Prep work begins at Kenai Loop

Shell plans to drill in Beaufort and Chukchi seas in 2012-13

Shell plans to drill exploration wells in both the Chukchi and Beaufort seas in the 2012 and 2013 summer open water seasons. The company plans to use the Noble Discoverer drillship to drill up to four wells per drilling season in the Chukchi and to use the Kulluk floating drilling platform to drill up to two wells per season in the Beaufort. Pauline Ruddy, Shell regulatory affairs team lead, told the National Marine Fisheries Service Arctic Open-water Meeting in Anchorage, Alaska, March 8.

The company plans to upgrade the Kulluk with improved emissions technology to meet clean air requirements, Ruddy said. Shell has previously made similar upgrades to the Noble Discoverer.

Ruddy said that the Chukchi Sea drilling will target the Burger prospect, a 25-mile-diameter structure that is known to hold a major natural gas pool some 80 miles offshore the western end of Alaska’s North Slope.

2011 plans

Shell has already deferred plans to drill in the Beaufort Sea in 2011, following the remand of its Beaufort Sea air quality permit see SHELL DRILLING page 22

No comfort in oil price outlook; dependence could disrupt recovery

The recent spike in oil prices, fueled by recent conflicts and violence in the Middle East, is bad news for U.S. energy supplies and likely will slow the nation’s economic recovery.

But a bigger worry is whether the unrest will continue and spread to engulf the entire Mideast region, said longtime oil industry observer Roger Herrera.

“I’ve not the slightest idea what will happen to oil prices in the short term. But beyond that, I don’t think we will ever be comfortable about the price of oil again,” said Herrera, who has spent more than 40 years observing oil prices, initially as a petroleum industry geologist who started his career in Alaska, and then working around the world, in places such as Peru, East and West Africa, Greece, Canada’s Arctic Islands, Colombia, Papua-New Guinea, Libya and Barbados before returning to Alaska in 1975, where he became involved in the federal politics of operating in the northemmost state. Herrera spent a lot of time in Washington, D.C., on issues such as offshore exploration and opening the 1002 area of the Arctic National Wildlife Refuge to energy

Repso takes 70%

Pace of exploration tied to tax changes; Armstrong heads up operations

By KAY CASHMAN & KRISTEN NELSON

Developer-based Armstrong Oil and Gas has done it again: Assembled an acreage position in northern Alaska and brought in a large partner to develop North Slope and nearshore Beaufort Sea prospects.

This time the partner is Spanish oil mega-major Repsol YPF and the acreage is the largest block yet — 2,000 square kilometers, or 494,211 acres, including everything Armstrong, bidding as 70 & 148 LLC, won in state area-wide lease sales in 2008 and 2009 south of the Kuparuk River unit, in the White Hills area and near the Oooguruk unit. All of GMT Exploration LLC’s northern Alaska acreage was also picked up in the deal. GMT is a Denver independent that Armstrong brought to Alaska in early 2010.

Exploration drilling on the acreage will begin next winter, per a March 7 press release from Repsol, which said it had agreed to “a broad-reaching exploration and development program,” with Repsol and Armstrong’s 70 & 148 “collaborating on all aspects see REPSOL page 24

Mackenzie bounces back

Aboriginal Pipeline Group president optimistic about fiscal deal with government

By GARY PARK

Suddenly, out of a gathering gloom, the Mackenzie Gas Project has reappeared, apparently full of vigor and hope.

The rallying cry came from Bob Reid, president of the Aboriginal Pipeline Group, who told a Calgary conference that the MGP’s corporate partners are set to resume talks with the Canadian government in hopes of reaching agreement on federal fiscal terms by mid-2011.

“We want to get back and get this thing done,” he said. “The north is truly ready and waiting.”

Reid told the Canadian Institute’s Arctic gas symposium that the federal cabinet is expected to give final regulatory approval to the project in March, opening the way to settle on a fiscal framework.

BP, Conoco feel left out

ExxonMobil, state wage private talks over Alaska’s disputed Point Thomson field

By WESLEY LOY

The state and ExxonMobil are continuing negotiations to try to settle the legal dispute over Alaska’s Point Thomson oil and gas field.

But dissension has emerged among the field’s major stakeholders, with BP and ConocoPhillips recently complaining they’ve been shut out of the negotiations.

Another owner, Chevron, lodged a similar complaint back in January.

ExxonMobil is the largest stakeholder and the designated operator for Point Thomson, a nonproducing field located along the Beaufort Sea coast next to the western boundary of the Arctic National Wildlife Refuge.

The companies are fighting state efforts to take away their leases and dissolve the Point Thomson unit. Alaska officials are trying to reclaim the state acreage because of a lack of production from the field, discovered in 1977.

Over the years, ExxonMobil has cited technical challenges and the lack of a North Slope natural gas pipeline as primary reasons why the field hasn’t been developed.

The Point Thomson dispute involves the highest of stakes. The field holds billions of dollars
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DC needs to recognize hydro as renewable

Rep. Paul Seaton: Alaska hydro needs exception; notes most House Resources amendments to HB 110 geared to smaller companies

By STEVE QUINN
For Petroleum News


Seaton, a Homer Republican, is co-chair of the Resources Committee, which approved several amendments designed to assist independent producers. Upon returning from Washington, Seaton sat down with Petroleum News to discuss the merits of his trip and the state’s oil tax system.

**Petroleum News:** How well attended was the conference?

Seaton: I was impressed that there were as many Alaskans as there were. There were I think 28 Alaskans and 14 Canadians. There were not that many others. There were three or four from Texas, a couple from Kansas, one from Louisiana and one from Mississippi and that was close to about it.

**Petroleum News:** Is that overkill or does it suggest urgency on Alaska’s part?

Seaton: I think it suggests other states are undergoing a severe economic decline. They did not participate from my understanding as they have in the past. I think people got quite a bit out of it, but it was a lot of the people we see a lot up here which was not as beneficial as seeing other folks and perspectives from around the country.

**Petroleum News:** You had additional priorities than the standard natural gas pipeline. What were they?

Seaton: One is that hydro power is not seen or not federally recognized as a renewable energy source. It was interesting that the FERC Chairman (John Wellinghoff) was able to identify the reason for that because it has been perplexing to us.

Where they are trying to establish renewable energy portfolios, if you count the existing hydro facilities those many states and areas have a high proportion from those old projects so it wouldn’t stimulate wind, solar, biomass, other renewable portfolios. So in my conversations with folks on the Hill, the FERC chairman suggested we look at new hydro projects.

What I suggested is we might look at water sources that didn’t have economic competition for the water so that if you had an area where you are talking about needing the water for population and for agriculture then you wouldn’t get into it where you try to move that water into energy production. If you have 200 sources up here in Alaska that aren’t being utilized for anything else then it could qualify as part of a renewable portfolio.

We’re just trying to think of other ways to have it apply nationwide so it’s not an Alaska carve out. Washington and Oregon have lots of streams and flowing water along the coast that doesn’t go to other things and those should be classified as well.

**Petroleum News:** What was the second priority?

Seaton: The laws of the sea convention. It extends our jurisdiction north especially into the Arctic and capturing that economic benefit for the United States and Alaska of the oil and gas potential in the Chukchi Sea beyond the 200 mile limit. We got good feedback. Sen. (Roger) Wicker (Mississippi) was addressing the Energy Council. I asked about it. He said we should extend all efforts to try and do that. He was thinking it would be the administration’s and secretary of State’s responsibility. We have to balance the desire of that economic benefit versus some potential sovereignty questions.

**Petroleum News:** So it’s not strictly a fishing issue?

Seaton: No it’s not. It’s the 200-mile limit and the extension of the continental shelf beyond the 200-mile limit if you can scientifically show you continental shelf goes beyond. That would be roughly estimated the size of California in the Chukchi Sea north of Alaska. The U.S. Geological Survey has estimated that 25 percent of the undiscovered hydrocarbon resources are in the Arctic. So that could be a huge economic boon to Alaska and the United States.

**Petroleum News:** Was there any pushback from people in Washington about anything happening in Alaska, like the gas line development or the state’s tax system possibly hurting resource development?

Seaton: The conversations I had were that they are hoping we proceed with (the gas line). They don’t know whether we will. They are supportive of oil. There is always an ANWR balance, however. There are individuals that well, if gasoline hits $5 a gallon, say there will be a push to get more national sources.

It’s interesting that the announcement by Repsol, how they are now 70 percent in with Armstrong, and the reason they are doing that is because they want to invest in OECD countries, those that are politically stable like us, Norway and other countries.

They want to enhance their portfolio in (areas) that are politically stable. Even as we, Norway and other countries have higher tax rates than some Third World countries, the political stability is very beneficial.

It’s interesting how they don’t list any problems with the tax regime. It’s this balance act we’ve been talking about: Where does Alaska fall in relation to where people want to invest? Here we see that our balance is good enough to get three-quarters of a billion dollars.

**Petroleum News:** With that in mind, is there a lot of discussion about what to do with the tax system, whether it’s changing the base rate, or progressivity (surcharge) or credits, or a little of each?

Seaton: I’ve been a little surprised that the media has looked at the things we changed in the bill when it was in House Resources as if those were just monetary pieces. We were specifically targeting new exploration and new fields, like having to spread your credits from two years to one year so companies coming into the area could get their money turned around quicker.

We also expanded the small producer tax credits. The first seven amendments House resources did were all targeted toward accelerating production on the North Slope. My big problem with the way HB 110 is that it gives huge tax breaks to the three producing companies without having any plans for development, enhanced or expedited, at all.

