Petroleum news

page 4 NWT Industry Minister Bob McLeod confident Mackenzie will go

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GOVERNMENT

Alaska's next gov?

Parnell, Berkowitz debate ideas on oil taxes, gas line, suing Uncle Sam

By WESLEY LOY

For Petroleum News

ETHAN BERKOWITZ

SEAN PARNELL

Alaska Gov. Sean Parnell and his challenger, Ethan Berkowitz, can readily agree the state has one overriding need — to put more oil in the trans-Alaska pipeline.

But the two have divergent ideas on how to do it, and in an Oct. 20 debate in Anchorage each tried to shoot down the other's approach.

Berkowitz, a Democrat, called the governor's proposal to adjust state tax law more to the liking of drillers a "cosmetic" change. Parnell, in turn, said his opponent's plan for the state to rely on royalty deals rather than production taxes could discourage industry and kill jobs.

It was, all in all, a polished and civil debate between two veteran politicians, though the big crowd in the Hotel Captain Cook ballroom was treated to the occasional testy moment.

"Sean, there you go again, making things up," Berkowitz said at one point, refuting an assertion that he proposed a state-owned natural gas pipeline.

Parnell fired back later when he said he had a picture to prove that Berkowitz did, despite his denial, campaign for Barack Obama.

see **CANDIDATES** *page 14*

EXPLORATION & PRODUCTION

Shale gas fallout chilly

Leading companies postpone plans in Quebec, citing costs, lack of service support

By GARY PARK

For Petroleum News

Fending off a public backlash, the Quebec government has rejected demands for a moratorium on development of its shale gas resource, staking its future on the prospects of gas self-sufficiency that the industry estimates could stretch over 50 to 100 years.

But what has been touted as a "game changer" in the North American energy landscape is showing its first signs of being a "game breaker" for Talisman Energy and Questerre Energy, two Calgary-based companies which have delayed their push towards commercializing the Quebec resource.

"Other provinces will have to ensure they have regulations in place, but Quebec is very much a leader in terms of exploration of shale gas and future exploitation." **—Federal Environment Minister Jim Prentice**

The mood has been so ugly at public meetings that Andre Caille, a man whose credibility and charm was seen as a plus when he was named president of the Quebec Oil and Gas Association, was ushered by police out of one public meeting when they feared for his safety after he faced a torrent of

see **SHALE FALLOUT** *page 15*

GOVERNMENT

Parnell wants ACES cap

Governor says cap on tax progressivity will encourage new Alaska investment

By ALAN BAILEY

Petroleum News

JUDY PATRICK

SEAN PARNELL

Alaska's Clear and Equitable Share, or ACES, oil production tax may have seemed equitable to those at the collection end of the tax revenue stream but has clearly been viewed as less than fair by tax-paying companies who produce oil within the state. For, although companies exploring for oil and gas have praised the ACES tax credits available for exploration expenses, oil producers have complained that ACES tax progressivity — the way in which the tax rate increases with rising oil prices — undermines incentives to develop new oil resources.

In a speech to the Resource Development Council on Oct. 15, Alaska Gov. Sean Parnell signaled sympathy with the oil producers' position by announcing his intent to encourage new oil development by eliminating the ACES progressivity at higher oil prices. Parnell also said that his administration wants to introduce tax credits for technically challenging oil fields, such as those involving heavy oil.

"We can be more competitive in oil exploration and development," Parnell said. "More oil means more jobs for Alaskans, more long-term revenue to

see **RDC TALK** *page 16*

COURTESY ROWAN

The last time Cook Inlet saw a jack-up rig it actually saw two — the Adriatic VIII and the Gilbert Rowe, shown here — both drilling wells on the ARCO Sunfish prospect in 1993.

Jack-up for Buccaneer? Will ask AIDEA's help to bring rig north

Buccaneer Alaska is in the hunt for a jack-up rig.

The local subsidiary of Australian independent Buccaneer Resources plans to ask the Alaska Industrial Development and Export Authority for a loan to bring the rig to Alaska.

MARK LANDT

On Oct. 14, Buccaneer Alaska executives met with Kenai Peninsula leaders, including Speaker of the House Mike Chenault, staff from Sen. Tom Wagoner's and Rep. Kurt Olson's offices and representatives from the City of Kenai to discuss drilling plans. The discussions touched on both onshore activities planned near the Kenai Municipal Airport as well as offshore activities planned for two exploration areas in the upper Cook Inlet.

Drilling exploration wells in those offshore areas would require a jack-up rig — a mobile unit for drilling in relatively shallow waters, like those of Cook Inlet. Jack-up rigs are

see **JACK-UP RIG** *page 14*

Tyonek looking at new coal to liquids process for Cook Inlet

1 2 SERIES

Coal-to-liquids for Cook Inlet has been an on-again off-again topic of discussion for some 20 years, but has never happened. Now a new technology could bring synthetic jet fuel production to Southcentral Alaska.

Coal-to-liquids, or CTL, is an approach that Tyonek Native Corp. has been pursuing seriously in recent years because of plentiful coal in Southcentral. Tyonek worked first with Sasol but has recently partnered with a new player, Accelergy, John McClellan told a joint meeting of the Alaska Legislature's House and Senate Energy committees Oct. 13 in Anchorage.

There is high-quality bituminous coal all around Cook Inlet, McClellan said, but "the highest-value coal happens to

see **TYONEK CTL** *page 13*

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Petroleum News *North America's source for oil and gas news*

● NATURAL GAS

NIMBY concerns over gas storage plans

Surface leaseholder at Cannery Loop expresses safety concerns to AOGCC; has been granted conditional intervenor status at RCA

By KRISTEN NELSON
Petroleum News

Not in my backyard — or at least not under my fish processing plant — has come to Kenai, the home of Alaska's modern oil and gas industry.

Vincent Goddard, president of Inlet Fish Producers of Kenai, told the Alaska Oil and Gas Conservation Commission in an Oct. 19 and 20 hearing that he has safety concerns about the proposal by Cook Inlet Natural Gas Storage Alaska to use a portion of the Cannery Loop unit south of Kenai for natural gas storage.

Goddard's facilities are on land leased from the City of Kenai in the vicinity of Cannery Loop and there is a 1964 well — drilled, plugged and abandoned in that year — on the property he leases.

AOGCC is considering applications from CINGSA for the gas storage facility.

CINGSA also has an application for the facility before the Regulatory Commission of Alaska and on Oct. 19 RCA granted Goddard's petition to intervene in that proceeding conditioned upon Goddard retaining counsel within five days.

Suite of concerns

Goddard challenged the Cannery Loop proposal on a number of grounds, including seismic concerns, the condition of wells in the Cannery Loop field and the proximity of the field to Kenai.

Richard Gentges of CINGSA told AOGCC Commissioner Cathy Foerster that no impacts are expected to Kenai once the storage facility is in operation, but said there will be traffic management issues because of heavy equipment required during construction.

On the seismic issue, Tom Walsh of Petrotechnical Resources of Alaska — PRA prepared expert testimony on the proposal under contract to CINGSA — told the commission there are no active faults in the area. He said the Cannery Loop fault, south of the unit, does not extend to the surface and is no longer active.

> *Richard Gentges of CINGSA told AOGCC Commissioner Cathy Foerster that no impacts are expected to Kenai once the storage facility is in operation, but said there will be traffic management issues because of heavy equipment required during construction.*

A report on geologic and seismic hazards in the area prepared for CINGSA by URS said ground-motion hazard in the area is consistent with most of Cook Inlet but less than in the Anchorage and Susitna Valley areas, and similar to U.S. Geological Survey estimates of ground motion hazards for western Washington, western Oregon and southern California — all areas with underground gas storage facilities.

There are no specific seismic design criteria for oil and gas wells in Alaska or other western states with high seismic hazard risk, and properly constructed wells should not be affected by ground shaking since casing is cemented to the rock and overlying soils and will move with the soil or rock, URS said. The report also noted that surface structures are built to Alaska Building Code standards for seismic design.

Condition of wells

CINGSA has identified Cannery Loop wells which will require remedial work as part of project development, but Gentges told the commission that detailed engineering results for the KU 13-8 well (the P&A well on the Inlet Fish Producers lease) confirm that the well is adequately plugged and there is no need to re-enter it. He said that if the commission wants the well re-entered and re-plugged, CINGSA will do so.

A detailed report on the well indicates the wellhead is buried under an asphalt driveway between two buildings on the site, so excavation of an area approximately 8 feet by 8 feet would be required to access the wellhead.

Marathon is the operator at Cannery Loop and Gentges told the commission CINGSA will be working with Marathon on a collaborative basis to acquire Marathon's interest in the Sterling C pool, which is the portion of the Cannery Loop unit which will be used for storage.

Record held open for a week

The commission heard Goddard's testimony as a member of the public and accepted his witness, petroleum engineer John Robertson Jr. of Fallbrook, Calif., as an expert witness.

Robertson told the commission he believes all wells at Cannery Loop need to be recompleted because they can serve as a pathway from the reservoir to the surface.

When Robertson said gas at the field likely migrated up from below and was captured in the Sterling C reservoir, Commission Chair Dan Seamount, the AOGCC's geology member, told him that gas in Cook Inlet is biogenic — sourced from coals — rather than migrating up from a deeper source.

Robertson showed a map of Cannery Loop showing the field under and adjacent to the Kenai River where it loops south of Kenai before entering Cook Inlet, but questioned the basis for showing the field entirely south of the City of Kenai and questioned whether it didn't also reach under residential areas, asking for data to

see GAS STORAGE page 7

NATURAL GAS

LNG imports to Southcentral are likely

Faced with an impending utility gas delivery crunch, but with no possibility of North Slope gas coming to the rescue for several years, Southcentral utilities will likely have to import LNG to fill the pending shortfall in utility gas supplies from the Cook Inlet, Colleen Starring, president of Enstar Natural Gas Co., told the Anchorage Chamber of Commerce on Oct. 18 during a question and answer session following her talk on the Cook Inlet Natural Gas Storage Alaska gas storage project.


