Where’d the money go?

How Alaska allocated $103.5 billion in oil revenue
(click here for FY 2011 through FY 2010)

A question of drilling: Great Bear optimistic about getting rig

Great Bear Petroleum is chomping at the bit, eager to move ahead with a program of source rock oil test drilling on Alaska’s North Slope. But the company still needs a drilling rig for its planned exploration and evaluation plans and is also waiting for approval of permits that it needs, Ed Duncan, Great Bear’s president and COO, told Petroleum News Nov. 21.

The company plans to drill through the region’s three major source rock intervals to obtain rock samples and do some testing. The idea is to determine whether oil can be produced directly from those sources on the North Slope using the same style of horizontal drilling and hydraulic fracturing that has proved so successful for unconventional oil and gas.

Redford builds bridges; approach from new premier collaborative

Alberta’s freshly minted Premier Alison Redford has taken only six weeks to put her province on a new energy path, decisively breaking with the province’s reputation for inflexibility that has been built over recent decades by her predecessors. During a week-long national and international debut, she made stops in Washington, D.C., New York, Ottawa and Toronto, quickly displaying a progressive, consensus-building style as she seeks to turn Alberta’s hopes of becoming an energy powerhouse into reality.

What was originally planned as her first major tour of North America was put on hold because of the November elections in the United States, which were expected to impact the price of oil. Instead, she focused on oil rather than natural gas.

By WEISLEY LOY
For Petroleum News

Alyeska to pay $600K

T he operator of the trans-Alaska pipeline has reached a settlement with federal regulators to resolve four enforcement cases dating back to 2006. Under the deal, Alyeska Pipeline Service Co. will pay a civil penalty of $600,000, which represents a considerable savings over the sum of penalties the U.S. Department of Transportation’s Pipeline and Hazardous Materials Safety Administration had originally proposed.

Michael Joyntor, Alyeska’s senior vice president of operations, and Jeffrey Wiese, PHMSA’s associate administrator for pipeline safety, signed off on the “compromise agreement” on Nov. 15 and 16 respectively.

As part of the deal, Alyeska agreed to drop a federal lawsuit it had filed against the agency challenging a fine imposed in one of the enforcement cases.

Four enforcement actions

Alyeska is the Anchorage-based consortium that runs the 800-mile trans-Alaska oil pipeline on behalf of owners BP, ConocoPhillips, ExxonMobil, Chevron and Koch Industries.

The seven-page settlement notes that Alyeska and PHMSA agreed the settlement would avoid further administrative proceedings or litigation.

Aside from the $600,000 civil penalty, Alyeska also “must develop and implement a risk-based atmospheric corrosion control program for TAPS,” the trans-Alaska pipeline system, the settlement says.

see ALYESKA FINE page 17

Gearing up for winter

Companies move forward on what could be bumper exploration season

T he snow has been falling and the ground freezing in Arctic Alaska, and the various companies planning exploration wells for the coming winter season are lining up for what looks like being one of the busiest ever exploration seasons on the North Slope. The annual freeze-up has yet to reach the point where Alaska Department of Natural Resources can open up state land for off-road travel, but the department said on Nov. 18 that it had approved the pre-packing of ice roads for a number of projects in its western coastal area, and also for a winter road between the North Slope Haul Road and the lower foothills area.

Brooks Range pre-packing snow

At the Resource Development Council annual conference on Nov. 17, Bart Armfield, chief operating officer of Brooks Range Petroleum Corp., said that his company had just starting pre-packing snow for an ice road that will run from the southwest corner of the Kuparuk River unit to the company’s North Tarn No. 1 well. Brooks Range found oil when drilling this well last winter but it

see BUSY SEASON page 18

Rebirth in Cook Inlet?

CIRI says more infrastructure needed; CIE calls access ‘progressivity’ of inlet

T here is more oil and gas exploration and development activity in Cook Inlet currently than the basin has seen in many years.

The Resource Development Council heard two perspectives on this activity at its annual conference in Anchorage on Nov. 17. Both were focused on oil rather than natural gas.

Ethan Schutt, senior vice president of land and energy development for Cook Inlet Region Inc., said CIRI has been promoting Cook Inlet development since it was formed. RR Wilcox, president of Cook Inlet Energy, which was formed and took over operations after Pacific Energy went bankrupt in 2009, focused on the last couple of years.

CIRI is a major landholder in Cook Inlet. Schutt said CIRI has always been a proponent of Cook Inlet as an oil and gas basin and in the last four or five years has been “pushing hard to get

see INLET REBIRTH page 19
ON THE COVER
Alyeska to pay $600K
Fine is part of settlement between trans-Alaska pipeline operator, PHMSA

Gearing up for winter
Companies move forward on what looks to be a bumper Alaska exploration season

Rebirth in Cook Inlet?
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Gas competition in Lower 48, Asia-Pacific

By KRISTEN NELSON

The good news, the Resource Development Council’s annual conference heard Nov. 16 and 17, is that there is growing demand for natural gas, both in the Lower 48 and globally.

The bad news, said both Steve Kirchhoff, vice president of ExxonMobil Gas and Power Marketing Co., and Larry Persily, federal coordinator, Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects, is that there is much more supply than was expected a few years ago, and competition to meet the market demand.

Rapid changes

Kirchhoff, who said he looks after ExxonMobil’s gas marketing for the Americas, noted that just a few years ago, “the buyers I was talking to in North America were worried about security of supply;” about where natural gas would come from.

Prices were moving upward and the solution appeared to be “large-scale, cost-efficient” liquefied natural gas imports.

That was the backdrop, he said, for planning the large-scale pipeline projects from both the Alaska and Canadian Arctic.

“But as has been the case in the gas industry a lot of times in my career,” Kirchhoff said, “change has happened at a very, very rapid pace.”

He said that a few years ago it would have been hard to imagine that two technologies that have been around a long time, hydraulic fracturing and horizontal drilling, would be put together in the Barnett shale and open a new generation of natural gas production in the United States.

Those technologies applied to unconventional gas production have now been “proven and perfected, not just once but multiple times in succession after succession after succession of plays in North America,” Kirchhoff said.

The International Energy Agency’s most recent assessment of worldwide natural gas is some 28,600 trillion cubic feet, some 250 years of consumption, vs. previous estimates of 60 years of consumption, he said.

In the U.S. the natural gas resource base is now enough to meet more than 100 years of demand.

“It’s probably fair to say that the assessments that the IEA has today are speculative, not certain,” Kirchhoff said, but the assessment of the shale resource in the U.S. “is well grounded and it’s growing stronger every day”

Assessments from elsewhere in world are based on limited tests, on geoscience evaluation and on analogues to the U.S., he said.

“Standing here in Alaska, it might be really tempting to dismiss the potential around the globe as speculative, but I...”

Natural gas demand is expected to have the fastest growth in the 2005-30 period of any energy source, he said. The demand for natural gas is expected to almost triple in Asia over that period and almost double in the Middle East; growth will be substantial even in the U.S. and Europe, driven by power use, Kirchhoff said.

So far, performance is holding up well against the forecast, he said.

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So far, performance is holding up well

In the U.S. natural gas has been growing in its share of the power market, with competitive prices leading to fuel switching over the last three years.

“Gas is also the fuel of choice for the majority of new-built generation projects that have been announced in the last few years” in the U.S., Kirchhoff said.

And the growing supply of natural gas has given U.S. utilities, and public utility commissions, more confidence in the supply of natural gas available.

And by 2030, more than half of natural...
Meet Dave Dorsey and Petra of Bird TLC

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Petra is one of the non-releasable education birds at Bird TLC. She serves as an ambassador in the avian education programs that give the community valuable information about our beloved national bird and its preservation.

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**EUROPEAN GIANTS BUCK EU FUEL LABEL**

France’s Total and Norway’s Statoil, two of the largest European-based oil companies, are countering pressure from the European Union to rebrand a fuel standard by labeling oil sands crude as “dirty oil.”

