Escopeta targets gas for SC Alaska

BOEMRE publishes revised Arctic OCS oil, gas resource assessment

Cash grab risky business

Lawyers get busy again

A risky business

By ALAN BAILEY
Petroleum News

The Deepwater Horizon disaster in the Gulf of Mexico has heightened everyone’s consciousness of the risks involved in offshore oil exploration, while also adding a few decimals to the volume of the contentious debate over the advisability or otherwise of searching for oil in the Arctic offshore. And on May 3, in a panel discussion organized by the University of Alaska Anchorage, four people who have been involved in different aspects of industry safety management reflected on how offshore oil and gas risks might be managed in the future.

By WESLEY LOY
For Petroleum News

Court proceedings have resumed in the struggle for control of Alaska’s rich but undeveloped Point Thomson oil and gas field.

By GARY PARK
For Petroleum News

The 102-page document filed May 5 lays out the state’s appeal of a Jan. 11, 2010, lower court decision that reversed former DNR Commissioner Tom Irwin’s termination of the Point Thomson unit.

The Alberta government knows all about the folly of trying to turn royalties into a cash cow.

By MIKE PERCY
For Petroleum News

Mike Percy, dean of the School of Business at the University of Alberta, said the British move is further evidence that “governments tend to forget how mobile capital is” by looking only at profit and production and ignoring the cost of dry holes and other risks.

The need for safety system

Panel member Fran Ulmer, chair of the U.S. Arctic Research Commission and an erstwhile member of the President Obama’s National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, reiterated the general findings of the presi
d
ON THE COVER
A risky business
Panel discusses how to handle dangers of Arctic offshore oil development

Lawyers get busy again
State, Exxon fight over Alaska’s Point Thomson unit; settlement talks continue

Cash grab risky business
British follow Alberta into royalty increases; Canadian North Sea producers react

Senate Finance modifies HB 106; admin: too many changes in CS

BOEMRE publishes revised Arctic OCS oil, gas resource assessment

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6 Oooguruk expansion application complete

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9 Buccaneer completes Kenai Loop drilling

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Alaska - Mackenzie Rig Report

Alaska Rig Status

North Slope - Onshore

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
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<td>Sky Top Brewater NE-12</td>
<td>Doyon Yard for Modification</td>
<td>ENI</td>
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<td></td>
<td>Dreco 1000 UE 16</td>
<td>Milne Point MPS-236/HH</td>
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<tr>
<td></td>
<td>TSM 7000</td>
<td>Arctic Wolf #2</td>
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| North Slope - Offshore

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<td>Stacked, Prudhoe Bay</td>
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<tr>
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<td>COR-2</td>
<td>Kuparuk Well 2K-15A</td>
<td>ConocoPhillips</td>
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<td>Dreco 1000 UE 2-ES</td>
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<td>Mid-Continental U36A 3-S</td>
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<td>Emisco Electro-hoist-17</td>
<td>Stacked, Deadhorse</td>
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<td>Emisco Electro-hoist-17</td>
<td>Stacked, Deadhorse</td>
<td>Available</td>
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<td>Emisco Electro-hoist-2</td>
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<td></td>
<td>Emisco Electro-hoist-17</td>
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Nordic Calista Services

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<tbody>
<tr>
<td>Superior 700 UE</td>
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<td>Prudhoe Bay Drill Site C-42a</td>
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<tr>
<td>Superior 700 UE</td>
<td>2 (SCR/CTD)</td>
<td>Prudhoe Bay Well Drill Site 2-21D</td>
<td>BP</td>
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<tr>
<td>Idco 900</td>
<td>3 (SCR/CTD)</td>
<td>Kuparuk Well 25-14</td>
<td>ConocoPhillips</td>
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Cook Inlet Basin – Onshore

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<tr>
<td>Aurora Well Service</td>
<td>AWS 1</td>
<td>Stacked out on the west side of Cook Inlet near Tyonek</td>
<td>Available</td>
</tr>
<tr>
<td>Cook Inlet Energy</td>
<td>Atlas Copco R202 34</td>
<td>Undergoing winterization at W. McArthur River Unit</td>
<td>Cook Inlet Energy</td>
</tr>
<tr>
<td>Doyon Drilling</td>
<td>TSM 7000</td>
<td>Arctic Fox #1</td>
<td>Beluga Stacked</td>
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Marathon Oil Co. (Inlet Drilling Alaska labor contractor)

<table>
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<tbody>
<tr>
<td>Taylor</td>
<td>Glacer 1</td>
<td>Kenai Loop #1</td>
<td>Buccaneer Alaska</td>
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Nabors Alaska Drilling

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<tr>
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<td>273</td>
<td>Stacked, Kenai</td>
<td>Available</td>
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<tr>
<td>Emisco 2100 E</td>
<td>429E (SCR)</td>
<td>Stacked, Kenai</td>
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<tr>
<td>Romar 850</td>
<td>129</td>
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Rowan Companies

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<tbody>
<tr>
<td>Ac Electric</td>
<td>68AC (SCR/CTD)</td>
<td>Demobilising and preparing to ship to Lower 48</td>
<td>Pioneer Natural Resources</td>
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<tr>
<td>Kuukpik</td>
<td>5</td>
<td>Demobilized from LEA #1 back to Kenai, prepare for Barrel mobilization</td>
<td>Linc Energy</td>
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Cook Inlet Basin – Offshore

<table>
<thead>
<tr>
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<th>Rig Location/Activity</th>
<th>Operator or Status</th>
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<tr>
<td>Chevron (Nabors Alaska Drilling labor contract)</td>
<td>428</td>
<td>M-11 Steelhead Platform</td>
<td>Chevron</td>
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<tr>
<td>XTO Energy</td>
<td>National 110</td>
<td>C (TD)</td>
<td>XTO</td>
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Mackenzie Rig Status

Canadian Beaufort Sea

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<tr>
<td>SDC Drilling Inc.</td>
<td>SDC CANDAR Stand Rig 2</td>
<td>SDC</td>
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Central Mackenzie Valley

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<tr>
<td>Akita/SHTU</td>
<td>Oilwell 500</td>
<td>Has left the NWT</td>
<td>M&amp;G Energy Corp.</td>
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</table>

The Alaska - Mackenzie Rig Report is sponsored by:

XTO ENERGY

Baker Hughes North America rotary rig counts*

<table>
<thead>
<tr>
<th>Rig Count</th>
<th>May 6</th>
<th>April 29</th>
<th>Year Ago</th>
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<td>US</td>
<td>1,016</td>
<td>1,318</td>
<td>1,402</td>
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<tr>
<td>Canada</td>
<td>123</td>
<td>133</td>
<td>103</td>
</tr>
<tr>
<td>Gulf</td>
<td>29</td>
<td>28</td>
<td>49</td>
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Highest/Lowest

<table>
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<tr>
<th>Rig Count</th>
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<th>April 2011</th>
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</thead>
<tbody>
<tr>
<td>US</td>
<td>4530</td>
<td>488</td>
</tr>
<tr>
<td>Canada</td>
<td>658</td>
<td>558</td>
</tr>
<tr>
<td>Gulf</td>
<td>29</td>
<td>29</td>
</tr>
</tbody>
</table>

*Issued by Baker Hughes since 1944

This rig report was prepared by Marti Reeve.

