Alaska near bottom

By ERIC LIDJI
For Petroleum News

Alaska is one of the least attractive places in North America for oil and gas investment, according to recent survey of international petroleum industry executives. The State of Alaska ranked 83rd out of 136 jurisdictions while the federal Alaska Outer Continental Shelf ranked 78th, according to the Global Petroleum Survey by the Fraser Institute, a right-leaning Canadian think tank.

In addition to its low ranking this year, Alaska “slipped considerably” from its rankings last year, when survey respondents placed the State of Alaska at 68 and the Alaska OCS at 57 among 133 jurisdictions.

The annual survey gauges how higher-ups in the oil and gas sector view provinces, states and countries around the world by measuring 17 factors, including fiscal systems, regulatory certainty, political stability, local infrastructure and outstanding land claims.

The most attractive areas for investment are almost entirely in North America, Europe or Australia and New Zealand, according to the survey. Mississippi topped the list, followed in the top 10 were Montana, New Mexico, Texas, Wyoming, California, South Dakota, North Dakota, New York and Alaska.

Even though the Gulf (of Mexico) fell farther down the rankings than any other regime in the world — from 11th place in 2010 to 60th this year — it still ranked higher than Alaska.

Mounting the Mustang unit

By ERIC LIDJI
For Petroleum News

A joint venture led by Brooks Range Development Corp. plans to develop a North Slope discovery it made this winter with the aim of producing oil as soon as July 2014.

The local subsidiary of Kansas-based Alaska Venture Capital Group drilled the onshore North Tarn No. 1 well this past winter two miles west of the Kuparuk River unit. The 6,223-foot well encountered oil-bearing sandstones, but well control challenges kept the companies from testing the well, which it plans to do this coming winter, according to a partner on the program.

Mounting the Mustang unit

Brooks Range believes its discovery — called Mustang — could underpin development in the region by improving the economics of several marginal accumulations. The company wants to form the Southern Miluveach unit over 60,684 acres, build independent processing facilities to serve all of those smaller accumulations and kick off a six-well exploration program between now and 2020.

The Southern Miluveach unit would cover 29 State of Alaska leases west of the Kuparuk River unit, including six owned jointly with the Arctic Slope Regional Corp.

“The other potential hydrocarbon accumulations

Plenty of Cook Inlet gas

By ALAN BAILEY
Petroleum News

On June 28 the U.S. Geological Survey published its long awaited assessment of undiscovered but technically recoverable oil and gas resources in Alaska’s Cook Inlet basin. And the numbers look good, especially for those concerned about future natural gas supplies for heating and power generation in Southcentral Alaska.

The agency has estimated a possible range of 108 million to 1.359 billion barrels of oil, with a mean of 599 million barrels, and a range of 4.9 trillion to 39.7 trillion cubic feet of natural gas, with a mean of 19 trillion cubic feet. The corresponding figures for natural gas liquids are a range of 6 million barrels to 121 million barrels, with a mean of 46 million barrels.

The breadth of the volume ranges indicate the level of statistical uncertainty in the results, reflecting the fact that there are many aspects of Cook Inlet petroleum geology that remain obscure, given the relatively low level of exploration in the basin.

And these estimates of undiscovered resources may be compared with cumulative production to

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Mounting the Mustang unit
Brooks Range planning exploration and development west of Kuparuk unit
Plenty of Cook Inlet gas
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Apache eyes new opportunities in underexplored CI basin
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Trans-Alaska pipeline heading for point at which mitigation measures will be needed to deal with several low flow rate issues
Alaska - Mackenzie Rig Status

**North Slope - Onshore**

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Doyon Drilling</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dreco 1250 UE</td>
<td>14 (SCR/TD)</td>
<td>Prudhoe Bay, Z-38</td>
<td>BP</td>
</tr>
<tr>
<td>Sky Top Brewer NE-12</td>
<td>15 (SCR/TD)</td>
<td>Doyon Yard for Modification</td>
<td>ENI</td>
</tr>
<tr>
<td><strong>Eni</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>AC Mobile</strong></td>
<td>29</td>
<td>Prudhoe Bay, K-10C</td>
<td>BP</td>
</tr>
<tr>
<td><strong>OMX 2000</strong></td>
<td>141 (SCR/TD)</td>
<td>Kuparuk, 18-08</td>
<td>Eni</td>
</tr>
<tr>
<td><strong>TSM 7000</strong></td>
<td>Arctic Wolf #2</td>
<td>In Nikuk, AK</td>
<td>Available</td>
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</tbody>
</table>

**Kuusipik** | 5 | Mobilizing Rig to Barrow | North Slope Borough |

**Nabors Alaska Drilling**

<table>
<thead>
<tr>
<th>Rig Type</th>
<th>Rig No.</th>
<th>Location/Activity</th>
<th>Operator or Status</th>
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</thead>
<tbody>
<tr>
<td>AC Coil Hybrid</td>
<td>CDR-1 (CT)</td>
<td>Stacked, Prudhoe Bay</td>
<td>Available</td>
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<tr>
<td><strong>Doyon Drilling</strong></td>
<td>16 (SCR/TD)</td>
<td>Prudhoe Bay</td>
<td>Available</td>
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<tr>
<td>Dreco 1000 UE</td>
<td>6-E</td>
<td>Prudhoe Bay</td>
<td>Available</td>
</tr>
<tr>
<td>Dreco 1000 UE</td>
<td>9-E (SCR/TD)</td>
<td>Prudhoe Bay</td>
<td>Available</td>
</tr>
<tr>
<td>Oilwell 700 E</td>
<td>7-E (SCR/TD)</td>
<td>Prudhoe Bay</td>
<td>Available</td>
</tr>
<tr>
<td>Oilwell 700 E</td>
<td>9-E</td>
<td>Prudhoe Bay</td>
<td>Available</td>
</tr>
<tr>
<td>Oilwell 2000 Hercules</td>
<td>11-E (SCR)</td>
<td>Prudhoe Bay, Well Drill Site 15-05b</td>
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<tr>
<td>Oilwell 2000 Hercules</td>
<td>13-E (SCR)</td>
<td>Prudhoe Bay</td>
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</tr>
<tr>
<td>Oilwell 2000 Hercules</td>
<td>16-E (SCR/TD)</td>
<td>Prudhoe Bay</td>
<td>Available</td>
</tr>
<tr>
<td>Ideco 900 3</td>
<td>(SCR/TD)</td>
<td>Kuparuk Well 1D-121</td>
<td>ConocoPhillips</td>
</tr>
<tr>
<td>Nordic Calista Services</td>
<td>Superior 700 U</td>
<td>1 (SCR/TD)</td>
<td>Prudhoe Bay</td>
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<tr>
<td><strong>Cook Inlet Basin – Onshore</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Cook Inlet Basin – Offshore</strong></td>
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<tr>
<td><strong>Nabors Alaska Drilling</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OIME 1000 19-E (SCR)</td>
<td>Oooguruk ODSN-23i</td>
<td>Pioneer Natural Resources</td>
<td></td>
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<tr>
<td>Oilwell 2000</td>
<td>33-E</td>
<td>Prudhoe Bay</td>
<td>Available</td>
</tr>
<tr>
<td>Superior 700 U</td>
<td>2 (SCR/TD)</td>
<td>Prudhoe Bay</td>
<td>Available</td>
</tr>
<tr>
<td>Mack 900</td>
<td>3 (SCR/TD)</td>
<td>Prudhoe Bay</td>
<td>Available</td>
</tr>
<tr>
<td><strong>Marathon Oil Co. (Inlet Drilling Alaska labor contractor)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Taylor</strong></td>
<td>Glacier 1</td>
<td>Susan Drone #7</td>
<td>Buccaneer Alaska</td>
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<tr>
<td><strong>Nabors Alaska Drilling</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Continental Ideco E3000</td>
<td>273</td>
<td>Stacked, Kena</td>
<td>Available</td>
</tr>
<tr>
<td><strong>Sonoran</strong></td>
<td>26</td>
<td></td>
<td>Available</td>
</tr>
<tr>
<td>JIOECO 2100 E</td>
<td>429 (SCR)</td>
<td>Stacked</td>
<td>Available</td>
</tr>
<tr>
<td>Rigmaster 850</td>
<td>129</td>
<td>Kena Stacked out</td>
<td>Available</td>
</tr>
<tr>
<td><strong>Roman Companies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AC Electric</td>
<td>66AC, OCC/TD</td>
<td>Demobilizing and prepping to ship to Lower 48</td>
<td>Pioneer Natural Resources</td>
</tr>
</tbody>
</table>

