Petroleum news

page 8 Trond-Erik Johansen named to head ConocoPhillips Alaska

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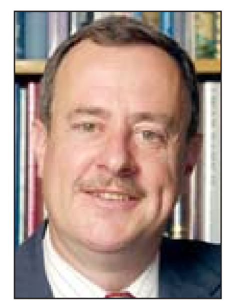
NATURAL GAS

Gas storage bill passes

Alaska House votes 38-0 for act to encourage Cook Inlet gas storage, exploration

By WESLEY LOY

For Petroleum News



MIKE HAWKER

The Alaska House of Representatives on March 24 passed the Cook Inlet Recovery Act, which provides tax credits for construction of natural gas storage projects plus incentives for gas explorers.

The legislation, House Bill 280, could emerge as one as one of the state Legislature's top energy initiatives for the session, which ends April 18.

The bill addresses a major and increasingly popular concern — a looming shortage of Cook Inlet gas, long the primary fuel for heating homes and businesses and for generating electricity for the state's main population center including Anchorage.

The vote in favor of HB 280 was a resounding 38-0 with two House members absent. The prime sponsor was Rep. Mike Hawker, R-Anchorage.

The bill now moves to the Senate, where similar legislation is pending, Senate Bill 203. Its sponsor is Anchorage Democrat Sen. Hollis French, who is part of the Senate's bipartisan majority.

The bill's main features

The 18-page HB 280 has two major components, one providing tax credits and other incentives for development of gas storage capacity and another offering incentives to explorers.

The bill also contains important provisions pertaining to the Regulatory Commission of Alaska,

see STORAGE BILL *page 20*

NATURAL GAS

Cook Inlet needs $2.8B

Study assesses investment in new CI wells to maintain adequate Southcentral gas

By ALAN BAILEY

Petroleum News

TOM WALSH

A new study into Southcentral Alaska utility natural gas supplies from the gas fields of the Cook Inlet basin has concluded that gas producers will likely have to sink up to $2.8 billion into new gas wells, just to ensure that annual supply volumes can meet annual utility demand through 2020.

The study, conducted by Petrotechnical Resources of Alaska for utilities Enstar Natural Gas Co., Chugach Electric Association and Municipal Light & Power, also found that obstacles to drilling sufficient new wells in the near future are likely to result in a need to import LNG into Southcentral, to plug a pending gas supply gap, Tom Walsh, managing partner of PRA, told a meeting of the Resource Development Council March 19.

Declining gas supplies from the Cook Inlet's aging gas fields has been causing increasing angst in Southcentral, where natural gas forms the primary fuel for electricity generation and for the heating of homes and business premises. Most of the gas comes from just five established gas fields: the Beluga River, Trading Bay, North Cook Inlet, Kenai and Ninilchik fields, Walsh said.

see CI STUDY *page 19*

NATURAL GAS

Mac has '4 more years'

Imperial Oil NEB filing says first quarter of 2018 earliest possible startup

By GARY PARK

For Petroleum News

Proponents of the Mackenzie Gas Project have extended the earliest possible startup date by another four years to 2018, largely because of regulatory delays and the Canadian government's failure to negotiate a fiscal agreement.

In addition, lead partner Imperial Oil said in a filing with the National Energy Board, the revised launch reflects the need to restaff the project and factor in seasonal constraints before the MGP can go ahead, even if the necessary approvals are obtained from the NEB and the federal government.

"Timely actions by all parties, including the proponents, governments and regulators, will be essential" to achieve the 2018 target, the Imperial letter stated.

The filing coincided with an Arctic gas symposium, where Mike Peters, manager of northern Canada operations with the Canadian Association of Petroleum Producers, said investment in Canada's Arctic gas sector is suffering because of the regulatory process.

He said the list of obstacles also includes: a very challenging commodity price, high inventories, currency exchange rate volatility and financial market uncertainty.

But he argued that the Arctic resource potential justifies a much greater level of activity and investment than is currently directed at the region,

see MAC LINE *page 18*

March Mining News inside

NORTH OF 60 MINING NEWS

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Ancient rocks under Canada's youngest territory promises mineral bonanza

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Friendly bid by Kinross offers premium for Yukon's Underworld Resources

Mine workers at the newly opened Meadowbank Mine in Nunavut joined Agnico-Eagle Mines Ltd. President and chief operating officer Ebe Scherkus (middle of front row in red shirt) in celebrating the open-pit operation's first gold pour in late February. Meadowbank is expected to produce about 350,000 ounces a year over the next nine years. Located on a huge and highly prospective property in north-central Nunavut, Meadowbank has 3.6 million ounces of reserves and a tremendous potential resource

PHOTO COURTESY OF AGNICO-EAGLE LTD.

A special supplement to Petroleum News
WEEK OF March 28, 2010

The March issue of North of 60 Mining News is enclosed

Another Aussie indie enters inlet; Buccaneer acquires Stellar acreage

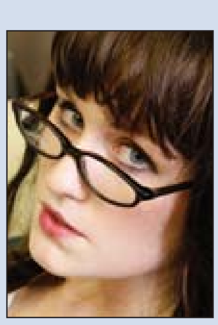
An Australian exploration company is picking up a package of Cook Inlet leases.

The Sydney-based independent Buccaneer Energy Ltd. announced on March 25 that it was acquiring 57,600 gross onshore and offshore acres from Stellar Oil and Gas LLC.

Stellar Oil and Gas, owned by several executives from the Texas-based independent Renaissance Alaska, holds around 10,000 gross offshore acres at the North Middle Ground Shoal and the Northwest Cook Inlet prospects and more than 47,000 gross onshore acres on the Kenai Peninsula at the North Sterling and West Eagle prospects.

see NEW PLAYER *page 20*

Greening of Oil: Latest from Mac Ackers



MAC ACKERS

ALASKANS, GOO WANTS TO HEAR FROM YOU … Greening of Oil recently posted an article, Hydrokinetic proposition for Alaska at http://bit.ly/9KurPW about a Floridian who won an award for a device he wants to use on abandoned Cook Inlet oil platforms. Basically, the device produces power from the movement of water. In the comments section that followed the article, Al Hastings and Arlen Ehm both expressed concerns about the structural integrity of using the old platforms, but Hastings suggested ConocoPhillips give Scott Anderson a

see MAC ACKERS *page 17*

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● NATURAL GAS

Legislature working in-state gas issue

House, Senate bills alternately set up in-state gas team in governor's office under AFHC, move in-state line to Alaska Railroad

By KRISTEN NELSON

Petroleum News

With supplies of natural gas tightening in Southcentral Alaska — and Fairbanks in need of a more reasonably priced fuel than diesel — concern has been growing about how long it is likely to take a major North Slope gas pipeline project to materialize, and whether the state shouldn't be doing something on its own to get gas to Alaskans.

In the summer of 2008 the Alaska Natural Gas Development Authority was tasked by former Gov. Sarah Palin with developing a standalone line from Cook Inlet to Fairbanks which would encourage additional drilling in Cook Inlet by expanding the market and also provide natural gas to Fairbanks. Once a main line was in place from the North Slope, the standalone line could be reversed to carry North Slope natural gas to Southcentral.

That project was in addition to ANGDA's work designing a spur line into Southcentral, investigation into a bullet line, working with electric utilities in preparation for an open season on the main gas pipeline and a plan for a propane facility on the North Slope so that fuel would be available for Alaska communities which will not be reached by a gas pipeline.

In early 2009, then-Gov. Palin established an in-state gas pipeline project in the governor's office, naming Harry Noah as project manager. The governor's goal was to supply the Railbelt with natural gas within 5 years.

Multiple projects

The Alaska Legislature has been worrying about management of multiple in-state gas pipeline projects, especially since last year when Noah, then the outgoing in-state gas pipeline project manager, told legislators there were too many plans in play.

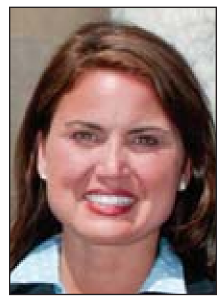
"We are pulling this way and we're pulling that way," and while good people are involved on the different projects, "one side just wants to kill the other side," he told a mid-December meeting of House Resources.

There's a lot of energy, Noah said, "but we're not actually moving forward."

His most telling point probably came when he said: "And quite honestly, the Legislature's funding most of these."

Two bills are now moving in the Alaska Legislature — one passed the House March 24 and the other is in Senate Finance — which would consolidate in-state gas pipeline efforts.

MIKE CHENAULT



LESIL MCGUIRE

Both initially targeted the Alaska Railroad to head up the effort, but after the railroad's president and CEO, Pat Gamble, was named to head the University of Alaska system, the House bill was changed. It still includes the Alaska Railroad on the in-state gas pipeline team, but the team will now be headed by the Alaska Housing Finance Corp.

The Senate bill moves the entire standalone or bullet line project to the Alaska Railroad.

HB 369 team in governor's office

Work on in-state and spur gas pipelines is currently housed in the governor's office (the in-state gas team) and in the Department of Revenue (ANGDA).

House Bill 369, whose prime sponsor is House Speaker Mike Chenault, R-Nikiski, establishes a joint in-state gas pipeline team in the governor's office consisting of the Department of Transportation and Public Facilities; the Alaska Railroad Corp.; the Alaska Natural Gas Development authority; the in-state gas line project manager; and the Alaska Housing Finance Corp.

The CEO of AHFC is the chair of the development team, which "may hire staff, enter into contracts, and exercise other powers necessary to carry out its functions."

Chenault said in a sponsor's statement that the goal of the bill is "to expedite the process for an in-state natural gas pipeline" and to combine the two entities currently working on the project, ANGDA and the in-state gas pipeline coordinator.

The team is to present the Legislature with a development plan for an in-state gas pipeline by July 1, 2011, specifying and documenting how an in-state gas pipeline can be "designed, financed, constructed, and made operational" by Dec. 31, 2015.

A written monthly report to all legislators is required, including contracts with scope and amount; accounting of all funds spent; and a schedule of work to complete the in-state gas pipeline project plan.

The proposal calls for the plans, rights of way and permits to be turned over to a private entity.

$10.65 million

The price tag on HB 369 is $10.65 million, with $6.81 million, an increase from $6.5 million in the current operating budget request "to include commercial analysis of downstream industrial opportunities," public outreach and information and office space for seven staff during the first year.

Among the agencies funded is the Department of Revenue, where a $1 million item presumably covers ANGDA's work, itemized as:

- Identify opportunities for delivering North Slope gas to rural and maritime Alaska;
- Identify and negotiate with potential gas suppliers and potential gas consumers;
- Develop pro-forma financials for the project;
- Develop a partnering agreement with a pipeline company;
- Provide a design, construction schedule and cost estimate for a liquefied natural gas plant; and
- Develop and execute a public information and outreach plan.

Other department breakouts include the Department of Environmental Conservation, the Department of Transportation and Public Facilities, with funds included for the Department of Natural Resources State Pipeline Coordinators Office for costs associated with the right-of-way permitting process and work by the commissioner's office.

$34.22 million to railroad

see IN-STATE GAS page 15

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● NATURAL GAS

TransCanada: Dempster Lateral a dead issue

Responses to FERC queries on open season plan include information on Canadian pipeline open season

By KRISTEN NELSON
Petroleum News

The Federal Energy Regulatory Commission had just a few questions for TransCanada Alaska on its Alaska Pipeline Project open season plan, two of them concerning the meaning of "agrees" in the precedent agreement.

On more general issues, FERC asked about the process for capacity allocation on the Canadian pipeline and about potential impacts of any Dempster Lateral project on shippers in the proposed Canadian section of the project.

On the process for capacity allocation in the project's Canadian line, TransCanada said: "The Canadian open season process will be conducted in a manner similar to, and consistent with, the U.S. process," running from April 30 through to July 30, and with "the same schedule, deadlines and requirements as the U.S. open season."

Canadian precedent agreements and the Canadian tariff "will be aligned with the comparable U.S. documents where possible," TransCanada said.

The company said the coordinated open season process would allow potential shippers interested in transportation to Alberta to nominate capacity on the Canadian portion of the line.

"Capacity will be allocated on the Canadian Pipeline using the same process utilized in the U.S.," TransCanada said.

FERC's open season process for the Alaska portion of the gas pipeline requires public disclosure of the open season plan, but this is not the case in Canada.

TransCanada said "Canadian open season documents will be made available to potential shippers on a confidential basis," while open season marketing material and certain non-confidential literature will be provided to interested parties.

TransCanada also said data rooms being set up for the open season in the U.S. and Canada will contain detailed information on both the U.S. and Canadian portions of the project.

