ExxonMobil has completed its summer work program at Point Thomson, resupplying the site some 60 miles east of Deadhorse on Alaska’s North Slope to allow drilling to begin in late November.

NPR-A lease sale set for August; both northeast, northwest tracts

The U.S. Department of the Interior announced Nov. 24 that the Bureau of Land Management will hold a National Petroleum Reserve-Alaska oil and gas lease sale on Aug. 11, 2010. The sale will include tracts in northeastern NPR-A and part of northwestern NPR-A, but DOI did not offer any specific information about which parcels of land would be included in the sale.

“We know that we have appropriate parcels that we have already considered and approved that will go forward, but we have not made a final determination of which other parcels may be included,” said BLM Director Bob Abbey.

The NPR-A lease sale announcement came as part of an announcement by Interior Secretary Ken Salazar of a schedule of 38 lease sales for onshore U.S. public lands in 2010. Salazar emphasized that the lease sale program comes as part of a national energy strategy that includes offshore wind exploration in the Atlantic, large-scale solar energy projects in the Southwest, and the construction of a national electricity transmission system.

EDWARD ITTA

Alaska Gov. Sean Parnell gave a clear indication of focus on resource issues for his administration when he opened the Resource Development Council’s 30th annual conference in Anchorage Nov. 18. The governor pledged to focus on positioning Alaska’s economy for growth and our people for opportunity,” and said while oil has fueled the state’s economy, throughput in the trans-Alaska oil pipeline is on the decline.

AEDC’s Popp works with Petroleum News, Mining News on jobs forecast

By KRISTEN NELSON

As we continue our quest for renewable resources, our job is to keep the oil flowing” through the pipeline, he said, noting that while Liberty and Point Thomson would contribute to that flow, the outer continental shelf has the most potential.

But, he said, while companies have put years of work and billions of dollars into OCS development, there is opposition to that development. “We’re pushing against political forces … that seem to want to stop resource development in Alaska altogether,” Parnell said.
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Like one of Scrooge’s Christmas apparitions, a ghost of Alaska’s future could portend doom, or could just prove to be a warning of the consequences of not taking appropriate action. And from the perspective of Bill Popp, president and CEO of the Anchorage Economic Development Corp., that action must include thinking strategically about where the state is heading, while finding common ground in resolving some of the issues that have polarized people for and against resource development.

“If we don’t find that common ground we are doomed to repeat the mistakes of the past,” Popp told the Resource Development Council annual conference on Nov. 19. “If we don’t think strategically we’re going to miss opportunities.”

Popp was presenting to RDC the results of his new AEDC projection of potential future new jobs in oil, gas and mineral projects in Alaska, a jobs projection in which AEDC is working collaboratively with Petroleum News and Mining News North of 60 to identify and assess upcoming projects.

New opportunities

As the world economy emerges from recession, gross domestic product growth in the Pacific Rim countries of China, Japan, South Korea and Taiwan could create significant new markets for Alaska mineral products, and for Alaska oil and gas, especially natural gas or natural gas value-added products. Exports of these products could prove a significant driver for investment in Alaska, provided that people actively market the products and engage the appropriate countries as trading partners, Popp said.

“It could be a significant driver in what we could see in the next decade, but without a forward looking vision and a forward looking strategy, and leaving it to laissez-faire capitalism, we may not be as competitive as other countries who are aggressively pursuing these players,” Popp said.

Strategic planning includes ensuring that there are sufficient Alaskans trained and ready to compete for high-paying jobs in new projects, he said.

With the help of data modeling done by the McDowell Group and information provided by Petroleum News and Mining News, Popp has assembled an inventory of actual and potential Alaska projects in the oil and gas and mining industries over the next decade, with estimates of how many new jobs each project might produce during each year of the decade, and with evaluations of the likelihood of each project happening.

“Optimism does not drive this forecast,” Popp said. “I’m not here to tell you that this is what’s going to happen in the next decade. As a matter of fact, I’m a little disheartened at the opportunities for these projects to actually go forward because of our lack of strategic vision and the many issues that challenge these projects, whether it’s taxation, environmental permitting, social compact, public opinion, or even the condition of commodity markets.”

Times change

And in issuing this caution, Popp referenced a previous incarnation of his jobs projection, presented at a workforce development conference in December 2004. At that time it appeared that the Pebble Mine project was entering its permitting phase, with construction expected to begin in 2008; ANWR was likely a done deal, because of the Republican domination of Washington, D.C.; the North Slope gas line should be preparing to break ground in 2010; and the public appeared to support oil and gas development in Cook Inlet and on the Bristol Bay outer continental shelf.

“It’s amazing what a difference five years can make,” Popp said.

But the project forecast model presented in 2004 really needed more third-party review, and more consideration of the probabilities of different projects actually taking place. In fact, the model is now split into two graphs: one graph for projects thought to have better than a 50-50 chance of progressing. The fall in jobs that emerges as gas line development ramps down could in part be plugged by work associated with Arctic outer continental shelf oil and gas developments, if those developments go ahead.

The graph below shows the projected workforce requirements for oil, gas and mineral projects in Alaska through 2021.

Popp said.

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One more thing for oil sands

Study says geopolitical events will determine sands development rate, markets served, upgrading, what environmental costs imposed

By GARY PARK
For Petroleum News

As if the Alberta oil sands don’t have enough on their plate, figuring out economic and environmental challenges, a new study has tossed geopolitical ingredients into the mix.

A joint report by the London-based Center for Global Energy Studies and Canada-based Gedeonrie Central says global geopolitical events will determine the rate at which the oil sands are developed, which markets they serve, how much is upgraded in Alberta and what environmental costs will be imposed.

Geopolitics President Vincent Lauerman said the study authors felt that other oil sands’ assessments, by ignoring the global and Alberta politics, were delivering “very different conclusions.”

In applying two plausible global scenarios, he said the study was able to present a more complete picture of the industry’s upside and downside, whether synthetic crude oil or bitumen blend would be in greater demand and the impact on markets if Alberta was to legislate in-province upgrading.