We’ve had three companies come forward and say we want to expedite development: Brooks Range, Great Bear and Armstrong. They all have projects they are actively engaged in, have permits for and they are not in (Juneau) saying they need a tax rate out.

They are saying that’s not what they need for development. What people have been missing is Great Bear says they need roads to resources. The only way you can have a build out in the scope in which Alaska wants — you know a couple hundred wells a year — is to have year-round roads. You can’t do it on an ice road. That is the way we can help that project the best.

**Petroleum News:** Is there an appetite for change in the tax system in this building?

Seaton: There is an intuitive sense that is what we need to do to fill the pipe. The proposal that comes forward doesn’t offer us any assurance at all of putting more oil...
Canada’s offshore faces change

NEB official predicts operators will have to show means to handle spills; final report to Canadian government likely in 2012

By GARY PARK
For Petroleum News

With an eye on parallel developments in the United States, Canada is making measured progress toward an overhaul of its 40-year-old laws and liabilities covering drilling in Arctic waters, aiming to complete the first of three phases by the end of 2011, an official with the National Energy Board told an Arctic gas symposium in Calgary.

Robert Steedman, the federal regulator’s environment team leader, said the current review is expected to result in “enormous” responsibilities being placed on operators to establish their “financial and technical capabilities” to handle spills.

The NEB was already engaged in updating its Arctic offshore safety and environmental regulations when it was blindsided by BP’s Macondo well blowout in the Gulf of Mexico, which added enormous responsibilities to the Canadian government to order a more comprehensive review.

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Steedman said the first phase involves fact finding and information gathering, with stakeholders given until April 1 to make their submissions.

Phase 2 to discuss those submissions is expected to commence in May and June with hearings scheduled in Inuvik and Yellowknife in the Northwest Territories, Whitehorse in the Yukon and Iqaluit in Nunavut.

The NEB’s call for a review attracted considerable attention to recommendations of the U.S. National Commission on the BP Deepwater Horizon blowout.

The final report of that commission in January urged a major reform of the industry and government approach to offshore drilling in the Gulf and Arctic.

It called for the U.S. government to persuade countries such as Canada, Russia and Norway to accept a common regulatory standard for Arctic drilling and ensure there is an international capacity to respond to blowouts.

The U.S. commission said the Macondo incident was not so much a case of one rogue company ignoring common safety standards as a failure by both government and industry to properly assess the risks as industry operations moved into deeper waters and harsher environments.

“The has been a culture of complacency that affects both government and industry,” said commission co-chair William Reilly, a former Republican head of the Environmental Protection Agency.

Although the U.S. panel did not call for an outright moratorium on drilling, it said much needs to be done to strengthen safety and response capability before major activity should proceed.

Critics of Canada’s offshore rules noted that last August a drillship contracted by Chevron Canada completed an exploration well in Newfounland’s Orphan basin — the deepest offshore well in Canadian history.

But current rules give Chevron two years from the well completion to disclose details about the design of the well, that equipment was in place to prevent a blowout and how that equipment held up in such uncharted depths.

Nathan Cullen, a Member of Parliament for the left-wing New Democratic Party, said the “coziness” between regulators and the industry in Canada is “so remiscent of the U.S. situation in the Gulf. The public has been left in the dark. But if you’re proud of your safety procedures, then clearly you’d want to tell the public about it.”

Canadian rules in place for 40 years

The NEB’s call for a review attracted about 90 registrations from oil and gas companies, provincial and territorial governments, labor organizations, non-governmental organizations, environmental organizations, communities, political parties and individuals.

While the NEB’s mandate covers technical and operational issues, the Canadian government is under extreme pressure to update rules that have been in place for 40 years, when the price of oil was about US$7 a barrel.

The liability cap under a same-season relief well policy — which itself is being questioned by Imperial Oil and ExxonMobil Canada as they develop plans to drill in the Beaufort Sea — is CS$40 million, a tiny fraction of the mar- ker capitalizations of Imperial, ExxonMobil, BP and Chevron, which hold deepwater acreages in the Beaufort.

But the liability caps are only modestly more onerous in the U.S. at US$75 million and the British North Sea at US$120 million.

Adding to the Canadian concerns is the loss of physical equipment and human knowledge since Beaufort Sea drilling went into sharp decline in the 1980s.

As far back as 20 years, a Northern Environmental Impact Review Board found there was a “starting lack of preparedness” by the Canadian government and Gulf Canada Resources (since acquired by ConocoPhillips) to deal effectively with a major oil well blowout during the open waters season.

An 82-page report by the board rejected an application by Gulf Canada because of a worst-case scenario that a well blowout could release 40,000 barrels per day for 15 days, resulting in 1.8 million barrels flowing into a wide area — seven times the volume released by the Exxon Valdez.

In a submission to the NEB, the British Columbia Investment Management Corp., which has assets valued at about CS$80 billion under its con-trol including shares of BP, said companies should be forced to drill simultane- ous relief wells when they are drilling deepwater wells in Canada.

The final phase involves presentation of a final report to the Canadian govern- ment, which is unlikely to happen until 2012.

Attention to Deepwater Horizon

Steedman said the NEB will pay special attention to recommendations of the U.S. National Commission on the BP Deepwater Horizon blowout.

First, the final report of that commission in January urged a major reform of the industry and government approach to offshore drilling in the Gulf and Arctic.

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The listing of animals threatened by warming climate hinges on how far into the future models can predict future climate trends.

**Climate models critical to ESA listings**

The listing of animals threatened by warming climate hinges on how far into the future models can predict future climate trends. This is because the Endangered Species Act (ESA) is designed to protect species from extinction due to human activities, and these activities can be influenced by climate change. The Intergovernmental Panel on Climate Change (IPCC) is used to predict future climate trends, but the timeframe for these predictions can be uncertain.

**Climate change**

The IPCC is a scientific body that assesses the state of knowledge related to climate change. The IPCC models are based on existing data and are used to predict future climate trends up to 2100. However, predicting far into the future can be challenging because climate change is a complex and dynamic process.

**ESA application**

The ESA is designed to protect species from extinction due to human activities. The act is intended to be very broad in its application and is intended to address all kinds of threats to species, including climate change. However, the act has had inconsistencies in the way in which it is being applied.

**Special ESA rules**

In some cases, the ESA has been applied to list species perceived to be at risk from climate change. However, there have been inconsistencies in how far into the future species are listed. For example, some species have been listed as threatened in the near future, while others have been listed as threatened in the far future.

**Environmental view**

The Center for Biological Diversity, an environmental group, has criticized the way in which the ESA has been applied in some cases. They argue that some species should be listed as threatened in the near future to ensure their survival.

**Polar bears**

Polar bears are an example of a species that have been listed as threatened in the near future due to climate change. The Arctic sea ice is shrinking faster than climate models predict, which is affecting the polar bears' ability to hunt seals. The ESA is being applied in some cases to list species as threatened in the near future to ensure their survival.
BOEMRE opts to assess Chukchi Sea spill

Action to add very large oil spill assessment to lease sale SEIS will delay resolution of appeal until at least late October

By ALAN BAILEY

Petroleum News


just as it appeared that resolution of an appeal in the Alaska District Court against the 2008 Chukchi Sea outer continental shelf lease sale might finally be in sight, the appeal case took a new twist March 4 when the Bureau of Ocean Energy Management, Regulation and Enforcement announced that it has opted to add a very large oil spill assessment to the supplementary environmental impact statement for the sale.

2010 court order

In July 2010 the court ordered BOEMRE to revise the original EIS for the lease sale in response to an appeal against the sale by the Native Village of Point Hope, the Inupiat Community of the Arctic Slope and 12 environmental organizations. And the court has banned Chukchi Sea lease related activities until the appeal is resolved.

Shell, ConocoPhillips and Statoil are all actively pursuing exploration programs in leases that they purchased in the 2008 sale but will not be able to carry out any drilling in their leases unless the court determines that BOEMRE has prepared a legally acceptable SEIS.

In the July 10 order Judge Ralph Beistline said that MMS, the predecessor agency to BOEMRE, had acted in an arbitrary manner in preparing the lease sale EIS by not considering the potential environmental impact of offshore natural gas development (as distinct from oil development), by not determining whether environmental information missing from the EIS was relevant or essential for consideration and by failing to present an assessment of the cost or difficulty of obtaining the missing information.

In October BOEMRE published a draft SEIS for public review, saying that the new SEIS had addressed the deficiencies that the court had listed in its July order. But, with BOEMRE subsequently receiving more than 150,000 comments on the SEIS, the agency has spent several months working on the document since the public comment period ended.

Response to public comments

But by conducting a new oil spill assessment in response to concerns raised in public comments on the draft SEIS, BOEMRE is going beyond the requirements of Judge Beistline’s order.

“Due to the Deepwater Horizon oil spill, many commenters requested an analysis that takes into account the possibility of a blowout during exploration,” wrote David Glazer of the U.S. Department of Justice in a status report submitted to the court March 4. “After reviewing those comments, BOEMRE has determined that it is appropri-ate to update its spill risk assessment and provide a very large oil spill (‘VLOS’) analysis from an exploration well blowout as part of this SEIS.”

BOEMRE now anticipates releasing a new draft SEIS by late May for public review, with the public comment period ending in early July and final record of decision on the new SEIS likely in late October, Glazer wrote.

The new oil spill analysis will “promote the agency’s decision-making on remand and aid any future environmental reviews and decisions” for Chukchi Sea leases, he wrote.

Shell evaluating situation

Shell is still evaluating the potential impact on the company’s 2012 plans for the Chukchi Sea following BOEMRE’s decision, Shell spokesman Curtis Smith told Petroleum News March 7.