**Cook Inlet Basin – Offshore**

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BP (rig built &amp; being assembled by Parker)</strong></td>
<td>428</td>
<td>Mid-Continental Ultra-deep</td>
<td>BP</td>
</tr>
<tr>
<td><strong>Aurora Well Service</strong></td>
<td>1</td>
<td>Pre season maintenance, plan to spud NCU 10 Aug. 1</td>
<td>Aurora Gas</td>
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<tr>
<td><strong>Cook Inlet Energy</strong></td>
<td>5-11 Steelhead Platform</td>
<td>Undergoing winterization at W. McArthur River Unit</td>
<td>Cook Inlet Energy</td>
</tr>
<tr>
<td><strong>Doyon Drilling</strong></td>
<td>TSM 7000</td>
<td>Arctic Fox #1</td>
<td>Available</td>
</tr>
<tr>
<td><strong>Marathon Oil Co. (Inlet Drilling Alaska labor contractor)</strong></td>
<td>428</td>
<td></td>
<td>Available</td>
</tr>
<tr>
<td><strong>Nabors Alaska Drilling</strong></td>
<td>Continental Oil E3000</td>
<td>273</td>
<td>Stacked, Kena</td>
</tr>
<tr>
<td><strong>Sonoran</strong></td>
<td>26</td>
<td></td>
<td>Available</td>
</tr>
<tr>
<td>JIOECO 2100 E</td>
<td>429 (SCR)</td>
<td>Stacked</td>
<td>Available</td>
</tr>
<tr>
<td>Rigmaster 850</td>
<td>129</td>
<td>Kena Stacked out</td>
<td>Available</td>
</tr>
</tbody>
</table>

**Mackenzie Rig Status**

**Canadian Beaufort Sea**

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SDC Drilling Inc.</strong></td>
<td>SSDC CANMAR Island Rig #2</td>
<td>SDC</td>
<td>Available</td>
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<tr>
<td><strong>Chevron</strong></td>
<td>428</td>
<td></td>
<td>Available</td>
</tr>
<tr>
<td><strong>XTO Energy</strong></td>
<td>National 1320 A</td>
<td>Offshore</td>
<td>Available</td>
</tr>
<tr>
<td><strong>National 110</strong></td>
<td>C (TD)</td>
<td>Idle</td>
<td>Available</td>
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</tbody>
</table>

**Central Mackenzie Valley**

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Akita/SAHTU</strong></td>
<td>Oilwell 500</td>
<td>Has left the NWT</td>
<td>MGM Energy Corp.</td>
</tr>
</tbody>
</table>
Sullivan takes Alaska oil and gas development to national stage

The State of Alaska plans to offer 14.7 million acres across the North Slope in a lease sale this fall, Department of Natural Resources Commissioner Dan Sullivan said June 30.

Sullivan made the announcement during a visit with the U.S. Chamber of Commerce, part of a trip to Washington, D.C., that included meetings with members of Congress and with the Obama administration, all in the name of promoting Alaska’s resource potential.

Speaking with reporters following his presentation to the Chamber, Sullivan took aim at the president’s recent decision to open the Strategic Petroleum Reserve.

“Last week we used the Strategic Petroleum Reserve: 30 million barrels, 30 days,” Sullivan said. “We think there is a much sounder policy call. We need to tap America’s real strategic petroleum reserve. That’s Alaska, which could potentially lead to 30 billion barrels over three decades. Alaska is doing all it can to move the country toward a more constructive policy path for our nation’s energy security.”

Gov. Sean Parnell wants to boost this year’s Trans-Alaska pipeline system oil production to 1 million barrels of oil per day by 2020, up from current rates of around 630,000 barrels per day. The newest step toward that goal is a lease sale planned for Oct. 26.

The state holds lease sales annually in several areas of northern Alaska as well as in the Cook Inlet region, but this one aims to offer more land than usual. Although the DNR doesn’t plan to post details of the lease conditions until Sept. 9, Sullivan said the sale would cover three sections of northern Alaska: 576 tracts (about 2 million acres) in the Beaufort Sea; 1,222 tracts (about 5.1 million acres) on the North Slope; and 1,347 tracts (about 7.6 million acres) in the foothills of the Brooks Range Mountains.

“We believe this is the largest lease sale in the United States, certainly for 2011,” Sullivan said. “And if the federal government wants to top Alaska, and beat us, we welcome being the second largest lease sale for 2011.”

Despite his challenge of Obama’s decision to open the Strategic Petroleum Reserve, Sullivan said touting the sale was not a “shot across the bow to the federal government.”

“What we are trying to do is maximize the resource development of Alaska and our country’s resources,” Sullivan said. “As the governor mentioned we have a comprehensive strategy of doing that. We think a million barrels a day within 10 years is something that is critical to energy security and national security to the country.”

Parnell joined Sullivan via videoconference from Juneau. Parnell said: “For America’s sake we are setting an example for what other resource states can do, and we will be allies with other states as they work to set up domestic energy production.”

——STEVE QUINN

ARRC has the logistical know-how, and infrastructure to keep the oil moving forward. Case in point, Chehalis Pipelines. The company owns and operates a network of pipelines and infrastructure to transport oil and gas products from their sources to their markets.

Alyska President Tom Barrett in announcing the report. “The simplest, most direct and cost effective path to deal with these challenges is to stop the decline by adding more oil.”

Current average throughput is around 600,000 barrels per day. Alaska North Slope crude oil production averaged 646,549 barrels per day in May, down 4.66 percent from an April average of 634,028 bpd. And on more than a dozen days during the month, beginning May 13 and including May 31, production dropped below the 600,000-bpd mark.

Water separation likely

Essentially, oil cools as it travels south from Prudhoe Bay, especially during the winter, albeit with a boost to temperatures when unused fluids from the North Pole refinery enter the line at around the halfway point to the Valdez Marine Terminal. As the oil flows slow, the oil becomes progressively colder before it reaches North Pole or Valdez. If the oil cools excessively, water will separate from the oil and form ice inside the line. Slow flowing oil will also increase the tendency for sludge, otherwise suspended in the oil, to drop out. Line-clogging wax will also increasingly tend to separate from the oil at lower temperatures.

Since wax is in the oil as small droplets will start separating out to form a flowing layer at the bottom of the pipe when the flow rate drops below about 500,000 barrels per day, the report says. Engineering analysis and tests indicate that when this drop out happens the remaining water is very likely to freeze, potentially disabling check valves and causing icing accumulations at certain points in the pipeline system, including pipeline bends and facilities that allow water to dump. In freezing out of water also increases the potential for pipeline corrosion, the report says.

Wax buildup increasing

Wax deposition already occurs in the line, but at lower flow rates the settlement of wax particles inside the line will exacerbate problems associated with wax clogging. The buildup of wax will present problems with the operation of pigs, the torpedo-shaped devices that scrape clean the pipeline interior. Pig operation will become particularly problematic at flow rates below 350,000 barrels per day, as the different fluid pressure that drives a pig down the line drops, the report says.

By ALAN BAILEY

Petroleum News

PISTON PRESSURE

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Kerttula: It’s time to get critical

House Minority leader speaks out on ACMP failure, in-state gas line report, oil tax legislation and future OCS development

by Steve Quinn

F or Petroleum News

H ouse Minority Leader Beth Kerttula isn’t mincing words.

She’s angry at the loss of the State of Alaska’s coastal management program.

She’s skeptical at a pending report that examines the prospects of an in-state gas line.

And she’s not budging on the prospects of a tax reduction for oil companies unless someone offers compelling evidence that something needs to be done.

After the Legislature’s unsuccessful final attempt at saving the Alaska Coastal Management Program, the Juneau Democrat sat down with Petroleum News to discuss various resource development issues.

Petroleum News: What is lost by not having a coastal zone program?

Kerttula: We lose so much.

We have more interaction with federal permitting for federal lands and federal waters than any other state. I’d actually make a bet on that. With coastal zone management, the federal activity and federal permits must be consistent with the state-approved plan. I like to think of it as a grant of sovereignty from the federal government back to the state. We have a federally approved plan and that means the federal government must meet with the state’s plan. That’s a very powerful tool. Larry Hartig, the commissioner of DEC, testified twice about how important that is, particularly in the Arctic, particularly on oil spill contingency plans. Our plans require more. The state has been a leader in terms of protecting our waters and lands from oil spills.

That’s important to him. That’s important to the state. That will no longer apply. Now the federal government has control. We will have a right to comment, but the federal government can say, “Yeah that’s very nice, but we’ll use our own laws, which are not as stringent as yours.” We lose state sovereignty. We lose the right to require certain things.

Petroleum News: You mentioned during the special session how this could affect development. How so?

Kerttula: We lose the right to encourage development. What happens in reality is the state and feds have to sit down. They have to listen to us. They have to be consistent with our plan. That aids development because Alaskans with local knowledge know more than many of the federal permitting agencies with all of those permits. That won’t happen anymore. I will have to work around all those different agencies. It’s going to be a nightmare.

Marilyn Crockett, of AOGA, testified and said it probably won’t be such a problem for the big companies. She’s right. They are used to it.

But smaller companies, the mom and pop, or myself as someone who wants to build a dock, are going to have one heck of a time. Third, there is a loss of jobs, loss of communication across the state. Not only the 33 (staffers) who worked with the program, but also the people in the coastal districts: all gone. People who were really committed.

This was the kind of program that really captures the imagination of the people who work in it. They put their hearts and souls in it and they just got trashed through a series of disingenuous, very political moves. That makes me really angry.

Twenty-two jobs lost in Juneau.

Yeah, many of them found jobs, but they were not helped by the administration. I want to point that out. They act like they helped those people. That isn’t true. Many are getting paid less.

Petroleum News: Could the state have worked through the transition of rebuilding the program?

Kerttula: It’s obvious to me that the Parnell administration was against this program from the beginning. I should have known that because some of the people who work in the administration were not trying to help this program be successful. For the administration to dismantle the program before it was actually out of existence… it was a fait accompli by the time we were able to act. They are disregarding permits and telling people not to apply. The law was in effect. I don’t know how they justified that.

They ignored the law, it seems, rather than come to the Legislature or try to do anything to make things work.

