No off ramps

Exxon insists it will take Point Thomson to small-scale production by 2014

By ALAN BAILEY
Petroleum News

As the 23rd and latest plan of development for the ExxonMobil-operated Point Thomson unit at the eastern end of Alaska's North Slope just present a series of good intentions, or does it commit the oil companies to bring the unit into production? That proved to be the core question that permeated the Alaska Department of Natural Resources Point Thomson hearing that started on March 3.

In the 30 years since discovery, the owners of the Point Thomson unit have investigated options for...

see POINT THOMPSON page 17

Port authority opposes 23rd plan of development

The Alaska Gasline Port Authority told the Department of Natural Resources March 3 that it believes termination of the Point Thomson Unit “is an appropriate remedy” to the owners’ failure to meet drilling commitments.

Craig Richards of Walker & Levesque LLC, representing the port authority, told DNR Commissioner Tom Irwin and hearing...

see OPPOSED page 19

‘Prudent’ view of Alaska

Talisman’s new CEO writes off NPR-A costs; seismic to identify anchor fields

By GARY PARK
Petroleum News

A new CEO, a new course of direction — that’s the message delivered by Talisman Energy’s recently installed boss John Manzoni when it comes to the National Petroleum Reserve-Alaska.

Speaking to analysts Feb. 28, he deliv-

ered a carefully measured prognosis for a region that his predecessor Jim Buckee had eagerly touted a year ago, suggesting two wildcats were pointing to “several hundred million” barrels, with Amagus No. 2 in the region of a “billion” barrels.

By mid-May last year, Talisman said three wells drilled by subsidiary FEX L.P. encountered more than 225 feet of net hydrocarbon-bearing sandstones, with formations in the two sus-

pected wells estimated at 300 million-400 million barrels net to FEX. The balance is held by a Petro-Canada subsidiary.

As the first sign of a new approach, Manzoni wasted no time after becoming CEO in September putting out word that Talisman’s widely scattered global opera-

tion would start meeting output targets.

“By not delivering our guidance num-

bers over the last three quarters we’re losing credibility,” he said, in unusually blunt terms after facing a 33 percent drop in the third-quarter 2007 profits.

He said the production setbacks did not stem from...

see TALISMAN page 20

MGM stumbles in Arctic

Results disappointing from first of two western Mackenzie Delta wells

By GARY PARK
Petroleum News

MGM Energy, the small Canadian Arctic explorer with big ambitions, has come up short of expectations with the first two of three scheduled winter wells on the western Mackenzie Delta.

One has been abandoned and one has failed to yield commercial quantities of hydrocarbons, prompting MGM President Henry Sykes to concede in a March 5 news release that...

see MGM ENERGY page 20

EXPLORATION & PRODUCTION

LAND & LEASING

EXPLORATION & PRODUCTION
ON THE COVER

No off ramps
Exxon insists it will take Point Thomson to small-scale production by 2014

SIDEBAR: Port authority opposes 23rd plan of development

‘Prudent’ view of Alaska
Talisman’s new CEO writes off NPR-A costs; seismic to identify anchor fields

MGM stumbles in Arctic
Results disappointing from first of two western Mackenzie Delta wells

EOG makes ‘really, really’ big shale gas discovery in NE B.C.
Palin names energy coordinator for Alaska, plans to address crisis in rural areas

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11 North Slope exploration marches on
Brooks Range announces Tofkat, North Shore results; Chevron moves to second well; Savant expects to spud Kupcake by March 15

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Faces mountain of energy-related issues from royalties to environmental challenges in Alberta

NEW FEATURE

Southcentral mayors pitch energy policy
Tri-Borough Commission wants statewide policy, proposes mix of fossil fuels and renewable energy, suggests regulatory changes

Stephen Harper: NAFTA — schmafta

State of Alaska prepares to sue BP

Mukowski chief of staff guilty of fraud
According to his plea bargain, Clark will assist feds in Alaska corruption probe, giving fuel to rumors of more indictments to come

NATURAL GAS

Can AGIA application be adjusted?
Porter: Legislators can tighten app; Rutherford: Authorities clear in statute, changes threat to commitment

Mat-Su coalbed methane plan advances

Spur line project out for bid
Alaska Natural Gas Development Authority is looking for wetlands determination from U.S. Army Corps of Engineers for gas spur line

Short circuiting a big gas pipeline
ANGDA chief Heinzle responds to challenge from House Speaker John Harris to move in-state natural gas to Alaskans sooner

WORKFORCE DEVELOPMENT

Assessing Alaska’s worker shortage
New document takes detailed look at what occupations need workers and what future projects mean for the labor pool in state

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Can AGIA application be adjusted?

Porter: Legislators can tighten app; Rutherford: Authorities clear in statute, changes threat to commitment

**By KRISTEN NELSON**

Petroleum News

S
nce the Legislature is a separate and equal branch of government it should be able to make changes in an application under the governor’s Alaska Gasline Inducement Act? There are two opinions on that, one from Legislative Budget & Audit consultant Steve Porter, a former member of the Murkowski administration, and an oppos-
ing view from Deputy Commissioner of Natural Resources Marty Rutherford, who heads the administration’s gas pipeline team.

Porter told House members Feb. 26 that the departments of Natural Resources and Revenue are determining if they will move forward a bid under AGIA to the Legislature for approval. This is a bid process, Porter said. Once you have a bid you look at it and you tighten it up. You can’t make big changes, but you can tighten it up. Legislators have replaced upstream shippers in the process, he said, and shippers would sit down and negotiate with the pipeline company. You are in the place of the shipper to make sure terms are fair to the state, he told legislators.

In response to a question from Rep. Mike Doogan, D-Anchorage, on whether the administration agrees that the Legislature is in a position to tighten, House Majority Leader Ralph Samuels, R-Anchorage, said they are separate and equal branches of government.

Doogan said he thought legislators should get a legal opinion on whether they had a third option, which was neither approval nor disapproval.


Porter said the Legislature would need to draft a bill and say these are the terms under which you approve the contract. As an example of what could be tightened up, Porter said AGIA requires a 70-30 debt-equity ratio. TransCanada proposed 60-40 for expansions; if you look at the statute, expansions are includ-
ed in the project.

Porter said this was an opportunity for the Legislature to fix something that would otherwise require rejection of the application.

**Administration disagrees**

Rutherford disagreed on both the debt-
to-equity ratio and on whether the Legislature could make changes to a pro-
posed license submitted by the commis-
sioners.

She told Petroleum News in an e-mail that Porter’s conclusions about a need to “tighten up” the TransCanada application because of the 60-40 debt-to-equity ratio for capacity expansions to the pipeline, rather than a 70-30 ratio, are mistaken.

“The requirement in AGIA for a 70-30 debt-to-equity ratio only applies to the rates for the initial project — not to the rates for later pipeline expansions,” she said.

TransCanada’s proposed debt-to-equi-

ratio for pipeline expansions “is not inconsistent with AGIA” so “there is no need to consider whether the Legislature would need to ‘tighten up’ the applica-
tion” as suggested.

On whether the Legislature could do something other than accept or reject a proposed license, she said, “AGIA is clear in its delegation of authority: The commissioners have authority to solicit proposals and recommend a license to the Legislature and the Legislature has retained authority to approve or not approve ‘the license proposed to be issued by the commissioners.’” The statu-
tory reference is to AS 43.90.190.

You also have to consider the applic-
ant. “AGIA doesn’t give the applicant the opportunity to decline the license, if issued, which certainly implies to me that we risk the ‘acceptance’ commitment from the applicant if there are attempts to change the elements of the application,” Rutherford said.

**Negotiations vs. making laws**

Porter talked about the differences between the corporate world — one of

gated decision making and negotiations — and that of the sovereign, which is not a negotiation process but a process of making laws.

Lawmaking is different than negotia-
tions, he said, and urged lawmakers to lis-
ten in what the North Slope producers say they want to participate in a gas pipeline. It’s not impossible to figure out what they want, he said: You just have to listen.

He told legislators that he believes a fair gas tax will bring the North Slope producers to the table on a gas pipeline, noting that the administration has recom-

mended that the Legislature take up the gas tax issue in its next session.

That’s a law-making process, he said, not a negotiation. Lawmakers can find out what the concerns of the taxpayer are, but it is the responsibility of lawmakers to make decisions which are fair to both.

Rep. Mike Kelly, R-Fairbanks, said that in his experience with tax changes industry would fight as hard over a nick-
el as it would over a dollar and he didn’t think it was possible to gauge how fair industry thinks a proposed tax regime is based on the immediate reaction to a pro-
posal that legislators get.

