No timeline for AK
Salazar says he needs confidence in safety before allowing OCS drilling

By ALAN BAILEY
Petroleum News

The Department of the Interior will not decide whether to allow exploration drilling for oil and gas in the Alaska Arctic outer continental shelf until it has completed a review of safety issues relating to offshore drilling activities, Interior Secretary Ken Salazar told a press conference in Anchorage on Sept. 3.

The briefing came at the end of a 48-hour visit to Alaska by Salazar and Deputy Interior Secretary David Hayes to meet with Alaska communities, energy industry officials and others, and to view areas of the state impacted or potentially impacted by oil and gas development.

No Prohibited Shell drilling
Following the Deepwater Horizon disaster in the Gulf of Mexico, Interior prohibited Shell from proceeding with a planned 2010 drilling program in the Beaufort and Chukchi seas — the company now hopes to carry out that program in the summer of 2011. But, although Interior is aware that Shell needs to know in late 2010 or early 2011 whether it will be allowed to drill in 2011 to give the company sufficient time to mobilize its drilling fleet, Interior cannot make specific time commitments.

For sale: BP Alaska?
Speculation flares anew the beleaguered oil giant is shopping North Slope assets

By WESLEY LOY
For Petroleum News

Speculation has stormed back about the possibility BP might sell off its Alaska holdings as part of an effort to raise cash to cover the costs of the Deepwater Horizon disaster.

The talk stems mainly from media reports coming out of London, where BP is based.

The reports suggest an assortment of players, some familiar and some new, are potential bidders for BP properties. The supposed suitors include Apache, Occidental Petroleum and even BP’s Russian joint venture, TNK-BP.

Asked about the reports, BP Alaska spokesman Steve Rinehart responded with a now familiar refrain.

“We do not comment on market speculation.”

‘Banking sources’
The latest flurry of speculation began with Sept. 5 stories in a pair of British newspapers, the Financial Times and the Sunday Times.

Back from the depths
W. Canada makes strong drilling comeback; Alberta closes in on record

By GARY PARK
For Petroleum News

It is a case of the glass being slightly more than half full and the level is rising.

Government land sales in Alberta are rapidly closing in on a record year and the use of drilling rigs is making a strong comeback in Western Canada.

But there are two smudges on an otherwise positive picture — whether the current pursuit of oil prospects has staying power and the need to put the current revival in the context of the dismal performance in 2009, when the entire industry took a precipitous nosedive.

Statistics Canada, a federal government agency, reports that capital spending by the conventional oil and natural gas extraction sector in 2009 fell by 38.5 percent from 2008 to C$21.9 billion, while the non-conventional sector posted a 38 percent decline to C$11.2 billion.

The agency said combined spending plunged to C$33.13 billion from C$53.7 billion in 2008, leaving the agency much, although Interior says the level is rising.

Speculation ran hot back in July that Apache Corp., a large Houston-based independent, was in talks to buy BP’s stake in Prudhoe Bay and other Alaska North Slope fields, with BP looking for $10 billion to $12 billion on the deal.

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PETROLEUM NEWS • WEEK OF SEPTEMBER 12, 2010
AG challenges Chugach on power plant

Chugach argues that pre-approval will save ratepayers money, but the AG believe it will only shift the project risks to consumers

By ERIC LIDJI
For Petroleum News

As Chugach Electric Association seeks financing for a $300 million power plant, it says that regulatory support will yield better terms that could save ratepayers $2 million a year. The state Attorney General is skeptical of those claims, though, saying the largest electric utility in Alaska simply wants to shift the risk of the project onto ratepayers.

Chugach and partner Municipal Light & Power are building the Southcentral Power Project to replace aging generation facilities in the Anchorage area. The utilities recently signed three major contracts. Typically, in Alaska, regulators would not consider whether those contracts were a good decision until the utilities ask to recover the cost of those contracts by increasing electricity rates, sometime after turning on the plant.

Chugach, though, wants the Regulatory Commission of Alaska to make that decision now, before construction begins. Chugach said that by reassuring lenders that the cost of the project will someday be recovered through rates, the utility can get better terms on financing, eventually saving ratepayers between $1 million to $2 million every year.

Chugach is not actually asking for new rates at this time, though. “Sooner or later the Commission will review the (Southcentral Power Project) and determine whether its costs can be included in rates,” Chugach has pointed to the Anchorage Statute that requires regulators to set rates high enough for a utility to cover its debt obligations. As such, the Attorney General believes that Chugach’s request is really “an upfront shift onto Chugach’s ratepayers of the economic and timing risks associated with implementing a major capital project.”

Just as there are speculative benefits to be gained by the Commission granting the requested pre-approval, there are an equal number of speculative problems to be avoided,” the Attorney General wrote, hypothesizing about a situation where Chugach would be allowed to pass along the cost of contracts that don’t turn out as expected.

Chugach seeks precedent

Chugach said regulators in the Lower 48 have used pre-approval to signal their intentions to potential investors for decades, anytime the country needs new generation facilities.

But Chugach also said that pre-approval hasn’t unprecedented in Alaska, either. It pointed to gas supply contracts. Producers and utilities bring negotiated contracts to the RCA for approval before the utility seeks to add the fuel costs into rates. The Attorney General wrote, hypothesizing about a situation where Chugach would be allowed to pass along the cost of contracts that don’t turn out as expected.

Chugach expects to add the fuel costs into rates at this time, though.

The Regulatory Commission of Alaska is holding hearings on Sept. 10, 13 and 14 to take testimony from Chugach, ML&P, Homer Electric Association and the Attorney General.

The RCA did not allow two independent power companies, Alpine Energy and Tsinq Energy, to join the case, saying their concerns fell outside of the scope of the proceeding.

Commissioner Kate Giard recently noted that Alaska Statute does not require utilities to get approval for new infrastructure projects before starting construction, and that it’s rare for an Alaska utility to not be allowed to recover construction costs through rates.

“So, while it is interesting and thought-provoking to consider the pre-approval process that occurs Outside, the request before us is driven not by statutory or regulatory requirement, but by the credit community,” Giard wrote on Sept. 3. “Credit is tight. Financial markets now want guarantees of rate recovery, even before the shovel hits dirt, because advance approval shifts the credit risk from the lender to the ratepayer.”

But, Giard noted, as a cooperative, Chugach green light the plant only after getting the go-ahead from a board of directors elected by the ratepayers who will incur the cost. “If Chugach over-buils or poorly constructs the plant, the same owner/ratepayer is going to absorb the loss, either through increased rates or reduction in capital credits,” she wrote. “Chugach and Municipal Light & Power will jointly own the power plant. Chugach will manage the facility and own 70 percent of it, while ML&P will own the remainder.

The power plant will produce about 183 megawatts from three natural gas fired turbines.

Chugach expects the facility to come online around 2013.

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A fog over the oil sands

By GARY PARK

For Petroleum News

The battle for hearts, minds and credibility is raging in the Alberta oil sands like seldom, if ever, before. Claims by ForestEthics, a U.S. activist environmental group, that it had gathered evidence of toxic metals in the surrounding environment.

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Petroleum News regrets the error.
An article in the Sept. 5, 2010, issue of Petroleum News titled “Eni plans 52 wells for Nikaitchuq Schrader Bluff oil development” incorrectly named companies responsible for shipping two production modules to the North Slope this summer.

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Koch requesting in-state tariff hike

Follows ConocoPhillips’ request for another 12.5% increase over existing temporary rates; suggests more consolidation

By ERIC LIDJI
For Petroleum News

Following the footsteps of ConocoPhillips, Koch Alaska wants to increase the rate it charges to ship oil on the Trans-Alaska oil pipeline to in-state destinations.