“It’s fair to say that the announcement is extremely troubling and could potentially impact thousands of jobs, future energy security and the economic stimulus that would result from offshore development,” Smith said.

Smith said that Shell is particularly concerned that the new schedule for completion of the Chukchi Sea SEIS is inconsistent with what the court has ordered. Shell has already done significant oil spill scenario planning — the

see SPILL ASSESSMENT page 7

—ALAN BAILEY

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ESA LISTINGS

a special 4(d) rule allowing this species to be protected under the regulations of the Marine Mammals Protection Act and the Convention on International Trade in Endangered Species, with this rule being of particular benefit to the petroleum industry and to communities within the polar bear’s range. Fish and Wildlife also backed the ESA out of greenhouse gas regulation by implementing a 4(d) rule excluding activities outside the bear’s range from inciden-tal take considerations — without this rule any activity in the U.S. that generates greenhouse gases might be viewed as harassing polar bears.

But NMFS, the agency now facing the listings of multiple sea-ice-dependent species, has so far shown no inclination to introduce 4(d) rules of the type that Fish and Wildlife has introduced, Mason said.

“They’re going to be faced in the near future with having multiple species that are listed on the basis of loss of sea ice, and they’re going to have to wade into this (greenhouse gas regulation) question, unless … they put out their own 4(d) rule,” Mason said.

Continued on page 5

ESA VIEWS

the environmental lobby in several high-profile court cases, including the success-ful appeal against the U.S. Minerals Management Service 2007-12 outer contin-ental shelf lease sale program.

“What we’re trying to deal with here … is how to manage in a world of great uncertainty — how does that relate to specific decisions that people can get really frustrated with, especially if they’re project proponents, or just really challenged with if they’re agency employees, just trying to make reasoned decisions within the law,” Van Tuyn said.

The United States was the first coun-try in the world to establish a national policy, making the protection of other life on Earth a priority — history has shown that societies that protect their environments tend to thrive while those that do not tend to fail, Van Tuyn said.

But there is a near hysteria in Alaska over the use of the ESA, even although experience from the Lower 48 demon-strates that the cost of ESA compliance need not be high, Van Tuyn said. There have been relatively few determinations that planned activities will adversely impact protected species and, where an adverse impact has been determined, it has generally been possible to find alter-native, acceptable ways to conduct proj-ects, he said.

Alaska is home to an ancient culture and also has wildlife that is the envy of the world; the state has fisheries that earn billions of dollars per year; and tourists travel to Alaska to see natural bounty no longer seen elsewhere, Van Tuyn said.

—ALAN BAILEY

Consultation costs

A key provision of the ESA is the requirement for consultation with the appropriate regulating agency if an activity involving the federal government may impact a listed species (almost all industri-al activities in Alaska involve the federal government in some way). The regulating agencies have downplayed the potential costs of these ESA consultations, but industry has estimated that the cost of a consulta-tion could run to hundreds of thousands of dollars — companies have to go through the consultation process thoroughly or risk having projects stopped through litigation, Mason said.

And, for companies operating in Alaska, the designation of listed species critical habitat over wider and wider areas of territory is also causing major concern, with the designation of 187,257 square miles of polar bear critical habitat attracting particu-lar attention. The designation of critical habitat will create process related costs for people conducting projects and may pro-hibit certain projects, Mason said. The reg-ulating agencies have adopted a position saying that critical habitat designations do not have much impact beyond that of the ESA consultation requirements, but there is reason to believe that it is more difficult to carry out a project in an area of critical habitat than elsewhere, he said.

“There is the potential for critical habi-tat to effectively preclude certain projects from happening just by virtue of its exist-ence,” Mason said. “It becomes politically untenable for an agency to authorize certain projects within designated critical habitat, simply because it is critical habitat.”

Contact—Alan Bailey at abailey@petroleumnews.com

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Doubling up in Montney

South Africa’s Sasol matches pre-Christmas BC shale gas assets acquisition, evaluating GTL; partner Talisman says LNG exports option

By GARY PARK
For Petroleum News

SOUTH Africa’s petrochemical giant Sasol is expanding its natural gas interests in British Columbia to build feedstock for a possible gas-to-liquids plant, although its joint-venture partner Talisman Energy is not yet fully sold on that option. But Sasol has no questions about its commitment to the Montney shale gas play of northeastern British Columbia by committing C$10.95 billion to develop stranded gas.

The investment matches its original foray when it acquired a 50 percent working interest in Talisman’s Farrell Creek Montney assets, including land, wells and processing facilities, negotiating a similar stake in the Cypress Area resource 25 miles to the north.

Similar to the initial transaction, Sasol will pay C$250 million in cash at closing and C$600 million to fund 75 percent of Talisman’s future capital commitments to Cypress A. The joint-venture partners say they do not expect to start commercial output at Cypress A, which is less advanced than Farrell Creek, for several years, reinforcing Sasol’s strategy of accumulating long-term prospects.

Higher price for Farrell Creek

In a research report, Ticonderoga Securities estimated Sasol will pay C$3.7 billion per net acre for the Cypress lands compared with C$4.1 billion for Farrell Creek, which gave it an estimated 4.8 trillion cubic feet of net contingent resources. Cypress A covers 57,000 acres and holds an estimated contingent resource of 11.2 tcf.

CIBC World Markets analyst Andrew Potter said terms of the Cypress A deal “infers a valuation for Talisman’s Montney acreage of about C$7 billion, up C$5.5 billion from his firm’s valuation following the Farrell Creek deal.

Sasol and Royal Dutch Shell are the only companies that operate commercial-scale GTL plants, with Sasol running facilities in South Africa and Qatar and currently building another in Nigeria, with more developments planned for other countries.

Sassol operates a plant in Malaysia and is building the world’s largest GTL plant in Qatar.

Following the initial Sasol-Talisman deal, the two companies started a feasibility study that is expected to take 18 to 24 months of a commercial GTL facility in Western Canada, with the thought of producing premium-priced diesel, naphtha and jet fuel to meet a high demand in North America.

Sasol Chief Executive Officer John Manzoni said the Cypress A deal allows the partnership to “unlock the additional value (of the Montney play) and potentially accelerate development” of the Farrell Creek resources.

“Exploring the option of doing something other than simply sticking the gas into the North American pipeline network is potentially a hugely accretive option,” said Paul Smith, Talisman’s North American vice president.

He said the injection of Sasol capital, along with strong early drilling results, will help speed the pace of development from four production wells that were completed last year in Farrell Creek, where Talisman has four operated rigs and drilled another 17 gross operated wells. A piloting program, including 16 gross wells last year, is continuing at Greater Cypress and Greater Groundbirch, Talisman’s other major areas of interest in the Montney.

Equal weight to LNG

However, Mike Adams, Talisman’s senior manager of corporate projects and business development, told a gas symposium earlier this year that Talisman is giving equal weight to GTL and LNG as it ponders options for the Montney gas.

He said Talisman is interested in LNG “because it’s a way to monetize some North American gas” by taking advantage of anticipated growth over the next 10 years in Asian markets, where gas prices are indexed to oil and currently fetch about $12 per thousand cubic feet, compared with $4 in North America.

But Adams conceded the prospect of LNG exports from Canada faces obstacles, noting the Kitimat LNG project has to overcome First Nations concerns about the environmental impact as well as obtain Canadian government approval for exports.

On the plus side for GTL “you don’t have to know anything about the GTL technology to know when you have high oil prices and low gas prices the economics of this are enhanced. The bigger the gap, the better the economics,” he said.

Even though GTL technology exists and works, it is expensive and less efficient than LNG, he cautioned.

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The company has assembled a spill response fleet, including a purpose-built oil spill response vessel, and has committed to build an oil spill containment dome for its planned Chukchi Sea drilling.

The company has said that, because Chukchi Sea exploration wells will be drilled in shallow water into relatively low-pressure reservoirs, the Chukchi Sea drilling will be much more risky than deepwater drilling in the Gulf of Mexico.

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PETROLEUM NEWS • WEEK OF MARCH 13, 2011

7
Units may not work for resource plays

Shublik, Kingak, Hue shales extend across North Slope; lack of drainage may mean unit formation not needed for shale development

By KRISTEN NELSON
Petroleum News

Sen. Tom Wagoner, R-Kenai, co-chair of Senate Resources, has a bill in the Alaska Legislature which would provide credits for development costs against the first five years of production tax for new oil and gas produced from leases not in units at the end of 2008. Wagoner is pushing the credits as a way to get more oil in the trans-Alaska oil pipeline.

How would those credits apply to Great Bear Petroleum’s proposal for a resource play development on some 500,000 acres of state leases, an area where the company plans to produce from a nonconventional source, three source rocks or shales which stretch across the North Slope?

Current production in Alaska is from conventional sources, oil and gas in distinct pools. While the state has some production from individual leases, most is from blocks of leases organized into units. Pools and units may not apply to regional shale trends, the Senate units.

Great Bear Petroleum’s proposal for a regional shale play, the Shublik, Kingak and Hue or HRZ, was told Feb. 28. Commissioner Cathy Foerster said “these shales tend to just be regional trends that cover large areas.”

She said the commission looks for continuity and contiguity in a reservoir. If a credit under the proposed bill had already been granted to a producer in a regional shale play, it would be up to another producer to demonstrate to the commission that it had a new discovery and is not part of a pool already granted a tax credit. Foerster said. Most likely the commission would “put the burden on the operator to demonstrate to us scientifically that he is in a new pool.”

Something like a big fault could be proof of lack of contiguity, she said, and could establish that there couldn’t be flow from one side to another.

