

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## GOVERNMENT

# Kelly: less government, more production

Fairbanks senator says natural gas essential for Fairbanks, Interior, other rural areas of state; calls LNG short-term solution

By STEVE QUINN

For Petroleum News

Sen. Pete Kelly picked up right where he left off 10 years ago. The Fairbanks senator is co-chair of the Senate Finance committee, which heard some heavy hitting legislation that changed the state's oil tax regime and set aside Alaska's Clear and Equitable Share, ACES, in favor of Senate Bill 21; put in place a plan (the just signed SB 23) to truck liquefied natural gas to his Interior district; and advanced a small-diameter natural gas pipeline (House Bill 4).

Reflecting to the turn of the 20th century, when oil fetched \$9 a barrel and figuring out how to pay for state services was a "painful" exercise, Kelly believes all three set forth a path for smarter economic and community development for the state. The tax regime change also means treating the state's operating budget with a more conservative eye and

letting more money rest with the private sector rather than having it boost what he believes is unsustainable government growth.

Gov. Sean Parnell's tax change, however, may face a voter referendum to overturn SB 21. In 2000, Kelly watched voters overturn his predator control bill, so he isn't taking the prospects of another change lightly.

Kelly spoke to Petroleum News about his return to the Senate, the makeup of a Republican controlled Senate and the direction he believes Alaska needs to chart for success.

*Petroleum News: Let's start with SB 21. Why do you think there is still such a divisive debate after all the hearings and the governor's signature?*



SEN. PETE KELLY

Kelly: I think it is far more philosophical than anything else. You had a group that had found a way to get into the majority of the Senate even though the voters in Alaska are quite conservative. There seemed to be this group in the Senate that was not in sync with the rest of Alaska politically. In other words, the people who were more left leaning were in a majority of the Senate, though the voters of the state were conservative by nature. They just didn't fit with the Alaskan voter. So the Alaskan voter came in during the 2012 election and kind of set things right. The Senate majority looks like most of the voters in Alaska. In that election, I think the voters spoke loud and clear, and the left more leaning politicians in the state want to refight that battle. There was already a referendum on what they believe (in November 2012 general election) and they lost it, and they want to continue to fight. I honestly don't see the sincerity in the arguments that they had. The reason I don't see the sincerity is almost every politician who stood on the floor of the Senate during the SB 21 argument, said these words: "We all agree ACES is broken." Now they are supporting the repeal of SB 21, which would take us back to ACES, which they say is broken. So I kind of doubt their sincerity.

*Petroleum News: You may have a referendum. You've been there. You watched a referendum overturn a piece of legislation. Is it safe to say nothing should be taken for granted?*

Kelly: I don't think you can. I'm not a big fan of initiatives and referendums. Honestly, we haven't seen many of them that have worked well. They are hastily written and mostly poorly written by people who have a specific axe to grind. They raise a whole lot of money often from groups outside of Alaska to couch their issue in public relations terms that

will sell it on the ballot. One of the great examples of that we had in the '90s. The PR for it was we don't want billboards in Alaska so sign this petition to get it on the ballot then vote for it. The fact is billboards were already illegal in Alaska. The wolf referendum was a pretty good example of it. It was billed as hunting wolves from the air for sport. Well the fact is federal law doesn't allow hunting from the air for sport. People don't often get the ability to vote on an initiative based on the facts. They get to vote on an initiative based on massive PR dollars

**QA**

that are poured into these initiatives and they are often not told the truth.

So we don't really get a good take on things with initiatives or referendums. They generally don't produce laws that are in the best interest of the state.

*Petroleum News: Why did you let co-chair Kevin Meyer handle SB 21? There was a lot of pushback because of his interim employment with ConocoPhillips.*

Kelly: Because I had been gone for 10 years. I didn't go through PPT (Petroleum Production Tax) and I didn't go through ACES. I thought it was much better to have someone who was up to speed right away. I had an operating budget to get out. He had a budget as well. The operating budget tends to be more complicated and a little more time consuming. I didn't think we'd get the proper discussion on SB 21 if the chairman was constantly trying to get an operating budget out and trying to get up to speed. It just made more sense for Kevin to handle it.

*Petroleum News: So what do you think is the potential of SB 21?*

Kelly: In 2007, we were already declining. The Legislature decided to

see KELLY Q&A page 13

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Dec Cashman	CIRCULATION REPRESENTATIVE
Joshua Borough	ASSISTANT TO THE PUBLISHER

ADDRESS  
P.O. Box 231647  
Anchorage, AK 99523-1647

NEWS  
907.522.9469  
publisher@petroleumnews.com

CIRCULATION  
907.522.9469  
circulation@petroleumnews.com

ADVERTISING  
Susan Crane • 907.770.5592  
scrane@petroleumnews.com

Bonnie Yonker • 425.483.9705  
byonker@petroleumnews.com

FAX FOR ALL DEPARTMENTS  
907.522.9583

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## CORRECTION

### 1.5 million acres

The size of the Arctic National Wildlife Refuge coastal plain, or 1002 area, was reported incorrectly in the May 26 edition of Petroleum News. The area is 1.5 million acres, not 15 million.

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● FINANCE & ECONOMY

# Osum handles financing in stride

By GARY PARK  
For Petroleum News

Undeterred by a shaky capital market outlook, privately owned Osum Oil Sands is pressing ahead with a succession of five projects it expects to see come onstream from 2015 to 2020 and produce a gross 390,000 barrels per day.

The bundle includes Saleski, the world's first carbonate project using thermal horizontal well recovery processes to produce bitumen from Alberta's Grosmont formation — a C\$550 million project with Laricina Energy as operator and 60 percent owner.

Osum's latest moves include filings with Alberta regulators to build, own and operate the Sepiko Kesik project designed to produce a peak 60,000 barrels per day from the Grosmont and Upper Ireton formations, using a combination of cycling steam stimulation and steam-assisted gravity drainage technologies.

The company said it plans to build the facility in two equal stages of 30,000 bpd that are expected to have operating lives of 45 years.

Osum has estimated the acreage holds 906 million barrels of bitumen as the best contingent resource capable of eventually supporting output of 100,000 bpd.

## Approval to build

Last fall, Osum received approval to build and operate its Taiga in-situ oil sands facility in the Cold lake area, aiming to recover a net 40,000 bpd, starting in 2016 and extending over 30 years and involving capital spending of about C\$3 billion.

Taiga is a key element of Osum's strategy of continuing to derisk its expanding portfolio, said Chief Executive Officer Steve Spence.

He said construction on the initial 12,500 bpd phase could start this year and achieve first output of 5,000 bpd by late 2015.

Spence told shareholders the Saleski pilot is successfully proving bitumen recovery, adding the company's C\$220 million share of the project is already fully funded.

In January, Osum said it had raised C\$500 million from a syndicate of eight investors, including the

Government of Singapore, Korea Investment Corp. and two unidentified German institutional investors.

However, Laricina has spread a cloud over the first phase of Saleski as it seeks C\$330 million to cover its share of the costs.

Company President and Chief Executive Officer Glen Schmidt said capital markets "have an increased level of uncertainty and while our plans have been to consider public markets when both we and the markets are ready, we don't see them likely available to the company within 2013."

"In the interim, we would manage the financing choices we have selected in the past, which include private equity. We have not, up to this point, looked at debt ... we have sufficient runway to manage those choices," he said.

Schmidt also said there is much Laricina must do to adapt to and prepare for 2013, citing the challenge of commodity prices, transportation differentials, government regulation and special-interest interventions. ●

Contact Gary Park through publisher@petroleumnews.com

● PIPELINES & DOWNSTREAM

# Kinder Morgan meets critics head-on

Asks Canadian government for full environmental review of Trans Mountain expansion plan, acknowledging level of public concern

By GARY PARK  
For Petroleum News

Rather than wait for the inevitable, Kinder Morgan has decided it would sooner tackle all of the expected opposition to its planned Trans Mountain pipeline expansion at the same time.

In filing a formal project description of the proposed C\$5.4 billion project to raise the system's capacity to 890,000 barrels per day from 300,000 bpd, it pre-empted other moves by asking the Canadian government to order the highest level of regulatory review.

Project leader Carey Johannesson said Kinder Morgan wants the regulatory hearing to be covered by both the National Energy Board Act and the Canada Environmental Assessment Act.

In a letter to the National Energy Board, Ian Anderson, president of Kinder Morgan's Canadian operations, said the company "believes (the expansion) should be a designated project, subject to rigorous environmental review (under the NEB Act)."

Anderson also said Kinder Morgan has launched a two-year "grassroots campaign" in an effort to win over British Columbians, adding there is "value-based opposition and opinion-based opposition, and where we have our work ahead of us is to understand where that opinion lacks information and lacks clarity."

## Northern Gateway delayed

That opposition parallels resistance from affected communities, environmentalists and First Nations, who have managed to delay approval by more than a year of Enbridge's rival Northern Gateway project, planned to export 525,000 bpd of crude bitumen to Asia and California and import 193,000 bpd of condensate.