Growth could be moderate

In a “moderately optimistic scenario,” the global economy is assumed to grow at an average annual rate of 3.6 percent from 2009 to 2020, but falls short of the extremely strong growth experienced in the 2004-07 period, primarily because of stricter financial regulations and tighter credit conditions.

The study says those circumstances would allow production projects that are already in advanced stages of planning to continue as crude oil prices increase and credit conditions ease.

That slower pace of construction activity in Alberta, North America and worldwide, accompanied by lower prices for materials such as concrete and steel and the time available to plan projects would result in a significant reduction on capital costs for surface mining and in-situ projects over the shorter term.

But the passage of time would see oil sands producers incur higher environmental mitigation costs, with the Alberta government forced to impose stiffer regulations to “slay the ‘dirty oil’ lobby.”

In this scenario, oil sands output would be more than 590,000 bpd of new exports under way in 2020, with mining up 71 percent or 450,000 bpd and in-situ up 127 percent or 740,000 bpd.

The U.S. market would receive no more than 500,000 bpd of new exports under either scenario, the report suggests.

Lauerman said he leans more toward the “moderately optimistic scenario” because a “lot of great things have happened on the international cooperation front to rescue the global financial system and economy.”

He said the study has attracted considerable attention, much from “unepected sources,” notably China and Russia.

Window for lower costs

A separate study by the North American Energy Partners, which provides construction services to the oil sands sector, said the current slowdown, affecting about C$150 billion in potential investment, has lowered costs for labor and equipment, but that window may be in danger of closing.

Kevin Mather, a vice president of the partnership, said increased competition in the labor market has benefited everyone by stabilizing labor rates, which he does not expect will change.

A glut of used heavy equipment around the world also creates opportunities to buy trucks at good prices, while a worldwide shortage of tires (which saw the cost of tires for some oil sands trucks soar to C$20,000 each from C$40,000) is over.

Mather also said a stronger Canadian dollar is hurting producers who sell their oil in the U.S., but helping contractors who have imported equipment priced in U.S. dollars.

He said it is absolutely critical for contractors to be involved from the outset of project planning and engineering if projects are to remain on budget.
Chevron permitting Birch Hill pads, road

North Swanson project includes evaluation of existing Birch Hill well, possible second pad between Birch Hill and Swanson River

By KRISTEN NELSON
Petroleum News

Chevron Corp. subsidiary Union Oil Company of California is permitting development of natural gas resources at the Birch Hill unit. Birch Hill, also referred to as the North Swanson River satellite, is in Southcentral Alaska on the Kenai Peninsula.

The company said in its plan of operations that while the plan addresses the development and production phases of the project, “the production phase will only occur if commercially viable quantities of hydrocarbons are discovered in the area.”

Birch Hill has a shut-in Tyonek formation gas well. In addition to Chevron, which has a 78.71 percent working interest, CIRI Production Co. has a 19.68 percent interest and Marathon Oil Co. has a 1.61 percent working interest.

Chevron is the Swanson River unit operator and has 100 percent working interest at Swanson River, which produces natural gas from the Sterling and Beluga formations, and oil from the Hemlock formation. Two depleted Tyonek formation gas pools at Swanson River are used for natural gas storage.

An environmental impact statement was written for the Swanson River satellites projects. The U.S. Fish and Wildlife Service issued a record of decision for the final EIS in 2004. The selected alternative for the gravel access road was a 3.83-mile road from Swanson River field to the existing Birch Hill unit 22-25 pad to access the existing natural gas well for evaluation.

Planned work includes vegetation clearing and road construction in the fall and winter of 2009; well testing and drilling in the winter and spring of 2010; and facility construction in the spring and summer of 2010.

Possible second pad

The North Swanson River satellite includes the Birch Hill unit, a one-well field, and the land between Birch Hill and the Swanson River field boundaries. In addition to installation of a gravel access road and pipelines to tie the existing Birch Hill well into the Swanson River field, if reserves warrant a second pad location would be built along the right of way for drilling and production activities.

The satellite is some three miles north-east of the northern Swanson River field boundary.

Access will be via existing Swanson River field roads and the new road will originate from the ARCO Bufflehead right of way to the location of the former

Buffelhead pad and then proceed north to the proposed pad NS-A and then to the existing Birch Hill well for a total of some 3.83 miles.

The existing Birch Hill pad is approximately 105 feet by 385 feet and will be improved and enlarged to approximately 300 feet by 400 feet. The second pad, NS-A, would also be approximately 300 feet by 400 feet.

Flowline to Swanson River

If there are commercially viable quantities of hydrocarbons, a flowline would be installed from the Birch Hill pad back to the Swanson River field gathering infrastructure. Additional facilities would be installed at the well site as necessary.

The flowline would be a buried natural gathering line from 4 inches to 10 inches in diameter; it would be constructed from each of the satellite well pads along the roadway to tie in with existing Swanson River infrastructure. The line would be approximately 3.5 miles in length.

Installation would be in a trench along the right of way.

In addition to the natural gas flowline, other utilities might be buried in the pipeline trench: a 3- to 4-inch high-density polyethylene line for transport of produced water from the satellite to Swanson River facilities; a 4- to 6-inch steel secondary product line for possible use as a redundant gas or water line; and electrical, communication or other service lines.

When production operations cease, production facilities will be removed, wells abandoned and surface sites restored.

Additional wells

The company said additional wells may be drilled to fully develop the resource.

“Current knowledge of the geologic structures indicates a potential reserve accumulation of recoverable gas, which may support more wells than initially planned, depending upon reservoir quality.”

Additional development drilling is not anticipated to occur until 2010 or later.

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

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

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Conoco won’t explore this year in Alaska

Company focusing on preparing for Chukchi drilling in 2012; development drilling at Kuparuk, Alpine down; focus on maintenance

By KRISTEN NELSON

ConocoPhillips Alaska is changing its exploration focus and looking to the Chukchi Sea, Helene Harding, the company's vice president of North Slope operations and development, said Nov. 18.

Harding told the Resource Development Council's 30th annual conference that the company plans no exploration drilling in Alaska in 2010, but will be preparing for Chukchi exploration in 2012.