Gary Houston, vice president of midterm for Total’s Canadian unit, told a Calgary conference that Enbridge’s Northern Gateway pipeline and Kinder Morgan’s TransMountain pipeline expansion will both be needed by 2020 in addition to new capacity to the Texas Gulf Coast as oil sands output climbs to 3.5 million barrels per day.

He said Total thinks both pipelines to the British Columbia coast “make sense … and there will be sufficient supply for both.”

Houston said that once oil is loaded on tankers it costs about $2 per barrel for shipment to China and $3 anywhere else in the world.

“It gives you instant access to world prices plus or minus $2 and that’s what we need to provide some price stability to our industry,” he said.

Through partnerships, Total is developing the Joslyn North mine and Voyageur upgrader as well as the Surmont, Northern Lights and Fort Hills projects, with planned spending of C$20 billion over the next decade and net production of 200,000 bpd by 2020.

But he warned that even if TransCanada’s Keystone XI project and Enbridge’s proposed 400,000 bpd Flanagan South pipeline go ahead, the industry will run out of pipeline capacity by 2018 due to regulations.

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**FUEL STANDARD**

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**OTHER DEVELOPMENTS**

Other oil sands developments included:

- A regulatory filing by privately owned Larricina Energy for a three phase 150,000 bpd commercial development at its German lease in Alberta, adding to an already-approved 5,000 bpd project. The second phase of 30,000 bpd is estimated to cost up to C$1.5 billion, and come on stream in the third quarter of 2015, with

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**FUEL STANDARD**

See page 5 for full standard.

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**ENRICHMENT & PRODUCTION**

**EUROPEAN GIANTS BUCK EU FUEL LABEL**

Total, Statoil, counter pressure to label oil sands crude ‘dirty oil’; Total says both Northern Gateway, TransMountain lines needed

BY GARY PARK

For Petroleum News

Norway’s Energy Minister Ola Borten Moe told reporters in Alberta that the EU needs to be more “transparent and open” on the issue of its fuel directive by taking a closer look at improvements made by companies in reducing greenhouse gas emissions levels in Alberta crude.

Although he left open the possibility of giving unqualified support for investment in the resource by 65 percent state-owned Statoil, Borten Moe said he was leaving Alberta with a good impression of efforts being made to clean up operations.

He also said Statoil’s short-term objective of increasing its oil sands production from 19,000 bpd to 60,000 bpd by 2016 on its way to a targeted 200,000 bpd by 2025 “is in line with their mandate.”

Statoil’s Canadian President Lars Christian Bacher said the minister posed tough questions about the oil sands sector, but is open to a dialogue based on facts.

Borten Moe said the Norwegian government’s view is that the ultimate goal should be to cut global GHG emissions, not penalize individual fuel sources.

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Companies eyeing ‘billions’ onshore

By ERIC LUDI
For Petroleum News

The “billion-dollar fairway” is suppos-
dedly what ARCO Alaska called the land between the Kuparuk River unit and the National Petroleum Reserve-Alaska, a long stretch of land from north to south that seems like it should be home to massive oil pro-
duction, but isn’t.

That could be changing soon.

Over the past year, the Alaska Department of Natural Resources approved the formation of five units in that fairway, and is currently considering an application for a sixth.

Those six units, from south to north, are: the Brooks Range Petroleum Corp.-operated Putu, Tofkat, Kachemach and Southern Miluveach units, the ASRC Exploration LLC-operated Placer unit and the Qoqruk unit proposed by Repsol E&P USA Inc.

Those three companies could drill as many as 15 wells by mid-2014, and CCG Veritas recently announced plans for a 3-D seismic survey covering almost the entire region.

Decades of exploration wells

Exploration in the fairway pre-dates the discovery of Prudhoe Bay.

The state first leased acreage in the northern portion of the fairway in December 1964, and Sinclair drilled the first wildcat in the region, the Colville No. 1, in 1965 and 1966.

In the decades since, companies have often returned to the region from the Colville Delta south, particularly as the discovery of Prudhoe Bay.

In 2008, Brooks Range Petroleum acquired 220 square miles of 3-D seismic covering almost the entire unit, identifying “numerous exploration prospects and leads,” including the Musketeer trend and Big Foot trend.

The company committed to drilling four wells into the Upper Jurassic-age strata of the Kuparuk formation in the unit by May 31, 2013.

Tofkat unit

Just a mile to the north, surrounding the village of Nuiqsut, the Tofkat unit is where Brooks Range Petroleum drilled a well and two sidetracks in 2008 — Tofkat No. 1, Tofkat No. 1-A and Tofkat No. 1-B — discovering “an oil reservoir within the C member of the Kuparuk Formation, and two reasonably defined and delineated potential hydrocarbon accumulations in the shallower Nanushuk and Torkor formations.”

Brooks Range Petroleum is committed to drill a well and a sidetrack into the Kuparuk formation at the unit — Tofkat No. 2 and Tofkat No. 2-A — by May 31, 2013.

Kachemach unit

Beginning some two miles east of Tofkat and running north along the Colville River, the Kachemach unit is not home to any previous exploration drilling, but have there been four wells drilled nearby — ARCO’s Iliklik River Unit No. 1 in 1972, Phillips Alaska’s Atlas No. 1 and Atlas No. 1-A in 2001, and Pioneer Natural Resources Alaska’s Cronus No. 1 in 2006.

All four wells encountered hydrocarbon-bearing zones in the Brookian Torkor forma-
tion, but none promising enough to warrant development.

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Putu unit

Starting in the south, the Putu unit is not home to any previous exploration drilling, but have there been four wells drilled nearby — ARCO’s Iliklik River Unit No. 1 in 1972, Phillips Alaska’s Atlas No. 1 and Atlas No. 1-A in 2001, and Pioneer Natural Resources Alaska’s Cronus No. 1 in 2006.

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tion, but none promising enough to warrant development.

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Southern Miluveach unit

The Southern Miluveach unit is some 10 miles east of Kachemach, contiguous to the Kuparuk River unit, and is home to recent exploration, in addition to older wells near-
by.

After studying the previous wells in the region, particularly ConocoPhillips’ KRU-2L-03 step-out well from the Kuparuk River unit, Brooks Range Petroleum acquired seis-
mic information in 2008 and earlier this year drilled the North Tarn No. 1 well identifying an oil reservoir in the Kuparuk C sand. The company is now committed to complete three wells/sidetracks — the North Tarn No. 1-A well, the Mustang No. 1 well and the Mustang No. 2 well or sidetrack — into the Kuparuk formation by May 31, 2012.

ASRC sees Placer potential

Nested between the Kachemach and Southern Miluveach units, the ASRC Exploration-operated Placer unit covers four leases and 1,480 acres, and two recent exploration wells.

Following an ARCO seismic survey in the region in 1997, ConocoPhillips drilled the Placer No. 1 and Placer No. 2 wells in 2004, as part of Kuparuk River unit expan-
sion.

Acreage Regional Corp., the Alaska Native corporation for the North Slope area, quietly came on as a working interest owner in late 2004, its first investment as an inde-
pendent oil and gas company under its men-
toring agreement with BP Exploration (Alaska). ConocoPhillips gave up the leases after its wells proved unsuccessful, but ASRC reacquired them in 2006 and later secured ownership of the Placer No. 1 well-
bores.

Since then, the company formed ASRC Exploration and became a minority partner in Savant Alaska LLC’s recent efforts to restart and increase production at the Badami unit.

Now, ASRC Exploration is beginning its

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FUEL STANDARD

the next two phases of 60,000 bpd each starting in 2018 and 2021.

• Alberta government approval of an application by Grizzly Oil Sands Resources to build an 11,300 bpd bitu-
mine extraction and processing facility, with output scheduled for mid-2013. The first phase has a price tag of $400 mil-

lion.

• Koch Exploration Canada got regu-

latory approval to build and operate a 10,000 bpd facility in the Cold Lake area, forecasting a production life of 25 years.