Under a proposed increase filed with the Regulatory Commission of Alaska at the end of August, Koch would charge $2.87 to ship a barrel of oil from the North Slope to North Pole, and about $4.50 to ship to Valdez, depending on the final destination. (There are two off-take points in Valdez: the Petrostar refinery and the Valdez Marine Terminal.)

Koch is asking for a roughly 12.5 percent increase over its existing rates of $2.55 per barrel to ship to North Pole and about $3.99 per barrel to ship to points in Valdez.

Koch said the increase is needed to offset declines throughout on the pipeline. The proposed rates would bring Koch an additional $3.4 million a year in revenue.

The Koch rates roughly match those recently filed by ConocoPhillips. The RCA recently approved those rates on a temporary basis, the first step toward permanent approval.

Koch wants the RCA to consolidate its case with several previous cases.

All of the owners of the pipeline, except BP, requested rate increases in 2008 and 2009, and the RCA approved all eight cases on a temporary and refundable basis.

This past August, the RCA consolidated those cases, seeing enough similarities between the proposed rates and the justifications behind them to justify merging the proceedings.

Since then, ConocoPhillips requested new rates. Now Koch has done the same thing.

Koch wants all 10 cases to be consolidated.

Royal Dutch Shell launched a commercial-scale demonstration plant in Alberta using a new technology it predicts will speed the cleanup of tailings ponds which hold toxic wastes from oil sands extraction and refining.

John Broadhurst, Shell Canada’s vice president of heavy oil development, said the resulting technical data will be made available to anyone, “no strings attached, no intellectual property, no expectation of money.”

The technology, developed at a cost of C$30 million (US$28 million), is designed to turn oil sands tailings into solid oil. Shell Canada said it expects the new plant will initially process 1 percent to 20 percent of its fine tailings.

OIL SANDS

The study was released four days after the Pembina Institute and Water Matters have urged the Alberta Energy Resources Conservation Board to rescind its Syncrude decision, arguing the 2013 target was “pretty mandatory” not a guideline.

Corrections and clarifications

The Pembina Institute and Water Matters have urged the Alberta Energy Resources Conservation Board to rescind its Syncrude decision, arguing the 2013 target was “pretty mandatory” not a guideline.

An ERCB spokesman said Syncrude was “doing everything that is technologically doable to meet the directive as quickly as possible.”

Contact Gary Park through publisher@petroleumnews.com

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Support, concerns for CINGSA storage

Comments to RCA on Kenai Peninsula natural gas storage proposal mostly support the project, while some raise potential problems

By ALAN BAILEY

Petroleum News

Comments on Cook Inlet Gas Storage Alaska’s planned new gas storage facility on the south side of the city of Kenai have been landing on the desks of the Regulatory Commission of Alaska commissioners.

CINGSA, a subsidiary of Semco Energy and a joint venture with MidAmerican Energy Holdings Co., wants to fast track construction of the facility to head off potential shortfalls in Southcentral Alaska utility gas deliveries from the Cook Inlet basin in the winter of 2012-13. CINGSA has asked RCA for expedited review of an application for a certificate of public convenience and necessity and has asked for certificate approval by December, to enable the facility to go into operation in 2012.

The facility would store gas in some depleted gas sands in the Cannery Loop gas field and would hook into the Southcentral Alaska gas infrastructure through the nearby Kenai Nikiski pipeline.

Third-party customers would be able to use the facility for much needed additional gas throughput to the LNG plant at Nikiski.

In general, people seem to support the CINGSA project, especially given increasing concerns in Southcentral Alaska about the possibility of winter power cuts, were gas deliverability to fall short of demand during a cold snap.

Dan Sullivan, mayor of Anchorage, the most populous town in Alaska and a community that would see the immediate impact of any gas shortfalls, told the commissioners that he is pleased to see significant, rapid progress in developing gas storage — Sullivan encouraged the commissioners to expedite approval of CINGSA’s certificate.

And Rep. Mike Hawker, R-Anchorage, a co-sponsor of state legislation passed this year to encourage Cook Inlet gas storage development, expressed his strong support for the proposed facility and for an expedited RCA review.

Pipeline capacity concern

However, Gary Orr, commercial manager of Unocal, struck a more cautious note, saying that Unocal supports the CINGSA project but is concerned that the Kenai Peninsula pipeline infrastructure may not be able to support the anticipated 150 million cubic feet per day of additional gas that the CINGSA facility could deliver into the pipeline system during periods of high gas usage.

Unocal is a subsidiary of Chevron, a major Cook Inlet gas producer. During a period of record gas demand in the winter of 2008-09, there were delivery bottlenecks on the east side of the Kenai Peninsula pipeline system, producing at an average monthly rate of 208 million cubic feet per day, including deliveries to the LNG plant at Nikiski.

With the infrastructure close to its maximum limit, adding 150 million cubic feet per day of extra deliverability at CINGSA will only compound bottlenecks on the east side and may not result in the much needed additional gas throughput to Anchorage, Orr said.

Questions over rates

The state attorney general’s office, in its role as advocate for the state’s public interest, told the commissioners that it supports the CINGSA gas storage facility project. However, there are concerns about the rates that CINGSA anticipates charging its customers, said Daniel Patrick O’Tierney, chief assistant attorney general.

Of particular concern are initial rates for use of the facility that would be based on a five-year average of estimated investment and operating expenditure, with a lack of clarity over whether any retroactive rate adjustment once actual expenditure is known would be subject to RCA review.

And O’Tierney also questioned some of the estimated costs used to determine that initial rate.

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And O’Tierney also questioned some of the estimated costs used to determine that initial rate.
The Obama administration said Sept. 8 that it will spend $29 million to increase the number and training of offshore drilling inspectors, upgrade enforcement and take other steps to improve the beleaguered agency that oversees offshore drilling.

Interior Secretary Ken Salazar said the agency hopes to hire hundreds of new inspectors to supplement the 60 or so now responsible for about 3,500 drilling rigs and platforms in the Gulf of Mexico. Congress recently authorized the emergency spending.

Salazar said he also is requesting an additional $100 million in the next budget year to further accelerate hiring and other reforms at the drilling agency, formerly known as the Minerals Management Service, which has long been plagued by staffing shortages and an overly cozy relationship with the industries it oversees. The problems came to the fore following the BP oil spill and the agency has since been restructured and renamed, with a new director.

“We are absolutely committed to building a regulatory agency that has the authorities, resources and support to provide strong and effective regulation and oversight — and we are on our way to accomplishing that goal,” Salazar said as he released an internal report outlining steps to improve the agency, now known as the Bureau of Ocean Energy Management, Regulation and Enforcement.

The 39-page report recommends that officials sharply increase the number and training of inspectors, conduct more surprise inspections, and stiffen fines and civil penalties on companies found to violate federal rules. Above all, the report says that from Salazar and Director Michael Bromwich down the drilling agency must pursue a “culture of safety in which protecting human life and preventing environmental disasters are the highest priority,” far above encouragement of offshore leases. The drilling agency both oversees oil and gas drilling and collects about $13 billion a year from oil and natural gas leases on federal lands and in federal waters.

Salazar, who ordered the report in May after the BP spill, called it honest and unvarnished.

“It doesn’t sugarcoat problems,” he said, adding that the report provided a blueprint for reforms, including many that have already begun.

At the end of August the drilling agency announced a first-ever ethics policy that bars inspectors from dealing with a company that employs a family member or personal friend. The new policy is intended to end cozy relationships with industry and slow the revolving door between government and the energy industry.