The Alaska - Mackenzie Rig Report as of May 12, 2011. Active drilling companies only listed.

TD = rigs equipped with top drive units  WO = workover operations  CT = coiled tubing operation  SCR = electric rig
Northern Waters Task Force fills gap

Rep. Reggie Joule, chair of task force, says Alaska needs to be involved in Arctic policy decisions for both benefits and protection

By STEVE QUINN
For Petroleum News

The state’s Northern Waters Task Force is off to a slow start, but don’t blame its leader Rep. Reggie Joule.

The 11-person group has been entrusted with a joint state/federal commission designed to oversee development of northern oceans. And Joule is ready to get down to business.

But thanks to a special session Joule has had to postpone meetings and even a mission designed to oversee development; Arctic research and Arctic infrastructure.


Others include leaders from coastal communities and Department of Environmental Conservation Commissioner Larry Hartig.

Joule will provide a final report to the Legislature by Jan. 30, 2012.

In terms of powering Alaska’s economy, few things outperform our trains. In 2010, we carried more than six million tons of freight and 600,000 passengers over 651 miles of track.

Joule is in his 10th term with the Legislature and a member of the House Finance Committee which reviews all resource development issues with price tags attached to them.

Joule sat down with Petroleum News to discuss his goals for the task force and what may be ahead for the state’s oil tax rewrite debate.

Petroleum News: How did this group come together?

Joule: The Senate President (Gary Stevens) and House Speaker (Mike Chenault) made the decisions. It’s largely for those communities to be impacted.

Petroleum News: Did you want to be chair?

Joule: I guess so, yeah. I just wanted to get on the task force because it’s timely. I try to take somewhat of a balanced approach to how the agenda gets set, so that when we sunset in 2012, we try to come up with a sound set of recommendations for the Legislature that would hopefully set up a permanent commission or task force that would continue to monitor efforts in Alaska regarding our oceans. I think we are going to see huge activity.

Petroleum News: What are some of the priorities?

Joule: I guess mostly that we are aware and are responsible, and definitely engaged. I have my own opinion about oil and gas development offshore, but if this is something that is going to happen, how can we benefit from it and how can we safeguard ourselves at the same time? Those are conversations that are happening at the federal level. But as a state what should we be getting about and about what should we be moving with caution. The same with fisheries and marine transportation. There already is a huge research effort going on, but is it the right kind for the activity that’s being proposed? Are we taking advantage of the science and the research that should be done to ensure the safety of the ecosystems not only in the oceans, but as they come to shore and the people who depend on those things onshore?

Petroleum News: What are your thoughts on offshore drilling?

Joule: I’ll just keep that to myself.

Petroleum News: Is this anything like coastal management?

Joule: There is a huge difference. Actually, they are almost not even related. They may mean potential jobs. Some of the challenges like over-the-top transportation corridors — there are some choke points in the Bering Straits. There is whether large-scale coastal areas or even local efforts such as accessing gravel for communities. All that stuff needs to get permitted. The Northern Waters Task Force, one of the reasons that we put this together, with the advent of climate change there are a lot of things that we become aware of that presented themselves as opportunities and challenges all rolled into one. The legislature and global community were having discussions about these potential events in Arctic waters. The Alaska Legislature was not even in the mix of knowing what those things were. You’ve got the Arctic Council, which the United States has a seat at because of Alaska’s place on the Arctic.

There are others active there. Oil companies, shipping firms, fishing industries and even the coast guard are formulating plans figuring out how do deal with all of these kinds of activities. We weren’t part of that conversation. Part of all of this effort is to bring us up to speed. There is going to be a need for infrastructure; there is going to be a need for science; there is going to be a need for communications with communities and Alaskans. There is probably going to be at some point some policy calls that we need to be involved in. There could be opportunites for jobs.

But there may be times where we are going to have to deal with mitigation. All of those things taken together is why the Northern Waters Task Force was formed, recognizing of course that as one of the few coastal states in this country, we didn’t have any kind of a way to be plugged into what’s going on with the oceans. Here we had a president and an administration putting together a national oceans council in search of members to sit on a task force. We were nowhere.

Petroleum News: You mentioned various events, what kind of events did you have in mind?

Joule: I’m not sure. Let’s see. Could it be things like melting ice? Could it be things like fish moving to colder water? Ocean acidification? Diminishing sea levels? Diminishing sea ice?

Petroleum News: So you have those challenges, but there are also events like prospective drilling, right?

Joule: There are things to consider like OCS, whether we like it or not, the northern management council, marine shipping, national defense and the need for infrastructure, whether it’s the coast guard or military. All of those matters are going to come up.

Petroleum News: Is this anything like coastal management?

Joule: There is a huge difference. Actually, they are almost not even related. They may intersect in places. Coastal zone management is about permitting and getting local input into those things that are needed to obtain permits

Joule sat down with Petroleum News for an exclusive Q&A session. The group was established with unanimous backing of the Legislature toward the end of last year’s session. The task force will spend the rest of the year addressing areas including Arctic governance, oil and gas mineral development, Arctic fisheries; marine transportation; Arctic research and Arctic infrastructure.


Others include leaders from coastal communities and Department of Environmental Conservation Commissioner Larry Hartig.

Joule will provide a final report to the Legislature by Jan. 30, 2012.
Conoco applies to expand Kuparuk, Tarn

Kuparuk River unit, two participating areas, Kuparuk and Tarn, would be expanded to include more of Kuparuk, Bermuda formations

By KRISTEN NELSON
Petroleum News

ConocoPhillips Alaska has applied to the Alaska Department of Natural Resources’ Division of Oil and Gas to expand the Kuparuk River unit by some 2,880 acres, 320 acres in the Kuparuk participating area and the remainder in the Tarn participating area.

The working interest owners in the expansion area include ConocoPhillips, the Kuparuk operator, and BP Exploration (Alaska), Chevron U.S.A. and ExxonMobil Alaska Production.

ConocoPhillips told the state the proposed Kuparuk participating area expansion is due west of drill site 2A, northwest of drill site 2M and along the western edge of Kuparuk.

Expansion of this area is based on both the Kuparuk C and A sands being mapped into the production area, current acquisition of seismic data to improve imaging and mapping and reservoir engineering data which “demonstrates that oil is being drained from the tract and produced through the nearby development wells.”

ConocoPhillips said the Kuparuk participating area expansion is on the western flank of the Kuparuk anticline; the reservoir occurs at subsurface depths of approximately 5,900 feet. The company said it believes injector wells 2M-05 and 2M-06 are sweeping oil from the reservoir, as well as the northern, southern and eastern flanks of the 2N area Bermuda reservoir.

The Bermuda reservoir is the sequence of turbidite sandstones, siltstones and mudstones discovered in the 1991 ARCO Bermuda No. 1 well between 5,342 and 5,608 feet measured depth. ConocoPhillips said the Bermuda reservoir turbidite systems at Tarn are part of the late Cretaceous lower Seabee formation.