COLLEEN STARRING

"At the end of the day we're probably looking at importing LNG because that's the only thing we can do given the time schedule that we're on," Starring said.

Starring said that Enstar is facing gas deliverability shortfalls as early as 2012, with deliverability becoming a major problem around 2013-14. On the other hand an in-state gas line from the North Slope could not be completed until 2016 or 2017, with a larger North Slope gas line unlikely to go into operation until several years after that.

In negotiations

In fact, Enstar is actively looking at LNG imports as a future supply option, Starring said.

"We are right now in negotiations, discussing importing LNG," she said. "I'm not ready to come out and start quoting prices, but everything that we've seen, and (based on) the information that we've been provided and we've done an analysis on, importing LNG could be very competitive."

Asked how the cost of importing LNG might compare with the cost of storing gas for winter use, Starring said that storage will be required, regardless of where the gas comes from.

"(Supply) reliability may become more important than the actual cost or price of the commodity going forward," Starring said.

—ALAN BAILEY

● NATURAL GAS

Mackenzie at crunch point

JRP makes final pitch for environmental, socioeconomic recommendations; NWT closer to resource control; McLeod sees hope in gas

By GARY PARK
For Petroleum News

In the final run-up to an expected December regulatory ruling that is crucial to the future of Canada's Mackenzie Gas Project, the atmosphere is thick with more than the usual mix of hope and frustration.

A federally appointed Joint Review Panel that examined the potential environmental and socioeconomic impacts of a Mackenzie pipeline has made what may well be its last stab at persuading the Canadian and Northwest Territories governments to accept all 176 of its recommendations.

The JRP's comments are being taken into account by the National Energy Board, which is due to decide before Christmas whether the C$16.2 billion MGP should proceed and, if so, under what conditions.

The JRP, in a 16-page letter to federal Environment Minister Jim Prentice, warned that unless its recommendations are incorporated in the NEB verdict "the adverse impacts of the project could be significant and its contribution towards sustainability could be negative."


BOB MCLEOD

In their interim response to the JRP recommendations, the two governments endorsed only 10, while accepting another 77 provided they were reworded. They suggested some of the recommendations would restrict future economic development in the NWT.

JRP issue sustainability

JRP Chairman Robert Hornal, in his Oct. 4 letter to the federal government, said failure to implement his panel's recommendations means the opportunity for the MGP to "provide a foundation for a sustainable northern future would be lost."

Kevin O'Reilly, a spokesman for Alternatives North, a social justice group, said the JRP letter is a "scathing indictment of government trying to get out of commitments that it's already made — not doing anything to really protect the people of the North, the environment."

One of the JRP's key recommendations called for a resource revenue-sharing arrangement between the Canadian and NWT governments to be in place before the MGP proceeded.

The two governments confirmed Oct. 15 that they are actually within sight of a breakthrough to more than 20 years of talks aimed at turning control over federally administered land, water and natural resources to the NWT government.

But a final "devolution" deal is probably well outside the timelines for the MGP, although the draft agreement brings the NWT a major step closer to its cherished goal of having essentially the same power as Canada's 10 provincial governments over the use of land and resources, except those regions covered under aboriginal land claims.

Agreement in principle

Having reached an agreement in principle setting out the transfer of powers, both sides will meet again Oct. 30 to "decide what happens next," a spokesman for the NWT government told The Canadian Press.

He said the negotiators are urging the governments to adopt what they view as the "best possible deal we can get at this point."

The spokesman said the pact includes numbers for resource revenue sharing and the language that would allow control over federal land to proceed to "northern decision-making."

The negotiators are also urging NWT aboriginal communities to participate in building on the groundwork achieved in the draft agreement.

NWT Premier Floyd Roland told the Canadian Broadcasting Corp. there is still a "lot of work to be done … (but) if we can sign off on this we move to the next stage and that would be to enter into a final series of negotiations."

The tentative deal includes an annual transfer of C$63 million in federal money to enable the NWT to administer oil, gas, land, water and other resources, but the current federal operating grant to the NWT would be reduced by 50 cents for every $1 in resource revenue collected by the territorial government.

McLeod confident

NWT Industry Minister Bob McLeod told Petroleum News Oct. 14 that he is full of confidence that the MGP will go ahead as part of a key element in the use of natural gas as a transition fuel from oil and coal to alternative and renewable energy sources.

He bases much of that optimism on the work of a congressional natural gas caucus in Washington, D.C., that supports a change by the transportation sector to using natural gas, bolstered by President Barrack Obama's letter to the latest Alaska Oil & Gas Congress strongly endorsing the delivery of North Slope gas to North American markets, pledging the support of his administration to advance the project.

McLeod said there have also been signals that the Canadian government of Prime Minister Stephen Harper is paying more attention to the North in response to NWT efforts to promote Arctic sovereignty efforts.

He and Roland have made a more assertive case over the last three months that the MGP is one of several projects that could strengthen Canada's stake in the North, although they are concerned that the U.S. government is more outspoken about the importance of an Arctic pipeline and is ready to provide multibillion dollar loan guarantees that could see an Alaska pipeline overtake the MGP.

To head off that threat, McLeod hopes the NEB will favor sunset clauses of 2013 for the MGP co-venturers to sanction their project and 2016 for a start of construction.

He said the biggest obstacle in the way of corporate approval is agreement between the government and the partners on a fiscal framework.

"I'm always optimistic," McLeod said. "In my mind, a year from now the regulatory reviews will be completed, I expect a fiscal framework will be finalized and active discussions will be under way on the devolution question." ●

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● UTILITIES

RCA lets Chugach recover contract costs

Utility can include $197M in future rates, AG and dissenting commissioner say RCA didn't have enough time to deliberate

By ERIC LIDJI
For Petroleum News

Chugach Electric Association will be allowed to pass on nearly $200 million in contracts for a new power plant to its ratepayers, according to a ruling by Alaska regulators.

The Regulatory Commission of Alaska on Oct. 5 decided that Chugach could recover the $197 million cost of three equipment and construction contracts through future electricity rates. However, RCA did not say whether it considered Chugach's decision to build the Southcentral Power Project to be a prudent one, a distinction Chugach also requested.

The ruling could potentially be precedent setting, as some believe it is the first time state regulators in Alaska have "pre-approved" a major energy infrastructure project in the state.

The precedent, however, is nuanced. Historically, regulators have allowed Alaska utilities to recover the cost of major infrastructure projects through rates, without pre-approval.

Chugach asked for pre-approval in late June as a way to get better financing, it told the RCA. The utility said that if it could guarantee potential investors that costs would be recovered through rates, it could decrease the risk of the project, leading to lower interest rates that would ultimately save ratepayers $1.3 million to $2.6 million a year.

Chugach said that risk could be reduced further if RCA formally called the new power plant and the three contracts "prudent" decisions, in regulatory terminology.

Chugach asked for a quick decision, saying that mid-October presented the best timeframe to seek financing because of current market conditions and low interest rates.

Chugach said this quick timeframe wouldn't be problematic because the utility believed RCA already gave a favorable nod to the proposed power plant. During a 2008 rate case, when Chugach said it planned to build a new power plant rather than repair an existing one, RCA said that Chugach reached its decision after "extensive analysis."

The Alaska Attorney General's office argued that the precedent set by the case could potentially change how Alaska utilities went about financing major infrastructure projects, and therefore justified a longer investigation. The AG proposed ways to decrease the risk of the project in the eyes of potential investors using existing statutes and regulations.

The ruling will not impact local electricity prices until the next Chugach rate case.

Lisankie writes dissent

Ultimately, RCA didn't give Chugach everything it wanted.

First, it declined to say whether it considered Chugach's decision to build a new power plant to be prudent. Because Chugach committed to build the power plant back in August 2008, RCA said it was now too late to make such a determination.

Second, while Chugach now knows it can recover the $197 million through future rates, RCA seemed to consider the ruling to be somewhat redundant. The regulator noted that Chugach is a cooperative governed by a member-elected board of directors. That board decided to build the power plant, and Chugach's bylaws outline how the board must go about seeking large contracts. The RCA found that Chugach followed its own rules.

"We believe it is unlikely that any portion of the $197 million at issue here would be disallowed in future rate-making determinations by this tribunal," RCA wrote.

However, RCA Commissioner Paul Lisankie dissented to the ruling, writing that Chugach "denied us the opportunity to employ the deliberate process I believe must precede the making of substantial changes in our procedures or decisional standards."

He noted, for instance, that the right to pre-approve a project logically implied the right to "disapprove" a project, in other words: to halt construction. That notion would naturally be very controversial, and Lisankie said RCA needed time to iron out such kinks.

Regulated utilities are not required to get approval before taking on major infrastructure projects because RCA considers those undertakings to be "management decisions."

However, utilities are also not required to get regulatory approval for fuel contracts, but invariably do as a way to guarantee that fuel costs can be passed on through rates. That process usually takes a considerable length of time, sometimes a year or more. RCA sets rates for regulated utilities, including the large Railbelt electric cooperatives.

MetLife wouldn't finance

RCA's ruling came after a series of hearings in September that illuminated one previously generic motivation behind Chugach's decision to ask for pre-approval.

With the credit crunch, Chugach worried about financing, but "after some initial reluctance by a potential lender, Chugach was still convinced that after credit markets settled, it could proceed without a prior prudency review," Michael Cunningham, chief financial officer for Chugach, wrote in June filings to the RCA. "However, Chugach has concluded that the least cost financing will be obtained if it first obtains a determination of prudence and assurance of cost recovery as proposed in the accompanying petition."

In the September hearings, Chugach said it approached the insurance company MetLife in early 2009 about financing $50 million to $75 million of the power plant project as a way to both "test the market" and to take advantage of interest rates at that time.