The Trans Mountain and Northern Gateway proposals are strongly backed by Asian interests, notably China's Sinopec and CNOOC, which collectively have invested C\$36.3 billion over the past two years in Canadian pipeline, oil sands and natural gas assets.

Chinese investors have expected all along that Canadian crude from the oil

*Kinder Morgan, according to documents obtained by Greenpeace, has told the Canadian government its project is a "more economically viable, less environmentally risky alternative to Northern Gateway."*

sands would be delivered to China, said Wenran Jiang, an advisor to the Alberta government on Asian investment.

Environmental groups led by Ecojustice have filed lawsuits to stop the Trans Mountain and Northern Gateway projects, accusing the Canadian government of not performing adequate environmental impact statements, while several First Nations have threatened litigation and, if the projects go ahead, civil disobedience.

Johannesson told reporters that Kinder Morgan has assumed from the outset that the Trans Mountain application would face a comprehensive assessment. "So let's just clear it all up (although) we are jumping the gun a bit in asking for (the hearing) designation," he said.

Anderson said Kinder Morgan intends to satisfy all conditions the British Columbia government has insisted must be met before any heavy crude can be transported across the province, including First Nations consultation, improved marine and land oil spill response measures and a "fair share of fiscal and economic benefits" for British Columbia.

He said the company has already held hundreds of meetings with municipalities and affected communities, including First Nations.

Johannesson said a full environmental review would deal with issues such as "odors and vapors" from the storage tanks at Kinder Morgan's Westridge terminal at Burnaby in the Greater Vancouver area and "what kind of technologies we would need to meet air-quality standards."

## Application this year

The British Columbia government's Energy Ministry said it expects Kinder Morgan to submit its complete application in late 2013.

"British Columbia has informed Kinder Morgan of our expectations for safety and environmental protection," the ministry

said. "We are continuing to closely monitor the company's proposal."

One of the strongest critics is Andrew Weaver, a university climate scientist and now the first Green Party member elected to the British Columbia legislative assembly.

"The grassroots pressure on this project will be so enormous there's no way it will go through," he said. "The big concern is tanker traffic on the Pacific coast. You see what happened with (Northern Gateway)? Just wait."

Kinder Morgan, according to documents obtained by Greenpeace, has told the Canadian government its project is a "more economically viable, less environmentally risky alternative to Northern Gateway." ●

Contact Gary Park through publisher@petroleumnews.com




● EXPLORATION & PRODUCTION

# Endicott field continues to deliver

*Produced 2.9 million barrels of oil in 2012; BP continues with enhanced oil recovery program to slow production rate decline*

By **ALAN BAILEY**

*Petroleum News*

Since going into operation in the late 1980s and following peak production in the early 1990s, BP's Endicott field continues to make a valuable if modest contribution to Alaska North Slope oil output. In 2012 the field delivered 2.9 million barrels of oil, according to a report submitted by BP in March to the Alaska Department of Natural Resources. Total cumulative production from the field since startup has been 461 million barrels of oil, the report said.

Operated from an artificial gravel island in the nearshore waters of the Beaufort Sea, connected by an artificial causeway to the North Slope mainland just east of

Prudhoe Bay, the field is in the state's Duck Island unit.

The field taps an oil pool in the Kekiktuk formation, a sandstone rock unit in what geologists refer to as the "Ellesmerian sequence," the relatively old rock sequence that includes the reservoir rocks of the giant Prudhoe Bay oil field. The Kekiktuk sands are, however, older than the rocks of the Prudhoe Bay reservoir.

## Recovery techniques

BP's report, the annual progress report and plan of development for the Duck Island unit, says that Endicott uses a combination of waterflood, natural gas injection and the injection of a material known as miscible injectant to enhance oil recovery from the field reservoir. Miscible injectant, a mixture of natural gas and natural gas liquids

such as propane and butane, forms a solvent that flushes oil from pores in the reservoir rock.

The water and natural gas are used in combination in a process known as "water-alternating-gas." The water consists of seawater and water separated from oil during oil production, while gas used for oil recovery is produced from within the Duck Island unit.

BP's plan of development says that the company is currently conducting engineering studies, to evaluate the potential for further improved Endicott oil production by the injection of water into the field's gas cap, and by the use of a BP trademarked technique called "Brightwater," in which chemical polymers placed in the water control the path of the water through subsurface rocks.

see **ENDICOTT FIELD** page 8

● PIPELINES & DOWNSTREAM

# Exxon seeks new TAPS increase

*The increase is the fifth requested by the company since early 2009, but follows a decrease requested earlier this year*

By **ERIC LIDJI**

*For Petroleum News*

For the fifth time since 2009, ExxonMobil Pipeline Corp. is seeking to increase the rate it charges to ship crude oil on the trans-Alaska oil pipeline to destinations in the state.

Exxon is proposing to charge \$4.09 to ship a barrel of oil from the North Slope to North Pole and as much as \$6.47 to ship to Valdez, depending on the destination. (There are two off-take points in Valdez: the PetroStar refinery and the Valdez Marine Terminal.)

The change represents a roughly 8.5 percent increase over Exxon's existing rates of \$3.78 per barrel to ship to North Pole, and as much as \$5.95 per barrel to points in Valdez.

As with its previous cases, Exxon said it needed the rate increase to offset declining throughput and rising operating costs. The proposed increase would only generate around \$1.6 million in additional annual revenue for the transportation subsidiary of Exxon.

Exxon currently ships intrastate oil exclusively to the Valdez Marine Terminal.

Exxon asked for the increase in late April and wants it to go into effect on June 1.

The Regulatory Commission of Alaska must approve the increase for it to take effect.

The 800-mile pipeline from the North Slope to Valdez was long owned by transportation subsidiaries of BP, ConocoPhillips, ExxonMobil, Koch and Union Oil Co. of California, but Koch and Unocal have recently been transferring their small stakes to the other three.

Exxon owns the third-largest undivided stake in the pipeline.

BP is the only pipeline owner that hasn't asked for an increase to in-state shipping rates.

## Follows recent decrease

The rate case is the most recent twist in a complex knot of regulatory proceedings.

After years of attempting to use an old ratemaking methodology, four of the five pipeline owners began requesting increases in late 2008 using a new court-approved methodology.

The companies continued filing additional increases year after year and the RCA continued to approve those proposed rates on a temporary and refundable basis while it investigated whether the increases were merited. The RCA eventually consolidated 12 cases — three each from four companies — into a single docket because they all dealt with similar issues, and held a series of concurrent hearings with the Federal Energy Regulatory Commission, the body that handles rate cases on interstate pipelines.

In the years since the consolidation, the four companies

have continued to file additional rate increases. The RCA has also accepted those on a temporary and refundable basis, but has generally paused its investigation of those cases until the larger case is resolved.

If the RCA ultimately approves all those increases, the current rates would become permanent, but if it declines the increases in whole or in part the companies could be required to issue refunds. The current "permanent" rates are from 2002, when the companies charged \$1.25 to ship to North Pole and \$1.96 to ship to points in Valdez.

The overlapping cases have complicated the proceedings in other ways, too.

For instance, earlier this year, Exxon decreased its in-state shipping rates to accommodate a change in the Trans-Alaska Pipeline System depreciation schedule. The change had been negotiated as part of a settlement related to the concurrent hearings. The revision decreased the rate from \$3.87 per barrel to North Pole and as much as \$6.10 to Valdez.

And within the past year, the ownership of the pipeline became consolidated. Late last year, Koch transferred its small, undivided stake in the pipeline to BP, ConocoPhillips and ExxonMobil. Union Oil Co. of California also intends to sell its stake in the pipeline, but is currently arbitrating a dispute with the other carriers, according to the company. ●

Contact Eric Lidji at [erclidji@mac.com](mailto:erclidji@mac.com)

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• LAND & LEASING

# State denies unit at Otter gas prospect

*Cook Inlet Energy had pledged more drilling, but Alaska's oil and gas director finds that company can proceed lease by lease*

By **WESLEY LOY**

For *Petroleum News*

Alaska's oil and gas director has denied Cook Inlet Energy LLC's application to form the Otter oil and gas unit.

Otter is an onshore natural gas prospect on the inlet's west side, about nine miles north of the Beluga River gas field and five miles west of the Lewis River gas field.

Cook Inlet Energy in January applied to unitize portions of four state oil and gas leases. The unit would have encompassed 5,855 acres. Part of the acreage is within the Susitna Flats State Game Refuge.

The company said approval of the unit would extend two expiring leases, and allow for the most efficient exploration of the acreage.

Bill Barron, director of the state Division of Oil and Gas, denied the application in a 17-page decision signed May 23.

Barron found that unitizing the acreage wasn't necessary, and that Cook Inlet Energy had yet to prove a viable reservoir for development.

## One well partially drilled

Cook Inlet Energy is a small, Anchorage company whose producing properties include oil and gas wells on the offshore Osprey platform, and the West McArthur River oil field. The company is a subsidiary of Tennessee-based, publicly traded Miller Energy Resources Inc.