The company said the contacts for the Canadian open season are the same as those shown on the Jan. 29 proposed open season notice for the Alaska Pipeline Project.

Dempster Lateral

FERC asked TransCanada to "explain your understanding about any potential Dempster Lateral pipeline project that could ultimately be constructed, the relative uncertainties regarding its potential construction, and the likelihood that any Dempster Lateral costs could be charged to shippers using your pipeline's Canadian Pipeline."

TransCanada said the Dempster Lateral was proposed by the National Energy Board in its 1977 reasons for decisions for recommending certification of the Foothills Pipe Lines (Yukon) Ltd. project for moving Alaska gas through Canada.

The Dempster Lateral was proposed as a way of combining volumes of Alaska and Mackenzie Valley gas, and if certificated the Dempster Lateral would connect Mackenzie gas to the proposed Alaska line near Whitehorse, Yukon.

TransCanada said there "was insufficient evidence of the need for the Dempster Lateral" in 1977, and, unlike other zones of the Canadian Pipeline "deemed to have been certified pursuant to Section 21 of the Northern Pipeline Act in accordance with the NEB Reasons for Decision, the Dempster Lateral zone was not deemed to have been certificated" and "was specifically excluded" from certification.

"This distinction is important," TransCanada said. "The need for the Dempster Lateral has yet to be established."

Based on recommendations in the 1977 reasons for decisions, TransCanada said, Foothills, the Alberta Gas Trunk Line and the Canadian government entered into the 1978 Dempster Link Agreement, which "created an obligation upon Foothills to apply to the NEB for a certificate to construct and operate the Dempster Lateral."

Foothills made that application, TransCanada said, but there was no support for proceeding with the application and "the application eventually lapsed, without any decision or recommendation being made by the National Energy Board."

"The Dempster Link Agreement expired in 2005," TransCanada said. "Foothills has no further outstanding obligations or liabilities with respect to pursuing a Dempster Lateral."

Foothills is a subsidiary of TransCanada and is the entity which will build the Canadian portion of the project. ●

Contact Kristen Nelson at knelson@petroleumnews.com

EXPLORATION & PRODUCTION

Alberta oil sands get a break

Ontario, Quebec shelve opposition, send delegations to buying-selling forum; EU backs down; industry leaders make stewardship case

By **GARY PARK**
For Petroleum News

The Canadian provinces of Ontario and Quebec are rethinking their public attacks on the Alberta oil sands and the European Union has bowed to Canadian pressure by agreeing not to erect trade barriers to oil sands-related products.

All good news in a week when industry decision-makers held an unparalleled Reuters-sponsored oil sands summit in Calgary.

The most important breakthrough occurred when the Ontario and Quebec governments sent delegations and urged business leaders to participate in an economic mission to Edmonton for a National Buyer/Seller Forum linked to oil sands investment.

This apparent change of heart comes after an intense period of attacks on the oil sands by Quebec Premier Jean Charest and Ontario Environment Minister John Gerretsen.

Alberta's Premier Ed Stelmach and Energy Minister Ron Liepert said they hope this signals an acceptance by Canada's two largest provinces that oil sands development creates thousands of jobs in their regions and billions of dollars in tax revenues.

"We've got to keep getting the message out to Canadians and investors around the world," Stelmach said.

He told the forum that environmental attacks on the oil sands have been "wildly exaggerated by people and groups who have their own agenda."

Ontario sent 35 companies and six regional economic development organizations to Edmonton; Quebec sent at least 17 companies, many from the clean technology sector.

Separately, a draft European Union paper on fuel standards drops all references to Canadian oil sands or tar sands, unlike drafts from last year, which assigned a greenhouse gas value to the oil sands of 107 grams per megajoule, much higher than any other road fuel except those extracted from coal.

That appeared to signal success for Canadian lobbying efforts, including a warning by Canadian Ambassador Ross Hornsby that draft EU standards to promote greener fuels are too unwieldy and would harm the market for oil sands production.

He cited research showing the oil sands' carbon footprint was only 5 to 15 percent higher than most crude imports consumed in the United States.

"A separate category for oil sands … would amount to unjustifiable discrimination against the oil sands," he wrote to Karl Falkenberg, head of the European Commission's environment department.

Oil sands comments

Meanwhile, the gathering of the oil sands' most powerful executives in Calgary yielded the following comments:

• Rick George, chief executive officer of Suncor Energy: "We've got to do a better job of telling our side of the story. Our environmental footprint in the same as the heavy oil produced in southern California. You deal with the facts and not fiction and not political rhetoric. If we are going to a carbon tax I am not necessarily opposed, but you must tax equally. The biggest emitter of CO2 is coal. You can't just exempt coal."

• Brian Ferguson, chief executive officer of Cenovus Energy: "We're trying several different technologies (to reduce greenhouse gas emissions). One is to apply butane solvent into the steam to reduce the amount of steam that is required. The technology is proven in today's price environment. But there's (further possible opportunities) to use technological advances to drive down costs and drive down carbon dioxide emissions. The big thing that I'm focusing on right now is getting a really good understanding of (our) resource that we have at hand and how to move that forward in terms of net present value (by achieving 10 to 15 percent annual production growth)."

• Bruce March, chief executive officer of Imperial Oil: "We don't have to make the choice between energy development of the oil sands and the environment. If we continue with the long track record of improvement … we can develop the oil sands responsibly, so we do not have to make that choice." He said current cost estimates look acceptable for Imperial's planned C$8 billion Kearl project, telling the summit they have dropped as much as 20 percent below pre-recessions levels.

• Chris Seasons, president of Devon Canada: "There's a little bit of the pot calling the kettle black if California is talking about (imposing limits on oil sands production) without even looking at the oil derived from their own state. Getting off oil is not going to happen for some time. If you accept that you are going to have to have a good source of supply … I think Canada is a pretty darn good place to source your crude." He said Devon sees as many as five projects producing 170,000 bpd from its newly acquired Kirby leases, but peak production from the first phase is still six years away.

• Lars Christian Bacher, president of Statoil Canada: "We see that some (capital) costs are dropping. We have also seen over the past year that it's easier to hire employees and also keep them." His company has pledged to cut CO2 emissions

see OIL SANDS page 6

● UTILITIES

Revised GRETC bill gets House hearing

A more flexible approach brought the utilities to the table, but lawmakers want some concerns addressed before they sign off

By ERIC LIDJI

For Petroleum News

After a year to clear its throat, an attempt to unite the Alaska Railbelt utilities is back before lawmakers in a more flexible package, creating both benefits and concerns.

A pair of bills before the Legislature — HB 182 and SB 143 — would form a private corporation tentatively named the Greater Railbelt Energy and Transmission Co. under the assumption that the whole is greater than the sum of its parts for Railbelt electricity.

GRETC, as it's being called, would provide wholesale power to public utilities in the Railbelt region stretching from Homer to Delta Junction. It would buy or build new generation and transmission assets, buy fuel supplies and develop operating standards.

The six Railbelt utilities are regulated monopolies in an interconnected grid, most with their own generation facilities and all with their own independent distribution lines.

The idea is to create economies of scale that bring down the cost of power for consumers, while also easing the path toward building massive energy projects in the future.

Changes for a unique system

The unique utility structure in Alaska grew out of necessity. To electrify isolated and relatively under-populated corners of pre-statehood Alaska, the member-owned cooperatives that sprung up in Fairbanks, Anchorage and the Mat-Su region needed to be vertically integrated, owning generation, transmission and distribution facilities.

Now, 50 years into statehood, some question whether that system should be restructured to more closely resemble the Lower 48, where local distribution companies buy power from generation facilities that serve broad regions, often crossing state lines. Alaska can't connect to the North American grid, but it can unite its population center in the Railbelt.

This idea has gained traction over the past three years.

A 2008 study commissioned by the Alaska Energy Authority aimed to make a business case for combining generation and transmission assets in the Railbelt into one entity.

In late 2009, another AEA report called the Regional Integrated Resource Plan prioritized power generation projects under consideration, looking at various factors like fuel type, cost and complexity to guide policymakers looking to dole out limited funds in the future.

The report concluded that any major power projects, like the long-proposed Susitna Dam or a hydroelectric project at Lake Chakachamna, depended on utility cooperation because the current debt capacity of the utilities individually is, even in the best-case scenario, several billion dollars shy of the infrastructure investment needed over the next 30 years.

A Commonwealth North report on Railbelt energy released March 24 called the GRETC concept "worth pursuing in order to ensure Alaska's long term energy stability."

"Success will ultimately come from community support, equal representation on the Board of Directors, and an atmosphere of trust that allows the six Railbelt utilities to join and work together for the common benefit of the people of Alaska," the report said.

Then-Gov. Sarah Palin proposed GRETC in early 2009, but too late in the legislative session for lawmakers to consider the bill until this year. In the intervening months, the utilities and the state formed a task force to air concerns and revise the bill to their liking.

The revised bill is now getting its first hearings before legislative committees.

Utilities ask for some freedom

The biggest change to the bill is flexibility.

Membership in the proposed corporation is now entirely voluntary, and while the bill encourages cooperation by making the corporation the primary recipient of state energy dollars, it also allows member utilities to pursue projects independently if they want.

That flexibility extends into oversight as well, viewing the current regulatory structure governing Alaska utilities as one the corporation would ideally outgrow in stages.

Under the bill, Regulatory Commission of Alaska oversight of GRETC would sunset after five years unless lawmakers voted to extend it and GRETC would undergo comprehensive management audits every three years for its first 10 years of existence.

If all goes well, oversight then becomes even looser, relying on transparency guidelines, dispute resolution, an appeals process and the ability of consumers to protest decisions.

"The goal is to build this, put it on autopilot and expect it to work right, but we've built in oversights and we've built in requirements for public processes that the company must undertake in its day-to-day businesses," Jim Strandberg with the Alaska Energy Authority told members of the House Special Committee on Energy on March 18.

…but freedom is not free

The wiggle room is making some lawmakers cautious, though.

Rep. Chris Tuck noted that the voluntary participation makes it possible for one utility member to take on a project that competes against existing GRETC efforts. The concern is amplified in the case of potential nonvoting members like Doyon Utilities, a Native-owned private contractor that manages power plants at military bases across Alaska.

Rep. Charisse Millett, co-chair of the committee, brought up the disparity between residential and industrial customers. GRETC would establish a set

see GRETC BILL page 8

continued from page 5

OIL SANDS

from the oil sands by 25 percent over the next decade and by 40 percent in 15 years.

• Jean-Michel Gires, chief executive officer of Total Canada: "We call it oil sands, not tar sands. Tar is a manufactured product, derived from coal. (Carbon capture and storage) is an interesting option, but it's just another option. It's not the solution. Interesting technological solutions are starting to exist, but they are still too expensive." He said justifying a multibillion dollar price tag for an oil sands mine and upgrader needs oil prices above US$80 per barrel.

• Russ Girling, chief operating officer of TransCanada: "If you impose fuel standards that restrict (oil sands) imports, the cost of gasoline will go through the roof. The U.S. wants and needs (Canadian) crude oil for a long time." ●

Contact Gary Park through publisher@petroleumnews.com

● PIPELINES & DOWNSTREAM

Northern Gateway under siege

Enbridge, on verge of filing to open Asian markets for oil sands crude, faces resistance from environmentalists, First Nations

By GARY PARK

For Petroleum News

No matter which way pipeline company Enbridge turns it is encountering resistance to the first large-scale plan to export crude oil from the North American continent.

First Nations, environmentalists and rival plans for tanker shipments from British Columbia are besieging the Northern Gateway project just weeks before Enbridge is expected to file an application with Canada's National Energy Board.

And all this comes around the 21st anniversary of the Exxon Valdez disaster, which is being held up as a key reason for regulators and governments to block Enbridge's hopes of exporting 525,000 barrels per day of oil sands-derived crude and import 193,000 bpd of condensate through the deepwater port at Kitimat.

Enbridge commercial manager Steve Elliot had no sooner told an energy seminar in Tokyo that his company was on the verge of submitting a formal application to the NEB than the proposal was swamped with doubts and negatives.

First Nations from British Columbia to Alberta warned that wildlife along the British Columbia coast would be devastated by an oil spill; the Union of British Columbia Indian Chiefs, representing about 40 percent of the province's aboriginal population, has unanimously opposed Northern Gateway; Alberta aboriginals are rallying to show their opposition; and environmentalists and landowners have already indicated they will challenge the plans at regulatory hearings.