• North West Upgrading is considering fast tracking its planned 150,000 bpd bitumen-to-diesel plant, with a final investment decision expected in early 2012. The joint venture with Canadian Natural Resources carries an estimated cost of CS$ 5 billion and will draw 37,500 bpd of feedstock from the Alberta gov-

"T"
ConocoPhillips’ repositioning into two independent companies is subject to market conditions, customary regulatory approvals, the receipt of an affirmative ruling from the U.S. Internal Revenue Service, the execution of separation and intercompany agreements and final board approval.

Alan J. Hirshberg will become executive vice president, technology and projects. Hirshberg is currently senior vice president, planning and strategy, for ConocoPhillips and has also held executive positions at ExxonMobil, overseeing production operations and major development projects in the U.S., Europe, Africa, and Central and Southeast Asia. He holds bachelor’s and master’s degrees in mechanical engineering.

Don E. Wallette Jr. will become executive vice president, business development and commercial. Wallette is currently president, Asia Pacific, for ConocoPhillips. He has also held senior positions for ConocoPhillips in the U.S., U.K., Norway, Russia and Caspian divisions. Wallette has a bachelor’s degree in chemical engineering.

Fox will join ConocoPhillips in January 2012 and serve in an interim role, reporting to Lance, until the repositioning is complete. Hirshberg and Wallette will continue in their current positions until the transaction is finalized.

Mulva to retire

ConocoPhillips Chairman and Chief Executive Officer Jim Mulva plans to retire once the repositioning is complete. Two other current executives plan to retire: E.L. (Gene) Batchelder, senior vice president and chief administrative officer, and W.C.W. Chiang, senior vice president, refining, marketing, transportation and commercial. Batchelder and Chiang will remain in their current roles until the repositioning is complete.

ConocoPhillips’ repositioning into two independent companies is subject to market conditions, customary regulatory approvals, the receipt of an affirmative ruling from the U.S. Internal Revenue Service, the execution of separation and intercompany agreements and final board approval.

ConocoPhillips has begun naming executives for the independent exploration and production company which will be created when the company completes its strategic repositioning, expected in the second quarter of 2012. Phillips 66, the independent downstream company, will have businesses in refining, marketing, midstream and chemicals.

Ryan Lance, designated chairman and chief executive officer of the future ConocoPhillips, has selected three members of his executive management team.

By KAY CASHMAN
Petroleum News

New NSB mayor names Adams chief of staff

By Kay Cashman

While former North Slope Borough Mayor Edward Itta was quoting Alaska Native leader Jacob ‘Jake’ Adams to encourage members of the Alaska Native Village CEO Association to establish businesses that would take advantage of the huge amounts of money the oil industry spends in the state, his successor, Mayor Charlotte Brower, had just appointed Adams as her chief of staff.

“Mayor Charlotte,” as her office staff refers to her, took office on the afternoon of Nov. 15. The next morning Adams, long-time president and CEO of Arctic Slope Regional Corp., and current chairman of the board, reported for work as her chief of staff.

“Tremendous amounts of money are out there,” Itta was reported as saying in a Nov. 21 Alaska Dispatch article about his presentation.

“If we don’t do it, you can bet somebody else will,” he said, quoting the charismatic Adams, who has been a strong supporter of Alaska’s oil and gas industry as long as Native subsistence rights and the environment were protected — and Natives received a share of the oil wealth.

It was under Adams’ guidance that ASRC, a company representing the business interests of 11,000 Iñupiaq Eskimos, became a major oilfield service provider and refinery owner and signed a mentoring agreement with BP to help it become an independent North Slope oil and gas producer.

Adams, a former North Slope Borough mayor and assembly member and a current member of the Barrow Whaling Captains Association, has also been a strong supporter of opening of the coastal plain of the Arctic National Wildlife Refuge for oil and gas exploration.

Although no official announcement has been made by her administration, Mayor Charlotte has reportedly asked for resignations from all department and division directors, including the borough attorney, some of whom will be retiring at the end of the year and some leaving immediately.

Gordon Brower, director of the borough’s Planning and Community Services Department, has been replaced by Rhoda Ahmaogak.

Brower has been moved to the position of deputy director of the department, putting him in charge of the Land Management Regulation Division, where he will oversee permitting and inspecting oil and gas projects, including monitoring compliance with Title 19 land management regulations and zoning under Title 18.

His assistant, Ben Greene, who had been filling in for Brower from mid-August to mid-October, was terminated with one-hour notice by Ahmaogak shortly after Mayor Charlotte took office.

Greene was with the Alaska Department of Natural Resources’ Alaska Coastal Zone Management Program in Anchorage until he accepted an offer from the borough, moving to Barrow in May 2008.

Editor’s note: Under the terms of the Alaska Native Claims Settlement Act, or ANCSA, 70 percent of the net revenues realized by ASRC are distributed among all regional corporations in Alaska, who in turn share one-half of their receipts with the village corporations and their at-large shareholders.

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E G O V      G O V E R N M E N T
Judge upholds beluga endangered status
National Marine Fisheries Service designation upheld, found consistent with Endangered Species Act requirements, best science

By DAN JOLING
Associated Press

A laska’s Cook Inlet beluga whales were correctly listed as endangered, a federal judge ruled Nov. 21, rejecting a state lawsuit that claimed the listing will hurt economic development.

Judge Royce C. Lambeth of U.S. District Court in Washington, D.C., said the National Marine Fisheries Service properly followed requirements of the Endangered Species Act and used the best science available in making its determination.

Cook Inlet beluga whales did not bounce back after a decade, despite a ban on subsistence hunting blamed for depleting their numbers, he said.

“When the best available science predicts that a recently enacted ban on subsistence hunting will reverse the abrupt depletion of a species, a decade without any noticeable recovery in the species population should raise a concern that the true cause of its decline has not been fully addressed,” Lambeth wrote.

Sharon Leighow, a spokeswoman for Alaska Gov. Sean Parnell, had no immediate comment on the decision but said the Department of Law would prepare a response.

State unsuccessfully sued

The state argued that belugas were already protected under other environmental laws and that the fisheries service failed to consider state conservation programs designed to improve the habitat and food supply of belugas.

Controlled hunting tried first

The National Marine Fisheries Service initially determined that controlling subsistence hunting would allow the population to recover. But in October 2008, after a second listing petition had been filed, the agency declared belugas endangered. The state sued and Escopeta Oil Co., which has drilling interests in Cook Inlet, intervened in the case.

The state argued that belugas were already protected from Anchorage, chasing salmon schooled at stream mouths. The Cook Inlet population dwindled steadily through the 1980s and early ’90s, Lambeth wrote, and the decline was accelerated between 1994 and 1998 when Alaska Natives harvested nearly half the remaining 650 whales in only four years.

National Marine Fisheries Service designation upheld, found consistent with Endangered Species Act requirements, best science

See: BELUGA STATUS page 9

continued from page 3

FAIRWAY UNITS

first solely owned exploration project. The company told state officials that Placer No. 1 well results “demonstrated that decent quality oil is present in a thin, but high quality reservoir in the Placer area,” particularly in the Kuparuk C sand that is the focus of nearby exploration and development.

Under its unit agreement, ASRC Exploration must reprocess and reinterpret newly licensed seismic data shot across the unit by the end of the year, and must drill and log a new exploratory well, or re-enter and test the Placer No. 1 well, by June 30, 2013.

Repsol going strong

The proposed Qugruk unit fills in the remainder of the fairway to the north.

Repsol proposed a 98,852-acre unit covering a T-shaped area running along the coastline between the Colville River and Oooguruk units and south over the Colville River Delta.

The Spanish major is proposing the unit alongside Denver-based independent partners 70 & 148 LLC (a subsidiary of Armstrong Resources LLC) and GMT Exploration Co. LLC.

The region is home to heavy exploration work stretching back decades, and the proposed unit itself is home to six previous wells. Repsol divides the previous work in the area into four “distinct phases,” the late 1960s and early 1970s, the early to mid-1980s, the 1990s and the latter half of the 2000s. After crunching the data from those wells, Repsol and its partners are chasing “ sands within the upper portion of the Jurassic Kingak Shale, the Cretaceous Kuparuk “C” sand and several sands within the Cretaceous Nanushuk Group.”