Cook Inlet Energy is pursuing exploration of a number of shallow gas prospects, including Otter.

In May 2012, the company spud the Otter No. 1 exploratory well on lease ADL 390579, one of the four leases proposed for unitization.

Due to mechanical problems with the drilling rig's mud pumps, the company was unable to bore the well to full depth. The well reached 5,686 feet on a planned bottomhole depth of 7,100 feet, Barron's decision document said.

Still, Cook Inlet Energy was encouraged by what it learned from the well.

Cook Inlet Energy acquired lease ADL 390579 and an adjoining lease in 2009 out of the bankruptcy proceedings of another company, Pacific Energy Resources Ltd.

ADL 390579 was due to expire at the end of May 2012. But the state has extended the lease term on account of the drilling operations. The second ex-Pacific lease is due to expire on Sept. 30.

The other two leases proposed for the Otter unit are good until February 2018. Cook Inlet Energy acquired them in a 2010 lease sale.

## More drilling pledged

In its unit application, Cook Inlet Energy said it wanted to "rationally explore and develop" Otter based on geological, engineering and commercial considerations, rather than drilling wells just to hold onto expiring leases.

Cook Inlet Energy said it anticipated building up to two gravel drill pads in addition to the one already built for the Otter No. 1 well. Without unitization, the company said it would need at least four pads to develop the prospect lease by lease.

The company pledged to either deepen the Otter No. 1 well to evaluate more of the Beluga formation, or drill a new exploratory well by March 31, 2015.

If either operation succeeded, Cook Inlet Energy said it would drill a delineation well by March 31, 2016.

Barron found the company's unit application fell short in multiple ways.

"It is not in the public interest to approve formation of the Otter Unit at this time," he wrote.

Unitization isn't necessary, as Cook Inlet Energy has ample time to prove up its prospect lease by lease, Barron found. If the Otter structure produces, he said, the leases being drained would be extended automatically even if actual drilling didn't occur on them.

Barron further noted Cook Inlet Energy is the sole working interest owner in the leases.

## Is Otter for real?

Barron's decision seemed to indicate the main issue is whether Cook Inlet Energy has a good prospect in Otter.

The company's unit application lacked a clear commitment to develop, Barron said, evidently because a proven reservoir has yet to be established.

His decision provided considerable detail on the Otter No. 1 well.

The borehole penetrated both the Sterling and Beluga formations. Gas shows were encountered in sandstones at several distinct horizons and perforations were shot in an attempt to complete the well. But initial testing of the perforated interval disappointed.

"Swabbing and hydraulic fracturing operations were performed for months after drilling ceased to trigger production of hydrocarbons from the Otter No. 1 well," the decision said. "The well did not flow to the surface and it was suspended."

In summary, Cook Inlet Energy "has been unable to provide evidence of a reservoir at the Otter structure," Barron wrote.

"However, the structural trapping configuration mapped from seismic data and multiple sandstone horizons with gas shows clearly indicate a potential hydrocarbon accumulation," he said.

Another well, the Texas International Pretty Creek State No. 1, was spud in late 1974 less than a mile away. An interval from 6,009 to 6,014 feet was perforated, but testing failed to produce measurable quantities of gas, the Barron decision said.

Were the unit approved as proposed, Cook Inlet Energy could hold the unit area for nearly three years, until March 31, 2016, simply by deepening the Otter No. 1 well, Barron said.

That, he said, is "not an adequate approach to development of state resources."

Cook Inlet Energy, in an April 30 press release, said it planned to use its company-owned rig 34 to spud a well on the Olsen Creek gas prospect by June 15, then deepen the Otter No. 1 well afterward. Olsen Creek is about seven miles southwest of Otter.

Barron's decision said Cook Inlet Energy had 20 days to appeal the unit denial. ●

Contact Wesley Loy at [wloy@petroleumnews.com](mailto:wloy@petroleumnews.com)

continued from page 6

## ENDICOTT FIELD

The plan also says that BP anticipates expanding its use of miscible injectant at Endicott, with the monitoring of injectant movement through the reservoir used to determine the timing and scope of additional injectant use.

A well workover program was initiated for the first quarter of this year, and the field owners continue to monitor field performance, with the possibility of future drilling in the field, the plan says.

In addition to the main Endicott oil pool, the Duck Island unit contains three other much smaller pools: the

Eider participating area, the Sag Delta North participating area and the Minke tract.

The Eider participating area, with a reservoir in the Ivishak formation, the formation that forms the main reservoir in the Prudhoe Bay field, has been out of production for a number of years because of "uncompetitive" levels of water production — a test in June 2009 flowed fluids consisting of almost 100 percent water, the Duck Island unit report says. However, BP will continue with reservoir characterization work, seeking new ways to recover oil from the participating area, the report says.

The Sag Delta North participating area, also in the Ivishak formation, produced 98,365 barrels of oil in 2012, using water injection to maintain production. Total

cumulative production from the participating area is 8.5 million barrels, the report says. BP will continue to evaluate the potential for further drilling in the participating area, or into surrounding drilling targets, the report says.

The Minke tract, the most recently developed of the Duck Island oil pools, produced 195,000 barrels of oil in 2012, using a single production well, with a cumulative production of 779,000 barrels since production started in April 2009. The reservoir is in the Sag River formation, equivalent to the topmost reservoir unit in the Prudhoe Bay field. No further drilling is currently planned for the tract, the report says. ●

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● EXPLORATION & PRODUCTION

# Continuing development at Alpine field

Latest ConocoPhillips plan describes strategies to tease more oil out of existing reservoirs while company gears up for CD-5

By ALAN BAILEY  
Petroleum News

ConocoPhillips' Alpine oil field and its satellite fields in the Colville River unit, to the west of the Prudhoe Bay and Kuparuk River fields, has over the years become a significant success story in the annals of North Slope oil production. Having first gone into production in 2000, the original field has proved a stepping out point for neighboring modest-sized oil accumulations and is now set to provide an infrastructure link to the first oil development in the National Petroleum Reserve-Alaska.

According to data from the Alaska Oil and Gas Conservation Commission, the fields in the unit had delivered a cumulative total of 445 million barrels of oil by the end of March this year.

## CD-5

In its latest Colville River unit status update report, sent to the Alaska Department of Natural Resources in March, ConocoPhillips outlined the continuing development that the company is undertaking in the unit. The company's Colville River unit plans include its Alpine West development, known as CD-5, in the National Petroleum Reserve-Alaska — following U.S. Army Corps of Engineers approval of a wetlands permit for this development, ConocoPhillips and its partners have sanctioned funding for the development.

"Final engineering for the Alpine West CD-5 project is complete and construction will begin in Q1 2014 following long-lead procurement and prefabrication work in 2013," the status report said. "Drilling operations will commence in mid-2015 followed by startup in December 2015."

Development at CD-5, using a new gravel pad and access gravel road, will mirror the horizontal drilling strategy employed elsewhere in the Colville River unit, with a series of six production wells drilled horizontally through the reservoir formation, paralleled by seven injection wells. The injection wells will drive oil production using a technique called MWAG, involving the alternating injection of water and miscible injectant into the reservoir. Miscible injectant consists of a mixture of natural gas and natural gas liquids.

## Four oil pools

The existing fields within the Colville River unit consist of the original Alpine oil pool and three satellite pools: Fiord, Nanuq and Qannik. Development has taken place from four gravel pads, CD-1, CD-2, CD-3 and CD-4, with the all of the fields sharing a central processing facility on the CD-1 pad.

The Alpine field itself, originally developed from the CD-1 and CD-2 pads, produces light oil from two relatively fine-grained Jurassic sand horizons, termed the A sands and the C sands. Subsequent development has also taken place from CD-4, the report said.

The Fiord satellite field came online in August 2006 from the CD-3 pad, with two reservoir zones, one in the Nechelik sand of the Jurassic Kingak formation and the other in the Kuparuk C sand of Cretaceous age. Nanuq went into production in November 2006 from the CD-4 pad, producing from Kuparuk C sands, equivalent to those at Fiord, and from shallower and younger Nanuq sands. The Nanuq Kuparuk pool has since been classified as part of the main

**"Final engineering for the Alpine West CD-5 project is complete and construction will begin in Q1 2014 following long-lead procurement and prefabrication work in 2013," the status report said.**

Alpine oil pool. Qannik came on line in July 2008 from the CD-2 pad, accessing a sandstone oil reservoir at a higher subsurface level than the other satellite reservoirs.

## Horizontal wells

Development of all of the oil pools within the Colville River unit has primarily involved combinations of horizontal production and injection wells. Qannik and Nanuq use waterflood to flush oil from the underground reservoirs, while all of the other pools, including the main Alpine field, use MWAG techniques, the ConocoPhillips

report said. However, some older injection patterns in the Alpine and Nanuq Kuparuk pools have reached a level of maturity where only waterflood is now used. A gas cap in the Qannik satellite also helps to drive production from that oil pool, the report said.

