Petroleum news

page 3 Stedman says SB 21 moves too much cash; time to dump AGIA

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May Mining News inside

The May issue of North of 60 Mining News is enclosed.

Expansion of Oooguruk Nuiqsut PA approved, adding 39M barrels

The State of Alaska has approved a 2,400-acre expansion of the Nuiqsut participating area at Pioneer Natural Resources Alaska's North Slope Oooguruk field.

The expansion is projected to add 39 million barrels of recoverable crude oil to the original participating area estimate of 45-102 million barrels from primary production and secondary recovery with waterflood and water-alternating-gas mechanisms.

The approval came in a May 14 decision by the Alaska Department of Natural Resources' Division of Oil and Gas.

The Nuiqsut participating area was approved in 2009 and Pioneer applied for the expansion in May 2012.

see **PIONEER EXPANSION** *page 17*

USCG issues a strategy for future Arctic operations by the agency

Having ramped up its operations in recent Arctic open water seasons, as vessel traffic and industrial activity in the region increases and sea ice diminishes, the U.S. Coast Guard has published a strategy for the agency's future Arctic presence.

"This document is a theater strategy for the U.S. Coast Guard's operations in the Arctic region," the introduction to the strategy says. "It is not an implementation plan. This strategy will guide efforts to accomplish organizational objectives in the region by leveraging the Coast Guard's unique capabilities, authorities and partnerships."

The strategy sets out three primary goals: improving the Coast Guard's awareness of what is happening in Arctic waters, modernizing the governance of Arctic maritime activities and

see **ARCTIC STRATEGY** *page 17*

EXPLORATION & PRODUCTION

Parnell's challenge

Alaska governor rolls out exploration proposal for ANWR coastal plain

By WESLEY LOY
For Petroleum News

Alaska Gov. Sean Parnell is proposing the state and federal governments partner on an oil and gas exploration campaign on the coastal plain of the Arctic National Wildlife Refuge.

To help pay for it, Parnell says he'll ask state legislators to chip in $50 million.

GOV. SEAN PARNELL

The goal, says the governor, is to better define the oil and gas potential of the coastal plain, long believed to be one of North America's best chances for an elephant discovery.

Parnell pitched the exploration proposal to Sally Jewell, the Obama administration's new interior secretary, in a May 18 letter.

The proposal could be a political masterstroke — or just another tilt at the windmill.

Alaska's elected officials have tried all sorts of strategies over the years to open ANWR to drilling. A big oil find could shower the state with billions of dollars in new revenue.

But only Congress can authorize oil exploration, and for decades the votes have either fallen short or run into a presidential veto. Meantime, ANWR protection has become one of the top causes for national environmental groups.

In fact, drilling proponents at the moment are fearful protectionists might win wilderness designation for the coastal plain, which would have the

see **PARNELL'S CHALLENGE** *page 20*

EXPLORATION & PRODUCTION

An evolving situation

Shell official tells hearing about the events leading to the Kulluk grounding

By ALAN BAILEY
Petroleum News

The nightmare began around mid-day on Dec. 27 when the towline parted between Shell's anchor handling vessel, the Aiviq, and the Kulluk, the company's floating drilling platform, leaving the Kulluk adrift in the Gulf of Alaska with a crew of 18 on board. The Aiviq had been towing the Kulluk from Dutch Harbor to a shipyard on the U.S. West Coast for winter maintenance, following the rig's use by Shell for drilling in Alaska's Beaufort Sea during the 2012 Arctic open water season.

The ensuing chain of events that led to the

see **KULLK HEARING** *page 18*

U.S. COAST GUARD

The Kulluk, Shell's Arctic floating drilling platform, ran aground on the shore of Sitkalidak Island on the evening of Dec. 31.

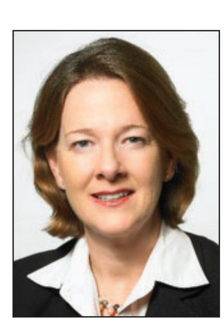
GOVERNMENT

Peace overtures renewed

Alberta once again reaches out to British Columbia on unresolved pipeline issues

By GARY PARK
For Petroleum News

Alberta Premier Alison Redford made the first overture. "I know we can do more together," she said.



ALISON REDFORD

CHRISTY CLARK

Her Energy Minister Ken Hughes declared: "This is not a time for hard positions or difficult conversations. This is a time for all of us to reflect upon what we have in common ... and being open to how things evolve."

Noble words that have Alberta's oil sands producers and Canada's energy pipeline companies holding their breath and crossing their fingers.

So far, the object of all these hopes, British Columbia's newly elected Premier Christy Clark, is biding her time and she can afford to.

On the question of whether Enbridge and Kinder Morgan will be able to build pipelines from the oil sands to the British Columbia coast, Clark holds the sway.

Having overcome the pollsters and pundits and

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● GOVERNMENT

Stedman: SB 21 moves too much cash

Sitka Republican argues legacy Slope fields economic without tax change; says HB 4 a good step, argues it is time to dump AGIA

By **STEVE QUINN**

For Petroleum News

Sen. Bert Stedman advocated for tax reform, just not Senate Bill 21, which Gov. Sean Parnell made official on May 21.

Stedman is a holdover from the old guard — meaning members of the Senate's majority caucus from the 2011-12 Legislature — who wanted a change, but he believes the formula approved this session is the wrong one.

Stedman, a Sitka Republican, will have a busy interim serving as chairman for Energy Council.

After lawmakers adjourned, Stedman spoke with Petroleum News, offering thoughts on resource development legislation and how Energy Council's work this year connects to the state's efforts to bring oil and gas to market.

Petroleum News: Why didn't you support SB 21 on final passage or on the concurrence vote?

Stedman: The reason I don't support the bill is that it moves too much money in the legacy fields in already economic areas. I think we are within a reasonable range in the uneconomic regions, the outlaying areas. We are on the low end of the acceptable range, but we are within the range. My concern is Prudhoe and Kuparuk where the oil is and the cash margins are, and the hurdle rates are already met. We're moving too much cash — at $100, $110 and $120s. You can see it in 2012 numbers. If you ran this tax bill through 2012 in Prudhoe and Kuparuk, it would be $1.7 billion. It's not going to be exact, but if you get the direction and the magnitude, both of them tell me we are moving too much net cash that doesn't need to be moved. I understand the interest of all three parties involved: the federal government, the industry and the state, the sovereign — all like net cash. I understand that.

Petroleum News: What would you have recommended as far as a formula to make Alaska competitive?

Stedman: Alaska is competitive. There are areas where we're at a disadvantage. To say Alaska is not competitive has more to do with politics than it does with finance. I'm talking about the legacy fields, not areas where they can't meet their hurdle rates in their analysis. We all recognize those areas within ACES (Alaska's Clear and Equitable Share) are dysfunctional. They don't meet their rates. Part of the problem is the excessive slope of progressivity or the marginal increase in government share at high oil prices. There was a lot of leverage off of that issue to move a lot of cash that didn't have to be moved. If the initiative or referendum process that's under way to roll it back — time will tell, I don't know — but clearly there is some interest in having the public vote on it. It will be interesting to see how that's rolled out.

You have to take the tax issue and parse it out. You've got your legacy fields. You've got your new areas. And you need to fix what's broken. My concern is they moved too much cash in areas that were not broken.

And there is a lack of analysis as far as how many barrels will be needed and over what timeframe to compensate for that. I will be very surprised if they can get more out of the basin off the normal historic decline curve with tax policy.

SEN. BERT STEDMAN

In other words, when we are pumping 600,000 barrels a day off state lands, then this is a success: or 580,000; or 575,000 — the high five hundreds.

Petroleum News: Is there anything you would have done that would have addressed boosting production? What are some of your alternatives?

Stedman: The overall structure of the bill is good. The GRE or gross revenue exclusion — you can name it anything you want — but that mechanism works. I like the idea of having some allowance tied to production versus capital expenditures. I think that is good. I'm not excited about the 10 percent GRE that can be secured if you have royalties above 12.5. I think that's a little excessive. Don't mix up the issue of the bill versus the cash cow. Fix the broken parts of the structure, but you better keep your eye on your cash cow or your cash cow is going to be sitting in somebody else's piggy bank. The citizens of the state own that oil, and it's a finite resource in an internationally driven economy and we should be compensated on an international scale. That's my fundamental concern for the bill itself. And if I was on the other side of the table, I would want as much out of Prudhoe and Kuparuk as I could get. That's just business.

But when you have a 30-year-old field and depreciated assets, one of the largest conventional oil fields in America, one of the top elephant fields in the world, that's a very valuable resource. I think it's underestimated, in my opinion, the value that we're sitting on and its opportunity.

Petroleum News: Switching to House Bill 4. You did vote for that. Was it an endorsement of HB 4 or an indictment on AGIA (Alaska Gasline Inducement Act)?

Stedman: I would say it's an endorsement of HB 4. I don't think AGIA worked. I didn't support the proposal, the licensing. This is in some respects, AGIA light, but in other respects it's the removal of the AGIA amendments. I don't think it's going to go forward and get built; I don't think it's going to get us a project. I personally believe the Big Three are going to deliver an in-state gas project. I think it's in the money. You look at the timeframe our basin has been open, you look at the economics in the Pacific for energy with Korea and Japan needing an energy supply of natural gas, and the potential in Hawaii with the ability of no choke points in the delivery of this across the Pacific where the Navy can protect our shipping lanes. I think the time has arrived when this project is going to move forward.

Switching back to HB 4, the work done in HB 4 for a little in-state line, which is not really a little project — it's a huge mega project and it's a big line by itself — a lot of that won't be wasted money. It will be used and this will hopefully push the construction date of a main gas line forward a year. And if by chance, the big export line does not work, then we have a framework and we can have a discussion to see if we want to take this forward and bring that Arctic gas to Southcentral and feed Conoco's plants in Nikiski. If I was a betting man, and if we would have an in-state gas line coming, it's going to be part of the big line.

Petroleum News: Is anything with AGIA working?

Stedman: Working as far as a vacuum out of the treasury for more than $200 million. I'm a not a fan of AGIA as you can tell. I haven't really looked at AGIA this winter or spring. We should fold that project up, move away from it and move on. It was a bad economic policy to try to dictate to the industry to move a project forward. It was ill-conceived, ill-exe-

see **STEDMAN Q&A** page 15

● GOVERNMENT

Arctic gets economic push

Eight-nation council signs binding pact on oil spill response measures, sets stage for business forum, bars Greenpeace as observer

By GARY PARK
For Petroleum News

The eight-nation Arctic Council signed a legally binding pact in Sweden earlier in May on oil spill prevention measures while also placing the spotlight on "creating economic development" in the region.

Leona Aglukkaq, a Canadian government cabinet minister who has started a two-year term as council chairman, made no secret of her ambition to see resource development for the benefit of northerners, including indigenous peoples of Canada, the United States, Russia and the Nordic countries.

"A lot of work went into the (oil spill response deal)," she said. "It's the first binding agreement of this nature in the Arctic region and we'll be building on the prevention side in the next two years."

Aglukkaq said the Canadian government is fully behind Arctic economic development, provided it is conducted in an environmentally responsible manner.


