Nikiski: Refinery with a view

Tesoro’s Alaska refinery on the Kenai Peninsula now uses crude oil from around the world, not just from Cook Inlet and the North Slope; see story on page 8.

North Slope Borough plans hydrate wells at gas fields near Barrow in 2010-11

The North Slope Borough is looking to hire a contractor for a drilling program in the winter of 2010-11 to look for methane hydrates at two natural gas fields near Barrow. The project is part of a larger effort to study methane hydrate resources in the Arctic. The North Slope Borough is working on the effort with the U.S. Department of Energy.

The North Slope Borough plans to hire a contractor to start work in September 2010. The contractor will drill as many as two test wells at the East Barrow gas field near the end of 2010 to test for hydrates. The field is 14 miles east of Barrow on gravel roads.

In early 2011, the contractor will move the equipment down ice and snow roads to the Walakpa Gas field some 15 miles southwest of Barrow to drill four to five wells.

Drilling at Walakpa is scheduled to wrap up between mid-April and early May.

Moving on Liberty

SDI, river bridge upgrade and drilling rig construction near completion

By ALAN BAILEY
Petroleum News

After years of planning and design there are now tangible signs on the ground of progress towards first oil from BP’s 100 million-barrel Liberty field, offshore in the Beaufort Sea, about 15 miles east of Prudhoe Bay.

On the North Slope workers are putting the finishing touches to the extension of the Endicott satellite drilling island, where Liberty’s drilling rig will be located, and to the upgrades to the Sagavanirktok River road bridge, an essential component of the transportation support infrastructure for the Liberty project; and in Vancouver, Wash., fabrication of Parker Drilling’s massive

Eresman: the future’s a gas

Encana CEO says North America ‘flush’ with resource costing less to produce

By GARY PARK
Petroleum News

A more competitive, friendlier regime is one reason why British Columbia threatens Alberta’s once-unrivalled position as Canada’s dominant oil and natural gas region.

But there’s another, more compelling reason.

British Columbia has staggering untapped resources that are just starting to benefit from a technological “renaissance,” while Alberta is grappling with declining conventional reserves and production rates.

Consider the assessment of executives from leading production and pipeline companies speaking at a Vancouver Board of Trade energy forum on April 24.

Mike Graham, president of Encana’s Canadian Foothills division, offered the most staggering projection of all. He said the Horn River basin shale gas and Montney silt gas plays have combined gas in place of 800 trillion cubic feet — 800 years worth at British Columbia’s current annual production rate.

But those volumes should grow by a factor of two or three times over the next 20 years, raising B.C. from its 20 percent share of total Canadian output and “challenging Alberta as the most staggering projection of all. He said the Horn River basin shale gas and Montney silt gas plays have combined gas in place of 800 trillion cubic feet — 800 years worth at British Columbia’s current annual production rate.

But those volumes should grow by a factor of two or three times over the next 20 years, raising B.C. from its 20 percent share of total Canadian output and “challenging Alberta as

FERC accepts 2007 rates

Orders refunds; sets rates; urges owners, shippers to settle remaining disputes

By ROSE RAGSDALE
Petroleum News

The Federal Energy Regulatory Commission has issued another major decision in a long-running dispute between owners of the trans-Alaska oil pipeline and unaffiliated shippers on the line that appears to move the case closer to final resolution.

This time, the commission took up the question of interstate shipping rates proposed by the pipeline’s carriers for 2007 and 2008 in compliance with its June 20, 2008, order, Opinion 502. That ruling endorsed an earlier administrative law judge ruling that established substantially lower rates for 2005 and 2006.

The FERC judge determined in May 2007 that the 2005 and 2006 tariffs should be based on the pipeline owners’ costs rather than a method that had been used to establish rates in a 1985 court settlement. The change resulted in a significant reduction in the tariffs. The judge also ordered limited refunds, which the commission upheld.

This time, the commission took up the question of interstate shipping rates proposed by the pipeline’s carriers for 2007 and 2008 in compliance with its June 20, 2008, order, Opinion 502.
Moving on Liberty
SDI, river bridge upgrade and drilling rig construction near completion

Eresman: the future’s a gas
EnCana CEO says North America ‘flush’ with resource costing less to produce

FERC accepts 2007 rates
Orders refunds, sets rates; urges owners, shippers to settle remaining disputes

North Slope Borough plans hydrate wells at gas fields near Barrow in 2010-11

Aurora Gas working its latest plans
Company has run into a permitting glitch for proposed Hanna well; wants to develop a gas storage facility at Nicolai Creek

Contracts and conditions at issue
Superior Court case between Alaska Venture Capital Group and TG World Energy focusing on contract signed late last year

North Slope closed for off-road travel

Murkowski bill promotes ocean research

Aurora Gas working its latest plans
Refinery formerly used just Cook Inlet, North Slope crude oil; 14 new crude oils from around the world run at facility last year

Contracts and conditions at issue
Superior Court case between Alaska Venture Capital Group and TG World Energy focusing on contract signed late last year

Murkowski bill promotes ocean research

Obama administration revokes Bush rule

Eni expects lower capital spending in ‘09

Chugach looking at backup contract
Contract with Aurora would replace gas taken from Beluga Pipeline during compressor trips, Enstar and Beluga Pipe Line skeptical

USGS plans CBM tests at Wainwright
Summer work involves production test of 2008 well and new wells to delineate extent of coal seams near North Slope village

Tesoro uses more crude oils at Nikiski
Refinery formerly used just Cook Inlet, North Slope crude oil; 14 new crude oils from around the world run at facility last year

Petro Star Valdez plans ULSD upgrades
Upgrades will allow the plant to produce ultra-low sulfur diesel and ultra-low sulfur kerosene in time for 2010 federal deadline

Second tanker reduces crude in storage

Obama administration revokes Bush rule

Eni expects lower capital spending in ‘09

Chugach looking at backup contract
Contract with Aurora would replace gas taken from Beluga Pipeline during compressor trips, Enstar and Beluga Pipe Line skeptical

USGS plans CBM tests at Wainwright
Summer work involves production test of 2008 well and new wells to delineate extent of coal seams near North Slope village

Tesoro uses more crude oils at Nikiski
Refinery formerly used just Cook Inlet, North Slope crude oil; 14 new crude oils from around the world run at facility last year

Petro Star Valdez plans ULSD upgrades
Upgrades will allow the plant to produce ultra-low sulfur diesel and ultra-low sulfur kerosene in time for 2010 federal deadline

Second tanker reduces crude in storage
### Alaska 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>Doyon Drilling</td>
<td>14 (SCR/TD)</td>
<td>Prudhoe Bay 12-07A</td>
<td>BP</td>
</tr>
<tr>
<td>Sky Top Drilling</td>
<td>15 (SCR/TD)</td>
<td>Kuwapak Rig maintenance</td>
<td>ConocoPhillips</td>
</tr>
<tr>
<td>Doyon 1000 UE</td>
<td>16 (SCR/TD)</td>
<td>Badami 81-28, moving</td>
<td>SA/AMT</td>
</tr>
<tr>
<td>Doyon 2000 LEBD</td>
<td>19 (SCR/TD)</td>
<td>Fiord Nachelik CD3-304</td>
<td>ConocoPhillips</td>
</tr>
<tr>
<td>OIME 2000</td>
<td>141 (SCR/TD)</td>
<td>Stacked in Kuwapak</td>
<td>ConocoPhillips</td>
</tr>
<tr>
<td>TSM 7000</td>
<td>Arctic Fox #1</td>
<td>Mobilizing</td>
<td>ConocoPhillips</td>
</tr>
<tr>
<td></td>
<td>Arctic Wolf #2</td>
<td>Mobilizing</td>
<td>Rampart Energy</td>
</tr>
</tbody>
</table>

#### Nabors Alaska Drilling

<table>
<thead>
<tr>
<th>Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trans-ocean rig</td>
<td>CDR-1 (CT)</td>
<td>Stacked, Prudhoe Bay</td>
<td>Available</td>
</tr>
<tr>
<td>Mid-Continental UE</td>
<td>3-5</td>
<td>Milne Point MLA-03</td>
<td>BP</td>
</tr>
<tr>
<td>Oilwell 700 UE</td>
<td>4-ES (SCR)</td>
<td>Prudhoe Bay J-208</td>
<td>BP</td>
</tr>
<tr>
<td>Oilwell 1000 U7</td>
<td>5-ES (SCR/TD)</td>
<td>Prudhoe Bay A-446</td>
<td>BP</td>
</tr>
<tr>
<td>Oilwell 1000 U7</td>
<td>9-ES (SCR/TD)</td>
<td>DS 14-23A</td>
<td>BP</td>
</tr>
<tr>
<td>Oilwell 2000 Hercules</td>
<td>14-E (SCR)</td>
<td>Stacked</td>
<td>Available</td>
</tr>
<tr>
<td>Oilwell 2000 Hercules</td>
<td>16-E (SCR/TD)</td>
<td>Available</td>
<td>Available</td>
</tr>
<tr>
<td>Arctic Wolf #2</td>
<td>17-E (SCR/TD)</td>
<td>Stacked, Point Marmot</td>
<td>Available</td>
</tr>
<tr>
<td>Emsco Electro-hoist</td>
<td>28-E (SCR)</td>
<td>Stacked, Deadhorse</td>
<td>Available</td>
</tr>
<tr>
<td>Emsco Electro-hoist</td>
<td>22-E (SCR/TD)</td>
<td>Stacked, Milne Point</td>
<td>Available</td>
</tr>
<tr>
<td>Academy AC electric Haarig</td>
<td>11-E (SCR/TD)</td>
<td>Stacked, Deadhorse</td>
<td>Available</td>
</tr>
<tr>
<td>Academy AC electric Helig</td>
<td>10-E (SCR/TD)</td>
<td>Demobilization rig shut down</td>
<td>ConocoPhillips</td>
</tr>
</tbody>
</table>

#### Nordic Calista Services

<table>
<thead>
<tr>
<th>Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superior 700 UE</td>
<td>1 (SCR/CTD)</td>
<td>Prudhoe Bay Drill Site 4-35A</td>
<td>BP</td>
</tr>
<tr>
<td>Superior 700 UE</td>
<td>2 (SCR/CTD)</td>
<td>Milne Point DB Site G-31b</td>
<td>BP</td>
</tr>
<tr>
<td>Ideco 900</td>
<td>3 (SCR/CTD)</td>
<td>Kuwapak Well 2K-22</td>
<td>ConocoPhillips</td>
</tr>
</tbody>
</table>