There were many ways to make it work. One way would have been bringing experts from other agencies, hire a contractor or two, hiring people who wanted to come back to the program. I can tell you how to do it. Many people can tell you how to do it. For them to come in and say it’s too late, it’s done for. The Legislature violated its own separation of powers by not saying, that’s actually a problem for us. We want this program, we are giving you the money for it, but you are dismantling it. There is a real abuse of power. (See Petroleum News story on coastal zone management on page 17 for Gov. Sean Parnell’s response).

We provide insight into how state and federal agencies interact to help operators navigate smoothly through their exploration and development activities.

We have the capacity, experience, and integrity to work with potential investors to give technical briefings and share our knowledge and non-confidential public domain data.

In my opinion, Alaska DNR has one of the most impressive subsurface teams in the country.”

Mark Myers, Former Director, U.S. Geological Survey

To see KERTTULA Q&A page 6

Petroleum News: Where is the coastal zone program headed now?

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People in the coastal districts are not going to quit talking about it. We really are the ocean state of the nation and people need to recognize that. There is a part of me that recognizes that this program was on its last legs. The administration was never, never going to let it live. Out of that there is going to come an opportunity to build a stronger program.

Petroleum News: Do you feel that the leadership gave it its best shot at the end?

Kerttula: I don’t know all of the conversations and who backed out on whom or what happened, but I still felt a total lack of leadership. The Senate was able to focus to do its job. The House fell apart. I’m really proud of the minority in the House. My caucus has been there on this issue every single time. The Senate fought as hard as it could to get its majority to do the right thing. The governor and the House Majority continue to try to turn the spin around as if the Senate is the bad guy and we don’t play a part. There is a lack of leadership. The governor lacked leadership. The House Majority, it was very disingenuous to say, “Oh this is a great policy but it’s been dismantled so we can’t do anything.” As a Legislature, that’s just not livable to say, “Oh this is a great policy but it’s going to move until it’s proven that it’s going to be a crocodile tears and a lot of posturing. The huge amounts. Alaskans need to benefit too high when they continue to gain such profits complain that the progressivity is too high. We need to stand up and be smart thing to do for the state. We have a responsibility. We have a corporate state in my opinion. We need to stand up and be just as strong as the oil companies. It’s our future.

Petroleum News: Are you still confident that TransCanada is moving forward or do you have a timetable in which you would like to see answers?

Kerttula: I’m confident they are moving forward but it’s hard because we don’t get as much information as everyone would like and that is a problem. On the other hand (federal pipeline coordinator) Larry Persily is working diligently getting information out.

Petroleum News: Next year, oil tax will be one of the heaviest items on your plate. What do you see happening there?

Petroleum News: Onto a different subject, the report on an in-state gas pipeline will come out today. 5. What will you look for in that report?

Kerttula: I’m going to look at how independent the report is. … I’m going to be skeptical and looking at it hard to see what’s the real information versus what’s the information that resulted from political pressure.

Petroleum News: Is it not worth considering? Kerttula: That’s not put this way, I’d feel better if we had a completely independent entity doing it. I want to see it. I think information on any gas line in Alaska is important. Having said that, it may be very valuable information, it may not be. I’m going to be looking first at how independent it was, where they got the information from and who controlled the information. That’s what’s going to be important to me first. All Alaskans should look at it very critically. I’m sorry to have to say that, but I’m becoming more critical in my old age.

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Rethinking joint ventures

Analysts say collapsed Encana-PetroChina deal shows offshore investors won’t pay premium for stake in Western Canada shale gas

By GARY PARK For Petroleum News

Those sifting through the debris of the failed Encana-PetroChina deal are starting to reach a consensus that China is far from being the easy route to unlocking Western Canada’s stranded shale gas resources.

In fact, the soul-searching raises questions about the future role of offshore partners in the region’s massive oil and gas assets, coming after two years of direct investments running to about C$20 billion by mostly state-controlled companies from China, Japan, South Korea, Thailand and Malaysia.

Now attention has shifted from a landmark transaction to what it means for how much Canadian producers can secure premium-priced LNG contracts in Asia and end their reliance on U.S. gas pricing.

More than just embarrassing

The collapse of the US$5.4 billion agreement between PetroChina involving the Cutchbank River project of British Columbia is more than just embarrassing for Encana, which had spent a year of what it termed “exclusive” efforts to pin down the terms of a partnership.

With Encana renewing its search for a partner, other shale gas owners are left to wonder about the value of their own holdings as they look for a relief valve to their losing battle with the Marcellus, Eagle Ford and Haynesville basins in the U.S., where costs are lower and big markets are closer.

Providing it gained both corporate and regulatory approval, including clearance by Canada’s foreign investment review agency, the Encana-PetroChina arrangement would have marked the first time a Chinese company had owned and operated Canadian production. Until now, in the wake of China National Offshore Oil Corp’s failed bid in 2005 for Unocal, China’s stable of oil and gas companies has confined itself to minority stakes in early-stage projects.

Discussions between Encana-PetroChina had highly symbolic beginnings, through a memorandum of understanding announced a year ago when Chinese President Hu Jintao visited the Canadian capital of Ottawa.

In February, the two companies released the barebones of their US$3.4 billion plan — set to become the largest Chinese energy investment in North America — which assumed production would eventually be shipped to Asia through the Kitimat LNG project, 30 per cent owned by Encana.

Hints progress stalled

Although there were hints of stalled progress toward an operating pact, Encana chief executive officer Randy Eresman had voiced confidence only two months ago that a deal would close.

UBS Securities analyst George Toriola told Reuters that Eresman had been left with “egg on his face,” having been forced to concede that a “big deal was not going to happen.”

Meantime, the Canadian government had twice delayed approval of the transaction, although Encana, without getting into the specifics beyond conceding there was a “significant misalignment” between

Eresman said Encana expects gas prices to reflect the forward price curve and return to a long-term level of US$6 per thousand cubic feet, with supply costs easing from US$3.70 this year to US$3 over the next three to five years.

Observers suggest the test may come down to whether Encana is willing to lower the price tag on its assets from the US$17,000 per acre PetroChina finally committed to pay by US$14,000 pegged in the Progress Energy Resources-Petronas joint venture.

BHS Herald analyst Michael Wang said the higher figure would apply to liquids-rich gas plays such as Eagle Ford rather than the drier gas of Cutchbank Ridge, suggesting someone in the Chinese government cabinet decided it was not a prudent deal.

Other observers said PetroChina was also unhappy that Encana had sharply reduced its production targets for the next five years.

Among analysts, there is a feeling that Encana will not be able to sell assets in Cutchbank Ridge, Horn River or Greater Sierra for the same price PetroChina offered, with Gordon Kwan, an analyst with Mirae Asset Securities in Hong Kong, estimating Encana would have needed to trim its price by 20 percent to retain PetroChina.

Randy Ollenberger, an analyst with BMO Capital Markets, has no doubt there will now be “downward press” on the value of Encana’s properties, even if Royal Dutch Shell and BP see an opening to expand their presence in the shale gas sector.

“China, there are so many projects on the go it’s a lot like the oil sands in Canada five years ago in terms of labor and material inflation,” Theal said.

Jiang said it appears the Encana deal crumbled “because many of the technical arrangements were not satisfactory to either or both sides.”

He did caution that Chinese investors are becoming “choosier” about international resource deals, having already bailed out of other big minerals and gas opportunities.

But Jiang said it is “no longer the case that China is prepared to “scope the earth for pots of energy resources and overload anybody to grab on at any price.”

Gordon Houlden, director of Jiang’s institute, said there is no reason to think China has lost interest in North American energy assets.

“As we know, there is a lot of shale gas in China and they need the know-how, the tech transfer, to harvest it more efficiently,” he said, adding North America will remain on China’s radar so long as there is political uncertainty in the Middle East and North Africa.

Brian Tuffs, the head of acquisitions and divestitures at Calgary-based investment dealer Peters & Co., said the Encana-PetroChina experience will put paid to any belief that offshore investors are not savvy when it comes to executing a deal.

“The power is in the hands of those who have the money,” he said.

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By RANDY OLENBERGER

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Feds agree to coordinate on air quality

A trio of federal agencies has signed an agreement aimed at standardizing its approach for measuring the potential impacts of oil and gas development on air quality.

The U.S. Department of the Interior, the U.S. Department of Agriculture and the U.S. Environmental Protection Agency signed a memorandum of understanding on June 23 that guides agencies within those departments as they complete environmental assessments of development projects required by the National Environmental Policy Act.

The 17-page document lays out best practices based on those used to clear a deadlock on the Greater Natural Buttes Area Gas Development in the Uintah Basin in Utah.

Those best practices include a commitment to collaborate throughout the NEPA process, procedures for deciding when certain air quality analyses and modeling are appropriate and a dispute resolution process to quickly resolve disagreements among the agencies.

"Today's agreement will align federal agencies so that oil and natural gas development in the United States is achieved in a way that also protects important environmental resources," EPA Deputy Administrator Bob Perciasepe said in a prepared statement. "Working with our federal partners, we are committed to delivering an environmental review process that is both transparent and comprehensive, supporting responsible domestic energy production on federal lands while ensuring environmental protection."

Air quality permits have been a major source of delay for development projects in Alaska, particularly an effort by Shell Oil to explore in the Beaufort and Chukchi Seas.

In a radio address in May, President Obama promised to streamline the federal permitting process as a way to shrink delays and promote development of domestic oil and gas.