Contact Alan Bailey at abaily@petroleumnews.com

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GAS STORAGE

address the energy issues that the region faces.

MEA: don’t expedite

And, with the CINGSA application raising some complex commercial issues, including the potential impact of gas storage fees on electricity rates, the application warrants careful consideration rather than expedited treatment, said David Pease, attorney for MEA.

“In sum, the economy of Southcentral Alaska is dependent on an economical and adequate supply of natural gas, and an ill-advised decision in this matter could have disastrous consequences,” Pease said. “The commission should not be rushed to judgment.”

And MEA questioned whether there is in fact an urgent need for storage in 2012 that would justify expedited approval of the certificate application.

“CINGSA appears to be attempting to drive the commission’s process through a self-imposed deadline,” Pease said. “CINGSA’s application lacks a credible explanation of why the scheduling pressure it claims to be under should be the commission’s problem, or cause the public review process to be truncated.”

Contact Alan Bailey at abaily@petroleumnews.com

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GAS STORAGE

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GAS STORAGE

continued from page 6

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Irwin: Alaska development would be safe

Department of Natural Resources commissioner points to geologic, regulatory differences between state's offshore and Gulf of Mexico

By ALAN BAILEY
Petroleum News

As the reverberations from the Gulf of Mexico oil spill disaster continue to shake the U.S. oil industry and those who regulate it, Tom Irwin, commissioner of the Alaska Department of Natural Resources, or DNR, is anxious to point out some key differences between drilling in the Gulf and drilling in the seas offshore Alaska’s Arctic coast.

In a guest editorial for a sister publication of Petroleum News Irwin emphasized that Alaska state land — both onshore and offshore — remains open for oil and gas development.

“With all the attention given to offshore drilling in the past year, it is important to realize the regional differences associated with offshore exploration and drilling,” Irwin said.

DNR is the Alaska administration’s department responsible for promoting oil and gas development on state lands, including state offshore waters out to a distance of three miles from the coastline. The outer continental shelf beyond that three-mile limit comes under federal jurisdiction.

The Arctic Alaska offshore has shallow water

A key difference between the Arctic Alaska offshore and the Gulf of Mexico is the water depth, Irwin said. Whereas BP’s infamous Gulf of Mexico Macondo well lies beneath 5,000 feet of seawater, water depths in the state waters of the Beaufort Sea, for example, range up to a maximum of 65 feet, Irwin said. And even in the outer continental shelf of the Beaufort Sea, oil and gas leases have traditionally been located in areas with water depths less than 330 feet; all current outer continental shelf Chukchi Sea leases are in water depths around 130-160 feet, he said.

In fact all three operational oil fields offshore in the Beaufort Sea — the Northstar, Oooguruk and Endicott fields — use directional drilling techniques from man-made gravel islands and are closely similar to onshore fields.

And if exploration drilling occurs from floating drilling rigs, the shallow water depths in the Arctic substantially ease access to subsea wellheads.

“Despite the cold ocean water temperatures, human dive teams are able to operate directly on the seafloor in many places in offshore Alaska, whereas highly specialized remotely operated vehicles are required to investigate and respond to incidents at the seabed in deepwater Gulf of Mexico operations,” Irwin said.

Alaska operations are seasonal

The sharp contrast between the biting cold of the Arctic winter and the few months of the summer when sea-ice recedes toward the North Pole causes Arctic offshore oil exploration and development activities to take on a strong seasonal character, as distinct from the Gulf of Mexico where offshore industrial activity of all types can continue pretty much year round.

“Some Alaskan exploration prospects are better drilled in the winter from bottom-founded drilling caissons or man-made ice islands, both firmly anchored to the seabed throughout the drilling season,” Irwin said. “Other Alaskan prospects are drilled from floating drill ships or jack-up rigs in the open water of late summer.”

Drilling projects in the Arctic often involve the use of icebreakers to manage any ice floes that might threaten the drilling operations, although ice activity can interrupt the drilling and cause a drill rig to move offshore temporarily, in the same way that storms can sometimes interrupt Gulf of Mexico drilling.

And government regulators enforce stipulations that limit activities at times when broken sea ice is present, when cleaning up an oil spill could prove especially difficult, Irwin said.

Pressures tend to be lower in Alaska rocks

Then there are the contrasts in geology between the Gulf of Mexico and the Alaska Arctic.

“Much of the Gulf of Mexico is a region marked by rapid and recent deposition of alternating sands and mucky sediments that, with deep burial and compaction, lead to strongly over-pressured pore fluids,” Irwin said.

High drilling mud pressures used to control these high overpressures in Gulf wells can cause fractures in the subsurface rocks, leading to potential loss of well fluids that could trigger a well blowout, he said. The same rapid sediment deposition and resulting overpressures are not believed to be present in the Alaska Arctic offshore, Irwin said.

AOGCC provides independent oversight

And the Alaska Oil and Gas Conservation Commission, or AOGCC, a quasi-judicial state agency...
BP Alaska lays out plans for Northstar field

Island oil field in Beaufort Sea near Prudhoe Bay to get new base camp; no new drilling mentioned in latest development plan

By WESLEY LOY
For Petroleum News

The Northstar oil field, based on a manmade island in the Beaufort Sea about five miles northwest of Prudhoe Bay, has had a brief production life that's already in sharp decline.

Operator BP started production in 2001 and output peaked in 2004 at an average of about 68,700 barrels per day. As of May 31, production stood at about 19,000 barrels per day, BP says.

Through 2009, Northstar had produced about 142 million barrels.

The Northstar unit straddles state and federal waters in the Beaufort Sea, with the five-acre production island rising out of a depth of about 39 feet. The island is heavily fortified against sea ice.

Although it wasn't the first offshore oil production site in the Beaufort, Northstar Island was the first without a causeway connection to the mainland.

BP Exploration (Alaska) Inc. owns 98.6 percent of the field, and Murphy Exploration (Alaska) Inc. owns 1.4 percent.

Drilling, construction efforts

On June 25, BP submitted its eighth plan of development for the Northstar unit to the Alaska Division of Oil and Gas and the federal Bureau of Ocean Energy Management, Regulation and Enforcement.

Under the prior plan of development, which covered the period Oct. 1, 2008, through Sept. 30, 2010, BP says it completed one additional production well, the NS33A well, to bring the field's well count to 21 producers, six injectors and two waste disposal wells. Drilling on the NS33A well was completed in May 2009.

BP says it also "initiated work towards relocating and replacing the base camp facilities on the island." BP in late 2009 applied for state and federal clearance to place a huge new module on Northstar Island. The module would house a new operations center, living quarters, office and shops, a project description said. The plan also called for a new ramp for an ARKTOS amphibious escape vehicle. Project completion was scheduled for June 2012.

Prudhoe gas plays a role

The new plan of development says "facility capacity" limits production at Northstar.

Dry gas is piped from Prudhoe Bay to

operating independently from DNR, regulates the drilling of wells in Alaska state waters. Regulation includes the permitting and inspection of drilling operations and equipment.

The separation between DNR and AOGCC has "helped alleviate potential conflict between the state’s revenue interests in achieving total ultimate recovery on state leases, with the equally important conservation interest of ensuring the most prudent oil field practices are routinely performed," Irwin said.

AOGCC geologists review the geology of the strata where a well is being drilled, with AOGCC engineers then reviewing the suitability of the drilling fluids planned for use in the well. And AOGCC mandates certain standards for well design and requires confirmation that a drilling operation will follow good working practices, Irwin said.