LEONA AGLUKKAQ

But she also insisted "It's time to make sure science is relevant ... to improve the well-being and the prosperity of people who live in the Arctic."

Aglukkaq, who was raised in the tiny Nunavut community of Gjoa Haven, said a pan-Arctic business forum will be launched by Canada later this year as a major initiative to spur trade and development by sharing entrepreneurial success among nations ringing the Arctic.

Six granted observer status

Six nations — China, India, Italy, Japan, South Korea and Singapore — were granted observer status on the council, with Aglukkaq welcoming their interest in development, shipping and trade, although she insisted their presence will not "diminish or dilute" the power of the eight full members.

In another indirect message to opponents of resource development, Canada (using its right of veto) effectively blocked admission of the European Union because of the EU's ban on seal meat and fur, while the council denied requested observer status for non-governmental organizations such as Greenpeace.

Aglukkaq said groups such as Greenpeace protest all the time, despite the fact that Arctic development is being reviewed by appropriate government bodies prior to approval.

She also noted that the council issued a joint statement on the "urgent" global need to prevent human activity from causing average warming of more than 2 degrees Celsius above pre-industrial levels and expressing concerns about the "rapid changes in the climate and physical environment of the Arctic with widespread effects for societies and ecosystems and repercussions around the world."

The Canadian branch of Greenpeace has called for a moratorium on drilling for fossil fuels in the Arctic, declaring it will "not stand by and let the government (of Prime Minister Stephen Harper) use the next two years to advance its destructive industrial agenda at the Arctic Council."

"If Harper plans to do to the Arctic what he's done to Canada, anyone who cares about the future of this fragile region should be scared," said Christy Ferguson, Arctic campaign coordinator of Greenpeace Canada.

This little-recognized council has vaulted on to the international stage as melting Arctic ice has opened up vast reserves of minerals, oil and gas for potential exploitation. By some estimates, 90 billion barrels of oil and one-fifth of the planet's untapped natural gas lie beneath the Arctic Ocean.

Joint industry program

Separately, the London-based International Association of Oil & Gas Producers, whose member companies account for more than half the world's oil output, is promoting the significant advance of industry efforts to improve the handling of oil spills in Arctic environments.

A joint industry program has made progress in the past year to focus on key areas of research by the association, which is funded and supported by companies such as BP, Chevron, ConocoPhillips, ExxonMobil, Shell, Statoil and Total.

The initiative is probing what happens to oil when it disperses under ice, the environmental impacts of spills and the trajectory of spills in icy environments, while studying the effectiveness of remote-sensing to detect spills, the mechanical recovery of oil in ice and the controlled burning of oil. ●

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LAND & LEASING

Polar to buy Point Thomson area leases

Polar Petroleum (Alaska) Corp. is looking to buy a plot of leases north of Point Thomson.

The small independent recently signed a letter of intent to purchase 100 percent working interest in 12 leases north of the ExxonMobil-operated unit on the eastern North Slope.

Polar Petroleum currently operates the Hemi Springs prospect south of Prudhoe Bay and a lease farther to the south that it calls the Franklin Bluffs prospect. The company must drill a well on its leases within two years of closing (presumably in early to mid-2015).

Donkel Oil & Gas originally acquired the tracts in a 2011 lease sale. Polar Petroleum also acquired its initial Alaska North Slope acreage from Donkel Oil & Gas, earlier this year.

The company is calling the new prospect North Point Thomson.

—ERIC LIDJI

FINANCE & ECONOMY

European Commission investigating oil benchmark prices

Officials want to see if companies are manipulating oil trades or data, to influence benchmark oil prices such as Brent crude

By ALAN BAILEY
Petroleum News

The European Commission, the executive branch of the European Union, announced on May 14 that its officials had conducted unannounced inspections at the premises of several companies involved in the oil industry in Europe. The commission said that it had "concerns that the companies may have colluded in reporting distorted prices to a price reporting agency to manipulate the published prices for a number of oil and biofuel products." The commission also expressed concern about the possibility that some companies might have prevented other companies from participating in the price assessment process.

According to several media reports oil companies being investigated consist of BP, Shell and Statoil. And, apparently, the "price reporting agency" under investigation is Platts, the division of McGraw Hill Financial that provides daily benchmark prices such as Brent crude and West Texas Intermediate. On May 20 the Financial Times reported that the commission had also requested information from several major commodity trading firms.

Widely used

Oil benchmark prices are widely used in setting prices for a variety of oil related products, including various types of crude oil, refined oil products and biofuels — even small distortions in benchmark prices could have a large impact on the prices of these products, the commission said.

However, the commission commented that the fact that it is carrying out inspections does not indicated that any company is guilty of malpractice. There is no specific deadline for completion of the investigation and companies have the right to defend themselves in the event of any antitrust action, the commission said.

The investigation follows the 2012 Libor scandal, in which several prominent banks were found to have manipulated reported interbank lending rates for financial gain. That scandal has presumably left regulators particularly sensitive to the possibility of malfeasance in other high-impact financial reporting systems.

However, the reporting of a crude oil benchmark such as Brent involves a different process than did the reporting of Libor interest rates. In the case of Libor, bank executives were reporting their assessments of interest rates, based on an honor system involving trust in the integrity of the people involved. Oil price benchmarking, by comparison, involves the daily assembly of price data relating to actual oil trades.

Unregulated

But, with the benchmarking process unregulated and billions of dollars at stake, the European Commission is clearly worried about the possibility of price manipulation through, for example, the execution of carefully timed bogus trades or the misreporting of trading data.

According to information published by Platts about its price assessment methods, the daily assessment of the Brent crude price, perhaps the most widely used of the oil price benchmarks, involves the gathering of data about trades in four North Sea crude oils: Brent, Forties, Oseberg and Ekofisk crudes. Brent crude, which originally was the only oil used for the benchmark, remains the primary crude in Platt's Brent pricing formula. But, with Brent production having declined over the years, the reporting agency uses the other three crudes, all with similar oil compositions to Brent, as checks against the price of Brent oil itself become disconnected from the prices of similar crudes.

Market on close

In pricing the oil Platts uses what is referred to as a "market on close" proce-

see **PRICE PROBE** page 6

NATURAL GAS

India's H-Energy unveils Canadian LNG

One of India's largest privately held corporations has disclosed more details of its plan to export LNG from the Canadian province of Nova Scotia.

Just days after reaching an agreement with the Nova Scotia government, H-Energy rolled out the details of a C$3 billion LNG liquefaction plant and export terminal on the Atlantic Coast including three trains, each with a nameplate capacity of 4.5 million metric tons a year.

H-Energy said it considered locations in Quebec, New Brunswick and British Columbia before opting for Nova Scotia because of the province's deepwater ports and a pipeline that delivers 440 million cubic feet per day of gas from the offshore Sable field.

The initial facility would require 1.5 billion cubic feet per day of feedstock gas, with the Marcellus play in the northeastern United States seen as a prime source, although sources in Atlantic Canada are also under consideration.

H-Energy is part of Mumbai-based Hiranandani Group, which is building an 8 million metric tons per year regasification port in India to help meet the country's existing demand which is rising to about 12 million metric tons a year.

Currently gas in India is valued at US$15-US$20 per million British thermal units, compared with US$3-US$4 in North America.

H-Energy said LNG from Canada could be shipped to Latin America and Europe as well as India.

Darshan Niranandani, managing director of H-Energy, said construction could start in 2016, with operations to start in 2020.

He said the Nova Scotia facility would be similar in size to the C$5 billion LNG plant and expert terminal that Calgary-based Pieridae Energy is planning to build at Goldboro, Nova Scotia.

Stephen Lund, chief executive officer of Nova Scotia Business Inc., a government agency that tries to attract companies to the province, said there is a global demand for North American gas.

"Facilities will be built in North America. I don't think anyone would dispute that. The question is where they are going to be? Why not Nova Scotia?" he said.

H-Energy said it considered locations in Quebec, New Brunswick and British Columbia before opting for Nova Scotia because of the province's deepwater ports and a pipeline that delivers 440 million cubic feet per day of gas from the offshore Sable field.

—GARY PARK

NATURAL GAS

DOE approves second LNG export license

Conditional approval given for export to non-FTA countries from Freeport LNG Terminal; term 20 years; rate up to 1.4 bcf per day

By KRISTEN NELSON

Petroleum News

The U.S. Department of Energy Office of Fossil Energy has conditionally approved liquefied natural gas export from the Freeport LNG Terminal on Quintana Island, Texas, to countries that do not have a Free Trade Agreement with the United States.

DOE had approved LNG export from the facility to FTA countries in February 2011.

The approval, for an export rate of up to 1.4 billion cubic feet per day for 20 years, is conditional subject to environmental review and final regulatory approval.

The department has numerous applications in queue and said it would evaluate applications case by case based on the public interest.

The applicant, Freeport LNG Expansion L.P. and FLNG Liquefaction LLC, referred to in the department's order as FLEX, requested a 25-year term, commencing when export operations begin.

DOE said because the NERA Economic Consulting study — one of two

> *"The market of the future very likely will not resemble the market of today."* —Department of Energy

commissioned by DOE on LNG export — "contains projections over a 20-year period beginning from the date of first export, we believe that caution recommends limiting this conditional authorization to no longer than a 20-year term beginning from the date of first export."

DOE is also requiring as a condition of the authorization that FLEX begin LNG exports using its Liquefaction Project facilities within seven years of the May 17 date of issuance of the order. The department said that condition "is to ensure that other entities that may seek similar authorizations are not frustrated in their efforts to obtain those authorizations by authorization holders that are not engaged in actual export operations."

In May 2011 DOE issued its first long-term authorization to export domestically produced LNG to non-FTA countries to Sabine Pass Liquefaction LLC. That authorization was for 2.2 bcf per day. The initial order was conditional; DOE granted final authority for Sabine in August 2011.

Numerous applications

DOE said when it began considering the FLEX application in 2011 it was expecting more applications and in that same timeframe received an application from Lake Charles Exports LLC. The combined Sabine, FLEX and Lake Charles applications totaled up to 5.6 bcf per day.

The department now has 20 applications for long-term export of LNG to non-FTA countries pending, totaling some 26 bcf per day, and will continue to process applications on a case-by-case basis.

Because of the potential cumulative impact of pending and anticipated LNG export applications, DOE in 2011 engaged the U.S. Energy Information Administration and NERA Economic Consulting to conduct a two-part study of the economic impacts of LNG exports.

The EIA study was published in January 2012; the NERA study in December 2012.

DOE said that based on a review of the complete record it has concluded that opponents of the FLEX export application "have not demonstrated that the requested authorization would be inconsistent with the public interest."

DOE said it finds that exports proposed by FLEX "are likely to yield net economic benefits to the United States" and that granting the export authorization "is unlikely to affect adversely the availability of natural gas supplies to domestic consumers or result in natural gas price increases or increased price volatility such as would negate the net economic benefits to the United States."

Sufficient natural gas

DOE said FLEX "introduced substantial evidence projecting a future supply of domestic natural gas sufficient to support both the proposed export authorization and domestic natural gas" and no commenters or intervenors "submitted contrary studies."