MetLife, though, declined the offer, pointing to several potential risks, including the fact that Chugach had to pay for the

see **CONTRACT COSTS** page 7

● NATURAL GAS

Open season for small line gets bids

Energia Cura gets nonbinding nominations in excess of 12 bcf per year natural gas required to make Fairbanks Pipeline Co. feasible

By KRISTEN NELSON

Petroleum News

Large users of natural gas in Alaska's Interior could ship enough gas to support a small line from the North Slope.

That's the conclusion Energia Cura reported after its nonbinding open season for a natural gas line from the North Slope to the Interior wrapped up Oct. 15 with what the company described as "nominations for natural gas volumes in excess of those required" to make a small-bore natural gas pipeline project feasible.

When the open season began Energia Cura said that after studying how to get reasonably priced energy to Alaska's Interior for 10 years, it thought there might be enough demand to justify a small-bore, high-pressure gas line from the North Slope to the Fairbanks area.

The open season began Aug. 26 and was originally scheduled to close Oct. 1, but was extended to Oct. 15 "at the request of three load centers requiring additional time to submit nominations."

The volumes nominated when the season closed Oct. 15 were in excess of the 12 billion cubic feet per year (some 33 million cubic feet per day) required "to deliver natural gas to the Interior at less than half its current cost," the company said.

Energia Cura believes its line could be operational by 2014, and that it could save Interior residents more than a billion dollars in energy costs prior to the arrival of gas via a mainline taking ANS natural gas to market.

Gas still being sought

Energia Cura said it is still in discussions with ANS gas producers to secure natural gas and natural gas liquids, as well as a compression agreement with the Prudhoe Bay central gas compression facility. An agreement with the compression facility might eliminate the need for compressor stations along its primary transmission system, the company said.

Continuing discussions with the producers are part of the second phase of the project, which began Oct. 18.

With nominated volumes in place, the company will now complete hydraulic and economic simulations based on actual volumes "to develop the final design criteria for both primary and secondary transmission segments."

The primary segment is the line from the North Slope, a 443-mile 10-inch high-pressure line from near Pump Station 1 on the North Slope to Fox. Secondary transmission lines are high-pressure, coiled tubing feeder lines from the primary line to Interior's industrial load centers. Major load centers identified on a map the company distributed in September were Fairbanks, Golden Valley Electric Association, Eielson Air Force Base, the North Pole refinery and Fort Wainwright.

Also in phase two is determination of bundled cost offerings — transportation and gas — for each nominating load center. Those cost offerings are a requirement to begin FPC's binding open season.

Legislation for state participation

Energia Cura said it is working on formation of a nonpartisan coalition of Alaska legislators to draft a bill which will enable state agencies to participate in exchange for an equity share commensurate with the state's in-kind contributions. Such agency participation would include use of agency resources in securing project permits and easements along the Dalton and Elliott highway corridors.

"Most of the geophysical and statistical data required to acquire the small-bore pipeline's permits and define its final design are already in place, through prior state expenditures on other gas developments," Energia Cura said.

The company said it is proposing that equity positions in the project be deposited in the Alaska Permanent Fund, because it "wants all Alaskans, including those not residing in the Interior, to receive tangible benefit from ANS gas resources."

The organization

Energia Cura's open season was done on behalf of Fairbanks Pipeline Co.; Alexander Gajdos and Thomas Chapman are principals of both companies.

Phase two includes continued organizational development of FPC, including interviews with local job applicants.

As the project advances into phase three, Energia Cura said, investors will be organized into Fairbanks Holding Co., of which FPC will be a wholly owned subsidiary. Organizational options being considered range from "simple limited liability partnerships to more complex public models issuing equity assignments through common stock," the company said.

Energia Cura said it has met with four large Alaska firms showing early interest in securing project equity positions, but said it does not plan to release the identify of prospective investors other than first-tier equity assignments that Interior load centers may secure; the company said it has requested second-tier investors issue their own press releases. ●

Contact Kristen Nelson at knelson@petroleumnews.com

On the Web

See previous Petroleum News coverage:

"Energia Cura proposing 10-inch main line," in Sept. 12, 2010, issue at www.petroleumnews.com/pnads/912371651.shtml

"New effort to get gas to Interior led by Energia Cura of Fairbanks," Sept. 5, 2010, issue at www.petroleumnews.com/pnads/417051565.shtml

EXPLORATION & PRODUCTION

Ion cancels Beaufort Sea seismic survey

Ion Geophysical has cancelled its planned early winter seismic survey in the Beaufort Sea because of an engine problem with the seismic vessel that was going to conduct the survey, Joe Gagliardi, Ion's director, Arctic solutions and technology, told Petroleum News Oct. 11.

The company had been planning to carry out a regional scale 2-D survey along the entire length of the Alaska Beaufort Sea, using a new technique that enables the surveying to be done in the presence of sea ice. The survey would have taken place between early October and mid-December, thus avoiding conflicts with other offshore activities such as subsistence whale hunting.

But the engine problem in the seismic vessel resulted in a loss of power, rendering the vessel unable to proceed with the survey, Gagliardi said.

—ALAN BAILEY

● LAND & LEASING

Aurora still negotiating Cohoe unit

Company wants to shoot seismic, drill well on Kenai Peninsula; Nicolai Creek gas storage on hold, needing customer commitments

By ALAN BAILEY
Petroleum News

Aurora Gas is still negotiating with the Alaska Department of Natural Resources over the potential unitization of some oil and gas leases around the old Cohoe No. 1 well, southwest of Soldotna on Alaska's Kenai Peninsula, Aurora Gas President Scott Pfoff told Petroleum News Oct. 20. Although state leases within the land targeted for unitization expired on Sept. 30, Aurora filed its unitization application well before that date, Pfoff said.

Bruce Webb, Aurora Gas manager of land and regulatory affairs, told Petroleum News Sept. 22 that the Cohoe leases include two tracts owned by Cook Inlet Region Inc., and that CIRI, the prospective unit manager, had reworked the proposed unit agreement.

Aurora had considered re-entering the Cohoe No. 1 well as a means of preserving the expiring state leases. But Webb said that Aurora's drilling rig had been in operation at the Three Mile Creek field on the west side of the Cook Inlet, and that it was not possible to move the rig to the Cohoe well location to re-enter the well before the Sept. 30 deadline.


JUDY PATRICK
SCOTT PFOFF

Webb also commented that Aurora does not think that the Cohoe well penetrated the top of the prospect's geologic structure and that Aurora's preferred option is to shoot some new seismic and drill a new well at a more appropriate location.

"We're negotiating with them (DNR) what the work commitment would be, whether it's 3-D seismic or whether it's an actual drill of a well, but we do not plan to re-enter the Cohoe well at this time," Pfoff said.

Nicolai Creek storage

Pfoff also commented on Aurora's proposed gas storage facility in its Nicolai Creek field on the west side of the inlet. The storage project is currently on hold, while potential storage customers focus their attentions on Cook Inlet Natural Gas Storage Alaska's gas storage project on the Kenai Peninsula, Pfoff said. Potential customers have expressed an interest in Aurora's storage proposal but no one has yet committed to use the facility, he said.

"We understand the urgency and the need for storage and we'd like to progress it, but we need a utility customer to make it happen," Pfoff said. "We can't build it on spec."

The Nicolai Creek facility would store fairly modest quantities of gas and would likely support high gas deliverability rates during relatively short periods of peak utility gas demand, Aurora has previously said. The gas would be delivered into the gas pipeline network on the west side of Cook Inlet. The CINGSA facility will be somewhat larger and will connect to the gas infrastructure on the inlet's east side.

"We don't think that the projects exclude one another," Pfoff said. "We very much feel that ours is different, in a different location and offers a different type of service from what they are trying to do and they would complement each other." ●

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GAS STORAGE

back up field extent.

In responses to a number of questions from Goddard, Gentges acknowledged an error he made in referring to the nearest active fault to Cannery Loop as being 40 miles away — he said he confused kilometers and miles and that the 40 is kilometers, not miles.

Goddard told the commission there were a number of faults, one running through Cannery Loop.

Gentges said it is necessary to distinguish active faults. The Castle Mountain fault, he said, is the only active fault in upper Cook Inlet and there is no fault running through Cannery Loop.

Data used in PRA's presentation was all from public sources, Walsh said, with structure maps from commission records for conservation order 231 for the Cannery Loop unit, and based on proprietary seismic data from the field operator.

Goddard and Robertson wanted the record held open and the commission agreed to do so for a week to allow any additional written submissions; the oral testimony record was closed at the end of the Oct. 20 hearing. ●

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CONTRACT COSTS

plant before it knew whether it could recover costs.

Chugach said it took until June 2010 to decide to ask RCA for pre-approval and put together an application of testimonies and supporting documents to back up its request.

The Southcentral Power Project is a joint venture between Chugach and Anchorage Municipal Light & Power. Chugach will manage the facility and own 70 percent of it, while ML&P will own the remainder. The plant will produce about 183 megawatts from three natural gas fired turbines. Chugach expects the facility to come online around 2013. ●

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● NATURAL GAS

Several options and a big cost range

Heinze reviews the various ideas for delivering and using North Slope gas inside Alaska, to support the state's own energy needs

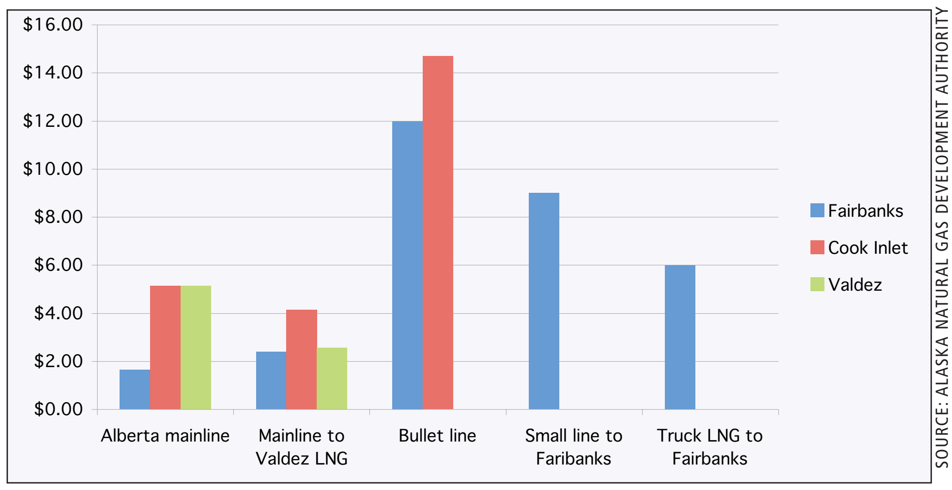
By ALAN BAILEY
Petroleum News

While gas supplies in Southcentral Alaska from the Cook Inlet basin tighten and energy prices in Interior Alaska mushroom, there remains a massive quantity of natural gas on the North Slope, waiting for a pipeline heading south through the Brooks Range for delivery to market. But, while the delivery of North Slope gas to population centers in, say, Fairbanks in the Interior or Anchorage in Southcentral is technically feasible, the economic challenges of delivering the gas over hundreds of miles to small numbers of gas consumers have yet to be overcome.

