Shell describes its oil spill response arrangements for the Arctic OCS

**By ALAN BAILEY**

Shell is preparing for the possibility of an oil spill in the Arctic with a response plan that includes the deployment of a new oil spill response vessel. The plan is designed to respond to an “oil spill of significant consequence” in the Arctic Ocean, which could include spills from drilling or production activities.

The plan includes the deployment of a new oil spill response vessel, which will be based in Alaska and will be able to respond to spills in the Arctic Ocean. The vessel will be equipped with the latest technology and will be able to respond to spills of any size.

Shell has also developed a new oil spill response system, which includes a network of onshore bases and offshore vessels. The system is designed to respond to spills in any part of the Arctic Ocean, and will be able to respond to spills of any size.

Ptoff, Boelen's revive old Aurora company to bid in Cook Inlet sale

**By GARY PARK**

A new company has been formed to bid on the Cook Inlet oil fields, and it is backed by the Aurora Energy Group, which is the owner of the Aurora Oil & Gas LLC.

The new company, Aurora Exploration, will be run by the same group of people who owned Aurora Oil & Gas in the past, and it will be led by Aurora Energy Group CEO John Brannan.

The company will be focused on developing the oil fields in the Cook Inlet, and it will be looking to partner with other companies to develop the fields.

Laying out the plan

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Looking more positive?

**By ALAN BAILEY**

Obama administration makes moves to speed up Arctic oil and gas development

The Obama administration is taking steps to speed up the development of Arctic oil and gas resources. The plan includes new leases in the Chukchi Sea and Beaufort Sea, and is designed to provide a pathway for the development of these resources.

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The plan is designed to provide a pathway for the development of Arctic oil and gas resources, and will provide a significant boost to the Alaska economy. The administration is confident that the plan will be successful, and that it will provide a significant boost to the Alaska economy.
ON THE COVER
Laying out the plan
Shell describes its oil spill response arrangements for the Arctic OCS
Pull together, not apart
Call out for oil sands operators to collaborate in keeping capital costs in check
Looking more positive?
Obama administration makes moves to speed up Arctic oil and gas development
2nd well goes into production on Alaska’s reborn Osprey platform
Pfoff, Boelens revive old Aurora company to bid in Cook Inlet sale

ALTERNATIVE ENERGY
12 RCA considers wind power sales agreement
Fire Island Wind, Chugach Electric say timely decision needed to maintain tight construction schedule, qualify for stimulus grants
17 Kodiak moves forward with wind energy

ENVIRONMENT & SAFETY
6 Arctic Frontiers conference in Norway
6 Group campaigns against Shell drilling

EXPLORATION & PRODUCTION
6 BOEMRE invites Beaufort Sea comments
8 June ANS production down 5.7% from May
Turnarounds at Endicott, Lisburne, drive production drop; Endicott ramping up, Lisburne work continues; other projects under way
10 Buccaneer expects to recover timeline
11 Escopeta signs major service contracts
17 CGG Veritas to shoot multi-client 3-D
17 Alaska O&G Congress set for September

FINANCE & ECONOMY
6 ConocoPhillips splits into E&P, R&M
9 Alaska Senate to study Slope employment
11 Feds seek approval of Prudhoe settlement
Consent decree would require BP Alaska to pay $25M to resolve civil suit brought in connection with 2006 oil pipeline leaks
13 EIA: oil markets expected to tighten
IEA release of 60 million barrels a factor, but so are changing expectations, supply disruption uncertainty, OPEC spare capacity

GOVERNMENT
4 Stevens: oil should benefit Alaskans
Senate president says progressivity a big issue in oil tax debate, but wants to encourage industry to explore, do new development

NATURAL GAS
10 FNG moving ahead on North Slope LNG
14 The long road for natural gas vehicles
CNG vehicles US fleet vehicle niche market; issues cost, space for CNG tank, need to refuel frequently, lack of refueling stations

PIPLEINES & DOWNSTREAM
6 DOE sells SPR crude oil to 15 companies
7 Kinder Morgan joining market race
Schedules open season to add 400,000 bpd of new capacity to Pacific Coast, but proposal faces environmental, community opposition
9 Alyeska sets maintenance shutdown
10 Pipe leak detection conference scheduled

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# Alaska - Mackenzie Rig Report

## Alaska Rig Status

### North Slope - Onshore

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doyon Drilling</td>
<td>Dreco 1250 UE 14</td>
<td>Prudhoe Bay 5-670H</td>
<td>BP</td>
</tr>
<tr>
<td></td>
<td>Sky Top Brewster NE-1-2</td>
<td>Prudhoe Bay Yard for Modification</td>
<td>ENI</td>
</tr>
<tr>
<td></td>
<td>Dreco 1000 UE 16</td>
<td>Prudhoe Bay W-04 Workover</td>
<td>BP</td>
</tr>
<tr>
<td></td>
<td>Dreco D2000 UE BD 19</td>
<td>Alpine CD34-110</td>
<td>ConocoPhillips</td>
</tr>
<tr>
<td></td>
<td>AC Mobile 25</td>
<td>Prudhoe Bay K-10C</td>
<td>BP</td>
</tr>
<tr>
<td></td>
<td>OIME 2000 141</td>
<td>Kuparuk Standby</td>
<td>ConocoPhillips</td>
</tr>
<tr>
<td></td>
<td>TSM 7000 Arctic Wolf #2</td>
<td>In Nikiski, AK</td>
<td>Available</td>
</tr>
<tr>
<td>Kuuskik</td>
<td>5</td>
<td>In Marine Transit to Barrow</td>
<td>North Slope Borough</td>
</tr>
</tbody>
</table>

### Alaska Rig Status

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
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<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doyon Drilling</td>
<td>Dreco 1000 UE 2-E</td>
<td>Prudhoe Bay Stacked out</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Mid-Continental 350</td>
<td>Prudhoe Bay Stacked out</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Oilwell 700 E 4-E</td>
<td>Prudhoe Bay X-22A</td>
<td>BP</td>
</tr>
<tr>
<td></td>
<td>Emisco Electric-host 7-E</td>
<td>Prudhoe Bay CE-12A</td>
<td>BP</td>
</tr>
<tr>
<td></td>
<td>Dreco 1000 UE 7-E</td>
<td>Prudhoe Bay DS 13-27B</td>
<td>BP</td>
</tr>
<tr>
<td></td>
<td>Dreco 1000 UE 9-E</td>
<td>Has been released by Brooks Range</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Oilwell 2000 Hercules 14-E</td>
<td>Prudhoe Bay Stacked out</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Oilwell 2000 Hercules 16-E</td>
<td>Prudhoe Bay Stacked out</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Oilwell 2000</td>
<td>Prudhoe Bay Stacked out</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Emisco Electric-host-2 18-E</td>
<td>Stacked, Deadhorse</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Emisco Electric-host Varco TD 32-4</td>
<td>Stacked, Milne Point</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Emisco Electric-host Carving 107E 214-E</td>
<td>Stacked at Point Thompson</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Academy Electric Carving 106-E</td>
<td>Stacked at Deadhorse</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Academy AC Electric Well Rig 116-E</td>
<td>Stacked at Deadhorse</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>General Electric 2000 24-E</td>
<td>Oilfield Point OSP-51</td>
<td>ENI</td>
</tr>
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</table>

### North Slope - Offshore

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nabors Alaska Drilling</td>
<td>Superior 700 UE 1</td>
<td>Prudhoe Bay # Drill Site E Conducting Rig</td>
<td>BP</td>
</tr>
<tr>
<td></td>
<td>Superior 700 UE 2</td>
<td>Prudhoe Bay Well Drill Site 5-35</td>
<td>BP</td>
</tr>
<tr>
<td></td>
<td>Ideco 900</td>
<td>Prudhoe Bay</td>
<td>Available</td>
</tr>
</tbody>
</table>

### Cook Inlet Basin – Onshore

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aurora Wolf Service</td>
<td>Francis 300 Sm. Explorer II</td>
<td>AWS 1</td>
<td>Aurora Gas</td>
</tr>
<tr>
<td></td>
<td>Oilwell 2000 19-E</td>
<td>Oooguruk GDN-23</td>
<td>Pioneer Natural Resources</td>
</tr>
<tr>
<td></td>
<td>Oilwell 2000 33-E</td>
<td>Prudhoe Bay Stacked out</td>
<td>Available</td>
</tr>
</tbody>
</table>

### Cook Inlet Basin – Offshore

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marathon Oil Co.</td>
<td>TSM 7000 Arctic Fox #1</td>
<td>Stacked Beluga</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Taylor Glacier 1</td>
<td>Susun Dronne #7</td>
<td>Buccaneer Alaska</td>
</tr>
</tbody>
</table>

### Mackenzie Rig Status

### Canadian Beaufort Sea

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chevron (Nabors Alaska Drilling labor contract)</td>
<td>428</td>
<td>M-11 Steeplhead Platform</td>
<td>Chevron</td>
</tr>
<tr>
<td>XTO Energy</td>
<td>National 3320</td>
<td>Arctic Well #1</td>
<td>XTO</td>
</tr>
<tr>
<td></td>
<td>National 110</td>
<td>CA-4</td>
<td>XTO</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
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<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>SDC Drilling Inc.</td>
<td>SDC CANMAR Bland Rig #2</td>
<td>Set down at Roland Bay</td>
<td>Available</td>
</tr>
<tr>
<td></td>
<td>Akita/Sahuco</td>
<td>Oilwell 500 51</td>
<td>Available</td>
</tr>
</tbody>
</table>

### Baker Hughes North America rotary rig counts*

<table>
<thead>
<tr>
<th>Country</th>
<th>July 8</th>
<th>July 1</th>
<th>Year Ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>1,887</td>
<td>1,886</td>
<td>1,567</td>
</tr>
<tr>
<td>Canada</td>
<td>331</td>
<td>240</td>
<td>346</td>
</tr>
<tr>
<td>Gulf</td>
<td>33</td>
<td>33</td>
<td>14</td>
</tr>
</tbody>
</table>

### Highest/Lowest

<table>
<thead>
<tr>
<th>Country</th>
<th>Highest</th>
<th>Lowest</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>4530</td>
<td>December 1981</td>
</tr>
<tr>
<td>Canada</td>
<td>558</td>
<td>January 2000</td>
</tr>
<tr>
<td>Gulf</td>
<td>29</td>
<td>April 1992</td>
</tr>
</tbody>
</table>

*Issued by Baker Hughes since 1944

The Alaska - Mackenzie Rig Report as of July 14, 2011. Active drilling companies only listed.