While the FLEX evidence "indicated a modest increase in the domestic market price for natural gas through 2035," the application "also demonstrated significant local and regional economic benefits in terms of employment and income."

APGA, the American Public Gas Association, protested FLEX's application, contending "that export of substantial quantities of natural gas, such as that proposed by FLEX, may have significant adverse implications for domestic natural gas consumers, domestic energy supply, and natural security."

DOE said the APGA protest — the only one it received in response to its notice of application — "was not supported by any significant analysis and, to the extent the arguments raised in APGA's protest constituted substantial evidence, that material did not identify meaningful errors or omissions in the studies submitted by FLEX."

Benefits from export

DOE said the LNG export study it commissioned "provides substantial additional support for conditionally granting" the FLEX application, with the study concluding the U.S. "will experience net economic benefits from issuance of authorizations to export domestically produced LNG."

DOE also said its decision was not based on an uncritical acceptance of the LNG export study, but said that in general it "continues to subscribe to the principle set forth in our 1984 Policy Guidelines that, under most circumstances, the market is the most efficient means of allocating natural gas supplies."

The department concluded that "the best available evidence supports the conclusion that FLEX's proposed exports will benefit the U.S. economy overall and are consistent with the public interest."

DOE said it "will assess the cumulative impacts of each succeeding request for export authorization on the public interest with due regard to the effect on domestic natural gas supply and demand fundamentals."

Proceeding cautiously

In saying that it would proceed cautiously, DOE noted that the LNG export

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PRICE PROBE

dure, involving the gathering of data about oil trades that take place during a specified time window at the close of the appropriate oil market each day — in the case of the Brent price that pricing window in the London market lasts from 4:10 p.m. and 4:25 p.m. London time. In the absence of suitable trades Platts uses other indicators such a price differentials with other crude prices such as those of West Texas Intermediate, Platts says.

And to guard against attempts at benchmark price manipulation by a trader making a single trade at a high or low price, Platts tests whether a trader has made repeated trades at unexpectedly high or low prices, rather than executing just a single oddly priced transaction, Platts says in its published methodology. ●

Contact Alan Bailey at abailey@petroleumnews.com

● FACILITIES

Kuukpik permitting Nuiqsut spur road

By KRISTEN NELSON
Petroleum News

A project related to ConocoPhillips Alaska's development of CD-5 in the National Petroleum Reserve-Alaska is in the permitting process with the U.S. Army Corps of Engineers.

Kuukpik Corp., the village corporation for Nuiqsut, is permitting the 5.8 mile Nuiqsut Spur Road which would connect the village of Nuiqsut with the proposed CD-5 road.

The Corps said the road would provide increased subsistence user access to subsistence resources, provide mitigation for potential impacts from CD-5 development and future satellite oil development and allow villagers the opportunity for increased employment and business opportunities at the nearby ConocoPhillips Alaska-operated Alpine development.

The project includes a storage pad to meet the existing needs of a Kuukpik Corp. subsidiary, Nanuq Inc., "for locating a concrete batch plant, aggregate stockpile, and storage of equipment and an exploration camp," the Corps said.

The projects require a Corps permit for placement of 455,000 cubic yards of clean gravel fill material onto 51 acres of wetlands.

The spur road would connect the existing Nuiqsut Dump Road with ConocoPhillips Alaska's proposed CD-5 access road. The 0.8-mile Nuiqsut Dump Road would be improved to match the new spur road width and surface. The 10-acre storage pad would be at the junction of the spur road and the CD-5 access road.

2008 MOA

In a 2008 memorandum of agreement with the Native Village of Nuiqsut, ConocoPhillips Alaska "agreed to provide substantial financial, design, and permitting assistance to construct the Spur Road," the Corps said. The road would mitigate loss of hunting areas resulting from Alpine satellite development.

Material for the road would come from the ASRC/Kuukpik Colville River gravel mine.

Several proposed mitigation measures are part of the road-pad permit application: use of recent habitat mapping to site road away from higher value areas with most road construction, except for culvert installation, taking place in winter from ice roads; minimization of road width from 30-32 feet wide to 24-feet wide with culverts installed to minimize drainage interruption or changes to normal surface flows; and compensatory mitigation which involves Kuukpik Corp. putting into preservation status a 76.5-acre parcel in the Fish Creek drainage some 14 miles north-northwest of Nuiqsut. The Corps said the parcel is within NPR-A, may contain mineral resources, but is used for insect relief by caribou and is a high-density nesting area for shore birds and waterfowl. Traditional Inupiat subsistence uses would be allowed on the parcel, the Corps said. ●

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EXPLORATION & PRODUCTION

Buccaneer sets casing at Cosmo

Buccaneer Energy Ltd. has run and cemented surface casing at its Cosmo No. 1 well.

The Australian independent said the offshore well has reached 800 feet as of May 20, the depth planned for surface casing. Buccaneer plans to drill to a target depth of 8,000 feet.

The company plans to set intermediate casing at the top of the Tyonek formation at 2,000 feet as well as at 6,000 feet before drilling through the oil-bearing Starichkof sands.

The Cosmopolitan prospect is off the coast of Anchor Point.

—ERIC LIDJI

EXPLORATION & PRODUCTION

All state areas closed for tundra travel

All state lands on Alaska's North Slope were closed for tundra travel as of May 20.

Closures began May 13 when the Alaska Department of Natural Resources closed the Lower Foothills opening area to all off-road travel activities, with a 72-hour window for completion of all off-road travel currently in progress in the area.

The upper Foothills and western coastal tundra opening areas were closed May 17.

The upper Foothills and western coastal tundra opening areas were closed May 17.

DNR's Division of Mining, Land and Water said temperatures in the upper Foothills and western coastal tundra opening areas had periodically been above freezing during the day with the thermal gain from prolonged sun exposure causing variable levels of snow deterioration in the areas.

Closures were complete May 20 when the division closed the eastern coastal area. As with the previous closures, the division said above-freezing temperatures during the day and resulting thermal gain had caused snow deterioration in the area.

Summer off-road tundra travel is scheduled to begin July 15 but "applies only to those holders of valid permits who obtain specific project approval and is further limited to those vehicles approved by the Division of Mining, Land and Water for summer off-road travel," the division said.

—PETROLEUM NEWS

NATURAL GAS

FNG challenges Spectrum case

As it seeks to expand its service area in the Interior, Fairbanks Natural Gas LLC is saying that another player in the liquefied natural gas game should not become a party to the case.

In recent filings with the Regulatory Commission of Alaska, Spectrum Alaska LLC asked to join the case, saying its proposed LNG facilities on the North Slope could someday serve customers the area into which Fairbanks Natural Gas hopes to expand. The area includes North Pole, Eielson Air Force Base and less-populated areas in the vicinity.

"Spectrum wishes to raise issues that have nothing to do with this docket. If Spectrum wishes to raise these issues, it should do so in a separate proceeding," Fairbanks Natural Gas wrote to the RCA May 13. Among those issues, according to Fairbanks Natural Gas, is the question of open access. Spectrum said the RCA should take special care to ensure Fairbanks Natural Gas operates as an "open access" utility. Fairbanks Natural Gas said the point is irrelevant because third parties can already pay to use the system and because open access covers the entire service area rather than the expansion area in question.

Additionally, according to Fairbanks Natural Gas, the service area expansion would not prevent Spectrum from accessing potential customers in the region. "If Spectrum wishes to serve customers in FNG's service area with an LNG truck, it can do so now, and it will be able to do so after the grant of FNG's application," Fairbanks Natural Gas wrote.

—ERIC LIDJI

● ENVIRONMENT & SAFETY

New oil skimmers heading for Cook Inlet

Citizen's Advisory Council says modern high capacity disk skimmers will replace older style skimmers for oil spill contingencies

By **ALAN BAILEY**
Petroleum News

A new state-of-the-art design of oil skimmer is going to replace some older style skimmers, as part of the arsenal of equipment maintained for responding to any offshore oil spill in Alaska's Cook Inlet, according to the Cook Inlet Regional Citizens' Advisory Council. An article in the council's May newsletter says that the new skimmers, known as disk skimmers, with especially high oil recovery factors, will replace substantially less efficient skimmers known as Transrecs.

By law, all businesses that operate oil tankers or oil facilities in Cook Inlet must have contingency plans for dealing with an offshore spill. And those plans require the availability of oil cleanup equipment with rated capacities to handle the volumes of oil that might end up in the waters of the inlet in the event of a worst-case oil spill scenario.

The Alaska Department of Environmental Conservation has approved the new skimmers for use in Alaska and CISPRI has purchased two large 56-disc skimmers for use with its larger response vessels, as well as two 13-disc skimmers for use with two smaller vessels ...

Skimmers, devices that mechanically skim oil from the water surface, form an essential component of a cleanup kit. And the oil recovery capacity of the skimmers has to be sufficient to meet the requirements of oil spill contingency plans.

Weir skimmers

Transrec skimmers, for long a mainstay of the spill response industry, rely on a floating oil capture device with a perimeter weir, floated at a level where surrounding oil lying on the water surface will flow over the weir to be pumped into a tank in a support vessel. But tests of Transrec "weir skimmers" have revealed that the fluid recovered into the tank in fact consists of an emulsion, typically containing 80 percent water and just 20 percent oil, the newsletter article said.

Cook Inlet Spill Prevention and Response Inc., or CISPRI, the spill response cooperative that provides spill response services for companies operating in the Cook Inlet, has been looking for some alternative to the relatively inefficient Transrec weir skimmers, the newsletter article says.

A project begun in 2007, involving several Cook Inlet tanker operators and headed by Eric Haugstad, Tesoro Alaska's director of contingency planning and emergency response, set out to find a new efficient skimmer design that would meet spill response standards for Cook Inlet, the article says. Tesoro owns an oil refinery at Nikiski on the Kenai Peninsula and operates some of the tankers that ply the waters of the inlet.

New disc design

Following tests at an oil spill test tank in New Jersey operated by the Department of the Interior, the Cook Inlet team identified a new type of coated disc skimmer developed by Crucial Inc. as especially effective. This skimmer design can achieve oil recovery rates of more than 70 percent, a recovery level much higher than the 20 percent level of a Transrec, with the oil being recovered as oil rather than as an oil/water emulsion the article says.

The Crucial skimmer is of a type known as an oleophilic disc skimmer, in which a series of disks coated with material that attracts oil spins in the oil-fouled water. Oil sticks to the oleophilic coating and, as the disks spin, is scraped off for recovery.

Especially efficient

Haugstad told Petroleum News in a May 21 email that, although disk skimmer designs have been around for many years, the Crucial design is especially efficient. The design involves a coating that increases the effective surface area of the discs, thus enabling the discs to retain high volumes of oil — the Crucial skimmers also have discs with large diameters, thus further increasing the area of disc available for oil collection, he said.

According to the newsletter article, CISPRI has built its own test tank and has successfully tested the new disk skimmers in this tank. And tests in Kachemak Bay, in the southern Kenai Peninsula, to evaluate the operation of the skimmers with different types of oil containment boom system, showed that the skimmers will work especially well with a containment system known as a "Harbor Buster," the newsletter article says.

