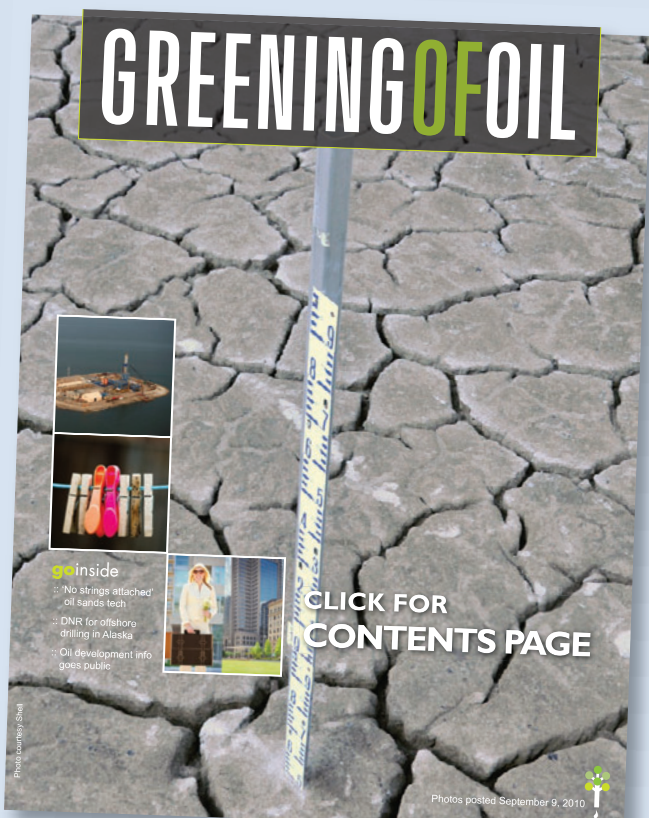
Petroleum news

Vol. 15, No. 37 • www.PetroleumNews.com — *A weekly oil & gas newspaper based in Anchorage, Alaska* — Week of September 12, 2010 • $2

page 5 Bureau of Land Management names Bud Cribley as Alaska state director

Latest from Greening of Oil



Shell Canada is making the environment a priority. In August the company announced the start-up of a commercial-scale atmospheric fines drying field demonstration project for managing tailings from its oil sands operation in northern Alberta, part of an industry move to reduce the impact of oil sands mine tailings on the environment. But instead of protecting the technology, Shell is sharing it, saying it's important for the industry, academics and government. To read more on the project visit www.greeningofoil.com.

Chevron to plug, abandon Cook Inlet platform wells; prelude to possible removal

More and more, some oil and gas platforms in Alaska's Cook Inlet seem destined for dismantlement.

The latest proof is Chevron's plan to begin work in October to plug and abandon some 25 wells on its Baker platform, one of several aging platforms the company operates in the inlet.

In support of the project, the Alaska Oil and Gas Conservation Commission on Sept. 2 approved Chevron subsidiary Union Oil's request for an increase in the volume of waste fluids, such as oily water and sludge, it can inject back underground for disposal.

Once the work is completed, all wells drilled from the Baker

see **CHEVRON WELLS** *page 18*

Kenai LNG owners press DOE for expeditious extension decision

The owners of the liquefied natural gas export terminal on the Kenai Peninsula say they have already addressed recent concerns raised by a group of Alaska state lawmakers.

ConocoPhillips and Marathon Oil have asked the U.S. Department of Energy for two additional years to ship Alaska LNG to Asian markets. A group of seven Democratic lawmakers believe the export license should only be extended if the terms of a 2008 settlement between the State of Alaska and the two companies are also extended.

That settlement required the companies to meet local needs before shipping natural gas abroad, and to open their facility to third parties, among several other terms.

Although the agreement has been in the public domain since 2008, the lawmakers did not try to put it on the record

see **DECISION** *page 20*

GOVERNMENT

No timeline for AK

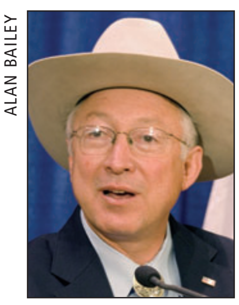
Salazar says he needs confidence in safety before allowing OCS drilling

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.

ALAN BAILEY



KEN SALAZAR

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

see **NO TIMELINE** *page 19*

FINANCE & ECONOMY

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:

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.

"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.

see **SALE SPECULATION** *page 18*

LAND & LEASING

Back from the depths

W. Canada makes strong drilling comeback; Alberta closes in on record

By GARY PARK
For Petroleum News

It's 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 nonconventional 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 a lot of scope for recovery, which the Canadian Association of Petroleum Producers forecasts will reach a combined C$42 billion this year.

Reinforcing the dismal performance in 2009, operating expenditures dropped 28 percent to C$23.7 billion in the conventional sector and 5.2 percent among unconventional operators to C$13.9 billion; production decreased 0.5 percent for crude oil and equivalent, 6.8 percent for marketable production of natural gas and 4.4 percent for natural gas byproducts.

The value of crude oil and equivalent hydroca

see **DRILLING COMEBACK** *page 20*

contents

Petroleum News | *North America's source for oil and gas news*

Alaska's Premier Oil and Gas Consultants

PRA
Petrotechnical Resources Alaska

For information about PRA including background material and a complete listing of our consultant staff, please visit our web site at www.petroak.com.

3601 C Street, Suite 822
Ph: (907) 272-1232
Fx: (907) 272-1344

Anchorage, Alaska 99503
info@petroak.com
www.petroak.com

We can provide clients with individuals to fill specific needs, or with integrated teams to manage exploration and development projects.

Skills
- Project Management
- Geophysics
- Geology
- Petrophysics
- Engineering

Areas of Expertise
- North Slope
- Cook Inlet
- Interior Basins
- Bristol Bay
- Gulf of Alaska

Data
- Digital Well Logs
- Well History
- Directional Surveys
- Formation Tops
- Seismic
- GIS

Tools
- Subsurface Mapping
- Seismic Interpretation
- Petrophysical Interpretation
- ArcView/GIS
- Commercial analysis
- Risk Analysis

● UTILITIES

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 said in Aug. 24 filings to the RCA. "Chugach has asked the Commission to perform this useful function sooner."

Alaska AG skeptical

The Attorney General is skeptical. In Aug. 31 filings, it wrote that Chugach "has provided virtually no support for its assertions of cost savings; only bald assertions that Chugach may obtain estimated savings if its Petition is granted in the very near future."

"Just and reasonable recovery of Chugach's plant investment is assured by statute," the Attorney General wrote,

> *"Sooner or later the Commission will review the (Southcentral Power Project) and determine whether its costs can be included in rates. Chugach has asked the Commission to perform this useful function sooner."*
> **—Chugach Electric Association, in filings**

pointing to Alaska 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 sees 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 isn'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 its rates. Chugach pointed to a similar process when distribution utilities buy electricity from generators.

The Attorney General said that in those cases, the actual contract is placed on the record to be examined in a long review process. But because of the length of the three contracts at issue in this case, and the expedited timeline Chugach has requested, the Attorney General doesn't believe the RCA can review the documents in a "meaningful" way.

Chugach wants the review to be completed by this fall.

Chugach doesn't think the process should take long though, because it believes the RCA already did much of the review work a few years ago. When the question of whether Chugach should build a new power plant came up during a 2006 rate case, the RCA found that Chugach reached its decision after "extensive analysis."

At the time, Chugach was deciding whether to repair an aging power plant, Beluga 8, or spend significantly more money to build an entirely new power plant. The utility commissioned several studies, and decided the fuel savings justified the new facility.

The Attorney General said the RCA didn't consider the specifics of this project.

Have the ratepayers spoken?

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 Tiqun 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 lit 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-builds 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. ●

Contact Eric Lidji at ericlidji@mac.com

WHAT'S THE BIG ATTRACTION?

A. an industry institution
B. quality, accurate reporting
C. attractive, readable design

To advertise in Petroleum News call Susan Crane at 907-770-5592, or Bonnie Yonker at 425-483-9705.

Subscribe at: www.petroleumews.com

"When experience counts"

- Alaska owned and operated since 1973
- Helicopter/Vessel services throughout the Arctic, Western Aleutians, Southeast and Interior Alaska
- Servicing Marine, Mining, Surveying, Oilfield, Agriculture and Environmental Industries
- AMD/State of Alaska/USFS/OGP/Department of Defense-Approved
- 2009 Alaska Small Business of the Year

Maritime Helicopters
3520 FAA Road
Homer, Alaska 99603
Phone (907) 235-7771
Fax (907) 235-7773

info@maritimehelicopters.com • www.maritimehelicopters.com

● EXPLORATION & PRODUCTION

A fog over the oil sands

'Boycotters' setting record straight; insist they only want to reduce high-carbon fuels; study fingers oil sands for toxic metals

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 support from some major U.S. retailers to boycott the use of fuel derived from the oil sands are being eroded, but that dispute has been overshadowed by a scientific report accusing oil sands operators of raising levels of toxins in the Athabasca River, the main waterway in northeastern Alberta.

These two events have raised questions about who is to be believed.

ForestEthics was quick to take credit for persuading four Fortune 500 companies — Gap, Timberland, Levi Strauss and Walgreens — to cut off any connections with the oil sands.

Canada's Environment Minister Jim Prentice said in a statement that the federal government is committed to tracking the presence of chemicals using a new fingerprinting program that can identify whether chemicals produced as a byproduct of oil sands operations are seeping into the surrounding environment.

Three of the four, all with hundreds of millions of dollars at stake in the Canadian market, were just as quick to distance themselves from talk of a boycott.

Gap denies boycott

Gap issued a release to its customers, declaring it was "not true" that it had initiated an oil sands-related boycott.

The company said it had simply "asked" shipping firms "what they are doing to eliminate high-carbon intensive fuels," which covered a full range of sources, including the oil sands.

A Gap spokesman said it was making a "standard request for information … (and did not anticipate) taking any further action."

Similarly, Timberland said it was asking shipping companies what steps they were taking to avoid "carbon-intensive sources like Canada's tar sands."

Its website posting, entitled "Reducing Emissions — Not Boycotting Fuel," said Timberland did not believe boycotts "are the best path towards collaborative problem solving or positive sustainable outcomes."

Levi Strauss, by way of setting the record straight, said it supported the "development and use of clean and renewable fuel sources," but it had not taken a position "opposing or supporting any fuel or energy source from Canada."

Instead, it had decided to "give preference to low-carbon fuels" in choosing its transportation contractors, while informing ForestEthics it would "not dictate how our suppliers achieve that goal."

Walgreens, which has no outlets in Canada, said it had "very little exposure to tar sands fuel to start with."