"ConocoPhillips has been the most aggressive explorer in Alaska for the past decade," Harding said, with millions of dollars devoted to exploration.

"And unfortunately we've had limited success. Because of this we have released, in the last three years, 1.4 million acres of offshore leases," she said.

(That released acreage includes federal acreage in the National Petroleum Reserve-Alaska and state leases.)

Harding said the number of exploration wells drilled offshore by all companies on the North Slope is down over the last three years.

"What ConocoPhillips is doing is "shifting our focus to offshore — to the Chukchi Sea," where industry spent $2.6 billion in 2008 acquiring federal outer continental shelf acreage.

Harding said ConocoPhillips continues to be dedicated to getting Alaska North Slope gas to market, but "there are many uncertainties that are in front of us," including the pressure shale gas discoveries in the Lower 48 is putting on gas prices; increasing project costs for the Alaska gas pipeline; and "lack of clarity in fiscal terms."

"We are working towards the open season in 2010 and we will evaluate the terms and conditions of any open season that will provide a commercially viable project for the shippers and deliver gas" to the Lower 48.

The comparison to 2003

Harding compared where ConocoPhillips is today with an RDC presentation Kevin Meyers, then president of the company in Alaska and now ConocoPhillips' senior vice president, exploration and production-Americas, made in 2003.

The projection in 2003 was that West Sak viscous oil production would be at more than 30,000 barrels per day by 2010.

But in September of this year West Sak production was just over 18,000 bpd, Harding said.

Meyers listed three keys to success: access to acreage; reasonable regulations and permitting; and an attractive fiscal environment.

Harding said that even with oil at $50 a barrel in 2003 the company was a lot more bullish about the future than it is now.

"We were focusing on improving our viscous production at West Sak ... We were aggressively drilling exploration wells; and at that point in time the ANS gas project seemed like it was about to become a reality."

But today, in spite of higher oil prices over the last several years, West Sak production is only at 18,000 bpd; exploration drilling is down significantly; and natural gas prices are down and project costs for the ANS gas pipeline project are up.

What about the keys to success?

Issues access to our outer continental shelf leases for drilling point to access issues, she said. ConocoPhillips' difficulties in getting permits to develop its Alpine CD-5 satellite points to permitting issues.

And on the fiscal side, "in the last three years alone we've had three increases in our taxes and the last one, ACES, ended up just taking away our upside."

"And when you're in a risk-and-reward business like we're in, when you take away the upside it's extremely hard to compete for dollars," Harding said.

2010 plans

As far as the company's plans for 2010, Harding said safe operation is key as well as operating in an environmentally sound way.

"In addition, it's very important for us to run level and operate our fields as efficiently as we can and continue to drive costs down and out of the system."

The company is spending a lot of maintenance dollars to make sure its infrastructure is "sufficient for the next 30 plus years," and that causes "less investment in wells and workovers."

"In fact, we're at the most reduced activity when it comes to drilling that we've been in many, many years," she said.

No exploration drilling is planned next year.

"We're going to be focused on doing environmental baseline studies for the Chukchi Sea with the hopes of being able to drill in 2012."

Not just the big projects

The big Alaska projects out in the future are heavy oil development, OCS and ANS gas.

But it will be 10 years until those projects can be realized, she said.

The core fields on the North Slope are crucial over the next 10 years and the Department of Revenue has estimated that $40 billion in investment would be necessary to deliver projected core-field production over the next 10 years, Harding said.

"So we have to stop waiting on these big major projects."

"We need to look at these core fields and what's happening over the next 10 years. That's the health of our business," she said.

Kuparuk and Alpine

Harding manages the Kuparuk River and Alpine fields for ConocoPhillips. Kuparuk has produced more than 2 billion barrels of oil in 6 billion barrels of oil in place, including satellites.

A 30 percent recovery rate was the original Kuparuk target, "and now it looks like we're going to be closer to about 40 per-

see CONOCO page 7
EXPLORATION & PRODUCTION

PGS permitting North Fork 3-D seismic

Hand on the heels of RCA approval of the contract for the supply of North Fork gas to Enstar Natural Gas Co., PGS Onshore is moving ahead with plans to shoot a 3-D seismic survey for Armstrong Cook Inlet in the North Fork area of the southern Kenai Peninsula. The seismic survey is a prelude to the drilling of further gas wells in the North Fork unit.

PGS has applied to the Alaska Department of Natural Resources for an Alaska Coastal Management Program consistency review for the seismic survey; comments on the proposed survey are due by Dec. 7.

According to the ACMR review application the seismic survey will cover an approximately 20-square-mile area that includes the community of Nikolai, on land variously owned by the State of Alaska, Cook Inlet Region Inc., the Kenai Peninsula Borough and several private land owners. PGS has notified the landowners of its intentions.

The survey will take place in winter conditions, between December 2009 and April 2010, with a staging area and project offices being established on the North Fork 46-36 well pad.

—ALAN BAILEY

ACMP review of Shell’s Chukchi plan out

The Alaska Coastal Management Program review of Shell’s 2010 Chukchi Sea drilling plan is out for public comment, with comments due on or before Dec. 22 and a final determination to be issued by Jan. 11. The 30-day review began Nov. 23.

The U.S. Minerals Management Service has not yet approved Shell’s plans, which will occur on outer continental shelf federal leases. Shell proposes to conduct exploration drilling in 2010 some 60 miles offshore in the Chukchi Sea OCS on seven lease blocks within three prospects known as Burger, Crackerjack and Southwest Shoobill.

A maximum of three wells would be drilled on five proposed sites, with the actual order of drilling controlled by interplay between actual ice conditions immediately prior to a rig move; ice forecasts; any agency restrictions on operating windows; whether the drilling involved the shallow non-objective section of the hole or penetrating potential hydrocarbon zones; availability of approved shallow hazards clearance; anticipated length of drilling activity and results of any preceding wells — any of which could cause a planned activity to be altered at short notice.

Shell said in its application that drilling would begin on or about July 4 and all drilling activities would be complete by Oct. 31.


—PETROLEUM NEWS

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CONOCO

cent. And we’re continuing to work on technology and challenges to enhance that and make it even better,” she said.