Approved

The Alaska Department of Environmental Conservation has approved the new skimmers for use in Alaska and CISPRI has purchased two large 56-disc skimmers for use with its larger response vessels, as well as two 13-disc skimmers for use with two smaller vessels — the co-op anticipates decommissioning the Transrec skimmers once appropriate changes have been made to various oil spill response plans, the newsletter article says. Some other small weir skimmers will be retained for use in specific circumstances, Haugstad said. ●

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EXPORT LICENSE

study, "like any study based on assumptions and economic projections, is inherently limited in its predictive accuracy."

It also said applications to export significant quantities of domestically produced LNG "are a new phenomena with uncertain impacts" and noted that "the market for natural gas has experienced rapid reversals in the past and is again changing rapidly due to economic, technological, and regulatory developments. The market of the future very likely will not resemble the market of today."

Because of those factors, DOE said it intends "to monitor developments that could tend to undermine the public interest in grants of successive applications for exports of domestically produced LNG and, as previously stated, to attach terms and conditions to the authorization in this proceeding and to succeeding LNG export authorizations as are necessary for protection of the public interest." ●

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● FINANCE & ECONOMY

IEA: US oil causing 'ripple effect'

US production combined with non-OECD demand could drastically change the global supply chain by 2018, according to the agency

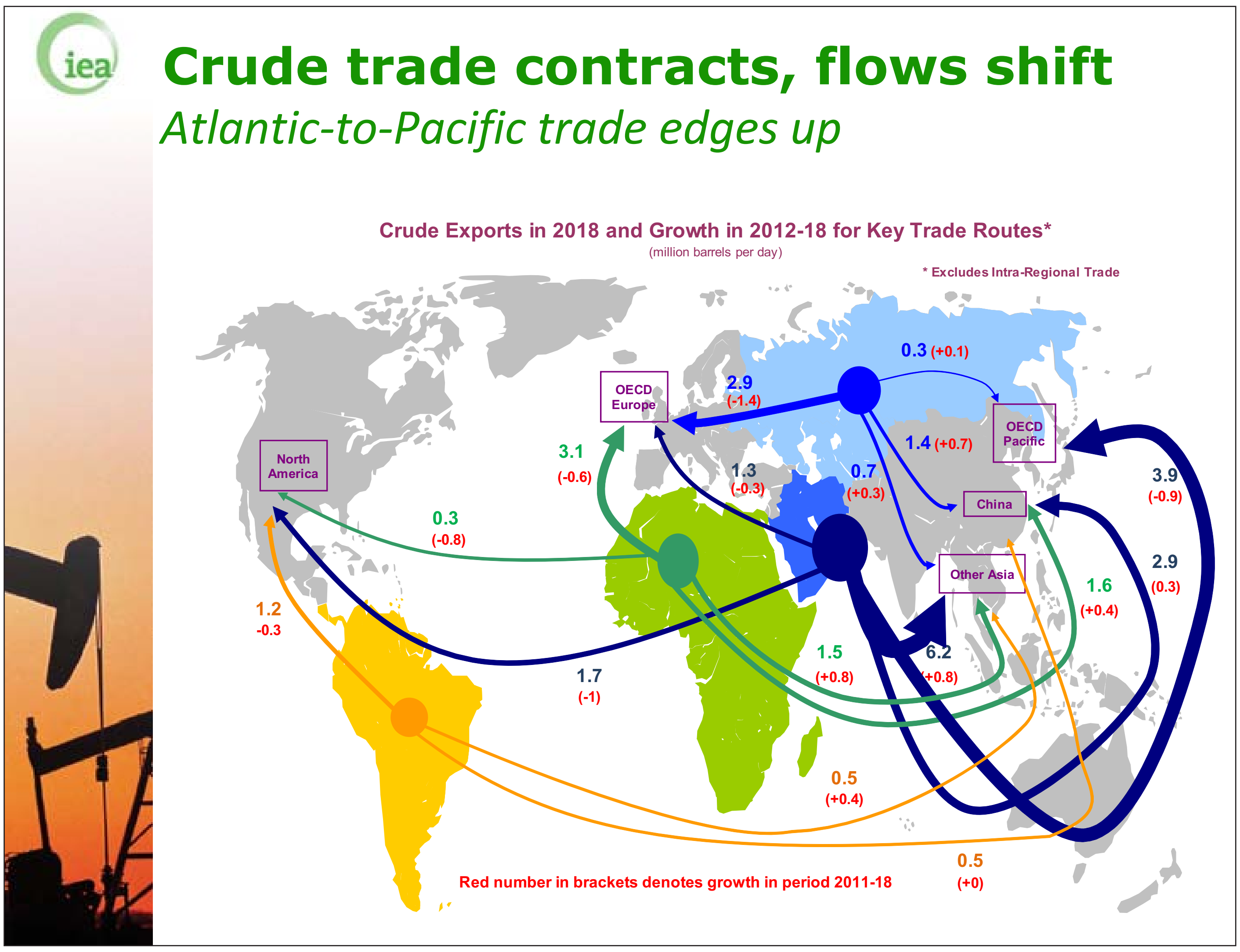
By ERIC LIDJI
For Petroleum News

The rise of North American oil supplies is an even bigger deal than you thought.

The growth in domestic oil supplies from unconventional sources may be well known, but several technical and political factors are compounding its influence, according to a five-year outlook on the global oil market from the International Energy Agency.

"While continued uncertainties remain about the economics and ultimate impact of unconventional production technologies, recent developments in North American supply stand out as an overarching driver, coloring the way in which virtually all other factors impact the market, and causing ripple effects through all aspects of the oil industry, from supply to demand and all the links in between," the international statistical and analysis group wrote in its Medium-Term Oil Market Report-2013, released on May 14.

Because this supply growth is coming from the industrialized world, it is backing out traditional supplies from the Middle East and Africa.



Because this supply growth is coming from the industrialized world, it is backing out traditional supplies from the Middle East and Africa. Because the IEA expects existing U.S. export restrictions to remain in place through the forecast period, its report expects the direct influence of North American supplies to be constrained between now and 2018.

But over the same period, the IEA expects the developing world to become the most important customer of the oil industry. The rising demand from countries outside the OECD will come not only from consumers in those growing economies, but also from storage and "mega-refineries," which are already influencing the global supply chain.

Because this growth comes as European economies are sluggish and North American economies are transitioning to natural gas, the IEA expects the developing world to overtake developed economies in oil demand as soon as this quarter, and keep growing.

OPEC still essential

The report still expects OPEC to play an "essential part in the global supply mix," but the political unrest in the Middle East and North Africa favors North American supplies.

Still, seeing as how the growth in domestic oil production is largely a technical feat, the IEA also expects unconventional oil production to start expanding in the next five years, as companies look to apply the combination of hydraulic fracturing and horizontal drilling in oil provinces from Latin America, to Saudi Arabia, to China and Russia. "Although uncertainties remain, it is impossible to ignore the possibility that current non-conventional technologies, as they spread and get both perfected and mainstreamed, could lead to a wholesale reassessment of global reserves," the IEA wrote in its report.

The Medium-Term Oil Market Report examines how all aspects of the global oil market might progress over the next five years. The International Energy Agency produces similar reports on natural gas, coal and renewable energy, as well as energy efficiency.

The IEA released the report just seven months after its most recent oil forecast, an attempt to align the release of the oil, gas and renewable energy reports to make it easier to compare gross domestic product and other assumptions between one and the other.

The next report is due May 2014. ●

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NATURAL GAS

Fair treatment of gas pipeline customers

FERC rules require separation of pipeline operations from those marketing gas; lines that market natural gas must follow the rules

By BILL WHITE

Researcher/writer for the Office of the Federal Coordinator

To make sure they play fair, gas pipeline companies must wall off their staffers who run the line from those who market gas to buyers.

It might be a virtual wall. It might be a physical one. Whatever its form, the wall must be impenetrable, so there's no improper water-cooler talk between employees on one side of the wall and those on the other.

BILL WHITE

The federal rules that mandate this wall for interstate gas pipelines are laden with lofty language about treating customers alike, about avoiding undue preferences, about not putting competitors at a disadvantage or pricing services unfairly.

Not all pipeline companies market gas these days, but the ones that do must follow the rules.

The agency charged with policing this behavior is the Federal Energy Regulatory Commission, which permits and regulates interstate gas pipelines. State regulators oversee intrastate pipelines.

Think of FERC as the chaperone at the dance who makes sure the boys and girls aren't touching inappropriately ... with the added responsibility of making sure the gawky kids along the wall get an equitable shot at the dance floor.

Isolating different arms of the same business is nothing unique to gas pipelines. Wall Street has insider trading rules intended to separate financiers who know about upcoming business deals from stock-picking co-workers who want to know which stocks to buy or sell. Journalism has ethical barriers that minimize contact between the news and advertising departments.

The concept for gas pipelines dates to 75 years ago, and the conflict-of-interest rules that govern them are much stricter than those for oil pipelines. Back then, the U.S. government was asserting stronger oversight of business in general and it particularly targeted the up-and-coming natural gas industry, a toddler taking its first steps toward becoming the national presence it is today.

> *The government's "trust everybody, but cut the cards" approach to regulating gas pipelines began with the Natural Gas Act of 1938.*

The policy of walling off pipeline operations staff has evolved in spasms since. Some of the heaviest revisions have occurred only in the past 25 years or so as the government modernized its regulation of the U.S. gas industry — loosening some strings and tightening others.

A key action occurred in 1992, when FERC issued Order 636. "The Commission must regulate the pipeline transportation system and pipeline sales for resale in a manner that ensures that pipeline control of the transportation system — a natural monopoly — does not give a competitive advantage to pipelines over other sellers in the sale of natural gas," the order says as kind of a manifesto for the "standards of conduct" FERC had imposed on the pipeline industry.

"All natural gas suppliers, including the pipeline as merchant, will compete for gas purchasers on an equal footing," the order says.

Separate but equal

In 2009, ExxonMobil and TransCanada set up an office in Anchorage for their proposed gas pipeline project from Alaska's North Slope to Alberta.

ExxonMobil holds the largest proven natural gas reserves in the state and is a significant oil producer in Alaska. Conspicuously, this new gas-pipeline office was in a separate building from Exxon's Alaska production office.

A rival gas pipeline project by North Slope producers BP and ConocoPhillips also set up shop outside the high-rise headquarters of their parent companies.

ExxonMobil executives attached to the pipeline project were excruciatingly careful to keep arms-length from their production colleagues, to the point where one joked of being loath to look in the direction of the production office lest his behavior be misconstrued.

(The projects' offices closed in 2011 and 2012 as all of the companies mothballed plans for an Alberta line in favor of considering a project to pipe gas to a liquefaction plant in coastal Southcentral Alaska for LNG exports to Asia.)

These separate quarters were no accident. These were FERC rules in action. Such rules would be active again if the companies proceed with designing and permitting a pipeline for LNG exports.