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

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WEB

GOVERNMENT

Stevens: oil should benefit Alaskans

Senate president says progressivity a big issue in oil tax debate, but wants to encourage industry to explore, do new development

By STEVE QUINN
For Petroleum News

Senator President Gary Stevens may have coined one of the most repeated phrases in this two-year legislative term—“We will not be bullied.” Stevens said in a floor speech deemed rare for a Senate president.

Stevens was speaking in response to criticisms against the Senate, deemed “do nothing,” for not acting on Gov. Sean Parnell’s bill to reduce oil taxes.

Stevens assigned House Bill 110, the governor’s production tax change bill, to three committees; it remains with its first assignment, the Labor and Commerce Committee.

He says he’s been portrayed as anti-oil for not pushing the bill through the Senate, and for following the Senate majority’s position in his speech.

But the Kodiak Republican stresses he understands the need for resource development—but it must be balanced with the state’s interest.

Petroleum News: You’ve got plenty to do as Senate president, so why spend time on the resources committee?

Stevens: I guess because it is so important. I was a general manager of a seafood processing company for five years. I invested in fishing boats, so I was very, very concerned about fishing. So in that aspect of resources, fishing is always important to me. I think it’s such an important issue.

Petroleum News: What are the priorities for resource development during the interim and leading into next year’s session?

Stevens: It’s exactly as my experience has led me in the fishing industry: to make sure the resources benefit all Alaskans. I think it goes right across the board: the fishing industry, oil and gas; mining, all of it. We have to make sure Alaskans benefit from these resources.

When I spoke on the floor of the Senate, questioning the governor’s $2 billion tax reduction for the oil and gas industry, I was painted as being anti-oil and gas. That is certainly not the case. I know how important those industries are; I know how essential it is to the future of Alaska that we have a good healthy and oil industry. It’s not as if I want to punish the oil and gas companies. That’s not true at all. I just think we have to control that development just as we have with fisheries to make sure the people benefit from it and make sure we get our fair share.

Petroleum News: The theme seems to be filling up ZAPS or at least increasing throughput. How much responsibility should the state bear for something that is a private enterprise?

Stevens: We do bear a little responsibility. I’ve heard all the arguments that say if we don’t increase the volume and if we don’t get as the governor wants million barrels a day, the pipeline is on the way out. Well, if you read Judge (Sharon) Gleason’s report, you find that’s not what she found. The funny thing to me is in the end of that court case, Judge Gleason said, if we did not have a pipeline today, it would be worth it to build a brand new one because the cost of that pipeline would be $10 billion to access $250 billion of resource. We have to keep our head about us and not listen to the few who say the sky is falling and if we don’t get 1 million barrels a day in that pipeline it’s going to be torn up. That’s not true. I think people who are running around saying that are doing a huge disservice; they see STEVENS & page 5

CORRECTION

$500M for social economic impact fund

In the July 3 issue of Petroleum News, O.D. Hansen, manager communications, regulatory and technical services with Mackenzie Valley Aboriginal Pipeline LP, was inaccurately reported as saying his group would request $500 million from the Canadian government to cover the costs of its participation in the Mackenzie Gas Project. The $500 million is actually earmarked for a social economic impact fund to alleviate the socio-economic impacts on Northwest Territories aboriginal communities during planning, construction and operation of the project.

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PETROLEUM NEWS  •  WEEK OF JULY 17, 2011

STEVENS Q&A

are frightening a lot of Alaskans. That pipeline is very important. I don’t know what the right amount is. At the beginning of the pipeline, we were putting 2 million barrels a day through that pipeline. That’s foolish. We did it because that’s what the oil industry wanted. That was not in the best interest of Alaskans. The best interest of Alaskans is to make sure we use that oil on our time schedule. We need to make sure the companies are profitable, make sure they are doing OK. We’ve got to make sure that oil is used on our timeline, not theirs. Two million barrel a day is simply too much. It’s pushing the system. They were just out there looking for a market, I think, in the short run. It’s in their interest to push that market. What is the right amount of oil? I think even the government’s 1 million a day may be too much. What is the right amount for Alaskans? Let’s look at that first and then decide. It’s not as if we want to punish them. We want to make sure we get our fair share out of it; it’s not there just for us. Who says our generation gets to use all of the oil out of Prudhoe Bay? Who says that? What about our children and our grandchildren? We should make the wisest use of that resource so that it benefits Alaskans now and into the future. Some people are out there saying some crazy things. You have to say, why, how and what do you mean? Let’s look at it. Show me the facts.

Petroleum News: Why was 2 million too much?

Stevens: We were putting 2 million barrels through the pipeline. Alaska has a right to say, want a minute State of Alaska, want a minute Legislature, why did you get rid of the oil so cheaply? Why did you use so much of it so fast? Why not spread it out to the best benefit of Alaskans over the long haul rather than use it all at once? I don’t think it would have been done differently because we didn’t know much about the oil industry at the time. We have to decide what we want and not necessarily what Big Oil wants. What’s good for Big Oil is not necessarily good for Alaska. We want to make Big Oil powerful, we want to make them happy; we want to make them stay in business, but we don’t want to give away the farm. It’s our responsibility to protect that resource for all Alaskans well into the future. I think we need to be wise about it and question some things we hear.

Petroleum News: So what made you assign the bill to the Labor and Commerce Committee?

Stevens: That’s a very important issue. We were told we were taking so many profits from the oil industry that jobs were going to be there, but they are not going to be hired, not necessarily Alaskans. The best thing out. Why are out-of-staters being hired by the support companies? Let’s find out the answers and correct the problems to make sure Alaskans are being hired.

Petroleum News: What are the tension points in the oil tax debate? Is it the progressivity? Is it the credits? Is it a balance between the two?

Stevens: I think progressivity is a big issue. I have no problem readjusting that progressivity. I think it is too high. When oil is high, when the prices are high, I think we are probably taking too much. I think we need to go in there and adjust that. Let’s do it wisely. Let’s encourage the industry to do what we want. Let’s give them credits and benefits to do the things we want, which is more exploration and development. We don’t necessarily want to give them a bigger share of the profits at Prudhoe, when in fact it’s a declining field. Let’s look at exploration and development outside of Prudhoe, development of heavy oil and development of shale oil. Let’s do the best we can to encourage the action we want from those companies rather than just giving away $2 billion for no apparent benefit of Alaska. I’m willing to listen to the governor. I certainly am. I think the governor is headed in the right direction. I question whether a million barrels a day is the right answer. I question whether $2 billion in lower taxes is in fact the right answer. I’m not saying he’s wrong. I’m not saying the industry is wrong. I’m saying we need to discuss this; we need to see facts.

Petroleum News: Let’s switch to infrastructure. Why do you believe an in-state line is worth examining?

Stevens: Everything is worth talking about. I know Alaskans are saying we have enormous gas deposits on the North Slope and with prices so low, if we can’t fill the pipeline then why not use it ourselves. That makes a lot of sense to me. The big question to me is how are we going to pay for it.

Petroleum News: Is this worth a special session?

Stevens: I don’t think so. That’s not my intention at all. I haven’t heard anyone suggest that. This is an initial report. We need to read it, study it and think about it. We often get halled out in the Legislature that we don’t act fast enough, but when we do act too fast, we make errors. I think time needs to be taken; it needs to be fully analyzed and vetted.

Petroleum News: Is there a point where you would like to hear something from TransCanada on the large-diameter line?

Stevens: Yes. Oh, I think if we come back in January and there is no actual progress, there are going to be serious questions. There are going to be people who will want to pull the plug. I think we’ve made some progress, so let’s give it a chance to play out. I don’t want to stop it prematurely. This may be one of our few real options in finding a market for Alaska’s gas.

Petroleum News: Are you concerned that you haven’t heard anything one year after the open season concluded?

Stevens: Oh, yes. That does concern me. We thought we would have heard by now. It would appear when you read TransCanada’s press releases that they do appear to be making progress, so I am anxious to hear from them and give them every opportunity. You’re right though at some point we have to say no, this is not going to work.

Petroleum News: What about the progress Shell seems to be making in getting some permits. It’s slower than most would like. They seem to be inching along.

Stevens: It’s very exciting. Shell is a hero in my books. They have put so much money in their operation. I’m proud of what they have done, the work they have put into it. I hope they are right and there are enormous resources there and they can see STEVENS Q&A page 9

We’re moving forward

The State of Alaska’s established vehicle for commercialization of North Slope gas has lead to major momentum for the long anticipated Alaska natural gas pipeline.

The progress, measured through milestones mandated by the state’s process, anticipates encouraging infrastructure transporting gas to market in just over nine years.

This is not long when you consider the lead time between exploration, development, and production. The opportunity to be part of developing new sources of natural gas on Alaska’s North Slope is now.

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DOE sells SPR crude oil to 15 companies

The U.S. Department of Energy announced July 11 it had wrapped up the sale of 30.64 million barrels of oil President Obama ordered released from the Strategic Petroleum Reserve, as part of an international effort to meet crude oil demand amid the Libyan crisis.

“A total of 28 contracts were awarded to 15 companies,” the DOE said in a press release. “The Department is currently coordinating with the successful contract awardees, the Maritime Administration, and the Department of Homeland Security to facilitate and streamline deliveries, including those for companies that have requested early delivery of the crude oil in July 2011.”

The Strategic Petroleum Reserve, which had been filled nearly to its capacity of 727 million barrels, uses huge salt caverns along the Gulf of Mexico coastline for storage. The DOE offered oil for delivery by pipeline, ship or barge.