A high-quality 3-D seismic survey was acquired over the Tarn field in the winter of 2008. Analysis of the seismic, including 4-D effects, “led to the recognition of a fracture system aligned with wells experiencing premature injection breakthrough,” the company said, and recognition of this preferential flow pattern improved understanding of sweep orientation.

“New development drilling opportunities are now planned to take advantage of this sweep orientation,” ConocoPhillips said, adding that the new seismic data also “dramatically improved” understanding of the extent of the Tarn field.

Tarn is an enhanced oil recovery project using miscible water alternating gas injection.

Prior exploration

ConocoPhillips said there have been no recent exploration activities in the Kuparuk participating area expansion.

Prior exploration in the Tarn participating area included the 1991 ARCO Bermuda 1 well and the 1992 ARCO Tarn 1 well. The first 3-D seismic was acquired over the Tarn expansion area in 1996 and interpretation of that seismic led to drilling of the Tarn 2, Tarn 3, Tarn 3A and Tarn 4 wells in the 1996-97 winter drilling season.

The 2N-310 well appraised and tested the younger Cairn interval at Tarn in 2008; Cairn tested gas. The company said it believes the new seismic data will help locate Tarn reservoir turbidite systems.

More than 100 million barrels of 33-37 degree API oil had been recovered from Tarn by the end of 2010 and 74 wells have been drilled in the current Tarn participating area, ConocoPhillips said.

Proposed expansion of the Tarn participating area is based on results from development drilling on the northern and eastern flanks of the 2L area Bermuda reservoir, as well as the northern, southern and eastern flanks of the 2N area Bermuda reservoir, the company said.

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Alaska Department of Revenue
Tax Director

The Alaska Department of Revenue is seeking a dynamic individual to lead the Tax Division. The Tax Director oversees a 130 person division responsible for collection of oil and gas severance taxes, corporate income taxes, fisheries business taxes, a variety of excise taxes, and charitable giving program.

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Interested applicants should fully explain in their online cover letter their recent succinct experiences and their oil and gas knowledge.

For more information on how to apply for this vacancy, please visit http://workplace.alaska.gov OR by calling 800-587-0430 statewide and in Juneau call (907) 465-5342.

The last day to apply for this job is June 15, 2011; 5:00 PM Alaska Time.

By KRISTEN NELSON
Petroleum News

ConocoPhillips has applied to expand the Kuparuk Participating Area, Kuparuk and Tarn, with a drainage radius of 2,700 feet. The participating area is based on adding areas to provide better information.

Wells 2M-05 and 2M-06 are sweeping oil from approximately 5,900 feet. The company believes that injector wells 2M-05 and 2M-06 are sweeping oil from the reservoir, as well as the northern, southern and eastern flanks of the 2N area Bermuda reservoir, as well as the northern, southern and eastern flanks of the 2N area Bermuda reservoir, the company said.

Tarn is an enhanced oil recovery project using miscible water alternating gas injection.

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Tarn is an enhanced oil recovery project using miscible water alternating gas injection.
Land & Leasing

Oooguruk expansion application complete

Pioneer Natural Resources Alaska’s application for a second expansion of the Oooguruk unit on Alaska’s North Slope is now complete, the Alaska Department of Natural Resources’ Division of Oil and Gas said in early May; comments on the expansion are due by June 16.

Pioneer originally applied to add five leases to the unit. The application deemed complete by the state on May 2 is for the addition of four leases, some 9,951 acres.

The four leases in the expansion area (ADL 390505, ADL 390697, ADL 390434 and ADL 390506) form a block adjacent to the existing unit on the southwest.

ADL 390504, the lease Pioneer dropped from the expansion request, juts off the northwest corner of the proposed expansion block.

Oooguruk is northwest of the Kuparuk River unit and west of the Nikaichuq river. Pioneer said the oil and gas leases within the proposed unit area are largely controlled by Pioneer and Eni Petroleum Co.

The unit expansion is related to the Torok reservoir, part of which will be developed from the offshore Oooguruk drill site and part of which would be developed from onshore drill sites to be built at what the companies are calling the Nuna project.

—KRISTEN NELSON

Government

Dems seek subsidies slash for ‘Big Oil’

THE ASSOCIATED PRESS

Democrats running the U.S. Senate are seeking to strip the five biggest oil companies of tax breaks that pad their profits by $2 billion a year and instead use the money to help pay for a deficit.

Sen. Robert Menendez, another sponsor, said: “This ought to be the essence of low-hanging fruit.”

Republican opponents say the companies would simply raise prices if the measure became law.

Another sponsor, Sen. Robert Menendez acknowledged that the legislation — slated for a vote later in May — will not do anything about gas prices exceeding $4 a gallon in many places.

The measure would also eliminate the so-called oil depletion allowance for the five oil companies. That allowance permits producers to tax a deduction comparable to the break given manufacturers for depreciation of the value of an investment in plants and equipment.

The other companies that would be affected by the legislation are BP, Chevron, and ConocoPhillips.

By GARY PARK

Distributed for Petroleum News

Canada’s LNG export plans could stretch from Tuktoyaktuk to the Beaufort Sea to Korea, predicts Northwest Territories Industry Minister Bob McLeod.

Speaking at the Offshore Technology Conference in Houston, he said the prospects stem from the CS30 million investment in gas holdings of MGM Energy by the Canadian subsidiary of Korea Gas Corp.

McLeod said the Koreans started to show interest in converting Canada’s northern gas into liquefied natural gas when they realized their imported LNG would cost more than what they would pay to acquire Canadian gas assets.

But he was not in a position to shed light on the possibility of Kogas shipping LNG from Tuktoyaktuk.

However, Kogas officials indicated the company was prepared to study the feasibility of importing LNG, given forecasts that the Beaufort will increasingly be free of ice and open to tanker movement.

Kogas has already paid CS20 million to MGM for its Umiak significant discovery license and is committed to paying the final CS10 million if a decision is made to construct a pipeline out of the Mackenzie Delta.

Currently, the only land access from Inuvik to Tuktoyaktuk is by ice road in the winter.

Year-round road promised

But that is about to change under the newly elected Conservative government of Prime Minister Stephen Harper which has promised CS100 million to complete a year-round road between the two communities.

McLeod is also hopeful that the majority Harper government will now feel able to complete negotiations on a fiscal framework for the Mackenzie Gas Project.

He said the government has said any assistance it offers the MGP would have to be economic on a commercial basis.

“Basically, it’s a message they don’t want to be seen as subsidizing Big Oil and Big Oil has said it is not asking for a subsidy,” McLeod told Platts Oilgram News. He said the MGP partners have only requested a “fiscal framework that will allow them to make a go/no go decision on construction of the pipeline.”

Separately, the Dehcho First Nations of the lower NWT show signs of softening their opposition to the MGP by asking Imperial Oil to include guaranteed employment and business opportunities in a benefits and access agreement.

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Dehcho Grand Chief Sam Gargan said meetings are scheduled to explain the contents of any agreement with the Dehcho member communities.

