Enough gas — just

Enstar will continue to need ‘just in time’ bid gas during coming winter

By ALAN BAILEY
Petroleum News

Southcentral Alaska gas utility Enstar Natural Gas Co. continues to face a tight gas supply situation but anticipates having sufficient gas to see it through the coming winter, Mark Slaughter, Enstar’s manager of gas supply, told the Regulatory Commission of Alaska on Oct. 12.

Enstar obtains the bulk of its gas through what are termed “firm” contracts, in which gas producers are responsible for ensuring that gas flowing from their gas fields and available from their gas storage facilities is sufficient to meet contractual obligations.

During the winter of 2011-12, Enstar anticipates obtaining 97 percent of the gas that it needs through these firm contracts, with the utility obtaining the remaining 3 percent of its supply through a new gas bidding system introduced in January 2011.

Bid gas

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RCA approves purchase of power from CIRI wind farm by Chugach Electric

By ALAN BAILEY
Petroleum News

In an Oct. 10 order the Regulatory Commission of Alaska has given the go ahead to power utility Chugach Electric Association to purchase electrical power from a wind farm that Cook Inlet Anchorange. CIRI needs the power purchase agreement to secure the funding needed for completion of the wind farm construction, with a 2012 deadline for completion if the project is to qualify for a nearly $19 million federal grant.

“The project is a long time to get to,” an elated Jim Jager, CIRI spokesman, told Petroleum News Oct. 11 in response to the RCA decision.

The state attorney general, intervening on behalf of the general public, and Anchorange power utility Municipal Light & Power, questioned many of the assumptions behind the finding of a net positive value to the wind power supply.

Fire Island going ahead

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Yukon ready for new era

Right-of-center party wins third majority, clearing way for resource development

By GARY PARK
For Petroleum News

The governing Yukon Party, led by former premier Darrell Pasloski, made political history on Oct. 11 by winning a third straight majority, clearing the way for the Yukon Territory to embark on what could be even greater history through exploitation of its resource riches.

Of the Yukon’s 23,500 eligible voters, 67 percent cast ballots, the lowest turnout since the territory adopted party politics in 1978.

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NATURAL GAS

Oil Adds Volatility to State GDP

Conoco buys Marathon Oil’s 30% share of Nikiski LNG plant

ConocoPhillips has purchased Marathon Oil’s 30 percent share in the Kenai liquefied natural gas plant.

ConocoPhillips Alaska spokeswoman Natalie Lowman told Petroleum News Oct. 12 that the sale closed Sept. 26; no financial details were released.

Lowman said ConocoPhillips bought Marathon out because “We really believe that the plant has options for the future and we opted to purchase Marathon’s share so that we could maintain those options ourselves.”

She said there would be no immediate changes. A cargo is scheduled to leave the plant in October or early November and that cargo will probably be the last of the plant’s operations.

Lowman said ConocoPhillips will be looking at preserving the plant’s options for the future “and that could include support for an LNG import and regas facility” or resumption of LNG export options.

By ALAN BAILEY
Petroleum News

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ESCOPETA

Escopeta reaches stopping point for KLU, planning future work

Escopeta Oil Co. has completed the first stage of drilling at its Kitchen Lights Unit No. 1 well and now must wait for the state before it can continue to total depth.

Escopeta recently reached a depth of 4,933 feet at the offshore well in the Cook Inlet, the depth where the state asked the company to temporarily stop work. “We’re at Checkpoint Charlie right now,” Escopeta Strategic Officer Steve Sutherlin said on Oct. 12.

Sutherlin is a former Petroleum News reporter and a minority owner of the company.

Although Escopeta intends to drill KLU No. 1 to 16,000 feet, the Alaska Department of Natural Resources told the company to pause at 4,800 feet while it evaluates and determines the reasonableness and prudence of moving forward with additional drilling,” according to a Sept. 2 letter from

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Petroleum News

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The left-leaning New Democratic Party doubled its count to six members, while the Liberals fell to two from five.

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<th>Rig Location/Activity</th>
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<td><strong>Central Mackenzie Valley</strong></td>
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**Nabors Alaska Drilling**

- Transocean rig: CDR-1 (CT) Stacked, Prudhoe Bay Available
- AC Coil Hybrid: CDR-2 Kuparuk 2L-307 ConocoPhillips

**Nordic Calista Services**

- Superior 700 UE: 1 (SCR/TD) Prudhoe Bay Drill Site R-03B1 BP
- Superior 700 UE: 2 (SCR/TD) Prudhoe Bay Well Drill Site 14-28A BP
- Ideco 900: 3 (SCR/TD) Kuparuk Well 2A-07 ConocoPhillips

**Parker Drilling Arctic Operating Inc.**

- NOV AOS-105D: 272 Prudhoe Bay final construction and commission BP
- NOV AOS-105D: 273 Prudhoe Bay final construction and commissioning BP

**Rigmaster 850: 129 Kenai Stacked out Available**

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**Cook Inlet Basin – Onshore**

- AWS 1: Drilling Three Mile Creek Aurora Gas
- J.G. Finneran: Drill rig 1B Ekhuma Stacked Available

**Cook Inlet Basin – Offshore**

- 428 M-11 Steelhead Platform: Chevron
- National T520: A Coil tubing cleanout planned off Platform XTO
- National C 100: Idle XTO

**Spartan Drilling**

- 151: Stacked, Kenai Available

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**Baker Hughes North America rotary rig counts**

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</table>

**Highest/Lowest**

*Issued by Baker Hughes since 1944

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**The Alaska - Mackenzie Rig Report**

*This report was prepared by Marti Reeve*
Mike Hawker sees flaws in oil tax bill

Alaska Legislative Budget and Audit chair discusses megaprojects, gas pipelines, and the Pedro van Meurs report on fiscal systems

By STEFAN MILKOWSKI
For Petroleum News

Rep. Mike Hawker, a legislative point person on oil and gas issues and chair of the Legislative Budget and Audit Committee, helped push Gov. Sean Parnell’s oil tax bill through the House last session.

But a recent report by the global oil and gas expert Pedro van Meurs argues the governor’s bill is off track, and Hawker seems to agree. In some ways the governor’s bill is off track, and Hawker maintains his doubts about a large-scale gas pipeline and says he’ll keep pushing for legislation that could give the state a way out of its deal with TransCanada under the Alaska Gasline Inducement Act.

Hawker: Every single...
BP sides with AOGCC against Alyeska

Issue whether commission’s inspectors must participate in Alyeska employee safety program; BP says it can’t compel regulators

By KRISTEN NELSON
Petroleum News

The Alaska Oil and Gas Conservation Commission, which regulates downhole activities and typically deals with oil and gas companies, is involved in a dispute with Alyeska Pipeline Service Co. over whether the commission’s inspectors must comply with Alyeska safety protocols when witnessing meter tests at Pump Station 1.

The commission does not regulate pipelines, and is only embroiled with Alyeska because commission inspectors witness tests of lease automatic custody transfer, or LACT meters, which measure oil going into pipelines — important to the state since it collects royalties based on production volumes.

One such meter is inside a metering building at Pump Station 1. Alyeska argues that Occupational Safety and Health Administration regulations require that agency inspectors comply with energy isolation safety protocols by “hanging a lock” when present for meter testing, based on OSHA requirements that companies treat all those involved in energy isolation situations as employees for safety purposes.

This is a new requirement, and not one that commission inspectors encounter when witnessing other meter tests. The commission maintains that its inspectors are not required to participate in Alyeska’s safety protocols.

BP disagrees with Alyeska

At the end of an Oct. 11 hearing where Alyeska officials discussed the pipeline operator’s safety culture and its reading of OSHA regulations as requiring that an inspector observing a test must be treated as an employee and comply with company safety protocols, an attorney with BP Exploration (Alaska) told the commission that BP does not believe it is required to treat regulators as employees for safety purposes.

Randall Buckendorf told the commission that BP takes the position that it can ask regulators to comply — by asking state and federal agency personnel to drive safety at its fields, for example — but does not believe it can mandate compliance with its safety standards.

Buckendorf said he’d discussed the issue with BP Exploration (Alaska) President John Mingie, and said the issue has the attention of the pipeline owners. BP is the regulated entity and doesn’t believe it is in noncompliance, he said.

BP, at 47 percent, is the largest of the owners of the trans-Alaska oil pipeline system, which is managed for the owners by Alyeska. Other owners are ConocoPhillips, ExxonMobil, Unocal Pipeline and Koch Alaska Pipeline.

**Alyeska: hanging a lock required**

In addition to Alyeska officials, the pipeline operator was represented at the hearing by Kenneth Eggers, an attorney with Groh Eggers LLC.

Eggers told the commission that he believes the law requires a commission employee to hang a lock; and, he said, from a practical perspective, the requirement is in the interests of safety.

Eggers offered to sit down with the commission’s staff and work on the issue.

Greg Jones, senior vice president of Alyeska’s technical support division, said he believes the commission’s position is misguided. Alyeska is not trying to regulate a regulator, he said: This is truly misguided.

