



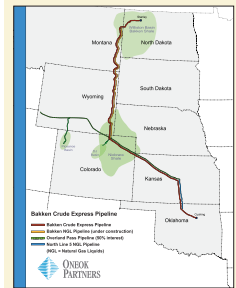
page 9 Buccaneer amending oil discharge plan for two Cosmopolitan wells

Inside: Petroleum News Bakken



Vol. 1, No. 16 • www.PetroleumNewsBakken.com December 2, 2012

Bakken Express pipeline scrubbed



Despite a "robust outlook for crude supply growth" in the Williston Basin petroleum system, Oronok "did not receive sufficient long-term commitments" from operators under the "terms" needed to construct the Bakken Crude Express Pipeline," company President Terry K. Spencer said. See full story on page 1 of this issue.

Saddle Butte out: Targa buys Williston Basin infrastructure

Houston-based midstream Targa Resources Partners recently announced that it has entered into an agreement with Colorado-based Saddle Butte Pipeline to purchase 100 percent of Saddle Butte's Williston Basin crude oil pipeline and terminal system as well as its natural gas gathering and processing operations for \$950 million.

Oxy's Williston Basin unit absorbed by Mid-Continent

Joseph R. DeDominicis, president and general manager of Occidental Petroleum's Williston business unit, left the company in November to take a position with Enbridge Energy Services as its senior vice president and chief operating officer.

ND's gas woes

State says might take until end of decade to resolve flaring problem

By RAY TYSON
Petroleum News Bakken

Gas production continues to increase at a faster rate than the more desirable crude oil, setting yet another production record in September at 795,546 thousand cubic feet, mcf, per day. Average oil output for the month was 728,494 barrels per day, also a record.

"We have to balance the ability to build gathering systems against the waste that takes place with flaring," Lynn Helms, director of the state's Department of Mineral Resources, said in a Nov. 20 Webcast. "So we're looking at toward the end of this decade before we really get this flaring dynamic under control."

Confident if prices slump

Helms: ND production could be sustained with just 50 rigs, 530 new wells per year

By RAY TYSON
Petroleum News Bakken

North Dakota oil production could be sustained at current record levels even if "the worst of worst happens," such as a major downturn in commodity prices, said Lynn Helms, director of the state's Department of Mineral Resources.

Helms said in a Nov. 20 Webcast that it would take only about 50 drilling rigs, or just over a quarter of the current fleet, and around 550 new wells per year to keep production at current levels of around 730,000 barrels per day. Currently, nearly 200 wells are being added per month alone.

Helms noted that the five top producing counties in North Dakota would be able to sustain their rig counts should oil prices drop well below \$50 a barrel.

Moreover, even if drilling came to halt outside the five leading counties, he said, there still would be about 140 rigs left in the state operating at 100,000-150,000 barrels per day. "Even then until we see a price recovery?"

"So we are very confident that we can sustain current production even under some pretty (difficult) scenarios," Helms said.

But "our best guess" is that North Dakota oil production will be sustained with just 50 rigs, 530 new wells per year.

US to surpass S. Arabia?

Mark Papa says it's just 'a whole lot of talk,' David Roberts, 'I don't see it'

By RAY TYSON
Petroleum News Bakken

Recent predictions by the International Energy Agency that U.S. oil production will rise by 3.3 million barrels per day over the next five years to 11.4 million bpd, making the U.S. the biggest oil producer in the world, are "a little bit premature," said Mark Papa, CEO of EOG Resources and Marathon Oil, are both top producers in the country's two strongest tight oil plays; in fact, EOG was a leader in U.S. shale gas and then tight oil well design and development. IEA shows tight oil as driving the increase in U.S. oil production.

Although EOG Chairman and Chief Executive Officer Mark Papa did not specifically mention IEA in a Nov. 28 presentation, he did explain his own company's projections of an increase of just 2 million barrels of oil a day from new U.S. tight and shale oil production by 2015, which the U.S. Energy Information Administration forecast in June as a

EXPLORATION & PRODUCTION

Pushing for growth

Hilcorp increases oil production in its newly acquired Cook Inlet fields

By ALAN BAILEY
Petroleum News



GREG LALICKER

JUDY PATRICK

takeover of the Chevron assets.

Business model

Since acquiring Chevron's Cook Inlet assets at the beginning of the year, Hilcorp Energy has been forging ahead with ambitious plans to breathe new life into the aging oil and gas fields of the Cook Inlet basin.

"We got the keys tossed to us on Jan. 1 and we've been up and running ever since,"

Greg Lalicker, president of Hilcorp, told the Resource Development Council's annual Alaska Resources Conference on Nov. 14. Lalicker said that oil production has increased from the oil fields which Hilcorp operates in the Cook Inlet basin since his company's

Hilcorp's business model revolves around the squeezing of additional oil and gas from old fields, with those fields often being bought from major oil companies, Lalicker said. He likened his company's business model to a hamster wheel with a rim consisting of a cycle of property acquisition, property development and efficient field production. The speed with which the hamster wheel turns determines the rate of company growth, although the company likes slow but steady growth at around 15 percent per year, Lalicker said.

see HILCORP GROWTH page 13

NATURAL GAS

Flint Hills drops LNG

Refiner cites improved economics, reluctance to lead in solving energy problems

By ERIC LIDJY

For Petroleum News

Although still amenable to using natural gas, Flint Hills Resources LLC is backing away from leading a project to truck liquefied natural gas from the North Slope to the Interior.

The refiner recently terminated its memorandum of understanding with the electric utility Golden Valley Electric Association, citing the improved economics of its internal energy use as well as the belief that a third party should be leading any efforts going forward.

"Flint Hills still believes LNG trucking is a valuable project for Fairbanks and Interior Alaska," Flint Hills Resources Alaska Vice President Mike

The Flint Hills refinery uses electricity produced by GVEA. The GVEA plant in North Pole runs on naphtha produced by Flint Hills (but was designed to also operate on natural gas).

Brose said in a statement. "However, there are a number of other entities that have expressed interest in this project, and we think the time is right for a third party to determine if there is sufficient support for the project outside of the industrial demand that Flint Hills has been targeting."

The announcement came as Flint Hills also said

see LNG PROJECT page 15

PIPELINES & DOWNSTREAM

Native opposition builds

First Nations across Canada attempt to stall Northern Gateway, Kitimat, Enbridge

By GARY PARK

For Petroleum News

A wave of aboriginal attempts to disrupt major energy projects is spreading across Canada.

A little-known First Nations community in northwestern British Columbia evicted surveyors who were working on a pipeline linked to the Kitimat LNG project, while activists from a First Nation in southern Ontario have threatened to stage protests against Enbridge plans to move more crude from Western Canada and the Bakken to refineries in Ontario and Quebec.

The ability of First Nations to slow progress on projects has become evident this year as communities across northern British Columbia have mounted their case against Enbridge's Northern Gateway

The consulting firm of Deloitte has estimated that Canadian producers are losing C\$25 billion a year from transportation bottlenecks.

plan during an environmental review.

Partly because of the efforts to hijack those hearings, the joint panel of the National Energy Board and the Canadian Environmental Assessment Agency has been forced to extend the hearings by another 10 weeks.

The public hearings that started in January were supposed to have ended in mid-November, but will now resume in Prince Rupert on Dec. 10, followed

see NATIVE OPPOSITION page 14

Forecast of U.S. oil supremacy draws wide notice, and doubts

The Paris-based International Energy Agency created quite a stir Nov. 12 with the launch of its 2012 World Energy Outlook.

The report made global headlines with some startling predictions about U.S. oil and gas production.

The recent rebound in U.S. production is driven by upstream technologies that are unlocking light tight oil and shale gas resources, the IEA report said.

By around 2020, the United States is projected to become the largest global oil producer, overtaking Saudi Arabia until the mid-2020s, the report said.

Concurrently, the country will start to see the impact of new

see IEA OUTLOOK page 16

RCA pledges to make decision by Dec. 14 on Koch TAPS transfer

The Regulatory Commission of Alaska says it will decide by Dec. 14 whether to approve the transfer of Koch's small ownership interest in the trans-Alaska pipeline system to the line's three major owners, BP, ConocoPhillips and ExxonMobil.

Meantime, the RCA recently refereed a minor conflict over Unocal's attempt to intervene in the matter. Unocal is the fifth and final owner in TAPS.

The 800-mile trans-Alaska pipeline carries North Slope crude oil to the tanker port at Valdez.

Koch Alaska Pipeline Company LLC, a unit of Koch Industries of Wichita, Kan., owns a 3.0845 percent stake in TAPS.

On Oct. 22, Koch, BP, ConocoPhillips and ExxonMobil filed a joint application with the RCA to transfer operating authority

see TAPS TRANSFER page 15

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Alaska - Mackenzie Rig Report

Rig Owner/Rig Type Rig No. Rig Location/Activity Operator or Status

Alaska Rig Status

North Slope - Onshore

Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay E-20 workover	BP
Dreco 1000 UE	16 (SCR/TD)	Milne Point MPE-03	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD1-01	ConocoPhillips
AC Mobile	25	Prudhoe Bay Z-10A	BP
OIME 2000	141 (SCR/TD)	Kuparuk 3Q-06	ConocoPhillips

Kuukpik	5	Stacked in Deadhorse	Linc Energy Operations Inc. Umiat Job
----------------	---	----------------------	--

Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Prudhoe Bay	Stacked
AC Coil Hybrid	CDR-2	Kuparuk 3H-11	ConocoPhillips
Dreco 1000 UE	2-ES	Prudhoe Bay	Available
Mid-Continental U36A	3-S	Prudhoe Bay	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay	Available
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay	Committed
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay	Available
Oilwell 2000 Hercules	14-E (SCR)	Prudhoe Bay	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Prudhoe Bay	Available
Oilwell 2000	17-E (SCR/TD)	Prudhoe Bay	Stacked
Emsco Electro-hoist -2	18-E (SCR)	Prudhoe Bay	Stacked
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Prudhoe Bay	Stacked
Emsco Electro-hoist	28-E (SCR)	Prudhoe Bay	Stacked
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Prudhoe Bay*	Available
Oilwell 2000	33-E	Prudhoe Bay	Available
Academy AC electric Canrig	105-E (SCR-TD)	Prudhoe Bay	Committed