Problems are also surfacing at the delivery end of the Asian-bound exports, with Japanese refiners and traders indicating they see greater benefits in importing crude from Russia's Far East which offers higher yields of middle distillates and lower freight costs compared with Middle Eastern crudes.

Kinder Morgan: price the issue

Compounding those challenges, Kinder Morgan — which has developed preliminary plans to either expand its export pipeline from Alberta to Vancouver or build a separate rival pipeline to Kitimat — has warned that crude pricing could stand in the way of Canadian crude reaching Asia.

Kinder Morgan senior business development manager Norm Rinne told reporters in Tokyo said there has been no evidence of deals between Canadian sellers and Asian buyers to support hopes of shipments exceeding 300,000 bpd after 2017, giving Canadian producers a competitive outlet to its sole export market in the United States.

Rinne said Kinder Morgan plans to add two more Canadian pipelines — one carrying 80,000 bpd and the other 320,000 bpd to the B.C. coast by 2017.

He said initially Kinder Morgan expects Asian demand will be less than 100,000 bpd by 2015, before tripling over the next two years.

Kinder Morgan is currently working on engineering and design for a second berth at its Vancouver terminal, building on its trial shipments of crude to Asia, which claimed a share of the average 75,000 bpd exported from Vancouver in 2009 (peaking at 134,000 bpd in March 2009).

He said his company believes that "nothing except prices is holding back Canadian crude oil from going into Asia," once sellers and buyers can bridge the gap between Dubai and WTI pricing.

Domestic resistance

However, the domestic resistance to Northern Gateway is rapidly gathering momentum.

Coastal First Nations, a coalition of British Columbia aboriginal communities stretching from Vancouver Island to the B.C.-Alaska border, said March 23 it is ready to battle Enbridge.

Coalition Executive Director Art Sterritt said there is too great a risk of an oil tanker repeating the grounding of the

see NORTHERN GATEWAY page 8

Enbridge eyes Marcellus option

Canadian pipeline company Enbridge hopes to corner its share of the North American natural gas liquids shipping business by testing producer interest in linking the Marcellus Shale in Pennsylvania with Chicago's industrial region.

The Calgary-based company wants to fill the available liquids capacity at its Aux Sable processing facility near Chicago that currently feeds off liquids delivered by the Alliance pipeline from northern British Columbia. It might also extend the line to serve Ontario's petrochemicals feedstock market.

The proposed line would cover about 500 miles and capacity will depend on the results of an open season scheduled for the second quarter.

A company spokesman said there are estimates of 100,000 barrels per day of Marcellus liquids by 2013.

Enbridge Vice President Stephen Letwin said in a statement that his company has "extensive knowledge and expertise in the areas of NGL fractionation, transportation and marketing. Within this proposed pipeline, we are uniquely positioned to help Marcellus producers obtain greater value for their future NGL production."

The Marcellus formation is one of several giant shale plays evolving in North America.

Enbridge is going head-to-head with TransCanada and Spectra Energy's Union Gas which held a recent open season seeking preliminary commitments from Marcellus producers to ship gas from New York state into Ontario. No results have been announced.

Buckeye Partners is also testing interest in a liquids pipeline from the Marcellus to Ontario.

Enbridge believes that accessing the Chicago market with Marcellus liquids will need only a modest amount of pipe to take advantage of substantial markets.

UBS analyst Chad Friess said the pipeline would likely have only a small financial impact on Enbridge, which is flush with cash and looking for opportunities to divert that surplus.

—GARY PARK

FINANCE & ECONOMY

Johansen to head ConocoPhillips Alaska

ConocoPhillips has named Trond-Erik Johansen as president of its Alaska operations.

Johansen, currently president of ConocoPhillips' Southeast Asia Exploration and Production organization, replaces long-time ConocoPhillips Alaska President Jim Bowles, who died while snowmachining on the Kenai Peninsula Feb. 13.

TROND-ERIK JOHANSEN

Johansen, a native of Norway, has held a variety of petroleum engineering, project engineering and operations leadership positions in Stavanger, Aberdeen, New Orleans, Houston and Jakarta.

He joined the company in Stavanger, Norway, in 1986 with a master's degree in petroleum engineering from the Norwegian Institute of Technology.

He earned an MBA at the Sloan Fellows program at Massachusetts Institute of Technology in 2001 and after graduation he moved to Aberdeen to become general manager for drilling and production, supply chain, HSE and the Britannia field asset.

In 2002, Johansen moved to Norway to become operations manager for the Ekofisk field and later general manager for the greater Ekofisk area. In 2005, he became managing director for ConocoPhillips in Norway.

Johansen moved to Jakarta in early 2007 where he led the Indonesian business unit until April 2008 when he was named president, Asia Pacific, Exploration and Production, based in Singapore.

The appointment as president of ConocoPhillips Alaska is effective April 1.

—PETROLEUM NEWS

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NORTHERN GATEWAY

Exxon Valdez as it navigated "the pristine waters within our traditional territories."

"If we had a tanker accident on the coast of British Columbia it would literally wipe out all of our cultures, all of our salmon, all of our groundfish," he said.

Sterritt said Coastal First Nations were told by Enbridge a year ago, and the company reiterated the pledge at its annual general meeting in 2009, that "if all the communities within this geographic region didn't support the pipeline that they would stop the project. We're here to tell you today that all of the communities are opposed to Enbridge."

He said the Northern Gateway pipeline "is a threat to the very existence of our culture and our way of life."

A five-year study released by Raincoast Conservation Foundation concluded that whales, wolves, bears and birds would be devastated by an oil spill in the area.

Environmentalists Vicky Husband, who has been recognized for her work by the British Columbia and Canadian governments, said Canada's conservation community is united in its opposition to the pipeline and tanker traffic.

"Why are we here to shift dirty tar sands oil to China or India?" she asked. "So we can (develop) more tar sands, so we can export more climate change and destroy our Earth? We have to change our course now."

Earliest in-service late 2016

Elliot told the Tokyo seminar the earliest in-service date for the pipeline is the final quarter of 2016.

Enbridge has estimated that Northern Gateway would create more than 4,000 construction jobs and generate tax revenues for both British Columbia and Alberta.

It argues that ships have safely carried petrochemicals out of the Kitimat port for 25 years.

Elliott said the startup date depends on many factors, including detailed engineering, a regulatory decision, timing of commercial sanctioning and construction progress.

He said a filing for the 720-mile pipeline will be part of an ongoing regulatory Joint Review Panel process by the NEB and the Canadian Environmental Assessment Agency.

Elliott said Enbridge has secured C$100 million from four Canadian oil sands producers and three Asian-based market participants to finance the regulatory application.

Without naming the backers, he said: "We have got a diversified variety level of support from both the supply side and market side."

Each of the participants is entitled to benefits, such as an option to ship crude at a discount on crude export and condensate import lines.

Enbridge is not prepared to get drawn into a public debate when it is so close to a regulatory filing, but has said it "welcomes and encourages public input."

British Columbia Premier Gordon Campbell told reporters March 23 that while the project would be reviewed, he noted the jobs it would create.

"There's literally hundreds and hundreds of jobs that will be available to First Nations people across the northern part of our province."I think our job is to try and find ways we can get First Nations people engaged with paychecks, building the kind of economic future that they need in a way that meets our environmental standards, which are among the most rigorous anywhere in the world." ●

Contact Gary Park through publisher@petroleumnews.com

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GRETC BILL

"postage stamp" rate for all residential consumers in the Railbelt, but would give utilities first right of refusal to negotiate contracts with major industrial customers. These bid users can greatly impact cost of service. For instance, Golden Valley Electric Association in Fairbanks often touts that its contracts with two nearby gold mines temper residential electricity rates.

Millett and Rep. Kyle Johansen both wanted a better sense of the financial well-being of the six utilities before forming a corporation to unite them. Millet said her constituents have suggested some hard-up utilities may see membership as a "lifeline." Strandberg said the 13-member GRETC board of directors would lead to voting blocks that naturally prevent one member from trying to get "bailed out" at the expense of the corporation.

The 22-page bill also contains many small, but curious provisions, like one that suggests GRETC could become a fuel producer in the future. Strandberg did not explain the genesis of that idea, but said the Parnell administration may ask to drop it from the bill.

Like the restructuring of the utility market in the Lower 48, GRETC would most likely evolve in phases, Strandberg said. "We look at this as a first cooperative step with the utilities to move towards a more tightly integrated network over the long run," he said.

The House and Senate continue to examine the revised bills in committee. ●

Contact Eric Lidji at ericlidji@mac.com

NATURAL GAS

FERC: RCA has in-state gas jurisdiction

Staff response says if in-state line only for in-state use, state would regulate; commission would have to decide if gas exported

By KRISTEN NELSON
Petroleum News

If Alaska North Slope natural gas was transported in an in-state gas pipeline and sold for use entirely within Alaska, no FERC authorization would be needed for construction and operation of the line, Federal Energy Regulatory Commission staff said in a recent analysis.

But the commission would have to consider the circumstances in scenarios where some of the gas was exported to foreign markets as liquefied natural gas, or where some was exported as LNG and some sold into Lower 48 markets.

That was the response from FERC staff to a request for regulatory clarification on the three scenarios from Bob Swenson, Alaska's in-state natural gas pipeline project manager.

In a March 15 cover letter accompanying the staff analysis, FERC Chairman Jon Wellinghoff told Swenson that while the analysis by FERC staff "represents staff's best judgment, based on the scenarios presented" in Swenson's letter, and in an earlier letter by former project manager Harry Noah, "if and when the Commission itself is asked to rule formally on these or similar issues, the Commissioners will have to reach their own decisions on the matters presented to them."

In a Jan. 28 letter, Swenson said that while the interstate gas pipeline is a top priority of the Parnell administration, "We want to make sure that Alaskans do not fall short in meeting their needs for natural gas," and asked for confirmation and clarification of circumstances under which "FERC, as opposed to the Regulatory Commission of Alaska, would have jurisdiction."

It is important for the state in evaluating alternatives to understand whether FERC or RCA would have jurisdiction, Swenson said, and described two possible routes from the North Slope to Cook Inlet, each paralleling the Dalton Highway, with one route following the Parks Highway and the other the Richardson and Glenn highways.

"In either case, the pipeline would commence at the outlet of a conditioning plant and end at or near tidewater in Cook Inlet where it would interconnect with an existing RCA-regulated intrastate pipeline in the Anchorage area," he said.

Three scenarios

In the first scenario, with all gas sold to end users who would consume the gas entirely within Alaska, FERC staff said it agreed with Swenson's conclusion that no FERC authorization would be needed for construction or operation of the in-state pipeline.

In a second scenario, some of the North Slope gas would be sold to and consumed by end users in Alaska, but some, potentially a majority of the gas, would be sold and transported to the Kenai liquefied natural gas facility where it would be liquefied for export to foreign markets.

Swenson said FERC determined in 1987 that Yukon Pacific's proposed in-state pipeline to feed a proposed LNG terminal at Valdez for foreign export would not be subject to commission jurisdiction. While the Natural Gas Act was amended in 2005, Swenson said, the logic of the 1987 decision "would still appear to apply to the scenarios we describe here" because they would not involve the construction of a new LNG facility and the in-state pipeline would not be directly connected to the existing LNG facility.

FERC staff said the Yukon Pacific situation was "somewhat, but not entirely, similar."

In Yukon Pacific's Trans-Alaska Gas System proposal, all of the gas would have been liquefied for export "exclusively into foreign commerce." FERC declined to regulate TAGS, the staff analysis said, "reasoning that the project would have no economic consequences to U.S. ratepayers" and FERC's environmental review process associated with the LNG plant would provide the commission "ample opportunity to consider the environmental and safety aspects of the pipeline."

Energy Policy Act of 2005

The Energy Policy Act of 2005 added a new section to the National Gas Act and provided FERC with "exclusive authority to approve or deny an application for the siting, construction, expansion, or operation of an LNG terminal." The definition of an LNG terminal added by the 2005 act included "all natural gas facilities located onshore or in State waters that are used to receive, unload, load, store, transport, gasify, liquefy, or process natural gas that is imported to the United States from a foreign country, exported to a foreign country from the United States, or transported in interstate commerce by waterborne vessel."

The staff analysis said that were FERC to consider a project like the Yukon Pacific proposal today, it would have to consider whether the 800-mile-long pipeline would fit into the definition of natural gas facilities "used to … transport … natural gas … exported from the United States."

"That same question is raised by the circumstances presented in Scenario 2," FERC staff said.

Scenario 2 does not involve construction of a new or expanded LNG facility and the proposed in-state gas pipeline would not directly connect to the LNG plant, but would connect with existing gas pipelines that in turn connect to the terminal, the analysis said.