An AOGCC inspector checks the condition of each drilling rig before the rig is brought into service. And the state mandates the testing of blowout preventers every seven days for exploration wells, and every 14 days for other wells, with AOGCC inspectors witnessing about 25 percent of the tests, Irwin said.

Alaska offshore has substantial resources

The substantial oil and gas resources in Alaska’s state waters are important to the United States’ energy future and can help stem the decline in domestic production, Irwin said.

"As Alaskans, we rest assured that the expertise our agencies possess, and the regulatory framework this expertise has created and continues to create, will be appropriate and sufficient for us to invite prudent operators to produce our hydrocarbon resources while protecting our other natural resources," he said.

Contact Alan Bailey at abailey@petroleumnews.com
BP report blames itself, others for oil spill

By HARRY R. WEBER, MICHAEL KUNZELMAN & DINA CAPPIELLO
Associated Press Writers

In an internal report released Sept. 8, BP blames itself, other companies' workers and a complex series of failures for the massive Gulf of Mexico oil spill and the drilling rig explosion that preceded it.

The 193-page report was posted on the company's website even though investigators have not yet begun to fully analyze key equipment, the blowout prevention system that should have cut off the flow of oil from the ruptured well but did not.

That means BP's report is far from the definitive ruling on the blowout's causes, but it may provide some hint of the company's legal strategy — spreading the blame among itself, rig owner Transocean, and cement contractor Halliburton — as it faces hundreds of lawsuits and possible criminal charges over the spill. Government investigators and congressional panels are looking into the cause as well.

"This report is not BP's mea culpa," said Rep. Edward J. Markey, D-Mass., a frequent BP critic and a member of a congressional panel investigating the spill. "Of their own eight key findings, they only explicitly take responsibility for half of one. BP is happy to slice up blame, as long as they get the smallest piece."

Robert Gordon, an attorney whose firm represents more than 1,000 fishermen, hotels, and restaurants affected by the spill, was more blunt.

"BP blaming others for the Gulf oil disaster is like Bernie Madoff blaming his accountant," he said.

Members of Congress, industry experts and workers who survived the rig explosion have accused BP's engineers of cutting corners to save time and money on a project that was 43 days and more than $20 million behind schedule at the time of the blast.

Misinterpretation acknowledged

BP's report acknowledged, as investigators have previously suggested, that its engineers and employees of Transocean misinterpreted a pressure test of the well's integrity. It also blamed employees on the rig from both BP and Transocean for the explosion.

"BP's report makes it clear Transocean and BP are two companies with two different cultures and two different sets of responsibilities," said Steve Yerrid, special counsel on the oil spill for the Justice Department, Coast Guard and Bureau of Ocean Energy Management, Regulation and Enforcement.

The blowout preventer was raised from the water off the coast of Louisiana on Sept. 4. As of the afternoon of Sept. 7, it had not reached a NASA facility in New Orleans where government investigators planned to analyze it, so those conclusions were not part of BP's report.

Retired Coast Guard Adm. Thad Allen, the government's point man on the spill response, said the BP report will add to investigators' understanding "but is not the end-all-be-all ... about why it happened and what needs to happen in the future."

The rig explosion killed 11 workers and sent 206 million gallons of oil spewing from BP's undersea well.

Investigators know the explosion was triggered by a bubble of methane gas that escaped from the well and shot up the drill columns, expanding quickly as it burst through several seals and barriers before igniting.

But they don't know exactly how or why the gas escaped. And they don't know why the blowout preventer didn't seal the well pipe at the sea bottom after the eruption, as it was supposed to.

Signs of problems

There were signs of problems prior to the explosion, including an unexpected loss of fluid from a pipe known as a riser five hours before the explosion that could have indicated a leak in the blowout preventer.

Witness statements show that rig workers talked just minutes before the blowout about pressure problems in the well.

At first, nobody seemed too worried, workers have said. Then panic set in.

Workers called their bosses to report that the well was "coming in" and that they were "getting mad back."

The drilling supervisor, Jason Anderson, tried to shut down the well.

It didn't work. At least two explosions turned the rig into an inferno.

In its report, BP defended the well's design, which has been criticized by industry experts. It also said "more thorough review and testing by Halliburton" and "stronger quality assurance" by BP's well team would have identified potential flaws and weaknesses in the design for the cement job.

Other conclusions in the report include:

- BP says it uses six centralizers, key devices used as part of the process to plug a well, instead of the 21 recommended by Halliburton likely did not contribute to the cement's failure. Congress has questioned BP's decision, because centralizers ensure casing runs down the center of the well bore and an imperfect seal could allow oil and gas to shoot up.
- BP said that while drilling the well on March 8, more than a month before the disaster, there was a "kick," or fluid entering the well bore from the oil reservoir, that wasn't noticed for 33 minutes.
- BP says there's no evidence Transocean took any documented, corrective actions with the rig crew either to acknowledge or address the response time.
- Workers realized eight minutes before the blast that flammable oil and gas was traveling up the pipe connecting the rig to the well head, although data revealed that would happen 40 minutes before the explosion.
- The blowout preventer failed to do its job in part because equipment was faulty but also because it was damaged during the explosion.
- The drilling crew routed the flow from the blowout well to a system on the rig instead of overboard, a decision that allowed gas to get into ventilation systems, where it caught fire.

Associated Press Writers Curt Anderson, Chris Kahn and Seth Borenstein contributed to this report.

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Possible FERC legal conflict for ANGDA

Participation on Alaska Gasline Development Corp. team questioned because of proposed role as shipper on interstate, bullet lines

By KRISTEN NELSON
Petroleum News

Because the Alaska Natural Gas Development Authority is bidding for pipeline capacity in interstate gas pipeline open seasons this year, and has expressed an intention to bid for capacity on a proposed in-state bullet line, its participation on the Alaska Gasline Development Corp. team that is developing a plan for the in-state line could pose a conflict of interest barred by the Federal Energy Regulatory Commission.

A good part of a Sept. 8 ANGDA board meeting was taken up with a discussion between the board, AGDC President Dan Fauske and ANGDA CEO Harold Heinze.

Heinze, as ANGDA’s CEO, is one of the five AGDC team members designated by the Legislature in House Bill 369, which created the development team in the Alaska Housing Finance Corp. and named the CEO of AHFC as chair of the team. HB 369 requires development of an in-state natural gas pipeline plan to be delivered to the Legislature by July 1, 2011. That plan is required to have a natural gas pipeline operational by Dec. 31, 2015.

FERC issues

Those AGDC issues, unresolved at the end of the board meeting, concern FERC requirements for separation between pipelines and shippers.

As Deputy Commissioner of Revenue Marcus Davis explained it, separation of pipeline and shipper is a legal principle developed at FERC because at one time large conglomerates, with both shipping and pipeline interests, were giving sweetheart deals and providing information to affiliates not available to others.

FERC said everyone who ships has to understand he/she can’t treat your own shipper differently.

This requires a Chinese wall: The shipper side can’t talk to the pipeline side. “Equal access” became the norm in the United States, she said.

Davis said she didn’t understand the issue in the context of the interstate lines, the Alaska Pipeline Project and Denali.

Background information from ANGDA said that in early August Fauske, Dave Haugen and Mike Bollert of AGDC expressed concerns that ANGDA’s access to project information and participation in work briefings of the HB 369 team would present a potential conflict with regulatory rules because “ANGDA as a potential shipper would have an information advantage over other potential shippers.”

At an Aug. 12 team meeting, Fauske asked that ANGDA resolve the conflict between being a potential in-state gas shipper and being a member of the AGDC development team. Based on advice of AHFC counsel Ken Vassar of Birch Horton Bittner & Cheroi, other team members concluded “ANGDA must either forswear any commercial participation in a gas line project developed by the team — or withdraw as a team member.”