#### North Slope - Offshore

<table>
<thead>
<tr>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>OIME 1000</td>
<td>19-E (SCR)</td>
<td>Oozuguruk ODIN-36</td>
</tr>
<tr>
<td>OIME 2000</td>
<td>245-E</td>
<td>Oilfield Point PO4-PO7</td>
</tr>
<tr>
<td>Oilwell 2000</td>
<td>33-E</td>
<td>Northstar NS-33A</td>
</tr>
</tbody>
</table>

#### Cook Inlet Basin – Onshore

<table>
<thead>
<tr>
<th>Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aurora Well Service</td>
<td>Franks 300 Str. Explorer II</td>
<td>AWS 1 Pre-season maintenance west side</td>
<td>Aurora Gas</td>
</tr>
<tr>
<td></td>
<td>Marathon</td>
<td>Glacier 1 KBU 42-6x</td>
<td>Marathon</td>
</tr>
<tr>
<td></td>
<td>Nabors Alaska Drilling</td>
<td>Continental Emsco E3000</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Marathon</td>
<td>Emsco Electro-hoist 2600 E</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Marathon</td>
<td>Emsco Electro-hoist Varco TD3</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Marshall Companies</td>
<td>AC Electric 68AC (SCR/TD)</td>
<td>Stacked, Killen</td>
</tr>
</tbody>
</table>

#### Cook Inlet Basin – Offshore

<table>
<thead>
<tr>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Coordinates</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>428</td>
<td>Rig shut down by operator request</td>
<td></td>
<td>ConocoPhillips</td>
</tr>
</tbody>
</table>

#### XTO Energy

<table>
<thead>
<tr>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>National 1320 A</td>
<td>Platform A no drilling or workovers at present</td>
<td>XTO</td>
</tr>
<tr>
<td>National 110</td>
<td>C (TD)</td>
<td>XTO</td>
</tr>
</tbody>
</table>

#### Mackenzie Rig Status

### Canadian Beaufort Sea

<table>
<thead>
<tr>
<th>Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>SDC Drilling Inc.</td>
<td>SSDC CANMAR Island Rig #2</td>
<td>Set down at Roland Bay</td>
<td>Available</td>
</tr>
</tbody>
</table>

### Mackenzie Delta-Onshore

<table>
<thead>
<tr>
<th>Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>AKITA Equtak</td>
<td>Modified National 370</td>
<td>Racked in Inuvik</td>
<td>Available</td>
</tr>
</tbody>
</table>

### Central Mackenzie Valley

<table>
<thead>
<tr>
<th>Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Akta/SIMTU</td>
<td>Oilwell 500</td>
<td>Racked in Norman Wells, NT</td>
<td>Available</td>
</tr>
</tbody>
</table>

---

### Baker Hughes North America rotary rig counts*

<table>
<thead>
<tr>
<th>Rig Type</th>
<th>Operator</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>955</td>
<td>975</td>
</tr>
<tr>
<td>Canada</td>
<td>65</td>
<td>74</td>
</tr>
<tr>
<td>Gulf</td>
<td>49</td>
<td>46</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Highest/Lowest</th>
<th>US/Canada/Gulf</th>
<th>1944</th>
</tr>
</thead>
<tbody>
<tr>
<td>US/Highest</td>
<td>4530</td>
<td>December 1981</td>
</tr>
<tr>
<td>US/Lowest</td>
<td>488</td>
<td>April 1999</td>
</tr>
<tr>
<td>Canada/Highest</td>
<td>558</td>
<td>January 2000</td>
</tr>
<tr>
<td>Canada/Lowest</td>
<td>29</td>
<td>April 1992</td>
</tr>
</tbody>
</table>

*Issued by Baker Hughes since 1944

---

The Alaska - Mackenzie Rig Report is sponsored by:

**ExxonMobil**

---


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.
Aft er a 2008 drilling season that fol- 
lowed a nearly two-year Irrita- tion-
related hiatus in its exploration and develop-
ment activities on the west side of 
Alaska's Cook Inlet, Aurora Gas is plan-
ing some more activity in 2009, with a 
new well in the Kalosa gas field kick-off ing 
a planned program of infield drilling.

Aurora Gas President Scott Pfoff told 
Petroleum News April 28, “We’re still 
shooting for a May 12 spud date for 
that (Kalosa) well,” Pfoff said. 

Pfoff said that Aurora is asking 
Kaiser Francis Oil Co., Aurora’s 90 percent 
owner, to fund three additional develop-
ment wells in 2009. Aurora operates the 
Kalosa, Lone Creek, Mosquwake, Three 
Mile Creek and Nicole Creek gas fields, 
all on the west side of the inlet.

Hanna prospect

The company is also close to secur-
ing funding to drill a wild-
card exploration well at the 
Hanna prospect, on the west 
side of Cook Inlet northeast of 
Beluga. But a permitting snag, 
with the Alaska Department of 
Fish and Wildlife is complicat-
ing the task of obtaining the remaining 
funds for this project.

“We’ve had several commitments 
to participate in the well, but we don’t 
have 100 percent yet, so this is a critical 
time for us,” Pfoff said. Pfoff declined to say 
who the Hanna participants are.

Aurora has a farmout agreement dating 
back to 2005 with Trading Bay Oil and 
Gas for the Hanna prospect. However, an 
initial plan to drill at Hanna was postponed in 2006, 
because Kaiser Francis had 
declined to invest further money in 
Cook Inlet explora-
tion at that time. Now, 
with most of the money required for 
the drilling secured, and with the 
Hanna lease set to expire 
on Aug. 31, Aurora is anxious to 
to move ahead.

“We’re trying to get the well drilled 
this year,” Bruce Webb, Aurora’s manager 
of land and regulatory compliance, told 
Petroleum News April 28.

Permit denial

But the planned Hanna drill site, adja-
cent to the Beluga Highway, sits inside 
the Susitna Flats State Game Refuge. Fish 
and Game has refused to issue a spec-
ific area permit for drill pad construction, 
an exercise that involves leveling the 1.25-
acre pad location with gravel before lay-
ning composite mats, Webb said. If 
the drilling results do not warrant a field 
development, mats and gravel would be 
removed after drilling.

Aurora is monitoring the drilling. 
However, Fish and Wildlife has told 
Aurora that gravel may not be used inside 
the refuge for exploration activities, Webb 
said.

Aurora is contesting the Fish and 
Wildlife position, saying that the state’s 
Best Interest Finding for Cook Inlet lease 
was postponed in 2006, and that the 
Ferris Game, to elevate the issue to the DNR com-
misioner, if appropriate, Webb said.

“We’ve appealed that to Commissioner 
Denby Lloyd and meanwhile I’ve sent a 
request to the DNR (Alaska Department 
of Natural Resources) to consider sus-
pension of the lease under the 
lease, so that the lease term is 
tolled until this is resolved,” Webb said. “… We’re also considering fil-
ing a unit application.”

Aurora has also asked Kevin Banks, 
director of Alaska’s Division of Oil and 
Gas, to elevate the issue to the DNR com-
misioner, if appropriate, Webb said. 

At the time of going to press, Fish and 
Game had not responded to Petroleum 
News on the Hanna drill site issue.

Gas storage

Pfoff also told Petroleum News that 
Aurora wants to establish a natural gas 
storage facility in its Nicola Creek field, 
probably using an existing vertical well 
and adding a new horizontal well, with 
both wells used to inject and deliver gas.

Aurora is close to completing a techni-
cal analysis of the Nicola Creek reservoir 
and plans to do a road show in May or 
June to promote the storage concept, 
with the intention of holding an open season to 
investigate the ability of the facility, which 
would be operated for the use of third-
party entities rather than just Aurora.

“We’ve not had a contract base that 
would justify us building a private storage facility,” Pfoff said.

The Nicola Creek reservoir appears 
likely to hold a little less than 1 billion 
cubic feet of gas, with perhaps two-thirds 
to three-quarters of that capacity available 
as working gas, depending on the 
required gas deliverability; deliverability from the 
facility in excess of 40 million to 50 mil-
lion cubic feet per day for several days 
looks possible, Pfoff said.

The question of whether the facility 
would be used for general winter deliver-
ability support, or for the needle peaking 
supply for extreme cold weather condi-
tions, would depend on who bids for 
storage capacity and how much they pay 
for the storage services, Pfoff said.

A current Regulatory Commission of Alaska inves-
tigation into whether to regulate some gas 
storage, a move that Aurora worries might 
result in cost-plus pricing that could 
remove the incentive to build and operate 
the facility. The company doesn’t see reg-
ulation as necessarily a stumbling block to 
its gas storage plans, but it wants to see 
market-based pricing for gas storage ser-
ices.

“We’re very much aware that the RCA 
is opening a docket on storage and they’re 
trying to figure out what storage is subject to 
their jurisdiction and what isn’t, and we 
certainly plan to keep them informed about 
our activities as we progress this 
th ing,” Pfoff said.

Coalbed methane

Pfoff also said that Aurora is “still very 
excited” about the potential for coalbed 
methane production from the Cook Inlet 
basin. The company plans to do some cor-
ning and lab tests on selected coals, in addi-
tion to running a pilot line into the conventional gas 
reservoir, in one of the wells that the 
company hopes to drill this year, he said.

“Assuming that the results from the lab 
come back positive, then we’ll assess how 
best to go about commencing a coalbed methane development program,” Pfoff said.

Pfoff anticipates using modern hori-
zontal well, multilateral completion, 
coaled methane production techniques 
that minimize the surface footprint and 
avoid the environmental pitfalls that 
have plagued coaled methane production in 
the past. And, because Aurora’s leases lie 
many miles from centers of population, 
the company would not be drilling in peo-
ple’s back yards.

“We think that coalbed methane has a huge reserve potential across Cook Inlet,” Pfoff said. 
UTS Energy victorious — for now

Oil sands junior persuades shareholders to rebuff Total bid, but now must show it has a better plan; draws hope from reduced costs

By GARY PARK
For Petroleum News

Having successfully played the role of David in beating back Total, the French energy Goliath, Canadian-based UTS Energy has an even more daunting task ahead.

It now has to prove to its shareholders, who spurred Total’s hostile C$830 million takeover bid, that their trust in the company is not misplaced.

And it might have derived some comfort from oil sands powerhouses, Petro-Canada and Husky Energy, who have found ways to slice a large chunk off earlier cost estimates for megaprojects.

From the time Total launched its initial offer of C$1.30 a share and even after raising that to C$1.75, UTS investors were assured the proposal was “inadequate and not in the best interest of UTS.”

“clearly come back to us and said they didn’t agree with our analysis (of UTS’s worth). So we’ll move on as an organization,” he said.

Borrell said Total was “very rigorous and very disciplined in developing a number for UTS,” noting the latest offer represented a 111 percent premium for UTS.