Porter said one thing that the Legislature could do is act as an arbiter on the fairness of regulations, and suggested they request that the Department of Natural Resources consider its royalty-in-

value, royalty-in-kind regulations for gas and have them in place before the next session.

That way, he said, the Legislature could judge the fairness of those regula-
tions.

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A lbertans voted overwhelmingly for change March 3 — not a change of government, but a ringing endorsement of Premier Ed Stelmach’s campaign slogan of “Change that works for Alberta.”

In his first electoral test, the soft-spoken farmer was thought by many pundits to be in danger of ending up with a minority government, dependent on its survival for support from one of the opposition parties. There had even been fleeting talk of defeat, especially in the major cities of Calgary and Edmonton, because of unhappiness from both sides with Stelmach’s proposed royalty framework.

Brett Wilson, chairman of investment dealer FirstEnergy Capital, showed some of the pre-vote disagression with Stelmach, suggesting the government had “demonstrated its lack of understanding of the province’s major industry during the (2007) royalty review. Calgarians who understand the energy sector will struggle to vote for the Conservatives.”

But the 41 percent of Albertans who bothered to vote (the lowest turnout in the province’s 103-year history) showed little doubt.

They delivered a landslide victory to Stelmach, known as “Steady Eddie,” ensuring the Conservative party-dynasty extended its 37-year run of 11 straight majority wins.

Conservatives increase seats

Pending some recounts, the Conservatives won 73 seats in the provincial legislature (up 12 from the 2004 election), while the Liberals slumped to eight from 16 and the left-wing New Democrats to two from four.

“We’ve shown we’re not afraid to tackle the very tough issues,” Stelmach said in his victory speech, referring mostly to his willingness last year to conduct the most sweeping overhaul in history of Alberta’s royalty regime.

“We’re not afraid to lead.”

He will have ample opportunity to prove that claim as he tackles a mountain of unfinished energy business.

Sitting on the oil sands, the world’s second-largest reserves next to Saudi Arabia, is both a blessing and a burden for the Stelmach government. Of all the items on his desk, it’s the one that will pose the earliest and heaviest challenge.

Alberta is portrayed as Canada’s environmental pariah because it is responsible for one-third of the country’s greenhouse gas emissions and has promised to let them continue rising until 2020 before targeting a 14 percent reduction from 2005 levels by 2030.

Stelmach said his climate-change plan “preserves Alberta’s jurisdictional ability to manage its own environment.”

But the federal government has yet to lay out the details of its plan, which sets the stage for possible conflict with Alberta and the potentially difficult task of harmonizing the two sets of regulations.

Conservatives won nearly a majority of seats in the legislature, giving them an opportunity to implement the proposed 20 percent across-the-board hike in royalties on Jan. 1, 2009.

The “unintended consequences” of the current royalty framework are still being negotiated, with the major industry associations seeking revisions to royalties covering shallow gas, coalbed methane, deep natural gas, deep oil, sour oil and multilateral wells. Ziff Energy Group, a Calgary-based consultant, has estimated that 80 percent of oil and gas companies operating in Alberta have already slashed their spending since the royalty changes were unveiled in October.

A deal has yet to be reached with Syncrude Canada to amend a royalty contract that was due to expire in 2016. Syncrude Energy has already settled on terms covering the 2010-16 period but the Syncrude consortium, because of its complex ownership structure, has not agreed to the changes. Stelmach has indicated he will not wait indefinitely.

Sirven is weighing all options for upgrading future bitumen production, including an arrangement with U.S. refiners — a sore point with Stelmach, who is offering a 5 percent tax incentive to producers to keep more of the value-added upgrading and refining in Alberta.

Stelmach must decide on a response to a number of major oil sands producers who want to freeze the sale of rights in three environmentally sensitive areas of northeastern Alberta for the next three years until the government develops strategies to protect air, water and soil and ease the demands for new infrastructure.

Industry groups are pressing for government financial help to build pipelines from the oil sands to carry carbon dioxide to enhanced oil recovery or sequestration sites.

There were typos in remarks attributed to Gov. Sarah Palin in a story in the March 2 issue of Petroleum News (“Governor not backing down on AGIA”).

What the governor said was: “We always have the ability, the right, as the owners of the resources, to remind and even demand the producers to abide by the provisions of their leases. And if they refuse to abide by them, through the judiciary we can revoke a lease.”

Clarification on Petroleum News contract with Bonnie Yonker

In the March 3 edition of Petroleum News we announced Bonnie Yonker had entered into a contract with Petroleum News to handle marketing and sales in Alaska and around the world for Dispelling the Alaska Fear Factor, a 300-page guide to Alaska’s oil and gas basins and business environment. Yonker’s contract does not go into effect until March 26, which was not mentioned in the article.

The print and CD versions of the second edition of Dispelling the Alaska Fear Factor will be sent to press in early May.
Southcentral mayors propose energy policy

By ERIC LIDJ

Oil prices waffle on profit-taking, dollar

Price smoothing in Alaska's energy issues, suggests regulatory changes

EPA Invites Your Comments

FINANCE & ECONOMY

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PETROLEUM NEWS • WEEK OF MARCH 9, 2008
Stephen Harper: NAFTA — schmFTA

Threats by Obama, Clinton to opt out of, or renegotiate free trade pact prompt tit-for-tat warnings that the free flow of oil, gas and pipeline expansions could be at risk; others say U.S. politicians miss point when blame NAFTA for manufacturing job losses

By GARY PARK
For Petroleum News

C
cadian Prime Minister Stephen Harper has a sharp response to talk about renegotiating the North American Free Trade Agreement. “If any American government ever chose to make the mistake of reopening (NAFTA) we would have some things we want to talk about as well,” he said, hinting at the United States’ refusal to abide by dispute-settlement rulings on softwood lumber.

Trade Minister David Emerson chal-
genlented talk by Hillary Clinton and Barack Obama that, if elected president, they would “opt out” of Obama that, if elected president in 2008, would make the mistake of reopening NAFTA terms on Canadians — already a sore point among Canadian nationalists who see the U.S. draining petroleum resources.

NATURAL GAS

Mat-Su coaled methane plan advances

A state commission has taken steps that advance a private company’s plan for drilling coaled methane in the Matanuska-Susitna Borough but the project faces other regulatory hurdles.

The Alaska Oil and Gas Conservation Commission in late February approved all but one request by Fowler Oil and Gas Corp. for waivers from certain state regulations. The denial centered on the size of a pipe used to funnel potentially dangerous gas or muddy cuttings away from a well as it’s drilled. Arlen Ehm, a petroleum geologist who wrote the waiver request for Fowler, said the denial could be solved by using a bigger pipe. Ehm, the former Fowler president, resigned Feb. 1, saying he had not been paid.

The commission approved waivers from state regulations governing blowout protection, well spacing and hydrogen sulfide detection equipment.

Company chief executive Bob Fowler did not return a call for comment.

Still at issue to the company’s financial stability, Commissioner Don Seamount said it’s unclear whether the commission may consider that in permitting decisions.

“We’re checking into that right now,” Seamount said.

“We’re just trying to tighten up a lot of the uncertainties we have,” Seamount said. “Just off the top of my head, I’d say there’s probably other agencies that can worry about that.”

If a company abandons a well, the state requires a $100,000 bond to cover the cost of capping the well and restoring the land to the landowner’s satisfaction, Seamount said.

Fowler wants to drill a well in a privately owned hay field but cannot do so until the commission approves a permit. Before a permit is issued, Fowler must provide a $100,000 bond and the company has not done so, Commissioner Cathy Foerster said. In its order Feb. 25, the commission said none of Fowler’s waiver requests jeopardize water and that state regulations protect underground aquifers that supply drinking water. The order also called current regulations “an effective means for dealing with the coaled methane operations.”

Bob Fowler last year said he hoped to start drilling this spring.

His company still needs permits from other state agencies, including the Department of Environmental Conservation and Division of Mining, Land and Water, Ehm testified in January. Fowler also will need a permit to inject water from his well back into the ground.

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"America’s ‘lost jobs’ are likely going to China and India, not Mexico or Canada. More than a decade ago, Al Gore demolished similar criticisms about NAFTA during his debate with Ross Perot. Perhaps it is time he shared another ‘inconvenient truth’ with his fellow Democrats."

— Derek Burney, former Canadian ambassador to Washington
BP settles Alaska court case

By ERIC LIDJI  Petroleum News

BP PLC said March 5 it has settled an Alaska court case launched by U.S. shareholders by agreeing to allow tighter oversight by its largest investors and to pay $9.75 million of the plaintiffs’ lawyers fees and costs.