HAROLD HEINZE

On Sept. 28, at the Alaska Oil and Gas Congress in Anchorage, Harold Heinze, CEO of the Alaska Natural Gas Development Authority, reviewed the various options for delivering North Slope gas within the state. Heinze used public-domain information to assess the relative costs of gas delivered by various means.

"My focus is on where the benefits lie in any of the choices that are out in front of us there for Alaskans," Heinze said.



The estimated delivery costs per million British thermal unit to Fairbanks, Valdez and the Cook Inlet region for North Slope gas shipped by various methods. The costs, in 2009 dollars, include gas conditioning and shipping, but do not include the cost of purchasing the gas on the Slope. The estimates are based on publicly available data and are subject to varying degrees of uncertainty. By comparison, consumers in Anchorage currently pay about $7 per million Btu for gas, plus utility delivery and service charges.

Low in-state demand

Heinze presented the various gas delivery options against a background of an Alaska utility gas demand of about 200 million cubic feet per day for heating and lighting, with a further unknown future gas demand from the LNG export facility on the Kenai Peninsula. The internal Alaska demand is tiny compared with the 4.5 billion cubic feet per day that may in the future flow down a major North Slope gas line for export from the state, he said.

And because of the low utility gas demand, a new Alaska value-added, gas-based industry such as gas-to-liquids or petrochemicals would make a huge difference to gas delivery economics in Alaska. Without such an industry those economics become very difficult, Heinze said.

Running a spur gas line from the main line is clearly the most cost-effective means of delivering in-state gas because of the economies of scale involved, Heinze said. ANGDA has formed a cooperative called the Natural Gas Supply Co. to aggregate Alaska utility gas demand and bid for capacity on a future gas line. The co-op made bids in the recent open seasons for both the TransCanada-ExxonMobil Alaska Pipeline Project and for the BP-ConocoPhillips Denali project, thus gaining substantial tariff discounts for Alaska utility gas if either of these pipelines is constructed.

"There is a tremendous opportunity that we're being offered by participating in this initial open season for either of those pipelines," Heinze said. "As a matter of a fact they're offering about 30-percent-plus discounts to those people who come through the door during that initial phase."

Two routes

Two North Slope gas line routes are being considered: a route following the trans-Alaska oil pipeline to Valdez, where the gas would be converted to LNG for shipping to the U.S. West Coast or overseas; and a route following the Alaska Highway through Alberta, for delivery of the gas to the U.S. Lower 48 states.

A spur line from a Valdez main line could follow the Glen Highway into the Cook Inlet region. Or if a main gas line is built along the Alaska Highway, a spur line from Delta Junction could follow the Alaska road system to Valdez and the Cook Inlet (editor's note: people have also considered a spur line route following the Parks Highway from Fairbanks to the Cook Inlet region).

ANGDA has already done some of the right-of-way work and pre-engineering for the Glen Highway spur line route, so that this route option is almost in a pre-build state, Heinze said.

The shipping of in-state gas through a major North Slope gas line, in combination with spur lines, would result in relatively low gas-transportation tariffs. And Fairbanks, in particular, would benefit from cheap gas delivered through this mechanism.

"We could actually move pretty fast on something like this," he said.

Estimated tariffs

Based on a gas throughput of about 250 million cubic feet per day into Southcentral Alaska, Heinze has estimated the tariffs on various combinations of mainline and spur line routes, and hence has estimated the possible delivery costs for gas in Fairbanks, Valdez and the Cook Inlet region.

For a mainline through Alberta, the delivery cost could be $1.65 per million British thermal units in Fairbanks, $5.15 per million Btu in Valdez and $5.15 per million Btu in the Cook Inlet region. For a mainline to Valdez, the corresponding costs would be $2.40 for Fairbanks, $2.58 for Valdez and $4.15 for Cook Inlet. These estimated costs would cover gas processing and transportation, but do not include the wellhead price of the gas on the North Slope.

However, Heinze pointed out that the massive, perhaps $30 billion to $40 billion main line project, presents many difficulties, given its scale and the need for many complex "moving parts" such as a huge North Slope gas processing plant.

The bullet line

A simpler concept that has some traction at the moment is the so-called "bullet line," a gas pipeline built from the North Slope into Southcentral Alaska purely for the delivery of gas to Fairbanks and Southcentral. But anyone contemplating this option needs to consider the issue of the carbon dioxide that exists in the North Slope gas — that carbon dioxide would likely need to be removed in an expensive treatment plant on the Slope, although some people have considered piping the carbon dioxide along with the natural gas into Southcentral, Heinze said.

Whereas the tariffs on a mainline from the North Slope would include the cost of gas treatment services on the Slope, a bullet-line project would need to take responsibility for the carbon dioxide. And given the 800-mile length of the pipeline, the pipeline by itself would cost several billion dollars, Heinze said.

"If you take on the bullet line project you must install the gas conditioning facilities to

see GAS OPTIONS page 9

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GAS OPTIONS

take the 11, 12 percent CO2 down to something that is more pipeline compatible. … It almost doubles the cost of the project," Heinze said.

And those costs translate to a gas conditioning and transportation cost of perhaps $12 per million Btu to Fairbanks and $14.7 per million Btu to the Cook Inlet region, Heinze said. However, although those costs would likely appear exorbitant to Southcentral gas consumers, they may be more appealing in Fairbanks where current energy costs are even higher, he said.

Other options

There are a couple of other proposals for the delivery of North Slope gas, just to Fairbanks. One of these options, being pursued by the Alaska Gasline Port Authority and Fairbanks Natural Gas, involves the trucking of LNG by road from Prudhoe Bay. With a published estimate of $250 million for the financing of this project, Heinze thinks that the delivery cost of gas by this route would come in at around $6 per million Btu.

The other Fairbanks option is a pipeline proposed by Energia Cura from the Slope down to the Fairbanks area. The published estimate of around $500 million for this project might translate to a gas delivery cost of about $9 per million Btu, Heinze thinks.

Another possibility for in-state energy that ANGDA has been pursuing is the use of North Slope propane, delivered by truck and barge to remote communities around the state. North Slope gas contains large quantities of propane that could be extracted for distribution in liquid form, thus eventually enabling perhaps 99 percent of the state's population to benefit from North Slope energy resources, Heinze said.

Low cost, high uncertainty

In summary, the shipping of in-state gas through a major North Slope gas line, in combination with spur lines, would result in relatively low gas-transportation tariffs. And Fairbanks, in particular, would benefit from cheap gas delivered through this mechanism. But there is no certainty about whether construction of the big gas line will actually happen, and construction is still some years off.

Other options for the in-state delivery of North Slope gas face the economic hurdles of high pipeline tariffs that must include the cost of dealing with the carbon dioxide that the raw gas contains. On the other hand, a relatively low-cost, short-term option, such as the delivery of North Slope gas to Fairbanks, might head off the need to make a hurried decision on the more expensive proposals, Heinze said.

And, with North Slope gas rich in natural gas liquids, there is an opportunity for an investor to pursue an in-state petrochemical industry, thus improving the economics of in-state gas, Heinze said.

But what of the option to ship North Slope gas to Valdez for export as LNG?

Since that was an option within the TransCanada-ExxonMobil open season, the market will issue its verdict on that concept, Heinze said.

"There is an opportunity to basically be in the hunt in Valdez, to have gas at or below the U.S. price, and if you can liquefy it and get it overseas you may be able to make that project work," he said. ●

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Over the top from the Mackenzie Delta?

Some years ago both the Alaska state government and the U.S. federal government passed legislation banning the construction of a gas pipeline from the North Slope east to the Mackenzie Delta for the export of natural gas from the North Slope through Canada. This so-called "over-the-top" route had earlier been a serious contender in the various shipping options considered for North Slope gas, but U.S. lawmakers viewed a route bypassing most of Alaska and the United States as not being in the United States' best interests.

But those government prohibitions would not apply to a gas line carrying Mackenzie Delta gas east to west for transportation down a future North Slope gas line, Harold Heinze, CEO of the Alaska Natural Gas Development Authority, pointed out during a Sept. 28 talk that he gave at the Alaska Oil and Gas Congress. With continuing delays in plans to build a Canadian pipeline south from the Mackenzie Delta, the east-to-west route through the shallow waters of the Beaufort Sea is perhaps worth considering, he said.

And Pius Rolheiser, spokesman for Imperial Oil, the operator for the Mackenzie Gas Project, told Petroleum News that, despite regulatory delays, Imperial still views a Mackenzie Valley pipeline as the best option for commercializing Mackenzie gas.

Heinze later told Petroleum News that, with the Mackenzie Delta region having a smaller gas resource than the North Slope, Mackenzie gas could enjoy economies of scale in using a North Slope gas line and that the environmental impacts of winter pipeline construction in the shallow water of the Beaufort Sea would be minimal.