Good behavior

The FERC regulations, known legally as 18 C.F.R. §358, reflect four basic principles:

*Pipeline operations employees must be separated from, and can't communicate with, fellow workers who market space in the pipeline to gas shippers. FERC calls this the "independent functioning rule." Marketing employees may not conduct or even have access to the pipeline operations center. Operations employees can't market the pipeline.

*No third party may convey information between the company's pipeline operations and pipeline marketing staff. This is called the "no conduit rule."

*Pipeline information must be disclosed to all customers and potential customers — including the owner company's marketing staff — at the same time. FERC calls this the "transparency rule."

*Pipelines must make their services available to all potential customers — called "open access" — and can't discriminate among customers in their rates or in the scheduling of deliveries. When rules allow rate flexibility — such as giving a break to large anchor shippers, or charging different rates to customers guaranteed space in the pipeline, called "firm transportation service," vs. those who ship only when space is available, called "interruptible service" — similar customers must be treated the same. These are called the "non-discrimination requirements."

Beyond this, pipeline companies must train their workers in these "standards of conduct" annually. New employees must get training within their first 30 days. The same rules apply to FERC regulated electrical transmission companies.

According to FERC staff reports on their investigations since fiscal 2009, when the commission last significantly revised its standards of conduct, the nation's gas pipeline operators and power transmitters have behaved themselves.

In fiscal 2010, a gas company self-reported that several employees got their annual training after the yearly deadline. "To prevent future violations, the company required its Human Resources department to make weekly reviews of training files." Despite the lapse, the under-trained workers didn't breach FERC's standards of conduct. As a result, and because of "the lack of harm and economic benefit," FERC closed the investigation without imposing sanctions.

In fiscal 2011, a company self-reported that 14 of 30 new hires or contractors got their training after their first 30 days on the job, and 14 of 61 contractors whose jobs ended during the year never got training. The company "immediately revised its internal training procedures," and FERC took no further action. It's unclear

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FERC RULES

if this was a pipeline or a power company.

In fiscal 2012, the only infraction involved a gas pipeline company that "improperly made available to marketing function employees" information about capacity during a particular month. Because the company self-reported the rules violation and took steps to keep this from happening again, FERC "staff closed the self-report with no action."

The 'positive evil'

The government's "trust everybody, but cut the cards" approach to regulating gas pipelines began with the Natural Gas Act of 1938.

This law, for the first time, imposed direct federal regulation of the natural gas industry.

At the time, the petroleum industry was beginning to find ways to make money from the nuisance methane that sometimes rose up their wells with crude oil. The small volume of gas sales was largely limited to towns and industrial plants near the gas fields. But new understanding of how to build reliable long-distance pipelines was making faraway markets possible.

The 1938 law stemmed in part from a 1935 Federal Trade Commission report that called unregulated control of pipelines and wholesale distribution of gas a "positive evil."

"Whoever controls the channels by which a product is marketed controls the market so far as the supply is concerned. Concentrated control of those channels confers a strategic advantage that may be used by those possessing it to extend their domination into both the producing and distributing branches of the industry," the trade commission said.

Congress considered the natural gas industry an environment where "monopolistic forces were distorting the market price of natural gas," as a court ruling later put it.

The gas pipeline industry back then, and until the 1980s, worked like this:

Gas pipeline owners would acquire gas from producers near the wellhead, transport the gas to market, then sell their gas to a local gas utility or industrial plant. The Federal Power Commission and its successor as of 1977, the Federal Energy Regulatory Commission, regulated the prices along this path to make sure they all were "just and reasonable."

A bumpy road

By the 1970s, Congress had an epiphany. A new paradigm took root: Lighten the government's regulation of the gas industry.

The premise was that heavy-handed regulation — particularly of wellhead prices — had caused natural gas shortages. Low, regulated prices stifled investment in new production — wellhead prices averaged less than 50 cents per thousand cubic feet 1960 through 1976. Amid these shortages, the first plans arose to build an Alaska gas pipeline that would ship North Slope methane to the rescue.

In 1978, Congress passed the Natural Gas Policy Act to kick off deregulation. The process took about 15 years, and it did result in discovery of more gas reserves to fill the market. The new gas age that dawned helped kill the 1970s-era hopes for an Alaska gas line.

The first steps in this deregulation involved loosening, eventually removing, price controls.

By the mid-1980s, FERC was ready to reconstruct the gas-pipeline industry itself. When FERC was essentially done, after a series of steps culminating with Order 636 in 1992, the pipelines no longer bought gas from producers, shipped it, then sold the gas to utilities and industrial plants. The pipeline companies often didn't own the gas they shipped; they merely transported other people's gas. They were becoming a service business.

The whole trip traveled a bumpy road. A court that sanctioned a 1985 FERC deregulation step noted the order gave pipeline companies a dismal choice about their future — "between the noose and the firing squad," as the court put it.

Each step FERC took warped the marketplace in a new way, which got addressed in later steps. Order 497 in 1988, Order 636 in 1992, Order 2004 in 2003, and Order 717 in 2008 all refined the commission's policies on what constitutes acceptable conduct between a gas pipeline and its customers, and between gas pipelines and their affiliates. (The 2008 order came about after a judge voided the 2003 order, saying FERC overstepped when it walled off a pipeline company's non-marketing affiliates — gas producers, processors, gatherers and local gas utilities — from the pipeline operations staff.)

Not surprisingly, the pipeline players resisted many of the changes. They argued there were no problems that needed fixing, that they should operate on the honor system and police themselves, that the rules unnecessarily burden them with insane levels of paperwork, or that FERC could deal with rare transgressions case by case. They argued over specific wording of rules. They filed suit.

FERC plowed forward, sometimes

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● EXPLORATION & PRODUCTION

Cook Inlet Energy draws up Sword plans

Anchorage company enters into contract for Patterson rig 191; planned well is adjacent to producing West McArthur River oil field

By WESLEY LOY
For Petroleum News

Cook Inlet Energy LLC says it has contracted a rig to drill its Sword well adjacent to the company's producing West McArthur River field.

Patterson-UTI Drilling Co.'s rig 191 will do the job. Patterson has more than 300 land-based rigs operating in the Lower 48, Alaska and western and northern Canada.

Cook Inlet Energy plans to mobilize the rig to the drilling location at the end of May.

"We are excited to have secured this rig and for the potential that the Sword No. 1 well holds for the company," Cook Inlet Energy's chief executive, David Hall, said in a May 20 press release.

Oil is the primary target, Hall said in a talk with Petroleum News.

The extended-reach well will be directionally drilled to 19,000 feet.

It will target probable reserves in an adjacent fault block to the West McArthur River field.

"Company-owned 3-D seismic over the prospect area shows a faulted four-way closure with a 240-acre structure that contains an estimated recoverable 800,000 barrels of oil," the press release said.

In the mid-1960s, Pan American drilled a well into the same fault block, and mud logs had oil shows throughout the 500-foot-thick Hemlock formation, the primary target for the Sword No. 1, the release added.

Patterson's rig 191 recently did some drilling for Apache Alaska Inc. in the Cook Inlet basin, Petroleum News reported in its Nov. 18 issue.

Promising backdrop for well

Cook Inlet Energy is a young company based in Anchorage. It's a subsidiary of Miller Energy Resources Inc., a publicly traded company headquartered in Knoxville, Tenn.

Cook Inlet Energy also has plans to drill in the Susitna basin, where the company holds three exploration licenses covering more than 580,000 acres of state land.

Cook Inlet Energy has producing wells on the Osprey offshore platform, and at the West McArthur River field.

The Sword well holds great promise for the company, Hall said. The average initial production for every well drilled in the West McArthur River field, which started up in 1991, was 2,000 barrels per day, he said.

That's more than the total daily production Cook Inlet Energy currently has from its Alaska properties.

Susitna basin gas prospects

Cook Inlet Energy also has plans to drill in the Susitna basin, where the company holds three exploration licenses covering more than 580,000 acres of state land. The basin is north of Anchorage and west of the Willow community.

The company on April 24 filed an amended plan of operations for its Susitna exploration license No. 2.

The plan said the company in March and April completed a winter access trail and pad for up to two exploratory wells on the Kroto Creek natural gas prospect. Drilling could occur during the winter of 2013-14.

Cook Inlet Energy said it has other exploration prospects in the area, including Moose Creek and Big Bend. ●

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GOVERNMENT

Parnell signs oil tax, in-state gas bills

Alaska Gov. Sean Parnell signed his oil tax change into law at a meeting of the Anchorage Chamber of Commerce May 21. In addition to Senate Bill 21, the oil tax change, the governor also signed House Bill 4, authorizing the in-state gas pipeline project to move forward, and two bills making changes in permitting.

SB 21, which removes progressivity from the state's production tax system, replacing it with a flat tax and credits for increased production, was hotly contested in the Legislature and signatures are being gathered for a referendum to repeal it.

HB 4 establishes the Alaska Gasline Development Corp. as an independent state agency and empowers it to move forward with plans for an in-state gas pipeline and a 2014 open season.

The governor also signed the capital and operating budgets. The capital budget includes funding for the in-state gas pipeline project, the Susitna-Watana hydroelectric project and a liquefied natural gas system to deliver LNG to Fairbanks via truck.

—PETROLEUM NEWS

NATURAL GAS

Short-term gas contracts for Enstar

Amid continuing concerns about winter utility gas supplies in Southcentral Alaska, Enstar Natural Gas Co., the region's main gas utility, has obtained two new short-term gas supply contracts, to bolster its firm gas supplies during the third quarter of 2013, according to a tariff advice that Enstar submitted to the Regulatory Commission of Alaska on May 15. The contracts guarantee 408 million cubic feet of gas at an average cost of $6.70 per thousand cubic feet, with some of that gas earmarked to go into storage for winter use, the tariff advice says.

The tariff advice indicates that Enstar now has enough gas under firm contract to meet its needs during the third quarter, but that the utility will likely have to withdraw 1.6 billion cubic feet from gas storage during the fourth quarter to meet high winter demand. The tariff advice also says that Enstar may seek additional short-term gas supply contracts. The utility also operates a daily bidding system to obtain short-term gas supplies, although prices under this system tend to be relatively high.

Enstar says that it does not require individual Regulatory Commission of Alaska approval for gas supply contracts with durations of less than one year.

John Sims, Enstar's director of business development, told Petroleum News in a May 17 email that the two new short-term contracts are with gas producers Buccaneer Energy and Hilcorp Alaska.

"By addressing our 2013 needs immediately with these two contracts, Enstar can now focus on negotiating for mid- to long-term contracts," Sims wrote.

—ALAN BAILEY

GOVERNMENT

Moniz becomes new energy secretary

Ernest Moniz, Ph.D., has been sworn in as the new secretary of energy, after the U.S. Senate confirmed his appointment on May 16, the Department of Energy said May 21.

"I look forward to the progress we will make together in the coming years — advancing the president's all-of-the-above energy strategy, maintaining the nuclear deterrent and reducing the nuclear danger, promoting American leadership in science and clean energy technology innovation, and cleaning up the legacy of the Cold War," Moniz wrote in an email to Department of Energy staff.