Companies awarded contracts through the competitive bid process were Barclays Bank, BP, ConocoPhillips, ExxonMobil, Hess, J.P. Morgan Ventures Energy, Marathon, Murphy Oil, Plains Marketing, Shell, Sunoco, Tesoro, Trafigura, Valero and Vitol.

Prices for the crude ranged from $104.98 to $109.76 per barrel.

The United States released the oil as part of a multinational effort the Paris-based International Energy Agency announced June 23. The IEA said its 28 member countries would release a combined 60 million barrels over a one-month period. That equates to 2 million barrels per day. —WESLEY LOY

Looking for comments

By ALAN BAILEY

On July 5 the Bureau of Ocean Energy Management, Regulation and Enforcement announced the start of a public review period for Shell’s plans for exploration drilling in Alaska’s Beaufort Sea during the 2012 open water season, and for Shell’s accompanying oil spill prevention and contingency plan. Comments on the plans are due by July 25.

BOEMRE is also preparing an environmental assessment for Shell’s plan, with public comments on the scope of that assessment due by July 15.

In May Shell submitted new explorations plans for both the Beaufort Sea and the Chukchi Sea, envisaging the drilling of up to five exploratory wells in the Beaufort Sea and up to three wells in the Chukchi Sea, starting in 2012. BOEMRE has determined that Shell’s proposed Beaufort Sea plan is complete, an essential prerequisite of the plan review and approval process. However, the agency has not yet taken any official action on the Chukchi Sea plan because of an unresolved appeal against the 2008 lease sale in which Shell obtained its Chukchi Sea leases. In the appeal case the U.S. District Court in Alaska ordered BOEMRE to revive 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. Meantime the court has banned Chukchi Sea lease related activities.

In May BOEMRE released for public review a new supplemental environmental impact statement for the lease sale. That SEIS addressed the challenges upheld by the court against the original EIS. BOEMRE also voluntarily included in the SEIS a new assessment of the potential impacts of what it characterized as a “very large oil spill” in the Chukchi Sea. District Court Judge Ralph Beistline has set a deadline of Oct. 3 for completion of the SEIS — the public comment period for the document ended on July 18. —BEAUFORT COMMENTS page 12

FINANCE & ECONOMY

ConocoPhillips splits into E&P, R&M

ConocoPhillips said July 13 that it will split the company into two standalone, publicly traded companies, one for refining and marketing and the other for exploration and production.

The company said that following completion of the proposed separation ConocoPhillips “will be a large and geographically diverse pure-play exploration and production company with strong returns and investment opportunities.”

The refining and marketing business “will be a large, pure-play independent refiner with a competitive and diverse set of assets,” the company said.

“Both companies will continue to benefit from the size and scale of their significant high-quality asset bases and free cash flow generation, allowing them to invest and create shareholder value in a changing environment,” Jim Mulva, chairman and CEO, said in a statement.

Separation of the companies is expected to be complete in the first half of 2012, and the company said that upon completion of the separation, Mulva intends to retire.

ConocoPhillips is Alaska’s largest oil and gas producer. The company’s Alaska spokeswoman, Natalie Lowman, told Petroleum News in an e-mail that “we do not expect any impacts locally here in Alaska.” The company has no downstream operations in the state, just exploration and production, she said. —KRISTEN NELSON

ENVIRONMENT & SAFETY

Group campaigns against Shell drilling

Headed by the Alaska Wilderness League and claiming to “represent millions of Americans across the country,” 19 environmental organizations have joined forces to form a pressure group opposing Shell’s plans to drill in the Beaufort and Chukchi seas in 2012. The group, called “United for America’s Arctic,” has launched a yearlong campaign to pressure the Obama administration into prohibiting Shell’s planned drilling.

In a July 11 release the group said that it will use the media and grassroots campaigning to “raise awareness about our imperiled Arctic waters and the wildlife and the people who depend on them.” And the group anticipates its campaign culminating on July 4, 2012, with a “celebration of America’s Arctic Ocean’s independence” from drilling.

“Shell plans to move its Alaska-Arctic drilling fleet into operation in early July,” the group said.

“The Obama administration is currently considering plans from Shell to drill 10 wells in the Arctic’s Chukchi and Beaufort Seas, despite the fact that there is a lack of comprehensive science about the Arctic and no effective way to clean up a spill in the Arctic’s ice conditions, as reiterated recently by the U.S. Geological Survey,” the release says. The release also says that Shell operates an oil rig with an especially poor record of oil spills in the northern North Sea.

The group’s founding statement says that the Arctic Ocean and its coasts are “unique and important.”

“For thousands of years America’s Arctic has been home to vibrant communities that depend on healthy, functioning ecosystems to support their subsistence way of life. The Arctic’s Chukchi and Beaufort seas provide vital habitat for many of our nation’s most iconic wildlife species — polar bears, walrus, ice seals, bowhead whales, beluga whales, eiders and more,” the statement says. —ALAN BAILEY
Kinder Morgan joining market race

Schedules open season to add 400,000 bpd of new capacity to Pacific Coast, but proposal faces environmental, community opposition

By GARY PARK
For Petroleum News

Kinder Morgan has removed any lingering doubt it is in the race to open new export markets for Canadian oil sands crude.

The U.S.-based operator of the Trans Mountain pipeline from Alberta to the Pacific Coast has confirmed it is seeking firm shipping commitments to raise capacity by 400,000 barrels per day to 700,000 bpd by 2015, a decisive step forward on a concept it has been pondering since 2004.

Ian Anderson, the company’s Canadian president, told a Calgary conference discussions are under way with the market “to try and scope how big the expansion will be and what the commercial aspects will be.”

Depending on industry response to a planned open season this fall, Kinder Morgan could edge ahead of Enbridge’s controversial Northern Gateway project, which is targeting 525,000 bpd, the bulk destined for Asian customers.

Anderson said Trans Mountain expansion would initially involve three stages of 80,000 bpd each, beginning next year, and another 160,000 bpd in two phases.

The initial step toward that expansion requires National Energy Board approval of Kinder Morgan’s application to reallocate 27,000 bpd of Trans Mountain volumes to the company’s Westridge dock in the Port of Vancouver, raising capacity at the terminal to 79,000 bpd.

Watching for ‘market indications’

Anderson said Kinder Morgan will be watching over the next three months for “market indications” to decide what new capacity will be required for Trans Mountain.

He said the company also has plans to build a second berth at the Westridge terminal, expand capacity from Aframax tankers of about 650,000 barrels to Suezmax tankers of 1 million barrels.

Asia-bound shipments out of Westridge climbed to around 20,000 bpd last year, although Anderson said only 10 percent of crude moving out of Westridge is destined for China and the Panama Canal, with the rest going to California, but added “this scenario will change.”

If the expansion proceeds it would provide the first significant link to Asia and could be completed ahead of Northern Gateway, although some observers believe the two projects could co-exist if shipments out of Westridge primarily target the U.S. West Coast to replace declining volumes from Alaska.

The Kinder Morgan proposal “pushes out the necessity for gateway a little bit, but it doesn’t remove the need,” said Chad Friess, an analyst at UBS Securities. “We could be completed ahead of Northern Gateway.”

“Market indications” to decide what new capacity will be required for Trans Mountain.

When the NEB starts hearing Kinder Morgan’s reallocation proposal on Aug. 22 it will hear objections from a raft of community groups and one producer.

A coalition of five environmental organizations says piecemeal approvals are inappropriate and contrary to the public interest.

It argues that if the NEB intends to weigh the application in terms of facilitating pipeline expansions and improved prices for oil producers, it must also consider the upstream socio-economic, environmental and cultural impacts associated with “tar sands” development.

A recent poll by the Dogwood Initiative, one of the coalition members, showed about 80 percent of British Columbians wanted an outright ban on tankers operating in the province’s offshore waters.

Spill concerns

Separately, the Georgia Strait Alliance said the NEB should not approve the firm service and associated changes until a risk assessment on oil spills from West Coast ships has been conducted and acted on, noting that the federal Auditor General in 2010 had identified gaps and inadequacies in Canada’s system for responding to spills from ships.

The Raincoast Conservation Foundation said incremental calculations and expansions would effectively quadruple the number of tankers travelling through the Georgia Strait and Gulf Islands.

In the event of a tanker spill, collision or other accident, British Columbians would be “asked to bear these additional risks with virtually no public engagement,” the foundation said.

The Islands Trust, a federation of local governments, said the only apparent regulatory limits on tankers or oil barges operating from Westridge appear to be Trans Mountain’s pipeline capacity and operating limits on one section of the Port of Vancouver.

The Trust said it is extremely concerned that approval of firm service contracts would bind Trans Mountain to ship minimum volumes to the terminal, which could remove the ability of regulatory agencies to reduce the number of tankers or barges.

Producer objection, support

MEG Energy, an oil sands start-up, has called for denial of the application, saying it does not believe Kinder Morgan’s proposal is the best way to achieve the important goal of using water-borne solutions to access new markets.

MEG said it is not appropriate to auction off to the highest bidder capacity that is currently allocated to common carriage, especially on a long-term basis.

It also objects to the use of firm service fees to fund Trans Mountain expansions, saying those fees are derived from shippers who may face higher adjusted tolls, a greater risk of apportionment and reduced access to expansion capacity.

But the NEB has received letters of support from Petrotechnica, which said it wants to gain firm access to transportation that can increase crude supply in the Pacific basin, while Cenovus Energy said firm service to Westridge would enable it to diversify markets and supply customers on a regular and predictable basis.

Contact Gary Park through publisher@petroleumnews.com

PETROLEUM NEWS • WEEK OF JULY 17, 2011

PIPELINES & DOWNSTREAM

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June ANS production down 5.7% from May

Turnarounds at Endicott, Lisburne, drive production drop; Endicott ramping up, Lisburne work continues; other projects under way

By KRISTEN NELSON
Petroleum News

Alaska North Slope crude oil production for June averaged 570,173 barrels per day, a drop of 5.68 percent from a May average of 604,508. While the drop was driven primarily by scheduled maintenance turnarounds at the BP Exploration (Alaska)-operated Endicott and Lisburne fields, all North Slope fields saw a month-over-month decline from May to June.