Co-chair Joe Paskvan, D-Fairbanks, asked if the HRZ, Kingak and Shublik were individual pools which could each run for hundreds of miles, Foerster said “yes” to both, the shales are individual pools and they run for hundreds of miles.

Foerster said the way the commission would interpret the bill is that “an operator would have to demonstrate to us they were in a new pool (to be eligible for the credit proposed in the bill). It could be those same — HRZ, Kingak and Shublik trends — but they would have to demonstrate to us that they were isolated.”

Department of Natural Resources Division of Oil and Gas Director Kevin Banks said that the way the bill is written, it appears that “if there were no faulting or discontinuities in the shale layer” penetrated by a discovery well “…it would mean that there would be no more credits offered to the other players that may be drilling into the shale prospects.”

Wagoner said his idea with the bill “is to generate activity to fill the pipeline or put more oil into the pipeline,” and he said he didn’t think they needed to be concerned with pool issues, because the HRZ is “entirely different than a pool of oil that’s caused by a trap.”


text continues...
Armstrong Oil and Gas has done it again: Assembled an acreage position on Alaska’s North Slope and near-shore Beaufort Sea and brought in a large partner to develop prospects.

This time the partner is Spanish oil mega-major Repsol and the acreage is the 462,646 acres Armstrong, bidding as 70 & 148 LLC, took in state-wide lease sales in 2008 and 2009 south of the Kuparuk River unit, in the White Hills area and near Doogarku in the near-shore Beaufort Sea. Some of GMT Exploration LLC’s northern Alaska acreage was also picked up in the deal. GMT is a fellow Denver independent that Armstrong brought to Alaska in early 2010. By PN’s estimates GMT held 31,565 net acres of the blocks picked up by Repsol, including a 25 percent interest in Armstrong’s White Hills acreage.

Exploration drilling on the 2,000 square kilometers, or 494,211 acres will begin next winter, per an early morning press release from Repsol, which said it had agreed to “a broad-reaching exploration and development program,” with Repsol and 70 & 148 “collaborating on all aspects of the program” and Repsol holding a 70 percent interest in the acreage.

Further, the Madrid-based company said it had committed to supplying “the investment necessary to explore and evaluate the economic viability of the resources contained in these blocks.”
Buccaneer starts work at Kenai Loop

Buccaneer Alaska has begun building a drilling pad and an access road for its onshore Kenai Loop No. 1 well on the Kenai Peninsula, the company announced on March 9.

The local subsidiary of an Australian independent plans to target the natural gas potential of multiple stacked pay zone possibilities at depths between 5,000 and 10,000 feet.

The company said it is permitting three drilling locations and hopes to spud in April. The field is located just north of the city of Kenai on the east side of the Cook Inlet basin.

Buccaneer is forecasting resource potential around 52 billion cubic feet of natural gas from the field, with initial flow rates between 5 million and 10 million cubic feet per day.

Kenai Loop No. 1 would be Buccaneer’s first well in Alaska. The company is also looking to buy a jack-up rig to drill several offshore Cook Inlet wells.

To fund those projects, Buccaneer recently announced plans to undertake a “shareholders purchase plan” to bring in as much as $16.6 million by issuing nearly 175 million shares.

—ERIC LIDJI
Statoil moves toward Chukchi drilling

Company has identified two prospects and plans to start site survey work, as well as reconnaitering possible pipeline routes

By ALAN BAILEY

Following a successful 3-D seismic survey in its Chukchi Sea leases in the fall of 2010, Statoil has identified “positive indications” from the seismic data and plans to take the first steps towards some exploration drilling, Statoil lead geoscientist April Parsons told the National Marine Fisheries Service Arctic Open-water Meeting in Anchorage, Alaska, on March 8.

The company has identified two prospects in its leases, naming one prospect “Amundson,” after the Norwegian explorer, and the other prospect “Augustine,” after the Alaska volcano, Parsons said. The prospects are about 150 miles west of Barrow, and about 100 miles offshore from the village of Wainwright, she said.

“These are our two primary prospect locations and we have identified some preliminary drilling locations,” Parsons said.

Statoil owns leases in partnership with Italian major Eni in the northern part of the Chukchi Sea, as well as owning a 25 percent stake in some ConocoPhillips-operated Chukchi Sea leases.

Initial surveying

As part of preparation for an exploration plan that includes the drilling of wells, Statoil plans to conduct site surveying and seabed coring during the 2011 open water season, Parsons said.

A survey vessel, the M/V Duke, will conduct about 2,500 line kilometers of shallow seismic surveys in the prospect areas, obtaining seafloor imagery and high-resolution bathymetry, and using the seismic to locate any shallow drilling hazards. The survey team will also collect some data along potential pipeline corridors from the prospects.

Any developments in the Chukchi, we feel, will have to be a cooperative effort between all of the operators here,” she said.

Core sampling

Statoil’s other 2011 open-water season activity will involve the M/V Fugro Synergy, a drillship equipped with dynamic positioning and echo-sounder capabilities, doing core sampling of the seabed at potential drilling sites, Parsons said. In addition to coring at Statoil sites, the team will do some coring at some potential ConocoPhillips drill sites, she said.

And depending on available time, the survey teams may collect seafloor samples for the investigation of ice gouging.

The survey vessels will mobilize from Dutch Harbor in the Aleutians on July 15, in preparation to be on site on Aug. 1; coring should start on Aug. 15. All work should be completed by early October but could continue through mid-November, Parsons said.

Statoil has started work on a plan of cooperation with North Slope communities and stakeholders, she said.

Karin Berentsen, Statoil’s Alaska HSE and stakeholder advisor, said that Statoil is negotiating a conflict avoidance agreement with North Slope whalers.

“Developments in the Chukchi, we feel, will have to be a cooperative effort between all of the operators here,” she said.

Contact Alan Bailey at abaily@petroleumnews.com

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Currently one of the 10 largest private oil companies in the world, Repsol is renowned for its expertise in natural gas, and its operations in more than 30 countries, Repsol is currently one of the 10 largest private oil companies in the world.

In early 2008, Repsol laid out a four-year strategic plan that included “selective aggressive exploration attitude up to the international stage.” Repsol’s decade-long focus on Latin America and North Africa brought it increased presence in OECD countries, with the State of Alaska believes the region is both oil and gas prime. Alaska Oil and Gas Conservation Commission well logs released last year suggest Chevron was targeting natural gas prospects in the Brookian formation.

Although North Slope natural gas is currently stranded because of the lack of transportations options, and the Alaska export market for LNG is jeopardized by the upcoming closing of the export terminal on the Kenai Peninsula, Repsol’s focus on global LNG and long-dormant rumors that it considered building a North Slope gas pipeline suggest that the company might be interested in gas resources as well as oil resources.

Repsol’s other state leases sit north of the nearshore Oooguruk unit, where Pioneer Natural Resources continues to expand operations, resource estimates and production rates.

The company included its Gulf of Mexico operations among five upstream projects in its strategic plan, alongside ventures in Brazil, Libya, Algeria and Peru. The company already holds acreage offshore Alaska, including a minority stake in federal leases in the Beaufort Sea and wholly owned federal leases in the Chukchi Sea.

Boosted exploration activities

By saying it “has significantly boosted its onshore and offshore exploration activities in the last five years” and by announcing a $768 million budget for Alaska, Repsol is suggesting that it plans to bring its aggressive exploration attitude up to the North Slope.

After years of partnerships and acquisitions, Repsol began focusing on exploration starting in the middle of the last decade. That strategy appears to have paid off. Since 2008, Repsol has made 35 discoveries on four continents, including 20 that it operates.

In 2009 and 2010, the company announced 15 discoveries, including four in the offshore Santos basin of Brazil, the Bucharin and Shenzhi prospects in the deepwater Gulf of Mexico and discoveries in North Africa, South America and off the coast of Spain.

By saying its new acreage “also helps increase the company’s presence in OECD countries,” Repsol was acknowledging its future role in increasing the company’s presence in OECD countries, Argentina, Bolivia, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

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Repsol first entered the Venezuelan market as the first national oil company of Argentina’s Grupo Petrolero in 1993 and later acquired a 30 percent stake in the country’s largest onshore oil field, Incahuasi. In 1999, Repsol acquired a 25 percent stake in the Tampico-Misantla field in Mexico.

Repsol recently planned to invest $10 billion in an Iranian natural gas venture, but pulled out last June amid international efforts to sanction the regime over nuclear issues.

In February, Repsol suspended Libyan operations following unrest in the North African country, cutting its 300,000-barrel per day output nearly in half, to around 160,000 bpd.

Repsol is placing its Alaska acquisition in the context of its other North American operations, particularly its recent exploration and production from the Gulf of Mexico.

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A federal judge has ruled it’s up to the state and federal governments, and not the court, to press a $92 million supplemental claim against ExxonMobil for the 1989 oil spill in Prince William Sound.

An oil industry critic and former university professor, Rick Steiner, in December sought permission to file an amicus curiae or “friend of the court” brief asking a judge to order ExxonMobil to pay the $92 million, which the state and federal governments had demanded directly of the company by letter in 2006.

Steiner said it was evident to him that the governments didn’t intend to pursue collection of the demand.

The governments jointly served ExxonMobil with a demand for $92,240,982 on Aug. 31, 2006. They did so under a civil settlement, struck in 1991, that not only required ExxonMobil to pay $900 million for the spill, but left the company liable for a later claim of up to $100 million under a “reopener” clause.

The governments said their $92 million reopener claim would go toward addressing unanticipated wildlife and habitat injuries from the spill.