—ERIC LIDJI

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For Petroleum News
By GARY PARK

Canada advances carbon capture projects

Governments ink deal with Shell Canada to store carbon dioxide; Ottawa plans to issue ‘performance rules’ for large CO2 emitters

Although Canada told a recent United Nations climate conference in Germany that it remains committed to its 2020 goal, policies implemented so far cover only one-quarter of that reduction.

Stelmach said the Quest project is part of C$2 billion his government will spend on four CCS projects to store 5 million metric tons a year of CO2 by 2015, which he described as a better method of tackling climate change than options for a “convoluted cap and trade” program to engage in the international buying and selling of carbon credits.

He also defended the widely-criticized CCS technology, assuring Albertans it is a “safe and very secure way ofcapturing carbon.”

Stelmach said that because CCS projects are at a standstill globally, Alberta would have put itself at a competitive disadvantage by raising its own price of carbon above CS15 per metric ton.

Oliver said his government still expects the oil sands sector to develop “new and clean sources of technology, while more technology must be used for conventional sources.”

Opposition sceptical of deal

Alberta’s opposition political parties challenged what they said is a “sweetheart” deal to fund 60 percent of Quest.

Wildrose Alliance leader Danielle Smith refused to endorse giving “hundreds of millions of taxpayer dollars to an individual company,” while Liberal leader David Swann said “there are cheaper ways to reduce carbon … we’re spending too much money.”

But Alberta Energy Minister Ron Liepert said the two-for-one credit deal is critical to launching Quest because the Canadian government had declined to put a price on carbon emissions, “negatively affecting the economics of the project.”

John Abbott, Shell’s executive vice-president of heavy oil, said the credit was necessary because the project was not finan-

see CARBON CAPTURE page 12

— GARY PARK

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PENCO PACIFIC ENVIRONMENTAL
Wrangling continues in Alaska vs. BP
State wins pretrial ruling on 'negligence' claims stemming from 2006 Prudhoe pipeline leaks; high-stakes trial set for March 2012

By WESLEY LOY
For Petroleum News

Fierce legal skirmishing continues in the buildup to a potential high-stakes trial pitting BP and the state, which is suing the oil giant for damages in connection with oil pipeline leaks in Alaska’s Prudhoe Bay field in 2006.

Already, BP has won a major pretrial victory with a judge’s December tossing of the state’s claims for back taxes on oil production shortfalls associated with the leaks and ensuing pipeline replacements.

Now Superior Court Judge Peter Michalski of Anchorage has handed a favorable ruling to the state.

In a nine-page order issued June 8, the judge granted the state partial summary judgment on two of the 10 counts in the state’s civil suit. These counts have to do with the state’s contention that BP was negligent in its efforts to prevent corrosion in its Prudhoe pipeline network. As part of the ruling, the judge held that BP is prohibited, under a legal doctrine known as estoppel, from contradicting past admissions of negligence.

BP ‘backtracking’ alleged

The pretrial wrangling is important because it defines exactly what will be contested in the trial now scheduled for March 2012.

The state sued BP Exploration (Alaska) Inc. on March 31, 2009, over the Prudhoe spills.

The biggest of the spills, discovered in March 2006 along an oil transit line in the field’s western operating area, amounted to 212,252 gallons of sales-grade crude. It was the largest oil spill ever on the North Slope, but significant damage to the tundra was not widespread.

A second, much smaller spill occurred in August 2006 along a different oil transit line in Prudhoe’s eastern operating area. That spill triggered a high-profile partial field shutdown.

In late 2007, BPXA pleaded guilty to a misdemeanor Clean Water Act conviction concerned a leak from an almond-sized hole in a segment of an oil transit line at a low place — a caribou crossing — in Prudhoe’s western operating area, the opposition papers said.

The state’s civil suit throws its lasso around these admissions, “BPXA will take the same fundamental position in the civil trial as it took in the criminal case,” the opposition papers said. “In the criminal case BPXA admitted negligence with respect to maintaining one spot in one line leading to one leak.”

Further, the papers said, BPXA stressed at its 2007 sentencing hearing that the leak was “an anomaly,” out of character with the company’s three-decade history of successful corrosion management on the North Slope.”

In the end, Judge Michalski ruled for the state, finding that statements in the plea agreement “rise to the level of admitting negligence with respect to BPXA’s corrosion monitoring and control practices” on the oil transit lines in both the western and eastern operating areas.

BP’s witness list

The state is seeking damages that, if it prevails, could total hundreds of millions of dollars.

Among claims still in play in the suit are “lost” royalties on what the state contends was a production shortfall of at least 35 million barrels of oil and natural gas liquids resulting from the leaks and replacement of corroded pipelines.

The case, if it goes to trial, could showcase armies of expert witnesses for both sides.

BPXA has filed a list of some 140 potential witnesses from around the world.

Among familiar names on the list:

• Richard Woollam, BPXA’s former corrosion manager, who invoked the Fifth Amendment in refusing to answer questions during a congressional hearing on the Prudhoe leaks.
• Steve Marshall and Doug Suttles, former BP America presidents.
• Bob Malone, former BP America president.

Contact Wesley Loy at wloy@petroleumnews.com
International Energy Agency announces release of 60 million barrels of crude, half to come from U.S. Strategic Petroleum Reserve

**Blame it on Paris – oil prices plunge**

Crude oil prices dropped sharply after the International Energy Agency announced June 23 its 28 member countries would release 2 million barrels a day of crude oil from their emergency stocks to stem further tightening of supplies amid the Libya crisis.

The Paris-based IEA said a total of 60 million barrels would be released over a one-month period. And it said another oil release might be coming.

The announcement was a bit of a surprise, as gasoline prices had been falling.

The IEA explained the release was necessary to make up for lost oil from warring Libya, to meet increased demand heading into “driving season” in the northern hemisphere, and to bridge the gap until a pledged production increase from Saudi Arabia reaches the market.

“Greater tightness in the oil market threatens to undermine the fragile global economic recovery,” the IEA said in a June 23 announcement. The oil release, it said, should ensure a “soft landing for world energy markets.”

Oil prices plunged in response to the release. On the day of the IEA announcement, the benchmark West Texas Intermediate crude fell $4.36 a barrel, or 4.6 percent, to close at $90.65. According to Alaska Department of Revenue figures.

The following day, June 24, WTI gained 18 cents while ANS crude fell another $5.82 per barrel to close at $103.83.

**Mixed reaction**

This is only the third time that IEA member countries have acted collectively for an emergency release of oil stocks. They did it previously in 2005 after Hurricane Katrina damaged offshore platforms, pipelines and refineries in the Gulf of Mexico, and in 1991 after Iraq’s invasion of Kuwait.

Of the 60 million barrels slated for release, half will come from the U.S. Strategic Petroleum Reserve, which recently has been filled to just shy of its 727-million-barrel capacity and is the world’s largest supply of emergency crude oil.

Reaction from political leaders and others to the oil release was mixed.

“I believe the Obama Administration’s decision is short-sighted and a reminder of why we need a comprehensive energy plan in this country,” said U.S. Sen. Mark Begich, D-Alaska. “If we are to tackle this problem over the long term, we need to focus on increased domestic production in addition to increasing efficiency. The fact is, developing Alaska’s oil and gas resources buys our country 100 years of energy security from countries who don’t like us.”

U.S. Sen. Jeff Bingaman, D-N.M., chairman of the Senate Energy and Natural Resources Committee: “This decision would have been more timely if made when the disruption in Libyan oil supplies first occurred. However, I hope it helps defate speculative frolth in the markets and further settles prices back to levels where most experts believe they should be.”

U.S. Sen. Lisa Murkowski, R-Alaska, ranking member on the Senate Energy and Natural Resources Committee:

“It seems that the administration is tampering with the Strategic Petroleum Reserve to deflect attention from the continuing bad economic news and dodge political accountability. These reserves are not a political tool and should not be used as such.”

Alaska Gov. Sean Parnell, a Republican: “The strategic petroleum reserve that the Obama administration should focus on tapping is Alaska, which holds an estimated 40 billion barrels of conventional oil and tens of billions of barrels of unconventional oil.”

Daniel Weiss, of the nonpartisan Center for American Progress: “Selling surplus reserve oil should lower oil and gasoline prices, which will act like a tax cut for American families.”

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In a Q&A issued with its June 23 announcement, the IEA posed a tough question to itself: Isn’t the oil release being done to counter high prices, setting a bad precedent by making the IEA a market manipulator?

The answer: “The IEA is prepared to act when there is a significant supply disruption or an imminent threat thereof. Since the Libyan crisis began, the market has focused on the potential for further tightening in both … industry stocks and OPEC spare capacity, and we are now heading into the driving season in the Northern Hemisphere, which will witness an increase in demand for motor fuels. Refiners’ demand for crude oil is also rising, as plants typically come out of seasonal maintenance and begin ramping up.”

The strategic petroleum reserve that the Obama administration should focus on tapping is Alaska, which holds an estimated 40 billion barrels of conventional oil and tens of billions of barrels of unconventional oil.”

—Alaska Gov. Sean Parnell, a Republican

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Aurora back to work on Cohoe unit

Unit would require seismic shoot and re-entry of existing well over next two years; Aurora looking for bypassed gas play

By ERIC LIDJI
For Petroleum News

Aurora Gas LLC is looking to form the Cohoe unit over leases in the Cook Inlet basin. The proposed 7,707-acre onshore unit would cover two State of Alaska leases and one Cook Inlet Region Inc. lease near the Kenai Peninsula community of Kasilof.