UTS Chief Executive Officer Will Roach said Total’s withdrawal was a “good day” for his shareholders, allowing the company to continue running a data room for prospective buyers while pointing to a number of alternatives, such as unloading its stake in Fort Hills or other assets, selling the company outright, or exploring mergers or acquisitions.

Not everyone is sold on the chances of a transaction. BMO Nesbitt Burns analyst Randy Ollenberger suggested UTS has been “pretty well shopped and nobody stepped forward.”

But Roach told the Financial Post that several “financially credible counterparts” are still pondering an offer for UTS.

Unless the junior can quickly unveil a plan it will face some disgruntled shareholders, such as Dennis da Silva, a fund manager at Middlefield Capital, who said a failure to deliver on that promise would be a source of “potential discontent.”

Fort Hills’ costs down

The best bet for UTS may be a merger of Petro-Canada and Suncor Energy, scheduled for the third quarter, which could help steer Fort Hills out of its dead end.

Petro-Canada even dangled some shreds of hope April 28 when Chief Executive Officer Ron Brenneman disclosed that a review of costs during the current oil sands halt has slashed the estimated cost of the Fort Hills mine to under C$10 billion from C$14 billion just five months ago.

He attributed that dramatic rollback to lower costs for steel and pipe, a drop in expected wage rates and wage escalation and improved productivity because of the changed construction climate in Alberta.

Brenneman didn’t mention whether the same factors have contributed similarly to the upgrade associated with Fort Hills, which carried a C$10 billion price tag before it was shelved last year.

He said the “rough” revised estimate is “pretty encouraging to us because, even on a standalone basis, we could probably generate a double-digit return at oil prices of $60 per barrel.”

Brenneman said that if the merger with Suncor goes ahead, there could be further cost-cutting opportunities through infrastructure sharing.

Pressed on whether Fort Hills could succeed as a standalone project, he said commodity prices would have to regain an economic threshold and there would have to be some “opening up in the financial markets” to assure Petro-Canada that it could go to those markets if needed.

Husky has had a similar experience in reviewing its budget for the Sunrise project, a joint venture with BP. Chief Executive Officer John Lau said estimates for the first phase of 60,000 barrels per day (about one-third of the ultimate objective) have been reduced to C$2.5 billion from C$4.5 billion because of postponements and cancellations of about C$100 billion in oil sands projects.

Total moving on

As a result, the multinational, worth US$120 billion, decided to move on.

Michael Borrell, president of its Canadian unit, said Total will now concentrate on spending up to C$20 billion Canadian unit, said Total will now concentrate on spending up to C$20 billion on its other long-term oil sands projects.

Once total revenue from its three major projects, UTS investors were assured the proposal was “inadequate and not in the best interest of UTS.”

“clearly come back to us and said they didn’t agree with our analysis (of UTS’s worth). So we’ll move on as an organization,” he said.

Borrell said Total was “very rigorous and very disciplined in developing a number for UTS,” noting the latest offer represented a 111 percent premium for UTS.

UTS Chief Executive Officer Will Roach said Total’s withdrawal was a “good day” for his shareholders, allowing the company to continue running a data room for prospective buyers while pointing to a number of alternatives, such as unloading its stake in Fort Hills or other assets, selling the company outright, or exploring mergers or acquisitions.

Not everyone is sold on the chances of a transaction. BMO Nesbitt Burns analyst Randy Ollenberger suggested UTS has been “pretty well shopped and nobody stepped forward.”

But Roach told the Financial Post that several “financially credible counterparts” are still pondering an offer for UTS.

Unless the junior can quickly unveil a plan it will face some disgruntled shareholders, such as Dennis da Silva, a fund manager at Middlefield Capital, who said a failure to deliver on that promise would be a source of “potential discontent.”

Polar Supply Company

Full fabrication facility with multiple liner materials in stock

ANCHORAGE
FAIRBANKS
KENAI

Providing innovative completion, workover, sidetrack, and drilling services on the North Slope of Alaska

Phone: (907) 276-8034 FAX (907) 276-8034

When your operations traverse more than 500 square miles of new tundra every winter, a sound environmental management system and quality people to implement it are the difference between success and failure.

CGGVeritas is the world’s leading international pure-play geophysical company delivering a wide range of technologies, services and equipment through Servco, to its broad base of customers mainly throughout the global oil and gas industry.
Chugach looking at backup contract

Contract with Aurora would replace gas taken from Beluga Pipeline during compressor trips, Enstar and Beluga Pipe Line skeptical

By ERIC LIDI
Petroleum News

Chugach Electric Association is seeking approval of a supply contract it says will help keep the lights on during supply disruptions, but two other companies with a stake in the Cook Inlet gas market say the contract doesn’t go far enough to protect various interests.

Chugach is calling the contract with Aurora Gas a “Replacement Gas Contract” because it would replace volumes of gas drawn off the Beluga Pipeline during system failures.

Chugach uses Cook Inlet natural gas to make electricity for much of the Southcentral region. On any given day, the cooperative said, 60 to 100 percent of the fuel Chugach needs at its Beluga Power Plant comes through a compressor operated by ConocoPhillips.

The compressor is designed to offset declining pressure at the Beluga River field, but since being installed in April 2007, the compressor has suddenly failed, or “tripped,” at least 12 times, according to reports from Chugach and from the Beluga Pipe Line Co.

These trips typically last only a few minutes, but because electricity generation is continuous, Chugach must find an alternative source of gas to keep its turbines running.

When these trips occur, a valve in the Beluga Pipeline automatically opens, providing an alternative source of gas to fuel the Beluga Power Plant until the compressor is restored.

The Beluga Pipeline, owned and operated by Marathon, runs from the Cook Inlet Gas Gathering System, or CIGGS, at Granite Point, north to the Beluga River gas field.

Backup prevents blackouts

Chugach said the natural gas taken in these cases is a “small increment” typically taken from the “line pack,” or the volume of gas stored within a pipeline at any given time.

Without this automatic backup supply, Chugach said a compressor trip “would otherwise cause Chugach’s generators to fail, with an areawide blackout as the likely result.”

The proposed contract with Aurora would give Chugach a supply of gas to replace the gas it draws from the Beluga Pipeline during these emergency situations.

Chugach said the contract favors “availability” over “volume.” The contract would provide Chugach with up to 700 million cubic feet of natural gas each time a compressor tripped, an amount that represents less than 1 percent of daily demand, Chugach said.

Chugach is proposing to price the gas based on a methodology set out by the Regulatory Commission of Alaska during an Enstar Natural Gas supply contract case last year.

For 2009, Chugach said that price would be $8.99 per thousand cubic feet. The RCA-approved the contract on an interim basis.

Beluga and Enstar skeptical

Beluga Pipe Line called the contract “a step in the right direction” and Enstar said “having some backup gas is better than having no backup gas,” but both companies said the contract didn’t go far enough to insure enough gas would be available when needed.

Beluga Pipe Line said it needs the gas taken from the pipeline to be replaced as it is being drawn in order to avoid a system outage of its own. The proposed Chugach contract only requires Aurora to replace gas to the line pack on the Beluga Pipeline within 24 hours.

Both Beluga Pipe Line and Enstar said that while Chugach claims in a letter to the RCA that the proposed contract obligates Aurora to provide gas, the language of the contract itself contains potential loopholes that could allow Aurora to get out of that obligation.

Enstar also said the proposed contract doesn’t make enough gas available, saying recent reports indicate Chugach needs between 34 billion and 46 billion cubic feet during a trip.

Enstar also said Chugach should factor shipping costs into the price of replacement gas.

Enstar to recover legal fees

In a separate case, Enstar asked state regulators to approve a “Gas Supply Acquisition Charge” of 1.87 cents per thousand cubic feet of gas to cover legal and consulting fees related to recent efforts to secure and get approval of a natural gas supply contract.

The charge would be added to all bills for around four years, allowing Enstar to collect $2.4 million. Enstar estimated the charge would add 27 cents to an average monthly bill.

State regulators have approved similar charges for Enstar in the past, the utility said.

The RCA is taking comments on the request through May 22.

Contact Eric Lidi at 907-522-9469 or elidi@petroleumnews.com

In 2009, BP will celebrate its 50th anniversary in Alaska. The major oil company is one of Alaska’s largest private investors, spending nearly $1 billion in the state in 2008. Over the past three years, BP has contributed more than $55 million to educational and community organizations and programs in Alaska.

During the past three years, BP has grown its Alaska workforce by about 40 percent, to more than 2,000 employees. In that same time, its contractor workforce has increased to more than 6,000 jobs. The company’s Alaska business strategy is underpinned by a world-class resource base and years of pioneering experience on Alaska’s North Slope, where BP investment is focused on developing the known resource base, including managing light oil decline, working to unlock the potential of the area’s heavy oil, renewal of its infrastructure, and commercializing the region’s vast natural gas resources.

The deadline to place an advertisement is fast approaching. We can only guarantee placement until May 9, 2009, so contact one of our advertising representatives today!

To advertise in this special publication, please contact:
Susan Crane, Advertising director
907-772-5590 | scrane@petroleumnews.com

Bennie Yunker, Alaska/National advertising specialist
907-435-3795 | byunker@petroleumnews.com

PETROLEUM NEWS • WEEK OF MAY 3, 2009

G N A T U R A L G A S
A lawsuit between two North Slope explorers is centering on a contract signed last fall.

The companies formed a joint venture and signed a Joint Operating Agreement in 2006. The agreement required the companies to complete a follow-up operating agreement within 10 days of the 2006 JOA, which Dunne wrote in his affidavit.

Lawyers for TG World Energy filed a counterclaim on Dec. 4, saying that the 2008 JOA never became a binding contract because its signature was “provisional,” in other words: based on conditions that were never met.

A question of conditions

The companies formed a joint venture and signed a Joint Operating Agreement in 2006. The agreement required the companies to complete a follow-up operating agreement within 10 days of the 2006 JOA, which Dunne wrote in his affidavit.

Lawyers for TG World Energy filed a counterclaim on Dec. 4, saying that the 2008 JOA never became a binding contract because its signature was “provisional,” in other words: based on conditions that were never met.

On Oct. 23, two days after signing the contract, James sent an e-mail to Bo Darrah and Jim Winegarner, executives with AVCG and BRPC respectively, saying that the contract wouldn’t become effective “unless all parties executed a mutual and signed an acceptable First Amendment” to a Joint Venture Agreement.

In his affidavit, James said both Darrah and Winegarner agreed to the condition.

In addition to the affidavits and statements from lawyers for each party, the April 9 motion by AVCG/BRPC and TG World Energy’s April 24 response in opposition contain documents and e-mails traded between the companies last fall on the matter.

Amendment issue

On Oct. 23, two days after signing the contract, James sent an e-mail to Bo Darrah and Jim Winegarner, executives with AVCG and BRPC respectively, saying that the contract wouldn’t become effective “unless all parties executed a mutual and signed an acceptable First Amendment” to a Joint Venture Agreement signed by the companies back in 2006.