In addition, the British oil company has agreed that ex-Chief Executive John Browne will permanently waive rights to certain termination benefits, which had accounted for 40 percent of the total ANGDA budget in 2008.

The 370-mile corridor for the spur line would roughly follow the trans-Alaska oil pipeline from Delta Junction to Glennallen, then head west along the conditional right-of-way lease from Glennallen to Palmer issued to ANGDA back in July 2006, and finally head south to the Beluga gas field along one of several proposed routes from Palmer. Those routes include following existing Enstar Natural Gas right of way, the Parks Highway or the intertie at Port MacKenzie.

“It’s only in the Palmer to Beluga segment that we have any alternatives,” Heinze said.

Contract to be awarded March 28

The project went out to bid at the end of February and ANGDA will award the contract on March 28. At the pre-proposal conference, Heinze said around 11 companies had already expressed interest in the project.

Heinze called it a “turnkey operation,” meaning contractors will be responsible for every part of the project, including getting access to state and Native land along the proposed route.

ANGDA will award the contract based largely on operational risks and the strengthening of its Americas unit’s oversight ability.

In the United States, BP has created new vice president positions for safety operations and compliance and ethics, and an external advisory board.

Patrick Daniels, a lawyer with Coughlin Stoia Geller Rudman & Robbins, said the measures would give “more autonomy and more power” to the U.S. unit from London, adding that the subsidiary’s inability to make its own decisions had increased the operational risks.

BP spokesman Robert Wine couldn’t immediately say how much Browne, who left the company in May 2007, had forfeited.

Wine said the company set specific safety criteria for the award of bonuses to executives for 2007.

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BP settles Alaska court case

The document also mentions a Group Operations Risk Committee chaired by BP’s Chief Executive Tony Hayward to keep tabs on operational risks and the strengthening of Americas unit’s oversight ability.

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The board also proposed spending an additional $1 million to study alternative pipeline designs from a geotechnical standpoint to account for ice, discontinuous permafrost and the long-term affects of climate change.

Reservoir Engineer

State of Alaska/Division of Oil and Gas

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THE ASSOCIATED PRESS

by Associated Press

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In the United States, BP has created new vice president positions for safety operations and compliance and ethics, and an external advisory board.

Patrick Daniels, a lawyer with Coughlin Stoia Geller Rudman & Robbins, said the measures would give “more autonomy and more power” to the U.S. unit from London, adding that the subsidiary’s inability to make its own decisions had increased the operational risks.

BP spokesman Robert Wine couldn’t immediately say how much Browne, who left the company in May 2007, had forfeited.

Wine said the company set specific safety criteria for the award of bonuses to executives for 2007.

The board also proposed spending an additional $1 million to study alternative pipeline designs from a geotechnical standpoint to account for ice, discontinuous permafrost and the long-term affects of climate change.

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M&A deals cooling off in Canada

As predicted in forecasts, mergers and acquisitions goes quiet after red-hot, C$50 billion year, as junior buyers fade from scene; off-stage deals more likely over short-term; oil sands company Syncrude Energy and Compton Petroleum are leading test cases

By GARY PARK
For Petroleum News

In line with forecasts by Sayer Energy Advisors, a specialist in oil and gas mergers and acquisitions, the Canadian M&A market is taking a breather after hitting a record last year, when assets and companies valued at about C$50 billion changed hands.

Sayer President Alan Tambosso expects 2008 will see many deals occur away from the public spotlight as a large number of companies quietly peddle themselves in an off-stage deal more likely over short-term; oil sands company Syncrude Energy and Compton Petroleum are leading test cases.

He said the reasons include a slump in interest among junior companies as the industry continues adjusting to the changed tax rules for income trusts and the Alberta government’s royalty overhaul.

Tambosso said the limited supply of properties known to be on the market reflects shrinkage in the ranks of companies producing 5,000-35,000 barrels of oil equivalent per day, the size favored by equity markets.

But Gary Leach, executive director of the Small Explorers and Producers Association of Canada, expects a downsizing among junior companies producing less than 5,000 boe per day because of high debt levels and restricted access to capital, or those who are forced into receivership.

Tambosso is counting on more share-for-share deals and higher prices for oil-weighted transactions.

Sayer is forecasting the pace will quicken later this year as the marketplace refocuses on smaller companies, leading to more property deals than in 2007.

Two deals closely watched

Two of the most closely watched deals are expected to involve oil sands company Syncrude Energy and Compton Petroleum, almost the last of the once-thriving intermediate sector. Both are intriguing for different reasons.

The 10-year-old Syncrude has been engaged in a “strategic review” to maximize shareholder value — effectively up for sale for almost 10 months, long enough to indicate the process is not going well.

That view was bolstered in late February when Chief Executive Officer Todd Newton, who has been eager to move ahead with Syncrude’s Northern Lights oil sands project and add more Canadian assets to the portfolio, announced his departure.

Mike Supple, Syncrude’s co-founder, chairman and CEO, will occupy Newton’s vacant seat, describing the change as an “important transition” for the company.

Idar Eikrem quit as chief financial officer in November.

“We have become more focused and more intent on working toward upstream regulatory approval (of a 2006 application filed for Northern Lights) and with board-level oversight on our strategic review of options (in other words bringing the sale process to a conclusion),” Supple said.

Syncrude has 60% of Northern Lights

Syncrude is the 60 percent operator of Northern Lights, which is designed to initially produce 144,500 barrels per day and have a 30-year operating life, and a Canadian subsidiary of state-owned Saudi Arabian Oil.

However, Stephen Calderwood, with Raymond James, suggested EnCana fits “like a glove” with Compton’s southern Alberta land base, while Abu Dhabi National Energy’s Targa North could be a contender.

But Gary Leach, executive director of the Small Explorers and Producers Association of Canada, expects a downsizing among junior companies producing less than 5,000 boe per day because of high debt levels and restricted access to capital, or those who are forced into receivership.

Sinopec holds the remaining 40 percent, according to CIBC World Markets, of the demands of its major shareholder, a footloose in a lease holding 1.67 billion barrels of bitumen in place.

But a Syncrude spokesman said the Chinese have no part in the latest changes, which isn’t to say Sinopec may yet be the buyer.

Syncrude made another splash in late February when it sold C$317 million worth of shares at C$17.50 in a successful initial public offering, then watched the shares jump to C$25 in summer 2006, only to slide to C$15 as investors grew worried about soaring capital costs in the oil sands.

That slide continued last year to C$5.60 before edging back up to the current range of C$7.

CIBC World Markets has pegged Syncrude’s net asset value at C$21 a share, an indication that it holds scarce oil sands leases, although the brokerage said that “as an early cycle oilsands play, the stock also carries above-average risk.”

Compton agrees to strategic review

Compton, after more than two months of finding its demands of its major shareholder, is finally agreed to conduct a “strategic review” of its natural gas-weighted operations — a process widely expected to result in the company’s sale.

Centennial Energy Partners, a New York-based activist hedge fund that holds 20 percent of Compton, startled Compton in December by describing the company’s operating plan as “ill-conceived” and calling for an auction.

Professing to be “puzzled” by the demand, Compton tried riding out the storm, laying out an aggressive growth plan in mid-February to boost gas output this year by as much as 38 percent to 202 million cubic feet per day and overall production by 19 percent to 37,000 boe per day.

The program included a capital budget of C$410 million and 350 gas wells, a 30 percent increase in cash flow to C$255 million and sales of non-core assets for an estimated C$250 million.

Compton’s most recent disclosure of reserves a year ago put its proved plus probable gas at 1.2 tcf and oil and gas liquids at 50.6 million barrels.

How quickly Centennial will see a result is an open question. Allan Stepa, an analyst with Dundee Securities, does not anticipate a speedy deal because of Compton’s operational and share price performance over the past two years and the absence of an obvious buyer, leaving Compton to struggle on under debts of C$1.2 billion.

However, Stephen Calderwood, with Raymond James, suggested Encana fits “like a glove” with Compton’s southern Alberta land base, while Abu Dhabi National Energy’s Targa North could be a contender.

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Petroleum News • WEEK OF MARCH 9, 2008
Assessing Alaska’s worker shortage

New document takes detailed look at what occupations need workers and what future projects mean for the labor pool in state

By ERIC LIDJI
Petroleum News

I f you were an engineer, you’d be employed by now.

Engineering fields account for seven of the 18 professions considered critically short of qualified workers, according to a new assessment of the workforce supply in Alaska.

The assessment, released at the 2008 Putting Alaska’s Resources to Work conference on March 3, is one of the most in-depth breakdowns ever compiled of around 100 key occupations needed for a slate of major oil, gas and mining projects in Alaska in the coming decade.