Moniz, a nuclear physicist, was a professor at the Massachusetts Institute of Technology prior to his appointment to the Obama administration. Recently Moniz served as the founding director of the MIT Energy Initiative and of the MIT Laboratory for Energy and the Environment. He was also a leader of multidisciplinary technology and policy studies on the future of nuclear power, coal, nuclear fuel cycles, natural gas, and solar energy in a low-carbon world, the Department of Energy said. Moniz served as under-secretary of energy in the Clinton administration.

—ALAN BAILEY

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FERC RULES

modifying the proposed rules when it thought the industry made winning points.

Throughout, dating back to the Natural Gas Act of 1938, the regulator drummed on a constant theme: Fairness.

"Pipelines continue to have economic incentives to show undue preferences toward their marketing affiliates," the commission said in 1988.

"The natural gas industry has not completed its evolution to the point where all gas is shipped on even terms without regard to the identity of the supplier," the commission said in 1992.

"As natural monopolies, pipelines if unregulated would possess the ability to engage in monopolistic pricing for transportation services and discriminate against unaffiliated entities that seek to transport gas," a federal appeals court said in 2006.

In that lawsuit, which the industry brought, the court knocked down FERC's attempts to update the standards to encompass a modern-day natural gas company that might produce gas as well as pipe it and trade it on the markets. The court said that without evidence of actual abuse — as opposed to the potential for abuse — by those affiliates, FERC could not impose the standards on non-marketing affiliates of gas pipeline companies.

FERC's focus, the court said, should remain on the narrow, documented problem: Pipelines favoring transport of its own gas to the disadvantage of competitors. Regulation is needed to ensure pipelines provide "equal treatment to sellers in areas such as scheduling, transportation, and speed of service." ●

—Office of Federal Coordinator legal counsel Joseph M. Oglander contributed to this article.

Editor's note: This is a reprint from the Office of the Federal Coordinator, Alaska Natural Gas Transportation Projects, online at www.arcticgas.gov/ferc-rules-ensure-gas-pipelines-treat-customers-fairly

● ENVIRONMENT & SAFETY

BLM legacy well plan praised, rapped

Alaska drilling regulator Cathy Foerster says draft strategy for dealing with old federal wells is positive effort, but deficient

By WESLEY LOY
For Petroleum News

A top Alaska drilling regulator has critiqued the U.S. Bureau of Land Management's recently released draft strategic plan for dealing with derelict federal legacy wells on Alaska's North Slope.

Her assessment: Good start, guys. But you will need to do more, and do it faster.


JUDY PATRICK
CATHY FOERSTER

"The strategy, which addresses a number of AOGCC's concerns, represents a healthy step in the right direction," begins the critique from Cathy Foerster, an engineer and chair of the Alaska Oil and Gas Conservation Commission. "However, many concerns are inadequately addressed or not addressed at all."

Dueling numbers

BLM has been under public pressure to address dozens of test wells federal departments drilled between 1944 and 1982 in or near the National Petroleum Reserve-Alaska. BLM manages the reserve and is responsible for the wells.

On May 8, the agency released its strategic plan for plugging some wells and cleaning up junk at drill sites.

The plan ranks each of the 136 legacy wells according to surface and downhole risk.

The plan says 50 wells require remediation, with 68 needing no further action. The final 18 wells remain in use by the U.S. Geological Survey for Arctic climate change monitoring, BLM says.

The agency has identified 16 priority wells for cleanup, all in the area of Barrow and the Simpson Peninsula to the southeast.

Foerster, in her critique, said AOGCC believes 80 legacy wells require BLM remediation, not 50.

And she urged faster action on wells that she says pose clear hazards, such as above-ground pipe, pilings, drums and other metal debris that could hurt snowmachine or ATV travelers.

Foerster, in her critique, said AOGCC believes 80 legacy wells require BLM remediation, not 50.

Risk rankings questioned

As an example, Foerster questioned BLM's risk assessment for a well called Simpson Core Test No. 27.

"The downhole risk for this well is not 'none,'" Foerster wrote. "The well was inadequately plugged in 2005 and the cement was not tagged nor was the well pressure tested. BLM must ensure the well is secure. The surface risk for the site is not 'none.' The wellhead must be removed."

Another example was the Wolf Creek No. 1 well.

"The subsurface risk for this well is high since it experienced a blowout while drilling, has a history of gas production, and has a primitive wellhead with pressure on it and a history of leaking and being tampered with," Foerster wrote. "BLM should expedite plugging and cleanup for this well and site."

Foerster noted that several sites have well cellars that fill with water, posing a drowning or entrapment hazard to children and small animals.

She also questioned BLM's treatment of the USGS wells.

"Until such time as these 18 USGS wells are properly plugged and abandoned, USGS or BLM has an ongoing responsibility to demonstrate that the wells all are truly being used and have mechanical integrity," Foerster wrote.

A number of legacy wells are scheduled for review at AOGCC public meetings in June, July or August, she said. ●

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PEACE OVERTURES

gained a strong mandate in British Columbia's May 14 election, she has turned overnight from a political lightweight in her province to a heavyweight in Canada, especially when it comes to the energy export aspirations of the Canadian and Alberta governments.

In a self-assured post-election meeting with reporters Clark was transformed from glib into an assertive leader, focused on forging ahead with her economy-first campaign promise to create jobs and generate revenues.

LNG top of list

Top of that list is her grand dream of turning British Columbia into a global LNG force.

That means taking a measured approach to advancing plans for up to nine LNG export projects, including four by Shell, Chevron, BG Group and Petronas to ship as much as 47 million metric tons a year of LNG to Asia, and carefully negotiating her own plans to introduce a new LNG tax and royalty regime.

In an intensely competitive global environment, the risk facing Clark is that she could alienate investors.

Equally important to the investment image she portrays is how she handles Enbridge's Northern Gateway project and Kinder Morgan's Trans Mountain expansion which could ship a combined 1.4 million barrels per day of crude bitumen to tanker ports on the Pacific coast.

That's where a thaw in a year of cool relationships between British Columbia and Alberta is needed.

Alberta moves for meetings

Redford, who had cause to be offended by Clark's campaign statement that her province "does not need" Alberta to help develop British Columbia's resources, took the first step in congratulating Clark on her election victory and setting the stage for an early meeting of the two leaders, possibly at a mid-June meeting of Western Canadian and territorial premiers.

Hughes called his British Columbia counterpart, Rich Coleman, and the pair also agreed to get in touch in the near future.

"As Canada moves to seize new opportunities and

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STEDMAN Q&A

cuted and a waste of money. I don't know how else to put it. HB 4 is a hell of an improvement over AGIA. I didn't participate a lot in HB 4. I've got confidence in (co-sponsor House Rep. Mike) Hawker and his support staff. When that project finally evolved to the point where it was coming to the floor of the Senate — even as it was in my opinion a virtual Railbelt project — there is various language in there for them to look at coastal Alaska and rural Alaska. The main focus is get that gas from the North Slope to Nikiski and hook up as many people as we can along the way as well as we can. That's the idea. But I want the bigger line. I think there is economics of scale and three big players who know how to do big projects. I think the state needs to be cautious and not to stick their fingers into the pie and muck it up.

Petroleum News: If a big line gets advanced during the interim, should there be a special session on fiscal terms?

Stedman: They already got the cash from SB 21. I don't think we need to negotiate anymore, do we? The negotiations are done. The monetary value of the gas to the treasury will be interesting. I'd be surprised even on the big line. There will be some things to look at, like corporate income tax, property tax, tariffs. The value of the gas depends on the cost of the project and the market economics. It's not going to be the cash cow like the oil line was — or is. But it all adds up. The industry always says a healthy oil business makes for a healthy gas business.

Petroleum News: What will you be doing during the interim as it relates to your position with Energy Council?

Stedman: I want to have a dialogue in North Dakota at Bismarck, bringing the Russians, Canadians and Americans together on shipping and emergency response. We'll also talk about the Bakken and the impacts to the state of North Dakota — good or bad. As far the state goes, you've got the water, sewers and schools. You've got the basin economics and getting it out on rail and the chokepoints. In the fall, we're going to Regina and take a look at some Saskatchewan issues dealing with carbon sequestration, enhanced oil recovery and a few things going on up there with a coal fired plant. We'll continue our conversations with getting oil out of Alberta if Keystone XL is going forward by that time and the eastern delivery of oil out of Alberta by rail or by pipe. We'll have a good idea of the western direction of the pipeline to the coast for both oil and gas. The initial conversation — hopefully to be legitimate consideration for the future — is rail extension out of Alberta to the Delta Junction to rail oil out of Alberta.

Petroleum News: Now how does it help Alaska to drill down these details out of North Dakota, Saskatchewan and Alberta? Why does it help the Legislature?

Stedman: You can take a look at it as a state — the sovereign right down to the district.

Let's start with the state. We've got this elephant field called Prudhoe Bay sitting up there in the Arctic. We are in this global race for energy, production and distribution, so we have to know what's going on. There is also these huge transitions from the conventional oil extraction to nonconventional, then you've got the natural gas economics and the dynamics of that industry pushing coal and oil and a whole litany of things from an environmental concern. So it does play in and it plays into our fiscal policy of our oil basin and a litany of things like that.

Then if you take this down to the district, well I represent a coastal district far away from the oil basin. We're way out, then again we're not. We have good jet traffic and airports; we're close to the supply chain; we're building a ship port in Ketchikan; we are in the infancy of offshore oil development in the Arctic, which 50 years from now will look like the Gulf of Mexico as far as economic activity.

That's a huge support infrastructure that has to be put in place. They will need ship construction and maintenance, and you have to have facilities to do that. There is a potential in Ketchikan to facilitate Shell, and ConocoPhillips and Statoil and other firms that want to expand and go into the Arctic with ship construction and maintenance, and other related items that need building. So it has a statewide impact all the way down to the district.

For example, Energy Council has been down to Louisiana a few times, New Orleans, and down in Arkansas, looking at their energy issues. For example going to the shipyards in Louisiana, seeing the size and magnitude of what it takes to maintain these drill rigs. It makes it a lot easier when the industry folks sit at the table and they want to talk about a particular issue. They have some concept of the magnitude of what they are talking about. We get used to talking about billions of dollars in the treasury and projects like HB 4. That's a huge project. What? Eight billion? We talk about it like it's a little project.

We went to a pipe rolling facility with Energy Council where they rolled Keystone XL pipe. They had 500 miles of pipe stacked in the yard, 300 miles delivered. To sit there and look at 500 miles of pipe stacked in the yard gives you the idea of how much pipe it's going to take going from Nikiski to North Slope and the magnitude of these projects.

I've been asked several times about this and we don't at Energy Council get into a lot of fiscal policy discussions. Each state or each sovereign has their own policies so that's not what we do. But there are a lot of other things we examine, so I think it's been very useful. ●

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Petroleum news

Oil Patch Bits

UMIAQ announces Wolski as new engineering manager

MICHAEL WOLSKI

UMIAQ LLC said May 13 that Michael Wolski, P.E., has been named engineering manager for its Engineering Department. Wolski is a University of Alaska graduate with more than 20 years of experience designing, managing and coordinating civil engineering projects throughout the state of Alaska. He is a registered professional engineer, registered as both a civil engineer and environmental engineer. His engineering experience includes site development and water and sewer systems for federal, state, municipal and private projects, including the design of storm drain systems, roadways, water treatment and distribution systems, sewer collection and treatment systems, and water wells. Wolski has managed projects from the feasibility study stage through funding acquisition, design, construction, and operation and maintenance.