The unit application, originally filed in August 2010, sat in limbo at the Department of Natural Resources’ Division of Oil and Gas for nearly a year, while officials waited for Aurora to submit a proposed unit agreement that included both the State of Alaska and CIRI as co-royalty owners.

Under Aurora’s proposed two-year plan of exploration, it must re-enter the Cohoe Unit No. 1 well or perform 3-D seismic over the area by the end of September or lose the unit.

Union Oil Co. of California drilled the Cohoe Unit No. 1 in 1973. Aurora must re-enter it to at least 10,000 feet, penetrating the Sterling, Beluga and Upper Tynerrick formations.

By Sept. 30, 2012, Aurora must either re-enter the well or run the seismic program, whichever it didn’t do in the first year. It must apply for a PA, or Participating Area, by the end of 2012.

DNR is taking comments through July 25.

Thought to contain bypass play

Sun Oil Co. first leased the Cohoe-area acreage in 1967, but farmed it out to Unocal in 1972. Unocal was formerly Union Oil, and is today owned by Chevron.

Unocal shot seismic over the area and drilled the Cohoe Unit No. 1 to a measured depth of 15,683 feet, but the companies ultimately terminated the leases in 1975.

A group of individual investors picked up the leases in 2003 sale and Aurora acquired the acreage in early 2004, eventually adding a neighboring CIRI lease in 2006.

Because Unocal encountered gas en route to targeting a deeper oil deposit that proved unsuccessful, Aurora believes Cohoe could contain a “bypass play” worth exploring, Aurora President Scott Pfoff told Petroleum News last August.

“Like so many other wells drilled in the Cook Inlet, this well was drilled deeper, looking for oil and with heavier (drilling) mud,” Pfoff said. “We see evidence of bypassed gas pay, but testing was minimal and we suspect negatively impacted by mud invasion into the formation.”

Faced with a pending exploration of the leases last summer, Aurora filed paperwork to form the Cohoe unit and to drill a re-entry of the Cohoe Unit No 1 well, but at the time the company told Petroleum News it preferred to shoot seismic over the area first in order to determine whether the original well penetrated the top of the gas prospect.

But because Aurora needed its rig for operations on the west side of the Cook Inlet, it couldn’t begin drilling last fall.

Should Aurora ultimately drill, it is well positioned to develop Cohoe because the leases are close to existing regional infrastructure, including the Kenai-Kachemak Pipeline.

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calls for integrated Arctic science

Report on science gaps in Arctic OCS pushes cooperative approach to addressing multiple questions around oil and gas development

by ALAN BAILEY

By ALAN BAILEY

O n June 23 the U.S. Geological Survey published a report evaluating science needs for informed decision making on offshore development in Alaska’s Beaufort and Chukchi Seas. Interior Secretary Ken Salazar, his agency faced with some tough decision making over planned oil and gas exploration in the Arctic outer continental shelf, had asked USGS to conduct a study into gaps in scientific knowledge relating to energy development in the Arctic.

The report is the end result of that study. “There is significant potential for oil and gas development in U.S. Arctic waters, but this is a frontier area with harsh weather conditions as well as unique fish and wildlife resources that Alaska’s indigenous people rely on for subsistence living,” Salazar said in announcing the release of the report. “To make responsible decisions, we need to understand the environmental and social consequences of development and plan accordingly. This study is helpful in assessing what we know and will help inform determinations on how we might develop our Arctic energy resources in the right places in the right way.”

Different perspectives

The report points out the inherent difficulties of identifying scientific needs in a situation where there is a broad spectrum of views and perspectives on Arctic offshore development, and where the perception of a need is a subjective view often driven by vested interests in the region. With shrinking sea ice, the warm- ing climate and rising ocean levels are among the other climate-related factors impacting the Arctic ecosystem, acquiring scientific knowledge of the region has become a cornerstone of a developing mission.

“Understanding climate change is an important part of any type of development in the Arctic,” the report says. “More research needs to be conducted on the proposed effects of climate change on factors such as storms and ocean circulation. Storms and current directly affect the safety of oil and gas development.”

More knowledge is needed of the impact of climate change and shrinking sea ice on Arctic whales, with the biological knowledge being more formally incorporated into wildlife resource assessments, the report says.

And the report argues for a cooperative effort to develop higher resolution climate models, to provide a better understanding of the complex interactions between climate change and energy development.

“The United States, as one of the Arctic nations, would benefit greatly from participating in the development of fully integrated (atmosphere-ocean-land) regional climate modeling efforts,” the report says. “Continued and enhanced efforts in this arena, specifically for the Arctic region, will provide a fundamental tool needed to better understand the degree and nature of any consequences of climate change as it relates to decisions regarding energy development in the Arctic.”

Oil spills

When it comes to oil spill response contingency planning, information about the ocean, such as water circulation processes and wind systems, is critical to justify spill modeling and oil-spill response planning, as well as to gain an understanding of the impacts of oil spills on biological resources. The complexities of those ocean systems in the Beaufort and Chukchi Seas are not well understood, in part because of the difficulties of deploying appropriate instrumentation in a remote, ice-impacted region, the report says.

“Thus, the physical understanding of the Arctic outer continental shelf is not comparable with that of the Gulf of Mexico outer continental shelf, nor is the circulation and weather modeling that informs oil spill trajectory modeling of the similar rigor,” the report says.

And the report recommends that the United States and Canada develop ocean monitoring networks that could provide data for the Alaska Ocean Observing System and the under-development Arctic Emergency Response Management Application. There would also be value in international cooperation in the assembly and integration of information and mod- els for energy resource development and assessments of development impacts, the report says.

Also from the perspective of oil spill response, the report cites gaps in knowledge of oil spill cleanup technologies in sea conditions and of the behavior and fate of oil spilled in the Arctic. The effectiveness of response techniques such as the in-situ burning of oil and dispersant use in the Arctic requires further research, the report says.

Wildlife interactions

The report says that there needs to be a better understanding of the interactions between wildlife and oil and gas development, with one particular concern being the impact of industrial noise on marine mammals.

“Even with multiple studies conducted on ocean noise and marine mammals, large uncertainty still exists in understanding how impacts to individual animals may affect characteristics in the pop- ulation or research is needed on this topic,” the report says.

The report recommends maintaining an inventory of seismic survey sources in the Arctic Ocean, to evaluate the multiple sound sources that an animal might hear. There is also a need for an inventory of noise from vessels and aircraft. Current data gaps include knowledge of the over all “ambient noise budgets” of the Arctic, and how these budgets vary over space and time, the report says.

And, on the sound impact side of the ocean noise equation, there is a lack of information about how noise actually affects Arctic wildlife, the report says. Fundamental biological and habitat information is lacking for a variety of ice-dependent animal species.

3-D seismic

There has been substantial progress in recent years in researching Arctic geology, but there is a growing need for 3-D seismic data to better understand the offshore geologic history, and to enable improved estimating of offshore Arctic oil and gas resources for effective resource management, the report says. Research into the potential for developing unconventional resources, such as gas hydrate, would also be helpful.

However, given the wide range of opinions on OCS development, with an effective scientific basis for decision making in some areas but gaps in scientific knowledge in others, all Arctic stakeholders need to participate in a transparent decision-making process, preferably using a structured methodology that enables the integration of a complex information and substantial uncertainty, the report says. This type of process would enable learning and adaptation in a changing environment, bringing great value to decisions over the development of oil, gas and other strategic Arctic assets.

SEEKING

Executive Director for the Alaska Miners Association

The Alaska Miners Association is a non-profit membership organization representing the mining industry in Alaska. Based in Anchorage, the Executive Director is responsible for the planning and execution of all AMA business, including public and legislative outreach efforts, the annual convention, and coordination with other industry groups. This is a high profile, challenging, full time position for an individual with previous industry and regulatory experience. For more information and details please submit a resume to: Executive Director Search Committee, Alaska Miners Association, 105 Arctic Blvd., Ste. 105, Anchorage, AK 99503 or email: search@alaskaminers.org
Escopeta hopes to have rig sailing soon

Alaska’s Congressional delegation, Department of Homeland Security officials meeting to resolve Jones Act issue around jack-up

By ERIC LIBLI
For Petroleum News

Escopeta Oil Co. hopes to begin moving a jack-up rig to the Cook Inlet within the first few days of July, a contractor for the company told an audience in Anchorage on June 27.

“...Just as the U.S. Army Corps of Engineers for work in navigable waters and a drilling permit from the Alaska Oil and Gas Conservation Commission, but expected to have news on all three by late June or early July, according to Health, Safety and Environmental Manager Brian Webb.

... Escopeta, but Spartan Offshore Drilling wanted the rig, or any other person or entity,” other than Escopeta, but Spartan Offshore Drilling wanted something more solid.

On Friday, the aide said.

“The two questions we brought to the meeting—were, first, can DHS provide some legally satisfactorily way of documenting what they have already said, and that is that they’re only going to fine Escopeta, not the owner of the … rig.”

On May 26, Peacock sent an email to Escopeta President Danny Davis assuring him that DHS “will not seek any enforcement action against the vessel, the rig, or any other person or entity,” other than Escopeta, but Spartan Offshore Drilling wanted something more solid.