The circumstances are also different because the impetus for the line would be to provide gas for in-state use.

And similar to the Yukon Pacific situation, "it appears that such a project would have no economic consequences for any U.S. ratepayers outside of the State of Alaska."

FERC staff concluded that the commission would need to consider these issues "in deciding whether it would be required to assert jurisdiction over the proposed pipeline."

Scenario 3

In Scenario 3, in addition to gas for in-state use and for foreign export as LNG, some gas would be sold as LNG to Lower 48 markets.

"The fact that some of the gas in

see RCA page 13

OUR ARCTIC NEIGHBORS

Greenpeace calls for Arctic moratorium

Oil and gas development cannot possibly benefit Arctic ecosystems or communities, and Greenpeace is calling for a moratorium on all industrial activities in the part of the Arctic Ocean which historically has been covered by sea ice.

That was the blunt message delivered by Mads Christensen, Nordic executive director for Greenpeace International, at the Arctic Frontiers conference in Tromso Jan. 26. Subsistence activities should be permitted, he said.

> *"From our perspective the part of the Arctic Ocean that has historically been covered by sea ice is one of the world's global commons. It should be preserved that way and managed accordingly."* —Mads Christensen, Nordic executive director for Greenpeace International

"We see this moratorium as an immediate measure to address the current governance gap in the Arctic Ocean," Christensen said. "Something that would remain in place until a more permanent and overarching treaty or agreement is established to protect this part of the Arctic Ocean from additional damage, similar to what is in place for Antarctica. Nowhere on earth are animals more important to human existence than in the Arctic."

The record low sea ice extent in the Arctic Ocean that occurred in 2007 wasn't predicted to take place until 2080, Christensen noted. Sea ice underpins the Arctic Ocean's ecosystems, he said, and is not only shrinking but also thinning, and sea mammals won't be able to adapt to a complete absence of summer ice. The acidity of the Arctic Ocean is also increasing due to global carbon dioxide emissions, he said.

Development not sustainable

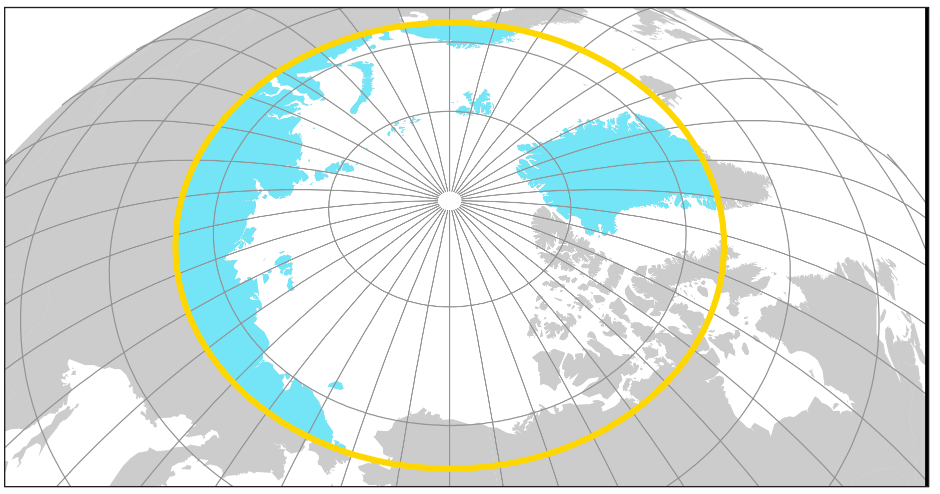
Oil and gas development in the Arctic can never be called sustainable because of the impacts of spills and the contribution these activities make to climate change, Christensen stressed.

"In the shorter term there may be economic development and jobs, but they do not come with a guarantee that the ecosystems won't be destroyed with it and in turn negatively affect the community itself," he said. "So if we are to avoid catastrophic climate change that is already hammering many Arctic communities and the ice-dependent species, then those oil and gas reserves must remain below the Arctic Ocean seabed."

The moratorium should continue until the whole world gets a chance to participate in governance of the Arctic, not only the Arctic nations, Christensen said.

"We are at a crossroad. The path we take is an intelligence test," he said. "Do we drill and burn the fossil fuel reserves that are accessible only because climate change is causing the ice to melt, or do we protect the Arctic and give it and the communities living there a chance to adapt to the already serious changes taking place? ... From our perspective the part of the Arctic Ocean that has historically been covered by sea ice is one of the world's global commons. It should be preserved that way and managed accordingly," Christensen said.

—SARAH HURST



● OUR ARCTIC NEIGHBORS

Sakhalin sets example for Arctic projects

Oil and gas development on the island in Russia's Far East has benefited local communities in many ways, Shell executive says

By SARAH HURST

For Petroleum News

Shell's experience in the Russian Far East with the Sakhalin II project provides valuable lessons that could be used farther north, Robert Blaauw, the company's Arctic team leader, told the Arctic Frontiers conference in Tromso, Norway, Jan. 26. Shell has worked with Sakhalin Island's 3,500 indigenous people and other residents to ensure they benefit economically and socially from oil and gas development, Blaauw said.

SHELL INTERNATIONAL

Robert Blaauw is Shell's Arctic team leader.

"The Sakhalin oil and gas projects are the first world-scale industrial projects in this remote island," he said. "Naturally, much like Alaska the indigenous people were concerned about the impact these massive projects could have on traditional lifestyles and how they could benefit. Finding the right way for sustainable cooperation took time, but with a project lifetime of some 50 years, investing time and effort to find the best possible cooperation model is imperative."

SAKHALIN ENERGY

Sakhalin Energy recruited Russian cartoon hero Senya to advise on what to do in emergency situations.

Shell has a 27.5 percent stake in the Sakhalin Energy consortium that runs the Sakhalin II project, with Russia's Gazprom holding 50 percent plus one share, Mitsui 12.5 percent and Mitsubishi 10 percent. Sakhalin II is considered one of the world's largest integrated oil and gas projects, with its two fields containing an estimated 1,200 million barrels of crude oil and 18 trillion cubic feet of natural gas.

Since production began in 1999, more than 150 projects have been launched in Sakhalin to address healthcare, education, preservation of languages and support for tribal enterprises and communities, Blaauw

see SAKHALIN page 11

● PIPELINES & DOWNSTREAM

Radar to spot icebergs is working again

Out of service since last September, the system at infamous Bligh Reef helps with tanker safety in Alaska's Prince William Sound

By WESLEY LOY

For Petroleum News

A radar system for spotting icebergs drifting across the shipping lanes in Prince William Sound is up and running again.

The radar had been out of service since September due to "integration problems" arising after the U.S. Coast Guard upgraded its own radar equipment at a shared station on Reef Island, an oil industry watchdog group in Valdez said.

The ice radar resumed service on March 14 and is now feeding a display to the Valdez operations base for SERVS, the Ship Escort/Response Vessel System. SERVS, a unit of Alyeska Pipeline Service Co., provides spill response and tug escorts for oil tankers hauling Alaska North Slope crude oil out of Prince William Sound.

The watchdog group, Prince William Sound Regional Citizens' Advisory Council, praised Alyeska for its work to bring the ice radar back online.

"The company really came through," said Donna Schantz, the council's acting executive director.

The radar system isn't operating yet in the Coast Guard's Valdez vessel traffic center, which oversees tanker movement in the Sound, but the Coast Guard is getting updated software to fix the problem, the council said in a March 23 press release.

Iceberg danger

The ice radar scans the waters from Reef Island west to Columbia Bay, where the retreating Columbia Glacier calves ice chunks that can drift into the shipping lanes.

Reef Island overlooks Bligh Reef, an infamous navigational hazard the tanker Exxon Valdez hit in 1989, causing an oil spill of about 11 million gallons. A factor in the disaster was that the tanker left the standard shipping lanes to avoid ice that other vessels had reported, the citizens' council said.

In its report on the wreck, the National Transportation Safety Board recommended installing a radar system near Bligh Reef to spot icebergs and to help monitor vessel traffic, the council said.

"After the spill, evidence continued to mount about the threat posed by icebergs," the council added. "An empty tanker struck an iceberg in the Sound in 1994 and suffered over $1 million in damage. And a technical study in the mid-1990s identified icebergs as one of the major remaining threats to tankers in the Sound."

The council, the Coast Guard, Alyeska and other stakeholders finally succeeded in installing the ice radar in 2002 on Reef Island, where it operated fine until last September, the council said.

The radar service outage came to light after the tugboat Pathfinder hit Bligh Reef on Dec. 23. The tug, part of Alyeska's tanker escort and docking fleet, had been out in the Sound scouting for icebergs.

The Pathfinder incident, which caused a 6,410-gallon diesel spill but no injuries, remains under investigation.

Alyeska and Coast Guard spokesmen said tugs conduct iceberg scouting runs routinely, regardless of whether the ice radar is working.

Still, all involved said they wanted to get the radar operating again as an added tool for shipping safety.

"We look forward to having the system back in service at the Coast Guard traffic center, as well as at Alyeska," Schantz said. "We believe it can make a valuable contribution to dealing with the iceberg threat in Prince William Sound." ●

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SAKHALIN

told the conference. The Russian Association of the Indigenous People of the North helped to make the projects a success, he said.

"The Sakhalin II project brought a sea change to local communities," Blaauw said. "Once an outpost with a shrinking population, it saw jobs created, new hospitals and better roads built. Once the island was one of Russia's worst regions for unemployment — now it has a jobless rate of 1 percent." The harbor town of Korsakov experienced years of stagnation until Sakhalin II developed the nearby villages for oil and liquefied natural gas exports, and now it is thriving, Blaauw said.

"At the peak of construction, Sakhalin Energy transported goods and people over some 6 million kilometers (3.7 million miles) every month," Blaauw said. "In the early days contractors and Sakhalin Energy employees ran a risk of being injured in traffic accidents. This was due to bad weather, poor roads, but also due to bad driving habits, including not wearing seatbelts and drinking and driving. The risk of dying in road accidents then was around 10 times higher than in the UK."

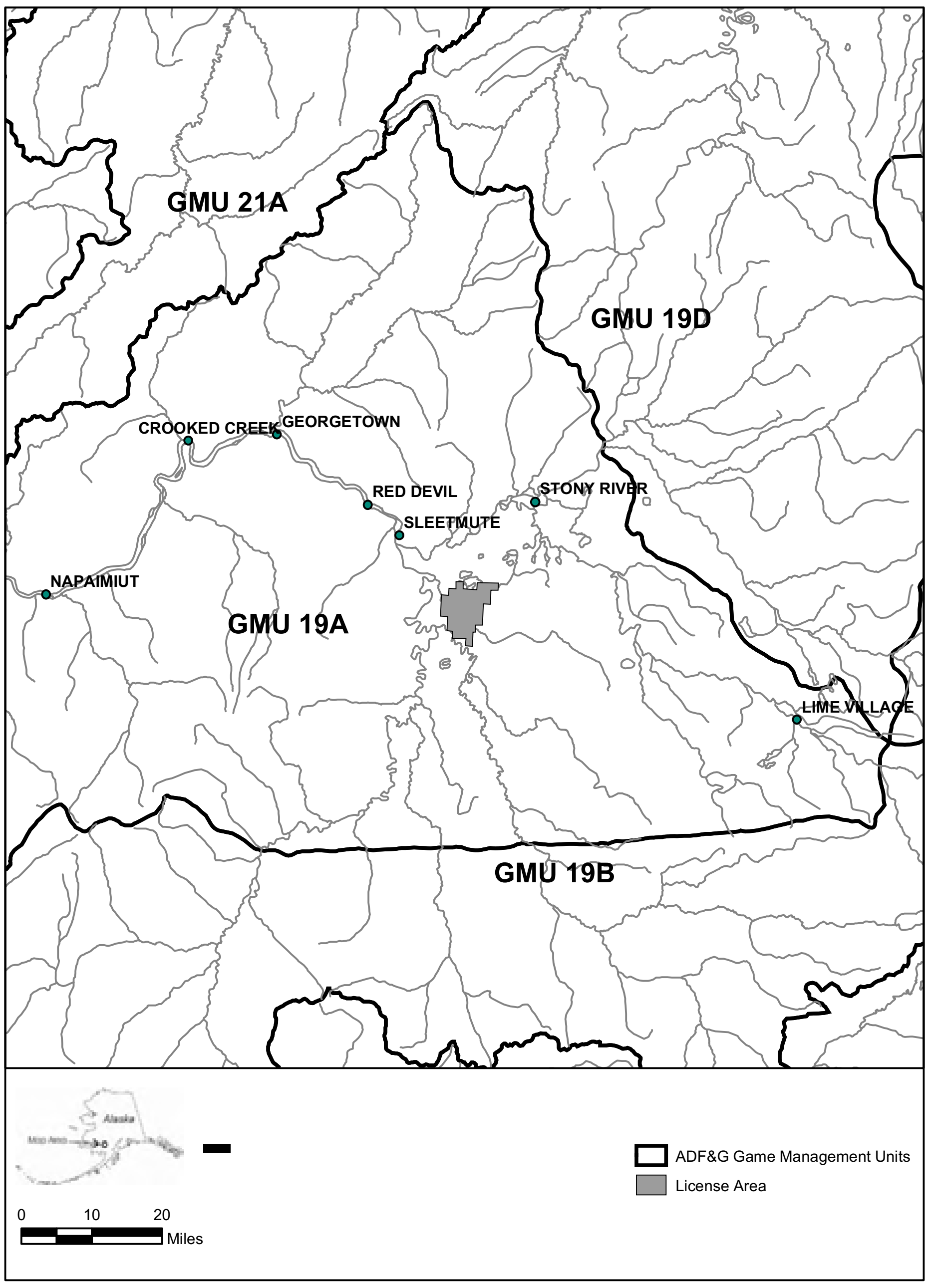
After Sakhalin Energy launched a comprehensive road safety program aimed at workers and communities, including better road signs, improved roads and a TV ad campaign to encourage the use of seatbelts, the number of people using seatbelts in Sakhalin rose to more than 80 percent in 2008, Blaauw said.