In other words, to stay on the team, ANGDA would not be able to bid in an open season for an in-state bullet line project.

Heinze and ANGDA staff and contractors have excused themselves from gas line development team activities.

A draft motion presented to the board proposed that ANGDA compartmentalize its work with the Natural Gas Supply Co., the co-op of Southcentral utilities, which would be the party interested in shipping gas.

Heinze would participate in AGDC team deliberations and “would treat all AGDC and bullet line project information as confidential and separate from other ANGDA efforts.”

Tony Izzo, an ANGDA contractor, would continue to represent ANGDA as a member of NGSC.

“ANGDA would not represent the team … or withdraw as a team member.”

See ANGDA CONFLICT page 15

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NATURAL GAS

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AGIA coordinator takes UAF post

Mark Myers, a former head of the U.S. Geological Survey, is joining the University of Alaska Fairbanks as vice chancellor of research. Myers currently leads the state’s effort, under the Alaska Gasline Inducement Act, to encourage construction of a huge natural gas pipeline. He tells the Fairbanks Daily News-Miner that he will keep that job until mid-January to ensure a smooth transition.

The school announced Sept. 3 that Myers will replace Buck Sharpton, who was chosen in August to serve as acting chairman of the federal Arctic Research Commission. At the university he will oversee annual research budgets totaling $123 million.

He said his decision to take the $214,000-a-year research post was a personal one and not any reflection on the AGIA. “I’m a scientist at heart. It’ll be like a kid at a candy store,” said Myers, who earned his doctorate in geology at UAF in 1994. “And I’m looking forward to the challenges.”

Former DOE head

Myers led Alaska’s Division of Oil and Gas under governors Tony Knowles and Frank Murkowski before resigning with a number of natural resource specialists in a policy disagreement with the Murkowski administration.

He led the USGS from mid-2006 to early 2009 before then-Gov. Sarah Palin chose him to lead the AGIA process, which Palin called the state’s best shot at a pipeline.

The latest is a $475 million pipeline and related terminal services for Husky Energy’s Sunrise project.

The 24-inch-diameter line will cover about 67 miles from the Sunrise site, with initial capacity of 90,000 barrels per day, expandable to 270,000 bpd.

Operations are expected to start in the second half of 2013 under a 20-year agreement that Husky can extend for additional five-year terms up to 45 years.

Enbridge said the companies will split the net revenues from third-party volumes transported through the pipelines.

Link from Suncor plant

Less than a week earlier, Enbridge announced it will build a $337.5 million link from a Suncor Energy plant to its existing pipeline system.

The 57-mile line will connect a terminal to the existing Waupisoo line that delivers oils sands crude to the Edmonton-area hub, running parallel to the Athabasca line Suncor currently uses.

Waupisoo and Athabasca already tap into projects operated by Suncor, ConocoPhillips and Cenovus Energy, while Statoil’s Lierman project was recently added as a shippie. Enbridge is also building new processing and shipping infrastructure for the Kearl oil sands project being developed by Imperial Oil and ExxonMobil (which owns 69.6 percent of Imperial).

The new 30-inch-diameter Wood Buffalo line is due to start service by mid-2013.

In addition, Enbridge is expanding the Athabasca line to accommodate recent shipping commitments by Cenovus at a cost of CS185 million.

Athabasca, in service since March 2009, transports crude oil over 325 miles to the mainline hub at Hardisty in east-central Alberta.

Its capacity will be 430,000 bpd by the third quarter of 2013 and is capable of expansion to 570,000 bpd by the third quarter of 2014.

Waupisoo, a 230-mile system in operation since June 2008, has annual capacity of up to 600,000 bpd to Edmonton.

Contact Gary Park through publisher@petroleumnews.com

Enbridge sticks to knitting

By GARY PARK
For Petroleum News

However much its Michigan pipeline rupture and the challenge of restarting shipments might have diverted attention at Enbridge, it’s also business as usual at the Canadian pipeline company.

In just over the past year, Enbridge has announced about CS2.3 billion in commercially secured projects to expand and extend its regional oil sands system in northern Alberta, with three projects rolled out in the last two weeks.

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The 24-inch-diameter line will cover about 67 miles from the Sunrise site, with initial capacity of 90,000 barrels per day, expandable to 270,000 bpd.

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Enbridge said the companies will split the net revenues from third-party volumes transported through the pipelines.

Enbridge Chief Executive Officer Pat Daniel said the project brings to eight the number that will be connected to his company’s network over the next three years.

Contact Gary Park through publisher@petroleumnews.com

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Energia Cura proposing 10-inch main line

High-pressure line would run from Prudhoe Bay to Fox; high-pressure coiled tubing lines would connect to major load centers

By KRISTEN NELSON

Energia Cura, on behalf of Fairbanks Pipeline Co., began a nonbinding open season Aug. 26 to determine interest in a small-bore natural gas pipeline from the North Slope to Interior Alaska (see story in Sept. 5 issue of Petroleum News). The company said its hydraulic simulations are based on a 443-mile, 10-inch high-pressure line beginning near Pump Station 1 on the North Slope and ending in Fox, with an annual delivery of 12 billion cubic feet, less out-takes at connection points.

In its open season package Energia Cura noted a lack of distribution feeders to Interior Alaska’s major load centers, indicated on a map as Fairbanks, Golden Valley Electric Association, Eielson Air Force Base, the North Pole refinery and Fort Wainwright.

The local natural gas utility, Fairbanks Natural Gas, delivers less than 1 bcf a year of re-gasified liquefied natural gas to residential and commercial customers using a 60-mile, low-pressure, plastic-pipe network.

Energia Cura said the Fairbanks Natural Gas system is capable of servicing residential and commercial loads, but “does not reach, nor can it handle the delivery volumes and pressures required to serve the Interior’s major load centers.” The company plans to install high-pressure, coiled tubing feeder lines from its primary segments to service the Interior’s industrial load centers, which could include points north of the Fox terminus, “depending on the best routes selected to connect the Interior’s most significant load centers.”

$500 million

Energia Cura partner Alex Gajdos said in a Sept. 8 release that the cost of the 10-inch line is estimated at $500 million and is projected to save Interior communities and businesses at least $1.72 billion in energy costs (electric, fuel oil and natural gas purchases) over 20 years.

Gas conditioning

Asked about gas conditioning, Gajdos told Petroleum News in an e-mail that one option would be to treat gas on the North Slope, return the 12 percent carbon dioxide content of the gas for sequestration and install compression.

Or, raw gas could be moved using existing 4,000 pounds per-square-inch discharge pressure, which would require no compression to be built.

He said that less than 10 percent of the targeted load centers required specification grade gas. Other uses — gas turbines, large furnaces and boilers, etc. — could use raw gas effectively, reducing the size of the gas treatment facility and allowing its construction near the terminus at Fox, avoiding North Slope construction costs.

The downside is that 12 percent of transmission capacity would be lost because CO2 would come down the line, and the ability to sequester that gas on the North Slope would be lost.

A treatment facility near Fox to treat only the 1 bcf per year used by Fairbanks Natural Gas for residential and commercial customers would mean that the 12 percent CO2 content of the gas would be released into the atmosphere, Gajdos said, either at the treatment plant or at the point of combustion for untreated gas, still “a vast improvement over the Interior’s current rate of emissions resulting from its fixation on coal and distillates.”

The 12 percent loss of capacity would also result in “significant impacts to our final cost of service.”