Endicott, which averaged 12,472 bpd in May, averaged 908 bpd in June, a drop of 92.7 percent, or some 11,564 bpd.

BP Alaska spokesman Steve Rinehart told Petroleum News July 13 that an Endicott maintenance turnaround started at the beginning of June and that June production listed under Endicott by the Alaska Department of Revenue was actually from Badami.

Except where noted, volumes are from the Alaska Department of Revenue’s Tax Division, which tracks oil production by major production centers and provides daily production and monthly averages.

While Revenue reports Badami production only as part of Endicott, the Alaska Oil and Gas Conservation Commission breaks out production by field and pool. The latest data available from the commission is for May, when total production at Badami was 43,802 barrels for the month, some 1,460 bpd.

Revenue data for Endicott production in June, in this case only Badami production, ranged from zero barrels June 12 to a high of 1,521 barrels June 26.

Scheduled maintenance

Rinehart said work at Endicott includ-
ed a long list of planned maintenance
requiring planning far in advance, and
including scheduled maintenance on two
gas compressor turbines and improve-
ments to the produced water system.

Production at Endicott began ramping back up July 7 and by July 12, the latest data available when Petroleum News went to press, Endicott production (including Badami) had reached more than 8,000 bpd.

Rinehart said work at Lisburne includ-
ed some vessel cleanout, flare system improvements and a variety of other safety and upgrade items.

Maintenance work is also under way at the seawater treatment plant, Rinehart said, and a turnaround at Flow Station 3 on the eastern side of Prudhoe Bay is scheduled to begin in late July, with that work including replacement of several valves in the gas handling flare system and a variety of other safety and upgrade work.

Rinehart said all of the work involved taking care of facilities and extending service life.

Prudhoe down 1.3 percent

The BP-operated Prudhoe Bay field averaged 301,140 bpd in June, down 1.32 percent, some 3,984 bpd, from a May average of 15,504 bpd.

BP’s Milne Point field averaged 22,968 bpd in June, down 5.38 percent, 1,306 bpd, from a May average of 24,274 bpd.

The average temperature at Pump Station 1 was 39.93 degrees F, compared to 26.94 F in May.

Cook Inlet production averaged 11,125 bpd in June, up 673 bpd, 1.91 percent, from a May average of 10,452 bpd.

Anchorage natural gas production peaked in 1988 at 2.1 million bpd; Cook Inlet crude oil production peaked in 1970 at more than 227,000 bpd.

Contact Kristen Nelson
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CGGVeritas is pleased to announce plans for a new Multi-Client Alaska acquisition in winter 2011-12.

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Safer, Finer, Better
Get to Know Our SeisAble Benefits
develop it. The problems they put up with. It’s just unconscionable that the federal government put so many hurdles in the way.

Petroleum News: Does it strike you as odd that the federal government sells a lease, but they won’t award the permits?

Stevens: I have a friend who says when it’s cold enough and dark enough in New York City that’s when our oil and gas will be developed fully. I think that’s true. I don’t think the rest of the country has quite grasped the seriousness of the situation we are in, in terms of energy. As things get worse, as prices go up, as we depend more and more on foreign sources, I hope Americans will realize how important it is that we make good use of those resources wisely, and in a sound, environmental way. Yeah, it’s a shame that things have come to this. Hopefully there is a bright light on the horizon and we might be able to get through this.

Petroleum News: What do you think it will take to convince the right people outside of Alaska that this is something that can be done, that needs to be done?

Stevens: I think it’s just a matter of time for folks to realize what a serious predicament that the country is in. I do believe one of the big issues is that we’ve got to make sure Alaska gets some benefit from that. The federal government has not acknowledged that as they have with the Gulf of Mexico.

Petroleum News: Do you have any final thoughts?

Stevens: I heard a speaker, a historian from the University of Alaska Fairbanks, ask when was the last time an oil executive was beheaded at Prudhoe Bay? It’s an interesting question. Of course it’s never happened. The implication there is Alaska is a safe place to drill. We are not going to nationalize that industry. We are trying to find ways to help. The folks who work up there are safe and protected. That’s an issue that has not received the recognition that it should. I don’t know what it takes to convince rest of the country that this is a good place to develop oil and gas.

---WELEY LOY

**FINANCE & ECONOMY**

Alaska Senate to study Slope employment

An Alaska legislative committee is looking to hire a consultant to “conduct a detailed study” of North Slope oil and gas employment.

The Senate Finance Committee put out a request for proposals for the work on July 7. The committee’s co-chairman, Sitka Republican Sen. Bert Stedman, is the main contact on the RFP.

The consultant’s job will be to examine hiring practices, wages, worker residency, job classifications, contract labor and other aspects of employment dependent on North Slope oil and gas activity.

“Contractual labor includes, but is not limited to, the hiring of subcontractors by oil and gas companies on the North Slope over the past four years,” the RFP says. The study will look at where subcontractors are headquartered, how long they have operated in Alaska, and whether their employees are residents or nonresidents.

The consultant must submit a final report to the Senate Finance Committee by Dec. 1, and must subsequently provide testimony to Senate committees through the contract period ending June 30, 2012.

The RFP does not specify a budget for the study. Firms or persons bidding for the contract are asked to provide a cost proposal.

---WESLEY LOY

**PIPLINES & DOWNSTREAM**

Alyeska sets maintenance shutdown

Alyeska Pipeline Service Co. has scheduled its annual summer maintenance shutdown for July 16-17.

Alyeska spokeswoman Katie Pesznecker told Petroleum News July 13 that the shutdown is scheduled to begin the morning of July 16 and crews will work around the clock to complete the shutdown the evening of July 17.

This is the only maintenance shutdown scheduled for this year, Pesznecker said, and includes work needed to keep the pipeline running safely up and down the line.

**Valve replacement at PS 4**

One of the major projects is replacement of a valve at Pump Station 4, part of the system that redirects crude oil, allowing Alyeska to receive and launch pigs at that station.

Another major project during the shutdown involves straightening the pipeline near Glennallen. This is at the site of Pump Station 11, which was never built. Lynda Sather, Alyeska’s Fairbanks spokeswoman, told Petroleum News in an email that 180 feet of mainline pipe will be replaced at PS 11, removing the “dead leg” unused legacy pipe and valves.

Other work along the line includes work on valves on the line and work at various pump stations.

Work at the Valdez Marine Terminal includes valve maintenance and annual maintenance and inspection of various electrical systems.

---KRISTEN NELSON
FNG moving ahead on North Slope LNG

Fairbanks Natural Gas LLC continues to pursue a liquefied natural gas project from the North Slope, the company told the Regulatory Commission of Alaska recently.

The lone natural gas utility serving the Fairbanks area is aiming to have the project in place before its existing supply contract in Cook Inlet expires on May 31, 2013.

Fairbanks Natural Gas’ sister company Polar LNG is beginning work this summer on a plant and associated pipeline to liquefy North Slope gas to be trucked to Fairbanks.

In a letter to the RCA, Fairbanks Natural Gas said work on the foundation for the plant began this summer at a pad the company previously leased, and that construction is currently scheduled for summer 2013. Polar LNG also plans to build a 3.8-mile pipeline from Flow Station 1 to the plant. The company expects to apply for a right-of-way lease in the near future, start construction this winter and complete work the following winter.

Supply contract in place

Fairbanks Natural Gas signed a 10-year supply contract with ExxonMobil several years ago that would begin as soon as some system is ready to accept deliveries.

Fairbanks Natural Gas also told the RCA that a previously proposed sale of the company to the Alaska Gasline Port Authority “is not progressing toward closing.”

The Alaska Gasline Development Corp. recently released a report proposing a route and estimating cost information for a gas pipeline from the North Slope to Anchorage. That report estimated that consumers in Fairbanks could end up paying less than half what they pay now for the natural gas that Fairbanks Natural Gas trucks up from Southcentral.

“We don’t think it impacts what we’re working on right now” because the project is still theoretical, Fairbanks Natural Gas President Dan Britton told Petroleum News July 13.

—ERIC LIDJI

Pipe leak detection conference scheduled

The Alaska Department of Environmental Conservation has scheduled a pipeline leak detection conference for Anchorage in September. A conference to investigate advances in pipeline leak detection technologies was one of the recommendations of the recently conducted Alaska risk assessment.

The objective of the conference is to better manage environmental risk through identification and potential use of proven new pipeline leak detection technologies, including related practices. Results of the conference will be considered for potential new leak detection regulations for flowlines and pipelines carrying multiphase fluids between well sites and processing facilities.

DEC does not have response or performance standards regulations for pipeline leak detection for flowlines or facility piping, but said the intent of the conference is to assess pipeline leak detection technologies and related practices for those categories of pipelines.

Information gained through the conference will be used by DEC to assure that proven new technologies and related practices for pipeline leak detection are considered for use in oil discharge prevention and contingency plans.

DEC has contracted with Shannon & Wilson to develop and implement the conference and the firm is soliciting technology presentations. Information is available at www.shannonwilson.com/dec-plc.

The conference will be Sept. 13-14 at the Sheraton in Anchorage; registration opens in August.

—PETROLEUM NEWS

Buccaneer expects to recover timeline

Even with one-year delay, Australian company still expects to drill and test four offshore Cook Inlet wells by summer 2013

By ERIC LIDJI
For Petroleum News

D espite a delayed start, Buccaneer Energy Ltd. still expects to complete its initial exploration campaign in the upper Cook Inlet.

In its previous project description filed with the Alaska Department of Natural Resources, the Australian independent plans to conduct site clearance and pre-drilling geohazard surveys this year at its two offshore units — Southern Cross and Northwest Cook Inlet — while maintenance is under way on a jack-up drilling rig currently staged in East Asia.