"Now, what does this have to do with oil and gas developments?" he asked. "Well, nothing and everything, because we all want our neighbors and partners to do well, and that starts with coming home to our friends and families safely and in one piece."

The conclusion to draw from Shell's experience in Sakhalin and also Alaska is that stakeholder engagement should start at the very beginning of a project, he said.

"Working in the Arctic with its unique challenges requires inclusive and diverse relationships with key stakeholders at all levels," Blaauw said. "They all have a role to play, including environmental NGOs (non-governmental organizations) and regulators." ●

ALASKA DEPARTMENT OF FISH & GAME



A lawyer for the Native Village of Sleetmute, a community of 72 people on the Kuskokwim River about 10 miles northwest of the 26,791-acre license area, on Feb. 10 filed papers in Superior Court in Anchorage opposing the license.

● LAND & LEASING

Alaska village fights gas exploration

Sleetmute files opposition papers in Anchorage Superior Court; appeal holds up DNR license for Holitna Energy Co.

By WESLEY LOY

For Petroleum News

An Interior Alaska village is challenging a proposed natural gas exploration license for the Holitna basin.

A lawyer for the Native Village of Sleetmute, a community of 72 people on the Kuskokwim River about 10 miles northwest of the 26,791-acre license area, on Feb. 10 filed papers in Superior Court in Anchorage opposing the license.

Sleetmute argues the Alaska Department of Natural Resources failed to give adequate notice and opportunity for public comment prior to its Dec. 9 decision to award the license to Holitna Energy Co., based in Eagle River.

Sleetmute also argues that DNR, in reversing its 2006 denial of the license, "failed to take a hard look at the salient issues raised when Holitna Energy Company substantially changed the scope of the proposed license as part of its request for reconsideration to include only natural gas exploration instead of coal bed methane exploration."

Sleetmute's Anchorage lawyer, John Starkey, added: "DNR had no legally sufficient information or substantial evidence to reverse its previous finding that the license lacked public support."

Wildlife, pollution concerns

Residents of Sleetmute and neighboring villages have raised myriad concerns about proposed exploration activity in the license area, where no drilling has occurred thus far.

The villagers believe exploration could disturb moose and caribou important to residents as food, and could foul fresh water supplies.

In approaching DNR again for the lic\\ense, Holitna Energy made a major change to its plans, relinquishing its rights to coalbed methane.

DNR Commissioner Tom Irwin agreed with the company that forgoing coalbed methane "significantly reduces the scope of the license application and avoids many potential environmental effects in the license area," DNR's Dec. 9 license decision said.

The commissioner and state Oil and Gas Director Kevin Banks held that issuing an exploration license to Holitna Energy for natural gas only "is in the state's best interest."

But DNR can't issue the license until Sleetmute's appeal runs its course, Banks told Petroleum News on March 23.

A gas discovery potentially could serve local users. Holitna gas also has been mentioned as a potential fuel source for the proposed Donlin Creek gold mine northwest of Sleetmute.

Gas potential, markets

DNR uses exploration licensing as a way to supplement the state's conventional oil and gas leasing program.

Licensing spares companies the upfront cost of bidding in a lease sale, and encourages exploration in areas far removed from Alaska's main petroleum provinces, the North Slope and Cook Inlet.

One recent study indicated "a poor potential for commercial quantities of oil in the Holitna Basin and poor to fair potential for commercial quantities of gas," DNR's Dec. 9 license finding said.

"In the absence of well and seismic subsurface data, the basin stratigraphy is poorly understood and largely extrapolated from surrounding surface outcrops and other Tertiary basins in central Alaska," the finding said.

A gas discovery potentially could serve local users. Holitna gas also has been mentioned as a potential fuel source for the proposed Donlin Creek gold mine northwest of Sleetmute. That project would require an average electricity load of 127 megawatts, or roughly the demand of the city of Fairbanks.

Donlin's energy mix at this point includes on-site diesel generators plus a wind farm, and any reliance on undiscovered Holitna gas is purely "speculative," Donlin Creek spokeswoman Mary Sattler told Petroleum News. ●

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GOVERNMENT

Energy legislation must address AK issues

U.S. Sen. Mark Begich, D-Alaska, has sent a letter to the Senate Majority Leader Harry Reid, urging more consideration of Alaska's needs and priorities in energy legislation moving through Congress.

"With the Senate soon to turn its focus to an energy plan designed to reduce our nation's dependence on foreign oil, foster development of new jobs and new businesses and begin to slow the pace of climate change, I write to bring your attention to the fact that none of the various proposals for economy-wide legislation sufficiently addresses Alaska's unique situation," Begich said. "It will benefit no Alaskan to slow the advance of climate change's effects if they can't afford to rebuild their eroding village, meet a payroll or heat their home."

Referencing Alaska climate change impacts, such as eroding shorelines and thawing permafrost, while also commenting on the exceptionally high energy costs in rural and Interior regions of the state, Begich pointed out that the viability of Alaska's statehood was predicated on the state's ability to raise revenues from natural resource development. Those natural resource-related revenues currently amount to more than 85 percent of the state budget he said.

Alaska has four major priorities in any federal energy and climate-change legislation, Begich said. Those priorities consist of:

- Expanded incentives for the delivery of Alaska natural gas to market;
- A mechanism for the state sharing of revenues from offshore oil and gas development;
- Funding to help Alaska communities deal with climate change impacts such as village relocations and infrastructure rebuilding, and with high energy costs; and
- Increased funding for government agencies such as the National Oceanic and Atmospheric Administration and the U.S. Coast Guard for Arctic and climate research, recognizing the strategic importance of Arctic assets and the need for international leadership in the area.

—ALAN BAILEY

MMS director names science advisor

The Department of the Interior's Minerals Management Service announced March 24 that Alan Thornhill has been named science advisor to MMS Director Liz Birnbaum. MMS said Thornhill will assist Birnbaum in the review of scientific and technical data that will ensure the effective management of energy resources located on the nation's outer continental shelf — including the development of offshore renewable energy — and the environmentally safe exploration, development, and production of oil and natural gas.

"I'm delighted to have Alan Thornhill as my science advisor," Birnbaum said in a statement. "Alan has proven himself to be a leader in his field and his expertise will be sought often as we develop our offshore renewable energy program and continue the environmentally safe development of our nation's offshore natural resources."

Thornhill comes to MMS from the Society for Conservation Biology where for the past eight years he served as the executive director. In this capacity, Thornhill was the head of the largest professional association of conservation professionals in the world. Previously, he served as the director of learning and communications for the Science Division of the Nature Conservancy.

He has more than 15 years of experience conducting academic research, teaching and publishing at Rice University and Virginia Tech.

Thornhill is a graduate of the University of California, Irvine where he received both his Bachelor's and Doctorate Degrees in Ecology and Evolutionary Biology.

—PETROLEUM NEWS

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RCA

Scenario 3 might be transported in interstate commerce … could result in the proposed in-state pipeline becoming fully subject to the Commission's NGA jurisdiction," FERC staff said, citing a U.S. Supreme Court determination that FERC jurisdiction over interstate transmission of natural gas "does not begin at the point at which gas first crosses a state line; rather, it begins at upstream points wherever NGA gathering ends." However, FERC staff said, the commission might exercise limited jurisdiction over the interstate gas service in Scenario 3, but not over the facility itself, based on provisions in the Natural Gas Policy Act of 1978, a section of which "provides that an intrastate pipeline can transport gas in interstate commerce without its facilities and intrastate services becoming subject to the Commission's NGA jurisdiction."

NGPA provides that the purposes of the section of the Natural Gas Act which sets out FERC's jurisdiction over transportation of gas in interstate commerce do not apply to transportation in interstate commerce if that transportation is authorized by FERC under the NGPA.

The staff analysis said FERC "has held that the NGPA's definition of 'intrastate pipeline' excludes newly constructed pipelines, since prior to operation they could not qualify as 'engaged in' transportation," and "have never found that a company can qualify as an intrastate pipeline without having first established the intrastate character of existing operations in the state where the pipeline is located."

However, FERC staff said, the commission "has also never ruled on how long an intrastate pipeline must have been in operation as such in order to shield its status as an intrastate pipeline while also offering interstate services under section 311 of the NGPA." And the commission has never ruled that once an intrastate pipeline begins offering interstate service under section 311 of the NGPA that "its continued intrastate pipeline status depends on its continuing to provide some specified level or percentage of intrastate service."

"Nevertheless, the Commission might have reason to question the jurisdictional nature of a new pipeline company that purportedly commenced service as an intrastate pipeline, only to undertake the provision of a substantial amount of service in interstate commerce shortly thereafter under section 311 of the NGPA." ●

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EXPLORATION & PRODUCTION

Parnell's elevation request rejected

Corps of Engineers, Obama administration officials hear from North Slope officials, communities on rejection of permit for CD-5

By KRISTEN NELSON

Petroleum News

The district commander for the U.S. Army Corps of Engineers in Alaska has denied a request from Alaska Gov. Sean Parnell to elevate the Corps' rejection of ConocoPhillips Alaska's CD-5 Alpine satellite permit application.

Col. Reinhard Koenig told Parnell in a March 12 letter that communications from the state do not meet federal regulatory requirements necessary for the decision to be forwarded to the division engineer for resolution.

Those regulations, quoted by the governor in his request for elevation of the decision, require district engineers to refer a decision to issue to deny permits to the division engineer for resolution when "the recommended decision is contrary to the written position of the Governor of the state in which the work would be performed."

> *The "only apparent change" since the Corps pushed Nuiqsut and ConocoPhillips to negotiate in 2007 "is that an internal Corps reorganization in the summer of 2009 resulted in a new Project Manager for the application, a new supervisor for that Project Manager, a new supervisor for that supervisor and a new Colonel in charge of the Alaska District."* **—letter from Nuiqsut organizations**

The state's July 10, 2009, statement in support of the permit was not from then-Gov. Sarah Palin, but from Commissioner of Natural Resources Tom Irwin, signed by Deputy Commissioner Marty Rutherford.

ConocoPhillips appealing

Koenig told Parnell that the regulations provide specific appeals rights for ConocoPhillips Alaska, which can appeal the decision through the division engineer under the administrative appeal process.

ConocoPhillips Alaska "has taken steps to exercise its appeal rights," Koenig said.

He told Parnell that the company asked to review the Corps' administrative record, a request Koenig said the Corps "promptly granted."

Following that review, he said, ConocoPhillips requested a full copy of the record; Koenig said the Corps was finalizing the legal review required before release of the record and said ConocoPhillips would have the record "this week."

North Slope letters

Letters objecting to the Corps' denial of the permit for CD-5 and the Nigliq channel bridge were addressed to Secretary of the Interior Ken Salazar from Mayor Edward Itta of the North Slope Borough; to Salazar, Administrator Lisa Jackson of the Environmental Protection Agency and Assistant Secretary Jo-Ellen Darcy of the U.S. Army by Roberta Quintavell, president and CEO of the Arctic Slope Regional Corp., Isaac Nukapigak, president of Kuukpik Corp., Bernice Kaigelak of the Native Village of Nuiqsut and Thomas Napageak Jr., mayor of the City of Nuiqsut.