Many of these projects come with daunting superlatives: a gas pipeline would likely be the largest private construction project in North America; the Pebble Mine, if fully developed, would be the largest gold and copper resource in the world, and offshore oil and gas fields could be among the most difficult and costly ever developed.

Together these and more than 20 other projects constitute an unlikely “perfect storm,” where several major projects collide in 2014 and 2015, requiring more workers than Alaska can currently supply, a problem compounded by adding the thousands of workers who could realistically retire within the next decade.

Analysis, not projection

The assessment is “an analysis” of projects on the horizon, not “a projection” of what will happen, according to Bill Popp, president and CEO of the Anchorage Economic Development Corp.

Still, Popp and others noted that even if only half or a quarter of the projects go into development simultaneously, Alaska won’t be able to supply enough workers with its current labor pool.

In December 2004, Popp worked to create the first draft of this assessment, and roughly determined the state would need to fill 29,000 jobs in the coming decade.

“This was a very crude document, and I was not satisfied with it, but it seemed to strike a nerve,” Popp said.

Convened this year by the Alaska Process Industries Career Consortium, the PARW group compiled the data for the new assessment from both state and industry sources.

For each of around 100 occupations, the committee looked at the number of jobs currently available in Alaska, the growth and average salary of the occupation, the age of the workers in the occupation and the number of non-resident workers in the occupation.

They compared that information with industry comment about the difficulties filling available positions in

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**Director - Environmental Affairs**

**Key duties and responsibilities:**
- To lead and manage the multidisciplinary Environmental program to support the development of the Pebble Project, including acting as the key expert and point of contact within the Partnership for Environmental issues.
- Oversee specialist multidisciplinary studies necessary for the submission of the Environmental Baseline Document (EBD). Ensure that this work is completed to the scope and standard required to support various permit applications and the NEPA Environmental Impact Statement (EIS) process.
- Coordinate the Pebble Limited Partnership Environmental Impact Assessment prior to finalization of the mine design to ensure all relevant environmental information is incorporated.

**Qualifications:**
- The successful applicant will have:
  - A degree in Biology, Biotechnology or Earth Sciences.
  - Significant experience of managing multidisciplinary scientific investigations focused on supporting the development of socially and environmentally designed large-scale projects.
  - A minimum of 15 years in this mining industry, including mine development and a successful track record integrating multidisciplinary findings into mine design.
  - Intimate knowledge and understanding of EIA and the requirements of the Federal NEPA and State permitting processes.

**Environmental Studies Manager**

**Key duties and responsibilities:**
- Recommend and advocate programs to the Director of Environmental Affairs that will ensure comprehensive and ongoing environmental assessment of the Pebble Project.
- Manage and develop specific Study and Field Sampling programs with environmental consultants that maintain scientific rigor and consistency with PIF objectives.
- Ensure environmental consultants are effectively integrated with the operations to ensure effective implementation of field programs.

**Qualifications:**
- The successful applicant will have:
  - An Environmental Science/Engineering degree.
  - Ten or more years experience as an environmental program manager with detailed exposure in developing environmental programs in Alaska that meet permit and regulatory requirements, ideally focused on mining or other large-scale multifaceted projects.
  - A thorough working knowledge of Federal and State environmental regulations and permitting requirements.

**Human Resources Manager**

**Key duties and responsibilities:**
- To lead, advise on and implement key human Resources objectives and priorities for the Pebble Limited Partnership.
- Lead the development of the Company’s recruitment strategies and initiatives and workforce planning to deliver a cost-effective, high-quality and timely resource process.
- Advise managers and employees on all HR programs, employment legislation, policy and practices.
- Lead Human Resources policy development, taking into account both local and the Partnership’s requirements.

**Qualifications:**
- The successful applicant will have:
  - A degree or diploma in Human Resource Management with five to seven years experience in an HR Manager role and significant recruitment experience.
  - A professional HR designation would be an asset.
  - Previous experience in Alaska is preferred, U.S. experience is essential ideally within a mining or exploration operation.

Please specify the position for which you are applying on your application. All positions will require travel to project related destinations to successfully accomplish the key duties of the role. The deadline for response to the above job postings is Friday, March 14, 2008.
Alaska North Slope oil production flat from January to February

Alaska North Slope production for February averaged 730,727 barrels per day, basically level with January’s 730,337 bpd, up just 0.05 percent.

Production from the BP Exploration (Alaska)-operated Endicott field averaged 47,295 bpd in February, up 3.5 percent from a January average of 45,698 bpd. Endicott includes some 33,000 bpd of Prudhoe Bay Flow Station 2 oil.

Production from the BP-operated Prudhoe Bay field averaged 327,444 bpd in February, up 1.8 percent from a January average of 321,693 bpd. Prudhoe Bay production includes the Aurora, Borealis, Midnight Sun, Orion and Polaris satellites; some 408,600 bpd from Lisburne and Point McIntyre.

The ConocoPhillips Alaska-operated Kuparuk River field averaged 150,618 bpd in February, up 0.8 percent from a January average of 149,405 bpd. Kuparuk production includes Tabasco, Tarn, Meltwater and West Sak.

Northstar, Alpine, Lisburne, Milne Point down

Production from the BP-operated Northstar field averaged 33,410 bpd in February, down 0.1 percent from a January average of 33,442 bpd.

The ConocoPhillips-operated Alpine field (including production from Fiord and Nanuq) averaged 34,101 bpd in February, down 4.2 percent from a January average of 35,576 bpd.

BP’s Milne Point field, which includes Sag River and Schrader Bluff production, averaged 32,694 bpd in February, down 4.2 percent from a January average of 33,410. BP-operated Lisburne, including Point McIntyre and Niauk, averaged 34,101 bpd in February, down 0.2 percent from a January average of 33,442 bpd.

All Cook Inlet production averaged 13,076 bpd in February, down 2.1 percent from a January average of 13,358 bpd.

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The Finance Committee’s vice chair- man, Republican Rep. Bill Stoltze, intro- duced the budget amendment.

“I have a high level of confidence in the attorney general (Talis Colberg), the team of lawyers working on this,” Stoltze said. “It’s not like we are taking a random amount of money and throwing it out there.”

September deadline for lawsuit

The Department of Law placed the urgent call for the money, saying the statute limitations for the lawsuit expires in September.

“Based upon information gathered to date, the Department of Law anticipates making a recommendation to commence litigation to recover the state’s revenue losses, as well as civil penalties and damages under the state’s environmental statutes,” the request to lawmakers says.

The budgetary request stems from a pair of 2006 spills, including a 201,000-gallon crude spill in March 2006 at Prudhoe Bay, the nation’s largest oil field. A smaller spill five months later ultimately prompted BP to halve production for several weeks.

Both leaks were traced to the company’s failure to regularly clean and inspect two of its pipelines over the course of several years, leading to corrosion.

The company last year pleaded guilty to one spill and agreed to a $20 million fine.

BP is currently replacing 16 miles of feeder pipeline, which could cost up to $260 million.

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North Slope exploration marches on

Brooks Range announces Tofkat, North Shore results; Chevron moves to second well; Savant expects to spud Kupcake by March 15

By ERIC LIDJI
Petroleum News

With the start of March, exploration drilling continues across the North Slope, but as has been the case all winter, the Brooks Range Petroleum Corp. is supplying most of the news.

Based on initial drilling results, the Brooks Range Petroleum Corp. plans to sidetrack the Tofkat No. 1 well, according to the joint venture running the drilling program.

As operator of the drilling program, BRPC reached a total vertical depth of 7,703 feet on the 13,174-foot Tofkat No. 1 well, located along the eastern shore of the Colville River near the village of Nuiqsut. During the drilling, BRPC came across several zones with “indicated hydrocarbon potential.”

The sidetrack will begin after initial logging and testing of the well.

BRPC, a wholly owned subsidiary of the Alaska Venture Capital Group, is running its winter exploration program on behalf of a joint venture with TG World Energy Corp., the Nabor subsidiary Ramshorn Investments Inc. and Bow Valley Alaska Corp.

“While various tests must be undertaken and the results of those tests analyzed before we are able to draw any conclusions concerning commerciality, we are encouraged with the indications of hydrocarbons noted during the drilling process,” said Clifford M. James, president and CEO of TG World Energy Corp., in a prepared statement.

The joint venture plans to release further information by the end of the month.

The news from Tofkat follows word that BRPC successfully tested the Ivishak formation with the North Shore No. 1 well at a “stable oil flow rate” of 2,092 barrels of oil per day of 34 degree API oil for five hours.

North Shore No. 1 is located in Gwydyr Bay, northwest of the Prudhoe Bay Unit.