Buccaneer initially planned to finish one well and begin drilling a second this summer, but pushed its program back one year after negotiations with the Alaska Industrial Development and Export Authority took longer than expected. Buccaneer and the marine company Ezon Holdings Ltd. are partnering with the public corporation of the State of Alaska to buy and upgrade a jack-up rig and move it on a heavy lift vessel to Cook Inlet.

Mobilization in mid-March

Buccaneer now expects that mobilization effort to take place in mid-March 2012, in time to drill, test and complete two offshore wells — the Southern Cross Unit No.1 between April and June and the Northwest Cook Inlet Unit No.1 between July and October.

In summer 2013, Buccaneer plans to drill, test and complete Southern Cross Unit No.2 between April and June and Northwest Cook Inlet Unit No.2 between July and October.

After those four wells, Buccaneer would release the rig, making it available to other companies interested in offshore drilling in Alaska. While the AIDEA contract includes a mechanism to rent out the rig, AIDEA officials said they based their business case for investing up to $30 million in the rig on Buccaneer’s four-well commitment.

In its previous project description filed with DNR in January, Buccaneer also anticipated that it would complete initial exploration and release the rig in summer 2013.

Under its unit agreements with the state, Buccaneer must drill a first well in each unit by Sept. 30, 2014, or risk losing the acreage.
Feds seek approval of Prudhoe settlement

By WESLEY LOY
For Petroleum News

Federal prosecutors are asking a judge to approve a “consent decree” to settle a civil suit brought against BP Exploration (Alaska) Inc. over 2006 Prudhoe Bay oil pipeline leaks.

Authorities first unveiled the proposed settlement back in early May, saying at the time they would offer it for public comment.

“The comment period is over and the comments received did not disclose facts or considerations indicating that the Decree is inappropriate, improper, or inadequate,” federal prosecutors said in court papers filed July 6 in U.S. District Court in Anchorage.

The consent decree now should be approved as the final judgment in the case, the prosecutors argued.

The judge can’t modify the terms of the decree, the court papers said. Rather, he may only approve or reject it as a whole.

As of press time, District Judge John W. Sedwick had not acted on the motion.

Suit filed two years ago

The 65-page consent decree, which federal and company representatives already have signed, would require BPXA to wire the U.S. Department of Justice a $25 million civil penalty and carry out a long list of activities intended to prevent spills.

The company has said it is not admitting any liability in accepting the settlement.

BPXA operates Prudhoe Bay, the nation’s largest oil field, on behalf of itself and partners ExxonMobil, ConocoPhillips and Chevron.

The Justice Department on March 31, 2009, sued BPXA on behalf of the Environmental Protection Agency and the Pipeline and Hazardous Materials Safety Administration.

The suit asserted claims based on alleged water, air and pipeline safety violations in connection with a pair of oil spills from corroded Prudhoe oil transit lines.

One of the spills, which a BP worker discovered in March 2006, was calculated at 212,252 gallons — the largest crude spill ever in Alaska’s North Slope oil fields. That leak occurred on the western side of the field, near Gathering Center 2, and affected the tundra and the edge of a frozen lake.

Integrity management, monitoring

Of the $25 million civil penalty, $20.05 million will be deposited in the Oil Spill Liability Trust Fund established under the Clean Water Act, the Justice Department said. The remainder will go to the U.S. Treasury.

The consent decree also calls for BPXA to implement an “integrity management program” for its Prudhoe pipeline network at an estimated cost of $60 million over three years, the Justice Department said in a May 3 press release.

The decree also would require BPXA to hire an “independent monitoring contractor” to report to the government on the company’s compliance.

The court papers the Justice Department filed July 6 say the government and BPXA still “disagree about the key underlying facts.” However, the civil penalty reflected in the consent decree “is fair, adequate and reasonable in light of the risks to both parties that the Court could, if BPXA were found liable, award a penalty either higher or lower than $25 million.”

To support its motion to approve the consent decree, the Justice Department filed a declaration from its pipeline expert, James C. Towers, who said the pipeline integrity management program would “reduce the likelihood that the violations will happen again.”

BPXA is facing a separate civil suit the state filed. That case is moving toward trial in Superior Court in Anchorage.

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EXPLORATION & PRODUCTION

Escopeta signs major service contracts

Escopeta Oil Co. signed two contracts recently, according to the company.

Foss Maritime Co. will provide the tug that will “tow” the Spartan 151 jack-up rig to the waters of the Cook Inlet from its current location on the coast of British Columbia.

Foss is also providing an offshore service vessel to transport goods to and from the rig.

Offshore Systems Kenai, or OSK, the company that manages a dock in Nikiski is providing a second offshore service vessel. Those two boats are scheduled to leave their current location in Gulf of Mexico en route to Alaska through the Panama Canal.

The ships will carry well casing, dry goods and lubricants.

Escopeta recently brought large casing to the Cook Inlet region, delivering the goods to Seattle, bringing them on intermodal barge to Whittier and trucking them to the inlet.

Escopeta is planning an offshore drilling program at its Kitchen Lights unit.

—ERIC LUDJI

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LET’S GO.
By WESLEY LOY
For Petroleum News

Alaska utility regulators are weighing a proposed contract between the state’s largest electric power company and a wind farm developer, who says a prompt decision is vital to allow construction to begin in time to qualify for key federal grants.

The wind farm is planned for Fire Island, located in Cook Inlet near Anchorage’s international airport.

Anchorage-based Chugach Electric Association has agreed to buy power from the Fire Island project. Now the deal is before the Regulatory Commission of Alaska, which has been asked to approve a “purchase power agreement” between Chugach and Fire Island Wind.

The two firms are urging the RCA to approve the agreement by Sept. 15 so that construction can start right away and the project can secure federal funding.

“The bidding for construction in 2011 will disqualify the Project from receiving approximately $18.7 million in federal grants,” Suzanne Gibson, CIRI’s senior director of energy development, told the RCA staff in a July 8 e-mail.

The grant money would come through the American Recovery and Reinvestment Act of 2009, specifically section 1603, which allows the treasury secretary to provide grants to partially reimburse developers of wind, solar, geothermal and other energy properties.

Failure to land the grant money will “make it impossible” to keep the power purchase price “reasonably close” to the level at which Chugach and CIRI have agreed, Gibson said in her e-mail. A June 24 RCA public notice says the price of the wind power under a 25-year contract is $107.85 per megawatt-hour.

Aside from the federal grants, Fire Island Wind also is relying on $25 million in state grants, the RCA notice says.

In her e-mail, Gibson acknowledged the RCA is being asked to act on the contract more quickly than normal, but emphasized the proposed Sept. 15 decision date “is in fact critical to the viability of the entire Fire Island Project.”

Gibson continued: “In order to qualify for the ARRA Section 1603 grant, the project must begin construction (by statute definition in ARRA) and/or sign binding contracts and expend significant funds for major project equipment items by December 31, 2011, and further, must complete construction and be commercially available before December 31, 2012. It is therefore critical to the economic viability of the Project that the Project schedule be preserved.

“In order to begin construction by the end of 2011, given weather in Alaska, resources must be mobilized to Fire Island before ice forms on Cook Inlet. CIRI believes that construction mobilization must therefore occur no later than October 2011.”

“Depending from its craggy, wind-warped trees, Fire Island is a very blustery place indeed. Efforts to establish a wind farm on the island stretch back many years.

Alaska’s main power supplier, the Alaska Railroad Corp., known as the Railbelt, depends heavily on Cook Inlet natural gas for heating and electric power generation. But deliverability of this resource is increasingly strained, leading Chugach Electric and other power companies to look at alternatives to local gas.

As currently proposed, the Fire Island wind project would include 11 General Electric wind turbines capable of producing a combined 17.6 megawatts of electricity, enough to power more than 6,000 homes, the developer says.

Total project cost, including transmission, is about $90 million.

The wind project would supply the annual equivalent of about 4 percent of Chugach Electric’s retail sales in 2010, and would offset half a billion cubic feet of gas used for power generation, Fire Island Wind says.

The wind power will be expensive at first compared to what Chugach pays now for gas, but wind “will almost invariably be cheaper in the long run as natural gas prices go up,” says the nonprofit Renewable Energy Alaska Project.

Wind turbines have sprouted around Alaska in recent years, but the Fire Island wind farm would be the state’s largest, REAP says.

The RCA is taking public comments through July 24 on the purchase power agreement.

Contact Wesley Loy at wloy@petroleumnews.com

continued from page 6

BEAUFORT COMMENTS

11, but BOEMRE is also holding public hearings in Alaska.

Shell also still faces the hurdle of obtaining Environmental Protection Agency air quality permits for increasing operations in the Chukchi seas operations. Following an appeal to the Environmental Appeals Board over the original versions of these permits, on July 1 EPA issued new draft permits, with public comments on the permits due by Aug. 5. The permits under review apply to Shell’s use of the drillship Frontier Discoverer — Shell has yet to apply for air quality permits for its other drilling vessel, the Kulluk. The company has recently dispatched the Kulluk to Seattle for power plant and generator upgrades to reduce air emissions.

During a briefing with Sen. Lisa Murkowski on July 8, Shell Alaska Vice President Pete Slaby said that Shell is targeting October for obtaining the permits it needs for drilling in 2012, to avoid the expense and disruption of organizing and subsequently cancelling its drilling operations.

“We’ve had a number of false starts and they’re hugely costly and they’re emotionally damaging to a lot of people,” Slaby said.

Contact Alan Bailey at abalay@petroleumnews.com
EIA: oil markets expected to tighten

By KRISTEN NELSON
Petroleum News

World crude oil prices, which fell after the International Energy Agency said June 23 that its member countries would release up to 60 million barrels of oil in strategic storage, subsequently rose back to pre-announcement levels, the U.S. Energy Information Administration said July 12 in its short-term energy outlook.

Oil price changes since the June announcement are difficult to attribute to the announcement because changing expectations of world economic and crude oil consumption growth, uncertainty over oil supply disruptions, estimates of OPEC spare production capacity and other physical and financial factors continually affect oil prices, EIA said.

While the IEA release will provide some additional supply, EIA said it expects oil markets to tighten through 2012, and with projected world demand growth, the projected U.S. average refining-acquisition cost of crude is expected to rise from $102 per barrel this year to $108 per barrel in 2012.