*Pioneer winter work

Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site E-20B	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Well Drill Site W-02	BP
Ideco 900	3 (SCR/TD)	Kuparuk Well 3M-13	ConocoPhillips

Parker Drilling Arctic Operating Inc.			
NOV ADS-10SD	272	Prudhoe Bay final construction and commission	BP
NOV ADS-10SD	273	BP Acceptance meeting scheduled for Dec. 4th, BP IAT scheduled for Jan. 8-15, 2013	BP

North Slope - Offshore

BP			
Top drive, supersized	Liberty rig	Inactive	BP

Nabors Alaska Drilling			
OIME 1000	19-E (AC)	Oooguruk ODSN-29	Pioneer Natural Resources
OIME 2000	245-E	Oliktok Point	ENI

Doyon Drilling			
Sky Top Brewster NE-12	15 (SCR/TD)	Spy Island SP30-W1	ENI

Cook Inlet Basin - Onshore

Kenai Land Ventures LLC (All American Consultants, labor contract)			
Taylor	Glacier 1	Kenai Loop Drilling Pad #1	Buccaneer Energy Ltd

Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Happy Valley drilling HV B-16	Hilcorp Alaska LLC

Cook Inlet Energy			
Atlas Copco RD20	34	Finalizing Otter Project west side of Beluga River Field	Cook Inlet Energy

Doyon Drilling			
TSM 7000	Arctic Fox #1	Swanson River SRU 23B-22	Hilcorp Alaska LLC

Nabors Alaska Drilling			
Continental Emsco E3000	99AC	North Fork 23-25	Armstrong Cook Inlet LLC
Franks	273E	Kenai	Available
IDECO 2100 E	26	Kenai	Stacked
Rigmaster 850	429E (SCR)	Stacked in Kenai	Available
Academy AC electric Heli-Rig	129	Kenai	Available
	106-E (SCR/TD)	Tiger Eye 1	NordAq

Cook Inlet Basin - Offshore

XTO Energy			
National 110	C (TD)	Idle	XTO

Spartan Drilling			
Baker Marine ILC-Skidoff, jack-up		Spartan 151 Upper Cook Inlet KLU#1	Furie

Cook Inlet Energy			
National 1320	35	Osprey Platform RU-1, workover	Cook Inlet Energy

Hilcorp Alaska LLC (Kuukpik, labor contract)			
	428	Steelhead Platform Well M-31 redrill Anna Platform, working on rig	Hilcorp Alaska LLC

Mackenzie Rig Status

Canadian Beaufort Sea

SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

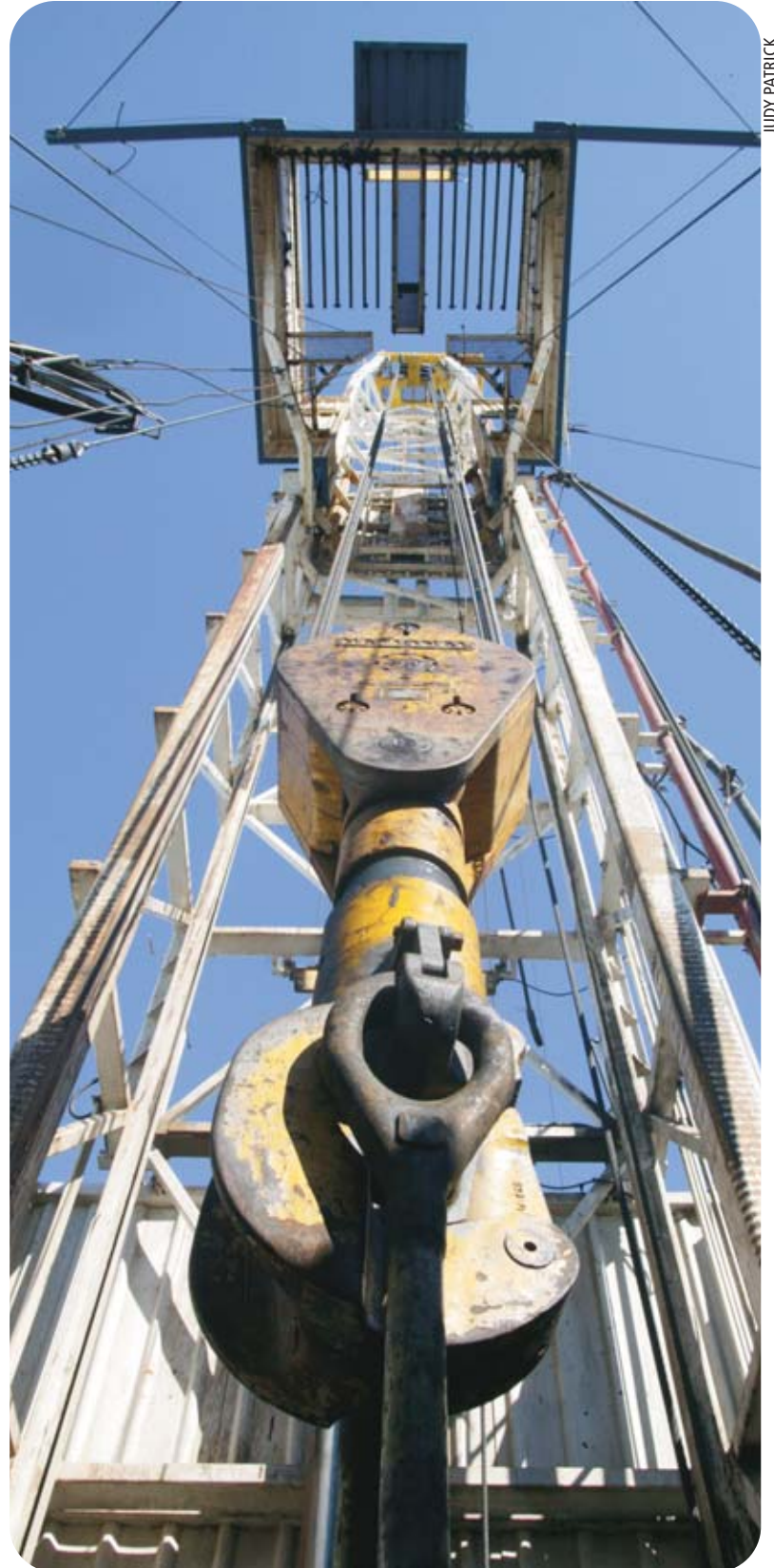
Central Mackenzie Valley

Akita/SAHTU			
Oilwell 500	51	Still out of the NWT, but is again available	Available

The Alaska - Mackenzie Rig Report as of November 29, 2012.
Active drilling companies only listed.

TD = rigs equipped with top drive units WO = workover operations
CT = coiled tubing operation SCR = electric rig

This rig report was prepared by Marti Reeve



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	Nov. 21	Nov. 16	Year Ago
US	1,817	1,809	2,000
Canada	387	384	484
Gulf	50	48	38

Highest/Lowest

US/Highest	4530	December 1981
US/Lowest	488	April 1999
Canada/Highest	558	January 2000
Canada/Lowest	29	April 1992

*Issued by Baker Hughes since 1944

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GOVERNMENT

Alaska House names leadership

The Alaska House majority and minority have organized for the upcoming 28th Legislature.

The largely Republican majority has named Rep. Mike Chenault, R-Nikiski, to a third term as speaker. Rep. Lance Pruitt, R-Anchorage, is the new majority leader and Rep. Craig Johnson, R-Anchorage, returns as Rules chair.

The House Finance Committee will be co-chaired by Reps. Bill Stoltze, R-Mat-Su/Chugiak and Alan Austerman, R-Kodiak.

Rep. Peggy Wilson, R-Wrangell, returns for a second term as majority whip.

In addition to Stoltze and Austerman, House Finance majority members are: Reps. Mark Neuman, R-Big Lake; Bryce Edgmon, D-Dillingham; Cathy Munoz, R-Juneau; Tammie Wilson, R-North Pole, Mia Costello, R-Anchorage; and Steve Thompson, R-Fairbanks.

Chairs of resource-related committees include: Reps. Eric Feige, R-Chickaloon and Dan Saddler, R-JBER/Eagle River, co-chairs of House Resources; and Reps.

see **HOUSE LEADERSHIP** page 5

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GOVERNMENT

U.S. suspends BP federal contracting

EPA cites company's criminal prosecution for Deepwater Horizon as basis for action; BP stresses suspension is temporary, limited

By **WESLEY LOY**

For Petroleum News

In yet more fallout from the Deepwater Horizon disaster, London-based BP has lost its ability to sign new contracts with the U.S. government.

Such contracts can range from oil and gas leases to fuel sales to the U.S. military, a significant business for BP.

The U.S. Environmental Protection Agency announced the action against BP on Nov. 28.

"EPA is taking this action due to BP's lack of business integrity as demonstrated by the company's conduct with regard to the Deepwater Horizon blowout, explosion, oil spill, and response," the EPA said.

Under a plea agreement announced Nov. 15, BP has agreed to plead guilty to 11 counts of felony manslaughter and other charges in connection with the fiery blowout on April 20, 2010, aboard the drilling rig Deepwater Horizon offshore Louisiana. BP has agreed to pay \$4 billion in fines and other penalties.

Also, three current or former BP employees face criminal charges in connection with the disaster.

The federal government is now pursuing potentially huge civil claims against BP.

Suspension is 'standard practice'

"For the Deepwater Horizon investigation, EPA was designated as the lead agency for suspension and debarment actions," the EPA said. "Federal executive branch agencies take these actions to ensure the integrity of federal programs by conducting business only with responsible individuals or companies. Suspensions are a standard practice when a responsibility question is raised by action in a criminal case."

The EPA added: "The BP suspension will temporarily prevent the company and the named affiliates from getting new federal government contracts, grants or other covered transactions until the company can provide sufficient evidence to EPA demonstrating that it meets federal business standards. The suspension does not affect existing agreements BP may have with the government."

The EPA provided Petroleum News with

a copy of the "notice of suspensions" given to BP. Among the numerous subsidiaries and affiliates listed in the notice is BP Exploration (Alaska) Inc.