Since volumes are small compared to the proposed interstate lines and the bulletin line, smaller, more cost-effective, modular gas treatment equipment could be used than would be possible for the high-volume projects.

While treating gas on the North Slope would cost more, neither option is a deal buster, Gajdos said.

Because of the cost involved in evaluating the two treatment options fully they will not be evaluated until the conclusion of the nonbinding open season, but Gajdos said the evaluation of those costs “is highly prioritized and properly sequenced into our forthcoming and final hydraulic/economic simulations.”

Contact Kristen Nelson at knelson@petroleumnews.com
Microbes eating oil, not using up oxygen

By SETH BORENSTEIN
Associated Press Science Writer

Government scientists studying the BP disaster are reporting the best possible outcome: microbes are consuming the oil in the Gulf of Mexico without depleting the oxygen in the water and creating “dead zones” where fish cannot survive.

Outside scientists said this so far vindicates the difficult and much-debated decision by BP PLC and the government to use massive amounts of chemical dispersants deep underwater to break up the oil before it reached the surface.

Oxygen levels in some places where the BP oil spilled are down by 20 percent, but that is not nearly low enough to create dead zones, according to the 95-page report released Sept. 7.

In an unusual move, BP released 771,000 gallons of chemical dispersant about a mile deep, right at the spewing wellhead instead of on the surface, to break down the oil into tiny droplets.

The idea was to make it easier for oil-eating microbes to do their job. But the risk was that the microbes would use up the oxygen in the water. So BP had to perform a delicate balancing act.

“Has it hit the sweet spot? Yes. Was it by design? Partly,” said Steve Murawski, the National Oceanic and Atmospheric Administration senior scientist who headed the federal team of researchers.

Natural mixing in GOM

One reason that oxygen levels didn’t drop too low was the natural mixing of water in the Gulf, which kept bringing in oxygen from other areas, Murawski said.

Oxygen levels would have had to fall by three-quarters for the water to be classified as a dead zone, he said. The Gulf of Mexico already has a yearly major problem with a natural dead zone — this year, it is the size of Belgium — because of farm runoff coming down the Mississippi River.

Fertilizer in the runoff stimulates the runaway growth of algae, depleting the oxygen in a giant patch of the Gulf every summer.

Scientists asked for advice

In May, the federal government convened about 50 scientists for advice on whether to continue using the dispersants. Though the researchers were divided before the meeting, they unanimously recommended continuing the use of the chemicals, said University of California Davis oil spill scientist Ron Tjemerdam.

“The best of two options — neither of which were great — was to continue dispersing,” Tjemerdam said. who also was part of that meeting, said he feels vindicated. “Right now it looks like an incredibly good idea,” he said. “It was a risky but necessary application. Damage was going to be done somewhere.”

But Overton said it may be years before scientists know if there is long-term damage from the dispersants.

In August, after federal officials said much of the oil had dissolved, dispersed or evaporated, outside researchers were skeptical. Two new studies called that into question, finding that invisible underwater plumes of oil remained deep underwater.

But the Sept. 3 report dovetails with another outside study, published in August, announcing the discovery of a new oil-consuming microbe in the Gulf that was flourishing on BP’s spill.

The sagging oxygen levels also lend more weight to the government’s claims in August that microbes are consuming oil, because there would be no dip in oxygen if the bacteria weren’t feeding on the BP leftovers, Murawski said.

The new work is based on data collected from May through August at 419 locations by nine government and private research ships in the Gulf.

Larry McKinney, director of a Gulf of Mexico research center at Texas A&M University in Corpus Christi, said the new federal data showed that it was a “nearly perfect” outcome.

“They hit it on the head, which is good,” said McKinney, who was not involved in the report. —THE ASSOCIATED PRESS

EXPLORATION & PRODUCTION

US rig count decreases by 3 to 1,653

The number of rigs actively exploring for oil and natural gas in the U.S. decreased by three the week ending Sept. 3 to 1,653.

Houston-based drilling systems provider Baker Hughes Inc. said 977 rigs were exploring for natural gas and 665 for oil. Eleven were listed as miscellaneous. A year ago this week, the rig count stood at 1,009.

Of the major oil- and gas-producing states, the biggest gain was in New Mexico with six new rigs, Pennsylvania and Wyoming with two each and Louisiana and California each gained one. Texas lost six rigs, Oklahoma declined by three and Arkansas by one. Alaska, Colorado and West Virginia remained unchanged.

The rig tally peaked at 4,530 in 1981, during the height of the oil boom. The industry posted a record low of 488 in 1999.

—THE ASSOCIATED PRESS

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GOVERNMENT

Parnell: state going on offensive on ESA

A State of Alaska petition to the federal government to remove the eastern popula-
tion of Steller sea lions from the list of endangered species marks a move to a more pro-active state role in protecting state interests from the over-zealous application of the

"Because the Endangered Species Act has increasingly been used as a roadblock
to development, these actions have in the past caused the state to play defense," Parnell said. "We'll take the state's offense on this one as well."

With the eastern Steller sea lion population having recovered to a point where
ESA protection is no longer required, Alaska, in coordination with similar petitions from the states of Washington and Oregon, is requesting the delisting, Parnell said.

Challenge also filed

Alaska has also filed a strong challenge to the federal government's draft biologi-
cal opinion and associated environmental assessment for the western Steller sea lion
population, to head off the federal government's intention to close large areas of the
western Aleutians to commercial fishing, Parnell said.

"These are the kind of actions we need to balance protection for species with pro-
tection of our own citizens and our own economic way of life," he said.

Fauske: Not my idea

Fauske told the ANGDA board that AGDC wants Heinze on the team, but said he has said, but Heinze, Izzo and other AGNGA contractors would continue to work with
NGSC and its members on participation in the open season process of both the
APP and the Denali gas pipeline projects.

"These are the kind of actions we need to balance protection for species with pro-
tection of our own citizens and our own economic way of life," he said.

Heinze said he'd already recused him-
self from the team, but he said ANGDA
would continue to work with FERC. This is not about ANGDA
with FERC. This is not about ANGDA
the engineers said it might be a problem
for the big line if the issue is more than
a matter of political opinion and associated environmental assessment for the western Steller sea lion
population, to head off the federal government's intention to close large areas of the
western Aleutians to commercial fishing, Parnell said.

"Where there's the science to back delisting and where the economic impact is
clearly relevant to our citizens, we're going to move to take action to delist," Parnell
said.

—ALAN BAILEY

LAND & LEASING

State oil and gas sales set for Oct. 27

State of Alaska Beaufort Sea, North Slope and North Slope Foothills areawide
lease sales will be held Oct. 27.

The Alaska Department of Natural Resources, Division of Oil and Gas said bid
opening for the sales will begin at 9 a.m. in the auditorium of the Anchorage
Museum at Rasmussen Center at 625 C Street in Anchorage.

This is a new location for the bid openings.

There are 573 tracts in the Beaufort Sea areawide sale area ranging from 640
to 5,760 acres; the tracts are within the North Slope Borough and include state-
owned tide and submerged lands in the Beaufort Sea between the Canadian bor-
der and Point Barrow. The sale area is adjacent to the Arctic National Wildlife
Refuge in the east and the National Petroleum Reserve-Alaska in the west.

There are 1,225 tracts in the North Slope areawide sale area, ranging from 640
to 5,760 acres. The tracts are within the North Slope Borough between the
Canning River and ANWR in the east and the Colville River and NPR-A in the
west. The southern boundary of the sale area is the Umiat Meridian baseline.