A spokeswoman for the Canadian Association of Petroleum Producers said ForestEthics apparently wanted to "act as the Fortune 500 judge, jury and spokesperson. Unfortunately, accuracy and ethics are not their strong suit."

Earlier this year, ForestEthics said it had persuaded Bed Bath and Beyond and Whole Foods to shun oil sands-sourced products. Bed Bath and Beyond later said it was only asking its contractors to "give preference to fuels with lower greenhouse gas footprints where feasible."

Toxin source questioned

With that issue twisting and turning, scientists from the University of Alberta, Queen's University in Ontario and Alaska-based Oceana published new research in the journal Proceedings of the National Academy of Sciences, challenging claims by the Alberta government that toxins in the Athabasca River and related watersheds occur naturally.

David Schindler, a study author and University of Alberta ecologist, said the findings put pressure on the government to stop oil sands expansions until the problems are solved and the Canadian government's environment department takes responsibility for monitoring the Athabasca.

Toxic concentrations in seven elements exceed those recommended by the Alberta and Canadian governments for the protection of aquatic life, the study said, concluding that the oil sands industry "substantially increases loadings" of toxins in the river.

Schindler said the results are especially troubling for three metals — mercury, arsenic and lead.

"The levels stay high and some of that may be due to natural sources, but the big inputs are right around (oil sands) developments," he said.

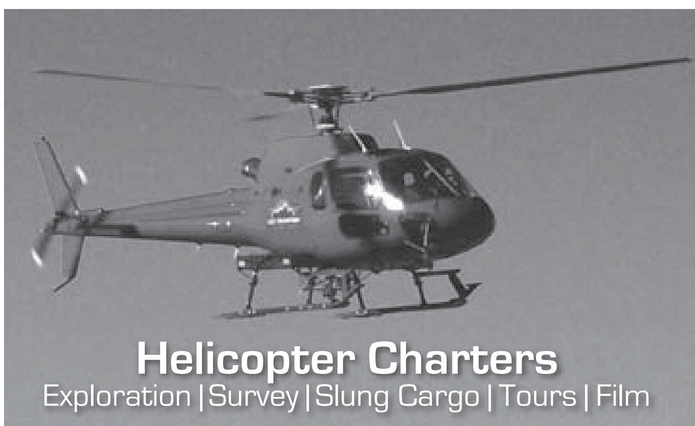
He said the incidence of pollutants in fish is particularly troublesome because local aboriginal communities depend on the region's fishery for food.

Schindler said it should be simple for oil sands operators to reduce airborne pollutants, using technology that is available to cut greenhouse gas emissions, while more stringent regulations are needed for water.

Government committed to tracking

Canada's Environment Minister Jim Prentice said in a statement that the fed-

see **OIL SANDS** page 5



LAST FRONTIER AIR VENTURES
(907) 745-5701
39901 N. Glenn Hwy.
Sutton, AK 99764
helicopter@LFAV.com
www.LFAV.com

Petroleum news

www.PetroleumNews.com

Kay Cashman	PUBLISHER & EXECUTIVE EDITOR
Mary Mack	CHIEF FINANCIAL OFFICER
Kristen Nelson	EDITOR-IN-CHIEF
Clint Lasley	GM & CIRCULATION DIRECTOR
Susan Crane	ADVERTISING DIRECTOR
Bonnie Yonker	AK / NATL ADVERTISING SPECIALIST
Heather Yates	BOOKKEEPER
Shane Lasley	IT CHIEF
Marti Reeve	SPECIAL PUBLICATIONS DIRECTOR
Steven Merritt	PRODUCTION DIRECTOR
Alan Bailey	SENIOR STAFF WRITER
Wesley Loy	CONTRIBUTING WRITER
Gary Park	CONTRIBUTING WRITER (CANADA)
Rose Ragsdale	CONTRIBUTING WRITER
Ray Tyson	CONTRIBUTING WRITER
John Lasley	STAFF WRITER
Allen Baker	CONTRIBUTING WRITER
Sarah Hurst	CONTRIBUTING WRITER
Judy Patrick Photography	CONTRACT PHOTOGRAPHER
Mapmakers Alaska	CARTOGRAPHY
Forrest Crane	CONTRACT PHOTOGRAPHER
Tom Kearney	ADVERTISING DESIGN MANAGER
Amy Spittler	MARKETING CONSULTANT
Dee Cashman	CIRCULATION REPRESENTATIVE

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

NEWS
907.522.9469
publisher@petroleumnews.com

CIRCULATION
907.522.9469
circulation@petroleumnews.com

ADVERTISING
Susan Crane • 907.770.5592
scrane@petroleumnews.com

Bonnie Yonker • 425.483.9705
byonker@petroleumnews.com

FAX FOR ALL DEPARTMENTS
907.522.9583

Petroleum News and its supplement, Petroleum Directory, are owned by Petroleum Newspapers of Alaska LLC. The newspaper is published weekly. Several of the individuals listed above work for independent companies that contract services to Petroleum Newspapers of Alaska LLC or are freelance writers.

OWNER: Petroleum Newspapers of Alaska LLC (PNA)
Petroleum News (ISSN 1544-3612) • Vol. 15, No. 37 • Week of September 12, 2010
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518
(Please mail ALL correspondence to:
P.O. Box 231647 Anchorage, AK 99523-1647)
Subscription prices in U.S. — $98.00 1 year, $176.00 2 years, $249.00 3 years
Canada — $185.95 1 year, $334.95 2 years, $473.95 3 years
Overseas (sent air mail) — $220.00 1 year, $396.00 2 years, $561.00 3 years
"Periodicals postage paid at Anchorage, AK 99502-9986."
POSTMASTER: Send address changes to Petroleum News, P.O. Box 231647 Anchorage, AK 99523-1647.

CORRECTIONS

Alaska Natural Gas Development Corp.

The full name of ANGDA, the Alaska Natural Gas Development Corp., was incorrect in a story in the Sept. 5 issue of Petroleum News.

Shipment of production modules

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.

Gulf Island Fabrication built the modules and loaded them onto barges in Houma, La. Crowley Maritime Corp. transported the modules to Alaska. Bigge helped offload the modules at Oliktok Point. Berard and Goldhofer, mentioned in the article, performed contracted work at the loading facility in Louisiana. Petroleum News regrets the error.

Alaska's Underwater Professionals: *"Where Safety is the First Step"*
GLOBAL OFFSHORE DIVERS
Offshore Oil & Gas Dive Support Services to 1,000ft
Production Platforms & Subsea Pipelines:
Installations, Inspections, Repairs, P&A, Decomissioning
Deepwater Mooring Systems
Installations & Maintenance
Office: (907) 563-9060 • www.gdiving.com • Fax: (907) 563-9061
Diving Services • ROV Services • Environmental Services • Emergency Response

● PIPELINES & DOWNSTREAM

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 in 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 declining throughput 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 implement its new rates by Oct. 1.

The request is Koch's third over the past 20 months. If approved, it would represent a 130 percent jump in shipping rates since December 2008, when four of the five owners of the pipeline asked for a 57 percent increase to in-state shipping rates in place since 2002.

Those 2002 rates, calculated under a new methodology, charge $1.25 to ship a barrel of oil from the North Slope to North Pole and $1.96 to ship to various points in Valdez.

Subsidiaries of BP, ConocoPhillips, ExxonMobil, Union Oil Co. of California and Koch own an undivided share of the pipeline. Koch owns 3.08 percent of the pipeline.

Koch also 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 justification 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. ●

Contact Eric Lidji at ericlidji@mac.com

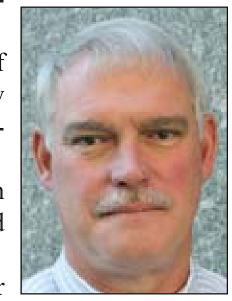
GOVERNMENT

BLM names new Alaska state director

Bud Cribley has been named the Bureau of Land Management's new Alaska state director.

BLM Director Bob Abbey announced the appointment Sept. 7, along with new state directors in Montana and Idaho.

BLM said all three positions became vacant when the incumbents retired; reporting dates have not yet been determined.



BUD CRIBLEY

"These three outstanding land managers bring decades of experience, including proven management skills, to their new positions. I'm delighted that they have accepted new professional opportunities," Abbey said.

Cribley joined BLM in 1975 as a range and conservation technician in the Arizona strip district. Since then he has held several position with BLM in Montana and Colorado.

Cribley currently serves as deputy assistant director for renewable resources and planning in BLM's headquarters office. Before moving to Washington, he was assistant district manager for the Winnemucca district in Nevada. He moved to Washington, D.C., in 1997 as senior specialist with the wild horse and burro program; he later headed up the Rangeland Resources Division. In 2006 he served as acting state director in Idaho, before returning to Washington as deputy assistant director for renewable resources and planning.

Cribley holds a B.S. in forestry from Stephen F. Austin State University in Nacogdoches, Texas. He enjoys hunting and fishing and looks forward to returning to those activities in Alaska.

Cribley currently lives in northern Virginia with his wife, Karen, and has three daughters and one granddaughter.

—PETROLEUM NEWS

Northwest Technical Services
Connecting the Right People to the Right Jobs™
4401 Business Park Blvd, Bldg N, Ste 26
Anchorage, AK 99503
www.pdstech.com
Phone: 907-562-1633 | Fax: 562-5875
TEMPORARY & CONTRACT PERSONNEL
Administrative • Professional
Technical • Craft
STAFFING SERVICES
Direct Hire • Temp to Direct

continued from page 4

OIL SANDS

eral government is committed to tracking the presence of chemicals using a new fingerprinting program that can identify whether chemicals produced as a byproduct of oil sands operations are seeping into the surrounding environment. The Alberta government said it will review the study before commenting.

Schindler said the study was designed to test claims made in 2009 by the Regional Aquatic Monitoring Program, a joint industry-government agency, that the Athabasca's water quality is similar to conditions that prevailed before oil sands development.

The study said its findings prove "the serious defects" of the RAMP findings, adding that detailed monitoring and the ability to pinpoint the sources of contaminants is "essential" to control the potential impact on human health.

Schindler said the levels of pollutants found by the study were easily measurable and "any program that cannot detect these levels has to be considered incompetent."

RAMP spokesman Fred Kuzmic told reporters that Schindler turned down an offer to become one of eight participants in a peer review of RAMP's monitoring practices.

He said RAMP studies show there are higher concentrations of pollutants closer to oil sands operations, "but that's not unexpected because the rivers run through the oil sands deposits."

Shell using new technology

The study was released four days after 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.