BRPC also planned to test the Sag formation from the North Shore No. 1 well but has not yet because of “mechanical issues down-hole.” The company decided to elaborate.

Chevron finishes Smilodon

Chevron has completed drilling the first well in the White Hills project and moved on to the second, according to John Zager, general manager for Chevron in Alaska, who spoke at the state remand hearing over Point Thomson on March 3.

Chevron spud the Smilodon 9-4-9 well on Feb. 2 at the White Hill prospect located in the foothills of the Brooks Range just west of the Dalton Highway.

Chevron hopes to drill eight wells over a two-year program.

Savant Alaska expects to spud soon

On the other side of the central North Slope, Savant Alaska LLC remains well aware of the ides of March, expecting to hit or beat its March 15 deadline for spudding a well at the Kupcake project.

“We’re just about to [spud],” said F. X. O’Keefe, director of business development for the Denver-based Savant Alaska on March 6. “The ice island is almost complete.”

Kupcake sits about six miles east of the Endcott satellite drilling island in the Beaufort Sea, adjacent to the BP Liberty project.

Savant needs to spud the well by March 15 to take advantage of a deal with the Texas-based True North Energy Corp. to gain interest in nearby acreage.

O’Keefe said Savant is “confident” the company will spud the well by then.

SHORTAGE

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each occupation.

Altogether, the committee determined 64 of the occupations were both crucial to oil, gas and mining operations — from accounting to wildlife control — and “available,” meaning employers have been able to fill vacancies with relative ease.

However, 16 occupations — from cooks to wastewater operators — were concerning, meaning vacancies continue to get harder to fill. And shortages in 18 occupations — mainly operations and maintenance fields and engineers, but also truck drivers field inspectors and others — have become so bad that companies have actually stopped or delayed projects to recruit workers.

“These vacancies are remaining open longer than we wish and quite often we have to go to the Lower 48 to get them,” said Mary Shields with Northwest Technical Services, who served as the chair of the committee that created the assessment.

Problem from the oil days, back again

The problem isn’t new.

During the construction boom accompanying the trans-Alaska oil pipeline in the mid-1970s, many businesses had trouble filling jobs. Popp recalled making $16 an hour working at Carr’s after graduating from high school at the time.

But even recently, the worker shortage is in full swing in Alberta, where the oil sands boom is turning once menial jobs into high-paying professions and threatening to leech workers from Alaska.

Many of the issues addressed at the PARW conference this year came up at the conference last year, but without the help of the new assessment. Now, many attendees — a group of trainers, educators and human resources managers — hope the document will guide future efforts to prepare the work force.

“We know what we need to have in terms of our current workforce ... We’ve got some ideas about what’s going to happen in the future, but how do we get Alaskans to get there? And that’s really what this data is all about,” said Dave Rees, senior resources specialist with BP Exploration (Alaska) Inc.
Short circuiting a big gas pipeline

ANGDA chief Heinze responds to challenge from House Speaker John Harris to move in-state natural gas to Alaskans sooner

By KRISTEN NELSON
Petroleum News

John Harris, speaker of the Alaska House, wants a way to get in-state natural gas to Alaskans sooner than the decade-plus a big gas pipeline from the North Slope could take to get sanctioned, built and operating.

At a Feb. 21 House open caucus Harold Heinze, CEO of the Alaska Natural Gas Development Authority, proposed what he called Plan B based on new North Slope gas supply opportunities and a small-diameter, high-pressure gas line.

But this is only a proposal in response to Harris’ challenge, Heinze said.

What ANGDA is working on is a spur line to take natural gas off a big-diameter gas pipeline going to either Canada or Valdez to move gas into Southcentral.

The agency has also been working with local utilities in preparation for an open season, when potential shippers must commit to using a certain length of pipeline, and also on working together. That, Heinze told lawmakers, would produce some real advantages, “lowering transactional cost, getting a volume discount and frankly being able to look at ways to finance and do other things that wouldn’t be available to them individually.”

He noted that with the preference on gas pricing for in-state use, the extension the Legislature provided last year of a 5 percent severance tax on Cook Inlet gas to all Alaska natural gas used in Alaska “you have provided a market mechanism where people want to preferentially supply gas here in Alaska.”

Economics into Southcentral

Southcentral gas suppliers “are starting to deplete to the point where we don’t have the supply for a large number of years into the future,” he said, but the immediate problem is the lack of deliverability from existing wells to meet winter peak demand. The Kenai liquefied natural gas plant is providing gas to utilities at peak demand.

“The issue right now is so close that it is fair to say if the Kenai LNG plant had not diverted some of its gas to the residential-commercial market several times this winter, that we would have had a major failure of the gas system; we’re that close and we’re that much on the ragged edge,” Heinze said.

There is limited gas storage in Cook Inlet, with the LNG plant functioning as storage by reducing its demand in the winter when the gas is needed elsewhere. It would take hundreds of millions of dollars for new investment to provide gas storage to replace the role the LNG plant plays, he said.

So ANGDA has looked at the economics of providing in-state gas, Heinze said, and, “Number 1, we’ve learned that the lowest cost to the consumer in Alaska comes from riding as far as you can from the North Slope in a big pipe — big pipes are tariff-efficient, so the farther you can ride, the closer you can get to the point of consumption in that big pipe, the lower the cost to the consumer.”

Industrial or export uses of gas would help pay the bill, lowering the cost to the consumer, he said.

LNG out of Valdez would help lower the bill for North Slope gas in Cook Inlet, as would industrial users in Cook Inlet.

North Slope gas exploration new

In responding to Harris’ challenge to get gas to in-state users sooner, “Plan B,” Heinze said he thinks there are several things that have changed recently on the North Slope, with possible supplies for in-state use from Foothills gas exploration — no discovery announcements — Heinze’s list of possible supplies shows 3-5 trillion cubic feet; 6-8 tcf of gas and liquid from Point Thomson; 1 tcf of Prudhoe Bay natural gas liquids; and 3 tcf of Prudhoe Bay royalty gas.

Anadarko Petroleum and its partners BG Group and Petro-Canada are drilling for natural gas in the Foothills some 35 miles west of the pipeline corridor, just southeast of the Umiat oil field, he said, the first time there has been exploration for gas on the North Slope.

If they make a discovery in the 3 tcf to 5 tcf range, “I think that sets up an interesting dynamic that’s different than anything we’ve had on the North Slope before,” because an explorer “has a lot of reasons to bring that discovery to development and production of gas very rapidly — that’s the nature of the business.”

Because of the 5 percent severance tax for in-state use of gas, “that explorer would have a lot of reasons to make dedications in the LNG market,” Heinze said.

And because the in-state market “is a finite market,” whoever gets the first gets the most.

BG Group testified to the Legislature when AGIA was under discussion that “if they had gas reserves in Alaska, they would be very interested in an LNG project out of Valdez to monetize that gas,” he said.

Point Thomson a possibility

Then there is Point Thomson.

Heinze said two years ago he would have said it was in “legal limbo” and he couldn’t have predicted when it would come out of legal limbo. “And as we sit here today I’m very comfortable to look you in the eye and say within a matter of a year or two years I believe Point Thomson will be under very active development.”

He said he thinks all the proposed plans of development for Point Thomson should be taken off the table and the reservoir should be depleted “using a simple high-pressure gas line running over to a small line coming off the North Slope.”

Heinze told Petroleum News in early March that his depletion plan for the field is not based on separating oil and gas from the high-pressure condensate Thomson reservoir but on using high-pressure line carrying initially condensate from cycling and some gas.

He said what he’s proposing would be at the boundary between blow down and pure cycling and would probably start off fairly close to what cycling would look like, but rather than lowering the pressure and separating liquids, then reinjecting gas to keep pressure up in the reservoir, he’s proposing keeping the pressure up on the surface and feeding condensate from the reservoir into a 2,500 pound-per-square-inch high-pressure line.

Between possible gas discoveries and Point Thomson, “I think you start to have a basis for gas, gas liquids and a lot of reasons to bring that discovery to development and production off the North Slope,” he told legislators.

And with 8 billion cubic feet a day of gas reinjected at Prudhoe Bay, including ethane, propane and butane, “it seems it would be good conservation to take some of that stuff, produce some of those molecules that are produced every day and run them down that high-pressure pipeline.”

As a matter of fact,” he told legislators, “I think that’s a case could be made that if that was not done, that that might actually constitute waste under the Alaska statutes.”

Alaska royalty gas, under statute, cannot leave the state without satisfying needs in Alaska. “I am the first one to not leave the state without satisfying needs in Alaska. “I am the first one to think out of Valdez to monetize that gas,” he said.