Contact Gary Park through publisher@petroleumnews.com

Land & Leasing

Oooguruk expansion application complete

Pioneer Natural Resources Alaska’s application for a second expansion of the Oooguruk unit on Alaska’s North Slope is now complete, the Alaska Department of Natural Resources’ Division of Oil and Gas said in early May; comments on the expansion are due by June 16.

Pioneer originally applied to add five leases to the unit. The application deemed complete by the state on May 2 is for the addition of four leases, some 9,951 acres.

The four leases in the expansion area (ADL 390505, ADL 390697, ADL 390434 and ADL 390506) form a block adjacent to the existing unit on the southwest.

ADL 390504, the lease Pioneer dropped from the expansion request, juts off the northwest corner of the proposed expansion block.

Oooguruk is northwest of the Kuparuk River unit and west of the Nikaichuq river. Pioneer said the oil and gas leases within the proposed unit area are largely controlled by Pioneer and Eni Petroleum Co.

The unit expansion is related to the Torok reservoir, part of which will be developed from the offshore Oooguruk drill site and part of which would be developed from onshore drill sites to be built at what the companies are calling the Nuna project.

On the Web

See previous Petroleum News coverage:


“Pioneer applies to add leases to Oooguruk for onshore Nuna project,” in May 1, 2011, issue at www.petroleumnews.com/pnads/378284285.shtml.

See previous Petroleum News coverage:


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Tugboat captain faulted in accident

 Coast Guard finds numerous lapses in 2009 grounding on Alaska’s Bligh Reef, well-marked hazard; 6,410 gallons of diesel spilled

A U.S. Coast Guard report says the captain of an oil industry tugboat that ran aground in Alaska’s Prince William Sound broke company policies and was playing a video game at the time of the mishap.

The 136-foot Pathfinder, with a crew of six, hit Bligh Reef on 6:15 p.m. Dec. 23, 2009. The vessel stayed afloat, but the impact ruptured fuel tanks and 6,410 gallons of diesel spilled, forcing a massive cleanup.

Bligh Reef is notorious as the well-marked navigational hazard the oil tanker Exxon Valdez struck in 1989, spilling nearly 11 million gallons of crude oil.

The Coast Guard report says the captain of the Pathfinder, Ronald Eugene Monsen, had just changed course and sped up the tug, doing so without verifying the position of the vessel. He then turned to a computer to play video games, his back to the forward observation window.

Monsen “deliberately violated company policy and used the vessel’s computer to play hearts or other games, directly after changing course and speed. The Master’s actions left the vessel’s position unknown, other than an assumption made by the Master on the vessel’s previous course,” the report says.

The captain and the second mate, whose name was blacked out, each believed the other had the “con” at the time of the grounding, the Coast Guard report says.

The second mate had a history of involvement in prior incidents, and failed to inform the Pathfinder’s captain of possible danger after the mate looked but was unable to find Bligh Reef Light, either visually or with radar, the report says.

Highly experienced captain

Monsen had 35 years in the industry, had worked on the Pathfinder for more than 10 years, and was planning to retire within eight months, the report says.

The captain took ill-advised action to remove the tug from the reef, taking it from there to an anchorage at Bushy Island, says the report.

The captain believed if it stayed on the reef, the vessel maybe couldn’t be refloated. But removing the tug caused additional damage to the hull, the Coast Guard investigation found.

Monsen told investigators he suffered from constant stress because his wife was disabled and home by herself in Anchorage, the report says.

Investigators found the captain made a number of errors: He failed to verify his position, failed to chart his intended course, home, failed to make clear who was controlling the boat, and improperly used a computer on the bridge to play games.

“Company policy requires the full attention of the bridge crew while navigating,” the report says.

Monsen and the second mate were immediately suspended after the accident, and following Crowley’s internal investigation both were fired, Charlie Nalen, Crowley’s vice president of Valdez operations, told Petroleum News by e-mail.

The Coast Guard also investigated the performance of its Valdez Vessel Traffic Center, which can track the movements of tankers, tugs and other vessels.

The center “operated in conformity with applicable requirements and regulations and was not a contributing factor to this mishap,” the report says.

Changes made, tug decommissioned

The report indicates the Coast Guard gathered evidence to pursue enforcement actions against the captain and Crowley. “Crowley management is responsible for the corporate culture where complacency is blacked out,” the report says.

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ericagiardina@platts.com

For sponsorship opportunities, contact:
Joshua Vernon
Tel: 781-430-2113
joshua.vernon@platts.com

For media inquiries, contact:
Christine Benners
Tel: 781-430-2104
christine.benners@platts.com

Registration Code: PC123PN
On May 10, Escopeta Oil and Buccaneer Energy received air quality permits from the Alaska Department of Environmental Conservation for their Cook Inlet offshore drilling programs.

Escopeta received the permit for the Spartan 151 jack-up drilling rig, specifically for its five-well program in its Kitchen Lights unit. Drilling of the first well, which is expected to have good-sized natural gas and oil targets, will commence in mid-June.

The Spartan 151 jack-up is on its way to Alaska from the Gulf of Mexico, currently headed north in the Pacific Ocean, and expected to arrive May 25 in Homer, Alaska.

Escopeta has the jack-up under lease for two years with the option to renew for another two years. The Houston independent, which recently opened offices in downtown Anchorage, has an option with Spartan to purchase the rig.

Looking for lots of gas
Escopeta President Danny Davis expects to be drilling the first well at the Corsair prospect in the Kitchen Lights unit by mid-June.

“The well is about 2,000 feet southwest of the Shell No. 1 well,” at latitude 60° 56’ 05” N, longitude 151° 09’ 01” W. Davis said May 11 in an interview with Petroleum News. “It’s our greatest chance of finding a large amount of gas, which we know is needed in Southcentral Alaska.”

Kitchen Lights holds four distinct prospects — Corsair, Northern Lights, East Kitchen and Kitchen. The only prospect that has been drilled is Corsair, where Shell, Phillips and ARCO drilled a total of five exploration wells between 1962 and 1993. The wells all had gas shows and some also tested small quantities of oil.

In 2003, Forest Oil, a former owner of the Corsair leases, said that a pre-drill analysis of the prospect indicated it might hold as much 480 billion cubic feet of natural gas and 137 million barrels of oil.

Buccaneer notes importance of permit
In a May 10 press release Buccaneer Energy said its air quality permit was issued for four drilling locations — two in each of its Cook Inlet basin offshore units, Southern Cross and North West Cook Inlet.

“As the air quality permits are the longest lead time permits to obtain, taking a minimum 180 days, this milestone is an important step towards drilling the company’s offshore Cook Inlet projects,” Buccaneer said in its press release.

The Australian independent spud its first well in the Cook Inlet basin onshore in mid-April, about one year after it acquired its first acreage in Alaska. The company is in the process of purchasing a jack-up rig from Transocean.
House passes bill to speed up drilling

THE ASSOCIATED PRESS

The Republican-controlled U.S. House of Representatives passed the first of three bills May 5 aimed at speeding up offshore oil and gas drilling a year after the largest offshore oil spill in U.S. history.