In 2010 ConocoPhillips conducted a 3-D seismic survey in the Colville River unit, to obtain high resolution images of the subsurface and to provide information about subsurface changes as a consequence of oil and gas production. And in 2012 the company drilled a data acquisition borehole from the CD-4 pad, to obtain samples of some of the shallower rocks, as a means of gaining mechanical data of assistance when drilling, the report said.

During 2013 ConocoPhillips anticipates offsetting natural production decline in the Alpine field through techniques such as MWAG management, well workovers and drilling in development opportunities at the field's periphery. The company also expects

to stimulate up to 10 wells through hydraulic fracturing — four fracture stimulations were conducted in 2012 and these significantly increased oil production, the report said.

## Drilling opportunities

Drilling opportunities in 2013-14 include seven new injection wells and five new production wells, mainly in peripheral areas in the southwestern and eastern parts of the field. A well planned for the CD-1 pad would test a target to the northeast of the main field. And success in new development drilling in the eastern part of the field could result in further exploitation of this area, the report said.

No new wells are planned for the Nanuq Kuparuk reservoir within the Alpine field in 2013, although performance from this reservoir continues to exceed expectations, the report said.

see ALPINE PLANS page 10

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## GOVERNMENT

### BSEE establishing ocean safety institute

The Bureau of Safety and Environmental Enforcement said May 29 that it will establish an independent body for research and shared learning for offshore energy exploration and development.

BSEE, a part of the U.S. Department of the Interior, said it is taking steps to establish an independent Ocean Energy Safety Institute to promote safe and responsible operations across the offshore oil and gas industry.

"The Institute will help federal regulators keep pace with new processes employed by the industry as they move into deeper water and deeper geologic plays that require technological innovation to bring projects into production," BSEE Director James Watson said in a statement.

The institute stems from a recommendation by the Ocean Energy Safety Advisory Committee, a federal advisory group which includes representatives from industry, federal agencies, nongovernmental organizations and the academic community. The committee recommended establishing a body that would provide research, technical assistance and education and serve as a center of expertise in oil and gas exploration, development and production technology.

—PETROLEUM NEWS

## FINANCE & ECONOMY

# Fuel price spikes hit Alaska harder

*Economists with UAA's Institute of Social and Economic Research analyze transportation sectors, find rail is most fuel-efficient*

By WESLEY LOY

For Petroleum News

Alaska is particularly sensitive to spikes in fuel prices due to its unique relationship with transportation services, a new university study says.

"Although Alaska has a low absolute energy demand compared with the U.S. average, its per capita energy consumption is the highest in the country — more than three times the U.S. average," the study says. "A number of factors contribute to the state's higher per capita energy consumption. Alaska's role as a major world air cargo and transportation hub, oil producer, and marginal refiner substantially increases the per capita use calculation. Alaska's remoteness and dispersed populations, along with a limited road system, cause Alaskans to depend more on air transportation services. The relatively greater dependence of Alaska industries and residents on energy creates a higher vulnerability to energy price volatilities and shocks."

The study is from the University of Alaska Anchorage's Institute of Social and Economic Research.

The four authors, led by Ginny Fay, assistant professor of economics at ISER, analyzed energy use in Alaska transportation sectors to assess the impact of sudden fuel price moves. They also looked at the potential impact of climate change legislation, such as a carbon emissions tax.

### Trains and planes, boats and trucks

The researchers estimated the fuel use in four transportation sectors: air, rail, truck and water.

They also compared the "fuel intensity" of the sectors. One measure is ton-miles, defined as hauling one ton of freight one mile.

By this measure, rail easily is the most efficient form of transportation for moving freight per gallon of fuel in Alaska, followed by barge, ship, truck and ferry, the researchers found.

Alaska has two railroads, the main one being the state-owned Alaska Railroad that carries passengers and cargo such as refinery products and coal through a corridor from Fairbanks to Seward. In

Southeast Alaska, the short White Pass & Yukon Route Railroad is a privately owned line run for tourists.

Despite the fuel efficiency of rail, Alaska is even more dependent on two other modes of transports — planes and watercraft.

"Given its geography, Alaska has long relied on aviation and marine transportation to move people and goods," the ISER study says. "Freight transport for goods used in Alaska continues to be dominated by marine transportation, as has been the case since Russian colonization. Although Alaska is the largest state by area, its road mileage is the fifth lowest in the nation, leaving 82 percent of its communities unconnected to a state road system."

In fact, Alaska depends more heavily on water transportation than any of the continental United States, the study says.

Trucking, on the other hand, is a relatively small player in Alaska.

"Alaska is connected to the rest of the nation via the Alaska Highway, but does not have the well-developed road system of states in the Lower 48," the study says.

### Transportation-intensive industries

As part of their study, the researchers assessed the Alaska industries most dependent on transportation services, and thus the most sensitive to changes in transportation costs.

Seafood product preparation and packaging ranked first, with support activities for oil and gas operations second and the drilling of oil and gas wells fourth.

The researchers further attempted to quantify the impact of fuel price spikes between 2008 and 2010.

"It would have cost Alaska industries about \$500 million more a year to produce the same goods and services, if they had continued to use transportation services and fuel at the same rate as before the price increases," said an ISER summary of the study. That's about 1 percent of the gross state product.

The report and summary are online at [www.iser.uaa.alaska.edu](http://www.iser.uaa.alaska.edu). ●

Contact Wesley Loy  
at [wloy@petroleumnews.com](mailto:wloy@petroleumnews.com)

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### ALPINE PLANS

To date, 11 production wells and 10 injection wells have been completed in the Fiord Nechelik zone, with two wells being completed in 2012, the report said. ConocoPhillips anticipates drilling one well in 2013, two wells in 2014 and one well in 2015 in this zone, the report said. In 2012 the Fiord Kuparuk zone had three active production wells and three active injection wells — in 2013 ConocoPhillips plans to drill two new production wells and to convert one existing production well to an injector, the report said.

The Nanuq pool currently has three production wells and two injection wells. No new wells were drilled in 2012, but

several new wells are planned for 2013, the report said.

The Qannik pool has three water injection wells and six production wells, with no new wells drilled in 2012 and none planned for 2013.

Other efforts to maximize production in the Colville River unit include the treatment of some wells to remediate downhole well scaling. And ConocoPhillips has been conducting an extensive reservoir pressure monitoring program, using downhole pressure gauges, to optimize reservoir flood arrangements and prepare for drilling operations, the report said. ●

Contact Alan Bailey  
at [abailey@petroleumnews.com](mailto:abailey@petroleumnews.com)

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• EXPLORATION & PRODUCTION

# Hilcorp reactivating Baker platform

By KRISTEN NELSON  
Petroleum News

Hilcorp Alaska is in the process of reactivating the Baker platform in Cook Inlet, with gas production back online and planning under way to bring oil production back online.

The Alaska Oil and Gas Conservation Commission said in a May 28 area injection order that Hilcorp intends to utilize two wells on the platform for injection “which consists of pre-charging the reservoir for the planned return of oil production from the Baker platform.”

Hilcorp Alaska spokeswoman Lori Nelson told Petroleum News in a May 30 email that reactivation of the platform is occurring in two phases.

“Phase one involved minor well work and the installation of gas handling facilities. Gas production is now back online,” she said.

The second phase of the reactivation “is currently in the planning stages but will target bringing oil production back online,” Nelson said.

## EOR testing for design

AOGCC’s order said Hilcorp has requested permission to inject Class II non-hazardous fluids “specifically pro-

duced water from production operations and storm water from secondary containment areas on the Baker platform” to re-establish enhanced oil recovery “injection and resulting production on the Baker platform.”

Oil production at the platform would be from the Middle Ground Shoal oil pools, the commission said, and results of the EOR test “are important to the design of Hilcorp’s plans for redevelopment of the Middle Ground Shoal oil pools accessed by Baker Platform wells.”

“Installing power generation, oil processing facilities and various upgrades will all be part of phase two,” Nelson said.

The platform was shut down in June 2003, AOGCC said, with platform surface equipment “purged/cleaned of hydrocarbons and most of the equipment removed from the platform.”

## Production began in 1965

The previous operator, Unocal Alaska Resources, said in late 2002 that production from the Baker platform began in 1965. Unocal said when the platform was shut in that it had reached its economic limit and was no longer profitable.

Baker was the second platform to be

see **BAKER PLATFORM** page 15

## ENVIRONMENT & SAFETY

### AOGA challenges bearded seal listing

The Alaska Oil and Gas Association, or AOGA, an oil industry trade association, has filed a lawsuit in federal court challenging the National Marine Fisheries Service’s listing in December of the bearded seal as threatened under the terms of the Endangered Species Act. The listing decision was based on the assumption that the declining extent of Arctic sea ice under the impact of global warming will place the seal’s future in jeopardy, because of the animals’ dependence on the sea ice habitat. The agency’s action came as part of a growing trend to list animals such as the polar bear that, while they may have healthy populations at present, could be impacted by future sea-ice loss.