Although the unit application is still pending, Repsol is already gearing up for an ambitious North Slope exploration campaign this winter that could include 15 wells and sidetracks across a large expanse of acreage, including four planned for the Qugruk unit.

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

Contact Eric Lidji
at ericlidji@mac.com
$103.5 billion and aiming for more

Background paper illustrates Alaska has ample money to jump-start a long-coveted natural gas pipeline. But does it have the nerve?

By WESLEY LOY
For Petroleum News

If Alaska really wants a natural gas pipeline, the state probably has the financial muscle to make it happen.

The question is how much of an appetite it has for risk.

Those are two of the main thoughts conveyed in a recent background paper from the Alaska Natural Gas Transportation Projects Office of the Federal Coordinator.

The eight-page paper (http://bit.ly/tPJ0Es) is a clear-eyed look at some of the state’s options for realizing a gas line, construction of which has long been a top economic development priority for Alaskans — and one of their greatest frustrations.

The paper also details what has become of the extraordinary wealth generated thus far from Alaska’s original petroleum megaproject — the 800-mile trans-Alaska crude oil pipeline, in operation for 34 years now.

Staggering figures

Juneau economist Gregg Erickson and Larry Persily, the federal coordinator, co-authored the background paper, titled “State fiscal options to help move Alaska gas.”

They open with a couple of questions: “What could the state do to help the economics of a large volume natural gas pipeline from the North Slope to out of state markets, combined with a smaller in state line to serve Alaska’s energy needs? And should the state do anything?”

The paper then establishes Alaska’s staggering financial wealth resulting from its bread-and-butter petroleum industry.

“Since 1977, when North Slope crude first flowed down the trans Alaska pipeline, the state has collected $103.5 billion in oil revenue,” the paper says.

This has allowed Alaska to build a rare cushion for itself, the writers observe.

“No state in the union, and only a few sovereign nations, can boast the per capita financial assets accumulated by Alaska,” the paper says. “As of June 30, 2011, the state held $55.5 billion (over $78,000 for every resident) in the Alaska Permanent Fund, Constitutional Budget Reserve Fund and other savings accounts. If Alaska truly wants a gas line(s) to become a reality, it likely has the means to help make it so.”

Where did the money go?

The paper features a simple pie chart (reproduced here) showing how Alaska has allocated the $103.5 billion in taxes, royalties and other oil revenue.

The chart, which Erickson prepared, shows that, broadly speaking, about 62 percent has been saved or invested, with the rest consumed for government services.

“Only 33 percent,” the paper says, “is real productive assets — nonfinancial investments that increase future productivity. These investments include infrastructure such as roads and airports, or education and job training.

Another 18 percent has gone into the Alaska Permanent Fund. Fund profits from stock, bond and real estate investments support a popular annual “dividend” for state residents. This year’s dividend was $1,174 per person.

Finally, 10 percent of the state’s oil revenue has been allocated to three “rainy day” accounts, including the Constitutional Budget Reserve Fund.

How to deploy the state’s billions “has been a continuing issue for Alaskans,” the paper says, noting that staking a gas pipeline could yield significant new revenue, jobs and other rewards.

The writers suggest the smartest approach would be to pursue a large gas line for the Lower 48 market together with a smaller, local line to serve Alaska’s energy needs? And should the state do anything?”

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royalty structure, public revenues would be seven times higher under such a combination than from a stand-alone, smaller in-state gas line.\textsuperscript{10}

Some state options

While very rich now, Alaska is under pressure because of the decline in the state’s oil production and the masking effect of high crude prices, the writers note.

“Given the longstanding concern over the state’s unbalanced and unsustainable economy,” the paper says, “why hasn’t Alaska chosen to invest more of its oil revenue in long term, productive assets to take up the slack when the state feels the pinch from declining oil?”

The paper outlines eight approaches the state could take to financially assist gas line projects. Among the ideas:

- Provide direct subsidies. The state already has pledged $500 million under a 2007 law, the Alaska Gasline Inducement Act, for a proposed project involving AGIA licensee TransCanada and partner ExxonMobil. But that project currently is “high-centered,” the paper says, as TransCanada struggles to sign up customers for its line.

- “The state could build on the AGIA model by offering a substantial direct subsidy in return for further commitments by the licensee, including commitments to proceed to actual construction,” the paper says. “But this could prove very costly to the state, in that it’s likely any pipeline developer would require significant sums of state dollars to start ordering steel pipe for a project lacking enough shippers to pay the mortgage.”

- Make an equity investment. The state could own a North Slope gas pipeline outright, using its “solid credit rating” to borrow the billions of dollars it would take to build even a smaller, in-state line. “But there are risks to the state,” the paper says, including possible credit rating downgrade for adding hugely to the state’s existing debt.

- Defer gas production taxes. Deferring production taxes during the early years of a gas line project would allow North Slope producers quicker recovery of their investment, and lessen their risk if gas prices were low at the outset.

“The state expects to be cash rich with oil dollars when the gas line starts flowing, Alaska may be in a good position to defer its gas production tax receipts until later.”

- “Add to the existing loan guarantee. Congress already has authorized a federal loan guarantee on up to $21 billion of debt for a Lower 48 gas line. Because the pipeline cost has escalated to $30 billion or more, the state could offer an additional loan guarantee to cover the difference.”

- Make a shipping commitment. “As a royalty owner of approximately one eighth of North Slope gas, and as the recipient of production tax revenue, the state could consider taking its royalty gas in kind and also taking its production tax in kind (instead of a check from the producers) and signing shipping commitments equal to its share of the gas flow.”

This would shift some of the risk from the producers to the state with respect to possible low gas prices and construction cost overruns, and this “could help tip the balance on a pipeline.”

BELUGA STATUS

Lambeth said most of the efforts cited by the state address larger conservation goals and have only incidental effect on the beluga’s chance for survival. Other aspects of state plans were unfunded, he noted.

The state said the listing would deter commercial fishing, oil and gas exploration, and tourism, and could affect operations at Alaska military installations. The state claimed the fisheries service disregarded and failed to properly respond to information the state provided regarding stability of the population.

Consultation required

Lambeth rejected the state’s arguments and said the state appeared to be expressing its disagreement with the fisheries service’s results rather than the process the agency used.

“The record amply reflects, however, that the service considered the statutory factors and articulated a rational response for its listing determination, grounded that decision in the best scientific data and provided a full opportunity for public comment before publishing its final rule,” he wrote.

The listing means federal agencies, before issuing commercial permits, must first consult with the service to determine potential harmful effects on the white whales. The state also objects to the agency’s designation of 3,013 square miles of Cook Inlet as critical marine habitat for belugas. The designation excludes the Port of Anchorage. The judge did not rule on that separate issue.\textsuperscript{11}
Enbridge seizes pipeline opening

By GARY PARK
For Petroleum News

With TransCanada’s Keystone XL pipeline grounded for possibly 18 months, Enbridge is showing its Canadian rival no mercy.

It has a deal to pay US$1.5 billion for ConocoPhillips’ 50 percent share of the under-utilized Seaway pipeline from the Texas Gulf Coast to Cushing, Okla., teaming up with Enterprise Products Partners.

If the partnership gains regulatory approval for its US$300 million plan, it will reverse the line by mid-2012, offering initial capacity of 150,000 barrels per day and, following an open season, targeting 400,000 bpd by early 2013.

In addition, Enbridge and Enterprise say they remain committed to the 800,000 bpd by early 2013.

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In addition, Enbridge and Enterprise say they remain committed to the 800,000 bpd by early 2013.

ice in July 2013.

“The need for additional capacity beyond a reversed Seaway still exists,” said an Enbridge spokeswoman, adding Seaway and Wrangler are complementary.

A reversal of Seaway would also unlock Enbridge’s 193,000 bpd Spearhead pipeline, which runs from Flanagan, Ill., to Cushing, allowing it to ship crudes from Canada and the Bakken play to the Houston area.