“This condition was agreed to you before I signed,” James wrote.

In an e-mail to James the next day, Darrah wrote, “I am not sure what you want here, what I proposed was on the premise of you signing 2 (Authorizations for Expenditures) this year for drilling. If you are not going to drill, what else is there to agree upon?”

These correspondences back and forth came as the joint venture was planning an exploration program for the 2008-09 winter drilling season, now coming to a close.

On Nov. 6, 2008, AVCG sent a letter to James demanding TG World Energy either fund its share of two wells planned for Gwydyr Bay, or forfeit its interest in the prospect.

James responded, saying TG World Energy was withdrawing its signature from the 2008 JOA because the requested amendments had not been made to the 2006 JVA.

Claims and counterclaims

In a Nov. 25 letter to all four members of the joint venture, James reiterated that the 2006 JOA should be considered binding until the companies met various conditions. James said that a legal proceeding would start legal proceedings if it didn’t get an answer by Dec. 5.

On Nov. 26, 2008, TG World Energy issued a press release saying it was postponing its participation in “drilling and development programs” planned for this winter.

Brooks Range filed suit against TG World for breach of contract on Dec. 4.

The lawsuit in effect canceled drilling work planned for this winter, and threatens to cancel plans for next winter as well if the companies can’t resolve the issue before fall.

On the Web

See previous Petroleum News coverage:


Contact Eric Lidi at 907-332-9469 or erlidi@petroleumnews.com

To advertise in Petroleum News, please contact Susan Crane at 907-770-5592, or Bannie Yanker at 432-483-9705.

Providing advertising and design services to Alaska’s resource development industry.
Teso's Nikiski refinery was built to process Cook Inlet crude oil and over the years as Cook Inlet production declined, the refinery substituted Alaska North Slope crude oil and at one time was running 75 percent ANS crude, Tesoro's Lynn Westfall told Alaska legislators at a March 24 presentation.

Crude oil is made up of hundreds of chemical components, and there are hundreds of different crude oils, he said.

Westfall, Tesoro senior vice president and chief economist, said the hundreds of crude oils in the world have varied quality, price and shipping costs and one of the economic decisions a refinery makes is which crude to run.

"ANS has become a very illiquid market," he said. "Most of the producers of ANS are keeping it within their system and there is not a whole lot available to a nonproducer user of ANS."

Like Cook Inlet crude, ANS production has declined, dropping from a peak of more than 2 million bpd in the late 1990s to some 700,000 bpd currently.

Westfall said Tesoro was the largest single buyer of ANS on the spot market.

"We saw that as a strategic disadvantage," he said, because if a refiner is only buying from one supplier, "you have not done your best job in economics."

Teso's Anacortes, Washington refinery

Teso's Anacortes, Washington refinery

Teso's Anchorage Golf Tournament

Tesoro's Anchorage Golf Tournament

Sign up today for the Alaska Support Industry Alliance Anchorage Golf Tournament

When  •  Friday, June 12
Where  •  Moose Run Golf Course
Registration now open at www.alaskaalliance.com

Go online to find out more about:
Sponsoring the tourney
Volunteering
Donating prizes

Contact the Alliance with questions at 907.563.2226
make into gasoline. If the crude already contains a lot of small molecules then the refinery doesn’t have to do a lot of chemical work on those molecules, and can have a less sophisticated refinery to process very light crude oil.

“There is one more thing we have to do to take sulfur out, so the cheaper that crude needs to be,” he said.

Crude oils are split between sweet crudes, less than 1 percent sulfur by weight, and sour crudes, more than 1 percent sulfur.

Westfall said that designation goes back to the days when kerosene from oil competed with kerosene from whale oil. The whale oil kerosene had a sweet taste if a drop was placed on the tongue; kerosene from crude oil had a sour taste because of the sulfur it contained.

Refiner crudes feeding

Historically marker crudes have traded in large volume and sold to a lot of different refineries, providing a good idea of what the market price is for that crude, Westfall said.

West Texas Intermediate, Brent (North Sea crude), Alaska North Slope and Maya from Mexico range in gravity from almost 40 API for WTI to 22 for Maya, and from a sulfur content of 0.24 for WTI to 3.33 for Maya by weight percent.

Westfall’s example used prices from 2005, ranging from $56.43 per barrel to $40.40 per barrel.

Westfall said he was using 2005 prices, “because that was the last year that these marker crudes really made a lot of sense.”

The production of these crudes has fallen so much that they’re almost specialty crudes, he said.

He said those crude oils aren’t sold enough in the market today so “…there aren’t enough deals so that you can price it day-by-day to use that as the basis for pricing other crudes.”

And no satisfactory replacement method has been found, he said.

Issues with Nymex

The predominant current pricing method is based on the New York Mercantile Exchange where futures contracts for crude are sold, but, Westfall said, between Nymex and the market in Europe. “They sell about 80 times the amount of crude that’s run in the market today so “…there aren’t enough deals so that you can price it day-by-day to use that as the basis for pricing other crudes.”

And no satisfactory replacement method has been found, he said.

Ranges of products

Since there are hundreds of chemical components in crude oil, most of the products refineries make are not pure components, Westfall said.

“What we make are ranges of products.”

A basic refinery process distills products out by boiling them: “Gasoline in a refinery is everything that boils between about 100 degrees and 400 degrees (Fahrenheit).” It’s not a thing — it’s a series of components,” Westfall said.

And there isn’t as big a market for high-acid crude as for normal crude, he said.

Degrees of sulfur

Westfall said those refineries “can take the worst quality of crudes and turn them into the highest quality products.”

Cracking plants are the next type: These are refineries built to make gasoline. “They’re built to take very heavy molecules and crack them apart into the smaller molecules that fit into gasoline.”

Coking plants are the most complex: Westfall said those refineries “can take the worst quality of crudes and turn them into the highest quality products.”

Westfall said he believes the only refinery in Alaska with a cracking unit is the Tesoro Nikiski plant; there are no coking plants in Alaska.

Distillation process

There are three refinery processes, no matter how many units you have, Westfall said: distillation, conversation and desulfurization.

“Distillation is simply the separation of molecules because they have different boiling points,” he said, and involves no chemical work.

Substances are heated until they reach the boiling point of certain compounds which vaporize out, the vapors are condensed and separated.

The big towers at refineries are distillation towers, he said.

Because of the overlap in the boiling point of products, part of what comes off can go, for example, to either gasoline or jet fuel; there is another overlap between jet fuel and diesel.

It’s one of the first economic decisions a refiner makes, he said: how much of what can go in either place gets put into one place?

Chemical conversion

Conversion is the second thing refineries do.

Tesoro’s Nikiski, Alaska refinery

Distillation is simply the separation of molecules because they have different boiling points. The big towers at refineries are distillation towers, he said.

Because of the overlap in the boiling point of products, part of what comes off can go, for example, to either gasoline or jet fuel; there is another overlap between jet fuel and diesel.

It’s one of the first economic decisions a refiner makes, he said: how much of what can go in either place gets put into one place?

Chemical conversion

Conversion is the second thing refineries do.
do and that “is where we start changing the chemical nature of the components that we take out of crude to get the products that we want,” Westfall said.

Refineries generally use catalysts because “we want to target the reaction very specifically to make one thing and not everything.”

Conversion is almost exclusively directed at producing gasoline, he said. About 80 percent of all the diesel and jet fuel that’s produced is simply separated from crude, without any chemical work.

Gasoline generally has between three and eight carbon atoms, so components that are heavier than that are broken up chemically to make them lighter. Components that are lighter than those needed for gasoline are combined. The other thing that conversion units do is improve octane.

A coker takes heavy components and uses high pressure and high temperature to break up the heaviest part of the crude.

The next heaviest molecules are broken up in a hydrocracker, using high pressure and catalysts.

FCC, fluidized catalytic cracking, breaks up the next heaviest component.

Alkylation units bond together components that are too light for gasoline, using sulfuric or hydrofluoric acid.

Reformers and Isomerization units are used to improve the octane of naturally occurring molecules—making rings or branched molecules out of straight chains.

The blended product

But there is no one unit in a refinery that produces gasoline, Westfall said, because gasoline is a blended product with from three to eight components. And it’s all the same.

“As it comes out of a refinery gasoline is gasoline,” he said. Tesoro makes the same gasoline that Exxon makes and the same gasoline that Chevron makes.

“The industry really has to work that way because there is … no company that has a refinery in every location where they have retail,” Westfall said, so gasoline is traded to meet the need.

Where the product is differentiated is in the additive package, one quart per 8,000 gallons. Additive packages are required by law, “so it’s a matter of is theirs that much better than anybody else.”

Refining is expensive

Desulfurization, removal of sulfur, is done with hydrogen.

At 600 pounds of pressure you can remove sulfur down to about 500 parts per million, Westfall said, but to go all the way down to 5 parts per million it takes 1,800 pounds per square inch of pressure, which requires an expensive unit because of the pressure.

In the last 10 years the industry has spent in the neighborhood of $40 billion for units to remove sulfur as regulations have required lowering the sulfur content of gasoline, he said.

It’s an example of why refineries are so expensive and why no new refinery has been built in the United States for a long time.

As for the cost to build from scratch, Kuwait wanted to build a new refinery about two years ago, a world-class refinery—about four times the size of Tesoro’s Alaska refinery, Westfall said.

Kuwait put the project out to bid, expecting bids at about $8 billion, but the bids came back at about $12 billion.

Not liking those results, they went out for another round of bids.

But when those bids came back at $16 billion the project was cancelled.

Looking for Great People?

At NMS Employee Leasing, we find the right people to support your business. Our clients are our partners. We work with you to solve your immediate and long-term human resource needs.

Our recruiting

• Professional, experienced hiring managers
• Positive web & media based search methods

Our hiring process

• Computer skill testing
• Reference & background checks
• Drug test, medical/physical evaluation

Our administrative services

• Payroll & tax administration
• Workers compensation insurance
• Medical, 401(k), Short & Long term Disability

Outsource. Outshine.

www.nmsemploye leasing.com
3230 C Street, Suite 200
Anchorage, AK 99501
907 729-5570

Over 19 Years of Experience Throughout Alaska & the Lower 48

Lines of Business on the Slope

• Polyurethane/Polyurea Coatings
• Asbestos & Lead Abatement
• Oil Spill Response
• Construction Management

CONSTRUCTION & ENVIRONMENTAL SERVICES
Over 30 years of Alaska Experience
Committed to supporting the next 30 plus years of development

Fluor’s Alaska office provides a complete range of design, engineering, procurement, construction management, and project management services for our Alaska-based clients.