But some have questioned the validity of the sea-ice related listing criteria. And the oil industry is concerned about the possible impact of the wildlife listings on offshore oil exploration and development. A bearded seal population segment lives in U.S. Arctic waters.

In a May 23 release announcing its action against the Fisheries Service decision, AOGA said that there is “no scientific evidence linking climate change now or in the future to adverse effects on Arctic bearded seals.”

And Kara Moriarty, AOGA executive director, said that the association’s member companies have a long history of supporting and advocating wildlife conservation and research in the Arctic, and that there is no evidence that oil and gas activities are a present or foreseeable threat to bearded seals.

“NMFS’s decisions, in our opinion, are not consistent with its own policy or the best available science,” Moriarty said. “The decision to list bearded seals is based on speculation regarding how climate change might affect these species 100 years from now, despite their populations currently being healthy and abundant.”

—ALAN BAILEY

## EXPLORATION & PRODUCTION

### Court finds fault with seismic IHA

In an order issued May 28 the federal District Court in Alaska has in part upheld an appeal by three environmental organizations and a Native tribal organization against the incidental harassment authorization, or IHA, that the National Marine Fisheries Service issued for Apache Alaska Corp.’s offshore seismic survey, conducted in 2012 in Cook Inlet.

Given that the IHA in question has already expired, District Court Judge Sharon Gleason has given the parties in the case 21 days to either jointly or separately propose what action should result from the court decision. In February the Fisheries Service issued a new amended IHA for Apache’s planned Cook Inlet seismic in 2013.

IHAs allow companies to conduct offshore operations without infringing the Marine Mammals Protection Act as a result of the minor, accidental disturbance of marine mammals. An authorization spells out mitigation measures that a company must take to minimize wildlife disturbance.

Of particular sensitivity in Cook Inlet is the potential disturbance of beluga whales, animals protected under the Endangered Species Act.

In her court order Judge Gleason said that although the Fisheries Service had used an appropriate sound criterion for determining when Apache’s seismic operations might cause an “incidental take” of beluga whales, the agency had failed to correctly estimate the number and percentage of whales that the operations would impact.

—ALAN BAILEY

### Furie completes Kitchen Lights well

Furie Operating Alaska has completed the drilling of its Kitchen Lights Unit No. 3 well in Alaska’s Cook Inlet and is proceeding to case and test the well, Damon Kade, the company’s president, told Petroleum News May 24.

“We’ve finished drilling and we’re moving to the subsea phase of the operation,” Kade said, adding that Furie is keeping the results of the drilling confidential for the time being. The well, targeting natural gas, reached a depth of around 10,000 feet, he said.

Furie is exploring for oil and gas in the offshore Kitchen Lights unit using the Spartan 151 jack-up rig that it brought to Cook Inlet in 2011. In the fall of that year the company announced a significant gas find in its first Cook Inlet well, the Kitchen Lights Unit No. 1. During the summer of 2012 the company re-entered that well and then drilled a second Kitchen Lights well, to assess the gas discovery.

In April Kade told Petroleum News that the No. 3 well would further test the discovery.

“We’ve got to prove it up and that’s the next step really right now,” he said.

However, Furie plans to drill a further well during the 2013 drilling season to test an oil prospect in the Kitchen Lights unit. The company has not yet decided which particular prospect in the unit to explore, Kade said.

Furie is moving ahead with plans to install an offshore monopod platform to develop its Kitchen Lights gas find. In April Kade said that permitting for the platform had been proceeding and that the company had already obtained the necessary U.S. Army Corps of Engineers permit for work in U.S. waters. The plan is to install the platform in 2014, with gas production starting in the fourth quarter of 2014 at the latest, he said.

—ALAN BAILEY

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**ASRC employee, Ty Hardt, summits Mt. Everest**

Arctic Slope Regional Corp. said May 22 that shortly after sunrise on May 20 in Nepal, its director of communications, Ty Hardt, successfully summit Mount Everest.

In late March Hardt began his expedition, determined to climb the tallest mountain on Earth at an elevation of 29,035 feet. Identifying a need for the children of the North Slope, Ty Hardt is using the climb to raise money for the Boys & Girls Club of Barrow.

"This has been long awaited and anxiously anticipated. We are so thankful for this part of the journey, and are awaiting his safe return to Anchorage," said Tara Sweeney, SVP of External Affairs at ASRC. "A member of the ASRC family has literally reached the top of the world!" Hardt has scaled some of the tallest peaks across the globe — including Mount Aconcagua, three climbs of Denali's West Buttress, Kilimanjaro, two trips on Mount Bona, and three climbs of Mount Rainier, not to mention various ice routes around Alaska.

The expedition and fundraising effort is called Going to Extremes. You can find more information about their journey at: [www.g2extremes.com](http://www.g2extremes.com).



**TY HARDT**

**Blanchett and Tweto to emcee Calista Golf Classic**

Calista Heritage Foundation said May 23 that Ariel Tweto and Stephen Qucung Blanchett will emcee the 14th Annual Calista Heritage Foundation Golf Tournament on June 19 at the Moose Run Hill Golf Course in Arctic Valley. These two lively entertainers will bring the golf classic's Mardi Gras theme to life. With active participation from businesses and organizations this tournament is the main source of contributions for CHF's scholarship program.



**ARIEL TWETO**



**STEPHEN BLANCHETT**

Stephen Qacung Blanchett grew up in the Yup'ik community of Bethel, Alaska. He is one of the founders of the award-winning musical group Pamyua. Stephen and the group have performed on stage in many countries and venues throughout the world, most recently in Iceland. The group shares the unique cultural expressions of the Inuit people.

Ariel Tweto is on the popular television series "Flying Wild Alaska" which aired on

see **OIL PATCH BITS** page 13

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

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## KELLY Q&A

change the oil tax regime. They raised oil taxes to the point that the decline increased. We hope to turn that decline around, if nothing else flatten out. We've already seen a lot of companies gearing up to invest more up north: Repsol; Brooks Range and ConocoPhillips. So there is encouraging news. It's difficult to put a per day throughput number on the results of SB 21. We know that ACES contributed to the decline. By removing ACES and putting a different regime in, we hope to stop that decline or actually turn it around.

*Petroleum News: Getting closer to your backyard, one of the significant pieces of legislation called for trucking LNG to the Interior. What would you like to see accomplished with this moving forward?*

Kelly: Well, Fairbanks needs to get energy relief, but not just Fairbanks — it's the entire Interior communities as far as we can reach. Tok has problems; Tanacross has problems; some of the communities on the river have problems. With hope, that plant on the North Slope will crack the egg of North Slope gas for the first time and make gas available not just to Fairbanks but to some of the rural communities suffering even more. I was in an interesting conversation with Lyman Hoffman (D-Bethel) and somebody said we're paying \$4 per gallon for heating oil. Lyman says, "How do I get in on some of that?" It brought home that everybody is suffering, not just Fairbanks.

Clearly the state has to have a functioning Fairbanks. It's a transportation hub; the pipeline runs through here; we have military bases. We've got to get Fairbanks functioning properly or it's simply going to fail economically. If it does, it won't be good for the state as well. I guess what I hope to see, starting as early as 2015, there will be some hope as far as electrical prices and one of our refineries can reduce their costs at producing and we hope to get a little better measurement on air quality so the federal government will have one less reason to shut down military bases here. The box stores, the malls and some of our industrial clients can get some relief. Then you can get a general benefit to the community as prices done have that constant upward pressure that energy prices produce. Then a little longer term — not that much longer — we can actually start getting gas to houses so people can get immediate relief when people turn on their thermostat. In a perfect world, I don't think it's the optimum solution. As encouraged as I am with HB 4 (in-state gas line) and the progress we are making on a gas line right now, that's all great.

But we've been talking about gas lines for so long, for one reason or another a pipeline just hasn't worked. Fairbanks can't bet that with all the effort on HB 4 that we are going to see a pipeline by our doorstep anytime soon, so we've got to jump on this trucking proposal that the governor has structured. I believe it will work. It isn't going to be optimal, but it's going to reduce prices. Even if we get a pipeline in the future, this project will not be wasted because we need relief now. We can't bet a pipeline will magically materialize.

*Petroleum News: Can the Interior be a hub for more spokes going into other areas?*

Kelly: The first thing that will be a

benefit to rural Alaska will be propane. The LNG project envisions providing propane to the rural communities. Ultimately we are going to have to run some pipeline to some of the projects like mining, for economic development for rural Alaska. Propane is going to help, but it's not going to do what needs to be done on a large scale, but it will help the residential people. Gas seems to be everybody's solution but only varying degrees. Rural Alaska will see less of a benefit, but a benefit nonetheless.

*Petroleum News: What about getting energy to mining projects such as Donlin or others close to you like Livengood?*

Kelly: Livengood is probably 2020 with hopes of coming on line. Livengood will do whatever works, whether it's having gas trucked to getting their power. What they need is electrical transmission from Fairbanks and Golden Valley. Golden Valley is going to have to have more energy supply to be able to provide energy to Livengood. Golden Valley without gas can't supply them with that kind of power. The benefit mostly for Tower Hill is pulling electricity over power lines from Fairbanks and gas will be a huge benefit. As we put gas to anywhere in Alaska, you can start powering heavy equipment and vehicles. It may not mean much to the average citizen, but if you have a big fleet of trucks for a mine, that's pretty exciting.