In a 266-149 vote that included 33 Democrats in its majority, the House approved a bill that would force the federal government to conduct three lease sales in the Gulf of Mexico and one off the Virginia coast within a year, or by June 2012. Lease sales are the first step in a multiyear process that can culminate in drilling.

The Obama administration had postponed the sales after the massive Gulf oil spill, saying it needed time to conduct more thorough environmental reviews, to account for the blowout’s effects on the Gulf ecosystem and to incorporate lessons learned from the disaster.

A major federal investigation into what caused the accident has yet to be released.

Rep. Doc Hastings, R-Wash., the House Natural Resources Chairman and the bills’ sponsor, said May 5 that the legislation would reverse actions by the Obama administration that have blocked or hindered drilling at a time of rising gasoline prices.

“The pain being felt today has been exacerbated by the actions of the Obama administration,” Hastings said. He said opening up more areas to drilling would send a signal to the world market that the U.S. is serious about reducing its dependence on foreign oil and lower pump prices.

Hastings’ two other measures — which would speed up decision-making on drilling permits and mandate that the government sell offshore leases where the greatest oil deposits are — are expected to be voted on the week of May 9.

None of the three measures is likely to pass the Senate, where Democratic leaders are more focused on ending tax breaks received by profitable oil companies. The White House said May 5 it would oppose two of the three bills because they would

continued from page 7

PATHFINDER

is discouraged and robust bridge resource practices are encouraged,” the report says.

“Crowley fully cooperated with the Coast Guard and received safety recommendations during and following their investigation,” Nalen said. “All of these recommendations together with those from Crowley’s internal investigation were included in a Safety Management Plan. This Plan was developed to address recommended operational improvements for continued safety of people, property and the environment in Valdez and Prince William Sound and has been fully implemented.”

As part of the plan, “a Bridge Resource Management training program was developed together with A VTEC in Seward for all of our navigation watch officers,” Nalen said in U.S. history.

Crowley paid a civil penalty for the spilled diesel, he said, adding: “The Pathfinder was decommissioned and is currently moored in Seattle and for sale.”

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NATURAL GAS

Buccaneer completes Kenai Loop drilling

Buccaneer Energy completed its first Alaska well on May 9, the company said. The Australian independent reached a total vertical depth of 10,680 feet at Kenai Loop No. 1 and is now conducting wire line logging operations at the onshore Cook Inlet well.

Mud logs have identified 11 intervals in the Upper Tynenek “exhibiting characteristics warranting further testing,” three of which graded as “significant or very significant shows” because they “exhibited either moderate visible porosity, were in massive sandstones or were unconsolidated sandstones,” according to Buccaneer.

Gas kick

Buccaneer experienced a gas kick on one of those “unconsolidated sandstones.”

Once wire line logging and casing is done, Buccaneer plans to conduct seven-day flow test on up to 10 as-yet-unselected zones in the Beluga and Upper Tynenek Formations.

Buccaneer spud the well on April 15 using the Glacier Drilling Rig No. 1. Kenai Loop No. 1 sits north of the Cannery Loop unit and the city of Kenai, on a patch of state, Cook Inlet Region Inc. and Alaska Mental Health Land Trust leases in the area.

Based on control wells, 200 miles of 2-D seismic and surrounding geology, Buccaneer believes the field holds “multiple stacked pay zone possibilities between 5,000 and 10,000 feet,” estimating reserves between 35 billion and 78 billion cubic feet and initial production rates between 5 million and 10 million cubic feet per day per well.

—ERIC LUDI
Parnell signs bill to invest in jack-up

Gov. Sean Parnell signed a bill on May 6 that allows the Alaska Industrial Development and Export Authority to invest in corporations and limited liability corporations.

The expansion of AIDEA authority gives the public corporation a wider range of investment opportunities, including the ability to invest in a jack-up drilling rig.

On April 1, the AIDEA board of directors unanimously authorized its staff to invest as much as $30 million to help Kenai Offshore Ventures LLC bring a jack-up drilling rig to the Cook Inlet basin, but the parties have not yet signed the actual agreement.

Kenai Offshore Ventures is a joint venture between the Australian independent Buccaneer Energy Ltd. and the marine company Ezion Holdings Ltd.

AIDEA needed the statutory authority provided by the new law, House Bill 119, to actually make the investment, according to Sharon Leighow, a spokesperson for Parnell.

While AIDEA staff and Buccaneer move closer to a deal, Houston-based Escopeta is considering investing up to $30 million to help Kenai Offshore Ventures. Escopeta has said that it worries about having to compete against the State of Alaska in Cook Inlet, but AIDEA believes the basin can support more than one drilling rig.

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—ERIC LIDR

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GOVERNMENT

Joule Q&A

some concern about invasive species that are cling-ons to hulls of ships. With offshore drilling there are concerns about are we prepared to deal with the unfortunate events of potential spills and the destructions of what goes on there? How is that going to impact search and rescue efforts, cleanup efforts? Are we prepared for that? Are we prepared for the potential economic opportunities in terms of workforce and companies? Are we up to speed on what’s going on? There are both sides, and we are trying to bring focus to all of that. Then there is the issue of governance, which I’m not sure I’ve completely wrapped my arms around: When Russia threw a flag under the water somewhere and started staking a claim. America through Alaska’s position has offered to set boundaries that we may be able to lay claim to, maybe even more so if we pass the Laws of the Sea treaty. That may impact us in a largely more positive way, so there is a lot of stuff out there to consider.

Petroleum News: Shifting gears, but still on resource development; what, if anything would you like to see done with oil taxes? House Bill 110 is stuck in the Senate, what do see happening next year?

Joule: I voted against the oil tax (HB 110) and I think with some modest changes I could vote for it. Back when we did the legislation back in 2007, the House was under a cloud of corruption. I recognize what we ended up settling on was probably a little bit overboard, we may have taken it a bit too far in my opinion. We probably needed to find a sweet spot that still allows the state to benefit from our resources.

I don’t know that the state or the people in the government are happy with that level but on the other I don’t think the oil companies would have been completely happy with everything.

When the bill comes back up, there is going to be probably a different level of conversation.

Recently BP successfully pulled about 350 barrels of heavy oil, and converted that and shipped it down the pipeline. How does that factor into that discussion?

The president of ConocoPhillips (Jim Mulva) has made some commitments in terms of the type of things what can be expected of them in terms of investment in Alaska. We didn’t have any of that on the House side. Then there is the exploration piece. How do we encourage those who are interested in wildcatting and exploring, finding new sources of oil utilizing the new technology so we can continue to get new barrels of product into the TAPS? So I actually think when the conversation comes up, it’s going to begin at a whole different level with information that we didn’t have prior to this.

Petroleum News: What has been the most important thing for your region as far as resource development?

Joule: Whether it’s the North Slope, which has been primarily onshore development, or at Red Dog Mine, it’s important that the industries have been — I don’t know if willing is the correct word — but the end result is that the caribou populations are still healthy through an oil field and all the infrastructure.

People still have access to their land-based food source. We’ve set up systems that by working with local people that can ensure for that. That has probably been the biggest milestone of development in those resource rich parts of the state. All of that did not come easy.