“The big question is the range of the fine,” he said. “DHS rules call for it to be as much as 10-50 percent of the value of the transport or the value of the cargo. Obviously that would be prohibitive.”

Is DHS setting a precedent for future violations of the Jones Act? “Nobody in their right mind would say that this has not the owner of the … rig.”

The second question the delegation asked was, “what will be the range of the fine? We know we’re talking about a pretty substantial fine — but the question is, will it be substantive or prohibitive.”

Customs has “statutes and guidelines on this issue. They are trying to work through those, as are attorneys for Escopeta and different attorneys for Spartan. … They’re looking at precedents for previous Jones Act violations,” the aide said.

“DHS rules call for it to be as much as 10-50 percent of the value of the transport or the value of the cargo. Obviously that would be prohibitive.”

Is DHS setting a precedent for future violations of the Jones Act?

“Nobody in their right mind would say that this has worked out really well for Escopeta; nobody would want to do it the same way,” the aide replied.

—R. KAY CASHMAN

Delegation, DHS meet

An Alaska delegation staff member confirmed June 29 that the state’s congressional delegation met with top officials from U.S. Customs and Border Protection, part of the Department of Homeland Security, or DHS, on June 28, with the intention of resolving the Jones Act issues preventing Escopeta’s jack-up rig from sailing to Cook Inlet.

“Basically, we had a meeting with Marco Lopez, chief of staff for U.S. Customs and Border Protection, Michael Yager, Customs Assistant Commissioner, and Nelson Peacock, Assistant Secretary of the Office of Legislative Affairs,” the staff member said, noting that Alaska’s two U.S. senators and one representative were in agreement with what he told Petroleum News.

“We have requested a meeting with DHS Secretary Janet Napolitano for July 11, the day she gets back in town … but we might … get the whole issue resolved before then. … We’re hopeful for a decision this week,” he said.

On June 30, Escopeta said it had clearance to sail for Alaska on July 7.

ALASKA'S CONGRESSIONAL DELEGATION 

 Escopeta hopes to have rig sailing soon

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The Alaska Department of Natural Resources approved the Torok participating area at the Oooguruk unit on June 24, the third at the near shore North Slope unit.

The Torok participating area covers 1,560 acres over parts of two leases — ADL 355036 and ADL 355037 — and extends from a measured depth of 4,991 feet to 5,272 feet.

Unit operator Pioneer Natural Resources Alaska Inc. owns a 70 percent interest in the unit and participating area and Eau Petroleum U.S. LLC owns the remaining 30 percent.

Pioneer estimates that the Torok participating area contains 300 million barrels of original oil plus 690 million barrels of associated gas — a hydrocarbon that exists in the gaseous phase at reservoir pressure and cap — a hydrocarbon that exists in the gaseous phase at reservoir pressure and cap. Free gas is generally found in a gas cap above a water-flooded reservoir. It’s also known as dissolved gas or solution gas. (Solution gas is generally considered to contain less than 16 percent of oil.)

Pioneer plans to drill horizontally and hydraulically fracture all wells, both producers and injectors.

While Pioneer hasn’t encountered any free natural gas at Torok to date, and doesn’t expect to in the future, the company estimates that the solution gas-to-oil ratio at the participating area is 250 cubic feet per barrel, yielding around 170 billion cubic feet of solution gas. (Solution gas is gaseous reservoir hydrocarbons dissolved in liquid reservoir hydrocarbons, mainly oil, because of the prevailing pressures in the reservoir. It’s also known as dissolved gas. Free gas is generally found in a gas cap — a hydrocarbon that exists in the gaseous phase at reservoir pressure and cap. Free gas is generally found in a gas cap above a water-flooded reservoir. It’s also known as dissolved gas or solution gas. (Solution gas is generally considered to contain less than 16 percent of oil.)

Unlike the Nuiqsut and Kuparuk participating areas, the Torok participating area will not have royalty relief and Pioneer will pay the State of Alaska a 12.5 percent royalty rate.

Because the Torok reservoir is relatively shallow, many early North Slope exploration efforts targeting the deeper Sarderroch and Kuparuk formations encountered the Torok.

The wells with the most information about the Torok reservoir include Sinclair’s Colville No. 1 in 1965 and 1966, Texaco’s Colville Delta No. 2 and Colville Delta No. 3 in 1986; ARCO’s Kalubik No. 1 in 1992; (the discovery well for the Oooguruk-Nuiqsut Oil Pool) and Kalubik No. 2 in 1998, and Pioneer’s Oooguruk No. 1 and Ivik No. 1 in 2003.

In developing the deeper Nuiqsut and Kuparuk pools, Pioneer has drilled 18 wells penetrating the Torok interval, including the ODSN-45 (originally drilled to the Nuiqsut, but plugged back) and the ODSN-45A that produced 430 bpd from the Torok reservoir.

The Torok participating area went into effect retroactively to March 1, 2010, the approximate date that the ODSN-45A well began producing from the Torok reservoir. Currently, Pioneer operates one production well and one injection well in the Torok participating area, but plans to drill two additional development wells this coming winter.


Pioneer recently applied to expand the unit to include the entire reservoir. Pioneer plans to initially develop the Torok from the offshore drill site at Oooguruk, but might eventually add a new drill site on the eastern side of the Colville River Delta. The company refers to this as the Nuna development.

Because the Torok reservoir is relatively shallow, many early North Slope exploration efforts targeting the deeper Sarderroch and Kuparuk formations encountered the Torok.

The federal agency put out a notice in the Federal Register on June 21 asking for comments on the acreage it plans to offer at a lease sale in the National Petroleum Reserve-Alaska later this year.

President Obama announced plans in May to hold annual lease sales in the NPR-A as a way to increase domestic production. While the BLM originally planned to begin those sales after it completed a new integrated activity plan for the reserve around 2013, it subsequently decided to expedite a sale for later this year in the northern end of the reserve.

**STATE APPROVES TOROK PA AT OOOGURUK**

Third participating area in North Slope unit thought to have 690 million barrels of oil in place, 170 billion cubic feet of gas

The seven-member Golden Valley Electric Association board of directors unanimously approved the $90 million Eva Creek Wind Project near Healy at a meeting on June 27.

“This is really exciting news for Golden Valley and the Interior as a whole,” Chairman Bill Nunn said. “We have been researching wind in the Eva Creek area since 2003. We’ve done our due diligence. This project integrates well into GVEA’s system, helps reduce our dependence on oil and meets the cooperative’s renewable energy pledge.”

Although Chugach Electric Association recently agreed to buy power from the proposed Fire Island Wind Farm currently being built by Cook Inlet Region Inc. in the Southcentral area, Eva Creek would be the first wind farm in Alaska commissioned by a utility. The system will help GVEA meet its goal of producing 20 percent of its peak load from renewable sources by 2014. GVEA’s peak load in 2010 was 208.1 megawatts.

The GVEA board chose RPower Systems to build the turbines. Construction is set to begin next May and the system is expected to come online in September 2012. GVEA still needs several key environmental permits, as well as approval from the Regulatory Commission of Alaska, before it can begin work on the wind farm.

The board chose Eva Creek over a competing project out of Delta Junction.

**ALTERNATIVE ENERGY**

GVEA plans $90M Healy wind farm

A Fairbanks utility is planning to build the largest wind farm in Alaska. The seven-member Golden Valley Electric Association board of directors unanimously approved the $90 million Eva Creek Wind Project near Healy at a meeting on June 27.

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TDS’ Jones retiring after 31 years with company

Rod Jones, a veteran of the trucking industry, will retire this month after being with the company for more than 31 years.

Jones previously worked as a truck driver. He was later promoted to a sales position with TDS, where he oversaw the company’s fleet maintenance program.

Jones said he enjoyed working with the people at TDS and that he is looking forward to spending more time with his family.

Tunista Construction awarded $14.4M in contracts

Tunista Construction LLC, a subsidiary of Calista Corp., said June 17 that it has received two contracts worth a total of $14.4 million. Tunista won a Small Business Administration (SBA) sole-source contract with a $4.2 million winning bid to add and alter the air support operations squadron training facility at Joint Base Elmendorf-Richardson, Alaska. The second contract, also at Joint Base Elmendorf-Richardson, was a competitive SBA 8(a) set-aside project awarded at $10.2 million to design and build a multipurpose machine gun range.

Editor’s note: All of these news items — some in expanded form — will appear in the next issue of Petroleum News’ Oil Patch Bits section. The next edition will be released in September.

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

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**GOVERNMENT**

Parnell funds two gaselines, vetoes third

Alaska Gov. Sean Parnell kept funding for two major prospective natural gas pipelines in his fiscal year 2012 capital budget unveiled on June 29, but vetoed a smaller third project.

Parnell kept $200 million for in-state gas pipeline development and $60 million to advance a large-diameter line under the Alaska Gasline Inducement Act, but vetoed $10 million for a project to bring natural gas to the Homer area from Anchor Point.

The decision came in a $400 million in-state project package that brought down the energy-laden capital budget to about $2.8 billion.

Parnell said the in-state funding should not be considered competition against a large diameter line whose economic viability many lawmakers are beginning to question.

“I think we have to pursue all options,” he said. “This $200 million is in a savings account. It’s not a check being written out. In fact there is about $21.5 million in the operating funds separate from that going to the Alaska Gasline Development Corp. to do their work next year. The bottom line is until we have a project that is ready to go, we are still going to pursue all options to commercialize that for Alaskans.