But Kuparuk is nearing 30 years of age and with many years of remaining life “we’re putting investment dollars towards the maintenance of our pipelines, our wells and our infrastructure.”

The company launched its first next-generation coiled tubing drilling rig at Kuparuk in May.

“This rig is used for infield drilling and we are using 4-D or time-lapse seismic technology to help determine areas in the field where we have leftover production,” she said.

Harding said that for ConocoPhillips “to deliver the next 30 years at Kuparuk we really do need an attractive fiscal structure” because projects at Kuparuk are “going to have to compete across the United States and the world for investment dollars.”

Alpine, which has been online for 10 years, had more than 1 billion barrels of original oil in place and has produced more than 400 million barrels.

She said that “this coming season we’re going to be shooting a 3-D seismic survey so that we can continue to expand the extent of the original Alpine field and look at some of the peripheral locations for development.”

Three satellites have been developed at Alpine — Fiod, Namuq and Quan — and have helped mitigate the effects of a 50 percent decline in production from peak from the Alpine field itself.

But permitting began for the next satellite, CD-5, in 2005.

“And here we sit today in 2009 and we still don’t have our permits,” Harding said.

—PETROLEUM NEWS

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Between now and mid-2010, the prospects of shipping bitumen from the Alberta oil sands to Asian refineries are heading toward make-or-break decisions. Enbridge anticipates submitting an application to Canada’s National Energy Board for its $52.000-barrel-per-day Northern gateway project and Kinder Morgan is due to release details of expansion plans for its 300,000 bpd Trans Mountain system from Alberta to the Vancouver area.

Those moves come amid a rising clamor from industry and political leaders to provide a second major outlet for Canadian crude rather than rely almost exclusively on the United States, given the uncertain future demand for oil in the Lower 48 and unease about what impact North American climate change legislation might have on the oil sands.

BMO chief economist Sherry Cooper told a Calgary audience on Nov. 19: “We must export oil to China. It’s very important. And the sooner the better.”

She said Asia is a vital part of market diversification for Canadian production and essential in the face of imminent U.S. climate policies which could limit the flow of bitumen across the 49th parallel. “For sure, the U.S. isn’t going to like (exports to Asia). But that’s good, because it gives us more leverage with the U.S.,” Cooper said. “For example, it makes it more difficult for the U.S. to threaten us with comments about dirty oil.”

Alberta, CAPP agree

Similar views have been strongly expressed by the Alberta government and the Canadian Association of Petroleum Producers, whose President David Collyer said earlier this year that the Far East is the “only realistic alternative” if the U.S. started to restrict access to its markets for oil sands production.

Two months ago, Tom Katnias, chief executive officer of the Syncrude Canada oil sands consortium, told a conference he would welcome infrastructure to the British Columbia coast “to be able to export some of the Alberta oil.”

Interest in pipelines targeted at Asia has been jolted back to life in recent months with the investments in Canada’s oil sands upstream by state-owned PetroChina and the Korean National Oil Corp., both of which have taken sizeable positions in oil sands leases.

Enbridge ready to file

Pending the release of terms of reference for an environmental review in Canada’s Northern Gateway proposal, Enbridge Chief Executive Officer Pat Daniel said Nov. 4 his company is ready to make its regulatory filing no later than early 2010.

“We have strong support for Gateway (which includes plans for a 250,000 bpd export pipeline).”

“I think it’s fair to say both Canadian producers and Southeast Asian refiners feel the concept around gateway makes sense in terms of improving netbacks for Western Canadian producers, providing an outlet to access crude supply for Asian refiners,” he said.

Assuming passage through the regulatory process — although stiff environmental, Aboriginal and landowner challenges are anticipated — Gateway could be in service in 2015 or 2016.

Until the application is filed, Enbridge will not say whether it has any firm shipping contracts. But Kinder Morgan disclosed a year ago that it had raised CS100 million from Western Canadian producers and Eastern Asian refiners through the sale of 10 units at CS10 million apiece to help finance the regulatory application. In return, those unnamed sponsors have an option to acquire founder-shopper status and make an equity investment in Gateway, which was last estimated to cost CS4.25 billion.

Although Enbridge has indicated that it is concentrating on lining up customers in Japan and South Korea, there is the prospect that PetroChina might return to the scene two years after passing up its chance for a 49 percent equity stake in Gateway because of what it said was a lack of support from the Canadian government and producers.

Now that it has spent CS1.89 billion to acquire 60 percent interests in two oil sands leases owned by Athabasca Oil Sands, which could yield about 500,000 bpd from reserves of 5 billion barrels, PetroChina will have to settle on a destination.

Kinder Morgan also has the option to acquire founder shipper status and make an equity investment in Gateway. In addition to Gateway’s planned 36-inch line to British Columbia’s deepwater port at Kitimat, the project involves a 20-inch diluent line to carry 193,000 bpd of imported condensate to Edmonton to facilitate the flow of bitumen.

Kinder Morgan placed to compete

Taking a lower profile, Kinder Morgan is strongly placed to compete with Enbridge in the race to Asia.

About 10 percent of its current Trans Mountain volumes are believed to reach Asia, where refiners are testing their ability to handle Canadian heavy crude.

Those tanker shipments across the Pacific reached a record 134,000 bpd in March and, through the first eight months of 2009, were up an average 150 percent from the same period of 2008.

Kinder Morgan is currently weighing plans to boost Trans Mountain capacity by either 80,000 bpd or 320,000 bpd, indicating a decision will be made in the next three to six months.

It is also negotiating with Vancouver port authorities to allow the use of Suezmax tankers, which can carry 1 million barrels and reduce the shipping costs to Asia by CS1.50 per barrel.

Kinder Morgan also has the option to build a northern leg from Trans Mountain to Kitimat to carry 400,000 bpd.

Carcle said Kinder Morgan’s Canadian Chief Executive Officer Ian Anderson has conceded it is not clear whether the moratorium on exploration in offshore British Columbia would affect tanker traffic out of Kitimat.
BP: More challenges than a few years ago

Minge tells RDC BP’s 50-year Alaska strategy a dream, not a promise; cost structure threatens light oil; costs up 4 times oil price

By KRISTEN NELSON
Petroleum News

BP has talked in recent years about the company’s 50-year future in Alaska. But that strategy is “a dream. It’s not a promise,” BP Exploration (Alaska) President John Minge told the Resource Development Council’s 30th annual conference Nov. 18.