On the other hand, Harvie Andre, once head of ArctiGas, a company interested in developing the over-the-top route for North Slope gas, expressed skepticism about shipping Mackenzie gas through Alaska. The shipping cost along the gas line west to the North Slope would render the Mackenzie gas uncompetitive with North Slope gas, Andre said. Additionally, there would be significant environmental opposition to laying a gas line in the sea north of the Arctic National Wildlife Refuge, and any government subsidy for a North Slope gas line would present political problems in shipping Canadian gas, he said.

And Pius Rolheiser, spokesman for Imperial Oil, the operator for the Mackenzie Gas Project, told Petroleum News that, despite regulatory delays, Imperial still views a Mackenzie Valley pipeline as the best option for commercializing Mackenzie gas.

"We very much remain committed to the project and think it can be a commercially viable project," Rolheiser said.

—ALAN BAILEY

ASSOCIATIONS

Logan to take over Alliance helm

Rebecca Logan is the new general manager of the Alaska Support Industry Alliance. She replaces the retiring Paul Laird.

The official handover date is Nov. 4, said newly elected Alliance President Mark Hylen, of Beacon Occupational Health and Safety Services.

Logan formerly was president of the Associated Builders and Contractors of Alaska. She's on the board of Chugach Electric Association.

Logan told Petroleum News she started work at the Alliance on Oct. 1.

"I'm excited. It's a great time to be advocating for oil and gas and mining in this state," she said.

The Alliance is a nonprofit trade association made up of hundreds of product and service providers to the oil and gas and mining industries. It was founded in 1979.

Logan said she'd like to increase attention to mining.

Laird became Alliance GM in 2005. He'll stick around to work on the Alliance's big Meet Alaska conference in January, Logan said.

—WESLEY LOY

FINANCE & ECONOMY

Justice, BP continue settlement talks

By WESLEY LOY
For Petroleum News

The government and BP appear closer than ever to settling a federal lawsuit over the 2006 pipeline spills in Alaska's Prudhoe Bay oil field.

In a joint motion filed Oct. 11 in U.S. District Court in Anchorage, Justice Department and BP lawyers asked for a three-month extension of certain deadlines for preparing the case for a possible trial.

It's the second such request the two sides have filed. A judge granted an initial extension in May after lawyers said they wanted to concentrate on settlement talks.

"Since that time, the parties have diligently continued settlement discussions, including in-person meetings with full client participation and the exchange of penalty offers and drafts of potential consent decrees," the Oct. 11 motion said. "Because of the varied and complex matters at issue in this case and because of the many agencies and companies affected by any settlement, settlement discussions have taken longer than the parties first anticipated."

The lawyers noted, however, they would carry on with exchanging documents as part of the legal process known as discovery "so that, should settlement talks fail, the parties can easily turn their focus to preparing their respective cases for trial."

The government and BP together have produced more than 105,000 documents totaling more than 1.3 million pages, the motion said.

U.S. District Judge John Sedwick granted the motion on Oct. 13, giving the two sides until Jan. 28, 2011, for expert witness disclosures and April 1, 2011, to complete discovery.

BP is defending two civil lawsuits stemming from the 2006 pipeline spills — the federal suit and a suit the state filed. The state case is pending in Superior Court in Anchorage.

The Justice Department on March 31, 2009, sued BP Exploration (Alaska) Inc. on behalf of the Environmental Protection Agency and federal pipeline regulators.

The suit seeks millions of dollars in penalties for alleged water and air pollution violations, as well as failure to meet deadlines in a corrective action order from the Pipeline and Hazardous Materials Safety Administration.

BP's lawyers have denied many of the federal claims, and said some of the deadlines in the corrective action order were impossible to meet.

The suit was fallout from a 212,252-gallon oil spill — the largest ever on Alaska's North Slope — in March 2006, and a much smaller spill the following August.

The second spill forced a partial shutdown of the BP-operated Prudhoe Bay field, rattling world oil markets and drawing congressional and regulatory criticism of BP's upkeep of corroded transit lines that carry sales-grade crude to the trans-Alaska oil pipeline.

BP Alaska in late 2007 was sentenced to three years probation and ordered to pay $20 million in penalties after the company pleaded guilty to a federal environmental misdemeanor.

The state's lawsuit alleges negligence and seeks not only fines but oil taxes and royalties the state argues were "lost" because of production shut-ins and pipeline replacements following the leaks. State lawyers have said they're aiming for $1 billion or more in damages.

BP also is involved in a lawsuit company shareholders have brought in Alaska in connection with the Deepwater Horizon disaster, the Prudhoe spills and other pollution and safety-related incidents. ●

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GOVERNMENT

DOI still revising OCS lease program

The U.S. Department of the Interior is still preparing its revised 2007-12 outer continental shelf lease sale program, in preparation for submitting the program to the U.S. Court of Appeals for the District of Columbia, the U.S. Department of Justice has told the court.

In a letter filed with the court on Oct. 15 Justice said that Interior had completed its review of the more than 100,000 public comments received following the publication in April of the preliminary version of the program.

"Interior is now preparing a revised program document for the Secretary's approval," DOJ said. "Upon completing the document, Interior will submit it for the court's review."

In April 2009 the D.C. court upheld an appeal against the original lease sale program, saying that the U.S. Minerals Management Service had not done an adequate analysis of the potential environmental impacts of oil and gas leasing in the Alaska OCS. The court subsequently directed MMS to rework the environmental analysis for reconsideration, causing the agency (now the Bureau of Ocean Management, Regulation and Enforcement) to revise the lease sale program.

The 2008 Chukchi Sea lease sale was part of the 2007-12 lease sale program and the status of leases purchased in that sale remains uncertain until the court case is resolved. Having had to scrap its plans to drill in the Chukchi in 2010, as part of the fallout from the Deepwater Horizon disaster, Shell is now waiting for resolution of legal issues surrounding its Chukchi leases before setting a new drilling timeframe. ConocoPhillips wants to drill in the Chukchi in 2012.

Other uncertainties facing Shell include a continuing Interior ban on Arctic OCS drilling; an as-yet unresolved appeal against Shell's air quality permits; and an Alaska District Court order for revisions to the Chukchi lease sale environmental impact statement.

—ALAN BAILEY

GOVERNMENT

Obama signs CG bill with Alaska provisions

President Barack Obama on Oct. 15 signed into law the Coast Guard Authorization Act of 2010, which has several important provisions for the Alaska oil and gas industry.

The $10.2 billion Coast Guard Act (H.R. 3619) cleared the Congress at the end of September.

The new law mandates that two tugboats must continue escorting oil-laden tankers through Prince William Sound, even if the ships have double hulls. Dual escorts previously were required only for single-hull tankers, hardly any of which remain in service today.

The law also contains a section that could help Shell, which hopes to drill in the Beaufort and Chukchi seas off Alaska. The provision allows oil companies to charter foreign-flag vessels known as anchor handlers to work in Alaska's arctic waters.

These vessels handle the heavy anchors and mooring lines associated with offshore drilling rigs. Normally, foreign anchor handlers would be prohibited under the Jones Act, but the Coast Guard Act makes an exception through 2017 if U.S. vessels are unavailable and the oil company contracts to build an American boat.

When Shell first prepared to drill in the Beaufort Sea in 2007, it used a temporary exemption in place at that time to bring in foreign-flag anchor handlers to tend its two planned drilling platforms. Louisiana-based Edison Chouest Offshore is now building a new anchor handler for Shell.

The Coast Guard Act also calls for an independent, nongovernmental party to conduct a cost-benefit analysis on improving the nation's fleet of polar icebreakers. And the law gives the Coast Guard a year to prepare a vessel traffic risk assessment for Cook Inlet.

—WESLEY LOY

LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
DNR	Beaufort Sea Areawide	Oct. 27, 2010
DNR	North Slope Areawide	Oct. 27, 2010
DNR	North Slope Foothills Areawide	Oct. 27, 2010
DNR	Alaska Peninsula Areawide	May 2011
DNR	Cook Inlet Areawide	May 2011
DNR	Beaufort Sea Areawide	October 2011
DNR	North Slope Areawide	October 2011
DNR	North Slope Foothills Areawide	October 2011
BOEM	Sale 211 Cook Inlet	2010*
BOEM	Sale 219 Cook Inlet	2011*

Agency key: BLM, U.S. Department of the Interior's Bureau of Land Management, manages leasing in the National Petroleum Reserve-Alaska; BOEM, U.S. Department of the Interior's Bureau of Ocean Energy Management, Regulation and Enforcement (formerly Minerals Management Service), Alaska region outer continental shelf office, manages sales in federal waters offshore Alaska; DNR, Alaska Department of Natural Resources, Division of Oil and Gas, manages state oil and gas lease sales onshore and in state waters; MHT, Alaska Mental Health Trust Land Office, manages sales on trust lands.

**The OCS Cook Inlet sales are subject to industry interest. All other remaining Alaska sales on the 2007-12 schedule were cancelled.*

This week's lease sale chart sponsored by:

Geokinetics

● LAND & LEASING

Unocal gives up more White Hills leases

Company drops three leases and sells five to Armstrong subsidiary 70 & 148 LLC; move follows decision to sell Cook Inlet assets

By ERIC LIDJI
For Petroleum News

Union Oil Co. of California further reduced its holdings in the White Hills area in September, according to reports from the Alaska Department of Natural Resources.

The company, an affiliate of Chevron, relinquished three leases totaling 16,890 acres in the oil and natural gas play in the central North Slope, south of the Kuparuk River unit.

Unocal also sold five leases totaling 28,694 acres in the White Hills area to 70 & 148 LLC, the North Slope subsidiary of Denver-based independent Armstrong Oil and Gas.

Most of the leases expire in January or August 2012, with one expiring in August 2014.

In recent months, 70 & 148 has built a large land position near White Hills.

The three relinquished leases each include a proposed drilling location or an actual well site: ARCO's Toolik Federal No. 3 well, Unocal's Bluebuck 6-7-9 well drilled in early 2009 and Unocal's proposed Moropus 16-6-8 well site. The five sold leases include four well sites: Texaco's Wolfbutton 32-7-8 well, Unocal's Muskoxen 36-7-8 well drilled in 2009, BP Exploration's Narvaq No. 1 well and Chevron's Ruby State No. 1 well.