Jones said that a decade ago, Alyeska had some 30 injuries a year, but with changes in the company’s safety procedures starting in about 2002, that has dropped to only four injuries a year.

Whitney Grande, Alyeska senior health and safety manager since 2008, said safety is embedded in everything Alyeska does. He said when he joined the company he focused on “life critical” programs, and one of the big three was energy isolation — the issue around hanging a lock for the meter test.

Grande said a 2008 OSHA directive put the burden on the employer for both its own employees and for the employees of others, with three options for other employers: follow the host’s program, follow their own energy isolation program or combine the two.

**Different procedures at different locations**

Commissioner John Norman said it was problematic for the commission when there are different procedures at different locations. He told Grande he was trying to understand why, when commission inspectors witness multiple meter tests, there is an issue only at the Pump Station 1 location.

Grande said he couldn’t speak for other operators’ procedures; our program is compliant, he said.

In a back and forth with Commissioner Cathy Forster, Jones said everyone who enters facilities is asked to comply; he said Alyeska’s position is that if you have your own procedure, you’d do that, or you could comply with ours.

Eggers said he believes the law requires hanging a lock for energy isolation and said his legal opinion is that the commission is required to have a procedure.

As asked by Forster if locations where inspectors are not required to hang a lock would be in violation, Eggers said he’d have to look at the situation. Forster pointed out that the commission’s inspectors are never without an Alyeska escort.

She was also concerned that Alyeska personnel testing were unfamiliar with AOGCC regulations on custody transfer meters and asked if Alyeska was an operator under AOGCC regulations.

Norman questioned the location of the meter and asked if the meter needs to be at that location. Why is the meter at a location where one company is restricting access but the meter is owned by someone else, he asked.

Norman said he keeps returning to the meter testing situation in which ordinarily there would be a nonevent. He said the com-

**By ERIC LIDJI**

The meter is oversized for current needs and there is a plan to replace it, Buckendorf said, although it would be very costly to move it.

**LAND & LEASING**

BPRI withdraws Greater Bullen application

Brooks Range Petroleum Corp. has voluntarily withdrawn its application to form a unit on the eastern North Slope and surrendered half of the acreage associated with it.

The local independent told the Division of Oil and Gas on Sept. 23 of its decision not to form the Greater Bullen unit over 68 State of Alaska leases in the area between the Badami and Point Thomson units. The division accepted the withdrawal several days later.

“We voluntarily surrendered about 100,000 acres, but some of that is to Anadarko Petroleum,” BRPC executive Jim Winegarner told Petroleum News on Oct. 12.

The unit would have covered some 200,058 acres on the eastern North Slope.

“The Division will make every effort to include the surrendered state oil and gas leases in the next areawide North Slope lease sale currently scheduled for Dec. 7,” division Director Bill Barron wrote to the company in a Sept. 26 letter accepting the withdrawal.

**Telemark proposal**

In its unit application earlier this year, BPRI proposed to use the Telemark Development Project to target a Brookian-age reservoir in the Flaxman sand that would justify standalone production facilities in the region and a multycar exploration program, but that program depended on confirmation of the reservoir by a seismic program and an exploration well, and sanctioning by the working interest owners, Winegarner said.

Of the three unit applications BPRI filed this year, the Greater Bullen proposal was based on the least amount of previous exploration work. The company and its joint venture partners have not previously drilled or acquired seismic in the area.

BPRI is the local operating arm of Kansas-based Alaska Venture Capital Group.

---ERIC LIDJI---
An evolving scene for Alaska permitting

Lawyer points to the value of persistence in dealing with litigation over permits, particularly on the outer continental shelf

By ALAN BAILLEY
Petroleum News

With Alaska resource development, particularly on the outer continental shelf, having become a prime focus of litigation by environmental organizations, companies need to be prepared to be persistent in finding paths through the various challenges, attorney Jeffrey Leppo, a partner in law firm Stoel Rives LLP, told the Alaska Oil and Gas Congress on Sept. 21.

‘Denial is not a successful strategy,’ Leppo said.

Key intersection

Leppo said that Alaska sits at a key intersection between natural resource development and various federal policies in areas such as climate change, ocean usage; oil and gas; and fisheries. The state holds world-class natural resources and has an economic dependence on the development of those resources. But this is an extraordinarily litigious time in the state, Leppo said.

“The thrust for litigation in connection with natural resource projects, particularly on the OCS, is essentially insatiable at this point,” he said.

Groups that Leppo characterized as environmental nongovernmental organizations, or eNGOs, have been mounting a particularly sustained campaign of litigation in the state, he said. These organizations are knowledgeable and thorough.

“They are well funded and staffed, and very thoughtful,” Leppo said. “Their approach is in no way random or frivolous. They’re better organized, quite frankly, and have better marshaled their resources than a lot of industries and certainly more so than the government.”

And the Deepwater Horizon disaster has helped the environmental groups, he said. Critical policy, leasing or permitting decision has been litigated in a particularly sustained campaign of litigation in the state, Leppo said.

“Litigation will continue to revolve mainly around the application of the National Environmental Policy Act, the Endangered Species Act and the Marine Mammals Protection Act,” Leppo said. NEPA, the statute that drives the preparation of environmental assessments and environmental impact statements for projects with federal involvement, is the single most common source of successful legal challenges to projects across the United States, he said.

Closer coalition

On the other hand, in 2011 a closer coalition between industry, Native organizations and the State of Alaska has begun to emerge in support of a responsible development agenda, although that coalition has yet to succeed in moving any permitting decisions forward, Leppo said.

And the current cycle of eNGO litigation strategies is coming to an end, as lawsuits make their way through the courts, with some new strategies likely to appear to replace strategies that have run their course. The federal permitting program should be more stable and predictable, now that the reorganization of the old Minerals Management Service has been completed, although government agencies in general will likely remain too understaffed, underfunded and underequipped to anticipate the changing set of challenges that industry faces, Leppo said.

However, companies should anticipate some permitting success in 2012, he said.

NEPA

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“It is still a major challenge for significant progress, particularly in the OCS, and for offshore oil and gas,” Leppo said. The NEPA process is time-consuming, lacks schedule discipline and is expensive, but it requires thoughtful, patient and persistent efforts in its application. And businesses operating in Alaska need to realize that the U.S. 9th Circuit Court, the court that commonly ends up dealing with federal administrative appeals from Alaska, has a strong preference for the use of an environmental impact statement rather than the much simpler environmental assessment for the analysis of the environmental consequences of a project.

Litigation against the NEPA analysis for the 2008 Chukchi Sea lease sale is one high-profile lawsuit that has been proceeding through the U.S. District Court in Alaska. Although the court rejected most of the challenges to the lease sale, the court did require modifications to the lease sale EIS. On Oct. 3 the Bureau of Ocean Energy Management issued a final supplemental EIS and associated record of decision for the lease sale, and submitted those to the court. But the environmental advocacy groups will have determined that the SEIS is inadequate, and a further briefing in the court will be the next step, Leppo said.

Leppo said that he anticipates a new decision in the case in the first quarter of 2012. Meantime there is uncertainty about what will happen about an injunction that the court had placed on lease related activity until the SEIS was issued, he said.

In another NEPA related case, the Native Village of Point Hope and a number of environmental organizations have appealed the conditional approval of Shell’s Beaufort Sea exploration plan and the environmental assessment associated with that plan.

The Endangered Species Act

The Endangered Species Act has become another

see PERMITTING page 7
Kitimat aims for 2012 decision

Encana says 6 potential Asian buyers for LNG; expects contracts to support corporate sanctioning; 2 trains would total 1.4 bcf/day

BY GARY PARK
For Petroleum News

The Kitimat LNG partnership is making enough headway in its efforts to line up Asian buyers that a final investment decision is still expected in early 2012, according to an official with Encana, which has a 30 percent stake in the project.

Dave Thorn, Encana’s vice president of Canadian marketing, said the discussions with prospective customers are based on Kitimat’s proposed two-train facility of 700 million cubic feet per day each.

“There’s been very strong interest to date,” with six potential LNG buyers in the running, he said.

Apache, with a 40 percent stake, is the operator and EOG Resources claims the remaining 30 percent.

Thorn said the partners expect to have “contracts for a significant portion of Kitimat capacity in place to support the final investment decision.”

He also said a front-end engineering and design study is close to completion and, with final corporate sanctioning, would allow construction to ramp up in 2012, setting the stage for initial exports in 2015.

Canadian environmental assessment agency regulators are expected to deliver a ruling later in October.

Oil-linked pricing

Thorn said one of the benefits for Encana is the chance to “convert a portion of our natural gas pricing to crude-oil-linked pricing,” with the feedstock sourced from the company’s gas resource plays in British Columbia and Alberta.

Mike Graham, president of Encana’s Canadian division, said Encana is continuing to make gains in lowering supply costs at its northeastern British Columbia operations in Horn River, which is seen as a major supply source for Kitimat.

He said a 50:50 partnership of Encana and Apache is producing about 300 million cubic feet per day gross in Horn River, utilizing multi-well pads with as many as 16 horizontal wells each and up to 28 completion stages in each well.