Enbridge has also announced plans for the Flanagan South pipeline to Cushing that would initially carry 400,000 bpd by mid-2014 and could be expanded to 550,000 bpd.

No due from State Department

The assumption is that Enbridge is poised to knock TransCanada out of the ballpark, while its Calgary-based neighbor licks its wounds and ponders whether to reroute the portion of XL that crosses Nebraska to avoid the sensitive Sand Hills region.

Whatever decision it takes, the U.S. State Department gives no hint of being able or willing to bring an approval process this side of the US elections in 12 months.

The best TransCanada has managed so far, as it watches Enbridge disappear over the horizon, has been to talk about accelerating construction of its Cushing to Gulf Coast leg as part of its goal to add 500,000 bpd to the existing 590,000 bpd Keystone system.

However, analysts at Wells Fargo suggested that phase of XL was unlikely to obtain approvals from the State Department.

They said expansions of existing pipelines (such as Seaway), are “typically more economic than new-build pipelines (such as Keystone).”

Their research note said that of XL falls by the wayside, Enbridge and EPP “could pursue a larger expansion of Seaway to levels sufficient to balance the Cushing market,” estimating that undertaking could reach 800,000 bpd.

Alternatively, if Keystone XL is constructed and fully contracted, we anticipate Sea could still be expanded past 400,000 bpd,” the analysts said.

Try for positive spin

In trying to generate a positive spin, Alex Pourbaix, TransCanada’s president of energy and oil pipelines, told an investor day on Nov. 17 that a full Keystone system would provide a growth platform for future crude oil opportunities in Canada and the U.S.

Conceding that if the Seaway project proceeds it could ease the crude glut at Cushing, he suggested there is likely room for both TransCanada and Enbridge pipelines from Cushing.

“From our perspective, there’s enough oil in Cushing for both us and Enbridge—Enterprise to compete,” Pourbaix said.

He said that on top of focusing on connecting supply, TransCanada will concentrate on adding new and diversified markets for its U.S. and Canadian producers.

In Alberta, that includes competing for projects such as investments in storage facilities and pipeline extensions, such as the C$400 million Heartland extension from the Edmonton region to the Hardisty hub, Pourbaix said.

TransCanada is also considering providing crude services to the Fort McMurray region, the source of oil sands production.

As well, the company views the Bakken area as an excellent growth prospect and will continue pursuing those volumes in Saskatchewan and North Dakota, while it discusses providing incremental access points of 100,000 bpd for producers.

Amid this heated contest, Jim Williams, an energy analyst at WRTG Economics in Arkansas, said the good news for producers in Canada and North Dakota is that they stand to collect a better price for their crude if the spread between West Texas Intermediate and Brent crude futures shrinks from its high of US$25 per barrel during the summer.

At one point after Enbridge announced its Seaway proposal the differential was down to almost US$9.●

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Asia — tight link between oil, gas prices

Japan, South Korea, Taiwan, account for 51 percent of world LNG supply; big buyers in Japan and Korea favor long-term LNG contracts

By BILL WHITE
Researcher/writer for the Office of the Federal Coordinator

Japan, South Korea and Taiwan have practically no gas production of their own. They are far from the nearest gas pipeline. So they import LNG by tanker. Together these three nations took 51 percent of the world’s LNG supply last year (less than 5 percent of the world’s total gas production).

Natural gas might be a hassle to obtain for these nations, but gas has an overpowering allure. It’s an alternative to oil. The case of Japan illustrates.

In 1973, Japan got 77 percent of its energy needs from imported oil and 1.5 percent from natural gas, including LNG from a then-4-year-old plant in Alaska’s Cook Inlet.

That year, the Arab oil embargo began as the Organization of Petroleum Exporting Countries flexed its muscles on the world energy stage. Oil consumers such as Japan got double-whammied: oil prices soared and the reliability of their imported oil supplies became questionable.

Japan launched a conscious effort to diversify away from oil as an energy source.

By 1990, natural gas provided 10 percent of Japan’s energy and nuclear 9 percent, according to the Petroleum Association of Japan, with oil’s market share falling to 57 percent.

By last year, Japan got 40 percent of its energy from imported oil, 17 percent from LNG and 13 percent from nuclear — the nuclear share plunged this year after the Fukushima disaster in March. Interestingly, coal supplied 25 percent last year — yes, Japan is more reliant on coal than natural gas for its energy needs; so is South Korea.

Last year, Japan imported an average of 9 billion cubic feet of gas per day, and Korea imported 4.3 bcf/day. Like Japan, Korea has a trickle of its own natural gas production — about 6 percent of the gas consumed in Japan. In 2009, the domestic production averaged about 500 million cubic feet a day, over double current production from Alaska’s Cook Inlet basin.

To make their big move away from oil toward natural gas, Japanese utilities (and those in South Korea) made some decisions that continue to affect the price paid for gas there today.

Long-term contracts

One decision involved signing contracts for suppliers to provide natural gas for periods of 20 or 25 years. The early LNG suppliers — Indonesia, Malaysia and Brunei — were endowed with large gas fields, so they could guarantee long-term shipments.

This long-term arrangement helped Japan fulfill a critical national goal: security of supply. LNG makers also got what they needed: long-term customers so they could finance the huge up-front cost of developing gas fields and building liquefaction plants. Most of Japan’s LNG imports arrive under long-term contracts.

These long-term deals were satisfactory to all. Buyers assumed the risk that they would need all the volume they were purchasing. Sellers took the risk that prices would remain adequate over time.

LNG tanker companies got into this game, too, locking their ships into these long-term deals, keeping the vessels busy for decades.

Linking gas price to oil

Another decision linked the LNG price to the price of oil. At the time, gas was replacing oil as a fuel, so the linkage made sense. Japanese buyers typically use a formula that blends prices of various imported crude oils, a blend known in the industry as the “Japanese Crude Cocktail,” or JCC.

Gas is often sold in units of a thousand cubic feet, while oil is sold in units of 42-gallon barrels. Because a thousand cubic feet of gas holds roughly one-sixth the energy of one barrel of oil, a rule of thumb is that a thousand cubic feet of gas might be priced at around one-sixth the JCC price of a barrel. Whether on purpose or by accident, that has been the case. For example, from 1996 through 2007, the average LNG price in Japan was almost exactly one-sixth the price of oil.

The downside of this linkage is evident today, however. Oil prices lurched upward in 2004 and 2005, and kept rising, hitting a peak in the pivotal year of 2008.

Japanese LNG prices soared along with oil, although not quite as fast. Thus LNG projects in Australia, Indonesia and Russia’s Sakhalin Island north of Japan to secure future supplies, the U.S. Energy Information Administration said in a March 2011 report.

The price of emergency spot LNG cargos in Japan, as the nation replaces power generation lost after the Fukushima nuclear disaster, has been even higher.

see ASIA LINK, page 13
than the contract LNG price. However, spot cargos remain a small fraction of the overall LNG shipments to Japan.

Redundancy of infrastructure

The "security of supply" principle shows up in another feature of the Japan LNG industry: The country has far more capacity to receive and regasify LNG than is typically found among the bigger LNG importers. This redundancy lets Japan import more gas during winter and gives the Japanese peace of mind that if an earthquake, tsunami or even routine maintenance take out LNG infrastructure, the nation's gas-dependent industries will hum along.

The linkage of LNG prices to the Japan Crude Cocktail explains generally how the pricing scheme works in Japan, but digressions from the formula occur based on a variety of factors, including volumes shipped, distance the LNG travels, and how desperately the buyer and seller need the deal.

For example, Argus Media, which tracks the LNG market, reported that the July weighted average price in Japan was $16.19 per million Btu. But Japan took LNG shipments from 13 nations that month, with the price ranging from $9.04 for Trinidad and Tobago LNG to $17.47 for Malaysian LNG. Spot cargos are selling for top prices, although most shipments are sailing under long-term contracts.