Wiley Wilhelm, P.E., will continue to serve as UMIAQ's design division manager.

UMIAQ is a full-service consulting and design firm specializing in architecture, engineering, surveying, regulatory planning, stakeholder relations, geospatial analysis, environmental consulting services, logistics and full-service camps, and response planning and operations. UMIAQ's team understands the politics, culture, land use issues, regulations, and design conditions as they pertain to industrial and community development in arctic and subarctic Alaska. UMIAQ is a member of the Ukpea vik Iñupiat Corp. family of companies.

Golder Assoc. Anchorage office welcomes Twitchell

Golder Assoc. said May 14 that it would like to welcome Olin Twitchell, a junior level fisheries biologist, to its Anchorage office. Prior to joining Golder, Twitchell worked as a biological science technician for the Yukon Delta National Wildlife Refuge of the U.S. Fish and Wildlife Service, the Salmonid Rivers Observatory Network and the Alaska Department of Fish and Game. He has three years of fisheries field work experience. While working on remote Western Alaska rivers, Twitchell's focus was on quantifying salmonid population structure, biodiversity and productivity as it related to shifting biophysical processes. Twitchell is a graduate of the University of Alaska Fairbanks with a Bachelor's of Science in fisheries and a minor in Arctic skills.

Crowley's CPD 'Alaska Safe Truck Fleet of the Year'

Crowley said April 30 that its Alaska petroleum distribution subsidiary, CPD Alaska LLC, was recently honored with the "Alaska Safe Truck Fleet of the Year" and the "Most

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

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PIONEER EXPANSION

The division said confidential data submitted by Pioneer indicated the expansion area "is reasonably estimated to be capable of producing or contributing to production of hydrocarbons in paying quantities."

To the northwest

The expansion area is to the northwest of the original PA.

The division said the expansion is based upon drilling results which demonstrated that there are productive Nuiqsut reservoir sands to the northwest beyond the original PA boundaries.

Pioneer has optimized its well designs and drilling trajectories to extend the drilling reach from its offshore drill site into the expansion area and has submitted data demonstrating that wells drilled into the expansion area are capable of producing or contributing to production in paying quantities, the division said.

When the Nuiqsut PA was approved in 2009 (effective June 1, 2008) the division said the depositional model for the Nuiqsut sands "suggested that reservoir quality would deteriorate to the northwest but the drilling results confirm that excellent reservoir quality Nuiqsut sand is present."

Another factor in establishing the original PA boundary was "the practical extended drilling distances" possible from the offshore drilling site, but modifications Pioneer has made in its drilling design allowed significant increases in drilling distances, the division said.

Pioneer has drilled 17 Oooguruk Nuiqsut PA wells to date and is currently drilling two wells in the proposed expansion area, the division said.

Production from the PA is some 4,670 barrels per day.

Oooguruk Nuiqsut PA oil ranges from 19-24 degrees API gravity, heavier than the 39 degree API gravity oil produced at Alpine and nearer in oil gravity to oil from the Kuparuk River field, the division said. Nuiqsut oil also contains 2-4 percent wax by weight.

Nuiqsut majority of production

As of the end of March Oooguruk field production totaled 12.8 million barrels. The majority of Oooguruk production comes from the Nuiqsut PA; the field also produces from the Kuparuk and Torok PAs.

Pioneer operates Oooguruk on behalf of itself and Eni Petroleum.

Production began from the Nuiqsut pool at Oooguruk, followed by the Kuparuk pool and the most recently Torok pool.

The division said 15 exploration wells were drilled in the Colville Delta-Oooguruk area between 1970 and 1998.

"A number of the wells tested oil bearing sands in the Nuiqsut intervals, but at that time, the companies concluded that development was uneconomical," the division said.

Pioneer began drilling in the area in 2003, with three exploration wells — Ivik 1, Oooguruk 1 and Natchiq 1. Pioneer fracture stimulated and tested the Ivik well, with initial production at 1,300 barrels per day; a four-day test of the Nuiqsut sandstone averaged 964 bpd.

The division said it approved the plan of development for the Oooguruk unit in May 2012, effective June 11, 2012, through June 10, 2013. During the sixth plan period Pioneer drilled three horizontal Nuiqsut PA wells, one of which was drilled into the proposed expansion area. Pioneer's seventh plan of development, pending division approval, proposes four wells into the expansion area, two of which are being drilled. Those are production wells. The division said Pioneer also plans two injectors for the 2014 drilling season.

—KRISTEN NELSON

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ARCTIC STRATEGY

broadening the partnerships needed to meet Arctic challenges.

Arctic awareness

To achieve its goal of improved Arctic awareness the Coast Guard says that it will advocate for the establishment of an "Arctic Fusion Center," an interagency entity for coordinating government agency activities, to enable sustainable development and environmental protection. The Coast Guard will also optimize Arctic communications and maritime tracking technologies by expanding and strengthening partnerships with various entities, including local, state and national governments; academia; industry; and other non-governmental organizations.

The enhanced collection and assembly of Arctic maritime information will entail initiatives such as improved data collection and the deployment of portable surveillance sensor packages "at critical geographic choke points," on board offshore drilling infrastructure and on Coast Guard assets, the strategy says.

Improved Arctic awareness will also require an effective Coast Guard presence, including "an adaptable mix of cutters, boats, aircraft (including unmanned aerial systems) and shore infrastructure to enable effective seasonal operations," the strategy says.

Modernizing governance

Modernizing Arctic governance will involve cooperation and coordination with governments and government agencies, within the United States and internationally, to ensure an effective governance regime that can protect the environment and preserve marine resources while also protecting U.S. sovereignty, the strategy says. The Coast Guard sees the U.N. Convention on the Law of the Sea as a critical legal framework for marine governance: The agency wants to see U.S. ratification of this international treaty. The agency is also assessing the formation of an international Coast Guard group and an international forum, as a means of achieving international coordination.

The protection of U.S. sovereignty will include the protection of infrastructure associated with energy development in the Arctic offshore, with the sharing of information in private-public partnerships being needed for the Coast Guard to maintain a knowledge of infrastructure-related risks, the strategy says.

Broadening partnerships

By broadening its partnerships with other Arctic stakeholders, including Alaska Natives, industry and academia, the Coast Guard wants to be better positioned to advance its role in the Arctic, on the assumption that a network of partnerships will be essential in dealing with the security and environmental challenges that the Arctic faces. The agency hopes to establish an "Arctic Center of Expertise" in the U.S. Coast Guard Academy, for the advancement of safe and responsible activity in the Arctic region. And the strategy says that the Coast Guard supports a whole-of-government national approach, including an engagement with federally recognized tribes, for finding collaborative and coordinated solutions to Arctic issues.

Coast Guard success in the Arctic will depend on recognition of the Arctic region as a national U.S. priority, with a unified approach within the Department of Homeland Security for the oversight of the Arctic region, the strategy says. Increased human activity in the Arctic will place increasing demands on the Coast Guard, and the strategy outlines several Coast Guard needs to enable the agency to fulfill its future Arctic role. Those needs include additional icebreakers and long-range patrol vessels; and international agreements, such as the recently signed agreement for cooperation over oil spill prevention and response.

Meantime, the Coast Guard anticipates a continuation of its current policy of forward deploying assets into the Arctic during periods of peak activity, using both mobile assets and existing shore-based infrastructure, the strategy says.

—ALAN BAILEY

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OIL PATCH BITS

COURTESY PHOTO

Improved Fleet" awards during customer ConocoPhillips' and the Alaska Trucking Association annual Safety Awards Banquet, held in Anchorage in late April. Crowley's Bob Cox, vice president, and Mike Moeller, director of trucking, attended the banquet and accepted the awards on behalf of the company.

To be considered for the "Safe Truck Fleet of the Year" award, the Crowley team was evaluated and ranked on several 2012 statistics, including the total number of miles driven, as well as the company's Federal Motor Carrier Safety Administration CSA fleet scores, accident frequency and overall Occupational Safety and Health Administration rate. Last year, the 125 vehicles in the Crowley fleet drove more than 1.8 million accident free miles, delivering in excess of 100 million gallons of petroleum products to 280 communities across the state of Alaska.

The Safety Awards Banquet, dually hosted each year by the ATA and ConocoPhillips, is a premier event developed to recognize carriers with the best safety performance. The competition becomes more challenging with each passing years, as companies continually improve their focus on safety through regular meetings, driver workshops, trainings and a variety of other employee development programs.

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

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KULLUK HEARING

eventual grounding of the Kulluk on the shore of Sitkalidak Island, to the southeast of Kodiak Island, became the subject of a formal U.S. Coast Guard marine casualty investigation. As part of that investigation the Coast Guard is now conducting a hearing in Anchorage to gather testimony about the circumstances surrounding the grounding. Officials from the Bureau of Ocean Energy Management, the National Transportation Safety Board and the Marshall Islands are also participating in the hearing — the Kulluk is registered in the Marshall Islands.

Safety of crew

On May 20 Norman Custard, Shell's team lead for emergency response for the company's Alaska program, told the hearing that his immediate concern on Dec. 27 had been the safety of the Kulluk's crew. Custard, a retired Coast Guard officer with Coast Guard experience of marine emergency response, initially took command of the incident response for Shell. He told the hearing that he called a meeting of Shell's incident management team and started appraising the situation.

Custard described how by 2 p.m. on Dec. 27, with a 20-foot swell at the incident location and with two Coast Guard helicopters available, the incident team started considering an evacuation plan for the Kulluk crew. But the Aiviq was able to stabilize the situation by successfully attaching an emergency towline to the Kulluk.

The Coast Guard has said that it anticipates the Anchorage hearing continuing through the end of May. It may then be several months before the agency reports the results of its investigation.

According to statements made during the hearing the original towline had parted at a shackle and the shackle was missing when the towline was later retrieved.

Vessels deployed

Custard said that, although the Kulluk was back under tow by the evening of Dec. 27, he ordered the continuing deployment of vessels to provide assistance, given a forecast for approaching bad weather, plans for the evacuation of personnel and the possible need for some form of oil spill response. And by this time the Guardsman, a support vessel out of the port of Seward, and the Nanuq, Shell's Arctic oil spill response vessel, were en route to the scene.

Initial optimism that the situation was under control proved short lived. Custard said that he was woken at 3:30 a.m. on Dec. 28 by a phone call informing him that the Aiviq was experiencing engine problems. A second call 30 minutes later told him that all of the Aiviq's engines were out of action, although the vessel still had electrical power for operating its bow thrusters.

The Coast Guard cutter Alex Haley, which had been dispatched to the scene, succeeded in bringing the Aiviq and the Kulluk under tandem tow, although the towline subsequently broke and became tangled in one of the cutter's propellers.