The results from Bluebuck and Muskoxen won't become public until 2011.

Unocal retained four leases in the White Hills area. Those leases include one proposed well location, Unocal's Diniotis 28-9-9 well, but no actual drill sites.

Chevron operated the White Hills exploration program and holds a 70 percent interest in the leases. A subsidiary of the French major Total holds the remaining 30 percent.

On the Web

See previous Petroleum News coverage:

"More results from White Hills wells," in Oct. 10, 2010, issue at www.petroleumnews.com/pnads/494407754.shtml

"First White Hills well file public," in May 30, 2010, issue at www.petroleumnews.com/pnads/986937306.shtml

"Chevron relinquishes 41 White Hills O&G leases," in March 14, 2010, issue at www.petroleumnews.com/pnads/309424947.shtml

Future uncertain for Chevron

Chevron took on White Hills after acquiring Unocal in 2005. The two-year program marked the first North Slope exploration program for the major since the 1990s. Now, though, Chevron's future as an explorer and operator in Alaska is uncertain following the company's Oct. 12 announcement that it plans to sell all of its assets in Cook Inlet (see story in Oct. 17 issue).

Together, Chevron and Unocal still hold more than 176,000 acres of state leases in Alaska, including small stakes in the Prudhoe Bay, Kuparuk River and Endicott units and a larger stake in some of the leases at Point Thomson, as well as a minor stake in the trans-Alaska oil pipeline.

Most of the state acreage is in the Cook Inlet area and is included in the sale package. ●

A copyrighted oil and gas lease map from Mapmakers Alaska (www.mapmakersalaska.com/) was a research tool used in preparing this story.

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Petroleum news

Oil Patch Bits

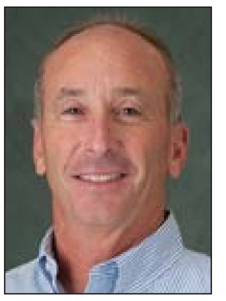
Global Diving & Salvage welcomes Gowdy


RENEE GOWDY

Global Diving & Savage said Oct. 18 that it has hired Renee Gowdy as its lead estimator. In this position, Gowdy will be responsible for developing estimates and proposal production within Global's Marine Construction division for federal, state, local and civil customers as well as other key markets. She joins the department with an extensive educational and professional background in the estimating and preconstruction development process, bringing to Global significant expertise in preparing submittals for projects in commercial, municipal and government markets and database management. She was previously employed by General Construction and Kiewit Bridge and Marine. "Renee's addition to the Marine Construction Division not only strengthens our abilities to estimate work within the division, but will also allow us to expand business development and customer services in this dynamic market," said Mike Langen, manager of Global Diving & Salvage's Construction Division.

Fox new VP of strategic initiatives and marketing

Crowley Maritime Corp. said Oct. 4 that it has named Carl R. Fox vice president of strategic initiatives and marketing for the liner and logistics business units. In his role, Fox is responsible for formulating strategic market and trade lane reviews for potential growth of Crowley's liner business, and developing and overseeing its vessel and infrastructure replacement programs. He will also assist logistics to identify market segment growth opportunities. This position will ultimately help to better align customers' needs with Crowley's wide array of services by targeting the best solutions for the many different challenges they face. Identifying service gaps — places where Crowley can do more for its customers — is of special importance. "Crowley is pleased to have Carl onboard to help us hone the marketing and strategic initiatives for liner and logistics — and to help us develop a thorough asset replacement program," said Chairman, President and CEO Tom Crowley. "He brings a wealth of knowledge and experience, and we look forward to what he will add to the company."


CARL FOX

ConocoPhillips and BP fund award to Tidal Echoes

ConocoPhillips along with BP awarded Assistant Professor of English Emily Wall $5,000

see **OIL PATCH BITS** *page 13*

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

continued from page 1

TYONEK CTL

lie right around Tyonek's property" on the west side of Cook Inlet. Tyonek is a surface land owner, he said, with subsurface belonging to Cook Inlet Region Inc., the regional corporation on Tyonek lands.

Partnering with Sasol

Things looked good for CTL in 2008, McClellan said, when Sasol was looking at Alaska as a site for a facility. The U.S. Air Force had said half of its jet fuel needs would be met by CTL products by 2016, and had a contest for a site for a facility the Air Force would finance and build.

He said several states responded to the competition, and while Alaska did not, Tyonek Native Corp. did, meeting with the Air Force at the Pentagon and pitching a Tyonek location as "the most cost-effective coal-to-liquids site in North America," based on both the fuel source and the plant being at tidewater.

McClellan said things looked pretty good until Congress passed a restriction, cutting the Air Force's ability to finance projects from 20 years to five years.

Since it couldn't finance a CTL project, the Air Force started looking for public-private partnerships.

Further congressional restrictions on CTL required that it meet or better the efficiency of a petroleum refining system.

"And that pretty much killed the ability of the Fischer-Tropsch process which Sasol was using" because it couldn't meet those efficiencies, McClellan said. Sasol turned its back on its U.S. projects, he said, because with so much demand worldwide for Sasol plants the company didn't need to try to overcome those congressional obstacles.

In search of a partner

In 2009 Tyonek went in search of a new CTL partner, "someone who would be willing to come to west Cook Inlet and start developing our coal-to-liquids plant."

Mutual friends in Washington, D.C., introduced Tyonek to Accelergy, "and we found that Accelergy had new technology," McClellan said.

The first step for an Accelergy project is to certify the coals "and one of Tyonek's prerequisites is that the state participate in that certification," he said. Tyonek was unable to find state money for the certification, but it eventually realized, McClellan said, that "the Department of Natural Resources would be the real beneficiary of certifying Tyonek coals, because basically all the coal in west Cook Inlet is pretty much owned by the Department of Natural Resources — even if it's under lease they would benefit by royalties."

Pennsylvania jumps ahead of Alaska

But in early 2010, the State of Pennsylvania discovered Accelergy and within a few weeks came up with $10 million toward a plant in Pennsylvania. Since then, McClellan said, Accelergy has been putting its time and effort into that project.

On the positive side, Senate Bill 220 created an emerging energy technology fund and that could provide startup funds to certify the coals.

"So that's where we're at now," he told the committees.

Tyonek has an application that it's prepared to submit under that emerging energy technology fund, McClellan said, noting that the corporation is not changing any administrative fees: "They'll be a complete pass through to the actual certification process."

McClellan said Tyonek looks forward to enabling regulations for that technology fund.

The new technology

Rocco Fiato, Accelergy Corp.'s chief technology officer, told legislators that alternative fuel technologies must meet four performance parameters: provide energy security for the United States; use domestic resources sustainably; meet environmental standards; and be economically viable.

What Accelergy is working on, he said, is a new technology based on coal-biomass conversion. The acronym, ICBTL, is a play on "ICBM" because of the Air Force connection — jet fuels from this technology would meet synthetic fuel standards for the military.

Integrated coal-biomass-to-liquids, ICBTL, uses technologies licensed from ExxonMobil and others, such as Raytheon, Fiato said, "so-called indirect conversion and biomass conversion technologies."

What Accelergy is doing "is integrating those into a novel position platform" to produce gasoline, diesel or jet fuel, and the combined technology's "unique ability" to produce jet fuel is why Accelergy is interested in Cook Inlet, Fiato said, because more than 65,000 barrels per day of jet fuel is consumed in the Cook Inlet area.

And while Accelergy needs to see evidence of commitment from the State of Alaska, it's not really after money.

"We're backed by Goldman Sachs and others; we have lots of money. It's not a matter of the money; it's a matter of demonstrating the willingness to support a concept," he told legislators.

Problems addressed

The problem with biomass on its own is the acreage required: 2.5 million acres of soybeans for an 8,000 barrel-per-day facility; 943,384 acres of corn; 12,264 acres of algae. But a coal-biomass-to-liquids process requires only 4,000 acres; and Accelergy's integrated process, ICBTL, fewer than 820 acres.

The Accelergy process, he said, uses coal and converts processed CO2 to algae — further converted to fuel and/or syn-

see **TYONEK CTL** *page 15*

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OIL PATCH BITS

from its fund at the University of Alaska Foundation to support the publication of Tidal Echoes, the annual UAS literary and arts journal. Primary support for the journal comes from the Chancellor's Fund. "This extra money will allow us to do some extra things with the journal for the next few years," said Wall, of the UA Foundation award. Tidal Echoes accepts work from full-time residents of Southeast Alaska, reserving a portion of each issue for contributions from UAS students. The next issue of Tidal Echoes will have its official launch on April 2, 2011.

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 March.

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JACK-UP RIG

expensive and in short supply, and bringing one to Alaska adds logistical challenges.

To ease those challenges, Buccaneer plans to ask AIDEA for help funding the drilling program. That funding could come through one of two channels, either with a traditional AIDEA loan, or by AIDEA granting Buccaneer some unused federal stimulus money.

"We are in discussions with AIDEA and some other groups concerning the funding for a jack-up rig," Mark Landt, vice president of land and administration for Buccaneer Alaska, told Petroleum News on Oct. 19. Landt said more information about the proposal should be available soon, as applications for the stimulus funds must be made by Nov. 8.

Support needed

The Kenai Peninsula Borough received $7.315 million from the American Recovery and Reinvestment Act of 2009, and transferred some of that to the City of Kenai, but didn't use its full allocation. The unused portion returned to the state, and is administered by AIDEA through Recovery Zone Facility Bonds, a tax-exempt private activity bond.

An initial step in the application process is getting support from the original recipients of the federal stimulus dollars, the various municipalities on the Kenai Peninsula. On Oct. 20, the Kenai City Council passed a resolution to support using those unused funds to help Buccaneer Alaska "and possibly other companies" get a jack-up rig. The Kenai Peninsula Borough Assembly is expected to consider a similar resolution on Oct. 26.

The loan would likely only defray, but not cover, the cost of mobilizing a jack-up rig.