House Speaker Mike Chenault and Alaska Gasline Development Corp. President Dan Fauske will present a plan on July 5 for development and financing of an in-state gas line.

“We’ll see what Dan lays on the table in terms of financing, permitting and potential,” Chenault said.

Parnell also vetoed a second project, the Homer-Galena gas pipeline, which would bring gas from Anchor Point to the Homer area. The pipeline was supported by Interior and is also a priority for Fauske.

Chenault said the project was not a priority for Parnell, but Fauske said it is a priority for the gasline corporation.

**ENVIRONMENT & SAFETY**

Article doubts Exxon oil ruined herring

A continuing controversy has been whether the 1989 Exxon Valdez oil spill caused the collapse and poor recovery of Pacific herring in Alaska's Prince William Sound.

A new article in the international journal Reviews in Fish Biology and Fisheries says no.

“We have assessed the evidence for and against the principal decline and poor recovery hypotheses and find no evidence that oil exposure from the Exxon Valdez oil spill…led to either the decline or poor recovery of PWS herring,” the article concludes.

The authors are affiliated with the U.S. Department of Energy’s marine research laboratory in Washington state, the Scripps Institution of Oceanography in California and other research organizations. They acknowledge ExxonMobil Corp. at the end of the lengthy article for having “supported this effort.”

The researchers also discount other hypotheses in the herring collapse, such as overfishing and disease, and instead conclude that poor nutrition was “the most probable cause” of the 1993 herring decline, with the fish’s “nutritional status” beginning to decline before the 11-million-gallon oil spill occurred.

The lack of recovery since then is attributable to ocean environmental factors; feeding conflicts between young herring and juvenile pink salmon released from the Sound’s major salmon hatcheries; and humpback whales eating potentially large numbers of adult herring, the article says.

The Sound’s once lucrative commercial herring fishery has been closed since 1999, and the stock remains depressed. In other areas of Alaska, such as Sitka Sound and Togiak Bay, fishermen are enjoying robust herring harvests.

The Exxon Valdez Oil Spill Trustee Council is not considering effort into restoring herring in the Sound. While the council currently lists some species as having recovered from the spill, including pink salmon, harbor seals and birds such as bald eagles, it classifies herring as “not recovering.”

**SPECIAL SESSION DOESN’T SAVE ACMP**

House fails to garner enough votes to save coastal management program; lawmakers promise to introduce bills next January

The Senate said yes, but the House said no.

So the Alaska Coastal Management Program ends without the extension sought by Gov. Sean Parnell and without giving local governments a voice in resource development.

The Senate and House returned to Juneau for a special session, indicating they had struck a compromise to save the fledgling program and end months of rancor and finger pointing for a failure that left both sides emptied of funds.

They arrived believing they had worked out the major differences, saying that any tweaks could have been addressed when the legislation was made effective.

Enough lawmakers agreed they should return after learning the two most contentious points had been resolved.

They essentially were:

- That Parnell could have removed a member of a proposed nine-person Alaska Coastal Policy Board for cause, no longer needing to give written notice of the charges and an “opportunity to be heard upon not less than 10 days’ notice.”

- That standards would be based on “aggregate evidence,” a term bringing together scientific evidence and local knowledge. Previously, lawmakers debated which would take precedence.

But as high-ranking lawmakers on both sides closed these gaps to extend the program, lawmakers were unable to close the funding gap.

With the opt-in program scheduled to sunset June 30, he whistled an agency of 33 employees down to five.

By the time lawmakers unlocked their Capitol offices for a second special session, Parnell told them it was too late to keep the program moving effectively.

Restarting the agency would be problematic and caused delays in projects, prompting Alaska’s Attorney General John Burns to call the program “decimated.”

The state also had not applied for $2.5 million federal funding to operate the program from the Office of Ocean and Coastal Resources.

That’s essentially what kept the House from following the Senate’s lead in passing the compromise effort.

“We clearly had a sufficient alignment among the bodies on the overriding policy call,” said Rep. Mike Hawker, an Anchorage Republican credited by legislative colleagues for brokering the compromise.

Hawker said the administration presented a convincing argument that ramping up the program simply became overwhelming.

“They have concluded the Senate had reached a good policy for the future of Alaska,” he said.

“A good policy, but unable to overcome the transition problems.

“We had a sound policy solution that everyone would have been able to buy into with a few little tweaks to fix. I think even they (the administration) were surprised to find the volume of work it would have been necessary to scale back the coastal zone program, lawmakers promise to introduce bills next January
are currently believed to be marginally economic and would not be developed without existing infrastructure and a processing facility within (Southern Miluieach),” Brooks Range wrote in its application to the Alaska Department of Natural Resources. “Likewise, future development of the other potential hydrocarbon accumulation within (Southern Miluieach) using the Mustangi processing infrastructure will extend the economic life of Mustangi production.”

Brooks Range previously estimated that the Kuparuk Formation at North Tarn No. 1 contained 6 million barrels of oil, enough to make the play economic. The company also said North Tarn included a target in the shallow Lower Brookian Formation that could hold 35 million barrels, but would be more difficult to produce because of complex geology.

**Six exploration blocks**

Brooks Range plans to develop and explore simultaneously. For the Mustangi development project, the company told the DNR that it plans to have permits in place by the end of 2012, form a participating area by the end of 2013 and have a unit proposal by July 1, 2014, according to a plan of development.

As of now, Brooks Range plans to build processing facilities that connect the unit to the Alpine Pipeline, which delivers power and the unit oil into the North Slope’s main pipeline system that leads to the 800-mile trans-Alaska pipeline, which in turn carries the oil to the Port of Valdez.

Meanwhile, Brooks Range would also explore other targets at Southern Miluieach.

According to a plan of exploration, Brooks Range wants to break the proposed unit into six blocks. Brooks Range already fulfilled its first drilling obligation for the unit by drilling the North Tarn No. 1 well this winter in the SE Exploration Block. In its proposed plan to form the unit, the company must drill a second well into the block by March 31, 2012, or lose all undrilled acreage.

Next, Brooks Range must drill a well in each exploration block by the end of March of 2014, 2015, 2016, 2018 and 2020, respectively, or lose all undrilled exploration blocks.

The exploration blocks are prioritized as follows: SE, NE, NW, SW, W and S.

Under its proposed unit plan, Brooks Range also is required to submit a plan of operations by Oct. 1 detailing its plans to complete and test the North Tarn No. 1A well this coming winter and drill at least one of two planned delineation wells on ADL 390680. The 2011-2012 activities also include a summer clean up and field studies program and performing flow tests on the wells.

The program will require a four-mile ice road from existing gravel pads at the Kuparuk River unit to the ice pad that would be constructed at the North Tarn site for drilling work.

Findings reveal significant risk

Although the fairness between the Kuparuk and Colville units is a natural extension of North Slope development, exploration to date hasn’t lead to production.

In its filings, Brooks Range identified 18 previous wells drilled in the region between 1966 and 2010 — to depths between around 4,600 feet and 13,000 feet — but aside from five wells drilled at Kuparuk, all have been dry holes. That includes the Ataruq No. 2 and Ataruq No. 2A dry holes that Kerr-McGee drilled in the proposed unit area in 2005.

Brooks Range said that previous attempts to extend production from the Kuparuk and Colville units west of Kuparuk over the past decade led to discoveries west of Kuparuk and north of the proposed Southern Miluieach unit, but that low oil prices and rising drilling costs in the early part of the 2000s stymied those efforts by requiring discoverers to be huge. As a consequence, operators found it difficult to explore for economical challenges, marginal prospects.

Brooks Range believes Southern Miluieach contains several marginal oil prospects that could be developed in an area of new seismic technology and a multicylar drilling program.

Costs to date include Ataruq wells

The Brooks Range joint venture includes TG World Energy, Inc. and Ramshorn Investments Inc. Kerr-McGee (now owned by Anadarko Petroleum) and Eni own working interests in several leases at the unit.

The joint venture acquired its first leases in the area at an October 2003 lease sale and grew its position through lease sales and private deals over the following seven years.

The working interest owners have spent $15 million to date, according to Brooks Range, a figure that includes the two Ataruq wells and a proprietary 3-D seismic over the central portion of the block.

The state is taking comments on the unit proposal through July 28.

**TAPS Flow**

And if the temperature of the oil in the line drops below the freezing point of water, the soil surrounding buried portions of the pipeline could freeze, causing movement of the line as a result of frost heaves. Unless the oil is heated, this problem is likely to start occurring at a flow rate of 350,000 barrels per day, with unacceptable pipeline displacements and overstressing occurring at 300,000 barrels per day, the report says.

The flowing oil of water may also reduce the efficiency of the pipeline leak detection system, with the possibility of leak detection capabilities dropping below regulatory requirements, the report says.

The formation of ice in the line during operations subject to particularly low oil temperatures; the injection of corrosion inhibitors and biocides into the oil; reducing the amount of water allowed into oil accepted into the pipeline; enhancing reducing the amount of water allowed in the line at flow rates below 780,000 barrels per year unless the oil is artificially heated, the report says.