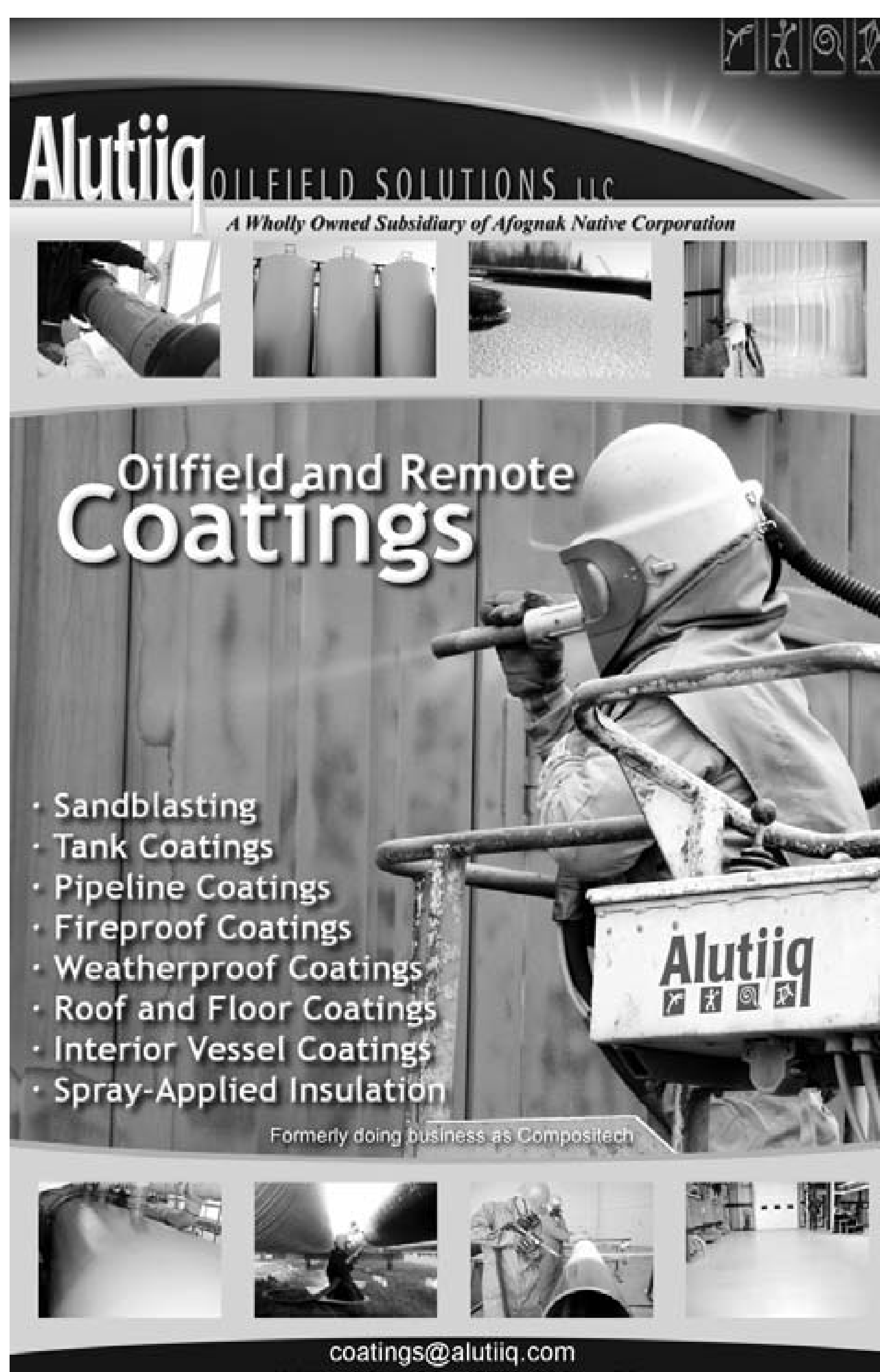
Of the other oil sands producers, Suncor Energy is the only operator pledged to meet an Alberta government directive for companies to dry out 50 percent of their fine tailings by 2013.

Imperial Oil was granted approval in August for a cleanup plan at the Syncrude Canada operation that will not meet the target until 2018 and Shell's plan has yet to be approved.

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



● NATURAL GAS

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 hire the use of storage space in the facility, with the initial customers being Enstar Natural Gas Co., Chugach Electric Association and Municipal Light & Power.

On the Web

See previous Petroleum News coverage:

"CINGSA applies to RCA," in Aug. 1, 2010, issue at www.petroleumnews.com/pnads/278407219.shtml

"CINGSA sets provisional gas storage rates," in Aug. 15, 2010, issue at www.petroleumnews.com/pnads/627040032.shtml

"Progress on CI storage," in July 18, 2010, issue at www.petroleumnews.com/pnads/640770687.shtml

General support

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 shortages, 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, a subsidiary of Chevron, is 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 Cook Inlet, Orr said. Unocal understands that the pipeline system on the east side of the inlet has a 180 million to 200 million cubic feet per day throughput limit and that the gas fields on the east side of the inlet are 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 throughput 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

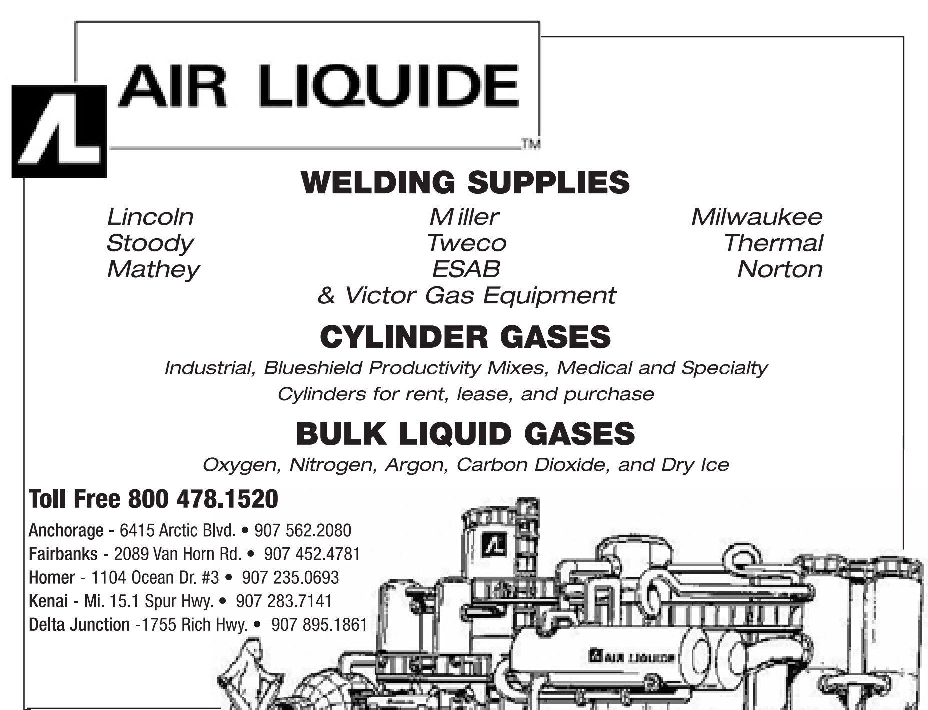
The state attorney general's office, in its role as advocate for the state's public interest, told the commissioners that it supports the CINGSA gas storage facility project. However, there are concerns about the rates that CINGSA anticipates charging its customers, said Daniel Patrick O'Tierney, chief 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, O'Tierney said. RCA should protect utility ratepayers by insisting that any initial rate be deemed interim and refundable, he said.

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

Matanuska Electric Association, an electric utility that buys power from Chugach Electric, expressed concern about the potential unintended consequences of sinking \$180 million to \$200 million in investment capital into the construction of the storage facility, given the limited capacity of the Alaska Railbelt power utilities to invest in a series of potential projects designed to

see GAS STORAGE page 7



● GOVERNMENT

New inspectors headed to BOEMRE

By MATTHEW DALY

Associated Press Writer

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 now responsible for about 3,500 drilling rigs and platforms in the Gulf of Mexico. Congress recently authorized the emergency spending.

ALAN BAILEY

KEN SALAZAR

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. ●

continued from page 6

GAS STORAGE

address the energy issues that the region faces.

MEA: don't expedite

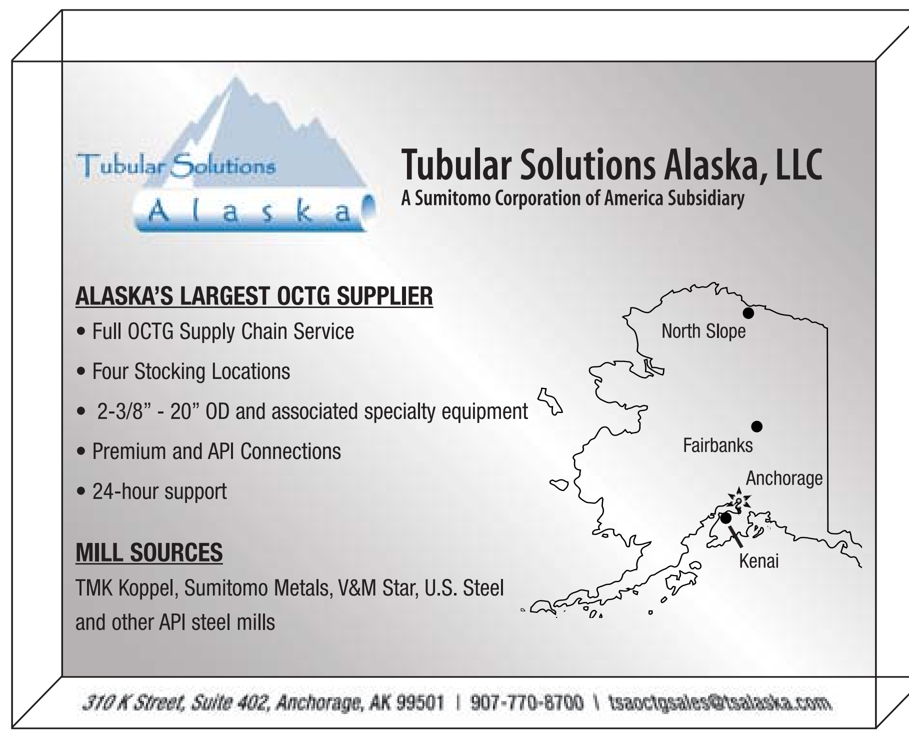
And, with the CINGSA application raising some complex commercial issues, including the potential impact of gas storage fees on electricity rates, the application warrants careful consideration rather than expedited treatment, said David Pease, attorney for MEA.