Itta told Salazar that the North Slope Borough "recognizes that the Colville River delta is a biologically productive river system" and said Title 19 of the NSB Code of Ordinances places a high priority on protecting the subsistence lifestyle, culture and natural resources of NSB residents.

That, the mayor said, "is one of the reasons why the NSB was frustrated" with the Corps' denial of ConocoPhillips Alaska's application for a Section 404 permit for CD-5.

The ASRC letter called the Corps' decision "troublesome in three major areas": for ignoring broad support for the project throughout Alaska; because the decision "will have a material impact on our communities and people because this decision is counter to the intent of the Alaska Native Claims Settlement Act"; and because the Corps has "neglected the technical risk and environmental liability of a three-phase fluid in a Horizontal Directional Drilling … conveyed pipeline."

"ASRC is addressing you as a landowner established pursuant to the Alaska Native Claims Settlement Act," Quintavell said in the ASRC letter. The CD-5 expansion represents development of Native-owned lands which "serve as a significant economic engine" for all Alaska Native corporations.

The CD-5 development "has the potential to step outside the Colville River delta to Native lands, and eventually into NPR-A," she said. "However, as a result of the USCOE decision, we are caught in the paradoxical situation of being unable to leave the delta in the name of saving the delta itself."

HDD, horizontal directional drilling, "is not a practicable alternative" for the Nigliq Channel because three-phase fluids (water, oil and natural gas) are more corrosive than the processed (sales quality) oil carried under the Colville River from the Alpine field, she said.

Because of the depth and angle of the HDD line proposed under the Nigliq Channel "there is no known way to monitor corrosion or other problems with the underground portion of the line," Quintavell said. "We must question why any agency would prefer a system that cannot be monitored effectively over surface facilities, through a bridge-pipeline and road, which all parties can monitor on a regular basis."

She said ASRC urges the Corps to reconsider the CD-5 proposal "and evaluate the true benefits of the CD-5 develop-

see REQUEST page 15

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IN-STATE GAS

Senate Bill 287, which passed Senate Resources and March 23 and is now in Senate Finance, moves the authority for a standalone pipeline project to the Alaska Railroad, defining the project as a gas pipeline system to move natural gas from Prudhoe Bay or Gubik to markets in Anchorage and Kenai and to customers along the way. The route is described as along the Dalton Highway corridor and from Fairbanks either down the Parks Highway into Southcentral or via the Richardson and Glenn highways.

SB 287 says this project "is compatible but not competitive with the project described in and authorized by AS 41.41 or the project described in and authorized by AS 43.90. AS 41.41 is the ANGDA statute; AS 43.90 is the Alaska Gasline Inducement Act, the state's bid to get a North Slope to market main line moving.

SB 287 directs the railroad to establish a subsidiary for the pipeline work, provide monthly reports and — in addition to working on the standalone pipeline project — "initiate a cost study for construction of a gas-to-liquids facility." Sen. Lesil McGuire, R-Anchorage, co-chair of Senate Resources, the prime sponsor of the bill, has a strong interest in GTL.

A $34.22 million fiscal note from the Alaska Railroad notes that the standalone pipeline project "is well outside ARRC's norms, both in type and size." The note says the $34.22 million would be the "funding necessary for ARRC to bring the project through permitting and preliminary phases. Construction costs are not included at this junction. Also excluded from this analysis are estimated costs to be incurred by a pipeline company or other entity that would presumably complete design and build the project."

The railroad's unique bonding ability under Internal Revenue Service statute is a plus cited by legislators, since the tax-free bonds would reduce the cost, and hence the tariff, for a pipeline project.

The existing projects

Gene Therriault, the governor's senior energy policy adviser, told the ANGDA board March 19 that "the basic feeling in the administration is that we are in the process of doing the work that we were tasked with in the appropriation that was made last year and the direction that was given attached to that appropriation."

"But if for whatever reason the Legislature feels like they need a different setup on the in-state work or the bullet line, we're willing to enter into discussions with them."

Therriault said the fact that the in-state gas pipeline project was housed out of the governor's office "is certainly a little bit unusual," as a project in which the state participates is generally housed in one of the departments working on the effort — the Department of Transportation for building roads or AHFC for gathering financing.

He said the governor has indicated to the sponsors of the various bills that he will work with them as they shape their legislation and "if a bill does pass the administration would like it to have realistic deadlines."

Bob Swenson, named by Gov. Sean Parnell to replace Harry Noah as head of the in-state gas line project in late December, told the ANGDA board that while he wants to work with ANGDA, his budget lapsed Feb. 28 and so he has no ability to change existing contracts in favor of combining efforts on the permitting process.

Swenson will be walking the ANGDA board through the status of the standalone project's permitting at a March 26 workshop. ●

Contact Kristen Nelson at knelson@petroleumnews.com

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REQUEST

ment on the Native community of the North Slope and statewide further."

Nuiqsut: impact of agency changes

The letter from Kuukpik Corp., the Native Village of Nuiqsut and the City of Nuiqsut, "the tribal, municipal and economic/landowning entities representing the community that will be most impacted by development" at CD-5, asked that the Corps "take a fresh look at the merits of the application" for the Section 404 permit.

"The circumstances here call for a fresh look at CPAI's application, rather than the deferential review standard of appeal," the letter said. The ConocoPhillips Alaska project reflects "a compromise reached after years of controversy, dating back to 2003 when CD-5 was first proposed."

The Nuiqsut organizations "vehemently opposed" ConocoPhillips' first proposed bridge location, but in 2007, the organizations said, the Corps "strongly encouraged compromise discussions by announcing that it was likely to find" a pipeline-only bridge at a location to which Nuiqsut objected to be the least environmentally damaging practicable alternative.

In late 2008, negotiations reached a compromise — a bridge across the Nigliq Channel near the existing CD-4 drilling pad.

"It is that permit application, for the long-sought and hard-won mutually agreeable compromise design, that the Corps has just denied," the Nuiqsut letter said.

The "only apparent change" since the Corps pushed Nuiqsut and ConocoPhillips to negotiate in 2007 "is that an internal Corps reorganization in the summer of 2009 resulted in a new Project Manager for the application, a new supervisor for that Project Manager, a new supervisor for that supervisor and a new Colonel in charge of the Alaska District."

"In the space of a month or so, the individuals holding the four positions most involved in a review process that had been ongoing for five years, through an Environmental Impact Statement and three separate Section 404 applications, were replaced," the Nuiqsut letter said.

"This is a stunning loss of institutional knowledge, especially since none of the replacements had any significant experience with Arctic oil industry-related projects, or with projects where subsistence impacts or Native sociocultural impacts were a significant part of the analysis."

While the change in personnel may not have been a factor in the Corps' decision, "the level of candor of the discussions that we had with Corps personnel dropped precipitously with the current personnel over what had prevailed with the several prior Project Managers and their supervisors. Rather, and significantly, it was very apparent that the new personnel gave less weight to impacts on the community of Nuiqsut than any of their predecessors had," the Nuiqsut letter said.

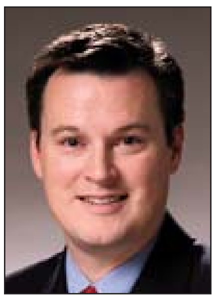
The Nuiqsut letter asks that "the application be referred to a higher authority, preferably in Washington, D.C., but alternatively in the Pacific Division for resolution of CPAI's application." ●

Contact Kristen Nelson at knelson@petroleumnews.com

Petroleum news

Oil Patch Bits

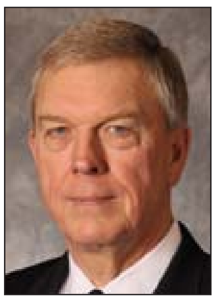
Sprague, new marketing leader for Alaska Airlines


JOE SPRAGUE

Alaska Airlines said March 19 that it will be realigning its marketing, sales and online commerce groups. Joe Sprague, a 10-year veteran at Alaska Airlines, has been named vice president of marketing. Sprague will be responsible for the carrier's overall marketing strategy as he oversees marketing communications, sales, reservations, food and beverage, customer care, the Mileage Plan frequent flier program and Board Rooms. He will also retain responsibility for Alaska Air Cargo, a division he has led for the past two years. Sprague began his aviation career as a customer service agent at a commuter airline in Juneau, Alaska, and flew as a commercial pilot in the state. He joined Alaska Airlines in 2000 as a regional sales director, served as managing director of government affairs in Washington, D.C., and led the public affairs and in-flight divisions before moving to cargo.

Railroad board congratulates Gamble on selection

The Alaska Railroad Corp. said March 17 that on behalf of the Board of Directors, ARRC Board Chairman John Binkley congratulated President and CEO Patrick Gamble on his selection as the new University of Alaska president. "He is deserving of the trust that the university regents have placed in Pat's leadership, management and familiarity with Alaskan issues," said Binkley. "The Alaska Railroad has benefitted from Pat's executive experience and superb leadership. His guidance has been integral to the railroad's steady growth and success. He continued the momentum on an aggressive capital program, and in fact oversaw the railroad's first sale of revenue bonds as a means to accelerate infrastructure improvements," said Binkley. "We would like to thank Pat Gamble for nine years of service," said Binkley. "Pat will undoubtedly be an equally excellent asset to the university. We wish him well in his new position as he continues to serve the people of Alaska."


PATRICK GAMBLE

Doyon board members elected at annual meeting

Doyon Ltd said March 19 that at the annual meeting of shareholders four individuals were selected to Doyon's 13-member board of directors. Elected were Miranda Wright,

see **OIL PATCH BITS** *page 17*

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

All of the companies listed above advertise on a regular basis with Petroleum News

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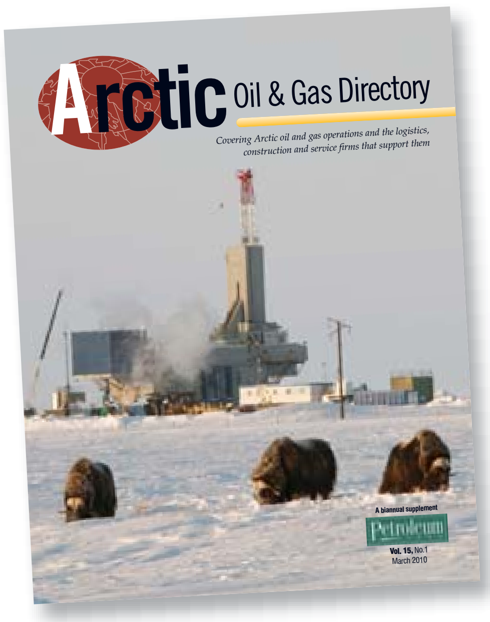
MAC ACKERS

chance to see what he can do with Conoco's Cook Inlet platforms. Don't be shy! Weigh in on the article in the comments section. The author, Eric Lidji, is looking at doing a follow-up. He wants to hear from you! If you're shy, his email address is ericlidji@mac.com.



ANIMAL WITH SKIN LIKE A BEARD … That's what omingmak means, the Inupiaq Eskimo word for muskoxen. Sound cuddly? I'd forgotten about these mellow beasts until I saw the most recent Arctic Oil & Gas Directory cover at petroleumnews.com. The photo, capturing the oh-so-common meshing of wildlife and industry in Alaska, comes from Judy Patrick, a well-known photographer and close friend of Sarah Palin. According to the State of Alaska "the name muskox is misleading because the animals have no musky odor." Ahem. Readers, I won't lie to you. I've been to the zoo in Anchorage and they smell. Not good. Perhaps keepers missed the section in the manual that suggested they be bathed regularly? But odors aside, these animals get serious credit for fighting off evolution and remaining basically the same since the last ice age. To read more on muskox and their shaky, but heartwarming history in Alaska, visit the Alaska Department of Fish and Game's Web site at http://bit.ly/cNG7W8.

NOT STRESSED ABOUT GLOBAL WARMING … In a recent Gallup Poll Americans ranked global warming last among eight environmental issues to be worried about. The percentage of respondents who told Gallup they worry "a great deal" about global warming was 28 percent, down 5 percent from last year. Here are the top seven environmental issues Americans are very worried about, per the poll results, which were released March 16: pollution of drinking water, 50 percent; pollution of rivers, lakes, and reservoirs, 46 percent; maintenance of the nation's supply of fresh water for household needs, 45 percent; contamination of soil and water by toxic waste, 44 percent; air pollution, 38 percent; loss of tropical rain forests, 33 percent; and extinction of plant and animal species, 31 percent. Gallup's take on the results? "Americans are now less worried about a series of environmental problems than at any time in the past 20 years. That could be due in part to Americans' belief that environmental conditions in the U.S. are improving. It also may reflect greater public concern about economic issues, which is usually associated with a drop in environmental concern."