*Petroleum News: As you start looking at all these pieces, how to do you bring them together for short term and long term?*

Kelly: Speaking for the Interior, short term is trucking, long-term is a pipeline. Discussions still have to take place over whether you're going have a large-diameter, high-pressure pipeline to get into the export business or are you going to have a pipeline to serve the needs of the state: That all has to be worked out. Ultimately there is going to be just one pipeline come through the state and it looks like it's going to Cook Inlet. Logistically, I don't think it's going to go to Valdez. When you're talking about big economic development, you're talking about feeder lines going to projects like Donlin.

*Petroleum News: Even as you supported HB 4, what is your preference for a pipeline?*

Kelly: I think the economics is going to determine ultimately what the pipeline is going to be. My preference is molecules of gas serving Alaskans and if we can get into the export business, that's fine. I really don't have a preference. I just want gas going to market.

*Petroleum News: Do you have a tide-water preference between Valdez or Cook Inlet?*

Kelly: that's going to be based on logistics. It seems like Cook Inlet works better, but I don't have a preference. The economics are going to determine what kind of pipeline it is, how big it is, how much pressure it is and where it lands. Either way, a pipeline kicking off the North Slope and delivering it to tidewater somewhere and for distribution throughout the state is a net benefit to the state, not just a net benefit but a huge benefit. It was somewhat of a miracle for me to come back to that position again. I had never done the operating budget as a chairman before. I had been on multiple sub committees. My goal getting back with this new majority was simple: competently produce a budget on time. We did that. When I was asked about the oil bill, I thought it was not in

the best interest of our group or in the state for me to get off that singular focus of competently producing an operating budget on time.

*Petroleum News: As it relates to resource development do you have a closing thought?*

Kelly: What we talked about with oil and gas, much of it comes to the budget. There are such huge swings in the prices that we have attached our state government to. We've attached the funding of state government to a commodity. When I was in the Senate 10 years ago, we were struggling with \$9 a barrel oil (in 1999). That was a nightmare. Now we're working at \$106 a barrel. The point is it's not a reliable funding source.

I'm grateful for the work Scott Goldsmith has done creating a fiscal model for the state. It requires that we cut state government. We've got to shrink that back so we can begin to live off the cash flow from our investments. I would like us to work toward that direction. Since ACES, government grew 40 percent.

We pulled all of this money out of the private sector through ACES and transferred it to government and guess what happened — government swelled like a

bad sprain. We were fortunate enough to drop that growth back to a fraction of a percent. We now have to start going in the other direction and actually start cutting government and making it smaller year by year by year.

The governor did a really good job. He trimmed \$1 billion in requests from the various agencies. We trimmed it a little more and the governor was very willing because he realizes our government is not sustainable.

That's the thing that drives me the most as I look at the oil taxes. The fact that we have declining production and somewhere out there we get to a point where we cannot fund the government we have. We've got to do some things; we've got to change the regime of taxes so we can get more production. At the same time, we've got to shrink the size of government. Even if we get more production and more money, government is still too big. If the Legislature has the money, they will spend it.

What we are hoping with SB 21 is we can get off that model, but we'll increase throughput and we can more effectively live within our means. ●

Contact Steve Quinn  
at squinnwrite@gmail.com

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## OIL PATCH BITS

Discovery Channel. "I am so excited and honored to co-host the 14th Annual Calista Heritage Foundation Golf Tournament. I am a big believer in setting goals and chasing after your dreams, and the CHF helps students pursue their dreams through higher education and career training which is so awesome! Also, I need a good excuse to wear a polo shirt and a visor while hanging out in beautiful Anchorage, Alaska! This is going to be such a great event," said Tweto.

Team registration and sponsorships are still available at [www.eventbrite.com/event/5274750922#](http://www.eventbrite.com/event/5274750922#).

## Baker Hughes names Sumrud new corporate treasurer

Baker Hughes Inc. said May 28 that Mike Sumrud has been named vice president and treasurer.

"Mike brings more than 20 years of diversified financial expertise, international experience and a record of solid performance within Baker Hughes to his new role as treasurer," said Peter Ragauss, Baker Hughes senior vice president and chief financial officer. "We believe this depth of experience will enable him to interact very effectively with our external stakeholders."

Sumrud started his career at Baker Hughes in 1998 and worked most recently as vice president, financial planning and analysis, Eastern Hemisphere based in Dubai. Prior to this role, Sumrud served as director of investor relations and he also previously served as vice president, FP&A, Western Hemisphere.

Sumrud has held a range of geographic financial roles covering the United States, Latin America and the Eastern Hemisphere as well as global financial roles covering several product lines, including drill bits, drilling services, chemicals, and drilling and completion fluids. He earned his MBA at Texas A&M, and his undergraduate business degree at the University of Houston.

Baker Hughes is a leading supplier of oilfield services, products, technology and systems to the worldwide oil and natural gas industry. The company's 58,000-plus employees today work in more than 80 countries helping customers find, evaluate, drill, produce, transport and process hydrocarbon resources. For more information on Baker Hughes' century-long history, visit [www.bakerhughes.com](http://www.bakerhughes.com).

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## SHADURA GAS

gathering lines, and a communications cable, would run along the access road.

Two other options (Alternatives 4 and 5) would have the access road approach from the south or east, out of the Hilcorp-operated Swanson River field and its existing road system. The gathering lines and communication cable still would run to the north, but cross-country for the most part rather than along a road.

These two options aren't to NordAq's liking.

### 'Problematic for numerous reasons'

In comments the company submitted to the Fish and Wildlife Service on a preliminary version of the EIS, NordAq said the alternatives that would have the access road coming in from the Swanson River unit did not meet federal criteria for what is reasonable, practical and feasible.

A route from Swanson River is "problematic for numerous reasons," NordAq said, according to a summation of public comments included in the final EIS.

"NordAq is unwilling to accept the financial costs and complications associated with the SRU access route, and

would not move forward with its project were the SRU route imposed," the company said.

NordAq said adopting Alternative 4 or 5 would interfere with its right to develop its leases, in violation of ANILCA, the Alaska National Interest Lands Conservation Act.

Although the federal government owns the land surface in the Shadura project area, Cook Inlet Region Inc. owns the subsurface estate. CIRI has entered into a lease with NordAq to develop the gas resource. NordAq's application to the Fish and Wildlife Service for a right of way was made subject to an ANILCA section that allows for access to inholdings.

### All options remain in play

NordAq asked the Fish and Wildlife Service to drop Alternatives 4 and 5.

The final EIS doesn't elaborate further on NordAq's objection to an access road out of the Swanson River field.

The Fish and Wildlife Service answered NordAq comment:

"Although Alternatives 4 and 5 are not ideal from NordAq's perspective, the Service believes that both alternatives remain feasible," the agency said.

NEPA, the National Environmental

Policy Act, requires the service to "evaluate the alternatives based on the resource," the agency continued. "It does not require that we evaluate the economic viability of alternatives. Consequently, the Service has not eliminated either alternative from detailed consideration."

The Fish and Wildlife Service has not yet chosen a final, or preferred, alternative. The agency said it anticipates a decision in June.

### NordAq's two-stage project

NordAq is a small, Anchorage-based independent. Its president and co-founder, Bob Warthen, is a geologist and veteran of the Cook Inlet oil and gas scene, having worked as a Unocal manager and as a consultant.

NordAq in early 2011 drilled a wildcat exploratory well, the Shadura No. 1. The company has not made clear the size of its apparent gas discovery.

The proposed Shadura development pad is more than a mile due east of the wildcat.

The EIS describes a two-stage development plan.

The first stage would include construction of a "minimal" drilling and processing pad. One gas well would be drilled

and tested.

"If the results of this testing were unfavorable, all equipment and gravel would be removed and the affected areas would be restored to approximate preconstruction conditions," the EIS says. "If the results of testing were favorable, the second stage would be constructed."

The second stage would involve expanding the pad to its final size, and drilling five more gas wells, plus an industrial water well and a disposal well. Production facilities also would be installed on the pad.

Buried gathering lines would connect the pad to a metering pad, located on state land to the north.

"From the metering pad, a short pipeline would tie into the ConocoPhillips Alaska natural gas pipeline," the EIS says. "The overall construction phase would occur over about 16 months. Once constructed, the project would operate for about 30 years."

NordAq is one of a number of companies trying to establish new gas supplies around Cook Inlet, where legacy fields are depleting and peak winter deliverability has become strained. ●

Contact Wesley Loy  
at wloy@petroleumnews.com

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## ROYALE PARTNER

have established infrastructure and sophisticated investment environments," per documents posted on the company website at [www.rampartenergy.com.au](http://www.rampartenergy.com.au)

In a first quarter operations report, Earth Heat said the change was spurred by a "lack of investor or overall market interest in the geothermal sector."