3800 Centerpoint, Anchorage, AK 99503  •  907.865.2000  •  www.fluor.com

For employment opportunities please contact brian.tomlinson@fluor.com

Fluor values the contributions of a diverse and inclusive workforce and is an Equal Opportunity employer.

© 2008 Fluor Corporation. All Rights Reserved.
FLUOR is a registered service mark of Fluor Corporation.
Petro Star Inc. will upgrade its Valdez refinery this year to produce low sulfur fuels. The upgrades involve constructing a new system for producing and storing ultra-low sulfur diesel and ultra-low sulfur kerosene, and to dispose of sulfur extracted from fuels. The new fuels are required to meet federal air quality standards by the end of 2010. In May 2007, the Tesoro refinery in Nikiski became the first in Alaska to produce ULSD after building a unit with a “nameplate production capacity of 10,000 barrels per day.”

Over the latter half of 2007, ConocoPhillips delayed and then canceled plans to upgrade a Kuparuk River unit topping plant to allow production of ULSD for local operations. Without upgrades to the topping plant, producers will most likely have to truck ultra-low sulfur diesel from Southcentral refineries to the North Slope along the Dalton Highway.

The North Slope is considered “rural” for the purposes of the ULSD requirements.

The Petro Star refinery in Valdez began operations in 1989. The upgrades will make the Valdez refinery at least the second in Alaska making ULSD.

The upgrades will allow the plant to produce ultra-low sulfur diesel and ultra-low sulfur kerosene in time for 2010 federal deadline.

The long-term future of the terminal remains an open question, officials said. Chevron has been forced to suspend petroleum production at its platforms in Cook Inlet because there’s no place to store the oil, though gas production continues normally, Chevron spokeswoman Roxanne Sinz said.

The long-term future of the terminal remains an open question, officials said. Chevron has been forced to suspend petroleum production at its platforms in Cook Inlet because there’s no place to store the oil, though gas production continues normally, Chevron spokeswoman Roxanne Sinz said.

Chevron brought another tanker to the Drift River oil terminal April 28 to continue efforts to reduce the amount of crude oil stored in the shadow of Redoubt volcano.

Chevron’s Mississippi Voyager tied up at the Christy Lee platform about 9:30 a.m., the offshore loading dock for Drift River, and is expected to remain there about 48 hours, said Petty Officer Sara Francis, spokeswoman for the Coast Guard. The tanker will take on an emulsion of crude, saltwater and sludge and deliver it to a Lower 48 plant capable of separating them, she said. The Mississippi Voyager is the second tanker to dock there since Redoubt began erupting March 22.

Though the volcano hasn’t exploded since April 4, it remains in an eruption phase and could deliver a blast at any time, scientists say. That poses a threat for the Drift River terminal, owned by Cook Inlet Pipe Line Co., a Chevron-operated company.

An explosion risks melting the glaci- cers that feed into Drift River, flooding it with ice, water and mud and threatening the terminal.

Two such floods, known by the Indonesian word “lahar,” have gushed down the river since March, but a dike built in 1990 protected the terminal’s tanks. The airstrip at the facility, which lies outside the dike, was flooded. Workers have cleared the mud from about 300 feet of the field, enough to bring in a load of fuel for the diesel generators there, Francis said. About 6.2 million gallons of crude were in two active tanks when the vol-cano first exploded. The eruption forced the evacuation of terminal staff and a shut-down of its operations. In a lull earlier this month, a tanker picked up 3.7 million gallons, but couldn’t drain the tanks because their pump intakes sit sev- eral feet off the bottom to avoid sucking up heavy sludge.

With as much oil removed as installed equipment allowed, the tanks were back-filled with 840,000 gallons of seawater to anchor them better in the event of a flood.

The intakes have not been modified, Francis said, but over the next day or two, two-foot propellers in the bottom of the tanks will stir up the mixture and sus- pend as much of the oil and sludge in the water as possible, like a food processor making mousse. The mixture will then be pumped from one tank to the other, fur- ther agitating the mix, before it’s sucked out.

The pumps will run until they suck air, Francis said. At that point, Cook Inlet Pipe Line will take samples from the bot- tom of the tank to determine how much oil is left. Then the Mississippi Voyager will unload a cargo of freshwater from the Columbia River back into the tanks, once again weighing them down against the threat of flood.

The long-term future of the terminal remains an open question, officials said. Chevron has been forced to suspend petroleum production at its platforms in Cook Inlet because there’s no place to store the oil, though gas production con- tinues normally, Chevron spokeswoman Roxanne Sinz said.

Chevron workers have been fur- loughed, she said, though some contrac- tors have lost work.
North Slope closed for off-road travel

By KRISTEN NELSON
Petroleum News

All North Slope lands, state and federal, are now closed for winter off-road travel.

The latest closing was for National Petroleum Reserve-Alaska lands managed by the U.S. Bureau of Land Management. Mike Worley of BLM’s Arctic field office said April 29 that NPR-A tundra travel would close at 12:01 a.m. May 1. “Ice roads and snow-packed trails have become soft and impassable, requiring an end to their use. All stream crossings have been breached,” he said in an e-mail.

The Alaska Department of Natural Resources’ Division of Mining, Land and Water closed off-road travel in the upper and lower foothills areas as of noon April 26 and said that off-road travel in progress within the upper and lower foothills must be completed within 72 hours — by noon April 29.

State-owned North Slope coastal lands were closed for off-road winter travel effective noon April 28; the 72-hour completion window for off-road now in progress in eastern and western coastal areas is noon April 28.

State-owned North Slope coastal lands were closed for off-road winter travel effective noon April 28; the 72-hour completion window for off-road now in progress in eastern and western coastal areas is noon April 28.

Any exceptions must have prior approval from the division, Gary Schultz, Division of Mining, Land and Water natural resources manager, said in notices for closures issued April 26 and April 28.

Spring on the slope

“Spring has come to the North Slope,” Schultz said in an e-mail accompanying the April 26 closure notice. He said current temperatures in the foothills were above 40 degrees Fahrenheit with a chance of rain or snow forecast.

He said in an e-mail accompanying the April 28 closure notice: “Due to the record-breaking warm temperatures we are experiencing on the North Slope, snow has deteriorated to the point where DNR is closing state-owned lands to off-road travel.”

Schultz said temperatures were forecast to moderate toward the end of the week of April 27 and ice roads might still be in good shape, so extensions for the continued use of ice roads might be available from the division.

Summer off-road travel on state lands will begin at 6 a.m. July 15 unless the division notifies otherwise. Summer off-road travel approval applies only to those holders of valid permits who obtain specific approval and is further limited to those vehicles approved by the division for summer off-road travel.

The division opened the upper foothills for tundra travel Feb. 10, the last of the North Slope state areas to be opened for travel. The eastern and western coastal areas opened Dec. 29, the lower foothills opened Jan. 14.

BLM opened NPR-A to tundra travel Dec. 19.

FINANCE & ECONOMY

Eni expects lower capital spending in ’09

Eni s.p.a. expects decreased capital expenditures this year compared to last year, company management said in first-quarter financial filings released on April 24.

The Italian major did not quantify the decrease, but said capital spending for 2009 would be “directed mainly to the development of oil and natural gas reserves,” the company management said in first-quarter financial filings released on April 24.

Eni spent about 14.5 billion Euros on capital expenditures last year. Presenting 2008 year-end results in February, Eni executives planned to spend 14.1 billion Euros in capital expenses this year, part of a four-year 48.8 billion-Euro capital program.

Earlier this year, Eni suspended drilling at the Nikaitchuq unit in the waters off the North Slope. If brought online, the project would be Eni’s first production base in Alaska. After slowing down the project, Eni asked the state to extend the term of the Nikaitchuq unit agreement by two years. The comment period on the request closed April 27.

Eni s.p.a. expects decreased capital expenditures this year compared to last year, company management said in first-quarter financial filings released on April 24.

The Italian major did not quantify the decrease, but said capital spending for 2009 would be “directed mainly to the development of oil and natural gas reserves” and aimed to the pre-December ESA procedures. Eni s.p.a. expects decreased capital expenditures this year compared to last year, company management said in first-quarter financial filings released on April 24.

The Italian major did not quantify the decrease, but said capital spending for 2009 would be “directed mainly to the development of oil and natural gas reserves” and aimed to the pre-December ESA procedures.

But environmental organizations called “foul,” saying that the rule change undermined the effectiveness of the ESA.

And in March President Obama instructed government agencies to review the December regulation changes and, meantime, to “follow the prior longstanding consultation and concurrence practices” involving FWS and NMFS.

The ESA “reflects one of the nation’s profound commitments,” Obama said. Following the decision announced April 28, government agencies will revert to the pre-December ESA procedures.

“And by rolling back this 11th-hour regulation, we are ensuring that threatened and endangered species continue to receive the full protection of the law,” Salazar said. “Because science must serve as the foundation for decisions we make, federal agencies proposing to take actions that might affect threatened and endangered species will once again have to consult with biologists at the two departments.”

—ALAN BAILEY

GOVERNMENT

Obama administration revokes Bush rule

Secretary of the Interior Ken Salazar and Secretary of Commerce Gary Locke announced April 28 that their departments are revoking an Endangered Species Act regulation change published in December, in the final months of the Bush administration.

The regulation change had given federal agencies a stronger role in determining when they had to consult with the U.S. Fish and Wildlife Service and the National Marine Fisheries Service regarding agency actions that might affect an endangered species. When in 2008 the Interior and Commerce departments proposed the regulation changes they said that they were clarifying the ESA procedures as a follow-up to a Government Accountability Office 2004 report, in response to “new challenges we face with regard to global warming and climate change” and to avoid unwarranted consultations.

But environmental organizations called “foul,” saying that the rule change undermined the effectiveness of the ESA.

And in March President Obama instructed government agencies to review the December regulation changes and, meantime, to “follow the prior longstanding consultation and concurrence practices” involving FWS and NMFS.

The ESA “reflects one of the nation’s profound commitments,” Obama said. Following the decision announced April 28, government agencies will revert to the pre-December ESA procedures.

“By rolling back this 11th-hour regulation, we are ensuring that threatened and endangered species continue to receive the full protection of the law,” Salazar said. “Because science must serve as the foundation for decisions we make, federal agencies proposing to take actions that might affect threatened and endangered species will once again have to consult with biologists at the two departments.”

—ALAN BAILEY

HOLADAY-PARKS, INC.