CLIMATEGATE INQUIRY LED BY OIL BOSS … Per a March 22 Telegraph.co.uk report by environmental news reporter Louise Gray, former non-executive chairman of Shell, Lord Oxburgh, will head up a team of leading scientists looking at claims manmade activities, such as the burning of fossil fuels, cause global temperatures to rise. Gray says "other controversial names on the panel" include Kerry Emanuel, professor of meteorology at the Massachusetts Institute of Technology, who "is best known for a paper that suggested hurricanes are getting fiercer with global warming, immediately causing skeptics on the internet to start questioning the appointment." The new inquiry will look into "mountains of research by the University of East Anglia's Climatic Research Unit," which Gray says is the leading institution for climate change research. Lord Oxburgh, former chief scientific adviser for the Ministry of Defence and Rector of Imperial College and chairman of the Lords Select Committee on Science and Technology, says, "The shadow hanging over climate change and science more generally at present makes it a matter of urgency that we get on with this assessment. We will undertake this work and report as soon as possible." His past association with the oil industry "will make environmentalists cautious, but he has also shown an interest in the environment and is currently president of the Carbon Capture and Storage Association and Falck Renewables," Gray reported.

THE TREASURE IMPULSE … Can we manage our desire for resources while safeguarding the environment and alleviating poverty? The answer to that question is explored in "Treasures of the Earth: Need, Greed, and a Sustainable Future" by Saleem H. Ali, which was published in October by Yale University Press (Hardcover, ISBN: 978-0-300-14161-0, 304 pages). Ali does not think we can resist our "treasure impulse," arguing that simply disavowing consumption of the earth's mined riches — oil, gems, precious metals, and minerals — won't help us plan effectively for a resource-scarce future. I am told by people in the know, including Muhammad Yunus, founder of Grameen Bank and Nobel Peace Prize Laureate in 2006, that it's a great read. For more info, chat with Liz Pelton at 410-467-0989 or lizpelton@aol.com.

GEEKS GOING GREEN … CompTIA technology has come out with the first ever specialized exam for green IT skills. The subject matter: green technologies, standards, policies and design-support techniques. The topics: proper disposal, power preservation best practices, how to address carbon footprint management, virtualization skills, and how to measure the return on investment from green IT activities. A 2009 survey showed that IT solution providers were having to provide more and more green-related services. Forty percent provide energy audits, 26 percent do carbon footprint measuring and monitoring and another 23 percent are planning to provide these services by the end of 2011. You can learn more about the exam at www.comptia.org. To learn more about IT's role in climate change check out the Green:Net2010 event in San Francisco at this link http://bit.ly/84EdLm.

Contact me! I am Greening of Oil's social networker. My weekly column is posted in both Petroleum News and on Greening of Oil's Buzz and Latest news pages. My e-mail address is mac@greeningofoil.com.

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OIL PATCH BITS

Teisha Simmons, Cheryl Northway-Silas and Josephine Malemute. Each seat is for a three-year term, ending in 2013. The newly elected board members join existing board members Gerald "Jerry" Carroll, Andrew Jimmie, Georgianna Lincoln, Victor Nicholas, Orie G. Williams, Walter "Willy" Carlo, Jennifer Fate, Michael R. Fleagle and Christopher Simon. All board members are Doyon shareholders. Following the annual meeting, the board met and elected officers. Elected as chair was Orie. G. Williams; vice chair, Victor Nicholas; secretary, Michael R. Fleagle and treasurer, Miranda Wright. In addition to the board election, shareholders at the annual meeting also heard reports from the current board and management on Doyon's FY 2009 performance, current initiatives and corporate goals.

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

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MAC LINE

despite an ultimate potential conventional resource of 27.2 billion barrels of oil equivalent.

Northern Canada attracted only C$400 million in capital spending in 2008 and an expected C$500 million in each of 2009 and 2010, compared with total oil and gas expenditures across Canada of C$54 billion in 2008, C$34 billion in 2009 and an expected C$40 billion in 2010.

Decision possible in late '13

Imperial said in its filing that the partners believe a decision is possible by late 2013 on whether to proceed with the MGP, allowing site work to begin in mid-2014, setting the stage for commissioning and startup in the first quarter of 2018.

That timetable assumed that by Sept. 1, 2010, the NEB will have approved the principal project, given that the board's last round of public hearings is scheduled for April 12-14 in the Northwest Territories.

As well, there would have to be sufficient progress on an agreement with the government covering fiscal terms, the company said.

If all of those requirements are met, a corporate decision could be made this September to restaff the project team and restart the activities leading up to a sanctioning decision.

The activities include securing permits and collecting geotechnical field data, conducting regulatory reviews and obtaining approvals for permit applications and environmental management plans, along with progress on more detailed engineering and construction planning and developing a detailed cost estimate, which has not been updated since 2007 when the proponents put a price tag of C$16.2 billion on the MGP.

Imperial told the NEB there have been confidential discussions between the federal government and the project proponents on fiscal terms for the MGP, although more progress is needed "to allow for restaffing of the project team and for resuming engineering, permitting and field work."

Report improved understanding

Imperial said the release in December of the final report from the Joint Review Panel of its recommendations relating to environmental and socioeconomic matters has improved its understanding of the regulatory review and approval process associated with the permits needed before construction and operations activities can get under way.

Imperial also said benefits and access agreements have been negotiated, ratified and executed with aboriginal groups in the Northwest Territories and Alberta except for the Deh Cho, where more negotiations are planned.

Imperial told the NEB it has no fresh evidence to file for the proposed Mackenzie Valley pipeline relating to long-term gas supply, contractual commitments and project financing, although it did submit an updated gas market demand and supply analysis for Canada and the U.S. Lower 48.

The study by Angevine Economic Consulting determined that market conditions in the major North American markets would allow gas from the Mackenzie Delta to be absorbed if the pipeline was in service in 2018.

The study said northern gas would be needed because gas consumption will continue to grow because of increased demand for power generation and industrial purposes, especially for the production and upgrading of oil sands bitumen in northern Alberta, along with the need to offset the decline of conventional production from existing mature gas fields.

It said that since an application for the MGP was initially filed in 2004 and updated in 2007, "there have been significant changes to the gas market in North America. In particular, significant quantities of shale gas have been discovered and are now likely developable, which has changed the overall supply forecasts and price for natural gas. This in turn may significantly affect the economic feasibility of the MGP and the demand for its gas."

The Angevine study forecast that gas demand in Canada and the Lower 48 will rise to 92.81 billion cubic feet per day in 2030 from 73.73 bcf per day currently.

It projected the oil sands will consume 2.01 bcf per day by 2030 compared with 800 million cubic feet per day this year, while gas-fired power generation would rise in Canada to 2.48 bcf per day.

The study conceded that the expansion of shale gas development in Canada and the United States would help meet total domestic requirements.

"However, even with the delivery of gas to the North American pipeline grid via pipelines from the Mackenzie Delta and Alaska, LNG imports will still be needed to balance supply and demand," the consulting firm said.

'Sticky' cost structure

Imperial spokesman Pius Rolheiser told reporters said the last attempt to set a start-up date for the MGP was three years ago, but that was considered uncertain at the time "because of the regulatory process."

Peters told the Arctic gas symposium sponsored by the Canadian Institute that the industry is faced with a "sticky" cost structure as labor and material costs have not adjusted from the height of the recent boom, a changing public policy environment and decreased drilling activity.

The spotlight of public attention is also being directed at the industry's environmental performance, while public and regulatory expectations for the industry are undergoing change, he said.

Peters said CAPP is concerned that some of the Joint Review Panel's recommendations, if adopted, would "discourage future investment by placing these preconditions on future development."

He urged a coordination of agencies, avoidance of regulatory overlap and duplication, and the establishment of timelines for project review, along with establishing surface rights legislation.

"Regulatory improvement is not about lowering the bar, but about creating efficiency. I've yet to see that a longer process is a better process," Peters said. ●

Contact Gary Park through publisher@petroleumnews.com

GOVERNMENT

Loranger named to head Kenai refuge

Andy Loranger has been selected as the new refuge manager for the U.S. Fish and Wildlife Service's Kenai National Wildlife Refuge, headquartered in Soldotna. Loranger assumed his duties at the refuge March 14.

Geoffrey Haskett, Fish and Wildlife's Alaska regional director, said in a statement that Loranger has been with Fish and Wildlife for more than 30 years, including stints at the Nowitna and Kenai refuges in the 1980s and 1990s.

"We're fortunate to have someone with his experience and dedication taking the reins at Alaska's busiest refuge, and I'm happy to be able to welcome him back to our state."

Loranger most recently was chief of the Division of Natural Resources and Conservation Planning in the National Wildlife Refuge System's Washington, D.C., headquarters, a position he was appointed to in 2008.

He began his career with Fish and Wildlife as a seasonal biological technician on the Benson Wetland Management District in west-central Minnesota, and has worked for the agency in Texas and Arizona as well as Alaska. He has an M.S. in Natural Resources Conservation from the University of Connecticut.

"I left Alaska in 1992," Loranger said in a statement, "and I've been hoping to come back ever since. Kenai National Wildlife Refuge is a wonderful place and valued by the hundreds of thousands of people who visit it every year to fish, hunt, hike, canoe, and otherwise take advantage of its abundant beauty and natural resources. I look forward to learning how the area has changed since I was last here, and to doing my part to make sure the Refuge maintains its place as one of the special jewels of the National Wildlife Refuge System."

—PETROLEUM NEWS

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CI STUDY

Shrinking market

"We have to recognize that the basin is in decline, the market is shrinking," Walsh said, pointing out that the Agrium fertilizer plant, an erstwhile major industrial gas consumer on the Kenai Peninsula, has closed its doors and that the export license for the Kenai Peninsula LNG plant ends in 2011. "… It's really all about the utilities at this point and it's going to require a fair bit of investment to keep our utility companies going."

The study focused on the adequacy of gas supply volumes averaged over complete years, rather than a related but different issue regarding gas deliverability, the maximum rate at which gas can be delivered to consumers during peak demand in the cold winter months. A pending winter deliverability shortfall is driving a need for new Cook Inlet basin gas storage facilities, to store summer gas for winter use.

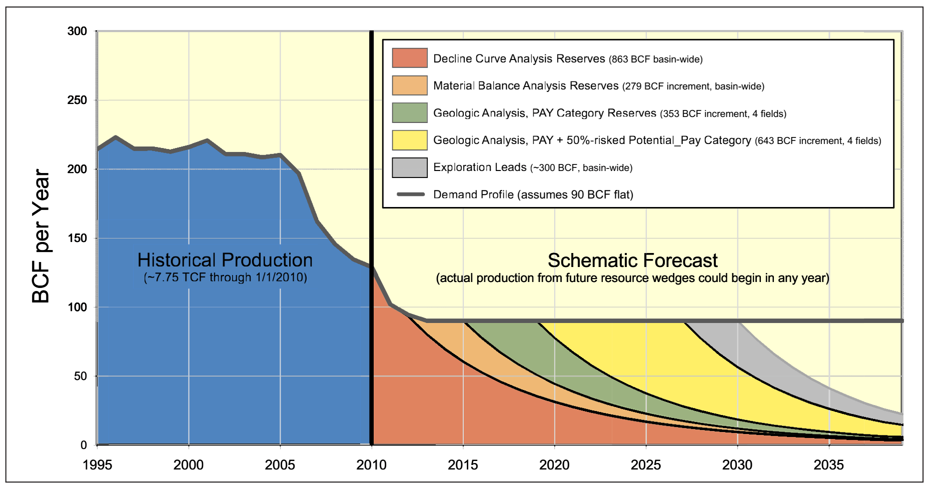
As the aging gas fields decline and as the existing gas supply contracts between Southcentral utilities and Cook Inlet gas producers move toward the ends of their terms, the Southcentral utilities face pending supply shortages. Enstar Natural Gas Co., the main gas utility of the region, has adequate contacted supplies to meet its needs until the end of 2010 but faces a potential 25 percent shortfall in 2011, Walsh said. Chugach Electric Association, a major Anchorage electric utility, faces a rapidly escalating shortage in contracted gas supplies after the spring of 2011, although Municipal Light & Power, the other major Anchorage electric utility, has secured adequate gas supplies through to 2015, he said.