On the natural gas side, EIA projects a Henry Hub spot price averaging $4.27 per million British thermal units this year, 12 cents lower than the 2010 average. But the agency expects the natural gas market to begin tightening in 2012, with the Henry Hub spot price increasing to an average of $4.54 per million Btu.

Consumption expected to grow

Total world oil consumption is projected to grow by 1.4 million barrels per day this year and by 1.6 million bpd in 2012, EIA said, with the market relying on both drawdown of inventories and production increases in both Organization of the Petroleum Exporting Countries and non-OPEC countries.

EIA projects that non-OPEC crude oil and liquid fuels production will increase by 540,000 bpd in 2011 and by 740,000 bpd in 2012, with the greatest increases coming from Canada, China, the U.S., Brazil and Colombia.

EIA said it has lowered the decline in production expected from the North Sea and Europe compared to the June forecast, and said increased taxes on production, especially in the United Kingdom, are now expected to have less of an effect on total production.

OPEC production is forecast to decline by some 300,000 bpd this year, but to increase by some 560,000 bpd in 2012, with an assumption that about half of Libya’s pre-disruption production will resume by the end of 2012.

OPEC’s 12 members produced an estimated 29.2 million bpd of crude oil in the second quarter of the year and EIA said it expects that production to increase to an average of 29.6 million bpd in the third quarter.

EIA said it is projecting that OPEC surplus capacity will fall from 4 billion bpd at the end of 2010 to 3.5 million at the end of this year, further declining to 3.1 million bpd by the end of 2012.

WTI spot prices down

West Texas Intermediate crude oil spot prices fell from an average of $110 per barrel in April to $96 per barrel in June.

EIA said it expects oil markets to tighten due to growing demand in emerging economies and slowing growth in non-OPEC supply.

WTI spot prices, which averaged $79 per barrel in 2010, are expected to average $98 per barrel this year and $103 per barrel next year, the agency said, while the U.S. composite refiner acquisition cost of crude oil is projected to average $102 and $108 per barrel in 2011 and 2012, respectively.

EIA said WTI has been discounted compared to similar-quality world crudes such as Brent due to high storage levels at Cushing, Okla., due to growing volumes of Canadian crude oil imported into the U.S.

“The price discount for WTI is expected to persist until transportation bottlenecks restricting the movement of mid-continent crude oil to the Gulf Coast are relieved,” EIA said.

The agency said the WTI discount accounts for the fact that U.S. refiner average acquisition cost, which was almost $2.70 a barrel below WTI in 2010, is about $4 per barrel above WTI in 2011 and projected to be $5 per barrel about WTI in 2012.

Domestic production

U.S. crude oil production increased by 150,000 bpd last year to 5.5 million bpd and is projected to increase by a further 50,000 bpd both this year and next. Lower 48 production is expected to grow by 260,000 bpd this year and by 170,000 bpd in 2012, EIA said, “as a result of increased oil-directed drilling activity.”

U.S. marketed natural gas production is expected to average 65.4 billion cubic feet per day this year, up 3.6 bcf from 2010. Growth is expected to continue at a slower pace in 2010, increasing just 600 million cubic feet per day to average 66 bcf.

Growing domestic production has reduced reliance on natural gas imports and contributed to increased exports, with pipeline gross imports expected to fall by 3.9 percent to 8.7 bcf per day and 2011 and by 4 percent to 8.4 bcf in 2012. Pipeline gross exports to Mexico and Canada are expected to average 4.2 bcf per day this year and 4.3 bcf in 2012, compared to 3.1 bcf in 2010.

The Henry Hub spot price averaged $4.54 per million Btu in June, up 23 cents from May. EIA said it expects Henry Hub will average $4.26 in the second half of 2011. A $4.54 per million Btu average is projected for 2012, “as slowing growth in production contributes to tighter domestic natural gas markets."

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The long road for natural gas vehicles

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

N
atural gas has made only small inroads in the world’s transporta-
tion market, where the fuels of choice remain those refined from crude oil. The global market for cars and trucks pow-
ered by natural gas has been growing, however, and the technology improving, spurred by tax incentives, high gasoline and diesel prices, and a blossoming green movement.

But compressed natural gas, or CNG, vehicles are largely a niche market for fleet vehicles in the United States. Growth in their use by the general public or as a fleet fuel could accelerate. Lower 48 natural gas demand in coming years — anything that builds demand could help the multibillion-dollar Alaska natural gas pipeline project. However, CNG vehicles are unlikely to rival electrical powered cars and trucks, a handicap partly offset by less expensive fuel.

Much of the U.S. growth is expected to come from public transit and delivery fleets that operate out of central yards for refueling each day, or individuals with such deep commitment to curbing greenhouse gas emissions that they will spend the extra money required.

More common outside U.S.

The United States has an estimated 117,000 vehicles fueled by compressed natural gas or liquefied natural gas, with CNG accounting for 114,000 of them. That’s up from fewer than 30,000 in the early 1990s, but it compares to about 240 million cars and light-duty trucks using gasoline.

The United States lags many other countries in number of natural gas-powered vehicles. An estimated 12 million such vehicles are on the road worldwide. Pakistan, Argentina, Iran, Brazil and India lead the way. Pakistan with 2.3 million gas-powered cars and trucks has the most, thanks in part to a program to build CNG fueling stations around the country. Europe has about 1 million CNG vehicles, most of which also can run on gasoline, making them easier to refuel. Multi-fuel vehicles are the norm outside the United States.

The most recent U.S. numbers for natural gas vehicles are as of 2008. At that time, oil prices had spiked to record highs, sparking interest in alternatives to oil-based fuels.

CNG vehicles have their biggest presence in California, Oklahoma, Utah and New York, thanks in part to local programs in those states to promote their use. In all, 31 compressed natural gas stations in 28 states have more than 10 sites, and five states have more than 100 sites.

California alone has 50 percent of the fueling sites, 44 percent of the total number of vehicles, with 26,000 CNG vehicles. The state has about 300 fueling stations, with the majority located in Southern California. The state has programs to promote CNG vehicles, with spending in California, Oklahoma, Utah and New York, thanks in part to local programs in those states to promote their use.

In California, the California Air Resources Board has set targets to increase the number of CNG vehicles on the road. The state aims to have 3 million CNG vehicles on the road by 2020, up from about 900,000 in 2010. The state has programs to promote CNG vehicles, with spending in California, Oklahoma, Utah and New York, thanks in part to local programs in those states to promote their use.

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How CNG works

Natural gas as a vehicle fuel has two key attractions. The fuel itself is cheaper. And it’s much less polluting than gasoline or diesel.

The price of CNG was $2.06 per gallon equivalent in April, compared with $3.69 for gasoline, according to the latest comparison numbers from the U.S. Energy Department. The estimated annual fuel costs for the CNG versions of the popular Honda Civic driven 15,000 miles is $1,034, compared with $1,992 for the gasoline-fueled Civic and $1,409 for the hybrid Civic.

CNG also is a greener fuel than gasoline or diesel.

Natural gas vehicles emit 90 to 97 percent less carbon monoxide, 25 percent less carbon dioxide and 35 to 60 percent less nitrogen oxide than gasoline or diesel vehicles, according to the U.S. Environmental Protection Agency.

Additionally, CNG engines produce little to no particulate matter.

Natural gas has an important drawback compared with liquid fuels: Its low energy density.

That means machines are needed to compress the gas to 2,400 to 3,600 pounds per square inch to fit enough gas into a storage tank that isn’t ridiculously large. Buses and trucks can work especially well as CNG vehicles because the pressurized gas can be stored in large tanks on the roof of buses or along the undercarriage or behind the cab of trucks.

Honda’s CNG car

The Honda Civic GX is the only factory-built CNG sedan available in the United States. It’s sold in a few states, and is primarily aimed at businesses as a fleet vehicle. Unlike many natural gas-fueled vehicles, the Civic GX runs only on CNG.

Honda intends to rebrand the car as the Natural Gas Civic for 2012 and start selling it more broadly, focusing initially on states with more public refueling sites. Chrysler says it hopes to introduce a CNG pickup truck in 2017.

In the Civic GX, the compressed gas cylinders take away about two-thirds of the trunk space available in a gasoline-powered Civic. The Civic GX carries a suggested starting price of $25,490, compared with $8,000 to $22,000 for most passenger vehicles, depending on the age, make, model and who is installing the kit.

Cheaper kits can be found on the Internet and through after-market part dealers. They might cost as little as $1,500 to $3,500. But many of them are not EPA certified as meeting emissions standards.

Refueling at home

To get around the scarcity of refueling stations, individuals or businesses can install their own refueling stations. In the case of a homeowner, the refueling machine would tap into the house’s natural gas supply.

But the supply of home refueling stations is limited, and owners must pay to modify their gas plumbing and possibly get local building permits.

Consumer Reports magazine estimated in 2008 that the home system costs around $3,500 plus installation. The Natural Gas Vehicles for America group says these systems involve compressing gas from the home supply line and storing it aboard the vehicle. Some home units are about the size of an outdoor home air-conditioning unit, and some are small enough to fit on a garage wall. While filling up at a commercial CNG station takes a few minutes, home refueling can take hours and typically is done overnight.

The NGV A says a homeowner can get a $1,000 federal tax credit for installing new alternative fuel refueling systems.

Tax breaks to spur switch

The federal government has used tax law to encourage the public to switch to CNG vehicles.

But some of that encouragement has expired and more will expire this year. The $1,000 credit for residential fueling stations ends at year-end. So does the credit for up to 30 percent of the cost maximum of $30,000 — for installing a commercial CNG refueling station.

A new bill in Congress, H.R. 1380, introduced in April would revive the already-expired tax credit for purchasing natural gas vehicles and expand the credits for installing refueling equipment.

In April, the EPA issued final regulations that relaxed rules on converting older vehicles to natural gas power. Still in place are stricter rules for certifying the conversion of newer vehicles.