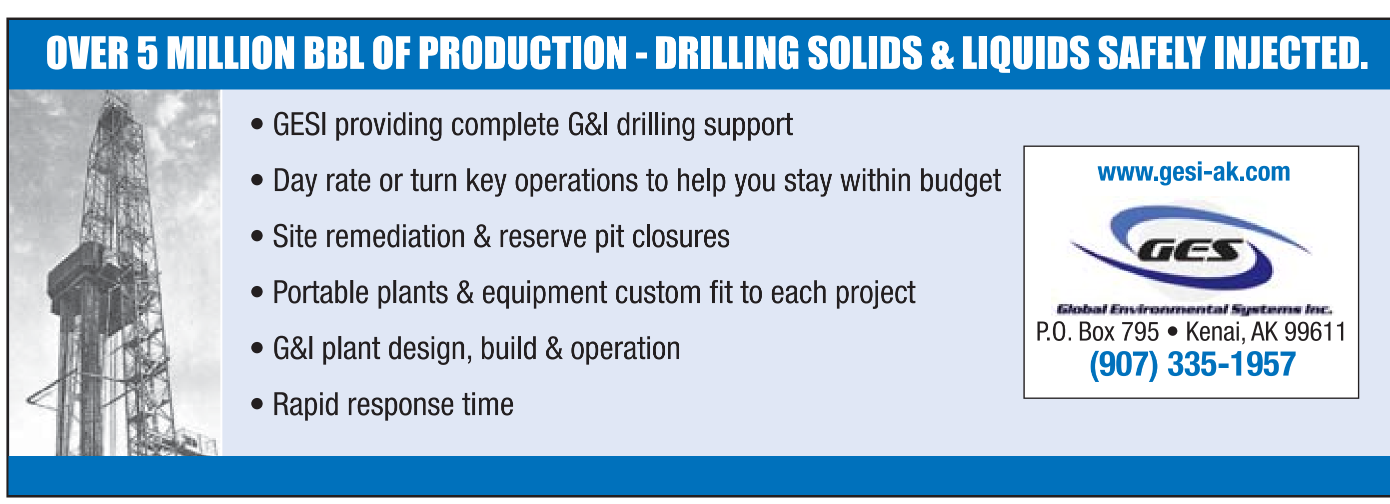
"In sum, the economy of Southcentral Alaska is dependent on an economical and adequate supply of natural gas, and an ill-advised decision in this matter could have disastrous consequences," Pease said. "The commission should not be rushed to judgment."

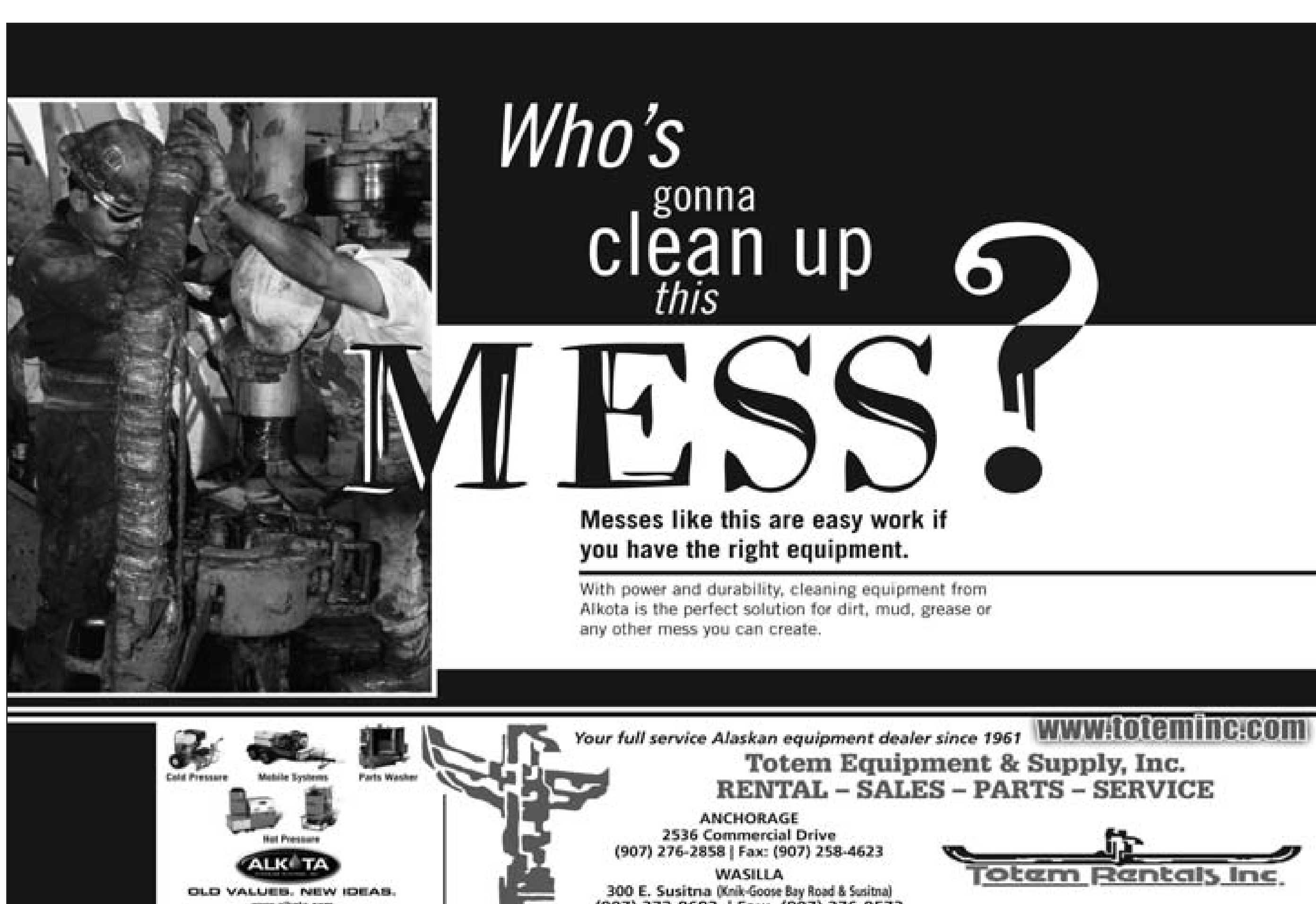
And MEA questioned whether there is in fact an urgent need for storage in 2012 that would justify expedited approval of the certificate application.

"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 abailey@petroleumnews.com







● EXPLORATION & PRODUCTION

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.

GREENINGOFOIL.com
This is a reprint from Greening of Oil magazine

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.

TOM IRWIN

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 offsite 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 muddy 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

see IRWIN page 9

ALASKA ANALYTICAL LABORATORY

Alaska Analytical Laboratory is an environmental lab perfoming the following services: soil analyses for Gasoline Range Organics (GRO), BTEX (Bezene, Toluene, Ethylbenzene, and Xylene); Diesel Range Organics (DRO) and Residual Range Organics (RRO) following the SW-846 EPA/Alaska Methods.

1956 Richardson Highway
North Pole, Alaska 99705
Phone: (907) 687-7394
Email: klovejoy@alaska-analytical.com

ACUREN
A Higher Level of Reliability

The reliability you need.
THE RESPONSIVENESS YOU DEMAND.

We operate in over 80 locations in North America. We are 3,000 professionals strong. We have the largest inventory of equipment and technology in the industry. So we get to you quickly. With the best solution. Deployed by the highest-trained and certified team you can find. For fast, accurate, and safe NDT, Inspections, and Materials Engineering Services, rely on Acuren.

- Shutdowns & Turnarounds
- Run & Maintain
- Callout NDT Consultant
- Expansion Projects
- Laboratory & Calibration

Call 1-800-NDT-ACU0 or visit www.acuren.com
a Rockwood Company

● EXPLORATION & PRODUCTION

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

see NORTHSTAR page 11

JUDY PARTICK

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.

continued from page 8

IRWIN

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.

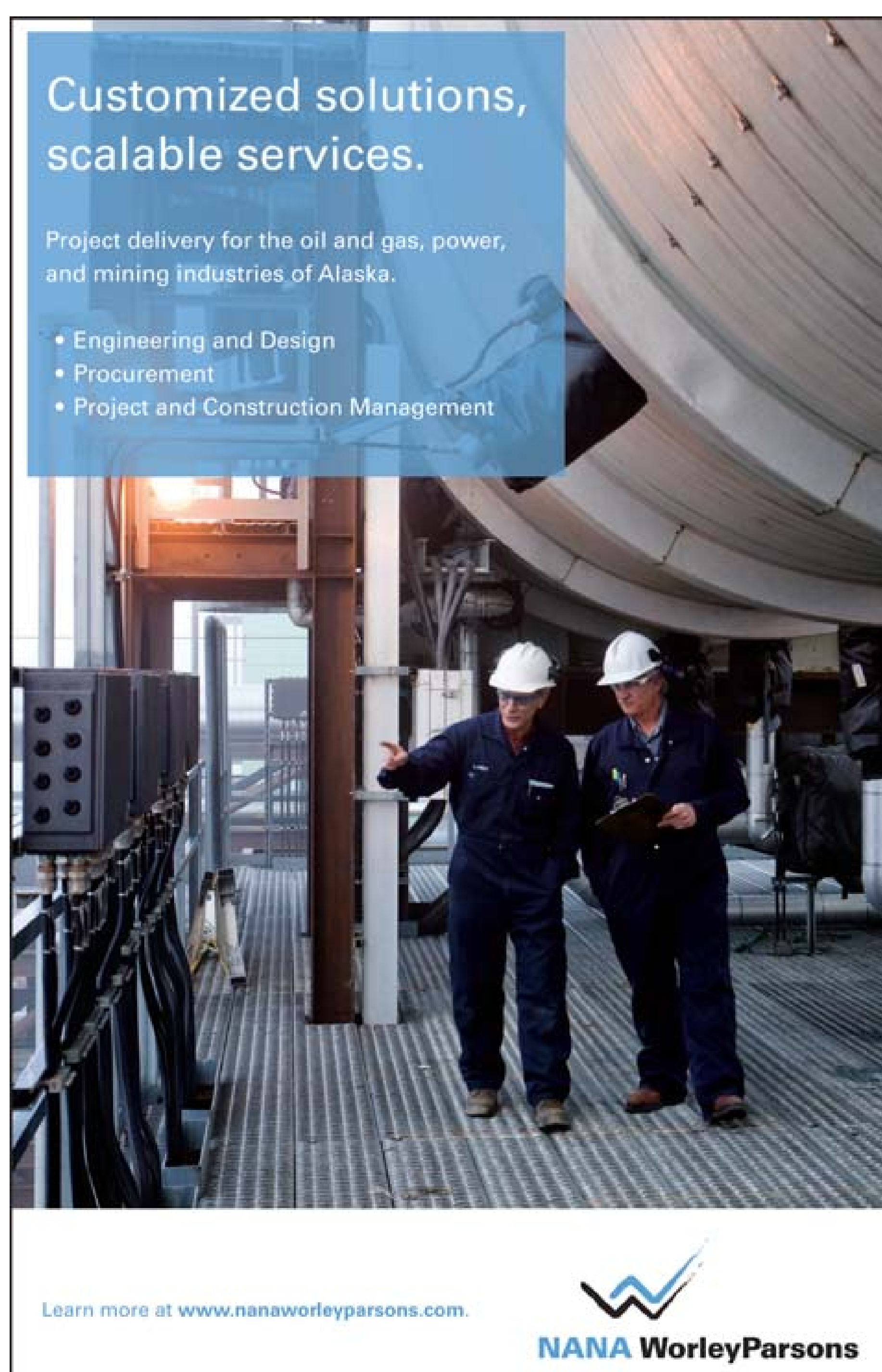
An AOGCC inspector checks the condition of each drilling rig before the rig is brought into service. And the state mandates the testing of blowout preventers every seven days for exploration wells, and every 14 days for other wells, with AOGCC inspectors witnessing about 25 percent of the tests, Irwin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