The eight-page notice says BP's "seriously improper conduct provides the basis for its suspension" from federal contracting.

BP and its subsidiaries have been published in the System for Award Management, or SAM, as "ineligible" to receive any federal contract, the notice says. The General Services Administration maintains the SAM website.

BP companies also are "precluded from receiving certain federal assistance, loans and benefits," the notice says.

The notice adds: "It is important to note that suspension is not imposed for the purpose of punishment. It is a discretionary measure used to insure that the Government conducts public business with responsible persons."

Existing contracts remain valid

BP, in a Nov. 28 press release, said the EPA action "relates only to future potential contracts with the U.S. government. The temporary suspension does not affect any existing contracts the company has with the U.S. government, including those relating to current and ongoing drilling and production operations in the Gulf of Mexico."

BP continued:

"The EPA's action is pursuant to administrative procedures providing for discretionary suspension until a company can demonstrate 'present responsibility' to conduct business with the U.S. government. BP has been in regular dialogue with the EPA and has already provided both a present responsibility statement of more than 100 pages and supplemental answers to the EPA's questions based on that submission.

"Moreover, in support of BP's efforts to establish present responsibility, the U.S. Department of Justice agreed, in the plea agreement, that it will advise any appropriate suspension or debarment authority that in the Department's view, BP has accepted criminal responsibility for its conduct relating to the Deepwater Horizon blowout, explosion, oil spill and response. The EPA has informed BP that it is preparing a pro-

see **BP CONTRACTING** page 11

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

NEWS
907.522.9469
publisher@petroleumnews.com

CIRCULATION
907.522.9469
circulation@petroleumnews.com

ADVERTISING
Susan Crane • 907.770.5592
scrane@petroleumnews.com

Bonnie Yonker • 425.483.9705
byonker@petroleumnews.com

FAX FOR ALL DEPARTMENTS
907.522.9583

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● PIPELINES & DOWNSTREAM

Alyeska loses to state on ROW valuation

Alaska Supreme Court affirms Superior Court on DNR 2002 appraisal of value of trans-Alaska oil pipeline state right-of-way leases

By **KRISTEN NELSON**
Petroleum News

Alyeska Pipeline Service Co. has lost an appeal of the Department of Natural Resources' 2002 appraisal of the value of trans-Alaska pipeline system leases at \$236,000 per year.

In a Nov. 23 ruling the Alaska Supreme Court affirmed a decision by the Alaska Superior Court upholding DNR's appraisal of the TAPS lease price.

Alyeska had appealed to the Alaska Supreme Court, arguing that DNR misinterpreted state statute on calculation of the lease price; that DNR was required to adopt its interpretation of statute as a regulation; and that the appraisal improperly included submerged lands within the right-of-way.

Under Alaska's Right-of-Way Leasing Act DNR is required to adjust the lease price for the TAPS right of way every five years, the court said. In 2002, DNR and the U.S. Bureau of Land Management hired Black-Smith & Richards Inc. to appraise state and federal lands within the right of way. Black-Smith was instructed to appraise the right of way based on the fair market value of the land. DNR notified Alyeska in December 2002 that it had approved the Black-Smith appraisal and that the annual rent for state lands within the right of way would be \$236,000 per year.

Second appraisal

Alyeska had a review of the Black-Smith appraisal done by real estate appraiser Al Olson and Olson's review found potential issues, two of which the court said were relevant.

Olson said the appraisal's valuation of state lands at 100 percent did not account for the fact that under its leases Alyeska did not have exclusive use of the land and speculated that if Black-Smith had been allowed to consider the non-exclusive use it might have valued the land at 75 percent fee value, which Olson referred to as the encumbrance of rights issue.

Olson also noted that the appraisal included 205.78 acres of submerged lands which were disputed acreage in navigable waterways, but the appraisal did not value the lands as such, referred to as the submerged lands issue.

Alyeska appeals

Alyeska appealed DNR's appraisal to the commissioner, raising the encumbrance of rights issue and the submerged lands issue and requesting that the

appraisal be reexamined and revised on those grounds.

The commissioner affirmed DNR's decision in September 2006, rejecting the encumbrance of rights argument and ruling that the state Right-of-Way Leasing Act required that the lease price be based on the fair value of land without reduction for rights retained by the state or granted to third parties, but refused to address the submerged lands issue, stating that there was an agreement with Alyeska not to address that issue.

Alyeska appealed to the Alaska Superior Court, disputing assessment at 100 percent of value even though Alyeska's leasehold rights were not exclusive and disputing an oral agreement on the submerged lands issue. Alyeska asked the court to remand to the commissioner on the submerged lands issue, which the court did.

In April 2008 the commissioner affirmed the appraised valuation of submerged lands along the right of way.

In August 2010 the Superior Court affirmed the commissioner's final ruling.

Alyeska appealed to the Alaska Supreme Court, arguing that valuation should include consideration of the non-exclusive nature of the leasehold interest. Alyeska argued that even if DNR correctly interpreted the Right-of-Way Leasing Act, DNR was required to adopt its interpretation as a regulation. Alyeska also argued DNR's appraisal improperly included submerged lands when it had failed to establish the state held title to those lands.

No regulation required

The court found that DNR's interpretation of the Right-of-Way Leasing Act was reasonable, and it was not required to adopt a regulation.

The court said the act "broadly defines 'state land' as 'any interest owned by the state in land if the interest is sufficient to permit the state to lease it' under the act, which refers to the definition of state land under the Alaska Land Act, which 'defines 'state land' as 'all land, including shore, tide, and submerged land, or

resources belonging to or acquired by the state.'"

Rights not exclusive

The court said that when the commissioner rejected Alyeska's argument that it should not pay 100 percent of the value for non-exclusive rights, the commissioner reasoned that the law required the lease price to be based on fair market value of state right-of-way land, defined as any interest owned by the state, "not just the interest granted to Alyeska via the right-of-way agreement," and did not require a reduction for rights retained by the state or granted to third parties "where, as here, those interests did not reduce the value of the land." The commissioner noted Alyeska's use of the right of way was protected by law from incompatible uses and said that as of the date of the appraisal "none of the third-party interests within the TAPS right-of-way interfere with the TAPS right-of-way grant."

The court said Alyeska challenged the ruling on several grounds.

The court said it found DNR's interpretation of statute for the method of calculating right-of-way prices was reasonable, and said it "is consistent with the plain language of the statute and the statutory definitions of 'state land'," including the broad definition in the Right-of-Way-Leasing Act of state land as all land and any interest in land owned by the state.

The court said, "Although Alyeska focuses on the fair market value of the leasehold interest, the correct analysis focuses on the fair market value of the state land." The court also said it agreed that if there were to be third-party uses that reduced the value of the land, "as opposed to the value of the lease," then the value would take those third-party interests into account.

The court also found DNR's "conclusion that the plain language of the statute requires the lease price to be based on the fair market value of the state land within the right-of-way, rather than the fair market value of the leasehold interest, is reasonable."

The court also said DNR was not required to adopt a regulation because its interpretation did "not add substantive requirements to the statute" but simply interpreted the statute according to its own terms.

Constitutional argument

The court said Alyeska also argued that DNR's interpretation of statute "unlawfully burdens interstate commerce in violation of article I, section 8 of the federal constitution because it results in a lease price that exceeds 'fair compensation' for a non-exclusive lease such as the TAPS lease."

But, the court said, Alyeska did not raise this issue in its appeal to the commissioner or in its appeal to the Superior Court, "but raised the issue for the first time in its reply brief before the superior court. Alyeska also offers little argument or authority supporting its argument, relying exclusively on a single paragraph quoted from a 1973 trial court brief." The court said it agrees with DNR that Alyeska waived this argument because it did not raise the issue in its appeal to the commissioner or on appeal to the superior court, and "has abandoned the issue by briefing it in such a cursory fashion."

The court also ruled that DNR was not required to prove the state held title to submerged lands within the right of way.

It said that while Alyeska argued it was required to pay rent to both the state and the federal government, it "failed to demonstrate that it was actually required to pay rent to both the state and federal governments for the same submerged lands within the TAPS right-of-way."

The court said that on appeal Alyeska relied exclusively on its appraiser's statement that the Black-Smith appraisal included lands which were reported to be disputed acreage in navigable waterways. But the court said the appraiser's statement "is essentially hearsay" and does not establish that Alyeska was required to pay rent to both governments for the same submerged lands within the right of way. ●

Contact Kristen Nelson
at knelson@petroleumnews.com

continued from page 4

HOUSE LEADERSHIP

Charisse Millett, R-Anchorage, and Doug Isaacson, R-North Pole, co-chairs Energy.

On the minority side, Rep. Beth Kerttula, D-Juneau, returns as House Democratic leader; Rep. Chris Tuck, D-Anchorage, will be the House Democratic whip; and Rep. Max Gruenberg, D-Anchorage, remains House Democratic floor leader.

House Democratic caucus assignments to House Finance are Reps. Les Gara, D-Anchorage; David Guttenberg, D-Fairbanks; and Scott Kawasaki, D-Fairbanks.

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• ENVIRONMENT & SAFETY

Myers argues for UAF oil spill research

Says that oil development and other Arctic offshore activities will drive a need for innovative spill response technologies

By ALAN BAILEY
Petroleum News

Although there has been much recent focus on the risks associated with exploratory oil drilling in the Arctic offshore, it is necessary to take a broader view of arctic oil spill contingency planning, addressing for example risks associated with general arctic shipping and looking at risk management for the future development and production of oil resources, Mark Myers, vice chancellor of research at the University of Alaska Fairbanks, or UAF, told a meeting of the Alaska Geological Society on Nov. 28. Myers has been promoting the establishment of an oil spill research center at the university.

"It's a very different world when you're doing summer exploration only and in ice-free conditions than when you're on production in the further offshore," Myers

said. But there is time to work on the issues, with emerging technologies offering opportunities for solving problems, he said.

Dynamic change

The shrinking sea ice cover in the Arctic is leading to dynamic change in human activity, including increased shipping, more tourism and a burgeoning interest in offshore arctic mineral resources, Myers said. In the oil and gas industry new technologies such as subsea well completions are enabling better access to major offshore resources, while high oil prices are driving an interest in seeking these resources. Ships plying the Arctic carry oil as fuel.