“To achieve that dream we need to continuously improve our performance in safety; we need to protect the environment; and we need to deliver on our business objectives.”

Investments in the oil and gas industry are made looking “very long term,” he said. “We look at risks and rewards over a 20- to 30-year time period.”

Because of that long view, BP’s strategy in Alaska has shifted in recent years because of the recent downturn in the economy.

“We’re going to continue to focus on safe, reliable and efficient operations; building a stronger and more profitable light oil business; and growing the business by unlocking the vast heavy oil and gas resources on the North Slope.”

More challenges

But BP faces more challenges in Alaska than it did a few years ago, he said.

The company is making progress on the first priority, “safe, reliable and efficient operations … but we still have a long way to go.”

Minge said the company’s goal is “to run a business where no one gets hurt and where the integrity of our infrastructure will last.”

In the light oil business — traditional North Slope production from areas like Prudhoe Bay — costs are up, production is down and taxes have increased.

“Our cash flow breakeven point is much higher today than it was five years ago,” Minge said, because “over the last 5 years oil and gas industry costs have increased at the rate of 4 times the price of oil.” Combined with a 29 percent decrease in North Slope business, it is “not a model for a sustainable business.”

As a result, “we are being very, very selective” in the projects the company does and the drilling it does.

“We’re also trying to lower the supply-chain costs.”

Policies and economics

With limited investment capital, the company’s choices are driven by economics and policies, Minge said.

“The best opportunities attract the dollars. So in Alaska policy decisions around taxes made over the last few years have slowed the pace and scale of some of our North Slope development.”

The Gulf of Mexico is more attractive for investment because as the oil price goes up — a $1 change at $90 oil was the example Minge used — the government take on an incremental dollar is 40 cents and the industry share is 60 cents. In Alaska, because of the progressivity feature in ACES, “the government keeps nearly 70 percent, 70 cents of that dollar, and the industry share is 30 cents,” he said.

That makes it more difficult to attract capital to Alaska and as a result BP’s spending in Alaska in 2010 will be reduced by about 15 percent, from about a billion dollars to $850 million.

That investment will be roughly one-third for infrastructure renewal; one-third for drilling; and one-third for growth, he said.

In November 2008, outgoing BP Alaska President Doug Suttles told RDC that the company was budgeting $1.2 billion in capital expenditures in Alaska in 2009, a 33 percent increase from 2008. That figure included a projected 10 percent drop in drilling at Prudhoe Bay; about one-third was targeted to Liberty, Denali, Point Thomson and testing heavy oil. BP and ConocoPhillips originally said they would spend $600 million to bring Denali to a 2010 open season, but that amount has now been reduced to about a quarter of the original estimate, with some $120 million spent to date.

Minge said in May, at the annual Alaska Oil and Gas Association lunch, that BP would spend less than planned, but wasn’t planning any major cuts in response to lower oil prices.

Infrastructure; light oil; growth

“Our first priority is to invest in the infrastructure to enable a sustainable long-term future and reduce risk in our business,” Minge told the RDC conference.

“We then invest in developing the light oil base, which generates the cash.”

“And then we invest in growth — projects like Liberty, Point Thomson and Denali, the Alaska gas line.”

Liberty is a key growth project, he said, made possible by advances in drilling technology, with ultra-extended-reach wells, “two miles down, eight miles out” from the rig to the reservoir.

Production is expected to begin in 2011 and peak at 40,000 barrels per day; the total investment will be more than a billion dollars.

“If Liberty will be the first full federal offshore development in Alaska and the competitiveness of the project is helped because the high technical risk is balanced with higher reward in the federal tax structure.”

Where will the puck be?

Minge used a sports analogy — ice hockey — and quoted Wayne Gretzky, who once credited his success to skating to where the puck is going to be, not to where the puck is now.

“So where’s the puck going to be in the future?” Minge asked.

“It’s not going to be in front of the net; it’s going to be in the corners,” he said.

Alaska’s remaining resources are significant, “but they are technically and commercially challenged and they are harder to reach,” and that means the “barrels are not as profitable,” with more investment dollars required for fewer barrels.

There are 20 billion barrels of heavy oil in place, but “we need a technology solution to figure out how to extract the thick oil in commercial quantities from the wellbore.”

BP has a five-year technology project on heavy oil under way, but, Minge said, the company’s “estimates indicate that even with technological success, heavy oil is not economic … at today’s oil prices and under the current Alaska state tax structure.”
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JOBS

cents that appear to have at least a 50-50 chance of happening and another graph for less secure projects, Popp said.

The 50-50-or-better graph indicates a peak job level in excess of 15,000 full-time-equivalent positions in 2017. Dominating this graph is a huge peak of work associated with the construction of a North Slope gas line, a project that Popp thinks has a good chance of progressing.

“We’ve got two competitors. We’ve got all three of the major players involved. And we’ve got a federal government that, for whatever reason, has taken an even higher interest in this project in recent months,” Popp said.

And the eight oil and gas projects in the graph include a bullet or spur gas line into Southcentral Alaska, ENI’s Nikaitchuq project, BP’s Liberty project and Exxon’s Point Thomson project.

There are seven mining projects on the graph, including Kensington, Livengood, Rock Creek, Donlin Creek, Nixon Fork and Pebble.

Outer continental shelf uncertain

The graph of less certain projects is dominated by the potential growth of jobs from the oil and gas development that Shell and ConocoPhillips are hoping to pursue on the outer continental shelf of the Beaufort and Chukchi Seas — Alaska jobs from the OCS development could climb steadily to reach a total in excess of 7,000 positions by 2023, when combined with the other uncertain projects presented in this graph.

“We give it at least some odds of going forward, given the billions of dollars spent on this project, but there is a lot of work to do to overcome the challenges that face development in the offshore of the North Slope,” Popp said of OCS oil and gas development.