SHEET METAL SPECIALISTS

“Serving Alaska Since 1889”

• Complete welding shop
• Custom metal fabrication
• Industrial and commercial ventilation system design and construction

HOLADAY-PARKS, INC.
1820 Mariko Road
Fairbanks, Alaska 99709
(907) 452-7151
FAX 452-3800

FRIENDS OF PETS

P.O. Box 240981
Anchorage, AK 99524

BELLA IS BEAUTIFUL YOUNG SPayed FEMALE SHEPHERD/HESSY WHO WOULD LOVE A LIFETIME HOME. SHE IS DEVOTED AND ACTIVE SO A FAMILY THAT LOVES TO WALK OR Hike WOULD BE A GREAT MATCH TO HELP HER ENErgy. FOR ADOPTION CALL 333-9534 OR APPlY ON-LINE @ www.FriendsofPets.org

UNITech of alaska

7600 King Street, Anchorage, AK 99518
ph. 907-369-5162 | 907-649-5589
fx 907-349-2733 | unitech@alaska.com

Environmental Equipment & Industrial, Oil Spill Prevention & Clean up Supplies

Containment Bins • Sorbents • Drums
Drum Accessory • Material Handling
Secondary Containment • Geomembranes
Portable Tanks • Spill Kits
totes • Liners • PPE • Safety Cabinets & Cans
4G boxes, battery boxes, packaging labels, signs

24 Hour Emergency Spill HotLine

PETROLEUM NEWS • WEEK OF MAY 3, 2009

13
The Alaska-Washington Connection

An annual magazine published by Business to Business Magazines

Washington and Alaska have been linked by commerce for over a century. Beginning with the Klondike Gold Rush in 1897 and secured by the Alaska-Yukon-Pacific Exposition of 1909, the partnership between the two states impacts our economies now more than ever.

Today the Alaska State Chamber of Commerce, the Anchorage Chamber of Commerce and the Seattle Chamber of Commerce bring businesses from both states together with weekly, monthly and annual meetings to cover a variety of topics and create viable business opportunities.

The Alaska-Washington Connection will highlight major players within a diverse group of companies that serve our businesses and communities.

Distribution will include 30,000 copies in print and electronic formats to be sent to all Petroleum News and Mining News subscribers, Alaska and Washington chambers, and business and trade organizations covering oil, gas, mining, tourism and transportation.

ADVERTISING BENEFITS INCLUDE:
• A long shelf life for your ad because this is a full color magazine
• Your company will be listed in the magazine’s advertiser index
• Your company will be included in one of the articles about your industry

Contact Marketing Director Bonnie Yonker for further details at byonker@petroleumnews.com or 425-483-9705.

---PETROLEUM NEWS

ALTERNATIVE ENERGY

Murkowski bill promotes ocean research

U.S. Sen. Lisa Murkowski, R-Alaska, introduced legislation April 29 to encourage development of renewable ocean energy, companion legislation to a bill introduced in the U.S. House by Rep. Jay Inslee, D-Wash., to authorize as much as $250 million a year for ocean research.

“Coming from Alaska, where there are nearly 150 communities located along the state’s 34,000 miles of coastline plus dozens more on major river systems, it’s clear that perfecting marine energy could be of immense benefit to the nation,” Murkowski said in a statement.

“It simply makes sense to harness the power of the sun, wind, waves and river and ocean currents to make electricity,” said the senator, who is the ranking member of the Senate Energy and Natural Resources Committee.

The Marine Renewable Energy Promotion Act of 2009 and a companion tax provision would expand federal research on marine energy, take over the cost verification of new wave, current, tidal and thermal ocean energy devices; create an adaptive management fund to help pay for the demonstration and deployment of such electric projects; and provide a key additional tax incentive.

The senator’s office said she has been promoting ocean energy: In 2005 Murkowski got a provision passed allowing ocean hydrokinetic energy to qualify for the federal purchase requirement and the federal production incentive. In 2007 she helped author more research funding and an ocean energy demonstration center provision.

Several companies have proposed projects to test current devices in Alaska rivers and in Cook Inlet, with projects under consideration at Eagle, Galena and Tanana, in addition to near Anchorage, and others being considered near Homer and in Southeast.

—PETROLEUM NEWS

NATURAL GAS

USGS plans CBM tests at Wainwright

Summer work involves production test of 2008 well and new wells to delineate extent of coal seams near North Slope village

By ERIC LIDDI
Petroleum News

T he U.S. Geological Survey is planning to test the flow of natural gas produced from a well it drilled last summer into coal seams near the North Slope village of Wainwright.

The federal agency also plans to drill as many as two additional wells in the area this summer to get a better sense of the extent of the coal bed and the gas contained in them.

The drilling is part of a broader effort to determine whether coalbed methane can be used as an alternative to diesel fuel for heating and power in rural communities in Alaska.

Rising oil prices have created financial problems for diesel-based villages in recent years.

In 2007, the state listed the population of the village at 540.

The Northwest Arctic region of Alaska, which overlaps in part with the National Petroleum Reserve-Alaska, is believed to hold several trillion tons of coal.

Program more than decade old

State and federal teams have been studying coalbed methane production in Alaska for at least 15 years, starting with a well drilled in the Matanuska-Susitna Borough north of Anchorage. The testing moved to more remote corners of Alaska in the early years of this decade with one test well in Fort Yukon in 2004 and another at Franklin Bluffs in 2005.

USGS drilled the first test well at Wainwright in the summer of 2007.

Preliminary test results from the well suggested that the methane produced from the coal seams could meet Wainwright’s electric generation needs for the next 10 to 40 years.

USGS crews returned to Wainwright this past summer to drill a “central production well” and four “monitor wells,” according to USGS co-project chief Art Clark.

Clark said the crews conducted a four-day test to check the equipment and to get information to help design a longer-term production test in the future.

Over the winter, they used the wells to gather data about pressure and temperature in the well bore.

In early to mid-June, USGS plans to begin a one- to two-month production test.

The crews also plan to drill one or two wells to delineate the extent of the coal seams and measure the gas content of the coal. The crews originally planned to drill one of these delineation wells last year, but spent the time installing the array of monitor wells instead.

The testing will help USGS understand how gas and water move through coal seams.

USGS, an arm of the U.S. Department of the Interior, is permitting the two wells, Wainwright No. 10 and No. 11, with the Alaska Oil and Gas Conservation Commission.

In early to mid-June, USGS plans to begin a one- to two-month production test.

In early to mid-June, USGS plans to begin a one- to two-month production test.
Gas under scrutiny in merger deal

Despite the buzz surrounding the future of shale and tight gas, Suncor Energy is closely scrutinizing the role of “old” gas as its merger with Petro-Canada makes steady progress towards completion.

Suncor Chief Executive Officer Rick George, who will retain that post in the new entity, dropped some strong hints that the combined gas operations — which currently produce about 900 million cubic feet per day — could be headed for a shake-up.

“We’re definitely going to take a look at the whole natural gas business,” he told analysts.

But he cautioned the analysts not to “jump on the divestment bandwagon too quickly.”...I have not talked about divestment and I won’t until we’ve had a look at the asset base.”

George said the merger is a “chance to move us in some different directions,” with an emphasis on a low-cost company that puts its emphasis on return on capital.

While restricted by the Canadian anti-trust review in what he could say, George said his objective is to achieve a “top-quartile cost position” to offset forecasts that there will be “a lot of gas around and prices are likely to remain relatively low … for quite a period.”

Once the two companies have received expected shareholder and Competition Bureau approval, he said the focus will be on cleaning up existing operations and freeing capital to invest in new opportunities.

For the near term, he said the focus will be on the “protected assets,” such as the oil sands holdings and the refineries, so that the new company can achieve its promised goals of lowering annual expenses by C$300 million and capital spending by C$1 billion.

Suncor alone is chasing a 10-15 percent reduction in total oil sands cash operating costs within 12 months, George said. For the opening quarter those costs were C$33.70 per barrel, up C$2.15 per barrel from a year earlier.

Graham said EnCana believes it is a “most important pieces in the future of EnCana’s gas production,” said Eresman.

Before the meeting, he told reporters that gas could displace coal and oil as a “foundational energy form which will underpin the needs of society for the foreseeable future.”

Eresman said that only two years ago shale gas was viewed as unproductive, but the technological key to accessing those reservoirs has been developed, starting a year ago when it was “broken wide open” with the use of long-reach horizontal wells with multiple-fracture stimulations.

“As a result, we believe that North America is basically flush with natural gas and will be for a very, very long period of time,” Eresman said.

But he also argued that the “game has changed,” limiting success to the lowest-cost producers.

Before the meeting, he told reporters that gas could displace coal and oil as a major energy source for power generation and transportation fuel in North America, for both long-haul trucks and domestic vehicles.

EnCana has about 260,000 net acres in B.C. represent the fastest growing industrial sector in the province.

The massive deposits of clean natural gas in B.C. represent the fastest growing industrial sector in the province.

North America is basically flush with natural gas, with the use of long-reach horizontal wells to increase the number of fractures to about 14 from eight. By reducing the number of wells, the partnership can minimize its environmental footprint.

Longer wells more economic

Graham said EnCana believes it is a “bit more economic” to extend the wells and increase the number of fracs and, in trading data between the company’s Canadian Foothills and U.S.A. divisions, “it seems the bigger the frac the more productivity you can get out of them.”

He said the latest well we come on stream had 10 fracs and yielded a 30-day initial production rate of 8 million cubic feet per day, declining to about half after eight months of production — a 50 percent first-year decline rate, which he described as “very encouraging,” adding that 7 billion cubic feet should be recovered from the well.

Cost of wells lowered

In addition, by reducing its spud-to-rig release times, rig moves and the run time on directional tools, EnCana has lowered the cost of its latest three wells by about 30 percent to US$9 million.

Graham said the company estimates it can lower the cost per frac to C$75/000 from C$1 million.

In the Montney play, Graham said EnCana drilled 15.5 net horizontal wells in the first quarter and plans 60 for the year, buoyed by results that include 10 day initial production rates of more than 4 million cubic feet per day for each well, or 500,000 cubic feet on a fracture interval basis, Eresman said.

“The Montney is responding to the same technology we are using in the shale plays (the long-reach, multiple-fracture horizontal wells),” he said. The standard approach involves four to eight wells per section, with wells averaging a length of 5,200 to 6,000 feet, with about eight fractures per well.

In the emerging Haynesville shale play, straddling the Texas-Louisiana border, where its major partner is Royal Dutch Shell, EnCana has doubled its capital spending for 2009 to US$580 million by transferring savings from elsewhere in the company such as the result of an internal challenge to reduce budgeted spending by 10 percent.

ErdWoijn, president of the USA division, said the 50 net wells will be focused on understanding the resource and meeting deadlines to retain prospective lands, where EnCana holds 45,000 acres, including a net 63,000 acres of mineral rights.

Although cautious about potential outcomes, the initial productivity rates and pressures are “very strong and in line with industry reports,” he said.