"There's a significant shipping risk as



MARK MYERS

shipping increases, let alone the oil traffic that is seasonally now travelling between the east coast of Russia and markets in the Far East," Myers said. "The risk is not just limited to oil and gas."

Internationally, oil and gas exploration in the Arctic is taking place in a relatively closed basin, where an oil spill in one place can impact countries beyond the spill location.

"So the reality is, no matter what U.S. policy is ... the United States will face risks for oil spills," Myers said.

Infrastructure and research

But, while there is much concern about environmental risk, a general lack of support infrastructure in the Arctic presents a major challenge to operations in the region. The U.S. Coast Guard is very concerned about its capacity to operate in the Arctic. Helicopters, for example, tend not work to well in cold weather. And com-

munications systems are poor in the Arctic offshore, Myers said.

Follow-up studies in the aftermath of the Deepwater Horizon disaster have pointed to the need for research and for additional government and industry response capacities in the Arctic offshore, he said.

There is also a need for a better understanding of the complex interdependence of different offshore ecosystems, with continuing environmental change adding to the difficulty of environmental regulation, he said. And site-specific, geology-based analysis of oil spill risks matters when it comes to spill response planning.


Fundamental questions about topics such as the movement and behavior of oil in ice-laden waters; the locations of critical habitats that need protection; and the tolerance of the food web to oil or dispersants are starting to be answered but still require much research.

The human factor — how people perceive and respond to the risks — is also critical, Myers said.

UAF center

Myers hopes to establish the UAF oil spill response center in 2013 to seek innovative approaches to addressing arctic oil spill response challenges. Last year the National Science Foundation decided that it would not fund the initiative, because the foundation viewed an oil spill research institute as an inappropriate target for its funding, Myers said. Instead, the university is now hoping for some state funding to build the coordination component of the

see UAF RESEARCH page 7



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• LAND & LEASING

Cook Inlet Energy requests lease expansion

Company wants acreage added to Mental Health Trust lease on west side near Tyonek, proposes drilling 2 wells over next 2 years

By ERIC LIDJI

For Petroleum News

Cook Inlet Energy plans to drill two wells on the west side of Cook Inlet by the end of 2013 in exchange for the Alaska Mental Health Trust expanding a lease in the area.

The independent is asking the Trust Land Office to add some 1,660 acres to lease MHT 9300063, on “highly prospective” land around 10 miles north of the village of Tyonek.

The proposed expansion area covers a portion of two tracts. The Division of Oil and Gas originally leased the acreage as ADL 391126 before conveying it to the Trust.

Apache Corp. held the lease until it expired at the end of September. Cook Inlet Energy holds state and Mental Health Trust leases on either side of the proposed expansion. The MHT 9300063 lease is scheduled to reach the end of its pri-

mary term on Dec. 30, as is another Trust lease, MHT 9300062, on the other side of the expansion acreage. The state leases Cook Inlet Energy holds in the area are scheduled to expire in February 2018.

No previous development

There has not been any previous development on the acreage, according to the Trust, but the acreage is just west of the Beluga River and the Pretty Creek units and just north of the Lone Creek and the former Three Mile Creek units. Some exploration in the vicinity includes a recent Linc Energy Inc. stratigraphic test for deep coal deposits, the N. Beluga No. 1 well that Pelican Hill drilled in late 2004 (finding “a reservoir, but no gas,” Arlen Ehm told Petroleum News at the time) and the Burglin X33-12 well from 1976-1977.

Under its proposal, Cook Inlet Energy would lease the

additional acreage through the end of 2013 for \$3 per acre per year, a bonus payment of \$25,730 and 12.5 percent royalty.

In return for the expansion, the company has committed to drill an exploration well on one lease by the end of 2012 and a second exploration well on the other lease by the end of 2013. Cook Inlet Energy would lose one of the two leases if it failed to drill the first well and would pay the Trust a \$250,000 penalty if it failed to drill the second well.

The Trust is taking comments on the proposal through Dec. 20. ●

—A copyrighted oil and gas lease map from Mapmakers Alaska was a research tool used in preparing this story.

Contact Eric Lidji at ericlidji@mac.com

continued from page 6

UAF RESEARCH

proposed center — the research components of the center already exist in various university research departments, Myers said.

“Can we take new, emerging technologies and different approaches, can we integrate approaches, to come up with ... integrated (response) capacity in Alaska?” Myers asked, commenting that doing research in Alaska would provide an opportunity to build an Alaska-based industry around that research. It might, for example, be possible to build a tank for testing spill response equipment in Arctic conditions.

The university could potentially

become a bridge between industry and the government, to facilitate the development of spill response capacity. The center would also communicate with Alaska communities through its existing network of rural campuses and research relationships, Myers said.

“We certainly are very interested in getting industry or (government) agency partnerships as we move forward with the concept,” Myers said.

Leverage knowledge

While avoiding the re-invention of wheels being worked on by others — research into the mechanical recovery or in-situ burning of spilled oil, for example — the university could leverage its arctic knowledge, building on its existing expertise to become a center for the trans-

fer of arctic oil spill response knowledge, Myers said. And Myers cited the recent launch of UAF’s ice-capable research vessel, the Sikuliaq, as an example of the type of arctic research technology that the university could bring to the oil spill research table.

The university has been working on unmanned underwater vehicles that are capable of operating under the sea ice for long-term subsea observations. The university has also for a long time been researching unmanned aerial vehicle technology, something that could become an enabling technology for, for example, extended offshore operations, including operations in poor visibility using infrared and other sensors.

“What we envision ... is taking some of the emerging technologies to approach

some of the most difficult problems,” Myers said.

Water circulation in the Arctic Ocean and the movements of ocean currents under the ice are not well understood and there is potential for developing improved oil spill trajectory models in ice conditions, he said. The university has world-class skills in climate modeling and in modeling the movement of sea ice, Myers said.

“A lot of fundamental new research opportunities are up here and the ability to incorporate that into the operational structure I think would dramatically improve confidence in the ability to respond to an oil spill in the Arctic,” Myers said. ●

Contact Alan Bailey at abailey@petroleumnews.com

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• UTILITIES

Utilities improve efficiency at a cost

New Southcentral Alaska power generation will reduce long-term fuel needs while triggering price increases in the near future

By **ALAN BAILEY**
Petroleum News

Thanks to what is termed “combined cycle” technology, Alaska’s Southcentral Power Project, a new gas-fired power generation facility undergoing commissioning tests in midtown Anchorage, will use just 70 to 75 percent of natural gas fuel per unit of generated electrical power compared with the region’s aging gas-fired power stations, power utility executives told the Anchorage Chamber of Commerce Make it Monday Forum on Nov. 26. But with the \$369 million plant that is being constructed by Chugach Electric Association and Municipal Light & Power scheduled to come on line in the first quarter of 2013, electricity consumers can expect to see increases in their electricity bills, to cover the construction costs.

Phil Steyer, director of government relations and corporate communications for

Phil Steyer, director of government relations and corporate communications for Chugach Electric, likened the situation to the purchase of a new fuel-efficient car, with the necessity of an up-front purchase cost in the interests of long-term fuel savings.

Chugach Electric, likened the situation to the purchase of a new fuel-efficient car, with the necessity of an up-front purchase cost in the interests of long-term fuel savings.

“Initially I expect that will cause your bills to go up,” Steyer said. “Over the long term, because we’re going to use less gas, I expect that to be a net savings.”

Rate increase

Steyer said that Chugach Electric will

also need to increase its rates a bit to cover the cost of responding to a severe wind and rain storm that hit the Anchorage bowl in September. Overall, consumers may expect to see a 5 to 10 percent increase in their electricity bills in 2013, Steyer said. However, thanks to improved energy efficiency, consumers are also tending to use less electricity than in the past — on average, a consumer’s usage has dropped from 700 kilowatt-hours per month to 650 kilowatt-hours per month, Steyer said.

Steyer also commented that Chugach Electric’s gas costs for 2013 are uncertain at the moment — the utility passes these costs through to its customers as a component of their electricity bills. This is the first winter in which the utility will have to withdraw gas that it has warehoused in a new gas storage facility operated on the Kenai Peninsula by Cook Inlet Natural Gas Storage Alaska, known as CINGSA

— the stored gas is needed because the utility’s gas suppliers, Marathon and ConocoPhillips, can no longer meet all Chugach Electric’s power generation fuel needs during periods of high winter demand, Steyer said.

ML&P: busy year

Jim Posey, general manager of Municipal Light & Power, or ML&P, characterized 2012 as having been his utility’s busiest construction season in at least 30 years. In addition to a series of construction projects aimed at addressing various customers’ needs, ML&P had to contend with the aftermath of the September storm.

The utility is forging ahead with plans to upgrade its aging facilities, including its share of the Southcentral Power Project and the construction of a new, efficient gas-fired power plant in its power station north of downtown Anchorage. The turbines for ML&P’s new plant will arrive in 2014 for installation in 2015, Posey said. ML&P has been preparing the site for the plant, he said.

ML&P is also constructing two new substations in midtown Anchorage to connect with the Southcentral Power Project when that facility comes online.

As with Chugach Electric, ML&P has contracted with CINGSA for the storage of gas for use during the winter. The utility has also contracted with ConocoPhillips for the delivery of additional gas at the rate of 5 million to 6 million cubic feet per day during the winter, with an expectation that this gas will be needed on a few occasions, Posey said.

Beluga field

ML&P is a co-owner of the Beluga gas field, on the west side of the Cook Inlet, and the utility obtains much of its gas from that field. In addition to maintaining gas compression facilities, the partners in the field have recently spent \$60 million drilling three new gas wells. Two of those wells proved successful, but one well produced water rather than gas, Posey said.

All told, ML&P anticipates spending some \$459 million between 2012 and 2017 on its new power plant; transmission and distribution upgrades; general plant work; and projects in the Beluga field, Posey said. That expenditure will require an electricity rate increase before the end of this year, he said, adding that ML&P anticipates another rate increase after the Southcentral Power Project comes online and the final costs of that project are known.