And when the jobs from less certain projects are layered onto the job projections for the 50-50 chances or better list, it appears that the ramp up of work associated with the outer continental shelf would start to kick in at around the time when several major projects on the North Slope are starting to ramp down.

Popp has included natural gas development by Anadarko in the Gubik area in the Brooks Range foothills within the list of less certain projects, given the combined challenges of proving sufficient gas reserves for development and bidding for space on a future North Slope gas line. Pioneer’s Cosmopolitan project on the Kenai Peninsula is also in the less certain project list, along with up to 15 small potential oilfield developments in the Prudhoe Bay area.

Other projects

In addition to the projects listed on the two graphs, people need to watch out for several other potential projects, to see whether these projects develop commercially viable,” Minge said.

“So gas is challenged, more challenged than it was a few short years ago,” he said.

So where’s the puck? Minge said the puck is in play, “but it’s too far from the net.”

“I believe the future will require all key stakeholders to work together differently than we have in the past. The good thing is we are all aligned on where we want to go, we just need to agree on how to get there.”

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BP

Gas demand needed

The North Slope gas project is challenged by Lower 48 breakthroughs in shale gas and by projections of relatively flat demand over the next 30 years.

“Ultimately for Alaska gas to work into the Lower 48 market I believe demand will have to increase to make the project
The development of Arctic policies must include a meaningful role for the Native peoples of the north, peoples who have made no secret of their concerns about the pace of change in their traditional homelands.

“Nobody knows the extent of the impacts to marine wildlife caused by the retreat of the sea ice. We don’t know how long this will go on, how much of the ice cap will be left in a decade or two, or how well our subsistence wildlife will adapt to such rapid ecological change,” Itta said. “We are the backup for us as we consider policy options for offshore oil and gas development. And I have to add that incidents like the well failure in the Timor Sea off the coast of Australia do not bolster our confidence. A million gallons of oil in the Beaufort or Chukchi seas would be devastating and there can be no denying that the risks are real and particularly challenging under seasonal conditions of ice and weather and darkness.”

On the other hand, the North Slope Borough economy relies on income from the oil and gas industry.

“Our concerns do not lead us to the same conclusions as the environmental groups,” Itta said. “Like the State of Alaska and all of its citizens, residents on the North Slope depend on oil and gas development as the foundation of our local economy. And our participation in the local economy is part of what allows us to continue to protect and participate in our traditional subsistence hunting activities.”

Although the North Slope communities have supported onshore oil and gas development, the expansion of oil and gas activities to the outer continental shelf significantly increases the risks associated with possible accidents and constitutes a direct threat to the health of the bowhead whale, “our most precious subsistence resource,” Itta said.

But Arctic OCS oil and gas development may be inevitable.

“While I would prefer not to see oil rigs in our water, I understand that the industry has to follow the resource,” Itta said. “And if the resource turns out to be as the MMC estimates, then development will occur whether we like it or not.”

Given that reality, the North Slope communities need to work with the industry and with federal agencies to craft the best possible environmental protection and mitigation measures.

“It’s a win-win, and I believe it can set the stage for Alaska’s offshore regions, Itta said.

“The zero discharge standard should be similar to that used in Norway’s offshore regions,” Itta said. “This is both achievable and desirable and it would put Alaska in a leadership position we could all be proud of,” he said.

Other North Slope Borough policy positions include the ramping up of the U.S. Coast Guard presence in the Arctic, a requirement for independent, ice-trained pilots on the bridges of ships in Arctic waters, a beefed-up effort to conduct baseline science studies in the region, and controls over the number of projects allowed in an area at any one time.

Endangered Species Act

But, although it will be necessary for industry, government and local communities to work through any disagreements over these policy positions, the North Slope Borough sees the moves towards listing Arctic wildlife species under the Endangered Species Act as not the right tool to address the problem,” Itta said. “I believe it is likely to cause havoc with all kinds of human activity in the region without necessarily having any effect on the health of the animals.”

“We’re all in the same boat in this regard and I’d like to work with industry to come up with innovative solutions.”

Rather than piecemeal animal protection for individual Arctic species, the borough would prefer to see a general-purpose habitat protection plan for multiple species, Itta said.

As an example of the type of problem that the polar bear listing may cause, Itta cited a plan to relocate the airport at the village of Kaktovik on the Beaufort Sea coastline. The current airport poses an environmental concern because it is periodically inundated by storm surges. But the permitting of a new runway site may become difficult by the proximity of polar bear denning locations.

Policy initiatives

Itta commented on the number of Arctic policy initiatives that are current-ly in progress. For example, the North Slope Borough recently welcomed members of President Obama’s Ocean Policy Task Force in Barrow, he said.

“We plan to be involved in these deliberations and as soon as we figure out exactly what ‘marine spatial planning’ is, we’ll know whether it’s a good thing or a nightmare,” Itta said, referencing a planning concept that the task force is considering.

But collaboration between North Slope communities and the oil industry is a key to future success, he continued.

“As Alaska’s greatest chance of success as we move forward in the Arctic is to institutionalize the attitude that industry and local communities are in this together, or even that we’re on the same team, because I believe we need each other and we can certainly accomplish a lot more if we sit down as collaborators instead of adversaries,” Itta said. “This is my hope for the future of Arctic policy development.”

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GCI Industrial Telecom

GCI Industrial Telecom, a division of GCI, opened a field office in Houston, Texas, to provide engineering, project management and system installation in the Gulf of Mexico and other areas in the Lower 48. Established in 1979, GCI provides full life-cycle communication-related services to the oil and gas industry.

Previous to being hired as an account representative by GCI in September, Hillary McIntosh created McIntosh Consulting International LLC, focused on strengthening business relationships between Alaska and Texas. McIntosh is a former “Alaska’s Top Forty Under 40 Award” recipient and board member of ProsperityAlaska.org. The Imaginarium and Alaska Business and Professional Women. McIntosh looks forward to the challenge of making GCI a serious contender in the Lower 48’s industrial telecommunications industry.