Natural gas vehicle advocates cite the high cost of getting EPA certification as a tall barrier to mass adoption of CNG vehicles by the public. A $10,000 conversion in the United States would cost about $2,500 in Singapore, according to the new MIT report.

That same MIT report said CNG cars and pickups make financial sense only if they’re driven a lot. Based on a $1.50 per gallon of gas equivalent price advantage for CNG, a CNG car that costs $10,000 more than a gasoline-powered alternative and that is driven 12,000 miles a year takes 17 years before the fuel-cost savings offset the upfront cost.

But if that car is driven 35,000 miles a year — such as a taxi or a car used in long commutes — that break-even time shrinks to 5.9 years.

If the extra up-front cost were $3,000 instead, the break-even point would be 1.8 years for the 35,000-mile-a-year car and 5 years for the 12,000-mile car.

— K.C. Elliott from the Office of the Federal Coordinator contributed reporting to this article.

Editor’s note: This is a reprint from the Office of the Federal Coordinator, Alaska Natural Gas Transportation Projects, online at www.arcticgas.gov/node/594.
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All of the companies listed above advertise on a regular basis with Petroleum News.
**Challenges ahead**

The number of rigs actively exploring for oil and natural gas in the U.S. rose by one this week ending July 7 to 1,187.

Houston-based drilling product provider Baker Hughes Inc. reported that 1,007 rigs were exploring for oil and 873 for natural gas. Seven were listed as miscellaneous.

A year ago, the rig count stood at 1,567.

Of the major oil- and gas-producing states, Louisiana gained four rigs, Oklahoma three and Alaska and New Mexico one each. North Dakota and Texas each declined by three and Arkansas, California and Pennsylvania were down by one apiece. Colorado, West Virginia and Wyoming were unchanged.

The rig count peaked at 4,530 in 1981, the height of the oil boom. A low of 488 was recorded in 1999.

**Exploration & Production**

**US oil and natural gas rig count up by 1**

Michel Gires was among those warning that the long-term, complex and capital-intensive challenges to meet labor, technical and infrastructure requirements convince him that operators can no longer afford to remain isolated.

He told his audience of analysts and brokers that they should not underestimate the challenges.

“We know the world is watching us, so let us collaborate and prosper with a long-term perspective,” Gires said.

The Kodiak Electric Association is upgrading its hydroelectric plant at Terror Lake. Company chief executive Darron Scott says the plan is to build a third turbine. Having three hydroelectric turbines would increase the capacity of the Terror Lake plant from about 22 megawatts to nearly 34 megawatts.

The project is expected to be complete by 2013.

--- THE ASSOCIATED PRESS

**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 youth to keep up with schoolwork and stay connected with family and friends while they are moved to different homes and schools.

If you are interested in donating a laptop, please make sure it is:

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

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

--- KAY CASHMAN

**Exploration & Production**

**CGG Veritas to shoot multi-client 3-D**

CGG Veritas is planning to conduct a large 3-D seismic program this coming winter in what’s known as the “billion-dollar fairway,” a long, north-south trending rectangle between the National Petroleum Reserve-Alaska to the west and the Kuparuk and Tarn oil fields to the east. The fairway stretches from the nearshore Beaufort Sea to several miles south of Tarn, and includes the Alpine oil field and its satellites.

CGG’s Tabasco 3-D survey will cover an area between the Colville River unit and the western boundary of Kuparuk, from the nearshore Beaufort on the north to Tarn on south. Kent Milani, vice president of multi-client opportunities for CGG in Alaska, said the program will encompass an area of approximately 200 square miles.

The company will be using its proprietary HPVA—high productivity vibratory acquisition—technology. “It’s a technology that CGG Veritas has been using in the Middle East for several years. This will be the first time on tundra,” Milani said.

“Why is using HPVA desirable?”

“By some measures, the productivity could double to triple—we’ll gather more data in less time,” he said.

The survey will likely start in January.

--- PETROLEUM NEWS

**Alaska O&G Congress set for September**

The 7th annual Alaska Oil & Gas Congress will be held Sept. 19-22 at the Anchorage Marriott.


Both continental and in-state pipeline projects are represented, with presentations from Tony Palmer, vice president, Alaska development for TransCanada, Larry Persily, federal coordinator Alaska natural gas transportation projects, Fred Carmichael, chairman and CEO of the Aboriginal Pipeline Group and Dan Fauske, president of the Alaska Gasline Development Corp.

A full agenda and registration information are available at www.AlaskaOilandGasCongress.com. This year’s conference includes a one-day in-state energy supply summit, providing an opportunity to assess Alaska’s immediate energy needs and investigate solutions to prevent a potential supply crisis in gas and power.

The conference begins Sept. 19 with interactive seminars on the latest federal and state environmental policy developments, in the morning, followed by best practices for stakeholder consultation and obtaining a social license in the afternoon.

Major conference presentations are Sept. 20 and 21, followed by the in-state energy supply summit on Sept. 22.

Petroleum News is one of the industry supporters of this conference.

--- PETROLEUM NEWS

**Employment Opportunity**

**Alaska Department of Revenue Tax Director**

The Alaska Department of Revenue is seeking a dynamic individual to lead the Tax Division. The Tax Director oversees a 125-person division responsible for collection of oil and gas severance taxes, corporate income taxes, fisheries business taxes, and a variety of excise taxes. In addition, the Tax Division is responsible for revenue forecasting and development of state tax and fiscal policy, and oversees the State’s charitable gaming program. The Director is responsible and accountable for the planning, budgeting, staffing and operation of the division and has substantial responsibility for the determination of policy and for the way in which policies are carried out as they pertain to tax administration.

The preferred applicant should have oil and gas tax and/or industry experience and be able to maintain cooperative relationships with industry, community organizations, and the Legislature; speak effectively before public groups and legislative committees; successfully fulfill the mission of the division; analyze problems and develop solutions; and function independently. A Bachelor’s degree in business, public administration, accounting, finance, economics or a related field is required. Previous supervisory experience and a CPA, MBA or Law degree is preferred. The position is located in Anchorage, Alaska.

Interested applicants should submit a cover letter and full resume, including three references to: Alaska Department of Revenue, Deputy Commissioner, Bruce Tangeman, 550 W Seventh Avenue, Suite 1820, Anchorage, AK 99501 in a sealed envelope marked Confidential. Applicants should be fully and succinctly explain their applicable experience and their oil and gas knowledge.

The estimated annual salary for this position is between $110,000 and $150,000, DOE. The last day to apply for this job is August 1, 2011, at 5:00 PM Alaska Time. The State of Alaska is an EEO/ADA employer.
Chasing prospect since 1994

Alaska.

We’re still excited about the upside in

he said. “Life and business go on. …

both onshore and on the west side of the

Alexander and Wolverine gas prospects,

the June 22 lease sale on the North

AURORA

continued from page 1

OSPREY

rig is under construction in Houston for the

platform, and Cook Inlet Energy hopes to have it installed and drilling by

year’s end.

David Hall, the company’s chief exec-

utive, has told Petroleum News the first

order of business is drilling four side-

itives, has told Petroleum News the first

year’s end.

Pfoff said he wished both Escopeta and

“Danny Davis did what he needed to do,

and that was to focus on what he most

needed to drill — his offshore Kitchen

prospects. You have to admire his tenaci-

ty.”

Aurora after conventional gas

Pfoff said he wished both Escopeta and

Australia-based Buccaneer Energy success

in getting jack-up drilling rigs to Cook

Inlet.

“I hope we do land up with two jack-

ups in the inlet. I want to see lots of devel-

opment; obviously Apache (which won the

most leases in the recent Cook Inlet oil

and gas lease sale) made a big run at this basin.

“The USGS says there’s a lot of techni-

cally recoverable oil and gas reserves in

Cook Inlet basin. It’s time to put that to a
test,” Pfoff said.

While he thinks there are some “good-sized” untapped conventional oil

gas fields in the region, Pfoff thinks

there is also a great future in the Southcentral Alaska basin for unconven-
tional resources, such as shale oil, which

Great Bear Petroleum is looking to exploit on the North Slope.

“Our intention is to go after conven-
tional gas with the two prospects we just

picked up. That’s our gig. But I think the

whole basin is wide open as to what might be deeper. …

“There are exciting times ahead.”

Editor’s note: Another Aurora compa-
nny, Aurora Well Service, or AWS, is owned

“pretty much … two-thirds by the Boelens

family and one-third by Aurora Power,”

Pfoff said.

continued from page 17

SANDS OPERATORS

term goal in mind to produce the world-
class resource sustainable (to meet) glob-
al energy demand,” Gires said.

He said that as projects move ahead

they will face an “extremely tight labor

market in North America,” especially

recruiting qualified engineers and trades

people, on top of which 30 percent of the

current workforce is due to retire within the

next decade.

Gires said that technologies to reduce

water use and limit carbon emissions and
toxic byproducts have advanced considerably over recent years and the

information is being shared more open-

ly.

“Addressing the issues together is

much more efficient than attacking them

individually,” he said.

Sharing and reducing risks

Nick Olds, senior vice president of

ConocoPhillips Canada, said his compa-

ny plans to spend C$100 million a year

over the next five years on technology,
targeting reduced gas consumption in its

steam-assisted projects.

Rick George, chief executive officer

of Suncor Energy, which is partnership

with Total on the Joslyn and Fort Hills

mines and an upgrader, said the joint

venture is designed to share and reduce

economic risks.

He urged companies to complete their

engineering and procurement before

mobilizing on a project, keep their work-

forces to a manageable size, award bite-

sized contracts to proven contractors and

avoid being driven by deadlines.

“I’ve got the scars on this one, trust
me,” he said. “The focus has got to be on
costs.”

John Brannan, chief operating officer of

Cenovus Energy, said his company is

running its own fabrication yard to

restrain costs through quality and quan-
tity.

In addition, the use of new insulating

technologies on tubing and innovative

solvents to produce bitumen should trim

CS$10-C$15 off per-barrel costs over the

next few years, he predicted.
Shell’s essential contingency plan concept is to have oil spill response equipment available, on-site at drilling locations, and staged at strategic points, ready to swing into action in the event of a problem. This self-contained response capability would also include the necessary personnel and supplies.