MEA

Joe Griffith, general manager of Matanuska Electric Association, or MEA, talked about the Eklutna Generation Station, or EGS, the new, modern gas-fired power station that his utility is building north of Anchorage. MEA currently purchases power from Chugach Electric: When the EGS facility comes on line in 2015 this facility will displace some of Chugach Electric’s generation capacity.

MEA has already cleared the site and purchased the massive engines for the 170 megawatt EGS project, a project that has an estimated price tag of \$265 million, Griffith said. The utility has upgraded its computer control system for its



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EXPLORATION & PRODUCTION

Buccaneer permitting Cosmo wells

Buccaneer Alaska Operations LLC wants to amend its Cook Inlet oil discharge prevention and contingency plan to include a pair of wells at the Cosmopolitan prospect.

The proposal would amend its currently approved plan for the offshore Northwest and Southern Cross prospects to include the Cosmopolitan No. 1 and No. 2 exploration wells.

Under the proposed amendment, Buccaneer would begin winter operations in southern Cook Inlet when ice conditions are less than 10 percent and would end operations when ice conditions exceed 10 percent between November and April.

In the amendment, Buccaneer is also proposing a response planning standard of 800 barrels per day for 15 days to total 12,000 barrels for the Cosmopolitan wells.

The state is taking comments on the proposal through Dec. 28.

Buccaneer would drill the wells using its Endeavour jack-up rig. According to the Homer Tribune, the company expects the rig to remain in Homer through at least early December while it waits for additional permits for its Cosmopolitan exploration program.

—ERIC LIDJI

CEA files gas contract for GVEA supply

Chugach Electric Association has asked the Regulatory Commission of Alaska to approve a new gas supply contract with Hilcorp Alaska, for gas for power generation for the supply of electricity to Fairbanks utility Golden Valley Electric Association, or GVEA. GVEA purchases some of its power from Chugach Electric to reduce its needs for expensive oil-fueled power generation in Fairbanks.

The new gas supply contract covers the period April 1, 2013, to Oct. 31, 2015, and has gas prices starting at \$7.75 per thousand cubic feet, rising to \$7.90 on Nov. 1, 2013, and stepping up to \$8.06 on Nov. 1, 2014.

Although this new contract provides Chugach Electric with some assurance about the source of gas for its future sales of power to GVEA, the contract does not resolve concerns about tightening gas supplies from the Cook Inlet basin — Southcentral gas and power utilities are making plans to import gas into the region in the winter of 2014-15, to guard against the possibility of local gas supplies running short during periods of high winter demand.

Lee Thibert, senior vice president of Chugach Electric Association, told Petroleum News Nov. 28 that Chugach Electric works with GVEA as part of the Alaska Railbelt.

“We feel they’re part of the team,” Thibert said.

Chugach Electric plans to purchase gas under the new contract during the summer, placing gas in storage on the Kenai Peninsula for winter use and not impacting winter gas deliverability, Thibert said. And the power supply contract with GVEA is not guaranteed: In the event of a gas shortage in Southcentral Alaska Chugach Electric has the option to curtail the GVEA supply, he said.

Chugach Electric says that, as well as enabling GVEA to reduce the price of electricity for its customers, the revenue generated from the power supplies to GVEA will benefit Chugach Electric’s customers in Southcentral Alaska by reducing Chugach Electric’s electricity rates.

If Chugach Electric were forced to curtail its supply to GVEA, GVEA would presumably have to revert to more expensive power generation in Fairbanks.

—ALAN BAILEY

continued from page 8

UTILITY EFFICIENCY

facilities to synchronize with the systems used by ML&P and Chugach Electric. And the utility is engaged in a series of other projects, including the planning of a new transmission line from the EGS facility to the town of Wasilla and upgrades to the utility’s existing transmission and distribution systems, Griffith said.

Gas decline

Steyer said that the utilities’ new, highly efficient power plants form one component of a series of measures addressing the continuing decline in production from Cook Inlet’s aging gas fields. Other measures taken in response to the gas supply situation include the successful construction of the CINGSA gas storage facility and the instigation of bidirectional gas flow through the Cook Inlet Gas Gathering System, a major gas pipeline under Cook Inlet. Energy efficiency and conservation are reducing gas demand, while Chugach Electric is now obtaining some power from a new wind farm on Fire Island, offshore Anchorage. A project

is under way for the eventual construction of a major hydropower system at Watana on the Susitna River.

And state exploration and production incentives have encouraged much new oil and gas exploration in the Cook Inlet basin.

The utilities are moving ahead with a plan to import either liquefied or compressed natural gas into the region, to fill a projected gas supply shortfall starting in the winter of 2014-15. And there is an “Energy Watch” program in place during the winter, to alert Southcentral residents of any need to reduce energy usage, should a gas shortage occur.

So far the utilities have succeeded in working with each other and the gas producers to ensure the continuity of gas supplies when winter demand has peaked, Steyer said. A request to the public for voluntary cuts in energy use under the Energy Watch program would be an indication that the utilities have run out of options to stave off a gas shortfall — in this situation it is important that people respond, to avoid a need for power cuts, Steyer cautioned. ●

Contact Alan Bailey
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• NATURAL GAS

LNG pipeline may dodge review

By GARY PARK

For Petroleum News

Environmentalists in British Columbia are gearing for a regulatory and political showdown over plans by TransCanada to build a C\$4 billion natural gas pipeline to feed the Shell Canada-operated LNG Canada project.

Under proposed changes to federal legislation, there is no assurance the proposed 420-mile, large diameter pipeline would face an environmental review — a prospect that is arousing green leaders in the province.

Otto Langer, a former head of habitat assessment for the Fisheries Department in British Columbia and the Yukon, said chances of the Coastal GasLink pipeline sidestepping an assessment would be a “travesty of the public trust.”

Craig Orr, executive director of Watershed Watch, told the Vancouver Sun he was “astounded that there is even a thought of exempting something of such magnitude, with such potential risk.”

“There is so much discretionary power now in whether anything gets an environmental assessment. I don’t think it serves Canadians well, especially those concerned about the environment.”

Federal oversight reduced

Under legislation passed by Parliament in June, the Canadian government has reduced federal oversight of fish habitat, transferring greater responsibility for assessment to the provinces to avoid duplication and allow greater federal focus on major projects.

Legislation introduced in October has been criticized for further eroding environmental protection, including the exemption of energy pipelines from the Navigable Waters Protection Act, limiting coverage to only three oceans, 97 lakes and 62 rivers, or less than 1 percent of Canada’s waterways.

A coalition of groups, including the British Columbia Assembly of First Nations, David Suzuki Foundation and Ecojustice has urged that the bill not be passed.

The federal government has reportedly washed its hands of environmental assessments of 492 wide-ranging projects in British Columbia.

Coastal GasLink

Coastal GasLink was chosen by the LNG Partners — Shell, Korea Gas, Mitsubishi and PetroChina — and is

planned to initially carry 1.7 billion cubic feet per day of gas from the Montney region in northeastern British Columbia, with potential to expand to 4 bcf per day. Construction is scheduled to start in 2015, with completion due in 2018.

The Canadian Environmental Assessment Agency has a deadline of Jan. 3 to announce whether a review will be conducted.

A spokeswoman for the agency said that even if that option is eliminated “all applicable federal legislative, regulatory and constitutional requirements must be fulfilled.”

TransCanada documents show the pipeline would cross 320 watercourses, including the habitat of more than 100 species at risk, such as white sturgeon and woodland caribou.

TransCanada has also submitted the project description to the British Columbia government in advance of an official assessment by the B.C. Environmental Assessment Office — a prospect Langer scoffs at, telling the Vancouver Sun the province is “giving the green light everywhere” to projects, adding that its review process is too soft on industry. ●

Contact Gary Park through publisher@petroleumnews.com

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ENVIRONMENT & SAFETY

First Nations lose oil sands case

Two aboriginal groups in Alberta have been denied the right to make a constitutional challenge of Royal Dutch Shell’s proposed C\$12 billion expansion of its Jackpine oil sands mine and a new mine, arguing that neither the company nor the Alberta government had properly consulted or accommodated treaty rights.

The Alberta Court of Appeal rejected a bid by the Athabasca Chipewyan First Nation and the Metis Nation of Alberta that would have delayed work on increasing output from the existing mine to 300,000 barrels per day from 100,000 bpd in 2017 and add another 200,000 bpd from the Pierre River mine in 2018.

Shell filed applications for both projects in 2007, but the hearing has been delayed until now because of Canada’s drawn out regulatory process.

Justice Frans Slattery agreed with an earlier ruling by a review panel convened to hear arguments about the project that the aboriginal nations’ request to stall work was beyond its jurisdiction.

Slattery said that since the First Nations were given an opportunity to raise their objections to Shell’s project with the panel they could not issue a constitutional challenge.

Frustration with verdict

Athabasca Chipewyan Chief Allan Adam said his community was “pretty much frustrated” with the verdict.

“We anticipated the court would hear our arguments. The fact remains that there was a breach of protocol and the judge should have taken that into account,” he said.

“A project of this magnitude couldn’t possibly be in the public interest if our rights have not been upheld and we have not been adequately consulted. I don’t think the judge understands aboriginal law.”

see SANDS CASE page 11

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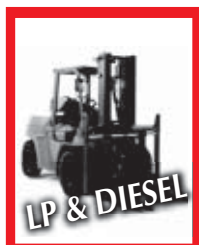
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FINANCE & ECONOMY

BP advances planned sale of TNK-BP stake

BP announced Nov. 22 it had signed “definitive and binding sale and purchase agreements” for its 50 percent stake in the Russian oil and gas company TNK-BP. The buyer is the state-owned Russian oil giant Rosneft.

BP will sell its interest in TNK-BP to Rosneft for \$17.1 billion in cash plus shares representing a 12.84 percent stake in Rosneft. BP will then use \$4.8 billion of the cash proceeds to buy an additional 5.66 percent stake in Rosneft from the Russian government.

“On completion, the net result of the overall transaction will be that BP will receive \$12.3 billion in cash and acquire an 18.5 percent stake in Rosneft for its stake in TNK-BP,” BP said in a press release. “When combined with BP’s current 1.25 percent shareholding, this will result in BP owning 19.75 percent of Rosneft.”