—MARTI REEVE

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URS awarded 3-year IDIQ contract

ExxonMobil receives U.S. EPA natural gas STAR award

ACS unveils new retail location in Wasilla

Rain for Rent introduces HD6 pipeline pump

ExxonMobil said Nov. 16 that it has received the 2009 Continuing Excellence award from the U.S. Environmental Protection Agency, under its Natural Gas STAR Program. The program recognizes companies that apply cost-effective technologies and management practices to improve operational efficiency and reduce methane emissions. The Continuing Excellence Award is presented to companies that annually self report to the EPA; continually demonstrate a high level of performance in reducing emissions; implement a variety of technologies and practices; and support the program’s activities, initiatives and outreach. ExxonMobil is one of the largest oil and gas producers and reserves holders in the U.S., with a diverse resource and asset portfolio.

URS awarded 3-year IDIQ contract

U.S. Army CERDEC Flight Activity, Fort Monmouth, N.J., and was awarded through the EG&G’s Division General Services Administration Logistics Worldwide Schedule. Under the contract, URS will provide an array of services including, aircraft maintenance and modification; engineering and technical support; customer assistance and technical support; logistics and operations management; and aviation ground support and tool reset. URS Corp is a leading provider of engineering, construction and technical services for public agencies and private sector companies around the world.

Editor’s note: All of these news items — some in expanded form — will appear in next week’s issue of Petroleum News.

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SHALE GAS
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Doubters surfacing

In this over-heated environment it’s probably no surprise that the doubters are starting to surface. Top among them is Arthur Berman, a geologist who worked two decades for Amoco and is director of geoscience consultant Labyrinth Consulting Services.

Over the past month he has likened Devon Energy (100x120) and Chesapeake Energy with his suggestions that the projections for shale gas are “overly optimistic.” Things reached a crescendo when Berman had his monthly column pulled from World Oil magazine after gas companies complained about his shale gas views, leading him to quit the publication.

He has previously argued, after examining data from thousands of wells, that horizontal wells in the Barnett Shale will yield less than 1 billion cubic feet per well, in contrast to claims by Chesapeake, Devon, XTO Energy and Quicksilver Resources that output could range from 2 billion to 3 billion cubic feet per day.

Critics firing back

Berman’s critics have fired back, saying Berman doesn’t have the experience in unconventional gas projects to back his claims; that he understimates Barnett production potential; that he ignores natural gas liquids production; and that he overlooks industry estimates that output from a typical shale well will decline sharply in the first two years, then taper off over an extended lifespan.

Berman welcomes the disagreement, believing it will contribute to more accurate answers.

Speaking in Denver in October to the Association for the Study of Peak Oil, he said gas prices of $7-$8 per thousand cubic feet are needed for shale gas to be profitable.

He took issue with a Colorado School of Mines estimate that shale gas reserves exceed 2,000 trillion cubic feet by insisting that only a fraction of the gas can be produced commercially.

He estimated the Barnett formation has only 10 tcf that can be produced (16 billion to the target set by the U.S. Geological Survey) and that 70 percent will not be commercial, even at gas prices of $7-$8.

More knowledge needed

Richard Moorman, the manager of Marcellus, Woodford/Caney & Haynesville, said that much more knowledge is needed about unconventional gas development and that he believes it will contribute to more accurate answers.

He estimated the Barnett formation has only 10 tcf that can be produced (16 billion to the target set by the U.S. Geological Survey) and that 70 percent will not be commercial, even at gas prices of $7-$8.

Constraints listed

He said shale gas will not save the U.S. from its dependence on other sources and will not be able to replace the 15-20 bcf-per-day decline in U.S. production.

“I believe that the United States has tremendous shale reserves, but they’re being given way too much credit,” Moorman said.

TransCanada Chief Executive Officer Hal Kvisle — whose company is spending C$1.5 billion on shale-related pipelines in northern British Columbia and Alberta — told the conference that new shale resources can offset LNG imports, but will not displace the need for pipelines from Alaska and the Mackenzie Delta.

“We are ecstatic about the development of shale gas, not because it will have an impact on the Mackenzie or even Alaska … but because we probably will only need to import 7 or 8 billion cubic feet per day of liquefied natural gas,” he said.

Because North America must bring 75 bcf per day of new gas production on stream over the next 5 years to offset the current decline rate, that “leaves plenty of room for Arctic gas,” he said.

Moorman said “we have a long way to go before we can say what shale’s contribution to U.S. supply will be. New plays don’t turn into 1 billion cubic feet per day overnight. There’s a lot of work to be done, a lot of infrastructure is needed and there’s so many obstacles.”

Constraints listed

He said shale has to deal with several constraints: steep decline rates which can see a well lose about 75 percent of its output in the first year; wide variations in well results; high capital costs per well; an uncertain and costly learning curve that is showing up in recent emerging plays; and environmental and regulatory challenges.

In making his case that shale gas will not immediately offset U.S. production declines, Moorman said continued drilling of vertical wells in conventional and unconventional plays in North America and higher prices (of $8-$9) are vital to sustain U.S. production.

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“I believe that the United States has tremendous shale reserves, but they’re being given way too much credit,” Moorman said. Thanks for providing the detailed analysis and context on the debate surrounding shale gas. It's evident that the industry is facing significant challenges and uncertainties, and the projection for its contribution to North America's energy supply is subject to wide variations. The fact that even leading players like Devon and XTO Energy are facing scrutiny over their estimates highlights the need for more accurate and comprehensive data on unconventional gas resources. The ongoing debate underscores the complexity of the shale gas market and the importance of continuous research and development to refine our understanding of its potential impacts. It will be interesting to see how the industry evolves in the coming years and how much weight the market will give to the various arguments and data presented by different stakeholders.
continue from page 1

**PARNELL**

He pointed to the polar bear as an example. Parnell said when he looks at a polar bear, he sees “a species whose numbers are thriving and are at their greatest numbers in the last four decades.”

But powerful interest groups see something different, he said. “They see the opportunity to use the Endangered Species Act as a land-use planning tool. They see using the ESA to complicate, delay and ultimately halt energy exploration and production in Alaska.”

**ESA attorney in budget**

Parnell said he has “taken every opportunity I can to push OCS development,” including supporting Shell’s 2010 Chukchi exploration plan.