Graham said Encana’s objective for its resource play hubs is $3 per thousand cubic feet equivalent over the next three to five years.

Encana holds about 278,000 net acres in the Horn River and averaged output of 85 million cubic feet per day in the second quarter, targeting 95 million cubic feet for 2011.

Graham said the company expects to hold inflation to 4 percent-6 percent this year, compared with its forecast 7 percent to 9 percent for the Canadian energy sector.

Permitting

major source of litigation. Environmental organizations are using the act as a means of driving national climate change policy, while also using listings and critical habitat designations under the act as a means of delaying and blocking resource development on the outer continental shelf and on the adjacent coast. The designation of a huge area of the U.S. Arctic as polar bear critical habitat has become a prime example of the type of issue raised by the ESA, although the U.S. Fish and Wildlife Service has acknowledged that there is no conservation benefit from the designation, Leppo said. Fish and Wildlife has also acknowledged that neither the oil and gas industry, the Native communities nor the State of Alaska are responsible for any threat to the future wellbeing of the polar bear, he said.

A consolidated court case challenging the polar bear critical habitat designation involves a coalition between industry, 12 Native organizations, the North Slope Borough and the State of Alaska, he said.

Marine Mammals Protection Act

The conservation requirements of the Marine Mammals Protection Act are in some ways more stringent than those of the ESA, and the MMPA has a long track record of success in supporting the health of Alaska marine mammals while also enabling responsible resource development to continue, Leppo said. Environmental groups have been trying, unsuccessfully so far, to block resource development through the use of a “trap” involving an overlap between the terms of the ESA and the MMPA, Leppo said. Essentially, a requirement under the MMPA to demonstrate a negligible wildlife impact when obtaining an authorization for wildlife interactions, if overlaid onto an ESA critical habitat designation, could result in a situation where no industrial project is possible, he said.

Contact Alan Bailey at aballey@petroleumnews.com

Encana holds about 278,000 net acres in the Horn River and averaged output of 85 million cubic feet per day in the second quarter, targeting 95 million cubic feet for 2011.

He said Encana plans to raise the liquids-rich natural gas output from its Deep basin operations in Alberta and British Columbia to 30,000 barrels per day from its current 10,000 bpd in the next two years.

Contact Gary Park through publisher@petroleumnews.com

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Residents voice support for in-state pipeline but cry foul over rates; Fauske says underlying message at meetings is ‘Get it done’

By STEFAN MILKOWSKI
For Petroleum News

Fairbanks residents turned out by the dozens October 6 for the latest in a series of community meetings hosted by the Alaska Stand Alone Pipeline project, the state-sponsored “bullet line” effort overseen by the Alaska Housing Finance Corp. While generally supportive of the project, residents complained that aspects of it — mainly the expectation that natural gas would cost more in Fairbanks than in Anchorage — unfairly favored the state’s largest city.

“Anchorage has been getting a sweetheart deal for over 30 years while Fairbanks has been dying,” charged Laurel Peger. “This is a time when we as a state should have the opportunity that gas be delivered to Anchorage and Fairbanks at $250 to $300 million — would be spread among many more customers in Anchorage than in Fairbanks. Anchorage residents could expect to pay $9.63 per million Btu delivered, while Fairbanks residents would pay $10.45.

Fauske explained that Anchorage residents would likely pay less for gas because the capital cost of a stranded plant needed to process gas from the pipeline — estimated at $250 to $300 million — would be spread among many more customers in Anchorage than in Fairbanks. Anchorage residents could expect to pay $9.63 per million Btu delivered, while Fairbanks residents would pay $10.45.

**Delivery to Anchorage and Fairbanks**

Fauske said the state could reduce shipping costs by about 50 cents per thousand cubic feet for each $1 billion it put into the project.

He added that the 2010 legislation driving the project was only required that gas be delivered to Anchorage and Fairbanks. “This is a time when we as a people need to pull together,” he said.

Over the last six months, officials from the Alaska Gasline Development Corp., the AHFC subsidiary created to pursue the project, have presented the project and heard from residents in more than a dozen communities around the state, from Barrow to Kenai.

About 85 local residents attended the Fairbanks meeting, including several state lawmakers. Project-related maps and posters were spread across the walls, including an artist’s rendering of a suspension bridge over the Yukon River. Attendees were treated to door prizes and a lavish spread of food.

**Fauske: Message is ‘get it done’**

In an interview after the Fairbanks meeting, Fauske, who is AGDC’s president, said he’s been a few of the meetings, and that attendance has generally been good. Talkative residents were opposed at first, but became more supportive as they learned more about the project, he said.

If there was one underlying message from all the meetings, he said, it was, “Get it done.”

In July, AGDC completed a required project plan covering commercial, financial, engineering and permitting aspects of the project. The plan envisions a 737-mile, 24-inch pipe following the Dalton Highway to near Livengood, passing through Minto Flats, and then following the George Parks Highway south, ending at the Beluga Pipeline near Big Lake. A spur pipeline of about 35 miles would connect Fairbanks to the main line.

The project is expected to cost $7.5 billion, with first gas in 2018. The pipe would initially carry 500 million cubic feet of gas per day, but could be expanded to carry twice that amount.

**In-state gas less than LNG**

Fauske said a large-scale pipeline like the one pursued by TransCanada and Exxon Mobil would be ideal, because it would also provide substantial state revenues. But he said he was aware of the strain caused by high energy prices and the need to get gas to Alaskans as soon as possible.

A smaller, in-state line would charge higher tariffs, but gas would still cost less than liquefied natural gas imported through Cook Inlet, Fauske said. “We do, in my opinion, have a solvable problem,” he said.

“I just want to know if we’re going to go about it,” Fauske said initial talks with shippers suggest there will be interest for gas beyond residential and utility demand, something that would reduce per-unit tariffs.

He said it would take about $400 million in state funds to assess whether the project is viable and have enough information to put the project out to bid. AGDC has spent about $22 million so far.

**Costs vary with route**

Questions were wide-ranging. “What kind of pipe, and where’s it going to be made?” asked Jim Eddy, a retired pipeliner. Fauske replied that it was not his decision to make. The Legislature could stipulate that it be made in a certain place, but that would increase the cost, he said.

Sen. Joe Thomas said he was a “big supporter” of the in-state line, but worried that new drilling in Cook Inlet would satisfy demand there, and Anchorage residents would lose interest in a pipeline. Daryl Kleppin, the project’s commercial manager, replied with skepticism about the prospects of a big find in Cook Inlet.

Fauske said a long line would be “absolutely” be built upside down if gas were found in Cook Inlet.

Pamela Miller, who works at the Northwest Arctic Environmental Center but spoke for herself, argued the pipeline should go through North Pole, where Golden Valley Electric Association power plants could use it — not bypass Fairbanks altogether.

AGDC Project Manager Dave Haugen said the alternate route would be considered in an environmental impact statement, but he cautioned that it’s considerably longer and therefore more expensive. AGDC officials explained that splitting the Parks Highway route would result in cheaper gas in Fairbanks — even with residents paying the cost of the spur line — because of the overall lower cost of the pipeline.

**Biggest obstacle?**

“What is the biggest obstacle?” asked Shawn Lowry, business agent for Operating Engineers Local 302.

“About $22 million so far,” Fauske joked. “It’s the political will to come to an agreement that we’re going to do something.”

Someone argued that distance-sensitive rates should make gas in Fairbanks cheaper. Someone else proposed changing the proposed price for gas in both cities.

After the hearing, Eddy, the pipeliner, said he could no longer afford to heat his two houses. “It’s our oil, it’s our gas,” he said. “They should just be giving it to us,” he said. Sloney said he could no longer afford to heat his two houses. “It’s our oil, it’s our gas,” he said. “They should just be giving it to us,” he said.

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Supreme Court finds that DNR acted properly by placing the unit into default in 2009, despite ongoing dispute over spill plan

By ERIC LIDJI
For Petroleum News

Affirming a lower court ruling, the Alaska Supreme Court has upheld a 2008 decision by the Alaska Department of Natural Resources to place the Arctic Fortitude unit into default. The ruling opens the door for the state to terminate the North Slope unit.

Alaskan Crude, the operator of the Arctic Fortitude unit, challenged the default in 2008. AOGCC, the Alaska Oil and Gas Conservation Commission, found that Alaskan Crude failed to meet its obligations to bring the unit out of default.

The Arctic Fortitude unit is adjacent to the Prudhoe Bay unit on Alaska’s North Slope. The state ruled that Alaskan Crude defaulted on May 15, 2009, to move a rig to the pad and until October 1, 2009, to re-drill the well. Because Alaskan Crude pay a $60,000 security payment, move a rig to the pad by March 31, 2009, and re-drill by Oct. 1, 2009. Alaskan Crude made the $60,000 payment, but appealed the ruling to the Alaska Superior Court, saying that the state was wrong about the force majeure and that the default cure unilaterally amended the unit agreement.

The court said the dispute did not constitute a force majeure event because Alaskan Crude agreed to an amended plan of exploration after the AOGCC made its final ruling.