The company already has extensive experience of operating in remote regions with little support infrastructure, including areas within the Arctic, Pete Slaby, Shell’s Alaska vice president, told Murkowski. Shell will use ice capable equipment for its exploration drilling program, although the company will be working in open water conditions during its planned 105-day drilling season, Slaby said.

Shell has emphasized that its prime focus is the prevention of oil spills through procedures such as effective well planning and the use of remote oversight of drilling operations. And Alaska OCS exploration wells present a significantly lower blowout risk than deepwater wells in the Gulf of Mexico because of the relatively shallow water in the Alaska offshore and the relatively normal pressures in Alaska oil reservoirs, Slaby said.

While the extreme water depths in the deepwater Gulf of Mexico resulted in a very wide oil slick when oil from the Macondo well fanned out toward the surface, the slick resulting from oil rising through shallow Arctic water would extend over a relatively small area, Slaby said.

### New technology

After seeing the difficulty of stemming the oil flow from the Macondo well in the Gulf of Mexico, Shell has been moving forward on the development of two new well capping and containment devices for use in the Arctic. So, if there were to be a well blowout, and if the well’s blowout preventer rescinded into the seafloor were to fail, the first response would be to cap and kill the well, to stop the escape of oil into the ocean water, the Shell executives explained.

The first of these devices, a capping system, could be lowered onto the well bore and clamped into place, explained Mark Duplantis, Shell Alaska well delivery manager. This system will have blind rams for sealing the drill pipe, a conduit for flowing oil to storage vessels at the surface and the capability to allow drillers to kill the well by re-entering the well bore or by injecting fluids into the well, Duplantis said.

The second device is a containment dome designed to be lowered through the water, over the top of the well, to gather oil escaping from the well and direct that oil through piping to surface vessels.

### Oil recovery plan

A well control problem would also trigger a plan for the recovery of oil, to deal rapidly with any discharge of oil into the sea, said Geoff Merrell, Shell’s Alaska emergency response coordinator. This plan includes three tiers of oil recovery: recovery near the well site; recovery near to shore; and recovery offshore and along the shoreline, Merrell said.

Each of Shell’s two drilling operations will have a purpose built, ice-capable spill response vessel on site, ready to swing into action if necessary, supporting any well site oil recovery operation, Merrell said. Shell already has one of these vessels, a new oil spill response vessel called the Nanuq, in operation, while another, currently known as Hull 247, is still under construction. The Arctic Endeavor, an ice strengthened barge, would support nearshore response activities.

The vessels will be fully equipped with boom, skimmers, workboats and other oil spill response equipment, while a 513,000-barrel capacity, ice-class, double hulled tanker would be the primary storage vessel.

If Shell is drilling in both the Chukchi and Beaufort seas the company will position both the tanker and the spill containment system offshore Barrow, from where these assets could reach either drilling operation in about a day in ice-free conditions, Slaby said.

### Strategically positioned

For the shoreline and onshore aspects of a response, Shell has pre-staged response equipment at strategic sites and has contracted with spill response cooperative organizations.

### Contain Yourself

The messy, hazardous hassle of handling fuel is over... thanks to Transcube.

Featuring a double-walled, 110% secondary containment design, Transcube’s environmentally-friendly tanks keep every drop of diesel contained inside the tank. DOT and UL 142 approved, Transcubes are legally transportable while full, going wherever needed to refuel machines or directly supply generators, heaters or other equipment.

Don’t stress over fuel handling. Contain yourself... with Transcube.
continued from page 19

SPILL RESPONSE

Alaska Clean Seas for onshore response operations. Response plans include the protection of certain shoreline sites that have heightened environmental sensitiv-
yty.

Peter Velez, Shell oil spill response team leader, told Murkowski that Shell has enough equipment to respond inde-
pendently in either the Chukchi Sea or the Beaufort Sea to the largest foreseeable
able spill at any of Shell’s drilling sites. However, should it prove necessary, Shell also has access to caches of spill response equipment at worldwide depots, Slabey said. Large items of equipment might have to come in through Dutch Harbor in the Aleutian Islands, but much of the equip-
ment could be flown in, perhaps through Barrow or the Chukchi Sea village of Wainwright.

“It’s just a question of picking up the phone,” Slabey said. “A lot of it is trans-
portable by air and it’s packaged so that it can be transported quickly.”

Asked about how Shell would deal with rough weather conditions that might occur in, say, the Chukchi Sea when conducting a spill response, Slabey said that Shell has long experience of operating in regions such as the North Sea and the Gulf of Mexico, where winds can be stronger and waves higher than in the Chukchi.

Burning and dispersing

Murkowski asked about the practical-
ities of using the in-situ burning of oil or dispersants as response techniques in the Arctic offshore.

In Arctic conditions the slow rate of evaporation of the more volatile compo-
nents of crude oil would enable the burn-
ing of the oil to be possible for a longer period after a spill than in warmer clima-
tes, Velez said.

For the same reason, dispersants would remain effective for a relatively long time after an Arctic spill, he said. Dispersants would prove particularly effective in situations where ocean wave action could add energy to the dispersal process, he said. Velez said that research done over the past couple of years in Barrow and involving the University of Alaska demonstrated that the toxicology impact of dispersant chemicals on organ-
isms that Arctic mammals feed on is “basically non-existent.”

Relief well drilling

The drilling of a so-called “relief well” to plug the original well is the ultimate means of bringing a well blowout to an end. Each of Shell’s drilling vessels will carry an extra blowout preventer for relief well drilling — if there were to be a blowout the drilling vessel engaged in the drilling operation should be available to work on the relief well, Slabey said. However, if that drilling vessel were to be incapacitated, Shell’s other drilling vessel operating in the Beaufort Sea or Chukchi Sea would drill the relief well, with the vessel able to transition to the problem well site in two to three days, Slabey said. Shell anticipates that it would be pos-
sible to drill a relief well at any of its Arctic Alaska drill sites in less than 30 days, Slabey said. The company plans to complete its drilling operations by the end of October so that, with continued drilling possible into November or December, there would be sufficient time for relief well completion, he said.

Contact: Alan Bailey
aballey@petroleumnews.com

“Natural resources continue to be the cornerstone for Alaska’s economic development and diversification. AIC is proud to provide the equipment and construction services to the resource development industries.”

Contact: Alan Bailey
aballey@petroleumnews.com

GROWING ALASKA

continued from page 1

MORE POSITIVE?

tion of issues such as oil spill prevention and contingency planning, while also coordinating the development of any neces-
sary support infrastructure in Alaska, the order says.

Cautiously optimistic

Alaska Gov. Sean Parnell said he was cautiously optimistic about the latest presi-
dential action.

“I appreciate the federal government recognizing and taking steps to address the increased costs and lengthy delays the fed-
eral permitting process has had on resource development and jobs in Alaska,” Parnell said. “The structure of the federal permit-
ting process must be reformed.”

However, Parnell also expressed con-
cern that the president has not included representation from the State of Alaska in the new working group.

On June 13 President Obama sent a let-
ter to Gov. Parnell saying that the Obama administration “appreciates the importance of Alaska’s vast natural resources, includ-
ing both the significant potential for energy production and the unique challenges posed by the development of the Arctic environment.”

The letter confirmed the administra-
tion’s intention of holding annual NPR-A lease sales and also reiterated the intent “to extend the leases for certain areas off the coast of Alaska to give companies time to meet heightened safety and environmental standards for exploration and develop-
ment.”

Taking action?

The U.S. Bureau of Land Management has acted on the president’s instructions for NPR-A lease sales by planning an NPR-A sale for later in 2011. However, so far the

“The formal creation of a working group dedicated to pursuing domestic energy solutions in Alaska is welcome news and builds on recent, positive conversations we have had with this administration related to responsible offshore exploration in the Arctic.”

—Shell spokesman Curtis Smith

Bureau of Ocean Energy, Management, Regulation and Enforcement has not made any public statement regarding the possi-
bility of extending Arctic OCS leases.

“Our conversations with BOEMRE regarding lease extensions have not revealed what their intention is for Arctic leases,” Shell spokesman Curtis Smith told Petroleum News in a July 12 e-mail. “We continue to wait for clarification on how lease extensions will be resolved in the future.”

Shell purchased leases in the Chukchi Sea in 2008 but has so far been unable to drill in any of those leases, in part because of appeals against the 2008 lease sale. The company has reacted positively to Obama’s announcement about the new interagency working group.

“The formal creation of a working group dedicated to pursuing domestic energy solutions in Alaska is welcome news and builds on recent, positive conversations we have had with this administra-
tion related to responsible offshore exploration in the Arctic,” Smith said. “We have long advocated for a regulatory process that is fair and accountable. … We’re hopeful this effort to coordinate various regulatory work streams will lead to more data sharing and a more efficient, while still robust, permitting process.

AK delegation support

“The administration’s decision to design-
nate specific people at each agency to focus on the development of our Arctic resources represents a positive step for-
ward in improving the federal permitting process for companies interested in investing in Alaska,” said Sen. Lisa Murkowski in response to the presi-
dent’s order. “I will be watching this effort closely to ensure that it’s suc-
cessful at closing what has been an endless loop of approvals, appeals and delays — delays caused by special interest groups opposed to improving our energy security and the jobs it would create.”

“For the past two years, I’ve called on the adminstration to have federal agencies work together in Alaska,” said Sen. Mark Begich. “The president recognized the problem in his weekly address at the end of March. I give him full marks for highlighting his commitment and look forward to the group untying the procedural knots that have stalled development at CD-5 in the National Petroleum Reserve-Alaska and improving permit processing in the OCS.”

“I am pleased that the administration is seemingly taking Alaska resource develop-
ment more seriously,” said Rep. Don Young. “Time will tell if this working group helps streamline and expedite the process, as I hope it will, or if it adds another level of bureaucracy and red tape. In the meantime, I commend the president for taking a positive step in the right direc-
tion.”