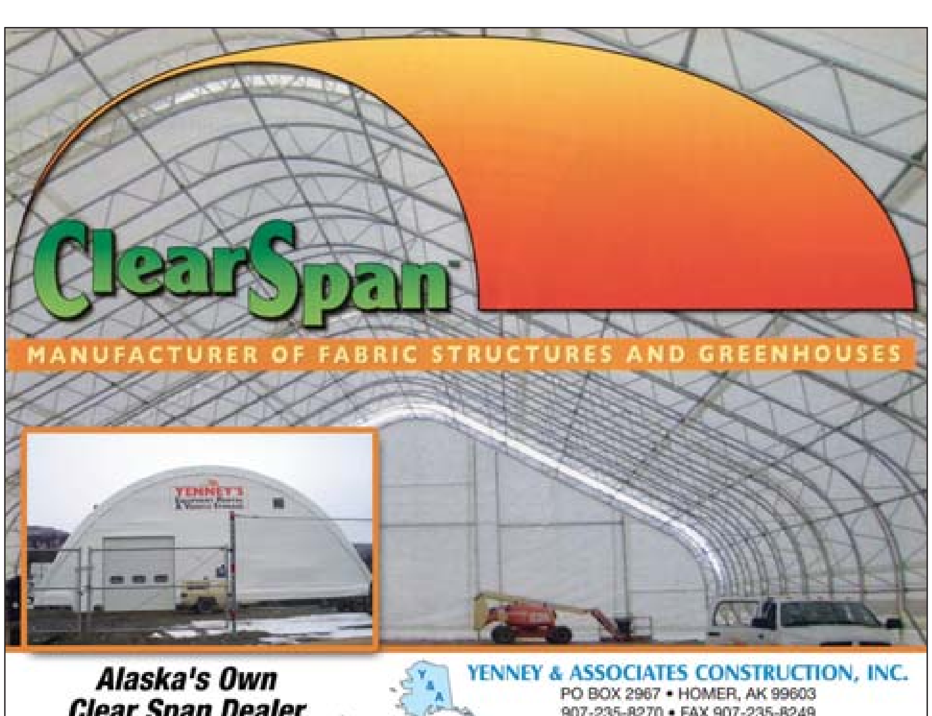
Alaska offshore has substantial resources

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





ENVIRONMENT & SAFETY

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 a key piece of equipment, the blowout preventer, 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 fisherman, 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 companies for failing to respond to warning signs that the well was in danger of blowing out.

Mark Bly, BP's chief investigator, said at a briefing in Washington that the internal report was a reconstruction of what happened on the rig based on the company's data and interviews with mostly BP employees and was not meant to focus on assigning blame. The six-person investigating panel only had access to a few workers from other companies, and samples of the actual cement used in the well were not released.

Outgoing BP chief Tony Hayward, who is being replaced Oct. 1 by American Bob Dudley, said in a statement that a bad cement job and a failure of a barrier at the bottom of the well let oil and gas leak out.

Transocean blasts report

Transocean blasted BP's report, calling it a self-serving attempt to conceal the real cause of the explosion, which it blamed on what it called "BP's fatally flawed well design."

"In both its design and construction, BP made a series of cost-saving decisions that increased risk — in some cases, severely," Transocean said.

Halliburton said in a statement of its own that it found a number of omissions and inaccuracies in the report and is confident the work it completed on the well met BP's specifications.

"Contractors do not specify well design or make decisions regarding testing procedures as that responsibility lies with the well owner," the statement said.

An AP analysis of the report shows that the words "blame" and "mistake" never appear. "Fault" shows up 20 times, but only once in the same sentence as the company's name.

Steve Yerrid, special counsel on the oil spill for Florida Gov. Charlie Crist, said the report clearly shows the company is attempting to spread blame for the well disaster, foreshadowing what will be a likely legal effort to force Halliburton and Transocean, and perhaps others, to share costs such as paying claims and government penalties.

In midday trading in New York, BP shares were up $1.15, or 3 percent, to $38.32.

Government also investigating

Several divisions of the U.S. government, including the Justice Department, Coast Guard and Bureau of Ocean Energy Management, Regulation and Enforcement, are also investigating the explosion.

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 column, 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 mud 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 well might have identified potential flaws and weaknesses in the design for the cement job.

Other conclusions in the report include:

• BP says its use of 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 blownout 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.

● NATURAL GAS

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.

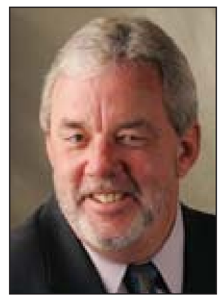
As Deputy Commissioner of Revenue Marcia Davis explained it, separation of pipeline and shipper is a legal principle developed at FERC because at one time large conglomerates, with both shipping and pipeline interests, were giving sweetheart deals and providing information to affiliates not available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

FERC said everyone who ships has to have an equal shot, Davis said: You 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,


HAROLD HEINZE


DAN FAUSKE

but understands it in reference to the AGDC in-state bullet line if ANGDA is a potential shipper on a bullet line.

Decision requested

Background information from ANGDA said that in early August Fauske, Dave Haugen and Mike Buller 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

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.

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 & Cherot, 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 recused 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

see **ANGDA CONFLICT** page 15

continued from page 9

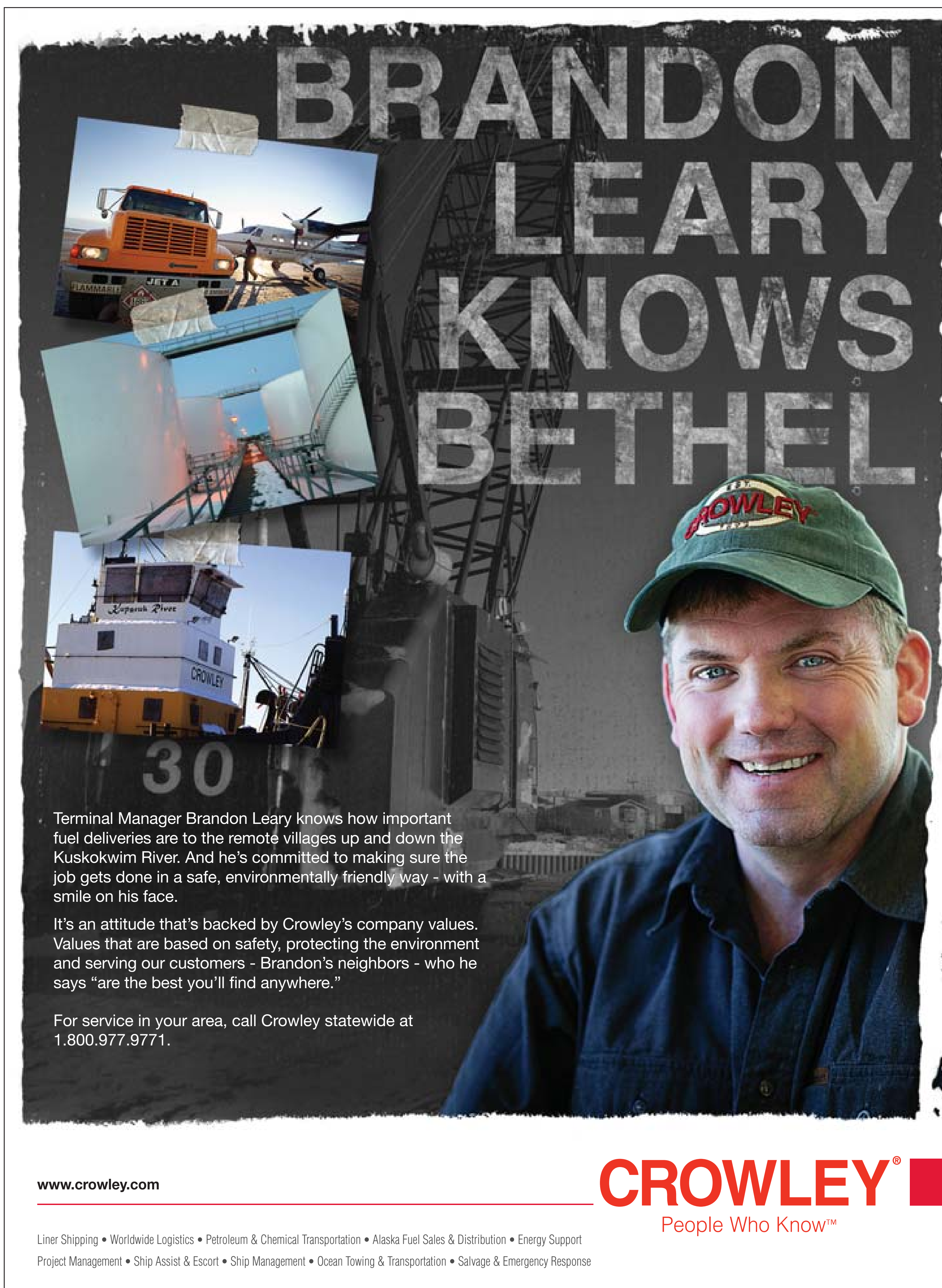
NORTHSTAR

the Northstar unit for use as fuel, and for injecting into the Northstar reservoir to enhance oil recovery. BP says it will continue injecting this outside gas to maintain reservoir pressure and to boost recovery. The company also is "evaluating the technical feasibility and economic viability of converting one or more producing wells to injection."

Northstar produces from the Ivishak and Shublik formations.

BP says it has reprocessed the Northstar 3-D seismic survey and updated the Ivishak reservoir model. In the coming year, the company says it will "continue to appraise other acreage and formations" within the Northstar unit. The company makes no mention of any planned drilling. ●

Contact Wesley Loy at wloy@petroleumnews.com



NATURAL GAS

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.


MARK MYERS

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 DO&G 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.

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.

That process drew a successful application from TransCanada, which later partnered with ExxonMobil. But it also attracted skepticism in part because of stagnant natural gas prices.