### Terms of the agreement

According to a May 27 press release by Rampart, it can earn an initial 10 percent working interest in Royale's Western Block by paying \$3.4 million in two parts, half by June 3 and half by Dec. 1, "as well as the issue of options to Royale to purchase US\$1.7 million of Rampart stock at a strike price of 150 percent of the volume weighted average price prior to the signature on the agreement."

The company can earn an additional 20

percent working interest in the Western Block by acquiring a 3-D seismic survey over both the Western and Central Blocks by March 31, 2014 and the final 45 percent working interest in the Western Block by drilling, testing and completing two wells, including horizontal sections in target formations, by March 31, 2015.

To earn the 75 percent working interest in the Central Block, Rampart must complete the 3-D seismic survey and pay an additional US\$1.7 million by June 30, 2014.

### Prospectivity, CGG seismic

"Conventional prospectivity of the area is demonstrated by proximity to the Moose Tooth resource (referring to the ConocoPhillips-operated Mooses Tooth first exploration unit in the National Petroleum Reserve-Alaska), estimated to be up to 600 million barrels of oil equivalent, which is about 15 kilometres (9.3 miles) to the northwest of the western farm-in block," Rampart said in its press release.

"Based on information available, the prospective Jurassic sands which host this resource appear likely to extend into the area to be jointly explored and exploited by Rampart and Royale," Rampart said.

"The unconventional oil prospectivity of the region is highlighted by the U.S. Geological Survey ranking this as having the second highest estimated recoverable oil resource domestically, behind only the Bakken."

The "main prospective oil prone regional trend extends through Rampart's entire farm-in area," Rampart said.

"Based on the information we have we believe we have Alpine and Brookian sands and maybe Kuparuk. ... conventional objectives, along with shale," Royale Vice President Mohamed Abdel-Rahman told Petroleum News in a recent interview.

When asked when the earliest well would be drilled in the Western Block, he said early 2015, noting that Royale has already entered into a "gentleman's agreement with CGG" to shoot seismic next winter, starting in January.

### Rampart bullish

Rampart, Abdel-Rahman said, is "very bullish on what we showed them in Alaska," and will be raising money to fund the exploration program on the Australian Stock Exchange.

**Rampart, Abdel-Rahman said, is "very bullish on what we showed them in Alaska," and will be raising money to fund the exploration program on the Australian Stock Exchange.**

Royale will remain the operator of its western and central blocks, but that could be re-evaluated should Rampart's ownership exceed 50 percent, he said, referring to Rampart as an excellent partner for Royale. A larger company might have demanded more control.

In its April press release announcing the joint venture "in principle," but not naming Rampart, Stephen Hosmer, Royale's co-chief executive officer, said, "We are pleased to have found a company that shares our vision and optimism for the potential of these important Alaska shale oil resources."

In February 2012, Royale told Petroleum News it would drill up to six wells — two each on its three leases blocks — but it wanted to find a partner first.

"We have a lot of folks talking to us, a lot of opportunities to pick the right partner," Hosmer said.

On its Lower 48 properties, Royale has typically sold a portion of its working interest in new leases to third-party investors and bundled prospects into multi-well investments.

"Our model is to partner up with folks; that probably won't be any different here, but we're looking for a somewhat different relationship — a technical and strategic partner rather than our traditional model of a group of investors, each with a small piece of the investment," Hosmer said, adding, "We typically never like to give up operation but that's open to discussion in Alaska, based on who that partner might be."

A partner for the company's Eastern Block of leases has not been selected, Abdel-Rahman said.

San Diego-based Royale entered Alaska in December 2011 by being the high bidder on about 100,000 acres in the North Slope areawide lease sale held by the State of Alaska each year.

—KAY CASHMAN

Contact Kay Cashman  
at publisher@petroleumnews.com

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## SALES SEARCH

in their efforts to find buyers, with Marathon Oil being the latest to call off its search for someone to buy its 20 percent stake in the Athabasca Oil Sands Project, AOSP, operated by Shell.

It followed ConocoPhillips and Koch Industries, which put sizeable assets on the block in the past 18 months, but took most off the market when bids failed to meet their expectations.

Murphy Oil and Athabasca Oil Corp., AOC, have also come up empty handed in their search for buyers or partners, although AOC has told its shareholders not to give up hope.

### Marathon's AOSP share

Marathon has a 20 percent stake in the 255,000 bpd AOSP project, which has regulatory approval to expand to 470,000 bpd. Shell controls 60 percent and Chevron 20 percent.

Marathon has been engaged in talks to sell half of its share to a joint venture of four of India's state-owned companies, but the chances of a deal collapsed when the JV participants kept asking for more time, apparently because they were unable to obtain a green light from the Indian government.

"An agreement was not reached with the prospective purchaser and negotiations have been terminated," Marathon said. "Marathon Oil is not engaged in further discussions with respect to a potential sale of these assets."

The prospective oil sands deal was not included in a corporate target to divest US\$1.5 billion-\$3 billion of assets in the 2011-2013 period, the company said.

Marathon said its stake in AOSP generated C\$38 million in the first quarter, compared with C\$17 million a year earlier.

### Conoco also looking to sell

Less clear is where ConocoPhillips is heading in its quest to pocket US\$8 bil-

lion-\$10 billion through outright sales or JV deals in its mostly undeveloped oil sands holdings.

Company officials said ConocoPhillips has no need to make a hasty sale because of its strong balance sheet and has left the assets on the auction block.

A spokeswoman said "we received a ton of interest in these assets ... we are pausing to evaluate our options, not to pull back the sale of the assets."

On the market is half of ConocoPhillips stake in the operating Surmont project, as well as the Thornbury, Clyden and Saleski leases.

Its producing properties alone sit on an estimated 30 billion barrels of recoverable oil, but observers caution they would take billions of dollars, considerable expertise and many years to develop.

ConocoPhillips has reportedly also been in talks with state-controlled firms in India, but any chance of reaching an agreement suffered a setback last year when the Canadian government made it virtually impossible for state-owned foreign enterprises to gain control of oil sands assets.

### Other assets on block

Other assets back on the shelf include Shell's Orion steam-powered, 5,000 bpd project that carried an estimate price tag of C\$200 million and Koch Industries offer a year ago of six leases containing 2.9 billion barrels of recoverable bitumen that could have supported 300,000 bpd of production (one sold to Baytex Energy for C\$120 million).

Jim Hall, chairman and chief investment officer with Mawer Investment Management, said prospective buyers "have better places to put their money" than into high-cost oil sands operations.

He said the projects are "single-digit-return projects, they've got lots of operational risk and they've got to overlay that on heavy oil differentials. I'm not sure I want to tie myself into a 50-year project at an 8 percent return."

Samir Kayande, an analyst with the

research firm of ITG Inc., said his firm has cooled on the oil sands over the past year, because revenues are not keeping pace with rising costs, in contrast with the past 10 years when commodity prices would always bail out investments in marginal projects.

Kayande said a West Texas Intermediate price of US\$83 per barrel is the breakeven price for thermal recovery projects, compared with US\$60-\$70 for light oil production in the Permian basin of West Texas.

He said his firm has forecast overall Western Canada oil output will nearly double to 5.7 million bpd by 2025, with most of the gain coming from steam-powered oil sands operations.

However, Kayande said that "if profitability continues to be pressured, there's definitely risk to our growth forecast."

### AOC was close to deal

Murphy Oil hired investment bankers

last October to find a buyer for its 5 percent share of the Syncrude Canada consortium, but decided to drop the sales effort in January when executives said they needed a "compelling" offer that exceeded the current cash flow multiple of Canadian Oil Sands Ltd., Syncrude's largest stakeholder.

Whether the oil sands have done a U-turn now hangs on AOC, which was close to a multibillion dollar joint venture with Kuwait Petroleum Corp. and Spain's Repsol last summer to accelerate development of its Hangingstone and Birch leases until the Canadian government's new foreign ownership rules.

AOC Vice President Andre De LeeBeeck was emphatic that partnerships are AOC's best hope for growth and that "talks are ongoing on a number of our assets for joint ventures." ●

Contact Gary Park through publisher@petroleumnews.com

## Gas supplies for Homer moving ahead

Enstar Natural Gas Co. hopes to hook up its first customers in Homer on Alaska's southern Kenai Peninsula as soon as July, John Lau, the utility's director of engineering, told the Regulatory Commission of Alaska on May 29.

"Our goal is to have 1,200 customers served this fall," Lau said.

Homer has long hoped to have gas supplies for heating buildings — recent gas developments in the southern Kenai Peninsula, including the development of the North Fork gas field, are finally converting that hope into a reality.

Lau said that contracting companies are currently in the process of installing gas lines. These consist of a trunk line from Anchor Point into Homer and distribution lines in Homer itself. The trunk line is a low-pressure, eight-inch line designed for gas distribution rather than long-distance gas transmission, but a planned gas pressure of 100 pounds per square inch at the Anchor Point end will provide significantly more throughput capability than Homer is likely to need in the foreseeable future, Lau said. And the fact that the trunk line is, in effect, a distribution line opens the possibility of connecting houses along the pipeline route to the gas supply, he said.