The court also noted that if an operator could call the appeal process a force majeure event, then “development could be stalled indefinitely over routine disagreements,” and added that Alaskan Crude had other options available to it, such as requesting a stay.

The court also found that DNR did not unilaterally amend the unit agreement by proposing a default cure because the agreement set out the process for curing a default.

The Arctic Fortitude unit is adjacent to the southern edge of the Prudhoe Bay unit.

Debate stems from c-plan

The case stemmed from a dispute over oil spill response planning. When DNR approved the three-lease Arctic Fortitude unit in June 2006, the unit agreement called for Alaskan Crude to workover and test the 1980’s Burglin 3-1 well, drill two additional wells and shoot a 3-D seismic campaign over the entire unit.

Although it originally intended to explore for oil and natural gas, a plan that would have required an oil spill contingency plan, Alaskan Crude first asked the state for a large reduction in its response planning standard and then asked that the well be classified as “gas only,” a designation that would have exempted it from needing a spill plan.

The AOGCC denied that classification and Alaskan Crude appealed the ruling.

Meanwhile, Alaskan Crude asked DNR for a one-year extension to the deadlines requiring it to get a rig to the Burglin pad and re-drill the well by Oct. 1, 2007, saying “winter tundra travel equipment shortages and summer tundra travel restrictions” made it impossible to meet the deadline. The state denied that request and kept the deadline.

Alaskan Crude appealed that ruling and requested a hearing. The state held a hearing in late September 2007, but Alaskan Crude did not attend. The two sides settled the appeal in early November by agreeing to an amended plan of exploration that required Alaskan Crude to move its equipment to the pad by May 15, 2008, and re-drill by Oct. 1, 2008.

Force majeure claim rejected

In January 2008, Alaskan Crude claimed that its difficulties surrounding the oil spill contingency plan issue created a force majeure situation. The state disagreed.

Although the response did not constitute a formal ruling, Alaskan Crude appealed the decision. The state subsequently said that an appeal wasn’t relevant, but offered to consider the force majeure situation if Alaskan Crude explained its case within seven days.

Alaskan Crude responded 11 days later by reiterating its right to invoke force majeure. In March, the state denied that request and in April Alaskan Crude appealed that decision.

The state told Alaskan Crude that the work commitments remained in place while the appeal process played out, but the company requested another extension, asking to have until March 31, 2009, to move a rig to the pad and until Oct 1, 2009, to re-drill the well. Because Alaskan Crude did not attend. The two sides settled the appeal in early November by agreeing to an amended plan of exploration that required Alaskan Crude to move its equipment to the pad by May 15, 2008, and re-drill by Oct. 1, 2008.

Contact Eric Lidji at ericlidji@mac.com
FINANCE & ECONOMY

Lance to be CEO of Conoco upstream

ConocoPhillips has named Ryan Lance and Greg Garland to head the two independent energy companies that will result when the company splits into upstream and downstream companies next year.

The company said Oct. 7 that Lance will become chairman and CEO of ConocoPhillips, the upstream company. Greg Garland will become chairman and CEO of the downstream company.

Jim Mulva, the current chairman and CEO of ConocoPhillips, will retire after completion of the separation, expected to be completed in the second quarter of 2012.

Lance is currently senior vice president, Exploration and Production, International for ConocoPhillips. A petroleum engineer, he has more than 26 years of oil and natural gas industry experience in senior management and technical positions with ConocoPhillips, predecessor Phillips Petroleum and various divisions of ARCO.

Garland is currently senior vice president, Exploration and Production, Americas for ConocoPhillips. He began his career as a project engineer with Phillips Petroleum and has been associated with ConocoPhillips, its predecessors and affiliated companies for more than 31 years.

Both appointments will become effective at the completion of ConocoPhillips’ repositioning transaction next year. Lance and Garland will continue in senior management roles until that time, while also directing transition plans, including appointment of their executive management teams.

Well known in Alaska

Lance is well known in Alaska. He was with ARCO for 17 years, becoming vice president of the company’s western Alaska North Slope operations, acquired by Phillips in 2001.

He joined ARCO in 1984 and held various management, engineering and operations positions in Alaska, the Lower 48 and internationally.

Lance moved to Phillips after that company acquired ARCO’s Alaska properties; in 2002 Phillips merged with Conoco. Prior to assuming his present position in May 2009, he was president, Exploration and Production — Asia, Africa, Middle East and Russian/Caspian.

Point Thomson’s status remains unclear

Two months after Alaska official announces ‘resolution in principle,’ court case over disputed North Slope field plows onward

By WESLEY LOY
For Petroleum News

In mid-August, Alaska’s natural resources commissioner signaled the fight over the Point Thomson field was coming to an end — that the state and unit operator ExxonMobil had reached a “resolution in principle.”

But two months later, the conflict remains unsettled as lawyers for the state and the company continue to battle.

The Department of Natural Resources on Oct. 10 filed a new set of papers with the Alaska Supreme Court as part of its continuing effort to break up the Point Thomson unit and reclaim the state acreage there.

The state appears to be pressing on in court as a fallback in case the settlement effort fails.

Point Thomson is a rich but undeveloped oil and gas field along the Beaufort Sea coastline, next to the Arctic National Wildlife Refuge.

Point Thomson ‘mockey’

DNR Commissioner Dan Sullivan announced the resolution in principle during an Aug. 15 legislative hearing.

Sullivan said resolving the dispute involved more players than just DNR and the oil giant.

“ExxonMobil now is discussing the provisions of the settlement with other working interest owners of the unit,” he said, noting they had commercial terms to work out among themselves.

Those other owners include BP, Chevron and ConocoPhillips. The three companies, along with ExxonMobil, are fighting to preserve the Point Thomson unit and the underlying leases.

The state began its quest to take back Point Thomson six years ago, when the state’s oil and gas director at the time, Mark Myers, held that decades of nondevelopment at Point Thomson had made a “mockey” of the state’s rights as a landowner.

Thus far, the oil companies have thwarted the state’s attempts to terminate the unit. But the state is continuing its efforts before the Alaska Supreme Court, where the matter now rests.

Hugely valuable asset

DNR appealed to the high court in early 2010, after state Superior Court Judge Sharon Gleason reversed the agency’s unit termination. Gleason held, in part, that the oil companies had been denied a special hearing provided for in the Point Thomson unit agreement. DNR’s lawyers argue no such hearing was warranted.

For a long while, the case remained idle as the Supreme Court allowed the two sides to concentrate on settlement talks.

In recent months, however, the court proceedings picked up.

The case has seen three major filings thus far: DNR’s opening brief, a responding brief from ExxonMobil and its partners, and DNR’s reply brief filed Oct. 10.

It’s clear from this lumbering legal process that reaching a decision from the Supreme Court could take many months. Even then, the high court’s decision might be to remand the case to the Superior Court for further proceedings.

Both sides have said they prefer settling the matter out of court.

Point Thomson is a hugely valuable asset. It holds an estimated 8 trillion cubic feet of natural gas plus hundreds of millions of barrels of petroleum liquids. ExxonMobil discovered the field with wells drilled in the 1970s. The Point Thomson unit was formed in 1977.

While some have accused ExxonMobil of “warehousing” Point Thomson’s riches, the company has cited the lack of a North Slope natural gas pipeline as a primary reason why the field has never been developed.

A more active ExxonMobil?

ExxonMobil is a huge player in Alaska’s oil industry, but its role for many years primarily has been that of investor rather than explorer or field operator. Most notably, the company owns a 36.4 percent working interest in the BP-operated Prudhoe Bay oil field.

ExxonMobil’s profile in Alaska could look very different depending on how the Point Thomson issue shakes out.

Responding to the state’s move to reclaim the acreage, ExxonMobil between May 8, 2009, and Oct. 27, 2010, drilled a pair of wells at Point Thomson, the first wells drilled there since the early 1980s.

The “development wells,” as ExxonMobil termed them, were part of a promised $1.3 billion project to start pro-

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LAND & LEASING

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Point Thomson...
**FINANCE & ECONOMY**

Hilcorp names Barnes as Alaska head

Hilcorp Energy Co. said Oct. 10 that it has named John Barnes senior vice president for its subsidiary, Hilcorp Alaska LLC. He will be based in Anchorage and will oversee Alaska operations for Hilcorp. Hilcorp is buying Chevron’s Cook Inlet assets, a process expected to close by the end of the year.

Barnes, formerly with Marathon in Alaska and most recently senior vice president of operations and maintenance services for CH2MHill, brings both producer and contractor experience to his new position, Hilcorp said.

Houston-based Hilcorp, a privately held independent oil and gas exploration company, is expanding its operations into Alaska with the purchase of Chevron’s interests in Cook Inlet.

Chevron and Hilcorp said when the acquisition was announced in July that it is expected to close by the end of the year subject to necessary regulatory approvals.

Barnes has worked Alaska assets both as a producer and as a contractor. He was Alaska production operations manager for Marathon Oil Co. in Cook Inlet until 2007 and, most recently, senior vice president of operations and maintenance services for CH2MHill, responsible for global operations including Alaska North Slope, Kenai and Russia.