The Legislature split this spring on whether to cut the budget for Myers' AGIA office but eventually fully funded the state's multimillion-dollar request.

—THE ASSOCIATED PRESS

● PIPELINES & DOWNSTREAM

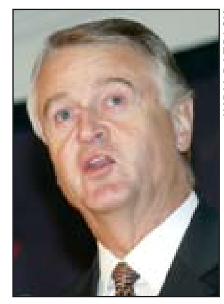
Enbridge sticks to knitting

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 C$2.3 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.


JUDY PATRICK

PAT DANIEL

The latest is a C$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.

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.

Link from Suncor plant

Less than a week earlier, Enbridge announced it will build a C$375 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 oil 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 Liesmer project was recently added as a shipper.

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 C$185 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


PERFORMANCE UNDER PRESSURE

American Marine Services Group
6000 A Street, Anchorage, AK 99518
907-562-5420
Deadhorse, AK
907-659-9010
www.amarinecorp.com • www.penco.org
alaska@amarinecorp.com

AMERICAN MARINE CORPORATION
- Commercial Diving
- Marine Construction Services
- Platform Installation, Maintenance and Repair
- Pipeline Installation, Maintenance and Repair
- Underwater Certified Welding
- NDT Services
- Salvage Operations
- Vessel Support and Operations

PENCO PACIFIC ENVIRONMENTAL CORPORATION
- Environmental Services
- Oil-Spill Response, Containment and Clean-Up
- Hazardous Wastes and Contaminated Site Clean-Up and Remediation
- Petroleum Vessel Services, e.g. Fuel Transfer
- Bulk Fuel Oil Facility and Storage Tank Maintenance, Management, and Operations

Anchorage Honolulu Los Angeles


egli air haul INC.
Serving Alaska since 1982
Mountain Work • Sling Load Operations
Crew Haul • Aerial Survey
Aerial Filming • Offshore Operations
Ph: 907-246-3554 Fx: 907-246-3654
Web: www.egliair.com

We were there at the beginning.
With 40 years of experience, we're experts on arctic conditions and extreme weather!
Solutions for Petroleum, Mining, Construction, & Timber Industries using top quality products.
Come see us; ask us questions.
907.277.1406
1716 Post Road
Anchorage, AK 99501
907.376.7275
Fx: 907.376.7269
1201 Hay Street
Wasilla, AK 99654
907.456.4414
1600 Wells Street
Fairbanks, AK 99701
JACKOVICH
INDUSTRIAL & CONSTRUCTION SUPPLY
Please visit our new website, www.jackovich.com
"Service: Our specialty since 1969"

● NATURAL GAS

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
Petroleum News

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).

1 2 SERIES

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.

The secondary transmission network of 5-inch high-pressure coiled tubing flowlines would have "moderate and discrete costs of service" based on the short distances needed to connect the Interior's major load centers and FNG to the primary transmission segment.

Energia Cura said hydraulic and economic simulations project a price for transportation plus gas will be less than $10 per thousand cubic feet at the Fox terminus, based on 12 bcf per year, half of what is now paid by major load centers in the Interior and less than half of the $24 per thousand cubic feet residential rate for Fairbanks Natural Gas' LNG-sourced gas.

The base case for Fairbanks Pipeline Co. was completed after Energia Cura conducted a power evaluation study for a new gold mine proposed in Livengood, a mine with a prospective load of 2.8 bcf per year.

If volumes greater than 12 bcf a year were nominated in the nonbinding open season, the throughput cost would be lower; smaller quantities would result in a higher throughput cost.

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 require 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 CO_2 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 CO_2 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."

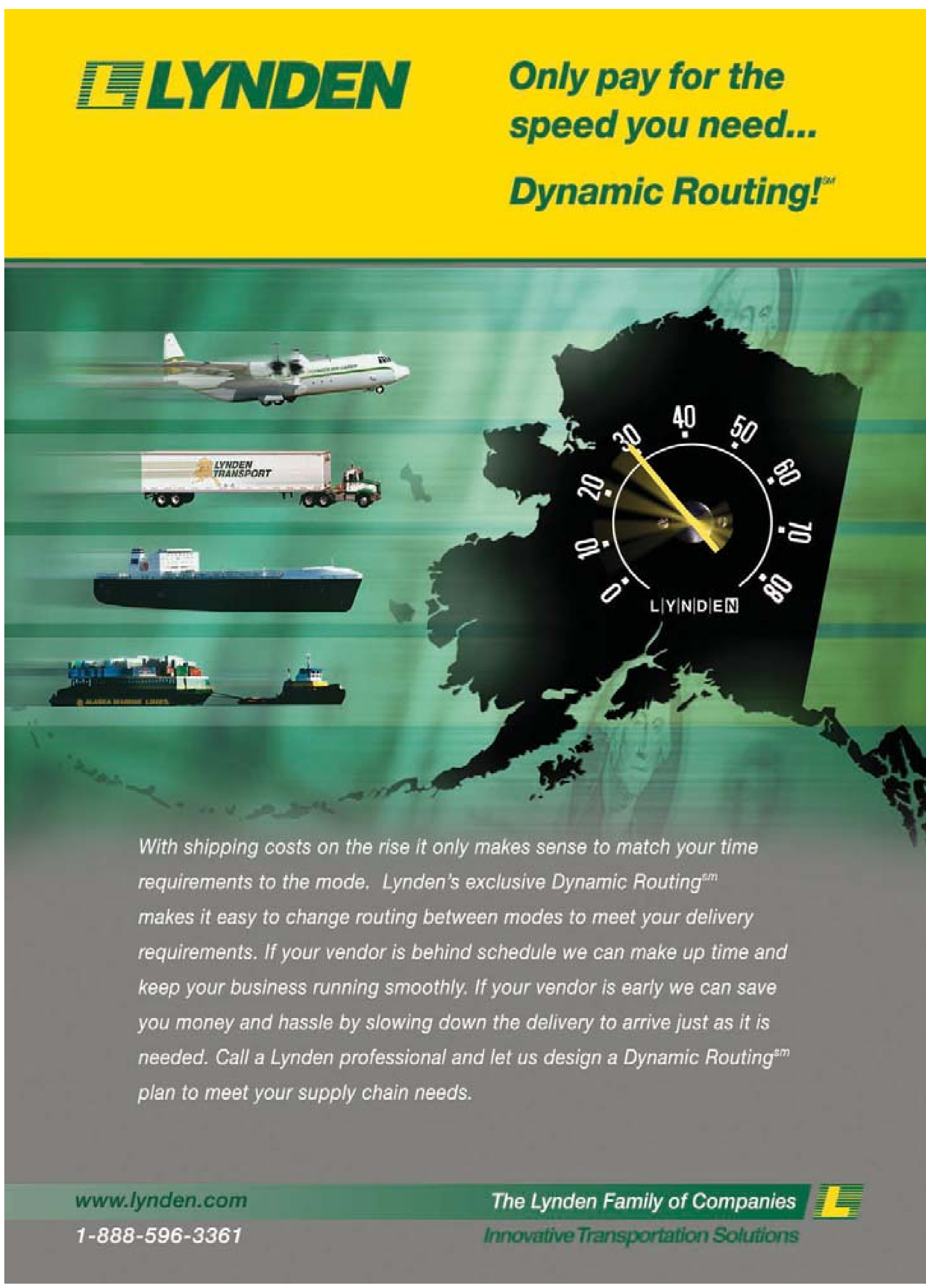
The 12 percent loss of capacity would also result in "significant impacts to our final cost of service."

Since volumes are small compared to the proposed interstate lines and the bullet 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



● ENVIRONMENT & SAFETY

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 use of dispersants has been a source of fierce debate because it involves an environmental trade-off: protecting the shoreline from oil at the risk of causing unknown problems in the deep.

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.

Federal officials had been tracking oxygen levels and use of dispersants since the spill, which spewed more than 200 million gallons of oil into the Gulf between April and July. Had the oxygen plummeted near dangerous levels, the dispersant use would have been stopped, said Greg Wilson, science adviser at the Environmental Protection Agency's emergency management office.

The use of dispersants has been a source of fierce debate because it involves an environmental trade-off: protecting the shoreline from oil at the risk of causing unknown problems in the deep. While dispersants make it easier for bacteria to degrade the oil, they tend to hide oil below the surface. There have also been concerns about the chemicals' toxicity and the long-term effects on marine life.

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 with the chemicals, said University of California Davis oil spill scientist Ron Tjeerdema.

"The best of two options — neither of which were great — was to continue dispersing," Tjeerdema said.

Louisiana State University researcher Ed Overton, 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. ●

UNIQUE MACHINE
A SUMITOMO CORPORATION SUBSIDIARY
24 Hour
Serving Alaska's Petroleum Industry for Over 35 Years
Threading
API - 5CT & 7B • Vallourec • VAM AB • Tenaris • Hunting
NS Connection Technology • NOV Grant Prideco • Vam USA
Machining
OEM Equipment
Accessories
Repair and Overhaul
Welding
Production Welding
Certified Welding
Fabrication
- ISO 9001 and API Q1 Certified -
8875 King St., Anchorage | 907 563-3012 | pat.hanley@umalaska.com | www.umalaska.com

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.

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 five, North Dakota decreased 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

INSPIRATIONS
Hair & Nail Salon
We offer personalized service, catering to the busy professional.
• 11am — 7pm (Late night appointments by pre-arrangement only)
• Each stylist has a separate, enclosed work area for your privacy and comfort
Mention this ad and receive a 10% discount on hair services!
700 W Northern Lights Blvd., Anchorage, Alaska 99503
• Call for appointments • 561-9499

GOVERNMENT

Parnell: state going on offensive on ESA

A State of Alaska petition to the federal government to remove the eastern population 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 Endangered Species Act, Gov. Sean Parnell told a press conference on Sept. 2.

"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. "Well today the state goes on offense."

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 biological 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 protection our own citizens and our own economic way of life," he said.

Asked what action the state might take in relation to the ESA listings of other wildlife populations such as the Cook Inlet beluga whale and the polar bear, Parnell said that the state is continuing to monitor the situation and that the Steller sea lion petition represents the first step of a new offensive play.

"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 Rasmuson 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 border 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 southern 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.

—PETROLEUM NEWS

continued from page 11

ANGDA CONFLICT

NGSC or participate in any open season for any in-state bullet line that evolves from the HB 369 effort," the draft motion said, but Heinze, Izzo and other ANGDA 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.

Fauske: Not my idea

Fauske told the ANGDA board that AGDC wants Heinze on the team, but said when the issue of bidding on bullet line capacity rose in a discussion, one of the engineers said it might be a problem with FERC. This is not about ANGDA personnel, Fauske said, it's about wanting to do things right, and once the issue had been raised there was the specter that the team's work might be placed in jeopardy.