—ALAN BAILEY

Lau said that contracting companies are currently in the process of installing gas lines.

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## GAS SUPPLIES

be involved, Lau explained.

The concept is to build an import facility at Nikiski on the Kenai Peninsula coast, Lau said, adding that the facility would be separate from the liquefied natural gas export facility that already exists there.

The utilities anticipate presenting their ideas to FERC in July, Lau said.

In about a year's time the utilities, by then understanding the project costs, knowing how FERC views the project and having agreements with facility owners at Nikiski, will be in a position to make a decision on whether to proceed or whether to defer a decision further, Lau said.

—ALAN BAILEY

Contact Alan Bailey at abailey@petroleumnews.com

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## BAKER PLATFORM

installed in Cook Inlet, after Platform A, which is also at Middle Ground Shoal.

Unocal's other platform in the Middle Ground Shoal field, Dillon, was shut down at about the same time as the Baker Platform. The two other platforms in the field, A and C, have remained in production; they are operated by ExxonMobil

subsidiary XTO Energy.

Amoco was the original operator of the Baker and Dillon platforms; Shell was the originally operator of the A and C platforms.

Hilcorp Alaska acquired Chevron's Cook Inlet assets — including the Baker platform — in 2011 and is in the process of reworking them to increase production. ●

Contact Kristen Nelson at knelson@petroleumnews.com



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## AIDEA ENERGY

public corporation with assisting a broad range of commercial projects, starting with any facility used for “making, processing, preparing, transporting, or producing in any manner, goods, products, or substances of any kind or nature or in connection with developing or utilizing a natural resource.”

“We had been looking at ways we could assist more in developing resource development,” AIDEA Executive Director Ted Leonard told Petroleum News on May 20. “If you go back to our definitions of facilities, these types of facilities are pretty much number one on the project definition list that we have in our statute. So we’ve been looking at how to do more resource development investment and what tools we needed.”

The strategic plan has prompted AIDEA to seek out new opportunities in recent years — both economic and legislative. Over the past few legislative sessions, AIDEA has successfully lobbied for several changes to its statutes, and it has used its increased authority to become involved in projects previously outside its reach. Those projects include the Endeavour-Spirit of Independence jack-up rig now drilling in Cook Inlet, a collection of infrastructure projects for the Mustang oil field on the North Slope and potentially financing a liquefied natural gas trucking operation for the Interior.

On the surface it may seem as though AIDEA is simply adding energy projects to a portfolio previously focused on retail, tourism and real estate, but the new strategy is actually more concerned with how AIDEA gets involved in projects. Those changes could make AIDEA a key player in the Alaska oil and gas sector in the next decade.

*Over the past few legislative sessions, AIDEA has successfully lobbied for several changes to its statutes, and it has used its increased authority to become involved in projects previously outside its reach.*

### The decline of the majors

The AIDEA board of directors initiated the strategic plan in late 2008.

The decision came at a moment of reflection and transition for AIDEA. The public corporation had recently turned 40 and had hired Leonard as its new executive director.

“They were looking at how AIDEA could be more effective and efficient in their investment and how we could in essence get more bang for the buck,” Leonard said.

The planning team found that AIDEA enjoyed a good reputation among its traditional stakeholders, but was considered “reactive or passive” by some economic players.

To become a more active player in the economy, the strategic plan suggested that AIDEA diversify its assets, acquire new financing tools and promote itself to additional sectors.

AIDEA began implementing this plan at an unusual time for Alaska oil and gas.

Some 50 years after the discovery of the Swanson River field launched the local industry, a handful of major companies were competently overseeing declining legacy fields on both the North Slope and in Cook Inlet, but showed limited interest in exploration.

While the majors harvested those giant fields, several new players began pursuing midsize fields that the majors had overlooked for decades.

Anadarko Petroleum Corp. launched a natural gas exploration program in the Brooks Range foothills in late 2007, Eni Petroleum sanctioned the Nikaitchuq unit in February 2008 and Pioneer Natural Resources brought the Oooguruk unit online in June 2008.

### The rise of the indies

This transition left many holes in the sector, though.

In Cook Inlet, declining natural gas production was causing a ripple effect.

Agrium closed its fertilizer plant for lack of supplies. The Regulatory Commission of Alaska, the utilities and the producers were fiercely debating the best way to meet local demand in the near term. The exploration climate was so poor that the State of Alaska made its support for continued LNG exports contingent on the producers drilling new wells. Even with the support, the companies later announced plans to close the facility.

And on the North Slope, smaller independents were facing challenges as they pursued midsize fields that would have had investors drooling in any other state in the country.

These smaller players included the Alaska Venture Capital Group, Armstrong Resources, Savant Alaska and UltraStar Exploration. Unlike the majors or even the bigger independents, those companies would have been hard pressed to internally fund Arctic exploration and development operations during good years, let alone in the middle of a economic recession. As Alaska Venture Capital Group Managing Director Ken Thompson told Petroleum News in October 2008, “In this kind of climate, cash is king.”

In other words, the oil and gas sector provided an opportunity for AIDEA to diversify its assets by proactively promoting itself to a growing segment within the Alaska economy.

In a state where government and the economy revolve around the oil industry, it might initially seem odd that a public corporation devoted to economic development would take four decades to make a big move into the sector, but AIDEA’s Deputy Director of Project Development and Asset Management James Hemsath called it a matter of timing.

The state created AIDEA a year before the discovery of Prudhoe Bay, and designed it to be useful to range of sectors. “Once Prudhoe Bay hit and there was that very large development, there really wasn’t a place or structure for the smaller, entrepreneurial-like oil firms that are coming into play,” he said. With production declining at legacy fields, new opportunities are emerging. “Ten years ago there wasn’t the need that there is now.”

### A place for AIDEA

AIDEA began seeking the authority allowing it to invest in new ways.

In early 2011, Gov. Sean Parnell signed House Bill 119.

The law gave AIDEA the ability to invest in a corporation or a limited liability company that held a development project as its sole asset. In other words, AIDEA and a potential partner could form a joint venture for a specific project by creating a new company.

“That has been, I think, a godsend, just in terms of organizational efficiency,” Hemsath said, pointing to the flexibility it gives AIDEA when working with numerous partners.

Also in early 2011, the Alaska Legislature created the Sustainable Energy Transmission and Supply fund for downstream projects. The SETS fund allows AIDEA to “issue direct loans for up to one-third of the capital cost of an energy project, or create a secondary market through loan guarantees that partner with local Alaskan banks for financing.”

This year, the Legislature approved its first use of the fund. Senate Bill 23 allowed AIDEA to invest in a proposed LNG trucking system between the North Slope and the Interior, a system that would include a major build out of the existing distribution grid.

Far more importantly, at least for the long-term, SB 23 also gave AIDEA the ability to directly finance larger infra-

*Between HB 119 and SB 23, AIDEA can now provide what it calls “mezzanine financing,” or financing designed to fill gaps between existing debt and equity on a company’s balance sheet.*

structure projects that it does not intend to own or operate.

For large-scale energy projects like Snettisham and Healy Clean Coal, AIDEA was required to own the project outright. This requirement limited the number of projects AIDEA could fund at any given time, and left all the risk for these projects with AIDEA.

The strategic plan suggested finding alternative ways to invest in large projects.

Between HB 119 and SB 23, AIDEA can now provide what it calls “mezzanine financing,” or financing designed to fill gaps between existing debt and equity on a company’s balance sheet. In practice, these low-interest loans can bring down the cost of financing for small independents by providing better terms than would be available on the private market, and they can also make once-hesitant financiers willing to invest.

Before, AIDEA needed to find projects it could own outright. Now, Leonard said, “We’re looking at being able to leverage our investments with more private investment. That was one of the things that was key as we looked at our strategic plan in 2009 and 2010.”

### AIDEA and ACES

Coincidentally, AIDEA launched this new strategy as the State of Alaska began implementing the credit program in the Alaska’s Clear and Equitable Share oil tax.

The combination of AIDEA and ACES is creating a situation where independents can get public funds twice in the early life of a project: once from AIDEA to help finance exploration work and later from ACES in the form of exploration credits for the work.

The state never explicitly intended for these programs to work in tandem. “As it turned out, that’s what happened,” Hemsath said, “because the ACES credits became collateral for some of the companies to use with getting their financing to do the operations.”

After cashing in their ACES credits, companies have come to AIDEA for mezzanine financing “that was enough to get better business than their own cash flow,” he said. ●

*This is the first in a two-part series on the growing role of AIDEA in the Alaska oil and gas sector. The second part will take a more detailed look at the portfolio of energy project AIDEA has built in recent years, and how AIDEA sees its future in the sector.*

Contact Eric Lidji  
at [ericlidji@mac.com](mailto:ericlidji@mac.com)



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