Barnes graduated from the Colorado School of Mines with a petroleum engineering degree in 1980 and jointed Marathon, working in reservoir engineering, production operations and management in Alaska, West Texas, the North Sea and Houston. He joined CH2MHill in 2008.

Hilcorp, founded in 1989, has 700 employees and nine operating areas including the Gulf Coast region, the Gulf of Mexico and the Rockies.

—PETROLEUM NEWS

**ENVIROMENT & SAFETY**

Communities target coastal management

Ballot initiative application filed; goal to have enough signatures by session; if Legislature doesn’t act, voters could in 2012

By BECKY BOHNER

Three coastal community leaders want to revive Alaska’s coastal management program, and if the Legislature won’t act, they plan to take the issue to the people.

The opt-in program allowing states to put conditions on certain activities on federal lands and waters ended June 30 after several failed attempts by lawmakers to save it. The end came as coastal communities sought a greater say in development decisions that could have an impact on their way of life, particularly with the future potential of offshore oil and gas development.

A ballot initiative application was filed with the Division of Elections Oct. 7 — borne of disappointment in the Legislature’s handling of the coastal zone issue and a desire to get a vital program back in place, said Kenai Peninsula Borough Assemblyman Mako Haggerty, one of the three initiative sponsors, along with Juneau Mayor Bruce Botelho and Kodiak Island Borough Mayor Jerome Selby.

If the application is certified as having sufficient signatures, the initiative committee will need to gather 25,875 signatures. Botelho told reporters Oct. 10 that the goal is to have 27,000 signatures collected before Jan. 17, the start of the legislative session.

Goal legislative action

Botelho said that if a coastal management program “substantially similar” to that outlined by the proposed initiative isn’t adopted, the goal will be to get the issue on the November ballot — and to let the voters have their say.

Without this effort, “it would basically be holding out hope that on its own initiative the Legislature and our governor would deal with this matter in the 2012 session,” Botelho said, adding that he doesn’t have much confidence that the issue would get “the high priority I think it should have” without the initiative effort.

Earlier this year, Joe Balash, a deputy commissioner for the Department of Natural Resources, said that without a coastal management program, Alaska would lose its ability to shape activities and development in federal waters and land. However, he said it’s not the only tool the state has to ensure development occurs responsibly in Alaska.

Gov. Sean Parnell’s office declined comment Oct. 10 on the proposed ballot initiative. Botelho said the proposal constitutes a new plan, not an effort to reestablish what was.

Board for local input

The 15-page proposal calls for a coastal policy board that provides local input in evaluating the effectiveness of district coastal management plans.

It also says the board must approve initial or amended district plans if, among other things, the plans address a coastal use or resource of concern as demonstrated by local knowledge or supported by scientific evidence. Questions about what role local knowledge and scientific evidence should play were major sticking points during the legislative debate.

Sen. Donny Olson, D-Nome, said he couldn’t speak to the specifics of the proposal but agrees with putting the issue to the people if there isn’t support within the
Oil falls more than 2% on China slowdown

Oil prices fell more than 2 percent Oct. 13 as the global economic slowdown took a toll on China.

China, the world’s second-largest oil consumer behind the United States, has been pushing up oil demand as its economy expanded. But a drop in its export growth in September showed that it’s been affected by the sluggish U.S. and European economies. Consumers are spending less and buying fewer Chinese products. If China’s exports continue to cool off, its economy will slow and its appetite for oil will diminish.

“We’re interconnected,” independent analyst Andrew Lipow said. “A slowdown in consumption in the U.S. and Europe is being felt over there.”

Benchmark crude fell $2.16, or 2.5 percent, to $83.40 per barrel in Oct. 13 afternoon trading in New York. Brent crude, used to price many international kinds of oil, lost $1.09, or at $110.27 a barrel in London.

The most recent economic data in the U.S. showed little sign of the economy picking up. The number of people applying for unemployment benefits fell slightly the week ending Oct. 7, but not by enough to signal job growth.

And the Energy Department said that oil and natural gas supplies grew unexpectedly the week ending Oct. 7, while refineries slowed down and gasoline supplies dropped — all signs of soft demand.

The international Energy Agency joined the OPEC in trimming its demand forecasts for this year and 2012. The Paris-based IEA said Oct. 12 it still expects world demand to hit a record this year, but more slowly than previously expected. The IEA’s outlook followed a similar one from the Organization of Petroleum Exporting Countries on Oct. 11.

By KRISTEN NELSON
Petroleum News

Trond-Erik Johansen, president of ConocoPhillips Alaska, told the Anchorage Chamber of Commerce Oct. 10 that there is a lack of urgency in the state about the need to increase production through the trans-Alaska oil pipeline.

“Alaska’s crude oil production is down 36 percent since 2003,” he said, while Texas production has held about level over that time and Gulf of Mexico production is up 9 percent.

ConocoPhillips is the state’s largest oil producer, averaging more than 220,000 barrels per day.

The company has been in Alaska for 50 years and plans to be here for another 50, he said, but there are challenges.

“Alaska development, he said, competes with projects elsewhere. There is viscous oil in the West Sak formation that can be developed, and heavy oil in the Ugnu formation that requires a lot of technical effort.”

At Kuparuk, Prudhoe and Alpine, the North Slope’s big conventional oil fields, the easy oil has been found, Johansen said. While those fields are very mature, there is a lot of oil left, but producing it requires going into new horizons and smaller pockets, and it will take longer to produce it. The number of production drilling rigs is the same as five years ago, and the bit less and less oil is produced from each well drilled.

And today’s spend, Johansen said, is 70 percent maintenance capital and 30 percent development capital. Ten years ago those numbers were reversed.

Urgency needed

He said there needs to be some urgency around getting more oil in the pipeline.

The trans-Alaska oil pipeline is moving 600,000 barrels per day and throughput continues to decline. As you drop through 500,000 bpd and 300,000 bpd, major money must be spent to keep those reduced volumes flowing, Johansen said.

There is hope for discoveries in the Chukchi Sea, where ConocoPhillips hopes to drill Devil’s Paw in 2013 or 2014, but it will take at least 10 years to get that oil in the pipeline, he said.

Challenges include geology and geography, which makes wells here much more expensive than elsewhere.

But a big part of the challenge is the investment environment, he said.

While we can’t do anything with geology or geography, can we do something with the fiscal environment, Johansen asked.

“I can’t,” he said.

One million bpd were moving through the pipeline in 2003 — can we get back to that level?

Johansen said it would take a breakthrough in the outer continental shelf and investment, but the risk is high.

With the progressivity element in Alaska’s production tax, there is less and less profit to companies taking the development risk, he said.

More opportunities

Johansen reminded the audience that when ConocoPhillips’ CEO Jim Mulva was in Anchorage earlier in the year he said that passing Gov. Sean Parnell’s production tax change, House Bill 110, would put Alaska on the competitive map.

In response to questions, Johansen said ConocoPhillips would commit to more investment if there was a tax change. He said he couldn’t give exact numbers, but those numbers would be large. He noted that Mulva said indicated an additional spend of $5 billion over the next three to five years if HB110 passed.

“We like what we see in Alaska,” Johansen said, but added that it’s hard to funnel funds here with the high marginal tax rate. Asked if ConocoPhillips would commit natural gas to an in-state bullet line, Johansen said ConocoPhillips would like to monetize North Slope gas and is looking at alternative ways to do that, and talking with the state and other companies.

Contact Kristen Nelson
at knelson@petroleumnews.com
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DO&G delays contraction of Northstar unit

Alaska’s Division of Oil and Gas wants to delay an enforced contraction of the BP-operated Northstar unit to give BP an opportunity to establish a new participating area in the unit. On Oct. 10 the division published a letter from DO&G to BP, stating the division’s decision on the contraction but saying that the decision requires agreement by the federal Bureau of Safety and Environmental Enforcement the Northstar unit, straddling both state and federal waters of the Beaufort Sea, falls under both state and federal jurisdiction.

Apparently in September BP, on behalf of itself and Murphy Exploration, the other Northstar owner, had applied to the division for a contraction of the unit under the terms of the unit agreement. The unit agreement, which went into effect 10 years ago, requires a unit contraction by Oct. 11. As part of the contraction BP wants to retain within the unit a lease that contains an oil reservoir that is not currently part of a Northstar participating area and that also contains an aquifer that BP says could provide pressure support for that reservoir.

Lease needs to be in PA

In the Oct. 10 letter division Deputy Director Jonne Simons told BP that the terms of the unit agreement did not support BP’s request to retain the lease that is not part of the Northstar participating area. The division wants to use its discretion to delay mandatory unit contraction and is giving BP 120 days to apply for a participating area that includes the oil reservoir in that lease, Simons said.

State law requires that, 10 years after production in a unit starts, the unit must con- tract to the land included within an approved participating area and any adjacent land that supports production. The division has the discretion to delay the unit contraction “if the circumstances of a particular unit warrant.”

—ALAN BAILEY

FINANCE & ECONOMY

Pioneer changing leadership in Alaska

Pioneer Natural Resources said Oct. 12 that Ken Sheffield, president of the company’s Alaska division, is returning to Dallas to assume leadership of Pioneer’s newly established corporate engineering group. Sheffield has headed the company’s Alaska operation since 2003.