To date, however, ExxonMobil has not paid the amount and argued in court that it has no further obligations. The governments, meantime, haven’t sued for the money as certain studies continue on questions such as whether attempts to clean up lingering oil are even advisable.

Steiner told Petroleum News he wasn’t surprised his amicus brief was barred, but was disappointed the judge didn’t simply order ExxonMobil to pay.

“Exxon has been clear it does not intend to pay the claim, and the governments have either lacked commitment or confidence in aggressively pursuing the demand for payment,” Steiner said. “As I argued to the court, the singular question in all of this is what is in the highest and best interest of assisting with full ecological recovery from the spill. Clearly with that as the standard, the court should have ordered the full payment plus interest.”

Judge defers to governments, ExxonMobil

Alaska industry watchdog Steiner denied in request for $92 million ‘reopener’ payment to address residual harm from 1989 oil spill

By WESLEY LOY

For Petroleum News

The Porcupine caribou herd is flourishing

A photo census carried out in July 2010 has shown that the Porcupine caribou herd, the herd that roams northeastern Alaska and the Yukon, Canada, has grown to an estimated 169,000 animals, the Alaska Department of Fish and Game announced March 2.

“There’s no doubt the herd has grown since 2001. People on both sides of the Alaska-Canada border are pleased,” said Jason Caikoski, assistant area biologist for northeast Alaska.

Caribou form an important resource for people living in the area used by the Porcupine herd.

Much of the aerial photos used for the survey were of good quality and the survey team accounted for all active radio collars in the herd, thus making it likely that few caribou were missed, Caikoski said. Similar surveys between 1992 and 2001 had documented a decline in the herd size to 123,000 animals from a size of 178,000 in 1989. But unfavorable weather conditions, problems with caribou movements and the poor aggregation of the herd resulted in the failure to complete any surveys between 2002 and 2009.

Caribou of the Porcupine herd calve on the coastal plain of the Arctic National Wildlife Refuge.

—ALAN BAILEY

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ENVIRONMENT & SAFETY

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ACMP hearings begin in Legislature

Alaska Coastal Management Program terminates July 1 without action; bill to extend program heard; audit reviews program since changes

By KRISTEN NELSON
Petroleum News

The governor’s bill to extend the Alaska Coastal Management Program beyond its July 1 statutory termination came up for a first hearing in House Resources.

The March 7 meeting was an overview of the program — and an opportunity for legislators to express their displeasure to Randy Bates, director of the Division of Coastal and Ocean Management, which runs the coastal management program.

Local coastal districts have been unhappy with changes the Legislature made to the program under the Murkowski administration, and legislators from coastal areas have been trying to get consensus to make changes in the program for several years.

Bills which have been introduced so far this session — the governor’s House Bill 106 and its companion Senate Bill 45, and SB 56 by the Senate Finance Committee, address only extending ACMP. The Senate Finance bill proposes a one-year extension; the governor proposes a six-year extension, and a recently completed audit by the Division of Legislative Audit recommends a four-year extension.

Alaska participates voluntarily in the federal coastal zone management program through ACMP, allowing the state a voice in federal permitting activities within the state’s coastal zone and on the outer continental shelf.

Statutory revisions to the ACMP in 2003 and 2005, and regulatory revisions in 2004, made substantial changes in the way the program operates. Local enforceable policies were limited, the Coastal Policy Council was eliminated and the Coastal Program’s continued existence and recommended either the repeal of the sunset now in statute or, “if another program evaluation is preferred,” a four-year extension of the program.

In the first part of the audit, released in December, the division said regulatory changes have limited the ability of coastal resource districts to establish enforceable policies for local concerns.

“The audit found that this has been a positive change from the perspective of industry, but has disadvantages from the perspective of coastal resource districts, which are concerned that gaps in DEC statutes and regulations cannot be resolved due to the revised ACMP statutes and regulations prohibiting coastal resource districts from creating enforceable policies over air, land, and water quality issues under the authority of DEC.”

Coastal resource districts also said that DEC control of land, air and water quality issues “eliminates the collaborative opportunities among coastal resource districts, applicants, and resource agencies to determine if an activity will have an adverse impact on coastal uses and resources.”

The audit recommended that DNR “develop proposals to re-integrate DEC permitting processes into the ACMP process while maintaining the benefits of allowing the processing of complex DEC permits to run concurrently with the ACMP consistency review.”

The December portion of the audit recommended that the 2003 statutory and 2004 regulatory changes to ACMP “have not reduced Alaska’s rights under the CZMA. The State still has and does take advantage of its rights to weigh in on federal permitting to occur concurrently rather than consecutively.”

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PIPETLINE & DOWNSTREAM

Union Oil wants to use Kustatan storage

Chevron is seeking permission from the Alaska Oil and Gas Conservation Commission for Union Oil to use tanks at Cook Inlet Energy’s Kustatan facility to store oil from the Trading Bay and McArthur River fields.

The company said in a March 2 letter that there are two 10,000 barrel tanks not presently in use which could store a portion of Trading Bay and McArthur River crude oil; the oil would then go into the Cook Inlet Pipe Line for delivery. The Union Oil crude would be stored in tanks 133 and 134, which would be separated from the remaining tanks at the facility by means of valves and seals. Those tanks are presently empty, as is the line from the tanks to Union’s Trading Bay production facility.

Oil shipments to Kustatan would take place between tanker loading events.

Storage formerly at Drift River

Oil was formerly stored at the Drift River Terminal prior to loading, but that facility was closed in 2009 following volcanic activity at Mount Redoubt which sent mud flows down Drift River, raising concerns about the nearby storage facilities. Oil is now sent directly to the Christy Lee platform for tanker loading.

In a related letter to the commission, Cook Inlet Energy requested permission to comingle production from its facilities at West McArthur River and Redoubt at Kustatan, using tanks 142 and 135.

AOGCC has tentatively scheduled a public hearing for April 14, but said it may issue an order without a hearing if it receives no hearing requests. The commission will accept written comments on the application through April 11; if a hearing is held, it will accept comments through the end of the hearing.

—KRISTEN NELSON

PIPETLINE & DOWNSTREAM

Alyeska sues federal safety regulator

Operator of trans-Alaska oil pipeline argues PHMSA levied ‘excessive’ fine for alleged violations, requests $173,000 refund

By WESLEY LOY

The operator of the trans-Alaska oil pipeline is suing its federal regulator in a bid to defeat a $263,000 fine. In a lawsuit now pending in Alaska’s federal court, Alyeska Pipeline Service Co. argues the fine is excessive and arbitrary.

The suit is against the U.S. Department of Transportation’s Pipeline and Hazardous Materials Safety Administration.

The agency issued a final order against Alyeska on Jan. 13, 2010, alleging the company committed two violations of pipeline safety regulations.

First, Alyeska was too slow to obtain a vendor’s full report on a 2004 pig run on the 800-mile pipeline, PHMSA said. A pig is a device that travels through a pipeline to test for hazards such as corrosion.

Second, Alyeska failed to promptly repair a dent discovered during the summer of 2004 on top of a buried segment of pipe near mile 546. The dent, which had metal loss, wasn’t repaired until June 2005, the agency said.

Alyeska is an Anchorage-based consortium that runs the pipeline for owners BP, ConocoPhillips, ExxonMobil, Chevron and Koch Industries.

Alyeska’s arguments

Originally, PHMSA imposed a civil penalty totaling $350,000. But after Alyeska contested the allegations and requested a hearing, which was held on Jan. 18, 2007, the agency trimmed the amount to $263,000.


The suit contends the $173,000 penalty assessed for the pigging violation is “excessive in light of PHMSA’s past enforcement practice against Alyeska and other entities.”

Alyeska also complains that the agency didn’t issue its final order until almost three years after the hearing, thus violating a federal regulation requiring that such orders be issued “expeditiously.”

Alyeska further argues that PHMSA’s final order is “unsupported by substantial evidence.”

Alyeska also argues that the suit asks the court to enjoin PHMSA from enforcing the order, and require the agency to return the $173,000 that Alyeska already has paid under protest.

In answer to the lawsuit, PHMSA argued the $263,000 civil penalty is “just, reasonable, and appropriate.”

Contact Wesley Loy at wloy@petroleumnews.com
TRANSPARENCY OF THE CONSISTENCY REVIEW.

TRANSPARENCY

In part 2 of its audit, released in January, the Division of Legislative Audit said ACMP’s “is operated openly and transparently in many ways,” but is lacking in certain aspects.

DCOM does not generally record working group meetings and does not keep participants actively informed about the status of the ACMP reevaluation, the audit said.

In a Feb. 4 response to the audit, DNR Commissioner Dan Sullivan said participating working group members and coastal district coordinators had agreed to the policy of not recording working group or coastal district meetings and said the meetings are not subject to the same public notice and meeting minute requirements as prior to the 2003 legislative changes when the Division of Governmental Coordination (in the Office of the Governor) was performing functions on behalf of the Coastal Policy Council.

Sullivan said the assertion that DCOM has not kept participants informed is inaccurate.

“DCOM has held monthly meetings of the working group and coastal districts to address any issue a participant would like addressed,” he said, adding that DCOM actively advised meeting participants of the status of the reevaluation, while DCOM staff made individual and personal contacts with various ACMP participants including all active district coordinators.

THE CONSULTANTS ISSUE

The audit said DCOM’s policy regarding consultants disregards coastal district autonomy.

This is an issue that Bates discussed in some detail in his Feb. 24 letter to Reps. Foster and Herron. He said that for DCOM to successfully implement ACMP requires direct contact with each of the participating entities, and while DCOM encourages districts to employ consultants for many tasks it “does not allow a consultant to be a district’s official point of contact during a consistency review.”