No Prudhoe gas needed

To meet immediate needs in the state, no Prudhoe Bay gas is required, Heinze said, but “if there was a high-pressure gas line” from the sources he mentioned, “I would think that at least one if not more of the Prudhoe Bay producers might think about sending their gas to in-state destinations.”

In response to the challenge of meeting in-state needs with gas, he said, “you in the eye and say within a matter of a year or two years I believe Point Thomson will be under very active development.”

He said he thinks all the proposed plans of development for Point Thomson should be taken off the table and the reservoir should be depleted “using a simple high-pressure gas line running over to a small line coming off the North Slope.”

Heinze told Petroleum News in early March that his depletion plan for the field is not based on separating oil and gas from the high-pressure condensate Thomson reservoir but on using high-pressure line carrying initially condensate from cycling and some gas.

He said what he’s proposing would be at the boundary between blow down and pure cycling and would probably start off fairly close to what cycling would look like, but rather than lowering the pressure and separating liquids, then reinjecting gas to keep pressure up in the reservoir, he’s proposing keeping the pressure up on the surface and feeding condensate from the reservoir into a 2,500 pound-per-square-inch high-pressure line.

Between possible gas discoveries and Point Thomson, “I think you start to have a basis for gas, gas liquids and a lot of reasons to bring that discovery to development and production off the North Slope,” he told legislators.

And with 8 billion cubic feet a day of gas reinjected at Prudhoe Bay, including ethane, propane and butane, “it seems it would be good conservation to take some of that stuff, produce some of those molecules that are produced every day and run them down that high-pressure pipeline.”

As a matter of fact,” he told legislators, “I think that’s a case could be made that if that was not done, that that might actually constitute waste under the Alaska statutes.”

Alaska royalty gas, under statute, cannot leave the state without satisfying needs in Alaska. “I am the first one to not leave the state without satisfying needs in Alaska. “I am the first one to think out of Valdez to monetize that gas,” he said.
On the issue of permitting a petrochemical plant, he said: “A modern petrochemical plant is a very low emissions facility and then of course one of the advantages in the Mat-Su Borough is you’ve got a couple hundred square miles of air shed sitting by the Port Mackenzie area.” Between the level of emissions and the size of the air shed, Heinz said he didn’t think it would be a problem.

about petrochemicals.

Heinz said one of ANGDA’s biggest concerns “is that the state, in the course of whatever decisions it reached, would lose control of the natural gas liquids.” All the work ANGDA has done, he said, shows “an inherent strong value associated with what I call the natural gas liquids — the ethane, propane, butane, the heavier hydrocarbon molecules that are gas, but they’re heavier than the methane.”

NGLs are the basis of the petrochemical industry, and the amount coming to the surface at Prudhoe Bay in 8 bcf of gas a day are “hundreds of thousands of barrels of ethane, propane, butane.” Heinz said that volume “would support two world-scale petrochemical complexes.”

Ethane is turned into pellets which are used by the petrochemical industry worldwide, he said. The required investment would be huge, he said, but such an industry would create hundreds of jobs and provide for more entrepreneurial opportunities in such things as specialty foam insulation that could be made in Alaska. As for shipping the pellets, Port MacKenzie ships wood chips, the pellets are basically inert: “If you can ship wood chips you can ship pellets,” he said.

A gas-to-liquids conversion could be done on the North Slope and shipped through that small-diameter high-pressure gas line. GTL is compatible with gas and condensates and are easily separated at the end of the line, Heinz said.

Is permiting possible?

Could the gas pipeline, or a petrochemical plant, be permitted in Alaska, asked Rep. Bill Stoltze, R-Chugiak/Mat-Su.

Heinz said ANGDA has a condition right of way for a spur line from Glennallen to Palmer and then of course into the Port. And then he went through a public hearing process for that right of way. He said there were concerns expressed, but those were addressed. A gas pipeline is low impact “because it happens; it’s over with, and it disappears.”

Except for the tax benefits, Heinz said: The spur line would be the largest taxpayer in the Mat-Su Borough.

On the issue of permitting a petrochemical plant, he said: “A modern petrochemical plant is a very low emissions facility and then of course one of the advantages in the Mat-Su Borough is you’ve got a couple hundred square miles of air shed sitting by the Port Mackenzie area.” Between the level of emissions and the size of the air shed, Heinz said he didn’t think it would be a problem.

Idled plants, “whatever you think of them, they are all fairly clean; these are good technologies that don’t involve impurities,” he said. And against the concerns, he said, set the environmental advantages of getting gas into the area.

What would it cost?

Rep. Mike Doogan, D-Anchorage, asked what the economics would be of a line sized to meet the state’s internal needs.

For heating and electricity the in-state need is about 250 million cubic feet a day, Heinz said. If you add modest LNG export out of Valdez and some industrial or LNG use in Cook Inlet, “you very quickly add up to a billion cubic feet a day,” which would be compatible with a 24-inch line from the North Slope to both Valdez and Cook Inlet.

At an estimated cost of $5 billion, the tariff could be about $2 per thousand cubic feet.

It’s not a proposed project, Heinz said, but rather a response to Harris’ challenge to provide in-state gas, but could it work?

In discussions with people in the LNG business ANGDA has been told “if you could put gas in Valdez say for a $2 transportion charge from the North Slope, we’d be happy to build a plant, call with our ships, deliver to our markets and everything else.”

But, he was quick to tell Doogan, that’s meaningless until those people stand up at an open season and make the multi-billion-dollar commitments required.

Not bucking AGIA

Heinz told lawmakers that ANGDA is not working against the Alaska Gasline Inducement Act process.

The south end of a system that comes off a mainline at Delta Junction could add up to 1.25 tcf a day. “And we believe that may be a very effective in-state system to tack on to something else,” This, he said, is just “a very different vision of what it takes on the north end” to meet in-state needs.

The work ANGDA did on its AGIA application “is a very strong statement of what I’m calling the south end of this state system,” Heinz said.

The small-diameter high-pressure 24-inch line is based “on a little different concept of the north end;” a north end not anchored at Prudhoe Bay, Alaska, but at a spot called Toolik where the trans-Alaska oil pipeline starts up into the foothills.

“A modern, high-capacity pipeline runs from the hub to the foothills, from Point Thomson, maybe from Prudhoe Bay, he said. “There will be other exploration discoveries … and they go to that hub.”

A pipeline runs from the hub to Glennallen, a 24 inch high-pressure line carrying 1 bcf to 1.25 bcf a day.

A line like that, maybe $5 billion, is still a lot of money, “but on the other hand that’s very Alaska-sized and it’s within reach,” he said.

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Clark never minced words, said current and former lawmakers. Nor was he afraid to interrupt a House floor session by ringing Speaker John Harris' podium phone.

"Whatever coordination and discussion were out of touch with the whole machinery of government." Berkowitz said.

In January, federal prosecutors asked that their sentences be delayed because a substantial amount of work remains in the government's investigation. The next status report is due by April 30 to a federal judge.

Clark to assist federal investigation

And now Clark, too, will be assisting the feds in the investigation, according to the terms of his plea agreement.

"In the center of the spider web, I think the one person you'll find there has got to be Jim Clark," Senate Minority Leader Gene Therriault said.

"The probe apparently continues, and with the cooperation of Allen and Smith, this leaves many political insiders wondering if there may be more indictions.

"In the center of the spider web, I think the one person you'll find there has got to be Jim Clark," Senate Minority Leader Gene Therriault said.

"In the center of the spider web, I think the one person you'll find there has got to be Jim Clark," Senate Minority Leader Gene Therriault said.
Jeff Johnson

Born before Alaska statehood to pioneers Harold (inventor of the 450 Alaska bear rifle) and Eileen Johnson of Cooper Landing, Jeff grew up around engines and generators through the family business, Alaska Diesel Electric. After high school, pipeline work and college, he became a commercial fisherman. As that became unprofitable, he worked in the family business for 14 years. It took one meeting with ESI President Terry Wornath and coaxing by Ken Pugh to join Equipment Source. Jeff enjoys a 24-year marriage to Vera, and being dad to three young adults. After falling 24 feet into a drill hole for VSMs without his operator’s knowledge while the hole was being drilled, he came within seconds of being ground up by the drill auger. With that in mind, Jeff is thankful for every day.