The North Slope Foothills areawide sale area contains 1,347 tracts ranging in size from 1,280 to 5,760 acres. The tracts are between ANWR and NPR-A; the
northern boundary of the sale area is the Umiat Meridian baseline and the south-
er boundary is the Gates of the Arctic National Park and Preserve.

Complete details regarding these lease sales, including the sale announcements
in their entirety, instructions to bidders, bid forms, and regional tract maps are
available on the division's website, www.dog.dnr.alaska.gov/oil.

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The deadline for all Advertising is the 10th of the month prior to the publication date.

Deadline for the next issue is September 10, 2010.
Crowley opens customs bonded warehouse in Panama

Crowley Holdings Inc., a holding company of the 118-year-old Crowley Maritime Corp., said Sept. 3 that its distribution center network in Panama, also known as Trailmoor SA, has opened a new customs bonded warehouse facility to provide the Panamanian market with storage and cargo handling, focusing on proper treatment and security. The facility marks the return of Crowley to the warehousing service sector in Panama after a three-year hiatus. Crowley’s new facility has a container yard and warehouse management for loose, less-than-container-load and full-container-load cargo handling. The 1,300-square-meter covered warehouse area is protected by video surveillance and a fire-control system. The warehouse offers inventory control, sorting and repackaging of goods, tagging, customs brokerage services, customs under Act 6, forklifts, storage transit, and customized services. The 5,200-square-meters container yard is also under video surveillance and employs the use of security officers. The yard offers storage of rental equipment, carriers with generators for dry or refrigerated cargo, forklifts, lighting, and carriers for special projects and oversized cargo. For more information visit www.crowley.com.

Acuren acquires tank inspection firm Extech LLC

Acuren Inspection Inc. said Aug. 31 that it has acquired Extech LLC, a leading provider of corrosion control services and water tank inspections to municipalities, petrochemical and power generation industries throughout North America. Acuren is the largest provider of non-damaging destructive testing, inspection and engineering services in North America. Extech provides inspection of water tanks and petroleum product storage tanks and is a pioneer in the use of robotic inspection equipment. Both companies serve major corporations in the petrochemical, refining, pipeline, pulp and paper, power generation, pharmaceutical, aerospace and automotive industries. “We are very excited to make Extech part of our Acuren organization. Extech is a highly respected inspection firm with a combination of highly trained staff and specialized capital equipment,” said Peter Scannell, president of Rockwood Service Corp. “Extech brings a unique service that is entirely complementary to the needs of Acuren’s clients and the skills of Acuren’s personnel.” Extech will operate under the Acuren brand, and all employees of Extech will continue in their current positions. Acuren and Extech are part of the Rockwood Service Corp., a leader in inspection and testing, operating in more than 20 countries with more than 100 offices throughout the world.

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

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platform "should be plugged back prox- 
imate to the mud line in preparation for ult-
ate platform removal," the AOGCC approval said.

Sixteen platforms punctuate Cook Inlet’s 
turbulent waters, most of them installed in 
the 1960s. 

Speculation has been mounting as to 
when one or more platforms might be 
removed due to depletion of the oil and gas 
reservoirs beneath them.

Chevron recently laid out perhaps the 
clearest timetable yet for platform removal, 
advising the Alaska Division of Oil and Gas 
that the Baker platform as well as the neigh-
bouring Dillon platform could be pulled in 
2019.

**All played out**

Chevron’s 10 Cook Inlet platforms 
include Anna, Baker, Bruce, Dillon, Dolly, 
Varden, Granite Point, Grayling, King 
Salmon and Monopod. Monopod and Steelhead.

Baker was installed in 1965 on lease 
ADL 17595 in the North Middle Ground 
Shoal field, northwest of the community of 

The Baker Platform

Safer. Smarter.

Our CDR2-AC rig reflects the latest innovations in Arctic drilling to provide our customers with incident free performance and operational and technical excellence. 

CDR2-AC is the first Arctic rig designed and built by Nabors specifically for Coil Tubing Drilling operations. The rig was built to optimize CTD managed pressure drilling to provide precise control of wellbore pressures for improved safety, decreased costs, and increased wellbore lengths. Combining safety and environmental excellence with greater efficiency means CDR2-AC can deliver the high value results customers have come to expect from Alaskan and Northern drilling contractors. 

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NABORS – MISSION TO ZERO 
Safer, Smarter - Incident Free

continued from page 1

**CHEVRON WELLS**

Oil production was suspended the prior 
year from the Dillon platform to the south. 
Chevron, in an Aug. 24 letter to the 
AOGCC, said it is “moving towards” plug-
ning and abandoning the wells on both 
Baker and Dillon, with operations to start in 
October on the Baker platform. 

It means bringing the mothballed plat-
form back to life for purposes of conducting 
the abandonment operations. 

Construction work already has been 
done to make Baker “capable of well inter-
vention.” Chevron wrote in a “plan of aban-
donment” dated May 10 to the Division of 
Oil and Gas. 

“The construction phase included reju-
venating the living quarters and galley, rein-
statement of the fire control systems, and repair-
both the basic electrical and mechanical infra-
structure,” Chevron wrote. 

The well decommissioning is expected 
to run through much of 2011, according to 
an estimated schedule Chevron provided the 
state. 

Dillon well decommissioning is to be 
initiated in late 2011 and run through much of 2012.

**Platform removal strategy**

Chevron, in recent correspondence with 
regulators, suggests the hugely expensive 
matter of removing platforms likely won’t 

begin for quite a few years, with complex 
logistics expected.

“Permanent platform abandonment 
planning is premature at this time,” the com-
pany told the Division of Oil and Gas on 
Feb. 23. “Union’s current business plan is to 
coordinate the abandonment of Baker and 
Dillon platforms coincident with the aban-
donment of other platforms in the Cook 
Inlet the timing of which is unknown. Union 
envisions a large scale and coordinated 
abandonment effort among platform opera-
tors in the Cook Inlet once a sufficient num-
ber of platforms have reached their eco-
nomic life.”

Chevron gave no timetable for removing 
the platforms in the Feb. 23 letter. 

After the Division of Oil and Gas 
requested additional information, Chevron 
submitted the May 10 plan of abandonment 
that included the schedule estimating the 
Baker and Dillon removals for 2019.

Pulling out platforms will involve lining 
up the necessary offshore work equipment 
several years in advance, Chevron said. 

“Great distances separating sufficient 
marine equipment and the specialized 
processes required for the Cook Inlet envi-
ronment will necessitate the removal of 
multiple platforms each summer season,” 
the company wrote.

Chevron further seemed to hint that 
some chance exists for the platforms to 
remain in place in a different role. 

“In addition to decommissioning, Union is 
also evaluating alternative use opportuni-
ties for a portion of, or all remaining infra-
structure, after well abandonment,” 
Chevron wrote in its May 10 letter. 

“Alternative use could take several years to 
come into play which would coincide with a 
‘well abandonment priority’ strategy. Meanwhile, facility structures will be main-
tained in accordance with Union’s integrity 
management program.”

Chevron hinted with slightly greater 
clarity in its Feb. 23 letter, saying “prelimi-
nary feasibility work has been conducted 
for using these facilities to generate alterna-
tive power.”

—WESLEY LOY

Contact Wesley Loy at 
loy@petroleumnews.com

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**SALE SPECULATION**

“BP has revived the sale of its fields in 
Alaska after failing to dispose of them to 
Apache of the US earlier this year,” the 
Financial Times story began. “The UK oil 
group is hoping to sell part of its stake in 
Prudhoe Bay, the giant Alaskan field, 
according to banking sources.”