Petroleum News: You were supposed to have completed a trip to Norway, but the special session pushed that back. What did you hope to learn from that trip?

Joule: I was interested in how they conducted their offshore development. I wanted to see what the differences were. I wanted to see how they accomplish some things. I want to see what restrictions they place on industry and still see how development would occur and how does that compare to what's being asked in Alaska. Are we being unreasonable or can this still occur?

Being an Arctic nation, they too are going to be impacted by less ice. I want to see what they are doing. How are they planning and preparing for those kinds of times? How do they monitor their fisheries? We don’t have very much by way of commercial fisheries in the north. Is that even an issue there? Then there is the whole piece on infrastructure. So, there is a lot to learn from folks who have been engaged in those things.

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Nova Scotia sells offshore potential

By GARY PARK
For Petroleum News

The Nova Scotia government has spent C$315 million to estimate that the province’s offshore contains 120 trillion cubic feet of gas and 8 billion barrels of oil — three times earlier calculations — in an effort to entice some of the world’s largest oil and gas companies back to the region.

Energy Minister Charlie Parker said the “very large numbers” require more technical assessment, adding the estimates are “only potential.”

“More focused seismic work needs to be initiated and explorers need to drill and find success,” he said.

Parker said a number of industry and government associations “used sophisticated software models” to determine the extent and location of hydrocarbons and enable the province to “identify key hydrocarbon bearing fairways and petroleum play types.”

He said Nova Scotia’s offshore has logged 207 wells since 1967, compared with more than 15,000 in the Gulf of Mexico.

Parker said the preliminary findings were reviewed in January with an internal peer review panel, which suggested were reviewed in January with an internal peer review panel, which suggested some refinements that have since been implemented.

Call for bids later this year

He said a number of one-on-one meetings with super-majors will be held in Texas, Alberta and Europe before the province issues a call for bids later this year.

“The environment is harsh and in recent years, most of our exploration wells have come up dry,” he said.

“When we asked them, most oil and gas companies told us that the uncertainty around our offshore geology made investing in exploration too big a risk, especially with natural gas prices in decline,” Parker said.

He said the challenge now for his government is to provide the super-majors with a “level of detail they are accustomed to. We now believe we can credibly explain why recent exploration has been unsuccessful.”

“In fact, we now see much more petroleum potential in our offshore than we had ever projected before.”

Parker said offshore energy royalties have dropped from 10 percent of government revenue a few years ago to 2 percent — “lower than we would like to see it.”

To date, the province has had only two producing offshore fields — the Conhaset-Panuke oil field which yielded 45 million barrels in the 1990s and the Sable gas project, whose production has been steadily declining.

However, Encana expects its Deep Panuke gas project will come on stream later this year and add 200 million to 300 million cubic feet per day to its portfolio.

Contact Gary Park through gparker@petroleumnews.com

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Hebron project goes before regulators

Partners in Newfoundland’s fourth offshore oil project have entered the formal regulatory phase, submitting their application to bring the Hebron field into production in 2017, targeting output of 150,000-180,000 barrels per day of 20 degree API crude.

The region currently supports the Hibernia, Terra Nova and White Rose operations, pending a resolution of a lengthy dispute between the Hebron consortium and Newfoundland government over a tax and royalty regime.

The plans filed with the Canada-Newfoundland and Labrador Offshore Petroleum Board estimate Hebron will yield about 789 million barrels of oil over a 30-year production life, the mid-point of resources that range from 660 million to 1.05 billion barrels.

Capital costs are C$3 billion to C$5 billion, of which C$538 million has been spent drilling seven offshore wells since 2008 and covering pre-development costs.

The Hebron asset, 210 miles southeast of St. John’s, Newfoundland, contains three discovered fields — Ben Nevis, which is expected to account for 80 percent of output, Hebron and West Ben Nevis.

The partners are operator ExxonMobil 36 percent, Chevron Canada 26.7 percent, Suncor Energy 22.7 percent, Statoil Canada 9.7 percent, and Nalcor Energy, owned by the Newfoundland government, 4 percent.

Expansion possible

Expansion is possible if additional studies, seismic surveys or exploitation/delineation drilling identify economically recoverable oil pool accumulations, the application said.

Hebron oil was discovered in 1980 and deemed uneconomic until second-phase delineation drilling which began in 1996 added significant recoverable resources.

The filing acknowledged that Hebron’s heavy crude poses challenges as the viscosity can be 10 to 20 times higher than that of water.

Formation gas produced in association with the oil production will be used mainly to meet the fuel requirements for production and drilling facilities. Any excess gas will be injected into area reservoirs for storage, or to preserve reservoir pressures.

Hebron will be produced from a 400-feet high concrete gravity-based structure sitting in the seabed. It will be capable of storing 1.13 million to 1.45 million barrels of oil.

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A retired Army Officer, Pete Mulcahy has served in various leadership and staff assignments including the 1st Cavalry Division, the Army Staff, NATO, and Alaska Command. Pete was the Fort Richardson Post Commander from 2000 to 2002. At work Mulcahy is known as an innovator who can make things happen. During his off hours, he enjoys various outdoor activities including hiking, biking, kayaking and snow machining and is involved as a volunteer in many community organizations such as Rotary, Chamber of Commerce and the Chugiak Volunteer Fire Department.

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RISKY BUSINESS

AOGCC has stringent regulations to ensure that operators do not take unacceptable safety risks but, following the Deepwater Horizon disaster, the agency is conducting a comprehensive review of its regulations for offshore and extended reach drilling, Foerster said.

The agency is looking under every stone to make sure that industry will do a realistic spill estimate for every well drilled, Loman said.

Panel member Cathy Foerster, a commissioner on the Alaska Oil and Gas Conservation Commission, explained how AOGCC oversees drilling safety in Alaska. AOGCC has jurisdiction over oil and gas drilling throughout the state, including in-state waters within the three-mile limit. All wells require permits, with professional engineers and geologists from AOGCC reviewing individual well plans. The agency also has a robust field inspection program, ensuring compliance with AOGCC regulations and permit stipulations, Foerster said.

Changes to a well plan during a drilling operation also require AOGCC approval, she said.

There are fines and other penalties for failure to comply with regulations.

Test requirements

AOGCC requires well blowout preventers to be tested every seven days for an exploration well and every 14 days for a development well. There have been seven well blowouts in Alaska since 1968, all except one resulting from a well hitting a shallow gas zone, and with no blowouts resulting in injury or oil spills, Foerster said. Improvements in seismic data acquisition and improved regulation in recent years have reduced the risks posed by shallow gas, she said.

AOGCC has stringent regulations to ensure that operators do not take unacceptable safety risks but, following the Deepwater Horizon disaster, the agency is conducting a comprehensive review of its regulations for offshore and extended reach drilling, Foerster said.

The problem with the prescriptive approach is that a company that meets all of the regulatory requirements may become complacent about the safety of its operations, Loman said. The best system would probably entail some combination of a safety-case approach and the use of some prescriptive regulations, she said.