Ken Pugh

Ken joined ESI in July 2007 with a broad background in power generation and industrial equipment sales, warehousing and expediting. He’s worked for Alaska Diesel Electric, NC Machinery, Houston Contracting and Spenard Builders Supply, and as a warehouseman for an open-pit gold mine. He and wife Debbie dated in high school, met up again and married 15 years later. They have four children ages 12 to 20 and a granddaughter. Ken is a tinkerman who loves the challenge of fixing anything broken at home or at their recreational cabin.
Udelhoven acquires TNM

In late 2007, Udelhoven Oilfield System Services Inc. (UOSS) acquired True North Management LLC (TNM). Both firms are Anchorage-based, providing project/construction management services to the Alaska, Lower 48 and international oil and gas industry. Now a UOSS division, TNM’s contracts and employees transferred to UOSS, including Lee A. Gabrielson, co-founder and president, who now is a UOSS project manager and oversees the TNM operation. Jim Udelhoven continues to serve as CEO of UOSS, and Jim Gilbert remains its president.

New plan

In response, ExxonMobil filed a new plan of development, the 23rd plan, with the state. That plan proposes a cycling project involving the drilling of five wells and leading to production of 10,000 barrels a day of condensate from Point Thomson by the end of 2014. A pipeline would carry condensate from the field to the Badami pipeline for shipment to the trans-Alaska pipeline.

In addition to bringing the field into production, this relatively small-scale development would serve as a test bed for a larger scale field development and, thus, mitigate some of the risks associated with a larger project. (Under former plans of development ExxonMobil proposed an initial large-scale development that would produce 60,000 to 75,000 barrels a day.)

In testimony before Irwin and hearing officer Thomas Thompson at the DNR hearing, ExxonMobil Alaska Production Manager Craig Haymes gave several reasons why his company thinks DNR approval of the 23rd plan of development would be in the public interest.

He said that the Point Thomson decision would be his and his alone and would be made on the basis of testimony and exhibits. He said that he needed answers to several questions. In particular he wanted to know why the companies believed that DNR should accept another plan of development.

“I need to understand how, in light of the history of this unit, DNR can be assured that the commitments made in the 23rd plan of development will be met,” Irwin said. “I need to understand why you think DNR should approve a plan of development that is retroactive. I need to understand why you think DNR should approve a plan of development that is retroactive. I need to understand whether you think it is reasonable for DNR to approve a plan of development that continues for six more years and does not appear to have any intervening enforce-ment benchmarks. I need to understand your view on what will happen if any of the commitments in the 23rd plan of development are not timely performed. I need to understand whether this plan will fully develop and delineate all of the resources in the unit.

“Now, let me be very clear. I’ve looked through the history of this unit and a clear pattern emerges. DNR’s patience was exhausted when the decision was made to reject the 22nd plan of development. Your job is to convince me that the pattern has been changed.”

Discovered in 1977

First discovered by Exxon in 1977, the Point Thomson field consists mainly of a high-pressure gas condensate reservoir. Although the field could be operated as a conventional gas field, the production of condensate from the field requires a procedure known as gas cycling. In gas cycling, the reservoir pressure is maintained by injecting produced gas back into the reservoir, thus flushing condensate in vapor form to the surface.

The production of condensate is desir-able because it has a higher economic value than natural gas and, in liquid form, it could be mixed with crude oil for export through the trans-Alaska pipeline. However, a 22nd plan would be more technically difficult to implement than a straightforward gas field. On the other hand, blowing down the reservoir as a gas field would likely result in less gas recovery than would otherwise be possible. In addition, there is no market for gas in the North Slope.

In fact a Point Thomson unit expansion in 2001 had been predicated on the pursuit of a major gas cycling project in the unit. But in late 2003 the unit owners told DNR that the state that the gas cycling proposal was not viable. The owners subsequently changed their focus to developing the field as a major gas field and in September 2004 submitted a 21st plan of development that involved investigating that option.

Rejection of 22nd POD

In 2005 Mark Myers, the then director of Alaska’s Division of Oil and Gas, rejected the unit owners’ 22nd plan of development because it made “no commitment to timely develop and produce PTU oil, gas, or gas condensate.” The 22nd plan proposed “additional studies to determine if the PTU lessees can design a commercially viable production project.” The decision said. Indeed the state told the owners that a plan that would include drilling commit-ments and a clear movement to commer-cial production from the Point Thomson field.

Rejection of the 22nd plan of develop-ment in effect placed the Point Thomson unit into default. Mike Menge, then DNR commissioner, granted an extension of the unit pending legislative review of Gov. Frank Murkowski’s North Slope gas line con-tract with the North Slope producers. The contract never received legislative approval and Menge terminated the unit in November 2006.

The oil companies appealed the DNR decision in the Alaska Superior Court. On Dec. 27, 2007, the court ruled that DNR acted properly when it rejected the 22nd plan of development. However, the court directed DNR to give the Point Thomson owners one last chance to come up with an “appropriate remedy” — an alternative to unit termination — by holding the DNR administrative hearing that commenced March 3.
**POD - Plan to Produce Condensate**

- Production by YE 2014: 10,000 BPD, inject remaining gas
- Includes liquids pipeline, airstrip, camp, and warehousing
- Delineate oil reservoirs, ability to produce
- Future expansion capability

An artist's impression of ExxonMobil's proposed Point Thomson field development.

The new plan of development will achieve that goal in a manner that maximizes the value of the resource, conserves the resource for future expansion, allows for learning about the reservoir, minimizes environmental impacts and does all of this in a timely manner, Haymes said.

"ExxonMobil and the owners are committed to this project. It's an unconditional commitment," Haymes said. "We've secured a rig; we'll be upgrading that rig in May of this year."

ExxonMobil is obtaining materials and will commence the drilling in the winter of 2008-09, he said.

"We've laid out a very detailed plan that will allow you and the owners to monitor progress through the plan of development," Haymes also said that the owners have modified the unit operating agreement for Point Thomson to make the voting requirement for unit decisions 50 percent rather than 65 percent, "to remove any other impediments that might be in the way of moving this project forward."

Later in the hearing Chevron's Alaska General Manager John Zager confirmed that the new voting rules would prevent a single owner from vetoring a unit decision. The revised operating agreement also contains language that protects the project schedule, Kevin Brown, BP's manager of gas business development, told the hearing.

Monitoring progress

Irwin also quizzed Haymes on what would happen if development did not progress as planned.

"ExxonMobil and the owners will report progress through the plan of development," Haymes said. "If there was a delay in an activity we would talk with DNR on what new factor that is and what we would do to meet that gap, to ensure we could take this through to early production. We have a lot of incentive to bring on production earlier.

"What happens if DNR does not think progress has been adequate?" Irwin asked.

"The Point Thomson unit operating agreement provides provisions for DNR to take action if they believe we are not meeting our commitment in this plan of development," Haymes said.

Haymes was not specific about what those unit operating agreement provisions are.

But later in the hearing Haymes stressed again that the Point Thomson unit owners view the 23rd plan of development as a binding agreement to take the field into production.

"It is not a plan of development to do an engineering study … and then come back and discuss the next steps," Haymes said.

"It’s a legally binding commitment from all of the owners through to production. … We did not put penalty payments into this plan of development … because we committed … to take it (the project) all the way to the end. … There are no off ramps. There are no decision points. It’s a black-and-white unconditional commitment. It’s a commitment from all of the owners.”

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**Nabors 27E rig secured for Point Thomson drilling**

On March 5 at the Alaska Department of Natural Resources Point Thomson hearing ExxonMobil drilling engineer Bill Meeks said that ExxonMobil has secured Nabors rig 27E for Point Thomson drilling.

"As soon as we get the go ahead to do this we will start working the

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**POINT THOMSON**

obtain seismic information and do engineering studies. Then by the time a new project is designed, the total delay in field development would probably be 15 to 17 years, compared with ExxonMobil’s plan to have production starting in less than seven years, Haymes said.

**Remedy for rejection**

But does the new 23rd plan of development remedy DNR rejection of the 22nd plan, Irwin asked.

By clearly laying out a timeline to production by 2014, the new plan is unique in the history of Point Thomson, Haymes responded.

"The state and the owners recognize those risks and have jointly worked on various plans of development and focus areas up through POD 21," Haymes said. "The focus has been on gas sales, gas cycling, (gas) blowdown, small options, large options." Over the years the owners have put considerable effort into learning and gathering information about the field.

"Over $800 million has been invested in Point Thomson to date," he said. "The owners are all committed to commercializing the Point Thomson resource and that goal has always been in front of us and in front of the state."
continued from page 18

RIG 27E permits for the wells,” Weeks said. “We are in the process of continuing our well planning efforts. We have already ordered the long-lead equipment.”

He said that after the 27E rig comes off contract with Brooks Range Petroleum Corp. in early May the rig would be modified for drilling into the high-pressure Point Thomson reservoir. Modifications would be done during the summer and would include enhancing the rig’s circulating capacity and adding some new structural pieces.