Todd Abbott will take over the Alaska division. The effective date of the changes is Nov. 15.

Pioneer said it has experienced tremendous growth in 2011 and many of its more than 200 engineers are distributed across various disciplines and asset teams. The new engineering group “will be responsible for investigating new technologies and conducting research and development, assisting with special projects and new plays, supporting existing asset teams where technical or staffing gaps exist and providing overall corporate leadership and quality control for the engineering staff.”

The company said Sheffield was instrumental in Pioneer’s entrance into Alaska and has been critical in successfully building the company’s business in the state. Pioneer said Sheffield led Pioneer’s Alaska division from exploration activities to the construction and startup of the Oooguruk development in 2008. Pioneer is the first independent oil and gas company to operate a field on Alaska’s North Slope. Pioneer said Oooguruk set the project cycle-time standard for offshore development projects, moving from exploration to first production in less than six years.

Sheffield also served on the boards of the Alaska Oil and Gas Association, see PIONEER CHANGES page 15

ALASKA GDP

After experiencing little growth in the 1990s, the Alaska GDP grew at 3 percent annually in the 2000s, compared to 2 percent growth nationally over the past decade. That recent rise, though, pales in comparison to the double-digit annual growth in GDP that Alaska experienced in the 1960s and 1970s, when oil, fishing and tourism all expanded at once.

While other states depend on natural resources, none depend on them as much as Alaska. That oil development gave Alaska the highest per capita GDP in the nation in 2010, $63,424. Of the other states in the top 10, only Wyoming and Colorado are major producers of natural resources. The others, aside from California, are all on the East Coast.

That dependence on oil, though, means that “a lot of this GDP value does not accrue to Alaska,” Fried said, but instead goes to the shareholders of corpora- tions that work here. ●

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PIONEER CHANGES

continued from page 10

POINT THOMSON

dacing 10,000 barrels a day of natural gas condensate by year-end 2014. The U.S. Army Corps of Engineers is drafting an environmental impact statement for the project.

The state would like to see much larger volumes produced from Point Thomson. In court papers, state lawyers have said DNR officials were wary of ExxonMobil using a “minimal trickle” of production as a way to hang onto the Point Thomson leases. In years past, company executives themselves talked of a project to produce up to 75,000 barrels a day.

Political, gas line impacts

Because of the years of frustration over Point Thomson, the terms of any settlement are expected to be closely scrutinized. Politically, the unveiling of a settlement promises to be a defining moment for Gov. Sean Parnell, who will be judged on whether his administration made a good or bad deal.

The settlement also could be important for advancing a natural gas pipeline, long an elusive economic development priori- ty for the state. Point Thomson holds a quarter of the known gas reserves on the North Slope, and many have seen the field as an important bargaining chip in the gas line game.

ExxonMobil currently is a partner with TransCanada Corp. on a proposed gas line from the North Slope to Alberta. TransCanada, a Calgary-based pipeline company, is attempting to recruit adequate gas shippers to support the project.

Sullivan, during his Aug. 15 legislative testimony, hinted the tentative Point Thomson settlement could have a bearing on “commercializing North Slope gas.” ●
metric constraints — the (500 million cubic feet per day) limit for other gas projects in AGIA.

Petroleum News: What do you think about the Alaska Stand Alone Pipeline (ASAP) project?

Hawker: It is absolutely being planned and executed in the most professionally responsible way. I think if we look at it as in-state gas — delivering gas for Alaskans as a function of state government — I think it’s extremely viable and very important.

With the AGIA project proving uneconomic, we also need to review whether it is possible to take the sort of “public works” project that AGDC currently is and potentially having it converge with the concepts behind AGIA, which was the maximum monetization of Alaska’s North Slope gas, and really look at whether there is a sufficient Asian market to monetize a significant amount of our North Slope gas — larger than the (500 mcf/d) limit that is currently constraining AGDC.

And so that sounds an awful lot like the Bill Walker project (the Alaska Gasline Port Authority). The biggest difference is AGDC and the state would not have to stick all the way to Valdez and doing a greenfield LNG plant. It would make an awful lot of sense to bring a pipe through the major centers of Alaska and down to Nikiski, where we already have a fully permitted and operating LNG plant.

Petroleum News: Something between the size of the ASAP project and the AGIA project?

Hawker: However much we can find a market for.

Petroleum News: AGDC President Dan Fauske said it would take about $400 million to get to a sanctioning point for ASAP. Are you willing to invest that?

Hawker: That is one of the important premises of IPA, based on their empirical study of thousands of projects — successful projects require an adequate up-front investment and an adequate preparatory process. I absolutely believe we should continue with the commitment we’ve got to the AGDC process.


Hawker: Fairbanks has always had an anxiety over being left out of the resource pie, the consumer distribution of the resource. If somebody finds a massive universe of gas in the Cook Inlet, there is no reason we can’t look at a pipe project — and it’s been talked about — going from Cook Inlet north.

Petroleum News: I want to ask you about the van Meurs report. Van Meurs said the state doesn’t do enough to incentivize development of heavy oil and natural gas, but also that the state gives too much for new developments. What’s your analysis, and do you agree with his analysis?

Hawker: What he’s saying is exactly what you just stated, that the current fiscal regime in Alaska in its most global sense, has a very disproportionate amount of exploration incentives for light oil, but our systems does not specifically target incentives for heavy oil development, and our gas fiscal system is dysfunctional. Any major producer that starts producing gas ends up paying less taxes rather than more, even though they’re now selling more oil and gas.

None of this is new. We addressed the gas fiscal system two years ago in the Legislature with the “decoupling” bill. That was not acceptable to the governor. I think he thought the timing was wrong. But it’s an issue we know is out there. I think a great number of legislators concur with Pedro that our light oil system is out of balance. We’re offering an extraordinary level of front-end credits with a very high level of taxation on any potential production. As Pedro says, it’s dysfunctional. Any major producer that starts producing gas ends up paying less taxes rather than more, even though they’re now selling more oil and gas.

As these bills have a long way to go in the legislative process, I’m sure Pedro’s concerns will be incorporated.

Petroleum News: What role do you think the report will play in legislative debate?

Hawker: I think no matter what position a legislator holds, they will find something in the report to bolster their position. We have to be careful that Pedro’s comments are neither taken out of context nor misinterpreted. Unfortunately, misinterpretation is a casualty of the political process.

Petroleum News: Van Meurs recommends separating oil and gas taxes because the state could end up getting no tax revenue from a gas line. Do you think we need to decouple?

Hawker: I think we absolutely need to decouple. Pedro’s exactly right, and it’s what we recognized in the Legislature two years ago. The current tax formula that links the taxation on gas to the taxation on oil was put in the initial PPT legislation as an expediency. It was recognized that we would have to structure a new gas fiscal regime, but we didn’t need to for probably 10, 15 years since we weren’t going to see any major monetization of gas. Everyone knew it was a placeholder. Pedro is looking at our system from a global perspective. He sees it as something that needs to be evolved into a durable and functional system we all agree with.

Petroleum News: So the bottom line, according to van Meurs, is that we need to tax gas less, even though the reason to separate gas from oil is that Alaska could get too little tax revenue?

Hawker: It’s the interplay. You start to tax gas and you get a break on your oil taxes so great that it exceeds the amount you’re taxing the gas. That’s not functional.

But Pedro also points out that if you fix that linkage, our current tax rates as applied to gas makes us unacceptable.

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PIONEER CHANGES

which he chaired from 2008-11, Alaska Clear and the Resource Development Council. Abbott has been with Pioneer since 2003, most recently as vice president of corporate finance and planning in the company’s Dallas headquarters. His roles at Pioneer have included senior business analyst in both the business development and acquisitions groups and staff support to President and COO Tim Dove.

—PETROLEUM NEWS

COMPLIANCE DISPUTE

mission does not become an active participant in fulfilling its role in witnessing the meter tests and normally an escort would suffice.

And, he said, the commission’s duties don’t want to be confronted with a variety of requirements at different locations.

BP considering ramifications

BP is the largest owner of Alyeska, and BP’s Buckendorf said Alyeska’s safety goals are laudable. He said he was at the hearing to testify on whether BP believes a compliance inspector is required by law to hang a lock.

He said BP does not believe it is reasonable to require employees of company employees for purposes of energy isolation.

Buckendorf said BP does not believe it can mandate such actions as hanging a lock.

In response to a question from Foerster, Buckendorf said the Prudhoe Bay unit is the owner of the meters, but since the 1970s Alyeska has always done the proving and DOPGC has always witnessed.

On an issue raised by Foerster — whether Alyeska was designated as operator of the meter on behalf of the owners — Buckendorf said he did not know. The meter is original equipment and has been in place since 1974 or 1975, he said.

The meter is oversized for current needs and there is a plan to replace it, Buckendorf said, although it would be very costly to move it. He said other LACTs operated by field operators are on Alyeska property but outside the fence.