The story of how LNG is priced in South Korea and Taiwan is similar to that of Japan. Argus reported that Korean buyers paid an average of $13.36 in July. The shipments came from eight nations. The low price was $6.26 from Yemen and the high was $17.24 from Oman. Other Asian buyers pay less than those in Japan and Korea for imported LNG.

LNG makers aren't selling gas to China under the same long-term pricing contracts as Japan. China cut some particularly tough deals for its first long-term LNG buys about a decade ago. Spot cargos are different, and LNG makers have been asking top dollar. In Japan, the spot LNG price jumped to over $17 per million Btu in October, up from $10 in March before Fukushima. Prices have climbed so high that some refineries in India are switching to fuel oil rather than paying premiums for spot LNG shipments.

In some cases, the link between oil and gas prices in long-term contracts sets a ceiling on the maximum oil price used in the formula. Indonesia recently has been trying to renegotiate the $38 oil price cap in an LNG-supply contract it has with a China buyer, according to Platts. That cap was set in 2006 and was negotiated increase from the original ceiling of $25 per barrel from 2002, Platts said.

China appears to be in a particularly strong position when it comes to gas-price negotiations. It doesn't buy very much yet, but virtually all of the world's gas exporters would like to be selling into the world's hottest economy. China buys both pipeline gas and LNG, but it also has its own domestic production and is investing to boost that production.

Many analysts believe Japan and Korea will continue to favor long-term LNG contracts, with prices linked to oil.

Editor's note: This is a reprint from the Office of the Federal Coordinator, Alaska Natural Gas Transportation Projects, online at www.arcticgas.gov/print/Asia-tight-link-between-oil-gas-prices.
FERC judge: Pick up the pace of hearing

Oral testimony in joint federal-state review of trans-Alaska pipeline shipping rates dispute gets off to slow start in Anchorage

By ROSE RAGSDALE
For Petroleum News

Proceedings advanced so slowly during the first weeks of a joint federal and state hearing that one of the two presiding judges spoke out to urge attorneys in the complex case to speed up the pace of witness interrogation.

The hearing, held by the Federal Energy Regulatory Commission and the Regulatory Commission of Alaska, began Oct. 31 in Anchorage. It concerns a proposal by the trans-Alaska oil pipeline carriers to recover hundreds of millions of dollars of costs associated with ongoing “strategic reconfiguration” of the 800-mile conduit.

“We’re starting the fifth day of the hearing, and we’re on the second witness. So I am going to ask the parties, have you considered the possibility of waiving cross-examination of some witnesses?” FERC Administrative Law Judge Carmen A. Cintron asked the attorneys Nov. 4.

The Commission and the RCA had agreed for the hearing to continue for about three weeks. The hearing will then recess until after Thanksgiving and reconvene in Washington, D.C., in late November for another three weeks or so. Thereafter, the hearing was scheduled to reconvene in Washington after New Year’s for one week before returning to Anchorage for a final week at the end of January.

In response to the judge’s question, Cintron then asked the “TAPS carriers” to develop a plan to get the hearing “back on track.”

Strategic reconfiguration, or SR, refers to a costly multiyear renovation and modernization program initiated by the pipeline’s operator, Alyeska Pipeline Service Co., on behalf of the conduit’s five owners …

David Lewis of Sydney Austin, representing ExxonMobil Pipeline, said, “We do not plan to waive cross-examination of any witnesses.”

To which, Cintron responded: “Maybe you can surprise me later on.”

Said Lewis: “I’m sure there will be some surprises as we go along, but I doubt that that will be one of them.”

“You’ve just blown my day,” replied Cintron, who presided jointly in the hearing with RCA Administrative Law Judge Debra J. Brandwein.

Timeliness an issue

At the start of proceedings Nov. 7, Cintron again raised the issue of timeliness.

“The commissions, both of them, and the parties are spending a lot of money in this proceeding,” said Cintron. “As of today, the second week of hearings, we’ve only gone through one witness, and we are on cross-examination of the second witness. By my count, we are at least a week behind in the schedule.”

Cintron then asked the “TAPS carriers” to develop a plan to get the hearing “back on track.”

Strategic reconfiguration, or SR, refers to a costly multiyear renovation and modernization program initiated by the pipeline’s operator, Alyeska Pipeline Service Co., on behalf of the conduit’s five owners, BP Pipelines (Alaska) Inc., ConocoPhillips Transportation Alaska Inc., ExxonMobil Pipeline Co., Koch Alaska Pipeline Company LLC, and Unocal Pipeline Co., in 2002.

The pipeline’s shippers and the State of Alaska dispute how the SR costs should be allocated and that the carriers’ proposed tariff increases aimed at recovering these costs have not been shown to be “just and reasonable,” and they raised numerous issues in their protests similar to concerns expressed about the pipeline carriers’ tariff increase requests filed in 2009 and 2010.

SR issues consolidated

The FERC has consolidated various SR issues in the tariff dispute with the SR phase of the consolidated 2009 rate proceeding in Docket No. IS09-348-004, et al.

The SR costs would have a very substantial impact on the pipeline’s shipping rates, related exploration and development activities on the Alaska North Slope, and revenues the State of Alaska receives from resulting crude oil production.

“It is critical that an accurate and complete record be developed for the presiding judges, this Commission, and the RCA on the important issues presented in this case,” the FERC’s trial staff wrote in early October.

In opening statements Oct. 31, all sides weighed in with arguments on the SR issues.

On behalf of the State of Alaska, Bradley Lui of Morrison & Foerster said the case revolves around whether the TAPS carriers prudently managed the conception, planning, design and execution of the strategic reconfiguration program.

Casting more, taking longer

“The SR program was originally slated to cost approximately $252 million and was supposed to have taken two years to perform with completion by the end of 2005,” said Lui. “It is now currently estimated that it will cost over three times as much, around $780 million, and is not projected to be completed until 2014 at the earliest.”

Lui said the carriers made a “horrible mistake” by choosing an electrification program from among several options. If they had pursued a “hybrid” approach, the SR program would be essentially finished now at a cost of $181 million.

In his opening statement, Steven Brose, counsel for ConocoPhilips Transportation Alaska Inc. represented the pipeline carriers. He said SR was extensively studied, tested and vetted, dating back to 1997, before the carriers approved the option they chose.

Brose said the option was the one most consistent with the obligation and the state right-of-way lease that required the carriers to use “the best available technology for TAPS.”

SR made TAPS better day to day. It made it better for the long term. And it made it better in emergency circumstances, as we saw with the incident at pump station I earlier this year,” he concluded.

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Meeting the demand in Asia

Local supply will continue at a strong pace in Asia as demand grows in that region, “but it’s not enough to fully meet demand and as a result imports are going to be required for more than a third of their region’s demand in 2030,” he said, mostly as LNG sourced from areas in the region like Australia, Papua New Guinea and Indonesia.

But Asian utilities will look for diversity of supply and there will be competition to meet the region’s growing needs.

“Now the wild card in this outlook, for both Asia and Europe,” Kirchhoff said, “... is what happens to the unconventional development.”

While there is potential for unconventional development, in Europe it has moved at a slower pace than in the U.S.

“Alaska North Slope gas is competing in a growing and increasingly global marketplace,” he said. Growing demand will generate strong incentives to bring resources to market, resulting “in stiff competition for delivering economic projects.”

While ExxonMobil believes “Alaska North Slope gas can play a role in meeting the global need for energy ... it’s essential that the key stakeholders are aligned,” Kirchhoff said. He said Gov. Sean Parnell has been reaching out to industry, and “has recognized that predictable and durable fiscal terms are a prerequisite for developers in prioritizing the financial and human resources required to bring a project of this magnitude to fruition.”

Kirchhoff said that ExxonMobil also sees “benefit in building upon the foundation laid within the framework of the Alaska Pipeline Project and AGIA (Alaska Gasline Inducement Act), as we continue to work forward.”

Chances for Lower 48 line

Persily addressed the issue of whether there is hope for an interstate natural gas pipeline from the North Slope.