Vassar, the AHFC attorney, said the question for AGDC and the development team is that of confidence in the outcome. ANGDA has expressed an interest in being a bidder on the project, he said, and if AGDC ends up as the pipeline owner, if a member has influence on the project and intends to be a shipper, how does the perception that this shipper had unfair advantage be overcome.

Vassar, the AHFC attorney, said the question for AGDC and the development team is that of confidence in the outcome.

A draft motion for the ANGDA board to consider at the Sept. 8 meeting directed Heinze to compartmentalize ANGDA's work with the NGSC, its members and others concerning potential shipper actions related to any in-state bullet line.

Fauske asked for a few days to respond on whether the motion would resolve the issue.

Heinze said he'd already recused himself from the team, but he said ANGDA wasn't going to back off the open season for the big line if the issue is more than any role ANGDA might play as a potential shipper on a bullet line.

Also at the meeting the board welcomed its newest member, Rick Koch of Kenai, but said goodbye to one of its longest-serving members, Mayor Dan Sullivan of Anchorage, who tendered his resignation to the governor Sept. 2. Sullivan was appointed to the ANGDA board by Gov. Frank Murkowski in 2003.

This leaves the seven-member board, once again, two members short. ●

Contact Kristen Nelson at knelson@petroleumnews.com


I want in!

To advertise in Petroleum News, please contact Susan Crane at 907-770-5592, or Bonnie Yonker at 425-483-9705.

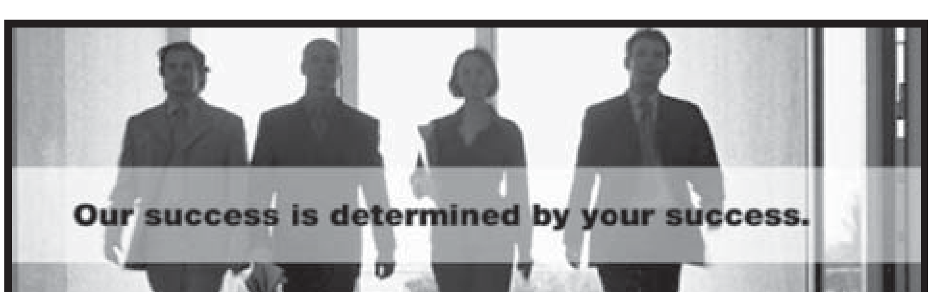
PORTA-KAMP INTERNATIONAL

• The Worldwide Solution for Temporary and Permanent Housing

• Custom Built Construction Camps, Rig Camps, And Portable Office Space

Available through:

5631 Silverado Way, Suite G, Anchorage, AK 99518
Ph: (907) 248-8808 | Fx: (907) 248-8878 | www.mrosalesinc.com
MRO Sales Inc.



opti STAFFING GROUP

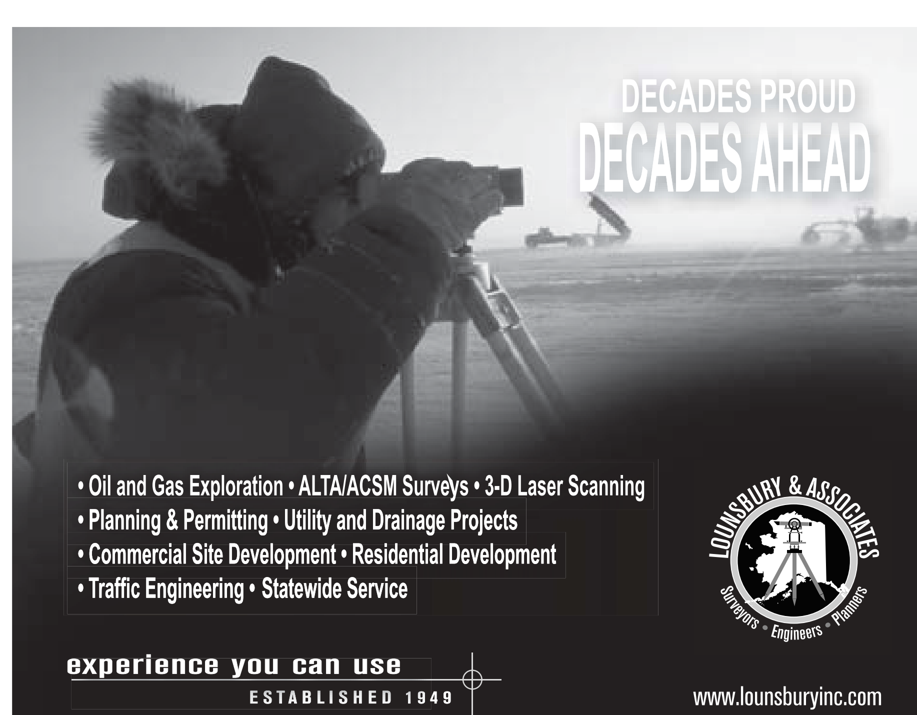
Alaska's Premier Placement Service

Phone: 907.677.9675

CHOOSE OPTI STAFFING

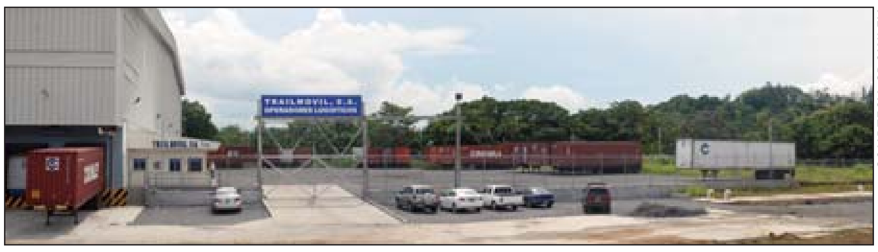
• Oil & Gas
• Skilled Trades
• Administrative Support
• Accounting

www.OptiStaffing.com



Petroleum news

Oil Patch Bits



COURTESY CROWLEY

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 Trailmovil 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 nondestructive 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, refinery, 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

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

Need to stretch your dollar?

Advertise 12x in Petroleum News, competitive rates with lots of complimentary extras, including:

Exposure in the weekly Petroleum News

- You make the List
- Your employees are spotlighted
- Your news gets in Oil Patch Bits

OIL PATCH BITS

BUSINESS SPOTLIGHT

COMPANY LIST

Exposure in the semiannual Arctic Oil & Gas Directory

STANDLAONE PHOTOS

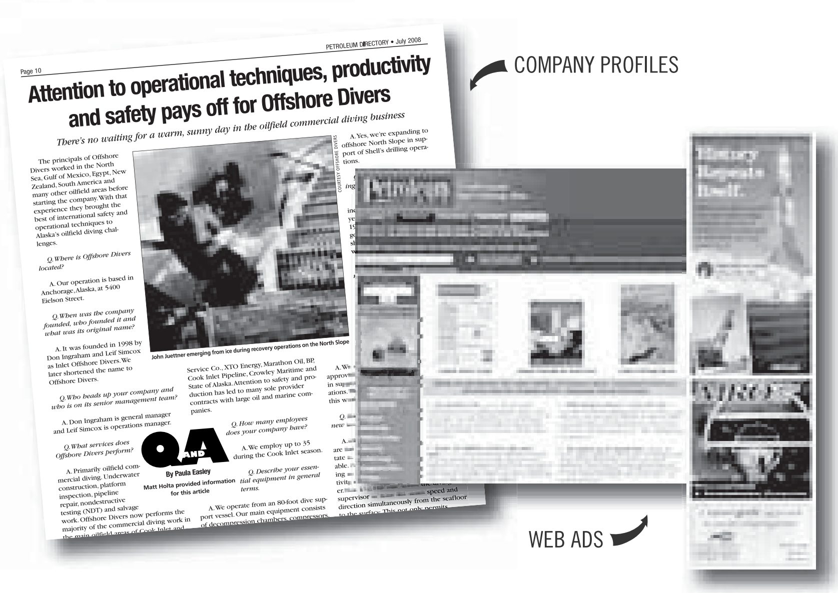
- Your news gets featured
- Company photos promote your business
- You're included in the buyer's guide

LISTINGS SECTION

NEWS BRIEFS

NEWS STORIES

COMPANY PROFILES



If your annual contract exceeds $7,100

We'll profile your company We'll have our writers work with you on a two-page Q&A company profile that will appear in the Petroleum Directory. Afterwards, you can frame it or use it as a company brochure or flyer.

We'll give you free online advertising When Petroleum News readers click on articles each week they will see your ad, which will appear in rotation on the current story pages. The size of your annual contract determines the size of your online ad.

WEB ADS

Contact **Susan Crane**, advertising director | Phone **907 522-770-5592** | Fax **907 522-9583** | email **scrane@petroleumnews.com** | web **petroleumnews.com**

continued from page 1

CHEVRON WELLS

platform "should be plugged back proximate to the mud line in preparation for ultimate 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 neighboring 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 Nikiski. Oil production commenced the following year, primarily from the sandstones in the Tyonek and Hemlock formations. Union Oil took over for Amoco as operator of the Baker platform in 1990. Ultimately 31.9 million barrels of oil and 15.9 billion cubic feet of natural gas were produced from the lease.

The Baker Platform

Today, the Baker platform is in "lighthouse mode." Production was halted in 2003 as oil recovery dwindled to an average of 515 barrels per day. Union Oil told state officials that year the North Middle Ground Shoal field was depleted and had reached its economic limit.

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" plugging and abandoning the wells on both Baker and Dillon, with operations to start in October on the Baker platform.

It means bringing the mothballed platform back to life for purposes of conducting the abandonment operations.

Construction work already has been done to make Baker "capable of well intervention," Chevron wrote in a "plan of abandonment" dated May 10 to the Division of Oil and Gas.

"The construction phase included rejuvenating the living quarters and galley, reinstating the fire control systems, and repairing both the basic electrical and mechanical infrastructure," 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 begin 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 company 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 abandonment of other platforms in the Cook Inlet the timing of which is unknown. Union envisions a large scale and coordinated abandonment effort among platform operators in the Cook Inlet once a sufficient number of platforms have reached their economic 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 environment 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 opportunities for a portion of, or all remaining infrastructure, 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 maintained in accordance with Union's integrity management program."

Chevron hinted with slightly greater clarity in its Feb. 23 letter, saying "preliminary feasibility work has been conducted for using these facilities to generate alternative power."

—WESLEY LOY

Contact Wesley Loy
at wloy@petroleumnews.com

continued from page 1

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 another 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, on 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 saying, "I'm not aware of us lining up any assets in the North Sea." She also reportedly said she hadn't heard the company was increasing its asset sales target to $40 billion.

see **SALE SPECULATION** *page 20*

continued from page 1

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 had 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 de 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. … 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 cellars 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. ●

Contact Alan Bailey at abailey@petroleumnews.com

Salazar to investigate CD-5 situation

During a visit to Alaska's North Slope, Interior Secretary Ken Salazar and Deputy Interior Secretary David Hayes discussed with ConocoPhillips and the local Native communities the current permitting impasse over ConocoPhillips' plans to develop a new oil field from the CD-5 well pad in the extreme northeast of the National Petroleum Reserve-Alaska, Salazar told a press conference in Anchorage on Sept. 3.