Norman suggested the attorneys, and the commission’s assistant attorney general, look at some accommodation to recognize the commission’s needs while allowing Alyeska to continue its program of safety improvements.

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STEELFAB's Faulkner promoted and Mathis rehired

STEELFAB said Oct. 11 that its President Richard Faulkner announced the promotion and rehire of two long-time STEELFAB employees, Heath Faulkner and Anna Mathis.

Heath Faulkner, former STEELFAB Paint Shop manager, has been promoted to Health, Safety and Environment officer. He has worked for the business since he was in high school. After his university years at the University of Alaska, Anchorage, and Lane Community College in Eugene, Ore., where he majored in business, Faulkner returned as part of the STEELFAB management team at the 80,000-square-foot Post Road location in Anchorage.

Anna Mathis previously worked as an accountant for STEELFAB for 18 years before briefly leaving the state. Mathis was recently rehired to work in STEELFAB’s Accounts Receivables and Payroll section. She received her training in full-charge bookkeeping at Charter College.

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INTERNATIONAL

China imposes tax on energy, resources

China is imposing a nationwide tax on production of oil and other resources to raise money for poor areas and possibly ease public anger at the wealth of state energy and mining companies.

The measure announced Oct. 10 is aimed at generating revenue for poor areas that produce much of China’s oil and other resources but receive little of the wealth. That imbalance has fueled ethnic tensions in Tibet and the northern Muslim region of Xinjiang.

The tax takes effect Nov. 1 and applies to crude oil, natural gas, rare earths, salt and metals, the Cabinet said on its website. Oil and gas will be taxed at 5 to 10 percent of sales value while other resources will be taxed at different levels.

An experimental version of the tax was imposed last year on oil production in Xinjiang and President Hu Jintao said at that time that revenues “should be focused on improving local people’s lives.”

Monies could help local governments

The announcement gave no indication how much money Beijing expected the new tax to raise but the official Xinhua News Agency said last year the oil tax in Xinjiang could bring in 4 to 5 billion yuan ($615 million to $770 million) a year.

That could help local governments pay for costly obligations imposed by Beijing to provide additional education, health and other services.

Beijing has invested billions of dollars in Xinjiang and other minority areas and built roads and other infrastructure. But local residents say the benefits largely go to settlers from China’s Han majority.

The new tax would cut profits at state-owned energy and mining companies, possibly helping to defuse public irritation at the windfall they have enjoyed due to soaring prices and China’s boom in auto sales.

Critics say energy companies and their well-paid bosses benefit from official favors and profit unfairly at the expense of China’s public while ordinary people struggle with rising living costs.

China previously charged a small oil and gas tax based on production volume rather than value. That meant revenues failed to rise during the global commodities boom.

—ASSOCIATED PRESS

OIL PATCH BITS

about two dozen year-round.

The multiphased Northern Rail Extension project will eventually expand railroad track infrastructure from North Pole/Eielson 80 miles southeast to Delta Junction. Expected to be a three-year effort, NRE Phase One will construct a new bridge across the river and an associated levee. The environmental impact statement was completed in 2010.

Global ROV to be used to determine oil at 900 feet

Global Diving and Salvage Inc., said Oct. 10 that it has been contracted by the United States Coast Guard to determine if oil is present aboard the sunken ship S.S. Montebello, which sits 900 feet below the ocean surface approximately 6.5 miles off the coast of Cambria, Calif.

The S.S. Montebello sank after a Japanese submarine torpedoed the large oil tanker on March 10, 1941, off the coast of Cambria, Calif. The next Arctic Oil & Gas Directory, a full color magazine that serves as a marketing tool for Petroleum News’ contracted advertisers, will appear in some in expanded form — will appear in the next Arctic Oil & Gas Directory, a full color magazine that serves as a marketing tool for Petroleum News’ contracted advertisers. The next edition will be released in March.

Editor’s note: All of these news items — some in expanded form — will appear in the next Arctic Oil & Gas Directory, a full color magazine that serves as a marketing tool for Petroleum News’ contracted advertisers. The next edition will be released in March.

Do you have an extra laptop you’d be willing to part with? No, I’m not adding to my own stockpile of consumer electronics or trying to strike it rich on the pawn shop circuit. Rep. Les Gara is working with Facing Foster Care Alaska to collect laptops for foster youth. Laptops are a critical tool for foster youth to keep up with schoolwork and stay connected with family and friends while they are moved to different homes and schools.

If you are interested in donating a laptop, please make sure it is fully functional and meets the following standards:

- In excellent working order;
- No more than 4 years old;
- Has a word processing program;
- Does not need any repairs.

For more information, or to donate a laptop, please contact either Rep. Gara’s office at (907) 230-8237, or Amanda Metivier at Facing Foster Care Alaska at (907) 230-8237.
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LNG PLANT

Long history in inlet

The LNG plant was built by Phillips Petroleum and Marathon and went into operation in 1969, exporting natural gas from Cook Inlet as LNG. In recent years, volumes of natural gas available in the inlet have declined.

In February ConocoPhillips and Marathon Oil said they would place the 42-year-old facility in warm storage because of declining volumes of natural gas supplies and difficulty securing contracts overseas. They have kept the plant active to send additional shipped LNG to Japan and China.

The LNG facility has provided a stable production base for natural gas, as opposed to dramatic swings in natural gas use for heating and power between summer and winter. And, deliverability became an issue on extremely cold days in the winter in recent years, natural gas was diverted from the LNG facility to meet local needs.

A new third-party natural gas storage facility is under construction at Kenai to provide gas to meet peak demand.

Asked about concerns that shutting in Cook Inlet gas wells during the summer following the loss of LNG production would permanently damage wells, Marathon told legislators earlier this year that it never assumed the plant would continue indefinitely, and that the company’s gas storage facility in its Kenai gas field has enough capacity to handle the company’s summer gas production, enabling wells to produce year-round.

Market outside Alaska

When it went into operation in 1969, the Nikiski LNG plant was the sole sup-

plied to LNG to Japan; by early this year it was supplying one half of one percent of the Japanese market demand.

LNG shipments from Alaska were once the largest in the world; now they are among the smallest. Supply contracts between Alaska and Japan, which formerly ran for 15 years, now run for only two years.

Dan Clark, ConocoPhillips’ manager of Cook Inlet assets, told Petroleum News in February that options for the plant ranged from closing it, to reconfiguring it, to selling it.

Until the new Cook Inlet Natural Gas Storage Alaska facility, CINGSA, is available in 2013, ConocoPhillips will have to shut in some of its wells during the summer, and because of the aging nature of Cook Inlet reservoirs, how those wells will perform when brought back online is unknown.

ConocoPhillips will continue to operate the Tyonek platform at its North Cook Inlet field and that natural gas will be used to fill local contracts.

The loss of an export market could also impact plans to bring Alaska North Slope natural gas to Southcentral Alaska by eliminating one possible anchor tenant which could keep gas prices low for resi-

dential and commercial customers.

—KRYSTEN NELSON

ConocoPhillips will be looking at preserving the plant’s options for the future “and that could include support for an LNG import and regas facility” or resumption of LNG export options, Lowman said.

Division of Oil and Gas Director Bill Barron.

After logging the well at its current depth, Escopeta plans to open the existing 12 and 1/4-inch wellbore to 17 and 1/2 inches and then run the 13 and 3/8 inch cement casing.

Drilling could continue this year

Escopeta could conceivably continue drilling this year, but only if the company and the state both feel comfortable with moving forward this fall, Sutherlin said. The company recently performed a successful test on its blowout prevention equipment, he added.

It remains to be seen how the state-requested delay will impact state-imposed deadlines for Escopeta to reach a total depth by this fall or lose the unit, but Sutherlin said the company is operating on the assumption that the sides will come to an agreement and noted that Escopeta officials plan to meet with state officials soon about a range of issues.

“We just want to make sure that we’re all on the same page,” he said.

YUKON VOTE

Yukon voters have chosen a continuation of the exploration for new energy resources.

Past assessments have estimated Eagle Plain contains about 6 trillion cubic feet of gas and 436 million barrels of oil, while the Yukon portion of the Beaufort Sea is believed to hold 4 tcf of gas and 4.5 billion barrels of oil.

The Yukon government’s Energy, Mines and Resources Department is currently studying the economic feasibility of either converting any gas produced at Eagle Plain into liquefied natural gas for shipment by truck, or building pipelines to power generation plants or directly to mine sites.

Northern Cross said it needs to drill deeper than ever before on its 1.3 mil-

continued from page 1

following the assumption that the sides will come to an agreement and noted that Escopeta officials plan to meet with state officials soon about a range of issues.

—ERIC LIDI

Shallow gas would be marketed

Although KLU No. 1 is targeting oil, it will likely encounter shallow natural gas deposits first and Escopeta plans to make a push to bring those to market soon, Sutherlin said.

“The company’s key strategy for 2011 is to learn as much as possible about the natural gas bearing structures in the Corsoir prospect, with an eye on expediting gas production,” he said. “We think that Cook Inlet exploration, in concert with efforts such as Enstar’s new gas storage facility, can avert a crippling gas supply shortage in the region.”