ExxonMobil would also like to stage some equipment at Point Thomson during the summer to enable expedited winter ice road construction from Point Thomson to Prudhoe Bay, Meeks said.

Drilling would be done from an existing gravel pad and would commence with the injection and disposal wells required for field development. Drilling of the surface holes might start in the summer, but summer drilling activities would not involve drilling into hydrocarbons.

“We’ll come back in November and begin our work again,” Meeks said.

DNR Commissioner Tom Irwin asked why ExxonMobil did not plan to use two rigs rather than one.

The current plan is to use one rig to drill the initial wells and the single drilling pad would be “awfully crowded” with two rigs, Meeks said.

Five months ago, every possible rig but 27E has the advantage of modular construction, Meeks said.

“The main reason we wanted to go with 27E is we can get on the ice more quickly … so it gives us more of a drilling window,” Meeks said.

Meeks said that Nabors rig 14E was another possibility but would require more extensive modification. In the event of a problem with the 27E rig, ExxonMobil could have a replacement rig operational within a year, Meeks said.

—ALAN BAILEY

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OPPOSED

officer Nan Thompson that the port authority’s involvement stems from its 2005 efforts to purchase Point Thomson gas from unit owners. Richards said after “effectively receiving no response” to the port authority’s request to look at why gas sales were not occurring from Point Thomson.

The hearing was in response to Alaska Superior Court Judge Sharon Gleason’s order that DNR allow the Point Thomson Unit owners an opportunity to suggest remedies other than termination for failure to submit an acceptable 22nd plan of development for the unit.

DNR is hearing a proposed multi-year 23rd plan of development. Richards said the port authority does not believe that a multiyear plan of development is appropriate “given the unit’s history and DNR’s stated policy of regulating periodic plans of development to ensure unit oversight on the North Slope.”

He said that in light of the Point Thomson Unit’s history, “mainly failure to meet the 1984 and 2002 expansion commitments and drilling … (and) the unit operator’s failure to undertake all of the promises made towards completion of a gas cycling project, including permitting,” the port authority believes a one-year plan of development should be in place “so that DNR has the authority to oversee rapid unit development.”

—KRISTIN NELSON

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MGM ENERGY

adjoining fault block to Atik P-19, did encounter good quality reservoir sections and the company will review the potential to retain the well bore for future cuttings injection. MGM, spun off Paramount Resources a year ago to explore the Mackenzie Delta, has taken a public spanking from analysts and investors after failing to make its hoped-for exploration breakthrough in the last two winters.

Shares which debuted at C$5 in January 2007 and sold at C$2.75 apiece in a C$100 million initial public offering tumbled suddenly to C$1.60.
Peters & Co. analyst Andrew Boland said in a July 29 report that the challenge now for MGM is to finance future activities — which include seven more wells — “as the pall of dry holes and disbelief in the Mackenzie Valley pipeline project may be too dark for investors.”

“We continue to believe that an investment in MGM should be part of any diversified E&P portfolio, but it is an investment that will require a very long-term perspective.”

Canaccord A.G. analyst Richard Wyman downgraded MGM from a “speculative buy” to a “sell” with a C$1.85 price target from an earlier C$3.45.

In a note to clients, he said the prospects for Aput D-43 dimmed because the “risk of a leaky trap or timing between natural gas migration and trap formation has increased substantially.”

Wyma said the results at Atik and Aput should have no connection to what might happen at Langley E-07, which is close to the Langley K-30 discovery earlier this decade by Chevron Canada Resources and BP Canada Energy.

As well, MGM still has the backing of Chief Executive Officer Clay Riddell, who is also chairman and CEO of Paramount and the driving force behind the creation of MGM, which has signed a capacity request agreement to secure 200 million cubic feet per day of space on the proposed 1.1 billion cubic feet per day gathering system connecting Mackenzie Delta fields to the main pipeline.

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TALISMAN

problems with Talisman’s oil and gas reservoirs, but were a function of “limited project engineering capabilities, particularly in-house.”

Strategic review promised for May

In addition, he has promised to complete a strategic review of the company in May, with the focus on growth opportunities in the core areas of the North Sea, Asia and North America.

Manzoni said he does not want to stifle Talisman’s “opportunistic” style, but “we will make clear choices on where to invest…there are a number of areas in our portfolio which, although they are good for business, don’t hold the strategic growth potential we are looking for in the future.”

Asked why he would still think about drilling in Alaska, given his pessimistic view of the exploration potential, Manzoni said that as the new CEO he has the prerogative to take a different point of view.

Unterschoking that style, Talisman wrote off C$322 million in dry hole costs for all operations in the fourth quarter of last year, pushing the total for the year to a startling C$684 million, including the exploration activity in Alaska.

Manzoni said he views as taking a “prudent view of the past exploration well costs” in NPR-A.

“We are still shooting seismic this year and we will see what that tells us,” he said.

“That was always the plan. We were never going to go back this year. We were always going to shoot seismic to see if we could identify bigger anchor fields on the land that we own. And that remains the objective.”

Talisman’s “opportunistic” style, but “we will make clear choices on where to invest. …there are a number of areas in our portfolio which, although they are good for business, don’t hold the strategic growth potential we are looking for in the future.”

continued from page 1

EOG

of northeastern British Columbia where its experimental new resource play may contain as much as 6 trillion cubic feet of shale gas reserves from a net 140,000 acres, matching the three anchor fields on the Mackenzie Gas Project.

Loren Leiker, EOG vice president of exploration, told the independent’s annual analyst meeting the Muskwa shale may be what many have been searching for — a match for the prolific Barnett deposit.

“We think we have found shale in British Columbia that is every bit the quality of Barnett,” he said.

Leiker said EOG believes that 50 percent recovery from the water-free Muskwa wells is “not off limits,” although it is assuming recovery efficiencies of 20-30 percent.

“It takes only 20 percent recovery on 60 percent of our acreage to get the 6 tcf number,” he said.

Although emphasizing that more time is needed for a thorough review, Leiker described Muskwa as a play with “world class rock properties” that are thicker and higher pressure than Barnett and have double the gas in place in the Barnett’s core Johnson County area.

On top of that, he said the infrastructure is in place for initial gas sales in June and volumes of 40 million cubic feet per day by 2010 or 2011.

EOG: magnitude underestimated

“This, in my opinion, is a really, really big deal,” EOG Chairman Mark Papa told the analysts.

“The magnitude of this is currently underestimated by Wall Street as well as perhaps a lot of other E&P companies.”

That might have changed. EOG shares bounced up 18 percent the next day, while Encana and Nexen — two leading players in the Horn River shales — gained 3 percent and 5 percent, respectively.

Chris Feltin, Tristone Capital’s research director, endorsed the notion that the Horn River basin could match Barnett’s shale potential, although it will take time to develop.

FirstEnergy Capital analyst Stephen Paget put the EOG find among the top 10 gas discoveries in Western Canada, but he notes that Horn River’s gas, unlike large single pools, is trapped in rocks over a large area, making it more difficult to produce.

Papa said that until six months ago EOG had not drilled the wells to determine whether what looked like and quacked like a duck was really a duck.

The answer has come from test rates of 3.5 million and 4.2 million cubic feet per day over 10- to 14-day periods from 1,700-foot horizontal wells, compared with the 3,400-foot laterals EOG will use for commercial production, when output will likely double, he said.

Papa said that 3,300-3,400 foot laterals in Barnett would yield up to 8 million cubic feet per day.

Horn River winter-only access

He did concede that Horn River will be slower to develop than Barnett because it is a winter-only access area and because of its remoteness well costs will be higher than Barnett, while there will be a “significant location differential” relative to Henry Hub prices.

EOG’s current estimate points to a “very large asset that will ultimately generate a 20 percent price of return,” Papa said.

More development wells this year will help EOG refine its drilling and completion processes.

In Papa’s view, however, Horn River has cleared the technical hurdles, leaving the company to deal with execution and logistics.

On the infrastructure front, EOG has just acquired a 24 million cubic feet per day conditioning plant, is installing a 10-mile gathering line to tie in its first drilling area, while a pipeline with capacity of 65 million cubic feet per day, which EOG hopes will be looped in 2010 or 2011, will carry gas south to the Fort Nelson gas plant.

Leiker estimates the Fort Nelson plant has incremental capacity of 450 million cubic feet per day, capacity that will have to be supplemented “if this play is as big as we think it is.”

Horn River is exactly what many leading Alberta producers need as an alternative to Alberta’s own in-play.

Along with EOG, Encana and Nexen, Apache Canada and Devon Canada are shifting more of their resources to British Columbia.

— GARY PARK