Bates said this has been an issue in one of the four coastal resource service areas.

The audit concluded that DNR is an appropriate agency to manage ACMP, but said that the ACMP’s other two resource agencies, DEC and the Department of Fish and Game, have missions similar to DNR and “could be appropriate agencies as well.”

And, because of the coordination functions that are critical to ACMP, “the Office of the Governor could also be considered an appropriate location for the ACMP.” The agency was formerly housed in the governor’s office.

The audit found that in general changes to the ACMP have centralized decision making and lessened consensus building among review participants.

Since the elimination of the Coastal Policy Council, the DNR commissioner now has sole responsibility for approving coastal district management plans and reviewing consistency determinations elevated to him.

“New centralized decision-making has been criticized for lacking impartiality and local representation,” the audit said.

“However, a perceived weakness of the CPC was that sometimes the local members well not well-informed.”

LAND & LEASING

DN R terminates Cosmo unit and leases

The Alaska Department of Natural Resources has terminated the Cosmopolitan unit. Unit operator Pioneer Natural Resources voluntarily relinquished the offshore Cook Inlet unit earlier this year after well results discouraged the Texas independent from pursuing development. The unit agreement required Pioneer to drill a well there by Jan. 11, 2011.

The DNR also terminated five state leases at the unit — ADL 384404, ADL 387102, ADL 389230, ADL 389525 and ADL 389526. Pioneer kept two other leases — ADL 18790 and ADL 384403 — held by wells certified of producing in paying quantities.

Pioneer must still submit a plan of development for those leases by March 1, 2012.

The DNR also noted that the unit termination does not relieve Pioneer from its obligations into the Cosmopolitan unit agreement and lease agreements to “remove all machinery, equipment, tools and materials, and to restore the surface of the lease area.”

—ERIC LIDJI

ENVIRONMENT & SAFETY

State sues over habitat designation

The State of Alaska filed suit March 9 against the U.S. Fish and Wildlife Service over its designation of 187,157 square miles of critical habitat for the polar bear.

The Alaska Oil and Gas Association had filed suit March 1 over the designation and a coalition of Alaska Native groups have given the required 60-day notice that they intend to sue over the recovery plan for polar bears.

The state gave notice of its intent to file suit on Dec. 21, it is challenging the decision to list the bears as threatened in a separate suit.

“We already have a comprehensive state of state laws, the federal Marine Mammal Protection Act and international agreements that provide strong conservation measures for polar bears,” Alaska Gov. Sean Parnell said in a statement.

“The additional regulations, consultations, and likely litigation that would be triggered by this habitat designation would simply delay jobs, the state contends in its lawsuit. “The Fish and Wildlife Service disregarded federal law by including geographical areas in the designation in which there is little or no evidence of physical or biological features essential to conservation of polar bears. An example, the state said, is the inclusion of Norton Sound as critical sea habitat even though mapping does not show the area even within the range of polar bears.

The state is also concerned with the apparent motive to designate the entire geographical area that could be occupied by the polar bear, rather than only those areas critical to its survival.

Polar bears were declared a threatened species by the U.S. Department of the Interior in 2008 due to diminishing sea ice.

—PETROLEUM NEWS

Laptops for Foster Kids

Do you have an extra laptop you’d be willing to part with? No, I’m not adding to my own stockpile of consumer electronics or trying to strike it rich on the pawn shop circuit. Rep. Les Gara is working with Facing Foster Care Alaska to collect laptops for foster youth.

Laptops are a critical tool for foster kids to keep up with schoolwork and stay connected with family and friends while they are moved to different homes and schools.

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

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

For more information, or to donate a laptop, please contact either Rep. Gara’s office at (907) 465-2647, or Amanda Metivier at Facing Foster Care Alaska at (907) 230-8237.

Laptops are a critical tool for foster kids to keep up with schoolwork and stay connected with family and friends while they are moved to different homes and schools.

Polar bears were declared a threatened species by the U.S. Department of the Interior in 2008 due to diminishing sea ice.
AOGCC issues permit for North Tarn well

The Alaska Oil and Gas Conservation Commission issued a permit on Feb. 16 for Brooks Range Petroleum Corp. to drill the North Tarn No. 1 exploration well. North Tarn No. 1 will likely be the only exploration well drilled on the North Slope this winter.

The Alaska-based independent plans to start drilling the 6,300-foot well in March from a site some two miles west of the Kuparuk River unit using Nabors rig 9ES. North Tarn No. 1 will test targets in the Brookian formation and the deeper Kuparuk formation. The Brookian is the same formation producing at the Tarn satellite to the south, while the Kuparuk is the main formation producing at the Kuparuk River unit.

BRPC estimates that the Brookian reservoir could contain some 35 million barrels of oil and that the Kuparuk reservoir could contain an additional 6 million barrels of oil. BRPC is the operating arm of the Kansas-based Alaska Venture Capital Group and operates a joint venture with partners TG World Energy and Ramshorn Investments.

—ERIC LIDJI

BP probation hearing delayed until fall

Federal prosecutors plan to gather spill evidence in summer on Alaska’s North Slope to support allegations against oil company

By WESLEY LOY
For Petroleum News

A
n evidentiary hearing planned for late April on BP Exploration (Alaska) Inc.’s alleged probation violations has been rescheduled for September. A federal judge granted the delay at the request of the U.S. attorney’s office. In a Feb. 24 court filing, prosecutors said putting off the hearing would allow for summer field work on the North Slope to collect additional evidence.

BP Alaska was put on probation for three years after pleading guilty to a misdemeanor violation of the Clean Water Act in connection with a major pipeline leak in 2006 in the Prudhoe Bay oil field. Near the end of the probationary period, in November 2010, the company’s probation officer, Mary Frances Barnes, petitioned the court to revoke BP’s probation due to violations.

The violations center on an incident in November 2009 when a pipeline carrying a mix of crude oil, produced water and natural gas from wells to the Lisburne Production Center ruptured, discharging about 13,000 gallons of oil plus some water onto the tundra. Ice or hydrates formed and expanded inside the 18-inch line, causing overpressure and a rupture, Barnes said.

BP failed to follow preventative measures and failed to respond to persistent warning alarms, constituting criminal negligence, she said. BP has denied violating its probation. If the allegations stick, the company could face more probation and millions of dollars in fines.

An evidentiary hearing was scheduled to begin April 25 and last three to five days. But federal prosecutors asked the court to delay the hearing for several months.

“The United States seeks a continuance to the first week in September 2011 in order to collect additional evidence to establish that the spill at issue in the Petition to Revoke Probation occurred to a water of the United States for purposes of Clean Water Act jurisdiction,” the government’s Feb. 24 motion said. “The evidence necessary includes samples of the soil and plants as well as the hydrological flow at the location of the spill. These samples and the hydrological flow can only be obtained during the growing season on the North Slope, which does not start until June. Once the samples are collected, and the hydrological flow monitored, time will be needed to analyze the evidence.”

BP did not oppose the delay, and the hearing is now set to begin on Sept. 6.

Contact Wesley Loy at wloy@petroleumnews.com
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Solstice Advertising names Bowman client insights

Solstice Advertising, an Anchorage-based full-service advertising agency, said March 7 that it began a significant expansion last fall and is pleased to announce the expansion is still happening and now includes Kathleen Bowman as client insights to help lead a team approach to client satisfaction. Bowman brings more than five years of experience in marketing, business strategy and client services to Solstice. Originally from the Kenai Peninsula, she moved out of state to earn her undergraduate degree in marketing from Colorado State University. Afterward, Bowman worked in London, England, for a cutting-edge B-based company before returning to Anchorage to receive her MBA from Alaska Pacific University. Having worked with hundreds of clients, Bowman is a multitasking guru and brings with her a full spectrum of marketing tools to meet clients’ needs.

Calista Heritage Foundation focused on scholarships

Calista Corp. said March 1 that it has selected Debra Call as the first president and CEO of the newly formed Calista Heritage Foundation, an organization focused on scholarships and internship opportunities for postsecondary students, plus programs and services for Elders. The Calista Heritage Foundation is the evolution and replacement of two programs, the Calista Scholarship Fund and the Calista Elders Council.

“Call’s experience and vision will benefit the Calista Heritage Foundation,” said Calista Corp. President Andrew Guy. “While guiding the leaders of tomorrow with scholarships and internship opportunities, she will help preserve the culture of the Calista region with assistance from our Elders.”

Call recently served as the Alaska Native Heritage Center’s vice president of operations and human resources. She also promoted workforce development as the Alaska Native program manager with Alyeska Pipeline Service Co. Call earned a Masters in Business at Washington State University. The scholarship program was formed in 1994. Since then the scholarship program has gathered over $5 million in total funding through donations and special events, including a $1 million donation by Calista in 2009. In 2010 more than 300 scholarships were awarded.

Schlumberger introduces its new PowerDrive Archer

Schlumberger said March 1 that it has released its new PowerDrive Archer high build rate engine.

Solstice Advertising: Kathleen Bowman

KATHLEEN BOWMAN
Keep reading here.

continued from page 3

SEATON Q&A

in the pipe.

Petroleum News: How do you explain the production forecast dropping more than 190,000 barrels from the time ACES was first proposed until now? Do you see a connection?

Seaton: Not between that and taxes, not at all. There is none. You go through and look at what’s our production going to be and something is delayed, then that is lowered production.