**Mitigation measures**

The report presents a shopping list of mitigation measures that could potentially be implemented to keep the pipeline operating at flow rates down to 350,000 barrels per day. These measures include the heating of the oil at points upstream of locations subject to particularly low oil temperatures; introducing contingency measures and equipment for handling ice; reducing the amount of water allowed into oil accepted into the pipeline; enhancing the insulation of the pipeline at certain critical points; the injection of corrosion inhibitors and biocides into oil; installing additional pig-launching points in the line; and implementing a new pig technology development program for addressing water and wax issues.

**ACMP**

Parnell countered by pointing to the amount of time he and members of his administration invested working with the House Resources Committee on HB 106. Long before developments reached this stage, the House unanimously passed this version 40-0. HB 106 gave many coastal leaders hope they would have a voice and industry leaders supported the bill, as well.

Rep. Eric Feige of Kiana, Reps. Markou and Joule of Kotzebue and Bob Herron of Bethel were credited with protracted negotiations with the administration.

That in and of itself offered promise, given how the Legislature and the administration barely came to the table last year. But with the program scheduled to end this year, the Legislature and the administration, plus community and industry leaders, sensed urgency.

They believed they found common ground when sending their draft to the Senate, but really negotiations were far from over.

They agreed to five more provisions, but remained deadlocked on Parnell’s removal power and the question of whether scientific research or institutional knowledge took precedent.

Those differences continued for a full 27-day special session, and as May became June, Parnell said he had started moving forward with the inevitable.”I will, in 100 plus hours working along with the AG, the DEC commissioner and DNR,” Parnell said. “I gave myself wholeheartedly in the effort.”

“Finally, we come to a compromise that crossed party lines as well as for the environmental communities and the industry groups. But some in 2008 covered 200 square miles in and around the greater Southern Miluieach area.

The state is taking comments on the unit proposal through July 28.

**Issue far from resolved**

Once lawmakers decided to return, resource development and industry groups quickly became worried, articulating the same concerns as the administration.

The Alaska Miners Association weighed in first before lawmakers arrived, with Executive Director Steve Borrell, saying in part: “If the program is now resurrected after more than two months of turmoil, without knowledgeable people, without files and without adequate funding, the result would be an extended period of uncertainty and delay. This delay would be across all projects requiring a coastal consistency review. There are many other categories of impacts. First are the permits which have already been applied for, and second those parties which are now anticipating filing new applications but have been holding off because of uncertainty.”

What remains certain is lawmakers expecting new bills to restore the program. “I absolutely expect to see legislation proposed in coming sessions that would reconstitute the program,” Hawker said. “I think again it will be another long, healthy spirited debate.”

“But at the end of the day, because I believe the state is best served by having a good, ongoing consistent management program, we will see one re-enacted in some form in the foreseeable future.”

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FRASER SURVEY

five by Ohio, Kansas, Oklahoma and Texas. The Dutch North Sea ranked highest of regimes outside North America. The five least attractive jurisdictions are all in South America or the Middle East: Venezuela, Ecuador, Bolivia, Iran and Kazakhstan.

The rankings place Alaska in odd company. In the United States, only California—home to some of the strictest environmental laws in the country—and the Pacific OCS—a region not included in the Bureau of Ocean Energy Management, Regulation, and Enforcement 2007-2012 five-year program ranked below Alaska.

For North America, Alaska joins Quebec and Northwest Territories at the bottom of the list.

Ranks poorly against shale

Alaska also fared poorly against its traditional and emerging competitors. With expanding development of the Bakken Shale, North Dakota is poised to push Alaska out of the second place spot for production in the United States and that momentum helped North Dakota remove a progressivity feature that some Alaskans want to change ACES to a Clear and Equitable Share, or ACES, the current oil production tax. During those debates, many in Alaska pointed to Alberta as proof that the state could change its production tax and still remain competitive compared to other regimes around the world.

Now, as a way to increase investment, some Alaskans want to change ACES to remove a progressivity feature that increases the tax rate as the price of oil.

CI OPPORTUNITIES

interest in the Inlet. “It’s exciting times,” Swenson said. “We need to get exploration going again in the Cook Inlet.”

Seismic the key

Apache has been testing a new wireless nodal seismic technique in the Cook Inlet basin and has found that the technique works in the basin. The company now plans to conduct a program of seismic surveying. New, high-quality seismic data is the key to exploration in new plays in the basin, Swenson said.

That’s going to be a deal breaker,” he said.

Prominent among the acreage that Apache bid on were two sizable fairways of tracts on the east side of the Cook Inlet, mostly offshore. The more southerly of these fairways include some tracts formerly in the Cosmopolitan unit, off-shore Anchor Point, and extends north to an area west of Kasilióf, south of the City of Kenai. The more northerly offshore fairway lies east of the North Cook Inlet gas field and the Kenai Light House unit, to the north of the onshore Swanson River field.

A train of en echelon folds in the rock strata pervades these areas on the east side of the Inlet, while the known existence of an oil pool at Cosmopolitan demonstrates that oil has flowed out of the Mesozoic source rocks in the area. Swanson said (oil in the Cook Inlet oil fields is known to have originated from Mesozoic source rocks). And although earlier phases of Cook Inlet exploration and development have resulted in the drilling of wells in most of the obvious major structures that were clearly visible in 1960s vintage seismic data, that seismic data could not adequately resolve the more subtle structures on the east side of the Inlet that Apache will presumably now seek, using the new, higher resolution seismic that it plans to shoot. There are many of these smaller, difficult-to-see structures between the major structures, Swanson said. There is also the possibility of finding what geologists refer to as stratigraphic traps, formed for example where oil or gas has become trapped in the sand bodies that fill ancient river channels.

These are “the things that the new seismic technology is going to pick out of the data,” Swanson said. “And there’s a lot of playing room between the big, big structures.”

Onshore leases

Apache has acquired some onshore leases at the southern end of the Kenai Peninsula, near the North Fork unit area and Armstrong has indicated an interest in seeking oil at North Fork.

The southern end of Apache’s more northerly Cook Inlet fairway lies near where Marathon drilled an exploration well in its Sunrise prospect in 2010, inside the Kenai National Wildlife Refuge. Marathon said the well “encountered zones of interest” but released no further results.

In the northerly part of the lease sale area, Apache has picked up some leases around the mouth of the River Susitna, on the north side of the Cook Inlet. This area has both oil and gas potential in geology distinguished by complex structures adja-
continued from page 1

date of about 1.3 billion barrels of oil and more than 7.5 tcf of gas in the basin, said USGS geologist Rick Stanley, a member of the team that conducted the assessment, during a presentation on the assessment on June 29.

Onshore and state waters
Stanley stressed that the assessment only applies to onshore areas of the Cook Inlet basin, and offshore areas within state waters of the upper Cook Inlet. The U.S. Bureau of Ocean Energy Management, Regulation and Enforcement is responsible for resource assessments in the waters of the federal outer continental shelf, mainly encompassing the more southerly reaches of the Inlet.

The assessment does not take into account how much of the oil and gas resource might viably be developed—the assessment simply considers whether the resource could be produced using existing technologies, regardless of whether development of the resource would prove profitable. Neither does the assessment consider the practicalities of physical access to the resources, with a substantial onshore segment of the basin, for example, lying under land within the Kenai National Wildlife Refuge.

The new assessment numbers represent a major increase over the last USGS assessment for the Cook Inlet region, completed in 1995. That earlier assessment, which included the whole of southern Alaska rather than just the Cook Inlet basin, estimated 190 million to 970 million barrels of undiscovered oil and 0.68 trillion cubic feet to 2.14 trillion cubic feet of natural gas. A 2004 U.S. Department of Energy study conducted a statistical analysis of existing Cook Inlet gas fields to come up with an estimate of 10 tcf to 14 tcf for as-yet undiscovered gas.

Worked with the state
Stanley said that USGS scientists had worked with staff from Alaska’s Division of Oil and Gas and the state’s Division of Geological and Geological Surveys to obtain data for the new assessment—DGGS is currently heading intensive studies into the petroleum geology of both the Cook Inlet basin and the neighboring Susitna basin.

Geologists have determined that most or all of the oil was sourced from rocks of the Mesozoic Tuxedni group, of Jurassic age, with the bulk of the gas originating from areas of 4.6 tcf of coalbed methane in the basin. USGS said.

Assessment unit
The Cook Inlet basin consists essentially of two major rock sequences: the younger and shallower rocks of the Tertiary period, and the older and deeper rocks of the Mesozoic period.

The four assessment units that U.S. Geological Survey scientists used to estimate undiscovered oil and gas resources in Alaska’s Cook Inlet basin encompass different areas within the basin. The deepest, central part of the basin has been excluded from the coalbed methane assessment unit because the presence of coal fractures at depths greater than 6,000 feet would likely preclude methane production.

Much gas in Tertiary
Perhaps not surprisingly, about 12 tcf of the mean estimate of 19 tcf of natural gas is thought to exist in the Tertiary sandstone assessment unit, the unit that hosts the Inlet’s prolific gas fields. USGS thinks that there remain in the Tertiary many undiscovered oil and gas traps, including traps formed from the folding and faulting of the rock strata, and so-called stratigraphic traps, such as those formed in ancient river channels, Stanley said.

And Mesozoic sandstone reservoirs could hold another 1.4 tcf of gas, USGS says.

The agency has also estimated a mean of 4.6 tcf of coalbed methane in the basin. Dave Hoechstete, one of the USGS geologists who have been evaluating this resource in the basin, told Petroleum News in February that the most promising area for coalbed methane resources appears to be a large area of territory down the west side of the Cook Inlet.

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