The well planned near the Kenai Municipal Airport refers to a plot of Alaska Mental Health Trust Authority and Cook Inlet Region Inc. land that Buccaneer recent leased.

Race for tax credits

If Buccaneer gets the loan and gets the rig, it could create an unexpected funding cycle.

The Alaska Legislature created a significant new tax credit created earlier this year to help bring a jack-up rig to Cook Inlet. The credit pays 100 percent, up to $25 million, of the first offshore well drilled to "the pre-Tertiary zone" in Cook Inlet, 90 percent up to $22.5 million of the second well and 80 percent up to $20 million of the third well.

The same rig must be used for all three wells, which could encourage coordination among the various Cook Inlet leaseholders looking to explore offshore targets.

The company or companies must repay must 50 percent of the credit upon production.

Therefore, Buccaneer could get a loan from the state through AIDEA that would be repaid by the state through the tax credit, at least until a well went into production.

For years, exploration companies have been trying unsuccessfully to bring a jack-up rig to explore several prospects in the upper Cook Inlet. Those include Buccaneer's proposed Southern Cross and North West Cook Inlet units, and Escopeta's Kitchen Lights unit.

Escopeta came closer to securing the rig than any other company over the past decade, but the Houston independent never successfully arranged a drilling program. Kitchen Lights is currently in limbo, though, because Escopeta recently appealed the Alaska Department of Natural Resources' decision this past July to put the unit in default.

Other companies with offshore Cook Inlet leases include ConocoPhillips, Chevron (which recently announced plans to sell its Cook Inlet assets), Cook Inlet Energy, Marathon and Apache Corp., the large Houston independent that just arrived in Alaska.

—ERIC LIDJI

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CANDIDATES

Organizations representing several of the state's major resource development industries sponsored the hour long, lunchtime debate: the Alaska Forest Association, the Alaska Miners Association, the Alaska Support Industry Alliance and the Resource Development Council for Alaska.

Sue or be sued?

Alaska voters will decide the governor's race in the Nov. 2 general election.

Parnell, who moved up from lieutenant governor to finish out Sarah Palin's term after she resigned effective July 26, 2009, is now seeking a full, four-year term. Berkowitz, an Anchorage resident and former state legislator, is trying to take the job away from Parnell.

Both are approachable and likeable guys, and despite their different party affiliations see eye to eye on some of Alaska's top oil and gas issues. Moderator Jason Brune of the Resource Development Council demanded concise answers on key questions:

Open the coastal plain of the Arctic National Wildlife Refuge to responsible oil and gas exploration and development? Berkowitz: Yes. Parnell: Yes.

Designate new wilderness areas in either ANWR or the National Petroleum Reserve? Berkowitz: No. Parnell: No.

But the two soon part company over how best to provide for Alaska's future, and to coax maximum performance out of the state's bread and butter industry.

As governor, Parnell has shown a propensity to sue the federal government when, for example, the Interior Department bans exploratory drilling on Alaska's outer continental shelf as fallout from the Deepwater Horizon disaster.

Parnell said he just might bring another suit against the U.S. Environmental Protection Agency, which he said is holding up ExxonMobil's Point Thomson project on the eastern North Slope to study noise impacts on ANWR, located just east of the field.

The governor said the state first will "work to persuade EPA that this is a crazy territory to be in, and if they do not relent, then we're going to sue EPA."

Berkowitz, however, said suing the U.S. government is not as good as Alaska showing it can make things happen for itself, responsibly.

"Here we are, we're in Wally Hickel's hotel," he said, referring to the late governor who built the downtown landmark. "I always liked it when Wally fired up the bulldozers and just threatened to start moving. That's the kind of thing we're going to do. I'd like them to sue us for a change instead of us having to sue them. That would make a marked difference in showing how serious we are about developing oil on the North Slope."

On oil taxes

One of the main flashpoints between Parnell and Berkowitz is how to go about collecting state revenue from oil and gas production, which in Alaska occurs largely on state land.

Parnell, on Oct. 15, rolled out a plan that he says would stimulate more production and jobs. He said the plan builds on his 2009 proposal to offer tax credits to encourage more drilling within existing fields.

"In order to fill our pipeline we need a more competitive tax structure," Parnell said during the debate. "The plan that I have this year is very similar, with one addition. It's a two-part plan."

First, Parnell proposes capping the progressive rise in the state's production tax rate as oil prices reach higher levels. Oil companies have been complaining, he said, saying they won't spend here because the state takes too much when oil prices are up.

Second, Parnell proposes tax credits to encourage technically challenging developments, such as producing the North Slope's vast heavy oil deposits.

Berkowitz said his own plan "is far more ambitious than the cosmetic changes that Sean offered up to you." At the debate, a Berkowitz campaign worker distributed a position paper outlining his "all-royalty" approach, where the state would negotiate with leaseholders for a share of production.

This would provide "fiscal certainty" for industry, which wouldn't have to worry about the terms changing because the deal would be a contract the Legislature couldn't undo, Berkowitz said.

"My administration will expect producers to make work commitments and take steps to protect Alaska's interests as part of the negotiated packages," his position paper said.

Parnell, however, said the Berkowitz plan is flawed because the Legislature still would have constitutional taxing powers, thus creating uncertainty.

One of the biggest frustrations for many Alaska governors has been how to achieve a second big pipeline — one to carry the North Slope's enormous natural gas reserves to market.

Brune, the debate moderator, put this question to Parnell and Berkowitz: What else should the state do to commercialize Alaska's gas?

The governor said Alaskans should wait for a set of competing pipeline proposals to play out. Two partnerships, one involving TransCanada and ExxonMobil and the other pairing ConocoPhillips and BP, have held open seasons, received bids to ship gas, and are trying to work out final deals. After that, the state will have to deal with the issue of how to tax the gas production.

The state should see the process through and not shove it off to the side, he said.

"This is not the time for a government gas line, which my opponent has proposed," Parnell said. "We need to fan the flames of the private sector, not write a check from the state for $26 billion for a government gas line."

That got a rise out of Berkowitz.

"Maybe it's convenient for you to continue to tell that story, but it's just not accurate," he told the governor.

One problem is the state's so utterly dependent on oil and gas that it's an investment disincentive for industry, Berkowitz said.

"We need to make sure that we're not using annual oil and gas revenue to sustain our state budgets the way we have. That will send an incredibly strong signal," he said, accusing Parnell of authoring some of Alaska's biggest budgets.

Another way to spur a gas line is to develop in-state demand "so we're not dependent on Outside interests consuming that gas." ●

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TYONEK CTL

thetic fertilizer. The process has more than 80 percent energy efficiency, Fiato said, requires less than 10 percent of the land area required for biomass, meets greenhouse gas requirements in military fuel specifications and is cost competitive with today's price of crude oil.

By comparison, Fiato said, current CTL or BTL technologies are relatively expensive; have low thermal efficiency; produce a nonoptimal product mix (a lot of light hydrocarbons); have greenhouse gas emissions above oil-based refining; and the biofuel option requires a large land area to grow the crop.

While ICBTL can achieve 80 percent energy efficiency, in Accelergy's "fully integrated scheme" the company can achieve over 90 percent effective thermal efficiency, he said.

"Obviously, you can say it's cheating because we're using sunlight. But in reality, if you look at the energy content of the feed, over 90 percent is coming out useful product."

Three-step process

Fiato said Accelergy has a three-step process using micro catalytic liquefaction technology developed at Exxon over a 30-year period. The process takes coal, adds hydrogen, and converts it into cycloparaffinic fuels, along with carbon dioxide.

The CO2 is captured and recycled, with algae going either back for gasification or processed into isoparaffinic fuels.

The cycloparaffins and aromatics from coal, combined with isoparaffins from biomass, provide fit-for-purpose fuels for military and civilian jets.

Compared to the Sasol process, Accelergy's ICBTL produces more barrels of fuels (4.5 per ton of coal v. 2.5 for Sasol) and less than half a ton of CO2 compared to 1.6 tons of CO2 for Sasol, Fiato said.

The other difference is in the products, with the Accelergy process producing more gasoline, diesel and jet fuel with the CO2 capture, compared to a high greenhouse gas footprint for Sasol and a low yield of gasoline, diesel and jet fuel, he said.

McClellan's presentation included figures on coal: a measured resource of 1,300 million tons of measured coal resource in the Cook Inlet area (700 million tons of proven reserves at Chuitna, another 1,100 million tons of reserves at Barrick and Skwentna).

"Take the numbers you were told for Tyonek bituminous coal alone and do the math and you'll understand the strategic significance of this," Fiato said.

—KRISTEN NELSON

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SHALE FALLOUT

abuse. Caille has since taken an indefinite leave from his job.

Despite those setbacks, Quebec Environment Minister Pierre Arcand has pledged that exploration will continue, even while his province collaborates with the Canadian government to tackle three concerns related to shale gas: climate change; emergency response to environmental disaster; and environmental assessments of major projects.

Upstream battle

Federal Environment Minister Jim Prentice, making the joint announcement with Arcand, said many provinces with potential for shale gas exploration (British Columbia, Alberta, New Brunswick and Nova Scotia are in the forefront) are looking for Quebec to lead the way.

"Other provinces will have to ensure they have regulations in place, but Quebec is very much a leader in terms of exploration of shale gas and future exploitation," Prentice said.

The two governments are clearly engaged in an upstream battle, with a poll commissioned by the environmental group Equiterre indicating 76 percent of Quebecers believe the province should suspend all shale gas activities until impact studies are complete.

Quebec Deputy Premier and Natural Resources Minister Nathalie Normandeau said it makes no sense to impose a moratorium until more is known about how it could affect the province's goal of slashing greenhouse gas emissions by 20 percent from 1990 levels by 2020.

"We don't want to develop the gas at any cost though," she said.

Economic benefits estimates

In what is emerging as one of the most passionate debates between the petroleum industry and the forces aligned against fossil fuel development, an analysis done for the QOGA by consulting firm Secor Conseil provided some of the first estimates of the economic benefits of extracting shale gas.