When we went to a profits tax we did so because companies were not investing as much in Alaska as we thought they should. That’s what the profits tax was created to do. If you reinvest your money here, you don’t have to pay taxes on it. If you take it to Bolivia or Indonesia, you’ll have to pay on the profits. It’s going to cost you money to take it out of Alaska. It has worked. The question is has there been the level of reinvestment that we want? No. Is there more investment than there was previously? Yes.

That’s the data the Revenue Department came up with. Maybe some of it was maintenance. Maybe it wasn’t all drilling well. You can always question the data. But the one thing you can say is that there is more investment now and the investment didn’t occur before.

Petroleum News: So what is the answer to getting more investment and filling the pipe?

Seaton: I think we are getting it. You have to have projects. You have to have someone proposing projects. We have seen projects proposed that were slowed down or didn’t happen because of the tax rate. You’ve got Point Thomson which is a disputed unit; you have CD-5, which didn’t go forward because of the U.S. Corps of Engineers and building the bridge over the (Colville) River; you have Liberty, which was supposed to come on and be drilled, but BP is reassessing the capacity of the rig to do it safely.

Every single project that has been delayed can be identified with a specific reason that has nothing to do with the tax rate. Where do you see BP, Conoco or Exxon saying here is a project that we would do if you had different tax rates? They have no plans of development the table. The people who have put plans of development on the table are Great Bear, Armstrong and Brooks Range. They all have put money in and leased land. I just want to make sure we direct our state resources to the projects that are on the table, that are being proposed. Hopefully, they will be successful. But giving away state resources without any assurance that there is even a plan to accelerate development doesn’t make sense.

continued from page 20

OIL PATCH BITS

rotary steerable system. The system delivers well profiles previously possible only with motors, and with the ROP and wellbore quality of a fully rotating RSS. The system can drill complex 3D trajectories and openhole side-tracks from any inclination. It can drill vertical and horizontal sections, in one run, with no flat time for trips to change the bottomhole assembly. “The unique PowerDrive Archer system has repeatedly and consistently drilled high-build rates during field trials in many formations, some well exceeding 17/100 ft./hr,” said Andy Hendrickson, president, Schlumberger Drilling & Measurements. “This unique technology maximizes reservoir exposure, reduces risk and increases potential hydrocarbon production.” The control unit comes from PowerDrive WX RSS, which allows a wider operating envelope and provides greater reliability. All PowerDrive Archer external parts rotate, reducing the risk of mechanical or differential sticking and improving wellbore quality for easier well completion. More information visit www.sulb.com.

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

Federal Jury convicts environmentalist

By CHI-CHI ZHANG

Associated Press Writer

Environmental activist Tim DeChristopher knew what he was doing when he made $1.8 million in false oil and gas drilling bids at a federal auction in Utah. He knew he couldn’t possibly pay for them. And he knew he could end up behind bars.

But he did it for the cause. On March 3, a Salt Lake City federal jury convicted him on two felony counts of interfering with and making false representations at a government auction. He now faces up to 10 years in prison and a fine of $750,000 at his June 23 sentencing.

The 29-year-old made the bids to run up the price of 13 oil-and-gas leases near Utah’s Arches and Canyonlands national parks and push the land beyond the reach of buy-

ers.

But in the end, he lacked the ability to cover his bids. DeChristopher, who was unprepared and was convicted as the verdict was read, looking small emotion. Supporters, who filled more than half the courtroom, gasped and cried.

“Nobody told me this battle would be easy,” he later told more than 50 fellow activists on the courthouse steps. “It was a case that became a cause célèbre among avid supporters and Hollywood celebrities such as Robert Redford and Daryl Hannah.

The trial drew colorful courtroom demonstrations by hundreds of supporters.

On the day of the 2008 auction, DeChristopher dressed casually, unlike the average bidder, but posed as one of them. He said later he felt the stunts would make a stronger statement than merely protesting with demonstrators out-

side the BLM offices.

He didn’t deny disrupting the auction and hadn’t planned on actually winning the bids, but instead his intent was to simply raise the price of the leases closer to fair market value.

Only such charge in Utah

Federal prosecutors say he is the only person ever charged with failing to make good on bids at a lease auc-
tion of public land in Utah. They had offered plea deals, but DeChristopher chose a trial.

A University of Utah economics student at the time of the bids, DeChristopher offered to cover the bill with an Internet fundraising campaign, but the government refused to accept any of the money.

DeChristopher testified during the trial that he didn’t intend to actually bid on the leases but decided during the auction that he wanted to delay the sale so the new Obama administration could reconsider the move.

A federal judge later blocked many of the leases from being issued.

Fellow environmentalists and supporters have made DeChristopher a folk hero of the movement, insisting he was standing up to a federal agency that violated environ-

mental laws by holding the auction in the first place.

“He wanted to give some hope to people,” Yengich told jurors in closing arguments. “You may disagree with how he went about it, the government may disagree. But that was his purpose in being there. It wasn’t to fool anybody.”

Filming outside the courthouse on March 3 was Telluride, Colo., filmmaker George Gage, who with his wife has spent more than two years working on an hour-

long documentary about DeChristopher.
SHELL DRILLING
continued from page 1

And both of the rigs that Shell plans to use until December to complete, Ruddy said, than October, relief well drilling could take disaster, she said.

relief well involved in the Deepwater Horizon wells would not be as deep as the Macondo taking about 30 days to drill each of its season, Ruddy said that Shell anticipates it season, were a blowout to occur late in the relief well before the end of the open water

Relief well feasible
asked about the practicality of drilling a relief well before the end of the open water season, were a blowout to occur late in the season, Ruddy said that Shell anticipates it taking about 30 days to drill each of its Beaufort and Chukchi seas wells. These wells would not be as deep as the Macondo well involved in the Deepwater Horizon disaster, she said.

With planned drilling continuing no later than October, relief well drilling could take until December to complete, Ruddy said. And both of the rigs that Shell plans to use are ice capable and would be supported by ice management vessels, thus making it practical to continue relief well drilling into December, after sea ice has formed, said Michael Macrander, Shell’s Alaska lead scientist. In fact, the Kulluk has a track record of successful drilling in sea ice conditions, he said.

No Beaufort discharges
As in its 2011 Beaufort Sea exploration plan, Shell is opting not to discharge drill cuttings into the ocean, other than cuttings from the uppermost parts of its wells, when drilling in the Beaufort Sea in 2012 and 2013, Ruddy said. Cuttings and some other non-toxic waste, such as sanitary waste, that could legally be permitted for discharge into the water will instead be transported out of the region for disposal.

The decision to eliminate discharges into the ocean from drilling in the Beaufort Sea has resulted from a commitment made to the Alaska Eskime Whaling Commission and the North Slope Borough, following concerns about the potential impact of drilling discharges on Beaufort Sea bowhead whale migration near the drilling operations, Macrander said. Shell does not anticipate following the same policy for discharges from its Chukchi Sea drilling, he said.

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As in its 2011 Beaufort Sea exploration plan, Shell is opting not to discharge drill cuttings into the uppermost parts of its wells, when drilling in the Beaufort Sea in 2012 and 2013.

POINT THOMSON
worth of natural gas and petroleum liq- uids, and some industry observers believe the planned gas pipeline won’t work without Point Thomson reserves.

More time requested
At the moment, the Point Thomson legal battle sits before the Alaska Supreme Court, to which the state appealed after an adverse Superior Court ruling in January 2010.

On March 7, the state and ExxonMobil filed a joint request with the high court asking that the case be stayed for 60 days while they continue settlement discussions. It’s the fourth time the two sides have asked for a time-out in the proceedings so they could concentrate on trying to settle the Point Thomson dispute out of court.

Two companies, BP Exploration (Alaska) Inc. and ConocoPhillips, are taking issue with the latest timeout request.

While the two firms say they’re supportive of trying to reach a settlement, they complain that ExxonMobil and the state have closed them out of the negotiations.

BP has not given ExxonMobil authority to negotiate on its behalf,” lawyers for BP said in a March 7 filing with the Supreme Court. “BP has asked to participate and has asked to see draft settlement documents that it has been told have been exchanged, but the State and ExxonMobil have refused to share the documents or to allow BPXA to participate in the negotiations.”

The company said it doesn’t support a further stay of the case unless all of the working interest owners in Point Thomson “are allowed to participate meaningfully” in the negotiations and to review copies of proposed settlement agreements.

BP further noted that it holds a 32 percent ownership interest in the Point Thomson unit, nearly as much as ExxonMobil’s 37 percent.

Sullivan has mail
In its court filing, BP supplied a copy of a Jan. 24 letter it sent to Dan Sullivan, commissioner of the Alaska Department of Natural Resources.

The letter, signed by BPX’s chief financial officer, Claire Fitzpatrick, said BP was aware that the DNR had recently provided ExxonMobil a “revised draft” of a proposed Point Thomson unit settlement agreement.

Contact Wesley Loy
at wloy@petroleumnews.com

At the moment, the Point Thomson legal battle sits before the Alaska Supreme Court, to which the state appealed after an adverse Superior Court ruling in January 2010.

“Our counsel has asked for a copy of that document, but has not yet heard back regarding that request,” the Fitzpatrick letter said.

The letter to Sullivan continued: “Because we have been excluded from the negotiations, BPXA does not have a full understanding of the terms and conditions of the proposed PTU settlement. Although ExxonMobil shared a copy of a draft ‘term sheet’ with us in late 2010 and met with us earlier this month, the State has rejected BPXA’s joint effort with Exxon to meet in order to more fully understand your perspective about the contents of that ‘term sheet’ and to date has rejected our requests to provide us a copy of the draft agreement. We find this unacceptable.”

Fitzpatrick added that “BPXA’s support and approval will be required for any successful PTU settlement.”