BP added: “Completion of the transaction is subject to certain customary closing conditions, including governmental, regulatory and antitrust approvals. The two companies still anticipate completion in the first half of 2013.”

BP will have two seats on Rosneft’s nine-person main board.

Moscow-based TNK-BP was formed in 2003 as a result of the merger of BP’s Russian oil and gas assets and the oil and gas assets of AAR, a consortium of Russian investors Alfa Group, Access Industries and Renova.

TNK-BP is the third-largest oil producer in Russia, with a diversified upstream and downstream portfolio in Russia and Ukraine. TNK-BP’s average daily production in 2011 was 1.987 million barrels of oil equivalent per day, BP said.

Rosneft, a fully integrated national oil and gas company, produced 2.45 million barrels of oil per day in 2011. Rosneftgaz is the state-owned parent company of Rosneft.

BP had reached a preliminary deal with Rosneft on Oct. 22, saying then it would negotiate toward a definitive agreement.

In a separate transaction, Rosneft also is buying AAR’s half of TNK-BP.

—WESLEY LOY

PIPELINES & DOWNSTREAM

U.S. backs XL: poll

A poll commissioned by the Canadian Association of Petroleum Producers has pointed to strong backing among Americans for Obama administration approval of TransCanada’s Keystone XL pipeline “as soon as possible.”

Conducted by Anderson Insight, the poll of 2,406 Americans found that 82 percent believes pipelines are a safe way to deliver crude to market, 72 percent back Keystone XL, 74 percent see Canada as the oil supplier best able to “serve the economic interest” of the United States and 89 percent think Canada is one of the more environmentally responsible oil producers in the world.

CAPP president Dave Collyer said the results show that Americans view Canadian-sourced crude as secure, a reliable source of supply, job-creating and economically beneficial to both countries.

“Canadian oil is the right oil for the United States, at the right time and from

see **KEYSTONE XL POLL** page 15

continued from page 4

BP CONTRACTING

posed administrative agreement that, if agreed upon, would effectively resolve and lift this temporary suspension. The EPA notified BP that such a draft agreement would be available soon.”

BP said it has made “significant enhancements” since the Deepwater Horizon accident. It has been implementing recommendations from an internal investigation, and has made key leadership changes and reorganized its upstream business. The company also has created a centralized safety and operational risk organization.

“In the two and a half years since the Deepwater Horizon accident, the U.S. government has granted BP more than 50 new leases in the Gulf of Mexico, where the company has been drilling safely since the government moratorium was lifted,” BP said. “BP is the largest investor and deep-water leaseholder in the Gulf of Mexico with more than 700 gross blocks and seven rigs currently conducting drilling operations.”

The company added that it has invested more in the United States than any other oil and gas company over the past five years. And BP noted it has spent billions to clean up the Gulf spill and to pay claims. ●

Contact Wesley Loy
at wloy@petroleumnews.com

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SANDS CASE

During hearings over the past month, the First Nations said the development would adversely affect their rights to hunt, fish and trap.

The Athabasca Chipewyan community has previously challenged the oil sands approval process, but failed either because it filed its legal action long after the approval process had ended, or did not have the resources to carry a challenge to conclusion.

Shell has defended its efforts to con-

sult with First Nations over the past 15 years.

Also making their case before the joint review panel of the Canadian Environmental Assessment Agency and the Alberta Energy Resources Conservation Board have been environmentalists and individual citizens, including the Oil Sands Environmental Coalition, an umbrella organization of three groups.

—GARY PARK

Contact Gary Park through
publisher@petroleumnews.com

GOVERNMENT

Itta named to Arctic Research Commission

President Obama has appointed prominent Barrow resident Edward Itta to the U.S. Arctic Research Commission, the federal agency that provides the president with reports and advice on arctic research. Itta, a member and past commissioner of the Alaska Eskimo Whaling Commission, was mayor of the North Slope Borough between 2005 and 2011, during which time he was at the center of negotiations between Shell and North Slope communities over Shell’s plans for Arctic outer continental shelf exploration.

Fran Ulmer, the current chair of the Arctic Research Commission, lauded the appointment.

“Edward Itta is a respected leader who knows the Arctic through a lifetime of first-hand experience,” she said.

And Alaska’s two U.S. senators expressed their support for the president’s choice of commission member.

“As mayor of the North Slope Borough, Edward demonstrated his ability to bring people together from all sectors of government, business and science to reap benefits — and I know he will continue to do so on a national scale for the USARC,” said Sen. Lisa Murkowski. “Selecting Mayor Itta is an excellent choice for a prominent position that grows more important with every passing month.”

Sen. Mark Begich said that he had recommended Itta to the White House.

“Edward Itta has been an excellent leader and voice for Native communities, always advocating for economic development while protecting subsistence,” Begich said. “His impressive resume of service to the North Slope Borough and his work with the whaling community will allow him to offer great insight to the commission. As the Arctic grows as a focus of resource development and research activity, Mr. Itta will be a critical voice for residents of the Arctic.”

The president has also appointed James McCarthy, a scientist specializing in marine systems and climate, to the commission.



EDWARD ITTA

—ALAN BAILEY

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PND selects Pickering as president, adds Nottingham

PND Engineers Inc. said Nov. 28 that John W. Pickering, P.E., M.B.A., was recently appointed as the firm's new president. Pickering has more than 35 years of professional engineering experience as a field and design engineer, construction manager and senior project manager, and has been with PND for more than 22 years. Pickering has managed many integral projects for PND and currently oversees PND's role as the civil design engineers for the Point Thomson Project on Alaska's North Slope. His areas of expertise include arctic engineering, transportation engineering, hydrology, environmental engineering, and conceptual engineering studies.



JOHN W. PICKERING



TODD NOTTINGHAM

In addition, PND Vice President Todd Nottingham, P.E. recently returned to the Anchorage office after spending 18 years with PND's Seattle Office. Nottingham has been with PND since 1986, and has worked primarily in the areas of marine structural design and bridge engineering. His recent projects include cruise ship docks, bulkheads, wave barriers, container terminals, and

bridges.

PND is a dynamic civil engineering firm with more than 100 full-time employees, more than half of whom are licensed engineers or surveyors. Founded in 1979, PND is headquartered in Anchorage with branch offices in Palmer and Juneau, Alaska, Seattle, Wash., and Fort Collins, Colo. PND is ranked among Alaska's largest engineering firms and many of PND's design solutions have received national awards and worldwide recognition.

Global Diving & Salvage Inc. recovers sunken fender

Global Diving & Salvage Inc. said Nov. 20 that in early March of 2012 the north fender on the Christy Lee oil platform, owned and operated by Hilcorp, experienced mechanical failure which caused it to plunge into approximately 80 feet of water in Cook Inlet. The fender structure mechanically raised and lowered with the tide to keep visiting tankers properly fended during



COURTESY GLOBAL DIVING & SALVAGE

see **OIL PATCH BITS** page 13

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

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HILCORP GROWTH

“That’s why we’re in the Cook Inlet,” Lalicker said. “We’ve bought the properties and now we’re starting to deploy capital against them and we’re running round that little circle.”

Lalicker said that, in terms of reserves, production rates and value, Hilcorp had doubled in size between 2006 and 2010, with the company having a target of doubling again by 2015. And having given each of its employees a new car as a reward for achieving that first five-year growth objective, the company has committed to pay each employee \$100,000 if the objective for 2015 is met, Lalicker said.

\$230 million

And as part of its efforts to achieve its expansion goals Hilcorp will have invested \$230 million dollars in the Cook Inlet basin by the end of 2012. Around half of that investment has gone into new development projects, with much of the remainder — about 38 percent of the total — paying for a major refurbishment of the old Chevron assets.

“A lot of our energy has gone into just fixing broken stuff, and frankly that will be the future for the next several years — there’s still a lot more broken stuff to be fixed,” Lalicker said, adding that this type of refurbishment is typical of what is involved in taking over big, old fields.

Examples of refurbishment include Hilcorp’s re-activation of the Drift River oil terminal on the west side of the Cook Inlet, an effort that has resulted in the resumption of normal operations for the shipping of oil from the west side to the east side of the inlet. Other refurbishment has included the fixing of shut-in wells.

About 2 percent of Hilcorp’s expenditure has paid for the disposal of what Lalicker characterized as “old junk,” including the old drilling rigs on the offshore platforms, some of which date back to the 1960s.

“We spent a fair bit of time scraping that stuff off this year and are working on getting the right equipment up here, so that we can do more drilling and workovers on those platforms to get the production up,” Lalicker said.

About 8 percent of total expenditure went on what Lalicker called “watching other people work,” in other words the oversight of activity at fields that Hilcorp owns but does not operate.

Hilcorp applies for Deep Creek survey

Hilcorp Alaska has applied to Alaska’s Division of Oil and Gas for a permit to conduct a 3-D seismic survey in and around the Deep Creek unit near Ninilchik on Alaska’s Kenai Peninsula. Deep Creek is a gas field that Hilcorp acquired in January as part of the company’s purchase of Chevron’s Cook Inlet assets.

The planned survey would cover an area of about 32,000 acres, including 19,000 acres of Deep Creek oil and gas leases. The survey area includes land owned by the State of Alaska, Cook Inlet Region Inc. and private landowners. In its permit application, Hilcorp says that it hopes to start the survey at the beginning of December and that it anticipates the survey taking 120 days to complete.

However, the public comment period for the permit application does not end until Dec. 21.

“All project operations will occur onshore, outside of marine and tidal environments, and during the winter season when frozen ground and/or snow cover will provide protection of environmental and other resources in the area,” the application says. “Access will be via existing roads and trails, where possible, and via helicopter where land access is restricted.”

The project will conclude by May 15, the application says.

Access straightforward

The survey will involve detonating small, underground explosive charges at depths of about 30 feet, with the charge holes plugged to prevent blowout and surface disturbance. Because of extensive logging and previous 2-D seismic surveying in the area, Hilcorp anticipates access to much of the area being relatively straightforward, although the company expects to have to clear some brush and small trees at some locations.