While the National American market has problems — the supply of unconventional gas currently available — the Asian market also has problems, he said.

“There’s competition,” Persily said, and because someone may be paying $16 per thousand cubic feet on the spot market for LNG today, there’s no guarantee that they will pay that price for Alaska gas for the next 30 years.

He compared the problem in Alaska today with a political nominating convention: “Everyone in Alaska has their ‘favorite son’ for getting Alaska North Slope gas to market. ... No one’s going to compromise; no one will walk away from their favorite son; no one is willing to negotiate; no one wins.”

“It’s a stalemate,” Persily said.

He listed 10 proposals to get North Slope natural gas to market: AGIA, Asia-Pacific markets, All-Alaska line, Valdez terminal, Nikiski terminal, Alaska Natural Gas Development Authority, trucking gas to Fairbanks, Energia Cura, stub-to-hub and Alaska Gasline Port Authority.

Alaskans need to get behind one project, he said.

“Producers are used to dealing with steel prices, market prices, volatility,” “Alaska politics is squarely, let’s face it,” he said. “Great theater, I’m not sure how productive it is.”

Cutting a deal

Persily said he thinks Alaskans are starting to warm up to the idea that to commercialize North Slope gas they will have to cut a deal.

He said “Alaskans need to measure the success of this project not in Alaska tax dollars, but in the value of jobs, the affordable gas for Alaskans and the investment it’s going to bring to Alaska, for gas and oil.”

“Alaskans need to realize that we need a gas line: we need it for the jobs, for the energy, we need it for the development it’s going to bring to the state,” Persily said.

In 2005 to 2008, we thought that gas was worth $14 an mcf,” he said. “Well, it isn’t. You’re not going to get those kinds of prices.”

“You want to get into the market, come up with a fiscal structure that prices the commodity so that you can get into the market. And then over the next 50 years there will be good times in the market and you will profit,” Persily said.

“But if you wait for that day when the market is at its peak, you’re going to be too late.”

Contact Kristen Nelson

at knelson@petronews.com

—KRIStEN nELSON
**Companies involved in Alaska and northern Canada’s oil and gas industry**

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REDFORD

disagreement (because) we often speak past each other and refuse to engage with those who see things differently.”

But one of her first jobs was to put a softer edge on what was seen as a thinly veiled threat by Prime Minister Stephen Harper to shift Canada’s oil export focus from the U.S. to Asia.

“For the prime minister to say we have options in Canada is simply a factual statement,” Redford told a media briefing. “It’s simply a matter of saying we will continue to be a country that exports resources.”

At a later meeting with Ontario Premier Dalton McGuinty, a frequent critic of the oil sands, Redford described Canada’s economic success as “dependent on exports and the prosperity they bring, but the U.S. demand (for oil) is declining.”

“An oil star is rising and it will dominate the 21st Century. We can guarantee national prosperity for a long time to come by supplying them with the energy they need,” she said.

“The reality is that Canada and Alberta will build markets and we will go where there are markets that are available to us. I don’t think we’re looking at an either/or, and I never thought we were.”

However, she did suggest the Obama administration’s decision to stall on Keystone XL might accelerate the process of seeking out new customers for Alberta crude.

In Washington, Redford said it was not her job to lobby for XL, although she met with some senators who are opposed to the project.

“We are going to be very bold about what is going on with our environmental policy in Alberta. I’m not afraid to have that discussion,” she said. “I have not sought out meetings with political leaders who are opposed (to XL) for the purpose of trying to convince them that they should be supportive.”

But she said it was “not the time” to abandon XL and shift support to Enbridge’s Northern Gateway pipeline, or any other options, arguing it made the most sense for Alberta to “pursue all options simultaneously.”

Redford said it was “naive” of critics to suggest she should have been in the U.S. earlier to advocate for XL.

“This is a process that must take place in the United States,” she said. “It would not have been appropriate for the government of Alberta to be lobbying in this process.”

In her efforts to build support in Eastern Canada for a strategy that pulls together the oil sands, the hydro power of British Columbia, offshore oil in Atlantic and McGuinty’s green agenda, she said all 10 provinces and three territories “must contribute to making this country a global energy leader.”

“If we truly want to be a global energy leader, technology champion and environmental citizen, we have to reduce our market dependence on the United States,” she told the Economic Club of Canada.

Observers believe that an alliance of wealthy Alberta and Ontario, which accounts for 38 percent of Canada’s 34 million population, would be a formidable step towards building an energy superpower.

David Taras, a political scientist at Calgary’s Mount Royal University, said Redford is publicly “reaching out like few recent Alberta premiers,” showing she “knows the importance of bridging-building and having allies. She’s someone who sees the long-run.”

But she displayed a tougher edge as well, taking on opposition members of Parliament from the New Democratic Party who have lobbied U.S. lawmakers to block XL. She said it was not appropriate to meddle in a U.S. domestic process and become “political activists in advising U.S. decision-makers.”

—GARY PARK

continued from page 1

ALYESKA FINE

PHMSA, in 2008, said Alyeska had failed to produce records for required atmospheric violation of pipeline safety regulations.


Alyeska was facing its largest fine, $817,000, under a case brought in 2007. PHMSA, in that case, issued Alyeska a notice of probable violation for “at least three pipeline failures of TAPs.”

The alleged failures included a fire in the containment area of a crude oil storage tank at Pump Station 9 in which a portable heater ignited escaping oil vapors, a 900-gallon oil spill at a valve along the pipeline; and a failed operation involving a “scraper pig,” which is a device used to clean the inside of a pipe.

PHMSA said the failures raised “cause for concern regarding the operational integrity of TAPs.”

Among other criticisms, the agency said Alyeska failed to properly report the fire and failed to follow its corporate safety manual, which requires keeping portable industrial heaters at least 25 feet away from any oil, gas or electric process facility.

In 2006, PHMSA issued Alyeska a notice of probable violation and, after a hearing held at the company’s request, issued a final order much later, in January 2010, assessing total penalties of $263,000.

PHMSA alleged Alyeska committed two violations of pipeline safety regulations. First, it was too slow to obtain a vendor’s full report on a 2004 pig run to test for corrosion or other hazards on the pipeline, the agency said. Second, Alyeska failed to promptly repair a damaged segment of buried pipe near mile 546, PHMSA said.

In August 2010, after paying the $263,000, Alyeska sued PHMSA in Alaska federal court, arguing among other things that the fine was excessive.

As a result of the settlement with PHMSA, Alyeska’s lawyers on Nov. 17 filed papers to have the suit dismissed.

In 2008, PHMSA issued a notice of probable violation to Alyeska, proposing a civil penalty of $170,000.

The agency said inspections along the pipeline, including road crossings, revealed deficiencies in the company’s efforts to prevent corrosion. The case questioned Alyeska’s vigilance in using a corrosion-fighting technique known as cathodic protection, and also faulted the company’s record-keeping.

The fourth case covered under the settlement was brought against Alyeska in April 2009, when PHMSA issued a notice of probable violation to the company with a proposed civil penalty of $43,800.

The notice said that during an inspection, a flange was found to be inadequate for handling surge pressure at Pump Station 3, allowing the release of oil onto the station floor.

Under the settlement, however, PHMSA withdrew the safety allegation regarding the flange.

The $600,000 civil penalty specified in the four cases involved: the 2007 case and the 2008 case.

“We worked with PHMSA for several months to reach agreement,” Alyeska spokesperson Michelle Egan told Petroleum News. She said the deal closes
BUSY SEASON
continued from page 1
now plans to use the Nabor's 7-ES rig to further deepen the well through the Kuparuk C zone and do some flow test- ing. The company also plans to drill two appraisal wells, the Mustang No. 1 and Mustang No. 2, with these wells and the North Tarn well all being in the newly formed Southern Mielveeatch unit. In anticipation of what the company calls its "Mustang development" in the unit, this winter the company will also explore for sources of gravel for future roads and pads, Armfield said.