The story continued: “Apache is still 
seen as a buyer by industry bankers, who 
also cited Occidental, a US group, as anoth-
er potential suitor. It is not known whether 
BP would be willing to sell the entire stake, 
which would include the operatorship of the 
field.”

The Sunday Times reported BP had 
raised its cash target for dealing with 
Deepwater Horizon to $40 billion, up from 
the company’s previously stated $30 billion 
goal.

Another media outlet, Voice of Russia, 
Sept. 6 discussed potential for TNK-BP 
to acquire BP assets in the North Sea, with 
a passing reference to Alaska assets as well.

The financial news service Bloomberg, 
however, on Sept. 7 quoted BP’s Norway 
managing director, Rebecca Wiles, as say-
ing, “I’m not aware of us lining up any 
assets in the North Sea.” She also reported-
ly said she hadn’t heard the company was 
increasing its asset sales target to $40 bil-

nabors.com
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NO TIMELINE

on a decision whether to authorize the drilling, Salazar said.

“I put those exploration plans on hold this year until we learn more from the experience that we’ve had dealing with the Macondo well in the Gulf of Mexico,” Salazar said. “Until we are confident that drilling can be conducted (safely) in the Chukchi and Beaufort seas we will not be allowing that program to go forward.”

Much will depend on the outcome of a report on offshore drilling that Michael Bromwich, the new director of the Bureau of Ocean Energy Management, Regulation and Enforcement, is preparing, and on the results of a Marine Board investigation of the Deepwater Horizon disaster, as well as on a pending Deepwater Horizon report from the National Academy of Engineering. Salazar said. Bromwich has been traveling around the United States gathering input for his report, which he anticipates delivering to Salazar by Oct. 31 at the latest.

“It’s a dynamic situation and we will make our decisions based on information when it comes forward,” Salazar said.

Three questions

Salazar said that the Deepwater Horizon disaster has raised three central questions for the United States when it comes to offshore oil drilling: workplace safety; the ability to contain oil from an out-of-control well and the feasibility of conducting an adequate response to an oil spill.

With regard to the issue of workplace safety, Interior is issuing new safety-related regulations that address questions such as blowout preventer requirements; well cementing and casing standards; and several other issues.

“There’s a bucket of issues around drilling safety and worker safety that we’re looking at,” Salazar said.

And when it comes to containing oil from a subsea well blowout, multiple failed efforts to capture oil from the Macondo well, including a failed containment dome, a failed “top kill” and a failed “junk kill,” illustrated the difficulty of dealing with a subsea blowout, even for one of the largest companies in the world, Salazar said.

“It is something which we will address before we allow drilling to continue,” Salazar said, while also commenting that Shell and the oil industry are trying to deal with this issue.

In addition, BP’s Gulf of Mexico oil spill response plans, despite being specified for a larger oil flow than that from the Macondo well, had proved inadequate, resulting in 1,200 miles of Gulf of Mexico coastline being impacted by oil and in damage to natural resources, Salazar said.

“And so one of the major questions that we are facing is what will we require of companies with respect to having an adequate spill response plan, and that question is very applicable to the Arctic Circle area,” Salazar said. “What happens if you have an oil spill in the Chukchi and Beaufort? How is it going to be contained?”

Moratorium applies in Alaska

The question of whether drilling on Alaska’s Arctic outer continental shelf is subject to a six-month drilling moratorium imposed by the U.S. Department of the Interior following the Deepwater Horizon disaster has been a subject of confusion and, at times, acrimonious debate since imposition of the OCS moratorium in May.

“The moratorium does in fact apply to Alaska,” Salazar said, contradicting a Nov. 26 statement by Bromwich that there “is not a moratorium per se in Alaska.”

Salazar said that he is applying the moratorium in Alaska because the three central questions over OCS drilling apply as much in the context of Arctic offshore drilling as they do in the Gulf of Mexico.

The moratorium imposed in May applied only to water depths greater than 500 feet and did not make any mention of the Arctic OCS, where the waters in areas of oil and gas interest are substantially shallower than that 500-foot limit. But Salazar said that he had notified Shell that Interior would not issue drilling permits for Shell’s 2010 program and that he viewed this as facto moratorium as, in effect, an extension of the deepwater moratorium.

Applied differently

“The moratorium on the Arctic essentially is imposed in a different way,” Salazar said. “I withheld the (drilling) authorization because of the fact that that some of the same questions that I am looking at in the Gulf of Mexico are central to the question of whether we allow an exploration well.”

Salazar said. “If you look at the Chukchi, nothing or very little is known about the reservoir pressures that would be encountered. And if you look at the Chukchi you know that it will be very difficult to mount the kind of oil spill response that has been mounted in the Gulf of Mexico.”

On July 12 Interior issued a new drilling moratorium, replacing the May moratorium and banning all OCS drilling done from a floating drilling facility using a subsea blowout preventer. Again, the moratorium did not mention the Arctic and Bromwich, in his Aug. 26 statement, emphasized that the moratorium applied to specific equipment usage, rather than water depths or geographic locations.

But Shell’s planned Arctic drilling, using a drilling vessel and blowout preventers in well cells in the seafloor, would presumably have been banned under the terms of the July 12 moratorium.

Court injunction

However, a court injunction actually applies to the drilling moratorium as a consequence of an appeal by several Gulf of Mexico oil service companies against the original May drilling ban. In June a judge in the Louisiana District Court ordered the injunction, saying that Interior’s application of a blanket moratorium on all deepwater drilling on the OCS would likely be viewed by the court as “arbitrary and capricious.” And on Sept. 1 the court threw out a claim by Interior that the July 12 moratorium had rendered moot the appeal case.

The case has now gone back to the Court of Appeals for the 5th Circuit, where Interior had appealed the injunction.

But, as far as the Alaska is concerned, the injunction really is in practice moot, since at this late stage in the annual open water season there is no possibility of anyone drilling for oil in the U.S. Arctic OCS this year.

The real question is whether an Arctic drilling moratorium, de facto or otherwise, will apply in the summer of 2011.

—ALAN BAILEY

Contact: Alan Bailey at altuely@petroleumnews.com

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DECISION

continued from page 1

DRILLING COMEBACK

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cent to C$20.9 billion.

Alberta overhaul a factor

For Alberta, the road back to good health 

also included another overhaul of its royalty 

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rung in government land sales after two 

years of trailing British Columbia. 

Operators shelled out almost C$187 mil- 

lion at Alberta’s Sept. 1 sale, raising its year-

to-date total to C$1.51 billion.

It needs to raise only another C$120 mil-

lion at the remaining eight sales to surpass the 

2005 record of C$1.83 billion.

Over the same period of 2009, the province 

collected only C$207.5 million on 

1.19 million hectares (2.94 million acres) at 

an average C$175 per hectare compared with 

this year’s 2.44 million hectares at an 

average C$713.55 per hectare.

The key target area at the latest auction 

was Grande Prairie, in northwestern 

Alberta, where five licenses fetched a total 

of C$76 million.

continued from page 18

SALE SPECULATION

Apache back in the hunt?

Speculation ran hot back in July that 

Apache Corp., a large Houston-based inde-

pendent, was in talks to buy BP’s stake in 

Prudhoe Bay and other Alaska North Slope 

fields, with BP looking for $10 billion to 

$12 billion on the deal.

Ultimately, Apache and BP did do a deal, 

but for different assets entirely. On July 20 

the companies announced a $7 billion deal 

in which Apache will pick up an assortment 

of BP assets in western Canada, Egypt and 

the Permian basin of Texas and New 

Mexico.

Apache this year also has made a strong 

move in Alaska’s Cook Inlet basin, buying 

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continued from page 1

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