“A few weeks ago the state filed legal briefs urging the U.S. District Court in Washington, D.C., to reject the listing of the polar bear as threatened,” he said. “It’s been a long-held belief of the polar bear listing gains traction — that is that a species is threatened by a speculative climate rather than by population or its current state as a species — then environmental groups could potentially gain threatened listings” for other species, “no matter how healthy the populations and that could complicate, delay and ultimately halt energy exploration and production in Alaska.”

**Ballot initiative reform**

Alaska Gov. Sean Parnell told the Resource Development Council’s annual conference Nov. 18 that his administration is fighting, and will continue to fight, to ensure the Endangered Species Act is used to protect species, not as a tool to prevent development in Alaska.

“Another tool being used to shut down Alaska’s resource development, he said: the ballot initiative process.

“The governor said the ballot initiative “was meant to provide a safety valve for the public if they think the Legislature and executive branch fail to respond to public concerns.”

“But ballot initiatives are not just used as “tools of last resort; they’re also at times the first tools reached for by interest groups with an agenda.”

Parnell said money for ballot initiatives has come from both inside and outside the state, but Alaska law doesn’t require online financial disclosure, “so Alaskan donations and expenditures aren’t known until well after the votes have been cast.”

“Ballot initiatives are powerful tools; they change public policy.”

He said Alaska voters have a right to know where the funding comes from before they vote, and said he would be supporting ballot initiative reform, with “a strong focus on financial disclosure.”

“The right to information on the money behind the campaigns is the very least Alaskans should expect.”

**Insider**

INSIDER

**provide it quickly — within 10 days, so that it can be considered in the review of the exploration plan.**

“Shell’s recommendations should be with us by the 28th and we anticipate a decision shortly thereafter,” he said.

When asked about the status of MMS’ court-ordered review of the Chukchi Sea environmental assessment, Pardi would only say the agency “is currently working on the environmental sensitivity analysis.”

**ADN report: Fire Island wind farm still on despite loss of partner**

**COOK INLET REGION INC.**

**RECENTLY lost its key partner in the Fire Island wind project, but the company plans to spend millions to get the wind farm built and generating electricity in Anchorage by the end of 2011.**

Citing competitive business goals as the reason for the split, the Anchorage Native corporation said that it and California-based EnXco agreed to part ways in October. Until then, EnXco had been the developer of the 54-megawatt wind farm and CIRI’s equity partner in the project.

CIRI said it hopes to sign a deal with another well-known wind farm developer in early December. CIRI can fund the project without an equity partner, if need be, said Ethan Schutt, a CIRI vice president for land and energy.

“The parting with EnXco agreed to part ways in October. Until then,” he said, “we’ve chosen the game plan; it’s time to give it up and try something else.”

“While my response to these armchair quarterbacks is this: We are making progress; we’ve chosen the game plan; it’s time to give it up and try something else.”

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“While my response to these armchair quarterbacks is this: We are making progress; we’ve chosen the game plan; it’s time to give it up and try something else.”

**ADN report: Fire Island wind farm still on despite loss of partner**

**COOK INLET REGION INC.**

**RECENTLY lost its key partner in the Fire Island wind project, but the company plans to spend millions to get the wind farm built and generating electricity in Anchorage by the end of 2011.**

Citing competitive business goals as the reason for the split, the Anchorage Native corporation said that it and California-based EnXco agreed to part ways in October. Until then, EnXco had been the developer of the 54-megawatt wind farm and CIRI’s equity partner in the project.

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them confined in one area where the wind won’t always blow.

To the chagrin of some lawmakers and renewable-energy advocates, CIRI, the local utilities and the Federal Aviation Administration have wrangled over the technical aspects of the wind farm for years.

The utilities are concerned about upgrades that might be needed to integrate wind power into the grid. So far, the scale of those potential upgrades seems minor to CIRI, but both it and Chugach have hired consultants to study the issue further.

The FAA previously raised big concerns about the wind farm interfering with navigation equipment on the island used for the nearby international airport. To meet the FAA’s concerns, CIRI next summer plans to spend millions of dollars to replace the navigation system on the island with an upgraded system located on the mainland.

CIRI said that it will have good estimates on how much it will cost the utilities to purchase power from Fire Island early next year. It hopes to sign sales agreements with the utilities by June.

The wind power generated from the proposed 34 turbines on the island will supply roughly 18,000 to 19,000 homes. The per-kilowatt-hour cost of electricity from Fire Island probably will be slightly higher than today’s cost from Cook Inlet natural gas, the dominant source of electricity for Southcentral homes.

—ELIZABETH BLUEMINK, ANCHORAGE DAILY NEWS, NOV. 23

Alaska governor names, re-appoints state board and council members

ALASKA GOV. SEAN PARNEILL has made the following appointments to state councils and boards: Alaska Permanent Fund Corp. — Larry Hartig, commissioner of the state Department of Environmental Conservation. Hartig replaces Emil Notti, commissioner of the state Department of Commerce, Community and Economic Development.

Alaska Safety Advisory Council — Phillip K. Galloway of Parker Drilling from Wasilla and Douglas A. Taney of Norcon from Delta Junction. Re-appointed to the council were Herb Everett of Westmark Hotels from Anchorage, Daniel R. Monteleone of the Municipality of Anchorage, Robert S. Peterson of the International Union of Operating Engineers Local 302 from Juneau, Michael E. Schwenn of BP from Anchorage and Zebulon J. Woodman of Laborers Local 942 from Fairbanks. The 14-member council aims to reduce the risks of accidental death and injury in Alaska.

Alaska Workforce Investment Board — Larry Bell of the International Brotherhood of Electrical Workers Local 1547 from Wasilla. Re-appointed to the board were Martin T. Anderson Jr. of Alaska Technical Training from Sterling, Jim L. Lynch of Fairbanks Memorial Hospital, Bonnie Jo Savland of Alyeska Pipeline Service Co. from Anchorage and Frederick A. Villa of the University of Alaska from Fairbanks. The board develops and manages a comprehensive state system, which is designed to result in better job education and training programs.

—PETROLEUM NEWS STAFF

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