The study forecasts Quebec could reap more than C$1 billion a year in royalties and create 5,000 to 19,000 jobs a year over a decade, with companies paying an average C$150,000 in royalties per well based on 10 percent royalties and a gas price of $6 per million British thermal units.

While the government — which is eager to end its dependence on Alberta for gas supplies — is adamant that it will let drilling continue until it firms up industry regulations, the industry has showing its first signs of unease.

Talisman and Questerre, two leading developers of the resource on the south shore of the St. Lawrence River (an extension of shale gas stretching from

Although they did not directly pin their decision on raucous and divisive public hearings in Quebec, it's all part of the public uproar spreading across North America over fears that unconventional drilling, accompanied by hydraulic fracturing (which involves injecting chemically laced water into shale rocks) could threatened local water supplies.

Pennsylvania and New York), have stalled by at least six months plans to complete two test wells, citing high costs and lack of support services.

Public uproar

Although they did not directly pin their decision on raucous and divisive public hearings in Quebec, it's all part of the public uproar spreading across North America over fears that unconventional drilling, accompanied by hydraulic fracturing (which involves injecting chemically laced water into shale rocks) could threatened local water supplies.

Earlier this year, Questerre claimed that drilling results indicated Quebec's Utica shale resource is among the top 10 shale deposits in North America.

But Questerre Chief Executive Officer Michael Binnion has suddenly decided there is no rush to achieve commercial development, arguing the decision to put Quebec programs on hold stems from a combination of depressed gas prices and reduced exploration budgets in high-cost regions.

He said operating costs in Quebec can run to C$15 million for a single horizontal well, two to three times higher than British Columbia, Texas or Pennsylvania, partly because Quebec does not have a homegrown service sector and must import rigs and rig hands.

Binnion said companies would need to invest about C$500 million to complete 50 wells to gain an economy of scale in Quebec, but that needs an overhaul of government regulations.

Price rise needed

Based on some estimates, natural gas prices would have to rise to US$5.50 per thousand cubic feet — US$2 above current levels — for companies to make a profit from the Utica shale.

A Talisman spokesman said the big independent, which has just formed a joint venture with Norway's Statoil to buy 97,000 acres of the Eagle Ford shale of south Texas for US$1.33 billion, has decided to defer some if its Quebec plans because of high drilling and fracking costs.

"We need to be more thoughtful and do it later at a lower cost," he told the Globe and Mail.

Whatever the underlying reason, the stiff opposition from residents and environmentalists is likely to be emboldened by the actions of Talisman and Questerre and a University of Toronto report released Oct. 14 arguing that provincial and federal regulations covering fracking have not kept pace with shale development.

"Wherever the shale industry has invaded rural communities, controversy about water use, groundwater contamination and the regulation of the industry has doggedly followed," said the study.

Groundwater study under way

Partly to deal with some of the concerns, Geoscience B.C. has launched a C$950,000 study of regional groundwater resources in the Montney formation of northeastern British Columbia, supported by companies such as Encana, Devon Energy, Shell Canada and Talisman. The objective is to identify non-potable water sources that could reduce the need for freshwater surface withdrawals to support gas development.

Questerre has published its own "fact sheet" outlining its water usage and fresh water protection techniques for the Utica shale.

Binnion said his company plans to recycle and reuse as much as 100 percent of the water recovered from fracking operations, which is about 30 to 50 percent of the total water used, arguing that amounts to less than 1 liter of water per day to heat a home with gas from Utica, compared with the average household consumption of 400 liters a day.

Regardless of the moves by Talisman and Questerre, Montreal-based junior explorer Gastem — which is involved with several partners — said it plans to announce a new shale gas operation in Quebec before winter, aiming to prove it can profitably recover the gas it has discovered.

But Calgary-based Canbriam, which has drilled three horizontal wells in Quebec, said there are simply better places than the St. Lawrence River region, opting instead to drill more advanced plays in British Columbia's Montney and Horn River areas. ●

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RDC TALK

the state, and lower TAPS tariffs per barrel. These resources, such as heavy oil, can serve as the primary new production source to stem the decline in North Slope production and potentially increase production above today's level."

Point Thomson

Parnell also said that, with the state viewing a North Slope gas line as a key future contributor to the Alaska economy, his administration is working to resolve ligation between the state and ExxonMobil over the huge Point Thomson gas condensate field — natural gas from Point Thomson will be critical in the economics of the gas line.

"I've been personally engaged in discussions to resolve that litigation and I'm positively optimistic that we'll get there soon," Parnell said. "We all understand the importance of Point Thomson gas to any pipeline project."

Once the Point Thomson litigation is resolved and there are firm agreements between a pipeline sponsor and prospective gas shippers, the state will consider fiscal issues associated with the gas line, he said.

Asked to respond to Parnell's statements, David Eglinton, spokesman for Point Thomson operator ExxonMobil, told Petroleum News Oct. 18 that ExxonMobil is continuing a dialogue with the state.

"We are continuing to work with the State of Alaska to resolve outstanding issues but more work still needs to be done," Eglinton said.

Parallel with tourism

In announcing his tax proposals Parnell drew parallels between the state's policies towards the oil industry and the state's tourism agenda. The cutting of taxes on tourism, the introduction of more sensible environmental regulation and the active marketing of Alaska as a tourist destination have all started bear fruit, with Princess Cruises, for example, announcing the addition of another ship to its Alaska-bound fleet, he said.

"This travel industry template for success, I believe, can be used to bring more oil exploration and development jobs to Alaska," Parnell said. "… I have personally communicated with companies my willingness to move forward with positive changes on ACES."

However, Parnell said that he also needs to see the oil companies testify publicly on how the tax changes will improve Alaska's competitiveness as an oil province.

"If Alaska business owners and employees join with other taxpayers, much like the Alaska travel industry did, we can create more jobs for Alaskans in the oil patch," Parnell said. "The only thing I require is that the industry, in the public forum of the Legislature, joins me in making the compelling case for competitiveness and jobs for Alaskans."

Parnell told Petroleum News that his administration is still working on the specifics of the tax changes, with a view to filing proposed legislation in the coming months.

"I'm starting this discussion right now," Parnell said. "I want this discussion to be had now so that we're ready for it when the legislative session comes."

According to the Alaska Department of Revenue, the base rate for the ACES production tax is 25 percent of a company's net profit on oil production, with a surcharge on profits in excess of $30 per barrel. Currently, the surcharge increases the base rate by 0.4 percent for each additional dollar in profit, dropping to 0.1 percent per additional dollar at profits in excess of $50 per barrel. The tax rate tops out at 75 percent.

Taking aim

Parnell's tax announcement came part way through a belligerent speech in which the governor took aim at the federal government and environmental organizations for what he said was "an unprecedented assault … to lock up Alaska's resources."

With the federal government facing a massive fiscal deficit, Alaska has a wide array of resources, ranging from oil and gas to renewable energy sources, fishing and tourism to "lead the nation out of the sea of red ink," Parnell said.

But a one-size-fits-all approach to environmental regulation, and over-zealous permitting, have hit the brake pedal when it comes to resource development.

"Alaska's future is at stake," Parnell said. "If we give up the right to responsibly develop our resources without a fight, we surrender our state sovereignty and our economic potential. We must develop our resources and we will."

And Parnell cited the impasse over the permitting of oil development in the National Petroleum Reserve-Alaska; the outer continental shelf drilling moratorium; potential wilderness designations in the Arctic National Wildlife Refuge; the slowdown in the environmental impact statement preparation for Point Thomson; "thousands of Endangered Species Act protections"; and the designation of thousands of square miles of ESA critical habitat as examples of federal roadblocks to Alaska development.

"Every day some federal agency seeks to shut us up and lock us down, preventing that job growth that we so desperately need," Parnell said.

However, the state is successfully fighting back, he said, commenting that he doesn't apologize for any of the lawsuits that the state has filed against the federal government.

Endangered Species Act

Parnell said that the state is adopting a two-part strategy to address Endangered Species Act listings and their possible impacts on resource development.

Firstly, the state is being vigilant in identifying species that are potential targets for listing — as necessary the state is adopting its own protective measures, while also working with federal officials to develop agreements over species protection. Secondly, the state is facilitating ESA-related communications by ensuring that federal regulators have access to state information and expertise, while the state works towards the down-listing or de-listing of listed but recovered species, Parnell said.

Alaska has been recruiting allies in other states to address ESA questions. And the state administration has proposed an increase in the Department of Law budget, to deal with ESA issues, Parnell said.

Permitting

When it comes to permitting, ConocoPhillips could receive its needed U.S. Army Corps of Engineers permit, to move forward with its CD-5 development in NPR-A, if the Environmental Protection Agency can accept the views of local villages, the Native tribes, the Native corporations and the state on the single permitting issue that is obstructing development, Parnell said.

And the Department of Interior needs to give the go-ahead to Shell's planned drilling on the outer continental shelf.

"We need swift action by Secretary Salazar to approve drilling permits," Parnell said. "We need the Environmental Appeals Board to approve their air permits."

And meantime the state is moving ahead on projects to build access roads for resource development, including a road to Umiat in the Brooks Range foothills.

It will take everyone "getting in the game" to grow the Alaska economy through tax changes, improvements in the permitting regime and improved land access, Parnell said.

Expedited hearing on Arctic moratorium

The U.S. Court for the District of Alaska has agreed to an expedited hearing in the State of Alaska's lawsuit against the Department of the Interior's ban on oil drilling on the Arctic outer continental shelf.

The state has taken legal action over the drilling ban on the grounds that Interior has imposed an Arctic drilling moratorium without going through a legally required public process, without consulting the state and without considering the economic actions of the ban. And the state has requested an early decision in the case, so that Shell can make a timely decision about whether to proceed with its planned Alaska Arctic offshore drilling in the summer of 2011.

In an Oct. 15 order the court said that it requires responses to the request for expedited judgment by Nov. 5, with replies to the responses due by Nov. 12. ●

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