And the shortage of future gas supply contracts is also putting the dampers on new gas field development.

"Contracts drive the (development) activity," Walsh said. "So that lag in contracts … means that going forward we're not motivating the activity in the basin that's required to create more gas supplies."

Assess investment needs

The primary purposes of the new PRA Cook Inlet gas study were to review the findings of a 2009 Alaska Department of Natural Resources analysis of potential remaining Cook Inlet gas reserves and to assess the level of investment in new Cook Inlet gas development, needed to assure continued, adequate gas supplies, Walsh said. The DNR study had found a shortfall in annual gas supplies from existing Cook Inlet gas wells starting in 2013 and growing thereafter unless the producers drill new gas wells.



An Alaska Department of Natural Resources projection of Cook Inlet annual gas production shows production from existing gas wells falling short of demand in 2013, with demand leveling out following the assumed 2011 closure of the Kenai Peninsula LNG plant. A new PRA study estimates that the drilling of the necessary new gas wells to maintain adequate gas supplies though to 2020 would cost $1.9 billion to $2.8 billion.

A PRA analysis of field-level production decline rates essentially confirmed the DNR findings, although PRA estimated near-term production to be a little higher than in the DNR estimates, with that early supply boost offset by a slightly lower production rate in later years.

"We don't have enough gas from our existing well set to meet demand in the year 2013," Walsh said.

PRA analyzed individual well decline rates for wells drilled between 2001 and 2009, to predict the likely performance of any new wells drilled in the future, to assess the future needs for the drilling of wells to maintain adequate gas supplies and to gain insights into predicting a time at which local Cook Inlet gas supplies will no longer meet local gas demand, despite new drilling.

But that last question — the timing of an ultimate gas supply shortfall — is essentially an economic conundrum with no certain answer, Walsh said.

"It really is a chicken and egg. It's a question of how much investment you are willing to make," Walsh said.

New wells declining

And, when it comes to the economics of gas development, a key finding of the PRA analysis turned out to be a multiyear decline in the initial production rates from new wells, a decline that points to the need to drill wells at an increasing frequency to maintain gas production levels.

"We're getting to leaner and leaner wells as we go forward," Walsh said.

In the past couple of years Cook Inlet drilling has averaged out at 13.6 new gas wells per year, primarily in support of existing gas supply contracts, Walsh said. And plugging the results of the well decline rate analysis into that average well count indicates that continuing the current rate of field development drilling would move the Cook Inlet utility gas supply shortage from 2013 to 2018 while costing perhaps $2 billion, he said.

Extending adequate gas supplies beyond 2018 would require the drilling of more and more wells each year, with a total of 185 new wells at an estimated total cost of $1.9 billion to $2.8 billion required to extend the supplies to 2020, the PRA study found.

"We're talking about a significantly larger number of wells being drilled going forward, with a market that's contracting," Walsh said. "… So it's kind of a tall order."

And the escalating cost of maintaining utility gas supplies for Southcentral Alaska will push up the price of energy, he said.

"There's no way around that," Walsh said. "No matter what we do, if we import, if we have an in-state (gas) line, that's the direction we're heading."

Import LNG

In the absence of a successful near-term drilling program, utility gas supplies will start to fall short in 2013. And, with supply alternatives such as the building of a "bullet" gas line from the North Slope being impractical to implement by then, a short-term local gas supply shortfall will inevitably lead to the import of LNG into Southcentral Alaska from elsewhere, Walsh said.

"The bullet line will not be built by 2016 or maybe 2017. It's not an option for the short term," Walsh said. "So really there's no way out besides investing in the Cook Inlet basin to get us to that stage. … That's the reality of it. We need … to take immediate action to make sure that we have gas going forward."

The utilities urgently need new gas supply contracts sufficiently attractive to support new development in the Cook Inlet basin, with predictable timelines and standards for Regulatory Commission of Alaska contract approval, he said.

"Although we'd all like to see very inexpensive gas in the Cook Inlet basin, things are going to start to move in an upward direction," Walsh said. "If we're going to motivate explorers and developers, it's got to be on good terms for them as well."

Meantime utilities must secure access to new gas storage facilities, both to enable the management of peak winter gas demand and to encourage new gas development by opening up the Cook Inlet gas market, he said.

Multiple actions

Initiatives to increase customer awareness of the difficult gas supply situation and to encourage energy conservation must continue; there needs to be streamlining of the procedures for land access for exploration, field development and pipeline construction; and the commercial playing field of the Cook Inlet basin, in terms of issues such as gas supply contract terms and production taxes, needs to attract new gas producers into the basin, Walsh said.

There is a market in Cook Inlet for local gas, regardless of any plans to bring gas to Southcentral Alaska from the North Slope, he said.

"If we can … actively explore and develop these resources and reserves that are out there we can stave off the need for the import of gas," Walsh said. "… Local gas is still a good deal now. … The (gas) price will probably point to a local supply rather than a bullet line or LNG imports. … I think there's a very viable (gas) market here in the basin." ●

Contact Alan Bailey at abailey@petroleumnews.com

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STORAGE BILL

including language mandating that RCA regulate gas storage facilities. The RCA in January said it was unsure of its authority with respect to storage.

Hawker and other proponents believe gas storage is crucial for ensuring the region has enough supply during cold winters. Where Cook Inlet producers once had no problem delivering enough gas to cover demand, deliverability has become strained in recent years.

"A critical and universally recognized part of the solution is large-scale gas storage, allowing utilities to purchase gas during lower demand periods; hold the gas in storage; then withdraw it when needed," Hawker said in his sponsor statement for HB 280. "Establishing gas storage is crucial, and the state needs to promote the rapid development of storage facilities."

With respect to storage incentives, the bill creates a new corporate income tax credit of $1.50 per thousand cubic feet of new gas storage capacity opened during 2011-15.

The maximum credit per facility would be $15 million. To qualify for a credit, a facility would need a working storage capacity of at least 500 million cubic feet of gas, and a minimum daily delivery capability of 10 million cubic feet.

The bill also offers new storage operations a 10-year exemption from any state land lease fees or rents.

As for exploration incentives, the bill would sweeten existing Cook Inlet tax credits by providing a straight 40 percent credit against production taxes for exploration expenses. Under the current statute, the credit is 30 to 40 percent, a bill summary from Hawker's office said.

The bill also allows explorers to use the full value of their earned Cook Inlet credits in other parts of the state, such as the North Slope. The current statute generally allows those credits to be used only against taxes paid on Cook Inlet production, Hawker's office said.

Finally, HB 280 allows Cook Inlet explorers to take their full production tax credit in one year, rather than over two.

Hawker said his bill is structured so that "any financial incentives are required to pass through the supply chain to utilities and, in turn, to their customers."

Administration is wary

While the administration of Gov. Sean Parnell is supportive of developing Cook Inlet storage capacity and encouraging exploration, it has some misgivings about HB 280.

Of particular concern is a late amendment the House Finance Committee added that says state officials "may not deny an application for a lease or assignment of a lease of state land for the development and operation of a gas storage facility solely because the gas storage facility would be used exclusively or primarily to store gas owned by the owner or operator of the gas storage facility."

Hawker said he offered the amendment at the behest of oil and gas companies who want to be able to hold gas for purposes of managing their inventory and fulfilling supply contracts.

Kevin Banks has a different perspective. As the state's oil and gas director, he has the power to approve or deny storage leases.

Banks believes a storage lease carries a public service obligation, and so a storage facility should be available to third parties such as new Cook Inlet explorers who don't have any storage capacity of their own.

Typically, depleted gas reservoirs are used to store gas, and the established oil and gas producers control these.

"There isn't an empty gas field out there whose leases have been handed back to the state that I could offer on a competitive basis as a storage lease," Banks told Petroleum News on March 23.

During a House Finance Committee hearing on March 17, legislators discussed who might take advantage of HB 280's incentives for gas storage.

Hawker said a public utility might construct its own storage capacity, or contract with a third-party storage provider.

But producers simply warehousing their own produced gas for purposes of meeting delivery contracts later wouldn't qualify for the storage development tax credits, Hawker said.

Chevron's about-face

Chevron surprised state officials on March 23 with a letter to Natural Resources Commissioner Tom Irwin saying the company was withdrawing its application for a state lease to store natural gas in the Ivan River unit on the west side of Cook Inlet.

The letter gave no reason for the application withdrawal, and Chevron wasn't able to provide more information to Petroleum News before this story went to press.

Chevron already has considerable Cook Inlet gas storage capacity, holding a state lease in the Pretty Creek unit and a federal lease in the Swanson River field.

The only other Cook Inlet gas storage lease belongs to Marathon, in the Kenai gas field.

These three storage operations have a combined capacity of 32.8 billion cubic feet.

By comparison, total Cook Inlet gas consumption annually exceeded 200 bcf over most of the past decade.

A venture called Cook Inlet Natural Gas Storage has proposed an 11 bcf storage project in the Cannery Loop gas field on the Kenai Peninsula. CINGS is a subsidiary of pipeline company TransCanada. It has the support of Enstar Natural Gas Co., the main gas utility for Southcentral Alaska. ●

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NEW PLAYER

A sister company, Stellar Energy, fought unsuccessful to buy the abandoned Cook Inlet assets of California independent Pacific Energy, which filed for bankruptcy protection.

Renaissance is in the process of transferring its Cook Inlet acreage to Stellar. In October, Stellar told Petroleum News it was seeking new funding for its exploration program.

Buccaneer estimates the acreage holds between 53 million and 149 million barrels of oil and 598 billion and 1.2 trillion cubic feet of gas. The company said the leases contained three "identified prospects" and two "significant leads," but did not offer any details.

In May 2008, Renaissance began permitting four exploration wells on its offshore leases in Cook Inlet, one at North Middle Ground Shoal in Trading Bay and three surrounding the ConocoPhillips-operated North Cook Inlet unit east of the village of Tyonek.

Those latter three wells would have delineated the Northern Lights prospect, which Renaissance eventually transferred to Escopeta Oil to form the Kitchen Lights prospect.

In addition to the acreage, Buccaneer said it is acquiring a six-man management team.

Buccaneer is the second Australian independent to enter Alaska this month. Earlier in March, Linc Energy (Alaska) Inc. acquired the Cook Inlet leases of GeoPetro Resources.

Buccaneer attributed its interest in Alaska to tax credits and local natural gas prices.

It called the exploration credits in ACES, or Alaska's Clear and Equitable Share, "a significant incentive and substantially reduces the commercial discovery threshold."

The company also noted that natural gas prices in the Cook Inlet "trade at around 40 percent premium to the remainder of the United States due to declining production and increasing demand." Unlike the spot markets common in the Lower 48, Alaska regulators approve Cook Inlet natural gas prices in long-term contracts. The local price is an average of various contracts, and has at time been lower than the Henry Hub price.

Buccaneer called the Cook Inlet basin "significantly under explored" and pointed to "numerous studies" suggesting the potential to "host additional world class reserves."

While noting the offshore leases are "close to pipeline and platform infrastructure," Buccaneer also said "no technical hurdles exist to drill and develop reserves."

Seasonal ice packs, intense weather and environmental precautions are all standard in the sub-Arctic Cook Inlet basin. Plus, drilling in the relatively shallow waters requires a specialty rig such as a jack-up, something independents like Renaissance, Pacific Energy and Escopeta Oil have spent years unsuccessfully trying to contract and move to Alaska.

That said, Buccaneer "expects to drill its first prospect" this year.

A history of fast exploration

The company's history suggests that ambitious timeline may be more than just talk.

Founded in 2006, Buccaneer raised $17 million in an initial public offering in late 2007, and began developing its first prospect, the Pompano field off of the Texas Gulf Coast, in early 2008. Using several loans, the company now also operates the Jaguar and Ruby prospects in offshore Louisiana, and the onshore Lee County project in southeast Texas.

On its Web site, Buccaneer describes its strategy as "acquiring low-cost, low-risk properties left-behind or passed-over by large producers" and "Leveraging an increasingly tight market for oil and gas hardware and development resources."

The former is a strategy shared by many independents in the Cook Inlet and on the North Slope. In fact, one Stellar executive, Mark Landt, oversaw operations in region around the leases when he worked as a land manager for ARCO in the early to mid-1990s.

Exploration work over the years suggest the waters of the upper Cook Inlet sit over a geologic trend sit along an anticline running 30 miles from northeast to southwest that include the prolific North Cook Inlet unit and the prospective Kitchen Lights unit.

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