In the Montney, Graham said his objective is to achieve a “top-quartile cost position” to offset forecasts that there will be “a lot of gas around and prices are likely to remain relatively low … for quite a period.”

Once the two companies have received expected shareholder and Competition Bureau approval, he said the focus will be on cleaning up existing operations and freeing capital to invest in new opportunities.

For the near term, he said the focus will be on the “protected assets,” such as the oil sands holdings and the refineries, so that the new company can achieve its promised goals of lowering annual expenses by C$300 million and capital spending by C$1 billion.

Suncor alone is chasing a 10-15 percent reduction in total oil sands cash operating costs within 12 months, George said. For the opening quarter those costs were C$33.70 per barrel, up C$2.15 per barrel from a year earlier.

Graham said EnCana believes it is a “bit more economic” to extend the wells and increase the number of fracs and, in trading data between the company’s Canadian Foothills and U.S.A. divisions, “it seems the bigger the frac the more productivity you can get out of them.”

He said the latest well we come on stream had 10 fracs and yielded a 30-day initial production rate of 8 million cubic feet per day, declining to about half after eight months of production — a 50 percent first-year decline rate, which he described as “very encouraging,” adding that 7 billion cubic feet should be recovered from the well.

Graham said the company estimates it can lower the cost per frac to C$75,000 from C$1 million.

In the Montney play, Graham said EnCana drilled 15.5 net horizontal wells in the first quarter and plans 60 for the year, buoyed by results that include 10-day initial production rates of more than 4 million cubic feet per day for each well, or 500,000 cubic feet on a fracture interval basis, Eresman said.

“The Montney is responding to the same technology we are using in the shale plays (the long-reach, multiple-fracture horizontal wells),” he said. The standard approach involves four to eight wells per section, with wells averaging a length of 5,200 to 6,000 feet, with about eight fractures per well.

In the emerging Haynesville shale play, straddling the Texas-Louisiana border, where its major partner is Royal Dutch Shell, EnCana has doubled its capital spending for 2009 to US$580 million by transferring savings from elsewhere in the company such as the result of an internal challenge to reduce budgeted spending by 10 percent.

ErdWoijn, president of the USA division, said the 50 net wells will be focused on understanding the resource and meeting deadlines to retain prospective lands, where EnCana holds 45,000 acres, including a net 63,000 acres of mineral rights.

Although cautious about potential outcomes, the initial productivity rates and pressures are “very strong and in line with industry reports,” he said.
Spring Jones was recently promoted to purchasing lead for DUS and is responsible for procurement and shipping of all food and supplies throughout Alaska and for overseeing logistics jobsites. Spring has been with DUS for 3 years, in the positions of purchasing assistant, cook and night supervisor. She is married with three children and is senior vice president of the Veterans of Foreign Wars Post 9360 Ladies Auxiliary.

—Marti Reeve

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

ADVERTISER PAGE AD APPEARS
ABB A
ACS A
Acuren USA A
Advanced Supply Chain International (ASC) A
AEON Environment (formerly ENOR) A
Air Liquide A
Air Logistics of Alaska A
Airport Equipment A
Alaska Air Cargo A
Alaska Analytical Laboratory A
Alaska Air A
Alaska Computer Brokers A
Alaska Coverall A
Alaska Dreams A
Alaska Frontier Constructors A
Alaska Interstate Construction (AIC) A
Alaska Marine Lines A
Alaska Railroad Corporation A
Alaska Regional Council of Carpenters (ARCC) A
Alaska Rubber & Supply A
Alaska Sales & Service A
Alaska Steel Co. A
Alaska Telecom A
Alaska Tent & Tarp A
Alaska Textiles A
Alaska West Express A
Alliance, The A
Alta Air Logistics A
American Marine A
American Tire Corp. A
Ameri- Tech Building Systems A
Arctic Controls A
Arctic Foundations A
Arctic Slope Telephone Assoc. Co-op. A
Arctic Structures A
Arctic Wire Rope & Supply A
ARSK Energy Services A
Aurora Geosciences A
Avalon Development A
Badger Productions A
Baker Hughes A
Bangladesh Petrochemical Corporation A
BP Exploration (Alaska) A
Brooks Range Supply A
Builders Choice Inc. A
Calista Corp. A
Canadian Mat Systems (Alaska) A
Carrig Drilling Technologies A
Carlyle Transportation Services A
CCD A
CGGVeritas U.S. Land A
CHM MILL A
Chulitna Camp Services A
Colville A
ConocoPhillips Alaska A
Construction Machinery Industrial A
Coco Fire Protection A
Crawley Alaska A
Cruz Construction A
Delta Leasing A
Delta P Pump and Equipment A
Despau Pipeline A
Downland-Bach Corp. A
Doyon Drilling A
Doyon LTD A
Doyon Universal Services A
Ducline Technologies A
EES Consulting Engineers A
Egli Air haul A
Engineered Fire and Safety A
Epco Well Services (see Canrig Drilling Technologies) A
Equipment Source Inc. A
ERA Helicopters A
ESS Support Services Worldwide A
Evergreen Helicopters of Alaska A
ExxonMobil A
Flowline Alaska A
Frontier Flying Service A
GIR Equipment A
Global Land Services A
Global Offshore Divers A
GPS Environmental A
Hawk Consultants A
Holidays Parks A
Inpirations A
Jackovich Industrial & Construction Supply A
Judy Patrick Photography A
Kona Air A
Knauf A
Kwikpik A
LaRosa A
Lindbergh A
Lister Industries A
Lock and Associates A
Lynden Air Cargo A
Lynden Air Freight A
Lynden Inc. A
Lynden International A
Lynden Logistics A
Lynden Transport A
MACTEC Engineering and Consulting A
Makemakers of Alaska A
MAPPA Testlab A
Marine Helicopters A
Marketing Solutions A
Mayflower Catering A
M & S Sales A
MBI Sales A
MWH A
Nabors Alaska Drilling A
NANNA WorleyParsons A
Natco Canada A
Nature Conservancy, The A
NEI Fluid Technology A
NMS Employee Leasing A
Nordic Calista A
North Slope Telecom A
North Star Equipment Services (NSES) A
North Star Terminal & Stevedore (NSTS) A
Northern Air Cargo A
Northern Transportation Co. A
Norland Wood Products A
Northrim Bank A
Northwest Technical Services A
Offshore Divers (see Global Offshore Divers) A
Oilfield Improvements A
Opti Staffing Group A
P.A. Lawrence A
PACWest Drilling Supply/Taga Ventures A
Panajins A
PDC Harris Group A
Peak Civil Technologies A
Peak Oilfield Service Co. A
Penco A
Petroleum Equipment & Services A
Petroleum Services of Alaska A
PGS Onshore A
Polar Supply A
Price Gregory International A
Princeton Tec A
Pruyn Helicopters A
PDI Group A
QUADCO A
RainforRent A
Safety One A
Salt + Light Creative A
Schlumberger A
Seekins Ford A
Shaw Alaska A
Sparnell Builders Supply A
STEELFAB A
Steel Rives A
JM Alaska A
Taiga Ventures/PACWest Drilling Supply A
Tire Distribution Systems (TDS) A
TOMCO Group of Companies A
Total Safety U.S. Inc. A
TOTE A
Total Equipment & Supply A
TTT Environmental A
Tubular Solutions Alaska A
Tutkal Udelhoven Oilfield Systems Services A
Uniq A
Unique Machine A
Unitech of Alaska A
Unison USA A
URS Alaska A
Usibelli A
Weston Solutions A
Western Towboat A
XTO Energy A

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

Doyon Universal Services LLC

Doyon Universal Services LLC was created in 1992 through the combination of two companies with a collective 80 years of experience in Alaska. DUS is the premier integrated facility management contractor and full spectrum security services provider for both urban and remote sites throughout Alaska and Colorado. The DUS team is committed to improving the quality of daily life for its clients and employees.

Spring Jones was recently promoted to purchasing lead for DUS and is responsible for procurement and shipping of all food and supplies throughout Alaska and for overseeing logistics jobsites. Spring has been with DUS for 3 years, in the positions of purchasing assistant, cook and night supervisor. She is married with three children and is senior vice president of the Veterans of Foreign Wars Post 9360 Ladies Auxiliary.

—Marti Reeve

PDC Harris Group LLC

PDC Harris is a joint venture group between the Anchorage firm of PDC Inc. and the Lower 48 firm of Harris Group Inc. PDC has the Alaska presence and Harris brings in a solid background in multiple fields, an impressive resume and a staff of more than 300. PDC Harris offers complete services from feasibility studies through detailed engineering, purchasing and expediting, operator training, construction support, startup and performance testing.

Jennifer Warnken joined the Harris Group 3 years ago in Colorado, moving to the Alaska operation in 2008 and bringing 30 years’ experience in drafting and design work. A member of the Anchorage firm of PDC Inc. and the Lower 48 presence and Harris brings in a solid background in multiple fields, an impressive resume and a staff of more than 300.

Jennifer Warnken, Manager
Alaska Computer Brokers

Autodesk roadshow

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers is a global leader in engineering, procurement, construction, management and operations for government, oil, industrial and energy clients. For more information visit www.akcb.com.

Azure Computer Brokers

Adobe roadshow

Adobe roadshow brings Autodesk speakers from across the U.S. and will feature information on several new and updated Autodesk products. Attendees can choose from two keynote addresses as well as morning and several concurrent sessions in the afternoon.

Among keynote speakers will include Lynn Allen, Autodesk technical evangelist. She has written three Autodesk books, is a columnist for Cadalyst and is a much-sought-after public speaker.

The event is free, but pre-registration is required. A buffet lunch will be provided.

Colorado Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.

Alaska Computer Brokers was founded by Russell Ball in 1986. Under his leadership the company has grown progressively, providing technical service around the state. ACB’s people, systems and technical expertise provide the foundation to support the communities we serve, he said.
**LIBERTY**

April 23. “We’ve on track to begin drilling next year and that’s exciting,” Luoma said. First oil is expected in 2011, he said.

**Alternative plans**

Following field discovery in 1997, the original concept for Liberty was a Northstar lookalike, a gravel island, anchored by the ravinage of the sea and ice and connected to shore by a buried subsea pipeline. But in 2005 BP came up with an alternative plan to develop the field using extended reach drilling from a shore location, perhaps at Point Brower, on the west side of Foggy Island Bay, and to connect the field production into the nearby Badami pipeline. That plan then morphed into the concept that the company eventually sanctioned, the drilling of ultra-extended reach wells from the satellite drilling island for the Endicott field, about 8 miles to the west of Liberty.

“Developing Liberty in this way we eliminated the need for new offshore islands… we eliminated the need to put new processing facilities in place, and we eliminated the need for new buried pipelines to bring processed crude back to shore,” Luoma said.