The U.S. Army Corps of Engineers has refused to allow ConocoPhillips to build a bridge over the Nigliq channel of the Colville River, a bridge that the company says is essential to its planned CD-5 development. Oil development at CD-5 could open the way to the future development of other oil fields in northeastern NPR-A.

Salazar said that he and Hayes had tried to get a sense of what might be done, to try to mitigate the effects of the bridge on the environment, so that development can move forward, and that he is personally interested in helping resolve the current impasse.

"It's an issue which we are interested in and we will see whether there's a resolution. … I want to see whether there is a way in which we can address the concerns that have been raised by the Environmental Protection Agency as well as by the Fish and Wildlife Service, to try to move forward," Salazar said, adding that he did not know whether progress would be possible.

—ALAN BAILEY

Kenworth Alaska

SERVING ALASKA FOR OVER 25 YEARS
YOUR OILFIELD VEHICLE SUPPORT

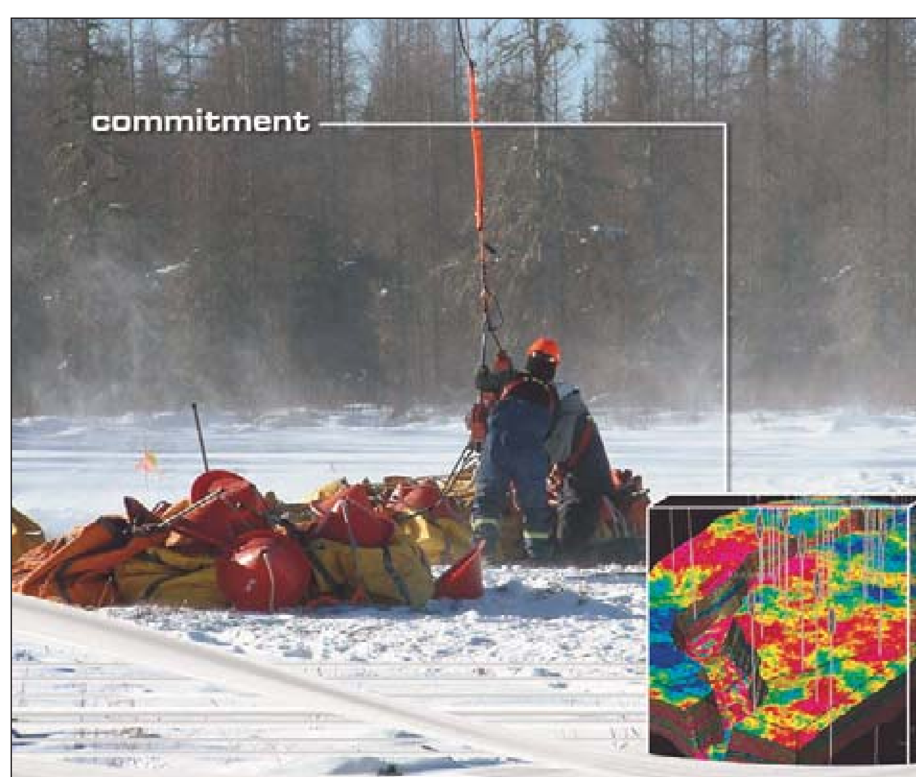
For higher profits you need productivity. That's where Kenworth performs the best. The trucks work hard and owners appreciate the durable, comfortable cabs. It's said that when you "think success" you succeed.

We say "think Kenworth."

Anchorage
2838 Porcupine Drive
Anchorage, AK 99501
AK Toll-Free: 800-478-0602
Phone: 907-279-0602
Fax: 907-258-6639
Hours:
Mon. - Fri.: 7:00 a.m. - Midnight
Saturday: 8:00 a.m. - 4:30 p.m.

Fairbanks
3730 Braddock Street
Fairbanks, AK 99701
Phone: 907-455-9900
Fax: 907-479-8295
Hours:
Mon. - Fri.: 7:00 a.m. - 6:00 p.m.
Saturday: 9:00 a.m. - 1:00 p.m.

Email: Parts • parts@kenworthalaska.com
Email: New/Used Truck Sales • sales@kenworthalaska.com



Environmental Responsibility

CGGVeritas is committed to environmental responsibility in all our seismic operations. With experience working in some of the most sensitive regions of Canada and the world, coupled with an industry-leading QHSE record, we can acquire your seismic data with minimum environmental impact.

Count on CGGVeritas to help you explore, develop and produce with confidence.

CGGVERITAS

cggveritas.com

continued from page 1

DECISION

until Aug. 4, after the close of the comment period. However, the same lawmakers previously raised similar concerns in timely comments filed in July.

Owners believe issues addressed

Regardless of whether DOE adds the settlement to the record, though, ConocoPhillips and Marathon believe they have already addressed the concerns in previous comments, noting three supply contracts negotiated this year and a history of third-party sales.

The lawmakers are concerned, though, because Enstar Natural Gas, the largest user in the state, faces relatively small shortfalls in 2011 and 2012 that get much larger in 2013.

ConocoPhillips and Marathon noted that DOE did not impose the terms of the 2008 settlement, but that the state and the companies negotiated the terms independently.

"Neither should any formal condition be imposed here," the companies wrote to DOE on Aug. 31. "Applicants will stand by the commitments they have made on this record."

The companies also noted that the state House and Senate both unanimously passed resolutions supporting continued exports. Some of the group of seven Democrats, though, tried unsuccessfully to add their concerns to those resolutions through amendments.

The current export license expires in April 2011. The companies want to continue exports through March 2013. They've asked DOE to make a ruling by early September.

—ERIC LIDJI

Contact Eric Lidji at ericlidji@mac.com

continued from page 1

DRILLING COMEBACK

bons produced in 2009 totaled C$61.6 billion, off 32.9 percent from the C$91.8 billion in 2008, reflecting the shrinkage in wellhead prices, while the value of marketable gas production was down 53.1 percent to C$20.9 billion.

Alberta overhaul a factor

For Alberta, the road back to good health also included another overhaul of its royalty regime, which has been credited with spurring the province's return to the top rung in government land sales after two years of trailing British Columbia.

Operators shelled out almost C$187 million at Alberta's Sept. 1 sale, raising its year-to-date total to C$1.71 billion.

It needs to raise only another C$120 million 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 2.4 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.

The largest successful bid in the region was C$23.5 million, or C$2,874 per hectare, for an 8,192 hectare parcel in La Glace, where Capio Exploration has licensed a new pool wildcat directional oil well. Terra Energy has also licensed a nearby directional Montney natural gas well. The successful bid was made by land broker Scott Land & Lease for an unnamed buyer.

Orleans Energy posted the highest per-hectare average of C$8,341 in laying claim to two parcels in the Waskahigan area of west-central Alberta. The company said it has now assembled more than 8,500 hectares of contiguous land in the emerging exploration area.

Gregg Scott, owner of Scott Land & Lease, said the largest bids were made over a wide geographical area, targeting both oil and natural gas prospects, despite weak gas prices.

The Canadian Association of Oilwell Drilling Contractors added to the buoyant mood by reporting that 357 of an available 795 rigs were working across Western Canada at the end of August, compared with 183 of 852 rigs at the same time last year, even though heavy summer rains have prevented some wells from being drilled.

Association President Don Herring said in a statement the recovery is a result of improved oil prices and a positive response to the Alberta government's royalty adjustments.

He said the amended fiscal regime has helped the industry leave behind the uncertainty of 2009.

Herring predicted an average 400 rigs will be at work in the current quarter, followed by a "fairly strong" final quarter.

The Alberta government said it expects to issue C$1.4 billion in royalty drilling incentives in the 2010-11 fiscal year, almost double what it budgeted, as a result of the unexpected well count by smaller companies.

But the current numbers are somewhat tempered by the fact that Western Canada's rig fleet is at its lowest level since 2006.

Setting the pace are the oil-weighted provinces of Alberta, Saskatchewan and Manitoba, with Alberta's active rig count for the first eight months averaging 214 units, up 73 percent from last year, but still below other years since 2000.

Saskatchewan has recorded its highest active rig count since 1997, with an average 64 rigs employed to the end of August, double 2009. Manitoba has had a record nine rigs at work.

British Columbia, heavily tilted to natural gas, has logged an average 61 rigs at work, a 22 percent increase from 2009 and better than all years over the past decade except for the 2004-06 period. ●

Contact Gary Park through publisher@petroleumnews.com

continued from page 18

SALE SPECULATION

Apache back in the hunt?

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.

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 some 200,000 acres of leases from private investors.

A group of Apache managers was in Anchorage in late August, and they said the company's Alaska focus would be on Cook Inlet rather than the North Slope.

Occidental Petroleum, or Oxy, is a Los Angeles-based independent. "We are the fourth-largest U.S. oil and gas company, based on market capitalization of $66 billion at year-end 2009, with nearly 30,000 employees and contractors on four continents," the company website says.

Although declining for years, Prudhoe Bay remains the top-producing U.S. oil field and a big piece of BP's business.

State records show that BP holds a 26.36 percent working interest in the Prudhoe Bay unit, ExxonMobil owns 36.40 percent, ConocoPhillips owns 36.08 percent, and Chevron holds 1.16 percent.

BP, in its annual report filed March 5 with the U.S. Securities and Exchange Commission, said its net share of production from Prudhoe Bay was 69,000 barrels per day in 2009.

BP operates 15 North Slope fields including Prudhoe, and owns a share in six other producing fields.

While no one from any company involved confirmed it publicly, the belief was that the purported Prudhoe sale to Apache fell through in part because the transaction was simply too complex.

On July 27, BP announced it planned to sell assets for up to $30 billion over the next 18 months, primarily in the upstream business. As of press time, BP had not officially revised that estimate.

Media reports talked of potential sales all over the globe: Venezuela, Argentina, Pakistan, Africa. On Sept. 1, BP announced it had agreed to sell its interests in ethylene and polyethylene production in Malaysia for $363 million.

On Sept. 8, BP released its investigative report on the Gulf of Mexico blowout that killed 11 rig workers and unleashed the nation's largest oil spill.

The report concluded that decisions made by "multiple companies and work teams" contributed to the accident, including what outgoing BP chief executive Tony Hayward called "a bad cement job" in the Macondo well.

The Financial Times reported Sept. 3 that BP's bill for responding to the catastrophe had reached $8 billion. ●

Contact Wesley Loy at wloy@petroleumnews.com