Track-mounted drilling rigs will drill the holes for the explosive charges, while access to the survey area for setting charges and laying geophones, the devices used to record subsurface echoes from the detonations, will be by tracked vehicle, helicopter and foot. Geophones will be laid at 220-foot intervals. Hilcorp anticipates using existing gravel pads for staging equipment and for fuel storage, the application says.

—ALAN BAILEY

Increased production

Hilcorp’s efforts have already borne fruit in terms of increased oil production in the fields that the company operates, Lalicker said. From January to early November production was up 8 percent at the McArthur River field; up 27 percent at Granite Point; up 36 percent at Trading Bay; and up 122 percent at Swanson River, according to a production graph that Lalicker presented.

The picture has been less rosy for natural gas production, with Hilcorp’s share of production down 11 percent at the Beluga River field; down 33 percent at Trading Bay; and down 6 percent at Ninilchik. But Hilcorp does not operate these fields: Gas production is up 102 percent at the Hilcorp-operated Deep Creek field, and is up 39 percent across an aggregate of smaller Hilcorp fields, most of them on the west side of the inlet, Lalicker said.

Marathon assets

Hilcorp is in the process of acquiring Marathon’s Cook Inlet assets, an acquisi-

tion that would bring the Trading Bay and Ninilchik fields to an effective 100 percent ownership by Hilcorp, Lalicker said. (Editor’s note: Marathon also operates the large Kenai gas field on the Kenai

Peninsula, as well as gas fields in the Cannery Loop, Kasilof and Sterling units).

Marathon agreed on the sale of its assets to Hilcorp in April but the sale has yet to complete.

“We are slogging through the approval process for that and we hope to have it closed either late this year or early next year,” Lalicker said.

Plans for 2013

Hilcorp expects to spend \$150 million to \$200 million in 2013 on the Cook Inlet assets that it already owns and another \$50 million on the Marathon assets, assuming that the Marathon purchase goes through, Lalicker said. The focus in 2013 will be oil production offshore and at Swanson River. The company also recognizes the urgent need for new gas production from the Cook Inlet basin and, given the longer execution time typical of offshore projects, has several onshore gas projects lined up.

“We’re feeling the pressure of getting gas ... and we’re working right now on it,” Lalicker said. “That’s why we’re focusing on the onshore side, because that’s where we can do it a deal faster than we can on the offshore side.”

Overall, Hilcorp feels excited about the opportunities it sees in the Cook Inlet.

“It has truly world-class reservoirs present ... that were huge producers 20 or 30 years ago, but really haven’t been worked that hard in recent years,” Lalicker said. ●

Contact Alan Bailey at abailey@petroleumnews.com

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OIL PATCH BITS

calls. The timeline for a prompt solution was critical, as delaying the arrival of tankers to the Christy Lee would subsequently result in substantial monetary loss.

Global, using sonar equipment to determine the exact location of the damaged fender concluded that there was sufficient water depth above the fender to allow the vessels to continue to call at the berth; however a temporary system would need to be devised in order to keep the platform operational.

Global developed a plan to install a temporary fender, successfully mobilized, fabricated and installed the temporary fender system in just over two weeks, three days prior to the arrival of the next scheduled tanker.

In July, Global remobilized to the platform to recover the sunken fender, subcontracting with Pacific Pile & Marine to provide a 500 ton crane. The 175.5 ton fender was lifted from the seafloor and loaded onto the barge and then transported to Nikiski, Alaska, for repairs and later returned.

The repaired system has been fully operational since mid-October.



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NATIVE OPPOSITION

by oral statements in Victoria, Vancouver and Kelowna in the new year before returning to Prince Rupert on Feb. 4.

The panel is scheduled to release its findings in the last week of December 2013, a deadline set by the federal government.

Whatever action needed

Along with their participation in the hearings, many First Nations have vowed to take whatever action is needed to prevent construction if Northern Gateway is approved and to take their fight to the courts.

A taste of what could be in store surfaced Nov. 21 when a handful of members from a First Nation evicted surveyors working on the C\$1 billion Pacific Trails Pipeline, a key link in the planned Apache-operated Kitimat LNG project, then seized equipment.

The group identifying itself as the Unis'tot'en clan of the Wet'suwet'en Nation said the equipment will be held until Apache agrees to introduce "appropriate lines of communication."

"The Unis'tot'en clan has been dead set against all pipelines slated to cross through their territories, which include (Pacific Trails Pipeline), Enbridge's Northern Gateway and many others," Freda Huson, speaking for the group, said in a statement.

"As a result of the unsanctioned PTP

work the road leading into the territory has been closed to all industry activities until further notice," she said.

No public negotiations

Apache Canada spokesman Paul Wyke told Petroleum News that some surveyors complied with a request by a "small group of members from the Unis'tot'en" clan to leave the traditional territory.

He said the pipeline project is supported by 15 of the 16 aboriginal groups along the pipeline route and consultations are ongoing with those communities.

But Wyke said Apache did not intend to seek a resolution of the problem by negotiating in public.

The eviction took place on land northwest of a deepwater port at Kitimat, where Kitimat LNG plans to build a liquefaction plant and tanker terminal. It is also the proposed site of a tanker port for Northern Gateway.

The Pacific Trails Pipeline received environmental approval in 2008 and was expected to be operational by 2015, but faces delays if Kitimat partners Apache, Encana and EOG Resources are unable to secure long-term sales contracts and find a new equity partner.

Wyke said a final investment decision on Kitimat LNG will occur after a number of milestones have been passed, including the settlement of sales contracts.

He said the partners have been "very encouraged" by the way the project is "moving forward."

Heated confrontations avoided

So far, the various LNG proposals have avoided the heated confrontations with First Nations that are dominating plans to ship oil sands crude from Alberta by Enbridge for Northern Gateway and Kinder Morgan for expansion of its Trans Mountain system.

Many aboriginal groups are basing their case on a benchmark ruling by the Supreme Court of Canada, requiring federal and provincial governments to engage in meaningful negotiations with First Nations before major industrial projects are allowed to proceed on Native lands.

First Nations dissent has now extended to southern Ontario, where two activists from the Six Nations group told the city council in Hamilton they are ready to engage in violent protest to block Enbridge's plan to carry 300,000 barrels per day of crude on Line 9 to refineries in Montreal and Quebec City.

"We are paying attention to what Enbridge is doing and we don't like it," said one of the activists, Wes Elliott. "If you think we can't do anything about it, you're badly mistaken."

Enbridge officials said the company has learned a lot and taken proactive safety and emergency response measures since one of its pipelines spilled 200,000 barrels of crude into Michigan's Kalamazoo River in 2010.

Enbridge advancing plans

Meanwhile, despite the fierce resistance to Northern Gateway and the looming challenge to Line 9, Enbridge is wasting no time advancing plans for other pipelines to get crude bitumen out of the Alberta oil sands.

It has announced an agreement with shippers to add another 570,000 bpd link within Alberta by constructing a 36-inch line between Edmonton and a pipeline hub at Hardisty in Alberta, plus more tankage and terminal facilities at Edmonton, downstream from the oil sands region, at a cost of C\$1.8 billion.

The new line will cover 110 miles, is scheduled for an in-service date of mid-2015 and will have the design potential for expansion to 800,000 bpd, Enbridge said.

An application is expected to be filed with Canada's National Energy Board later this year, targeting a construction start in the first quarter of 2014.

Stephen Wuori, Enbridge president of liquids pipelines, said Enbridge's objective

is to ensure it offers facilities and services to "maximize their value of shippers' crude oil."

The proposed link is part of Enbridge's wider strategy to deliver rising volumes of oil sands crude to refineries in Ontario and Quebec as well as U.S. markets on the Texas Gulf Coast, the Midwest and refineries in the eastern U.S.

Additional capacity on Line 9

Enbridge also announced it is filing with the National Energy Board to raise capacity to 300,000 bpd on its reversed Line 9 to carry crude from Western Canada and the Bakken into Quebec.

Vern Yu, vice president of business and market development for liquids pipelines, said the initial proposal to transport 240,000 bpd from Nanticoke, Ontario, to Montreal was "significantly oversubscribed," and has prompted Enbridge to consider a further expansion of Line 9 to 340,000 bpd.

He said the initial shipments would be primarily light crude to refineries owned by Suncor Energy and Valero in Quebec City, neither of which is designed to process heavier crudes.

He said Valero is considering moving crude by rail or barge from Montreal, but has asked Enbridge to consider extending the pipeline to Quebec City.

Yu said Enbridge has also filed an application with the U.S. Federal Energy Regulatory Commission seeking approval for the commercial underpinnings of its proposed Sandpiper project out of the North Dakota Bakken to carry 250,000-300,000 bpd from Fort Berthold to Superior, Wis. — a plan he said has solid backing from 20 shippers.

Enbridge is hoping to get a FERC go-ahead in the first quarter of 2013 and bring Sandpiper into service by late 2015 or early 2016.

Yu said Enbridge aims to build volumes on its total network to 3 million bpd from about 2 million bpd currently once its current basket of expansions, including increases to Alberta Clipper and Southern Access, and reduced bottlenecks in the Chicago area, is completed.

The consulting firm of Deloitte has estimated that Canadian producers are losing C\$25 billion a year from transportation bottlenecks. ●

Contact Kristen Nelson
at knelson@petroleumnews.com



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LNG PROJECT

it had completed the second phase of engineering on the project it launched with GVEA in August 2011. Having reached that milestone, the company now believes the Alaska Industrial Development and Export Authority and the Alaska Energy Authority should study whether the demand for LNG, outside of the amount Flint Hills intended to use, justifies the construction of a plant.

"We don't think that we would build the plant for our needs and the needs of other industrial users alone, so we will wait for AIDEA or AEA to do further investigation and present a proposal if they think that is appropriate," Brose said, adding Flint Hills would share its engineering studies with the state if it would help move the project forward.

GVEA told the Fairbanks Daily News-Miner it would continue pursuing the project, noting a 20-year gas supply agreement it signed with BP Exploration in September.

Improved efficiency

Under the August 2011 memorandum, Flint Hills and GVEA planned to build a liquefaction plant at the Prudhoe Bay unit and truck LNG down the Dalton Highway to a vaporization plant in North Pole, where the companies operate neighboring facilities.