Escopeta began drilling KLU No. 1 in the Corsoir prospect using the Spartan 151 jack-up rig on Sept. 2, but a “malfunction on a downhole tool” soon after spudding forced several weeks of delays, Escopeta President Ed Oliver told Petroleum News in early October.

In addition to the Corsoir prospect, the 83,394-acre offshore Kitchen Lights unit also includes the East Kitchen, Kitchen and Northern Lights oil and gas prospects. The Spartan 151 is the first jack-up rig in Cook Inlet since 1994.

—ERIC LIDI

continued from page 1

YUKON VOTE

skilled labor, housing and power sup-
plies beyond the territory’s limits.

Vancouver-based Western Copper Corp., which aims to produce more than 400,000 ounces of gold and 200 million pounds of copper annually from its Casino mine, 230 miles north-west of Whitehorse, highlights the pressures.

Its open-pit mine would consume almost as much power as the Yukon Energy Corp., which owns all of the territory’s generation and transmission assets, is currently able to produce.

Western Copper has said it plans to truck liquid natural gas to the mine site, which bolsters interest in the June announcement that CNOOC International, a subsidiary of one of China’s energy giants, had invested in privately owned Northern Cross (Yukon), to assess the oil and natural gas potential of Eagle Plain in the northern Yukon.

Resource update under way

Meanwhile, the Geological Survey of Canada is midway through a four-

year project to update the Yukon’s energy and mineral resources.

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—ERIC LIDI

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One Solution

Contact Gary Park through
canrig@petroleumnews.com

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The wind farm has caused controversy among the Southcentral Alaska power utilities, primarily because of the fluctuating nature of wind power generation and the potential cost and stability impacts of those power fluctuations on the Alaska Railbelt power grid.

Assumption questions

The state attorney general, intervening on behalf of the general public, and Anchorage power utility Municipal Light & Power, questioned most of the assumptions behind the finding of a net positive value to the wind power supply. The intervenors presented evidence for what they claimed to be more realistic assumptions that raise serious questions over the supposed benefits of the wind farm. However, the commissioners, while accepting that there are major uncertainties in many of the assumptions behind Chugach Electric’s economic analysis, said most of the utility’s assumptions are fairly reasonable.

And, also mindful of a state law, passed in 2010, requiring that the state move electricity from renewable sources by 2025, the commission was responsive to the request for expedited review.

Difficult case

In a statement concurring with the RCA Fire Island decision, Commissioner Robert Pickett said that this particular case had proved particularly difficult to deal with.

“‘This is one of the most challenging and frustrating dockets I’ve been involved with during my tenure as an RCA commissioner,’ Pickett wrote. ‘The power purchase agreement … has been shaped by a number of powerful and conflicting forces. The circumstances surrounding this PPA are unique. The use of the commission’s decision in this proceeding as a precedent in future cases should be done with extreme caution and trepidation.’

Contact Alan Bailey

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Dynamic weather conditions. Extreme currents. Winter ice flows. Joel Berglund, Captain of the tug Vigilant, faces challenges like these daily in the Cook Inlet. “Pilots bringing ships into Cook Inlet have their work cut out for them. We’re here to make their job easier and safer,” he says. Crowley shares Joel’s commitment to getting the job done safely— even in the toughest conditions. That’s why we’re proud to invest in state-of-the-art equipment like the Vigilant—and top-notch employees like Joel.

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PETROLEUM NEWS • WEEK OF OCTOBER 16, 2011 19

The wind farm completed in good time to meet the federal deadline.

“We should have first power some time next September,” Schutt said. “On behalf of the board, I’m pleased with the order and proud of the work done by staff to achieve it,” said Chugach Electric board chair Janet Reiser on Oct. 12. “Chugach appreciates that the commission was responsive to the request for expedited review.”

Controversy

The wind farm has caused controversy among the Southcentral Alaska power utilities, primarily because of the fluctuating nature of wind power generation and the potential cost and stability impacts of those power fluctuations on the Alaska Railbelt power grid. Questions have also been raised about the cost of the power from the wind farm, with that cost causing an initial increase in consumer’s electricity bills, but with the subsequent cost of wind power remaining stable for many years to come.

In its order the RCA commissioners said that with an immediate decision on the power purchase agreement needed to meet the required wind farm construction schedule, the commission will allow Chugach Electric to recover the cost of the Fire Island wind power from its customers.

Initial price increase

According to information provided to RCA, the Chugach Electric power purchase agreement involves the power utility paying $107.85 per megawatt hour of Fire Island wind power for the entire 25-year lifetime of the agreement. The wind farm will, however, pay Chugach Electric a fixed fee of $10.85 per megawatt hour, to compensate the utility for the cost of integrating the fluctuating power into other power supply arrangements. That fixed fee will result in a net cost of $97 per megawatt hour for the wind power. At that cost, a typical electricity consumer will see an increase of some 2 percent in their electricity bill, Chugach Electric said.

But, unlike the cost of power from natural gas generation, which is likely to increase as gas prices rise, the cost of wind power will remain constant, leading to an overall cost benefit from wind power use, the utility said.

Diversification

Chugach Electric also said that the Fire Island wind power will provide a first opportunity for the utility to diversify into a renewable form of energy other than hydropower, and that the wind power will reduce the utility’s carbon emissions. The utility said it expects its cost of accommodating wind power fluctuations to be less than the $10.85 fee that the wind farm will pay as compensation for those fluctuations. Moreover, the utility anticipates the integration cost dropping progressively over a five year period, as the utility gains experience in dealing with the wind power usage.

RCA said that it does not have the authority to regulate the operation of the wind farm itself, but that it does have the authority and obligation to review Chugach Electric power supply agreements, to ensure that those agreements are “just and reasonable.” The commission said that it reviewed the Fire Island supply agreement using a cost-benefit analysis presented by Chugach Electric. That cost-benefit analysis indicated a positive value for the use of wind farm power over the 25-year lifespan of the supply agreement.
through a new gas bidding system introduced in January 2011. Under this system, on a day-to-day basis the utility requests bids from qualified gas producers to supply additional gas, with the utility normally accepting the lowest price bid. The bid system operates, in effect, as a small-scale spot market for Cook Inlet gas, allowing producers to compete for gas sales and set market-based gas prices.

A producer participating in the bid system requires an RCA approved contract with Enstar for that participation. Last winter three producers participated and the system worked quite well, with bid gas accounting for 4.3 percent of Enstar’s gas demand in the first quarter of the year and accounting for 10 percent of the demand on a typical cold winter day, Slaughter said.

Although the gas supply contracts assumed a bid gas price of $12 per thousand cubic feet, competitive bidding resulted in an average price around $9, he said.

Declining production

Gas production from gas fields in the Cook Inlet basin continues to decline, but a new source of supply from Anchor Point Energy’s North Fork gas field on the Kenai Peninsula, coupled with the availability of gas put into storage by gas producers during the summer, will offset that decline. However, there is uncertainty about the situation regarding the closure of the Nikiski LNG plant on the Kenai Peninsula — closure of that plant could make available more gas for utility use, Slaughter said.

Chevron subsidiary Unocal is bringing a new gas storage facility on line in the Ivan River field. Cook Inlet Natural Gas Storage Alaska is building a new gas storage facility near Kenai, but that facility will not be available to support winter supplies until the winter of 2012-13.

Demand and supply

In the coming winter, the new supply contract with Anchor Point Energy will add up to about 7 million cubic feet per day of gas to Enstar’s firm supplies. However, that increase will be somewhat offset by a natural increase in gas demand from Enstar’s customers and an increase in demand resulting from the return to Enstar on Oct. 1 of some commercial gas supply contracts with the military. The upshot of all of this is that Enstar expects its overall usage of bid gas on a typical winter day to drop from 10 percent to about 7.9 percent of its overall demand in the first quarter of 2012.

However, because Enstar’s annual gas demand is increasing, the utility anticipates purchasing an overall slightly higher total volume of bid gas in 2012 relative to 2011. At the same time, the number of producers participating in the bidding system has increased to seven, thus presumably reducing the risk of a shortfall in gas supplies.

Available gas

New participants in the system all potentially have gas supplies available for bid at some point in the winter, Slaughter said. Buccaneer Energy, for example, is in the process of hooking up its new Kenai Loop gas field, with production from there expected to start in December. Cook Inlet Natural Gas Storage Alaska is building a new gas storage facility near Kenai, but that facility will not be available to support winter supplies until the winter of 2012-13.

As part of its winter planning Enstar has to model a possible but very unlikely worst-case winter day, in which severe cold would drive absolute peak utility gas demand. Under this type of scenario, Enstar anticipates the possibility of needing somewhat more bid gas in 2012 than the utility had planned on for a similar scenario in 2011.

Enstar also has agreements with power utilities Chugach Electric Association and Municipal Light & Power to curtail sales of gas-generated power to Fairbanks utility Golden Valley Electric Association during days of high winter demand. And in October there will be a test of the Energy Watch system, in which Southcentral gas consumers are encouraged to reduce demand as much as possible during severe winter cold.

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