ConocoPhillips also objects
ConocoPhillips, in its own March 7 filing with the Supreme Court, registered many of the same complaints as BP. ConocoPhillips said it holds a 5 percent ownership interest in Point Thomson unit leases.

“ConocoPhillips has been excluded from the settlement discussions,” the company filing said.

ConocoPhillips also sent a letter to Commissioner Sullivan, and provided a copy to the court. The Feb. 7 letter, signed by Bijan Agarwal, ConocoPhillips Alaska vice president of commercial assets, said the company was aware that ExxonMobil and the state had been negotiating settlement of “various disputes and litigation” relating to Point Thomson, but that ConocoPhillips hadn’t been invited to participate in any negotiations over the last year.

“Please be advised that ExxonMobil is not authorized to represent the interests of ConocoPhillips in the litigation,” Agarwal’s letter said.

As of press time, the Supreme Court had not yet ruled on the request for another 60-day stay of the case proceedings.
Lower tolls could result

If Canada followed the U.S. lead it would lower the cost of capital by improving ratings of the debt, resulting in lower transportation tolls, Reid said.

“If you take an A rating, which we would get with this collection of companies right now, and improve that to an AAA rating, you would reduce the toll by US$1.50 (per million British thermal units). That’s how sensitive it is. It’s huge,” he said.

Reid also said he is a firm believer that “market forces will prevail” and gas prices will recover, estimating that Canada needs to deliver 3 billion cubic feet per day of new gas per year just to maintain 2009 levels. of 15.8 bcf per day.

He said that on an energy-equivalent basis the current price of oil versus gas is 25-to-1, so when it should be 6-to-1.

Reid said shale gas — aside from concerns about the high initial decline rates in shale gas wells, high water consumption and potential groundwater consumption — hasn’t been able to offset natural declines in Canadian production and gas well completions are now down 66 percent from 2004.

On top of that, demand from Canada’s industrial sector is forecast to rise to 3.1 percent a year, while the country’s 33 coal-fired power plants have been given until 2020 to meet new environmental standards, an incremental market that would itself consume the entire throughput of the Mackenzie Valley pipeline, he said.

The AGF estimates power generation, where consumption has grown by 70 percent since 2000 — will be the largest growth sector for natural gas over the next 10 to 15 years.

Both lines can proceed

Speaking at the same conference, Larry Persily, federal coordinator for Alaska natural gas transportation projects, echoed Reid’s view that both the Alaska and Mackenzie projects could proceed in the long term, provided they are designed and financed to compete in the North American market.

“If there is ever going to be an Alaska pipeline project, somehow there is going to have to be a commercial deal between the producers on the North Slope, who will provide the financing for the uplandings, and TransCanada probably,” he said.

“Alaskans are losing patience as they once made money out of oil and now they want to be rich on gas.

“They need to stop thinking of their fair share in tax dollars alone and rather sit down and negotiate fiscal terms and find shippers that will tip the balance in their favor,” he said.

Contact Gary Park through publisher@petroleumnews.com

The industry analyst said his biggest worry now is the nation’s increasing vulnerability to events in faraway places like Libya and Egypt caused by our dependence on foreign oil.

He said periods of stable oil prices will become “the exception rather than the rule.”

Shrinking domestic supply

The industry analyst said his biggest worry now is the nation’s increasing vulnerability to events in faraway places like Libya and Egypt caused by our dependence on foreign oil. Meanwhile, U.S. policymakers ignore the situation, just as they have for the past 20 years.

“Until our politicians (in Washington, D.C.) do something logical and rational about it, we will remain close to the edge and vulnerable to high oil prices, he said.

Equally frustrating is the American public’s lack of interest in climbing oil prices unless they affect the price of gasoline. And ironically, higher gaso- line prices seem to do little to change consumer habits.

“Even in Europe and Britain where gas prices are averaging about $7 a gallon, every household has two cars, and people continue to drive them everywhere,” he observed.

The oil industry’s inaction is also dismaying, Herrera said.

“Oil companies are always looking for the 10- to 20-year horizon, and high oil prices can make them jeopardize their future,” he said.

With the exception of Shell, which has billions of dollars invested in Alaska, “the oil companies are doing absolutely nothing to increase the domestic supply of oil — aside from a few too-hyped ads on television,” he said. “They are scared silly about public opinion, which in general is anti-oil, about the Gulf of Mexico oil spill; and about the cost of dealing with regulations and the local environment in this country.”

Oil companies instead, are invest- ing heavily in Russia, “which has got to be the riskiest venture ever,” Herrera said. “They should be kicking and screaming against that.”

—ROSE RAGSDALE
of the program.”

A Petroleum News source close to the three partners said Repsol asked Armstrong to oversee operations because of the independent’s previous experience in permitting and executing northern Alaska exploration programs.

Under the agreement, Repsol holds a 70 percent working interest in the acreage; the remaining 30 percent is 75 percent held by Armstrong and 25 percent by GMT.

Armstrong, GMT taking little cash

Madrid-based Repsol said it has committed to supplying “the investment necessary to explore and evaluate the economic viability of the resources contained in these blocks,” which it noted are close to producing fields (see map adjacent to this article from Repsol).

The “minimum exposure” for Repsol, “including amounts to be paid to its partners and the cost of exploration to be carried out over several years, amounts to $768 million,” the release said.

Petroleum News sources say Armstrong and GMT are receiving very little cash in the deal; that $750 million is slated for exploration. “They want to see their leasehold explored and developed. That’s the payoff for them,” one PN source said.

Changes in ACES expected

What wasn’t said in Repsol’s press release, Petroleum News sources contend, is that the Spanish major expects Alaska Gov. Sean Parnell’s proposed changes in Alaska’s production tax to pass into law.

It’s not hard to believe. Just three weeks before the long-awaited deal closed with Repsol, Armstrong Vice President Ed Kerr submitted a letter to the co-chairs of the Alaska Legislature’s House Resources Committee, saying that the governor’s bill, “HB 110 will have a significant impact on our capital expenditures and finances in Alaska. The improved fiscal terms as proposed by HB 110, particularly the portions of the bill that apply to activities outside operating units, will give us the needed incentive to not only drill multiple new wildcat and delineation wells, but the motivation to drive certain projects to development.”

Kerr said Armstrong has “more than a dozen ideas outside of existing producing units” on its project list, ideas it hopes to drill and test over the next several years.

“In many cases we know the oil is in place. The improved fiscal terms provided in HB 110 will greatly affect whether these projects will get developed.”

Conventional hydrocarbons only

Although some of the acreage held by Armstrong and GMT contains shale source rock, at this point the partners are only interested in conventional oil targets, a source close to Armstrong told Petroleum News.

That information is supported by previous statements by Armstrong’s top executive, Bill Armstrong, who said his company had taken a look at the Shublik shale in its area of operations. “We are confident that our worldwide experience combined with a partner with an extensive local knowledge and expertise is going to deliver value in the near future.”

Repsol’s presence in Alaska complements the company’s successful work in the Gulf of Mexico, its release said. “Repsol has significantly boosted its onshore and offshore presence in the United States. Repsol already has successfully explored and developed hydrocarbons production in the Gulf of Mexico.”

The company has been shifting resources away from its Argentine operations, which are beleaguered by political interference and declining production. Plans to increase exploration in Libya this year have been disrupted by political unrest that industry observers say could result in moving that investment to other oil regions of the world. (See related story on page 12 of this issue.)

Repsol Chairman Antonio Brufau was quoted in the March 7 release about Alaska as saying, “This deal is a perfect fit in our efforts to balance our exploration portfolio with lower risk, onshore oil opportunities in a stable environment. We are confident that our worldwide experience combined with a partner with an extensive local knowledge is going to deliver value in the near future.”

Repsol’s presence in Alaska complements the company’s successful work in the Gulf of Mexico, its release said. “Repsol has significantly boosted its onshore and offshore exploration activities in the last five years, resulting in some of the world’s largest oil and gas discoveries. Repsol’s upstream unit in 2010 posted a record reserve replacement ratio of 131 percent and incorporated resources that have significantly boosted the company’s future prospects,” the company said.

History of partners in Alaska


Armstrong’s North Slope prospects have been developed as Oooguruk, operated by Pioneer; and Eni-operated Nikaitchuq; both are currently producing oil.

After selling its northern Alaska acreage, Armstrong acquired onshore Cook Inlet basin assets and as Armstrong Cook Inlet LLC holds 3,541 acres on the Kenai Peninsula, where it and partners are developing the North Fork natural gas field. GMT holds 20 and 30 percent of those leases. Repsol has interests in Alaska, but none — until now — on State of Alaska acreage.

The company is a 20 percent partner with Shell and Eni, each 40 percent, in outer continental shelf Beaufort Seal area, and a 20 percent partner with Eni in other acreage in which Eni holds 80 percent, from federal lease sales 195 and 202. Repsol did not bid in either sale 195 in 2005 or sale 202 in 2007, but subsequently partnered in acreage from those leases.

Repsol acquired OCS acreage on its own in 2008 in Chukchi Sea sale 191; exploration activities on that acreage are currently enjoined under order of the U.S. District Court for the District of Alaska. The company bid $15.6 million on 104 blocks and was the high bidder on 93 blocks for $14.4 million.

Repsol has not said whether it will operate its Chukchi leases, but rumors of a potential partnership with Shell, Eni and/or Statoil have made their way to Petroleum News. None of those rumors have been confirmed by any of the companies.

Tudor Pickering and Holt, a Houston based energy investment bank, acted as advisor to Armstrong and GMT on the transaction with Repsol. ●

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