By getting a natural gas supply "at cost," Flint Hills hoped to become more competitive and efficient, while GVEA hoped to be able to lower, or at least temper its rates.

With wide ranging Interior energy issues now being discussed at the state level, though, Flint Hills no longer saw the need to pursue a project for its narrow interests, Flint Hills Alaska spokesman Jeff Cook told Petroleum News. Internal changes over the past year have improved Flint Hills' operating efficiency, he said. Those changes include installing a heat recovery operation to maximize its energy use, and idling one of its two remaining processing units. Since the idling of unit No. 1, the remaining unit, No. 2, is now running at full efficiency, according to Cook. "We've improved our energy position," he said.

Even with the changes, Flint Hills is interested in natural gas, should it become available in the Interior at "competitive" prices, Cook said. Although the company would need to retrofit some equipment to accommodate the fuel, Cook described the changes as minor.

Could speed up project

In November, two Flint Hills sub-

sidiaries began permitting the \$183.6 million project. The filings outlined a system capable of delivering 29.5 million cubic feet of gas and 10,000 gallons of propane per day to the Interior over 20 years, starting in 2016. (When they launched the project last summer, the two companies projected a 2014 startup.)

The system would use 13,000-gallon long-haul trucks to deliver the fuel to the region.

The courtship between Flint Hills and GVEA promised to extend the mutually beneficial relationship between the companies at their neighboring facilities in North Pole. The Flint Hills refinery uses electricity produced by GVEA. The GVEA plant in North Pole runs on naphtha produced by Flint Hills (but was designed to also operate on natural gas).

It remains to be seen how Flint Hills' decision will impact larger efforts to coordinate the various proposals for bringing gas to the second largest population center in Alaska.

Before Flint Hills and GVEA signed their memorandum of understanding, Fairbanks Natural Gas LLC proposed a system to truck LNG from the North Slope. The local distribution company claims to be ready for construction, but wants to align its intensions with those of the largest potential consumers in the region, namely Flint Hills and GVEA.

Fairbanks Natural Gas and GVEA entities have been in talks, according to both sides.

Whether separately or together, both Fairbanks Natural Gas and GVEA have said they would seek state assistance on the project. But Flint Hills, in its statement, said it "has been and continues to be opposed to all government mandates and subsidies as they have reviewed the LNG project and never requested State assistance for this project."

Incoming GVEA President Cory Borgeson told the News-Miner the split could actually speed up the project. "We might be able to move faster. When you've got two parties working on things together, it takes longer to coordinate, come to consensus," he said.

State funding likely

The prospect of state funding promises to alter the project considerably.

Specifically, the Parnell administration wants any project it funds to be open-access and wide-ranging. "If state funds are used for a North Slope liquefaction facility, we will assure long-term access to that facility for other companies ... that want to purchase gas from producers and run it through there," Parnell told the industry during his keynote address at the

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KEYSTONE XL POLL

the right country," he said.

Canada currently exports 2.5 million barrels per day to the U.S. accounting for 25 percent of all U.S. imports and leading all external suppliers.

CAPP said that although the International Energy Agency forecasts U.S. crude production could exceed

Saudi Arabia's by 2020, the U.S. currently requires crude imports to achieve energy self-sufficiency.

It said that even with increased domestic production, the U.S. is projected to face a supply gap of 2.4 million bpd, which Canada could fill.

—GARY PARK

Contact Gary Park through publisher@petroleumnews.com

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TAPS TRANSFER

on Koch's interest to the other three companies. The application didn't disclose terms.

The companies moved for "expedited consideration," requesting a decision by Dec. 14.

In an order issued Nov. 21, the RCA noted that under law, it wasn't obliged to make a final decision on the joint application until April 22. However, the commission determined it could render a ruling by Dec. 14, noting the companies had said expedited consideration was "necessary in order to facilitate the continued operation and shipping capacity of TAPS and that expedited consideration will facilitate a year-end closing date, thus allowing the parties to focus on strategic priorities in the new year."

Unocal seeks to intervene

Unocal Pipeline Co. also is looking to transfer or sell its stake in TAPS. At 1.3561 percent, Unocal holds the smallest piece of any of the five owners.

Unocal is believed to be negotiating a sale and transfer of its operating authority to the three major TAPS owners: BP, with a 46.9263 percent interest; ConocoPhillips, 28.2953 percent; and ExxonMobil, 20.3378 percent.

While its own deal is pending, Unocal has taken a keen interest in Koch's pending transfer.

On Nov. 9, Unocal petitioned the regulatory commission to intervene in the Koch proceeding.

"As the current TAPS owner with the smallest ownership share, Unocal's interests are unique and cannot adequately be represented by any other party in this proceeding," Unocal told the commission. The company noted it was the only TAPS owner not a party to the joint Koch application.

"The Commission's decision in this proceeding may have a significant effect on Unocal because Unocal is also seeking to withdraw from TAPS," Unocal's petition said. "Therefore, the decision in this proceeding has the potential to affect the terms of Unocal's withdrawal from TAPS."

Koch on Nov. 16 filed an opposition to Unocal's petition to intervene.

Under RCA regulations, intervention is appropriate only in matters that involve a hearing, and an application to transfer operating authority does not require a hearing, Koch argued.

"Further, even if a hearing were required, Unocal failed to establish that its intervention would be conducive to the ends of justice," Koch told the commission.

Koch noted that the RCA "regulates each TAPS carrier as if it owns a separate pipeline."

As Unocal also is exiting the pipeline ownership group, Unocal has no interest in acquiring any portion of Koch's ownership share, Koch said.

The commission's decision regarding the Koch transfer application won't impact Unocal's pipeline stake or the disposition of its interest, "and thus Unocal has no interest in this docket that it needs to protect," Koch argued.

"This conclusion is reinforced by the fact that Unocal has not finalized the terms of its TAPS interest transfer," Koch added. "Unocal has previously indicated it may sell or transfer its TAPS interest to a third party, to one single TAPS owner, or to all remaining TAPS owners. Therefore, there is a reasonable possibility that Unocal's transfer will look nothing like (Koch's)."

"No hearing is necessary in this proceeding. Therefore, we deny Unocal's petition to intervene," the RCA's order said.

The regulatory commission already has granted both Koch and Unocal permission to suspend service on their shares of TAPS. Koch's sole shipper was Flint Hills Resources, a Koch subsidiary that operates a refinery near Fairbanks.

—WESLEY LOY

Contact Wesley Loy through wloy@petroleumnews.com



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IEA OUTLOOK

fuel efficiency measures in the transportation sector.

“The result is a continued fall in U.S. oil imports, to the extent that North America becomes a net oil exporter around 2030,” the IEA report said.

Further, under what the IEA calls its central scenario, the United States becomes a net exporter of natural gas by 2020, and is “almost self-sufficient in energy, in net terms, by 2035,” an IEA press release said.

The prediction that the United States will become the world's top oil producer by 2020 surprised many, and brought out a few skeptics.

The IEA describes itself as an autonomous organization working to ensure reliable, affordable and clean energy. It has 28 member countries, including the United States and Canada.

The prediction that the United States will become the world's top oil producer by 2020 surprised many, and brought out a few skeptics.

Analysts with Deutsche Bank were reported to have produced an investor note arguing the United States won't surpass Saudi Arabia as the No. 1 oil producer. They said U.S. policy restricting exports, coupled with sagging domestic demand for oil, could soften prices and discourage project development.

“The idea that the U.S. could overtake Saudi Arabia, even temporarily, is a stunning development after years of seemingly inexorable declines in domestic oil production,” wrote Kevin Bullis, senior editor for the MIT Technology Review.

As for the IEA's conclusion that the United States could be nearly energy self-sufficient by 2035, that's only after offsetting oil imports with exports of coal and natural gas, Bullis noted.

“To be truly energy independent,” he wrote, “the United States would have to invest in technology for converting natural gas and coal into the liquid fuels needed for transportation, or have other technical breakthroughs, such as improved batteries or biofuels, that would quickly reduce the demand for oil.”

—WESLEY LOY

Contact Wesley Loy
at wloy@petroleumnews.com

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LNG PROJECT

annual Resource Development Council meeting in Anchorage on Nov. 14.

While the LNG trucking project has been described as a way to bring the benefits of gas to Fairbanks, “if you look ahead beyond that, it's about gas for rural Alaska, it's about gas for the Richardson Highway. And that liquefaction facility could pull propane off and we could ship it then to communities along the river system,” Parnell said. “We could make that transition from diesel in the communities who feel they've been forgotten, who are not forgotten, but indeed could have that cheaper energy as well.”

One of the larger outstanding questions is how any partnership between the state, a private for-profit natural gas distribution company and a member-owned not-for-profit electric cooperative would be structured. Parnell said his administration would “continue working to utilize the private sector... to the extent we can, and where those are not working, then the state will propose public-private partnerships with private companies, perhaps through loans... financing, lower-cost financing to move the project along.”

Whether those goals could be met through conditional funding, or would require a state-owned project, could become clear when Parnell releases his budget on Dec. 15.

IANGU is a wildcard

As these efforts progress, a newly formed municipal utility is making its desires known.

The Interior Alaska Natural Gas Utility plans to ask the Parnell administration for \$200 million for a North Slope liquefaction plant operated under a “transparent, cost-based commodity pricing model,” according to the News-Miner. As Petroleum News went to print, the utility board had not yet formalized its request, according to a spokeswoman.

The utility partnership of the cities of Fairbanks and North Pole and the Fairbanks North Star Borough to expand gas use in the region also plans to ask for another \$200 million in grants and loans for a distribution system and to help homeowners convert their boilers, according to the News-Miner, but may table some of its requests until next year.

While the three municipalities formed the utility in October to address energy issues across the region, it plans to begin by focusing on the city of North Pole. “We're focusing on North Pole because it's the next most dense area outside the Fairbanks area, it's got the most air quality problems and it's the other end of town from the certificated area served by (Fairbanks Natural Gas),” the News-Miner quoted board member Bob Shefchik as saying. “It makes logical sense to start out there and work your way toward town.” ●

—Petroleum News Editor Kristen Nelson contributed to this article.

Contact Eric Lidji
at ericlidji@mac.com



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