In addition, the Petroleum Safety Authority Norway, the Norwegian government agency tasked with oversight of oil and gas industry safety, is a completely separate organization from those sections of the Norwegian government administration responsible for dealing with oil leasing or oil revenue collection, Ulmer said.

Independent agency

Equally, industry must never be lulled into a dangerous level of complacency, Loman said. AOGCC has stringent regulations, a belief that had led to dangerous levels of complacency, Loman said. Equally, industry must never be lulled into a situation where it feels satisfied with its safety protocols — concern with the adequacy of safety arrangements drives out complacency, he said.

At the same time, BOEMRE needs to address the concerns of all stakeholders in outer continental shelf oil development, including those people worried about employment and those whose overriding priority is environmental protection, Loman said.

The biggest single issue facing society is the decision on what to do about future energy needs, with that decision also being linked to decisions about what to do about global climate change, he said. And even if the United States cuts back on fossil fuel usage as much as possible, the rapidly growing use of cars in India and China will continue to create a huge demand for hydrocarbon-based fuels. Although that compelling near-term demand for fossil fuels can push people into taking risks in the search for new resources, people not involved with the oil industry can tend to overestimate the risks involved in industry activities over which they have no control, Loman said.

Evaluation needed

On the other hand, every regulatory
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SETTLEMENT TALKS

Hefty document

Point Thomson is a rich oil and gas field along the Beaufort Sea coastline just west of the Arctic National Wildlife Refuge. Aside from operator ExxonMobil, major stakeholders include BP, Chevron and ConocoPhillips.

The DNR in recent years moved to break up the unit and invalidate leases at Point Thomson on grounds that ExxonMobil and its partners have failed to develop the field for more than 30 years.

The oil companies went to court to try to preserve the unit. The 102-page document filed May 5 lays out the state’s appeal of a Jan. 11, 2010, lower court decision that reversed former DNR Commissioner Tom Irwin’s termination of the Point Thomson unit.

Superior Court Judge Sharon Gleason ruled against the state on two counts: First, that the Point Thomson leaseholders were wrongly denied a hearing under a key section of the Point Thomson unit agreement, and second, that the commissioner misused his lawyers and staff, depriving the leaseholders of their constitutional rights to due process.

Negotiations ‘ongoing’

“Alaska is a resource development state,” the state’s opening brief says. “The Alaska economy is largely dependent on natural resource extraction and a substantial majority of the State’s revenue is derived from oil and gas production and development.”

The brief continues: “This case involves one of the most important resource development disputes in the history of Alaska and centers on an issue that was at the forefront of the minds of the Alaska Constitution’s drafters: oil companies coming to Alaska, discovering massive resources, and then deciding to stall development.”

DNR spokeswoman Elizabeth Bluemink told Petroleum News that “settlement negotiations are ongoing,” despite the resumption of proceedings in the court case.

Now that the state has filed its opening brief, lawyers for ExxonMobil will have a chance to reply. It’s possible, though, that the state and ExxonMobil might settle and negate the need for further court filings.

Alaska is believed to hold some 8 trillion cubic feet of natural gas and hundreds of millions of barrels of petroleum liquids. ExxonMobil historically has said development of Point Thomson couldn’t move forward without a multibillion-dollar pipeline to carry North Slope natural gas.

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RESOURCE ASSESSMENT

recoverable oil volumes, the volumes that oil companies might be able to viably produce.

Most in the Arctic

The vast majority of Alaska’s undiscovered OCS oil and gas endowment is thought to lie in the Arctic, under the waters of the Beaufort and Chukchi Seas.

At an assumed oil price of $110 per barrel BOEMRE’s estimates of economically recoverable oil are now 6.32 billion barrels for the Beaufort Sea and 11.50 billion barrels for the Chukchi Sea, with the corresponding numbers for natural gas at a price of $7.83 per thousand cubic feet being 11.61 trillion cubic feet for the Beaufort Sea and 38.53 tcf for the Chukchi Sea. In 2006 the oil estimates at the then prevailing oil price of $60 per barrel were 5.97 billion barrels for the Beaufort Sea and 38.38 billion barrels for the Chukchi Sea. The corresponding 2006 gas estimates at a gas price of $9.07 per thousand cubic feet were 15.94 tcf for the Beaufort Sea and 34.43 tcf for the Chukchi Sea.

The volumes of oil and gas thought to be technically recoverable are substantially higher than the economically recoverable estimates, with a mean estimate of 8.22 billion technically recoverable barrels of oil under the Beaufort Sea and a mean estimate of 15.38 billion barrels of technically recoverable oil under the Chukchi Sea. These estimates, essentially the result of aggregating estimated resource volumes in potential prospects in a series of oil and gas plays, are subject to major uncertainty, especially given the low number of wells drilled in these high-potential oil and gas regions: BOEMRE thinks that there is a 90 percent probability of the volume of oil being between 0.41 billion barrels and 23.24 billion barrels under the Beaufort Sea and between 2.32 billion barrels and 40.08 billion barrels under the Chukchi Sea.

The corresponding volumes for undiscovered technically recoverable natural gas are a mean of 27.65 tcf under the Beaufort Sea and a mean of 76.77 tcf under the Chukchi Sea. The range of uncertainty for the Beaufort Sea is 0.65 tcf to 72.15 tcf, while the range of uncertainty for the Chukchi Sea is 10.32 tcf to 209.53 tcf.

Changes in assumptions

Because of various necessary assumptions about factors such as future drilling costs, future field development costs and the future price of oil and gas, assessments of economically recoverable resources tend to change over time, along with changes in those assumptions and the changing world and national economy. For this new assessment BOEMRE has significantly escalated its estimates of oil and gas development costs, with the construction of major new pipelines for transporting products to market being major cost factors. The agency used known costs in producing provinces such as the North Sea to scale its Alaska OCS cost estimates. However, unlike in its 2006 assessment, the agency has factored into its model the likelihood that early developments on the OCS would incur especially high drilling costs, with the incremental costs of further exploration and development becoming somewhat lower.

Although this development life cycle approach to cost estimation has softened the impact of the rising costs of labor and materials since 2006 in BOEMRE’s economic model, rising costs would still result in a substantial drop in economically recoverable resource volumes were the oil price to remain around $60 per barrel, as assumed in 2006. However, BOEMRE is now using the $110 per barrel price as a base assumption.

If oil companies succeed in discovering the oil and gas that BOEMRE thinks exist in the Arctic OCS, industry should be able to viably develop about 64 percent of the technically recoverable resources at the $110 oil price and at a price of $7.83 per thousand cubic feet for gas, BOEME says.
Roberts cited a major drop in U.S. Navy aviation rates over the years and the increasing reliability of U.S. nuclear power stations as two examples of situations where a high-reliability approach to management had yielded demonstrable success, primarily through changes in the way people behave.

The Arctic has a whole array of new and rather challenging conditions that have to be considered in the planning and funding of industry and government involvement in exploration of the region, with these challenges requiring the international sharing of best practices and the setting of high standards for doing business, Ulmer said.

“Clearly as we move forward in the United States to find more oil and gas in the outer continental shelf, offshore in deeper waters and in frontier areas, it becomes increasingly important for us to concentrate on managing risk and improving safety,” she said.