Repsol has largest program
Spanish major Repsol YPF is running by far the biggest exploration program on the North Slope this winter — the compa- ny plans to use five drilling rigs at five locations in a partnership with Armstrong Oil & Gas and GMT Exploration Co., drilling multiple wells in their 492,211 acres of state lease holdings.

Repsol's Alaska operations manager Bill Hardham told the RDC conference on Nov. 16 that his company has been extremely busy gear- ing up for its winter drilling and that the company will access its state lease holdings. Repsol has contracted with Alaska Airlines for two flights per week to the North Slope from Anchorage, Hardham said.

He said Repsol's aggressive approach to exploring in its leases reflects the fact that the leases are set to expire within just six years, although establishing oil production in Alaska as part of the company's world- wide portfolio is also very important.


Five wells for Linc at Umiat
Australian inde- pendent Linc Energy plans to drill up to five wells in the undeveloped Umiat oil field, on the bor- der of the National Petroleum Reserve-Alaska, to the south of the central North Slope, Corri Feige, Linc general manager for Alaska, told the RDC conference.

The company wants to conduct oil flow testing from three or four of the wells, to obtain data for a field development plan, she said. Permitting for this winter's drilling

Back in northern Alaska, Linc will co-locate a portion of its snow packed road to Umiat with a road that Anadarko Petroleum plans to build for access to its Chandler No. 1 gas well. Anadarko plans to conduct some rig-less testing of the Chandler well this winter.

Anadarko and Pioneer
Back in northern Alaska, Linc will co- locate a portion of its snow packed road to Umiat with a road that Anadarko Petroleum plans to build for access to its Chandler No. 1 gas well. Anadarko plans to conduct some rig-less testing of the Chandler well this winter.

the company notified Alaska's Division of Oil and Gas that, owing to the lack of an available drilling rig, it was very likely that the company would have to defer its planned drilling into 2013, UltraStar Managing Member Jim Weeks told Petroleum News in a Nov. 20 email. However, the company asked the division to continue processing its permits in case a rig comes available at short notice, should another company change its plans.

Great Bear working on permits
Great Bear Petroleum, the company pio- neering underground coal gasification oil development in Alaska, hopes to drill its first test wells on its North Slope acreage in the coming winter.

Ed Duncan, Great Bear's president and COO, told Petroleum News Nov. 21 that he is considering several rig options, including the possibility of bringing a more modern rig from the Lower 48 that Great Bear thinks may be better suited for drilling in source rock plays, a rig that will have to be made Arctic ready.

Duncan said that he is not going to con- tract the use of a rig until he is certain of securing all of the permits he needs for his year-round exploration and evaluation pro- gram. Permitting is progressing well, he said.

The company has formed a joint venture with oilfield service company Halliburton, in which Halliburton will do some of the test drilling within a limited area of Great Bear's leases.

Great Bear is permitting six wells on six gravel pads along the Dalton Highway, intending to run short tests on at least four wells before deciding to sanction a pilot plan. The company will use a combination of rig mats and existing surface infrastructure at each site, Duncan said.

In Nov. 1 testimony to a special meet- ing of the Alaska Legislature's House Resources Committee, Duncan said Halliburton and Great Bear each plans to drill their wells as three vertical wells and a lateral from each of those wells.

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GROWING ALASKA
people to pay attention to Cook Inlet.” He noted that with the exception of Eskape-Furie, all the speakers on the RDC Cook Inlet panel were CIRI lessees in one form or another, “some major, some minor.”

Furie, all the speakers on the RDC Cook Inlet panel noted that with the exception of Eskape-Furie, all the speakers on the RDC Cook Inlet panel noted that with the exception of Eskape-Furie, all the speakers on the RDC Cook Inlet panel noted that with the exception of Eskape-Furie, all the speakers on the RDC Cook Inlet panel noted that with the exception of Eskape-Furie, all the speakers on the RDC Cook Inlet panel noted that...
gas production in the Lower 48 states. The company has formed a joint venture with oil services company Halliburton, in which Halliburton will do some of the test drilling within a limited area of Great Bear’s leases — Great Bear and Halliburton are each permitting three wells to be drilled from six drill sites along the Dalton Highway.

**Needs a rig**

Duncan said that the company is considering several different rig options for its planned drilling. He said that, although he could obtain the use of a North Slope rig, he is currently leaning toward the possibility of obtaining from the Lower 48 what is referred to as a “hybrid rig,” a modern rig design that can be used both for conventional drilling with rigid drill pipe and for coiled tubing drilling.

“We’re looking at that rig design as the way to go,” Duncan said.

Rigs of this type can operate more efficiently in a shale oil operation, and having the ability of obtaining from the Lower 48 is referred to as a “hybrid rig,” a modern rig design that can be used both for conventional drilling with rigid drill pipe and for coiled tubing drilling.

**Permitting challenge**

Great Bear has found permitting to be the biggest single challenge in moving its project forward, although the company does now think that the permitting is progressing well, Duncan said. And the Parnell administration has been helpful in clarifying issues and facilitating the permitting process, he said.

“We’re feeling very, very positive,” Duncan said.

Duncan said that the North Slope Borough had made some challenging comments on the permits but that he thought that his company has done a good job of addressing the borough’s concerns. The permitting process and its associated comment periods provide opportunities for people to put ideas and agendas on the table — Great Bear has “tried to be really open from day one, being clear about what we’re trying to do,” Duncan said. Duncan said that in general Great Bear has received positive comments on its plans from North Slope communities.

And when it comes to environmental impacts, a source rock oil development has some flexibility over the exact locations where wells need to be drilled — Great Bear anticipates a surface footprint of less than 0.5 percent of the land surface, Duncan said.

**Test the rocks**

Great Bear’s plan is to initially drill vertically through the three main North Slope source rock intervals — the Shublik, the lower Kingak and the Hue shale/GRZ — to test and sample the rocks. This initial drilling would be followed by the drilling of lateral wells from the vertical well bores, with hydraulic fracturing then used to enable short term production tests. And, given that the drilling will be done from already existing gravel pads, the company hopes to be able to conduct the lateral drilling phase of its program in the summer, to take advantage of the extensive daylight and summer weather, Duncan said.

The objective of the program is to run short tests on at least four wells, with those tests potentially leading to the sanctioning of a pilot plant to more fully explore the production characteristics of the rocks, Duncan said. It will be necessary to obtain at least a one-year production profile, determine parameters such as production decay characteristics, as well as establishing the economic feasibility of oil production from the rocks, before making a decision to move to full field development, he said. That sequence of events could lead to full-field development in 2015, he said.

But the eventual timing of the development program will depend on the results from the early drilling, he said.

Great Bear sees the Shublik as its prime target for source rock oil production, given the similarity between that rock and the productive Eagle Ford shale in Texas. However, the company will sample the other North Slope source rock intervals during its drilling program and it does not discount the possibility of oil production from either of these other intervals as well as from the Shublik.

Duncan said that he is confident that Great Bear will be drilling into the “kitchen” where the source rocks are “generating oil.” The fluid pressure gradient with depth will be somewhat higher than normal, a factor also likely to support effective oil production, he said.

**Geologic uncertainty**

But until the company drills some wells and conducts some tests, the potential productivity of any of the source rocks remains unknown. And there is geologic uncertainty associated with likely variations in productivity around the source rock play.

Great Bear is working to implement a 3-D seismic program in its acreage, to reduce some of the uncertainties associated with drilling, Duncan said.

When it comes to developing a shale oil play in Alaska, Duncan sees finding a skilled workforce to meet all of the work needs as a primary challenge. He has been promoting GeoForce, a program to encourage school students to pursue high-value technical careers. The program has been introduced in Alaska in conjunction with the University of Alaska Fairbanks.

Great Bear wants to exclusively hire Alaskans, but that will be a huge training challenge, Duncan said. North Slope source rock oil development will be a 25 to 30 year phenomenon — it is important now to excite eighth to 10th grade students on the North Slope about future career possibilities close to home, he said.

Contact: Contact Alan Bailey at abaley@petroleumnews.com

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