And the use of the Endicott facilities will channel substantial new production through those facilities, thus extending the viable life of the facilities and, hence, the life of the Endicott field. Endicott, constructed in the mid-1990s, peaked at production rates of more than 100,000 barrels per day of crude oil but has since declined to rates of 13,000 to 14,000 bpd, Luoma said.

“So producing Liberty through a great existing facility like Endicott makes good sense,” he said.

**Massive rig**

But world record-breaking horizontal departures of 34,000 to 44,000 feet from the surface wellheads to the Liberty oil reservoir require a massive drilling rig. The rig that Parker Drilling has been fabricating in Vancouver, Wash., will be the world’s most powerful land rig, a piece of kit that Luoma characterized as an enabling technology, a breakthrough design without which project success would be impossible. The design has to accommodate the need to handle huge lengths of drill pipe, apply enormous torques to the drill string and when necessary be able to pull the drill string from the well bore, an operation that by itself might take a week to accomplish, Luoma said.

“One of the key elements in designing the rig is the efficient handling of pipe,” Luoma said. “One of the big modules on that rig is a pipe barn. It’s a pipe-handling efficiency machine.”

The Liberty top drive, the electric motor assembly hung from the drill derrick for turning the drill string, now constructed, accepted testing, and sitting at the rig site in readiness for the arrival of the rig, dwarfed conventional drive units.

“That will be the most… powerful top drive operating anywhere in the world, putting out 105,000 foot-pounds of torque,” Luoma said. “Typical top drives in Alaska are… maybe 40,000 foot-pounds of torque.”

**Drill pipe**

And to handle the torque applied by the drive to the drill string, to turn the drill bit while overcoming the frictional forces in well bores up to more than 9 miles in length, without the drill string becoming excessively heavy, BP has had to come up with another enabling technology, the Liberty drill pipe, made of a new steel alloy that combines high strength with light weight. Some of the pipe has already been delivered to the North Slope and has been undergoing field trials, Luoma said.

To accommodate the drilling rig, with its line of Liberty wellheads and a camp for on-site workers, BP has been expanding the Endicott satellite drilling island from an area of about 11 acres to about 30 acres by laying a new area of gravel skirted by a sheet-pile sea wall. Nanum Inc. and Alaska Frontier Constructors, in a joint venture with Kwikpak Corp., the village corporation for Nuiqsut, are putting the finishing touches to this work and BP expects the drilling island extension to be completed by the end of April.

“This has been a challenging project completed in the heart of a cold and challenging Alaska winter,” Luoma said.

Installation of the workers’ camp on the island should start in May, with the camp becoming operational in July. And on the mainland, contractor Alaska Interstate Construction is within days of completing the major upgrade to the Sagavanirktok bridge. The bridge is more than 30 years old and had been suffering from the effects of wear and tear — refurbishment has involved replacing the topsides of the structure, Luoma said.

**Rig completion**

In Vancouver, Wash., structural assembly of the drilling rig is almost complete and outfitting of the rig is in progress. The rig is being assembled into eight major sections for transportation to the North Slope on two huge barges, scheduled to leave the construction site at the beginning of July and arrive at Endicott in August. Crowley Marine is handling the sealift operation, Luoma said.

“But in 2005 BP plans to commission the equipment in August, to provide power for remaining project activities on the island. Meantime BP is preparing the detailed plans and procedures for operating and maintaining the drilling rig, and for drilling the wells. The company is also in the process of assembling the team that will do the drilling.”

“We’re now in the process of building the team,” Luoma said. “And once we deem that that team is ready to start the first ERD well, we’ll authorize that well to start the program. We think that’ll be in the 2Q of next year, about one year from now.”

BP plans to drill up to six ultra extended reach wells to hit targets 2 miles underground, anywhere from 6 to 8 miles from the surface well location at Endicott. The drilling plans involve drilling downwards from the Endicott satellite island and then deviating the wells to the east into near horizontal configurations. Then, as the drill bits grind their way close to the Liberty field location, the drillers will deviate the wells down into the reservoir.

In the summer of 2008 CGGVeritas conducted a high-resolution 3-D seismic
survey along the drilling corridor between Endicott and Liberty using a water-bottom cable technique, to provide the subsurface information that is essential to the planning of these difficult wells. The data from that survey have been processed and delivered to BP, Luoma said.

Drilling complexities

And at an April 22 meeting of the Alaska Geological Survey, BP development geologist Steve Jones explained some of the complexities that the drillers will face.

Jones said that for the well planning, in addition to using data from the 2008 seismic survey, BP commissioned Savant Resources to log the subsurface above the oil prospect in the Kupwak well that Savant recently drilled near Liberty.

The Liberty drilling will use rotary steerable technology, involving a rotating drill string that turns a drill bit, controlled from the surface through a communication technique that involves sending signals in the form of pressure pulses through the drill and mud. The composition of the mud itself has to be designed to work in the very long wells without causing pressure shocks that might dam- age the well bore. Jones said. A single well will likely take about 180 days to drill, he said.

Some of the well casing, the steel tubing installed in the well bore, will be run into the well using conventional tech- niques, while some will be floated in, with air at the bottom of the casing string and mud at the top. During drilling, fric- tion-reducing devices on the drill pipe and mud at the top. During drilling, friction-reducing devices on the drill pipe will help the pipe turn and move inside the casing, Jones said.

The drillers will first drive a 26-inch hole near-vertically through a thick layer of unconsolidated sand and gravel under the rig, with deviation of the well bore towards Liberty starting about 300 feet below the surface. With every subsequent piece of drill pipe having eventually to pass through this section of the well, the deviated well trajectory needs to accu- rately follow a curve shape called a cate- nary, to minimize the drag on the pipe. The existence of permafrost to a depth of about 1,500 feet will add to the drilling challenges.

“There are issues with permafrost; there are big chunks of wood in there that can cause … problems,” Jones said. “It looks basically like what’s on the river bank, down on the modern Sag River.”

Hard layers

Then, as the drillers guide the drill bit along the near-horizontal section of the well, the bit will start to encounter a series of especially hard rock layers.

“Normally you just … blow right through those,” Jones said. “… The problem is that if you’re drilling at these extreme inclinations and you’re very sensi- tive to dog legs because of (drill pipe) drag considerations, you want to be very sure that you’re not bouncing off these hard streaks.”

Lignite-grade coal seams, further down along the drilling path and known from nearby wells, will cause well bore stability issues, especially since the low angle of the well bore relative to the near- horizontal coals will result in the well trajectories steepening as they pass through this section of the well bore and mud at the top. During drilling, friction-reducing devices on the drill pipe will help the pipe turn and move inside the casing, Jones said.

Challenging future

Luoma said that although Liberty faces many technical challenges, new technical challenges are probably going to become the norm for North Slope oil and gas projects, projects that are likely to involve modest-sized fields in a business environment where costs have risen and where there has been increased pressure from taxes.

On the other hand, the more than $1 billion dollars that BP will eventually plough into the Liberty development will produce many benefits, including Alaska jobs, contracts for many Alaska compa- nies, and federal royalties, a portion of which will be shared with the state, Luoma said. (Because the field is located less than 6 nautical miles offshore, the state will receive 27 percent of the federal royalty from field production.)

To date, there have been more than 1,000 people involved in the project and once the drilling is under way 250 to 300 people will work on the field develop- ment, Luoma said.

Petrotechnical Resources Alaska is working with the borough and DOE on the project.

Broad application possible

Methane hydrates, also known as gas hydrates, are molecules of methane trapped inside “cages” of ice to form crystals. Methane is the primary com- ponent of natural gas.

Swaths of Arctic Alaska are believed to be well suited for generat- ing these hydrates. In recent years gov- ernment and industry have stepped up efforts to try to produce them. These efforts have largely focused on existing oil fields in the central North Slope, but an unusual pheno- menon at the fields near Barrow led researchers to broaden the scope.

The natural gas fields around Barrow have provided the largest com- munity on the North Slope with a near- by fuel supply that is not subject to the price swings troubling smaller rural communities across Alaska dependent on diesel fuel for heating and electrici- ty.

Production hasn’t declined

But despite producing for decades, these gas fields around Barrow have not seen the production declines typi- cally associated with aging fields, like those in the Cook Inlet.

The leading theory is that the fields are repressurizing themselves using methane hydrates.

The idea is this: Production of conven- tional gas supplies was, in fact, decreasing the pressure in the reservoir, but this pressure drop in turn “unlocked” the methane hydrates from their icy cages, leading to an increase in pressure and therefore in production, too.

So the borough and the DOE set out to search for methane hydrates in the fields.

The first phase of the research proj- ect, which ran from October 2006 to November 2008, provided “strong evi- dence” of hydrates at two of the three gas fields near Barrow.

Second phase in 2008

In December 2008, the DOE began the second phase of the project, which includes drilling a well to prove whether or not hydrates exist and can be produced commercially.

The DOE program will start with a well at East Barrow. If the well is unsuccessful, then DOE plans to drill at Walakpa. The North Slope Borough is planning some additional wells of its own, looking for a way to use East Barrow as a backup to Walakpa. That would allow the borough to shut the Walakpa field down in the summer for maintenance.

The project not only holds impli- cations for the North Slope Borough, which subsidizes diesel for many of its communities and expects increased gas demand in Barrow, but also for devel- oping methane hydrate resources in Canada, Russia and other parts of Alaska.

DOE is working on separate hydrate projects in Alaska with BP and ConocoPhillips.

In November 2008, the U.S. Geological Survey released a report saying the North Slope could contain between 23 trillion and 157 trillion cubic feet of methane hydrates. —ERIC LIDJI

continued from page 1

We were there at the beginning.

With 39 years of experience, we’re experts on arctic conditions and extreme weather!

Solutions for Petroleum, Mining, Construction, & Timber Industries using top quality products.

Come see us; ask us questions.

907.277.1406 907.376.1275 907.456.4414
1716 Post Road 1201 Bay Street 1600 Wells Street
Anchorage, AK 99501 Wasilla, AK 99601 Fairbanks, AK 99701

Fax: 907.376.7269

“Service: Our specialty since 1969”

Industrial & Construction Supply

Please visit our new website, www.Jackovich.com
CONGRATULATIONS

We thank our employees and contractors for their role in Alyeska Pipeline’s recognition by the American Petroleum Institute as the Distinguished Operator for 2008. This prestigious award is based on our safety record, stewardship of environment and overall pipeline integrity.

The award defines the dedication and commitment our people bring to the worksite every day. It is a pleasure to work with America’s finest.

SAFETY | ENVIRONMENT | INTEGRITY

Alyeska pipeline
American Petroleum Institute’s 2008 Distinguished Operator Award

www.alyeska-pipe.com