Contact Alan Bailey
abailey@petroleumnews.com

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CASH GRAB

2012, two years sooner than forecast earlier this year, although Premier Ed Stelmach said his government remains wary, given the recent history of oil slumping from $145 a barrel to $37 in the same year.

Even so, the underlying message is clear: Mess with royalties at your peril.

At stake for Alberta alone, if estimates by the Canadian Energy Research Institute are accurate, is a C$1.42 trillion infusion into gross domestic product over the next 25 years and C$85.3 billion in provincial taxes.

British hiking production taxes

Whether the British government is aware of Alberta’s experience, or even cares, is not known.

But there is a familiar ring to its unexpected decision to hike North Sea production taxes to 62 percent from 50 per cent and the industry’s reaction to cancel or postpone expansion plans.

The British move is further evidence that “governments tend to forget how much they hurt, and then back down in 2009 from a royalty hike when ‘they realized they’d hurt more than helped themselves. We feel the same thing will happen in the UK,” Laut said.

Laut noted that Alberta was forced to back down in 2009 from a royalty hike when “they realized they’d hurt more than helped themselves. We feel the same thing will happen in the UK.”

The North Sea accounted for 34,101 barrels per day of Canadian Natural production in the first quarter — down 2,778 barrels per day from a year earlier — representing 6 percent of its total output. The company’s North Sea guidance for all of 2011 is set at 28,000-33,000 barrels per day.

However, Laut said Canadian Natural is likely to remain in the UK, where it will continue to high grade all North Sea prospects for potential future development opportunities.

Suncor views changes as ‘extreme’

Suncor Chief Executive Officer Rick George said the industry “should pursue discussions (on the tax changes) which we view as an extreme measure.” But he has not volunteered to join that campaign.

Suncor, which inherited its North Sea position from its takeover of Petro-Canada, has identified its international projects as a stable source of cash to fund its oil sands operations.

Mike Percy, dean of the School of Business at the University of Alberta, said the British move is further evidence that “governments tend to forget how mobile capital is” by looking only at profit and production and ignoring the cost of dry holes and other risks.

In its first-quarter report, Talisman estimated the cost of two dry holes in the North Sea and one in Indonesia at C$104 million.

Contact Gary Park through publisher@petroleumnews.com
limits were on changes to the House bill, but pushed beyond those limits.

Balash said there was no single change in the Senate Finance CS that was a deal breaker, but a combination of changes that broke the camel’s back.

He said the governor is concerned that the totality of changes in the Senate Finance CS will create too much uncertainty going forward.

The governor is supporting the bill as passed by the House, Balash said.

Program sunsets

ACMP sunsets at the end of June without reauthorization and the administration initially proposed reauthorizing the existing program. But coastal districts — and their legislators — have been unhappy with changes made to the program in 2003 and after long discussions in House Resources a compromise was crafted which restored a policy council while leaving responsibility for ACMP in the Department of Natural Resources.

Balash said the administration engaged in the process in House Resources when faced with program changes it found unacceptable.

The governor engaged the full Resources subcabinet in a top to bottom review of the House Resources committee substitute and the version which came out of House Finance had a number of checks and balances, he said.

While no party was completely satisfied, the House Finance CS was endorsed by the Resource Development Council, the Council of Alaska Producers, the Alaska Miners Association and North Slope Borough Mayor Edward Itta, Balash said.

That bill passed the House 40-0.

Senate Finance promised changes

The Legislature was near the end of its 90-day session when HB 106 passed the House, and while Senate Finance heard the bill on April 17, the last day of the regular session, it did not act on the legislation.

Balash noted that the presentation of the bill in Senate Finance was done by the attorney general and the commissioners of the departments of Environmental Conservation and Natural Resources.

There are not very many instances where you see that level of engagement, he said.

Both Finance co-chairs, Lyman Hoffman, D-Bethel, and Bert Stedman, R-Sitka, indicated at the time that they expected to make changes in the bill.

Attorney General John Burns, who had shepherded the final compromise in the House, told Senate Finance in that April 17 hearing that the compromise in the bill was finely balanced.

HB 106 was on the governor’s call for the first special session, and Senate Finance heard an overview of the committee substitute May 10 and held the bill.

The committee had not yet held or scheduled another hearing on the bill when Petroleum News went to press May 12.

Asking what would happen if the bill failed to pass, Balash said the Legislature would have to reconceive the program from scratch. Without reauthorization, funding for the 33 employees running the program ends June 30.

Board member removal

David Gray, a Hoffman staff member, explained the committee substitute in Senate Finance May 10, noting that it maintained the House structure, with the new coastal policy board — four commissioners or deputy commissioners, four representatives from coastal districts and one representative from industry — acting as a review and oversight of DNR ACMP activities, while DNR retains all of its responsibilities for the program.

The first change in the CS relates to the removal of board members.

The House version said a public member of the policy board “may be removed at the pleasure of the governor.”

Senators had indicated in April that they were not happy with that, and the CS gives the board authority to recommend to the governor that he remove a public member for cause, while allowing that with or without the board’s recommendation the governor may remove a public member for cause with written notice of not less than 10 days and an opportunity to be heard.

For cause is defined in the CS as including “lack of contribution to the board’s work, neglect of duty, incompetence, inability to serve, poor attendance, and misconduct in office.”

Evaluation of district enforceable policies

The CS changed how DNR considers factors in determining whether a district’s local enforceable policy employs

the least restrictive means to achieve its objective, taking one group of factors out of factors that “shall be considered” and placing it in a category DNR “may require to be addressed”: economic effects of alternative methods; technological feasibility of alternative methods; and any other relevant factors.

Factors remaining in the “shall be considered” category are: alternative methods of achieving the objective of the policy; local knowledge or scientific evidence supporting each alternative method; and how the alternative methods may affect other existing or potential uses.

Under approval of district plans, if DNR does not approve the plan, or approves it only in part, the district can request that the board review the plan and make recommendations. The CS made a change in one of the four options DNR has after the board has reviewed the plan and submitted recommendations. The fourth was a requirement that DNR require “any other action be taken by the coastal resource district.” The CS changes that to “require the coastal resource district to submit additional information if, in the judgment of the department, additional information is necessary for the department to approve the plan or portions of the plan.”

Designated areas

“Designated areas” for local enforceable policies have been a huge issue for coastal districts under the existing ACMP and DNR committed to not requiring them for enforceable policies.

That was written into the Senate Finance CS.

Two definitions were eliminated in the Senate CS; Gray said the definition of scientific knowledge was already in statute, as was the definition of local knowledge, with the exception of the requirement in the House version of the bill that local knowledge is “not contradicted by scientific knowledge.”

The Senate CS also requires a second report to the Legislature.

The House version required the new board to make recommendations to the Legislature before Feb. 1, 2013, on the “DEC carve out” — the elimination of Department of Environmental Conservation permits from ACMP; the new section requires an overview of the whole program, regulations adopted and any proposed changes by the same date.

—KRISTEN NELSON

Contact Kristen Nelson at knelson@petroleumnews.com

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