By 12:30 p.m. on Dec. 28 the incident management team had moved to an emergency operations center in the Marriott Hotel in downtown Anchorage, with a unified command involving the Coast Guard, Shell and Edison Chouest Offshore managing the incident — Edison Chouest owns the Aiviq. A representative of Noble Corp., the company operating the Kulluk, also attended unified command meetings, Custard said.

Evacuation request

The Guardsman arrived on scene in the Gulf of Alaska and succeeded in hooking a line to the Aiviq and the Kulluk, in a tandem configuration. But, with the situation on the Kulluk very uncomfortable and people on the vessel becoming very tired, by 6 p.m. the unified command had requested the Coast Guard to evacuate the vessel. However, with the prospect of a nighttime evacuation and with the Kulluk "dancing around" in rough water, there remained some questions over the evacuation plan — despite the difficult conditions, an aerial evacuation using helicopters appeared safer than an evacuation by sea, Custard said. He explained that the risk associated with lowering lifeboats into the water from the heaving Kulluk was greater than the risks entailed in hoisting crew members to a helicopter.

And, although it might have been possible to keep people on the Kulluk, the response team wanted to evacuate the crew well before there was any possibility of a grounding, at which point large waves could have been breaking over the stranded vessel, Custard said.

However, the night evacuation did not prove practical — it was considered unacceptably dangerous. Moreover, by the morning of Dec. 29 the tow from the Guardsman had failed. The Kulluk dropped its survival anchor. And, with the wind slackening, the response team started looking for a safe harbor into which to move the Kulluk.

When the vessels reached a distance of three miles from shore, the unified command, worried about putting the Alert at risk, ordered the tug to release the Kulluk. Within half an hour the drilling vessel had grounded, Custard said.

Tow re-established

Meantime, Shell had been working with Edison Chouest to obtain replacement fuel injectors for the Aiviq's engines (reports at the time of the incident suggested that the Aiviq may have suffered fuel contamination). The Coast Guard delivered the injectors to the vessel on the morning of Dec. 29 and by noon of that day three of the vessel's four engines were running again. The Nanuq had arrived on scene earlier in the morning, so that by the afternoon both the Aiviq and the Nanuq were hooked up to the Kulluk. The plan at that point was to tow the Kulluk to a place of refuge near Kodiak, at the northeast end of Kodiak Island, Custard said.

Evacuation completed

With the Kulluk under tow again, the vessel was fairly stable, enabling the evacuation of the vessel's crew to finally proceed. The evacuation, a very safe operation using two Coast Guard helicopters, took about two hours and was complete by about 3:30 p.m., Custard said.

At this point the situation seemed to be looking up, with the Kulluk's crew safe and the vessel in a stable tow. The plan was to move the vessel east for a time, to keep well clear of land, before turning north towards Kodiak, a transit that might take about two days to accomplish, Custard explained. And Shell continued to work with shipping contractors to bring more vessels to assist, including the tug Alert from Valdez.

But the optimism was short lived: In the afternoon of Dec. 30 the towlines from the Aiviq and the Nanuq both parted. Custard told the hearing that he did not know why the lines had broken. But with the weather deteriorating and the wind already blowing at 35 to 45 knots, re-establishing a tow became urgent. By 1 a.m. on Dec. 31, with the weather still worsening, the Alert and the Aiviq succeeded in attaching lines to the drilling rig. The response team decided to try to move the rig to shelter in Kiliuda Bay on the southeast side of Kodiak Island, Custard said.

Grounding

But by 5:30 p.m. the Aiviq had lost its tow again. Although the Alert was still attached to the Kulluk, the vessels were being blown west at three to four knots in winds of 55 to 64 knots and 35- to 40-foot waves, with the Aiviq unable to re-attach its line. At this point it appeared inevitable that the Kulluk would run aground, Custard said. When the vessels reached a distance of three miles from shore, the unified command, worried about putting the Alert at risk, ordered the tug to release the Kulluk. Within half an hour the drilling vessel had grounded, Custard said.

The Coast Guard has said that it anticipates the Anchorage hearing continuing through the end of May. It may then be several months before the agency reports the results of its investigation. Dr. Barry Strauch, the National Transportation Safety Board representative in the hearing, said that the NTSB will make its own findings on the Kulluk incident. ●

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PEACE OVERTURES

open new global markets, I look forward to renewing discussions with British Columbia about issues that affect our provinces," Redford said.

"We need to work together on initiatives that will improve the quality of life for people living within our borders and ensure we're doing everything we can to strengthen Canada for future generations."

Clark adamant on pipelines

But Clark has yet to shift from her stance on pipelines.

If anything she's been just as adamant as previously that none will be able to cross British Columbia from Alberta unless they meet the conditions she laid out for approval, which basically require: Successful completion of current environmental reviews; world leading marine and land oil spill response, prevention and recovery systems; opportunities for First nations to participate in and benefit from heavy oil projects; and a "fair share" of the fiscal and economic benefits of the projects.

Clark said the conditions are "not going to change," noting that Kinder Morgan and Enbridge are both "working hard" to comply with standards.

She also again endorsed plan by newspaper publisher David Black to build a refinery at Kitimat to convert crude bitumen into products for shipment to Asia.

Clark said that would ease concerns over the prospect of tanker spills in the Pacific.

CAPP: conditions 'not unreasonable'

The most encouraging response to Clark's demands has come from the Canadian Association of Petroleum Producers, whose leaders — despite being neutral on specific pipeline projects — have said Clark's conditions are "pretty clear, not unreasonable, and (have) set the stage for discussions on how the projects can go forward."

CAPP President David Collyer said sharing oil sands royalties is a "non-starter" unless it can be framed in the context of what benefits would accrue to British Columbia from pipeline development.

"We know what we are working with as far as the policy environment goes — it's a government that has been largely supportive of oil and gas issues, like West Coast access for oil," he said.

Even opponents of the Northern Gateway and Trans Mountain pipelines — notably Kennedy Stewart, a New Democratic Party member of the Canadian parliament from the Burnaby district in Metro Vancouver — said the defeat of provincial NDP leader Adrian Dix is a "big game changer ... and increases the odds of both pipelines going through."

University of British Columbia political scientist George Hoberg, a specialist in resource management and a strong oil industry critic, called Clark's victory a "major setback" for British Columbia's environmental movement.

He issued an ominous warning that "an increasing number of environmentalists will choose to resort to civil disobedience when appropriate opportunities arise," mirroring comments on social media that pipeline opponents may now have to take their fight "into the woods."

First Nations issue

Janet Holder, Enbridge's executive vice president assigned to Northern Gateway, acknowledged that her company must "work with aboriginals and the communities along the right of way and the citizens of British Columbia to help them understand the value of this project and to help us understand how we can address their concerns."

A hint of what might lie ahead occurred May 16 when members of the Gitga'at Nation evicted a Northern Gateway crew from their territory on the north coast as it tried to conduct oil spill response surveys, claiming Enbridge has "screwed up" relations with First Nations.

Art Sterritt of Coastal First Nations said Enbridge would be "sadly mistaken" to feel any confidence in the election result.

"As far as we're concerned (Northern Gateway) is still dead," he said.

Sterritt described Clark's pipeline conditions as "fairly onerous," especially as they relate to fiscal and economic benefits, and doubts Enbridge will ever be able to meet them.

He said Coastal First Nations will tell Clark it can support environmentally sound LNG development, but is unable to endorse the volume of tanker traffic Northern Gateway would generate.

But Ivan Giesbrecht, Enbridge communications manager in Vancouver, said the voters of British Columbia have "spoken quite clearly that economic development and economic prosperity is a priority, but not at the expense of the environment. That has been our message all along."

If and when Redford and Clark get down to serious negotiations, the British Columbia leader will arrive with tough fiscal demands and burdened by First Nations and environmental issues that could still outweigh the pure economic argument. ●

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Trans Mountain expansion gets initial OK

Kinder Morgan Canada has cleared its first regulatory hurdle in pursuit of approval to expand its Trans Mountain pipeline system to 890,000 barrels per day of capacity from 300,000 bpd.

Canada's National Energy Board ratified commercial aspects of the proposal, rejecting claims by Suncor Energy and Total E&P Canada that the company was trying to squeeze monopoly profits from the industry by raising the price of shipping crude to the Pacific coast.

Ian Anderson, president of Kinder Morgan's Canadian operations, said in a prepared statement that his company now has the necessary economic certainty to go prepare a formal regulatory application for the C$5.4 billion project.

"We look forward to working with the new British Columbia government and will remain committed to listening to questions and concerns as we develop our application to file with the NEB later this year," he said.

Suncor argued during hearings in February that Kinder Morgan's U.S. parent was leveraging its position as owner of the only Pacific outlet for Canadian crude to earn an "excessive" return on equity.

Kinder Morgan said it needed a higher return in exchange for bearing risks of potential cost increases during construction and operation.

Rail, alternative pipelines

The federal regulator said existing pipeline constraints and deteriorating returns for oil sand producers gave Kinder Morgan an edge in negotiating contracts with potential shippers, but it stopped short of endorsing Suncor's position.

"The fact that shippers are using rail and alternative pipelines suggests that, based on actual market behavior, these are alternatives to the Trans Mountain pipeline," the NEB said, observing that Kinder Morgan "did not use market power to abuse a potential dominant position to negotiate tolls."

The verdict allows the pipeline operator to submit a detailed facilities application to regulators, which would see Port Metro Vancouver be transformed into a major tanker terminal for Canadian crude — a prospect that is heatedly opposed by British Columbia's New Democratic opposition party, municipal councils in the Greater Vancouver area, First Nations and environmentalists.

The International Energy Agency said in a new study that North America is destined to displace OPEC as the driver of global oil supply growth later this decade.

Pipelines projected after 2018

But it said pipelines to carry oil sands crude to the Pacific coast would not be built before 2018, beyond the targeted in-service dates set by Kinder Morgan and Enbridge.

Antoine Halff, head of the IEA's oil industry and markets division, said that "given the capital requirements, the lead times in construction, the permitting process, large-scale pipeline development to the West Coast may be more likely beyond five years."

Following a third open season in late 2012, Trans Mountain has received firm 15- and 20-year commitments from 13 shippers for 707,500 bpd, of which 588,000 bpd is directed to the Westridge dock in Port Metro Vancouver and 119,500 bpd to land destinations.

The remaining 20 percent or 180,000 bpd of would be reserved for uncommitted volumes.

Based on initial estimates, the indicated firm service toll for a 20-year contract for transporting less than 75,000 bpd from Edmonton to Westridge would be C$4.80 per barrel for heavy oil and C$4.73 for light oil.

—GARY PARK

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PARNELL'S CHALLENGE

effect of shutting out oil explorers permanently.

Parnell's exploration proposal, laid out in a highly detailed 187-page document, drew rapid and mixed reaction.

"This is a great move by the governor," said state Rep. Eric Feige, R-Chickaloon, who co-chairs the House Resources Committee. "We must have a definitive idea of what resources are available in ANWR."

"Having modern, 3-D seismic information in hand can help inform the debate," said U.S. Sen. Mark Begich, D-Alaska.

The Wilderness Society's Alaska regional director, Nicole Whittington-Evans, said the proposal "defies the will of the American people."

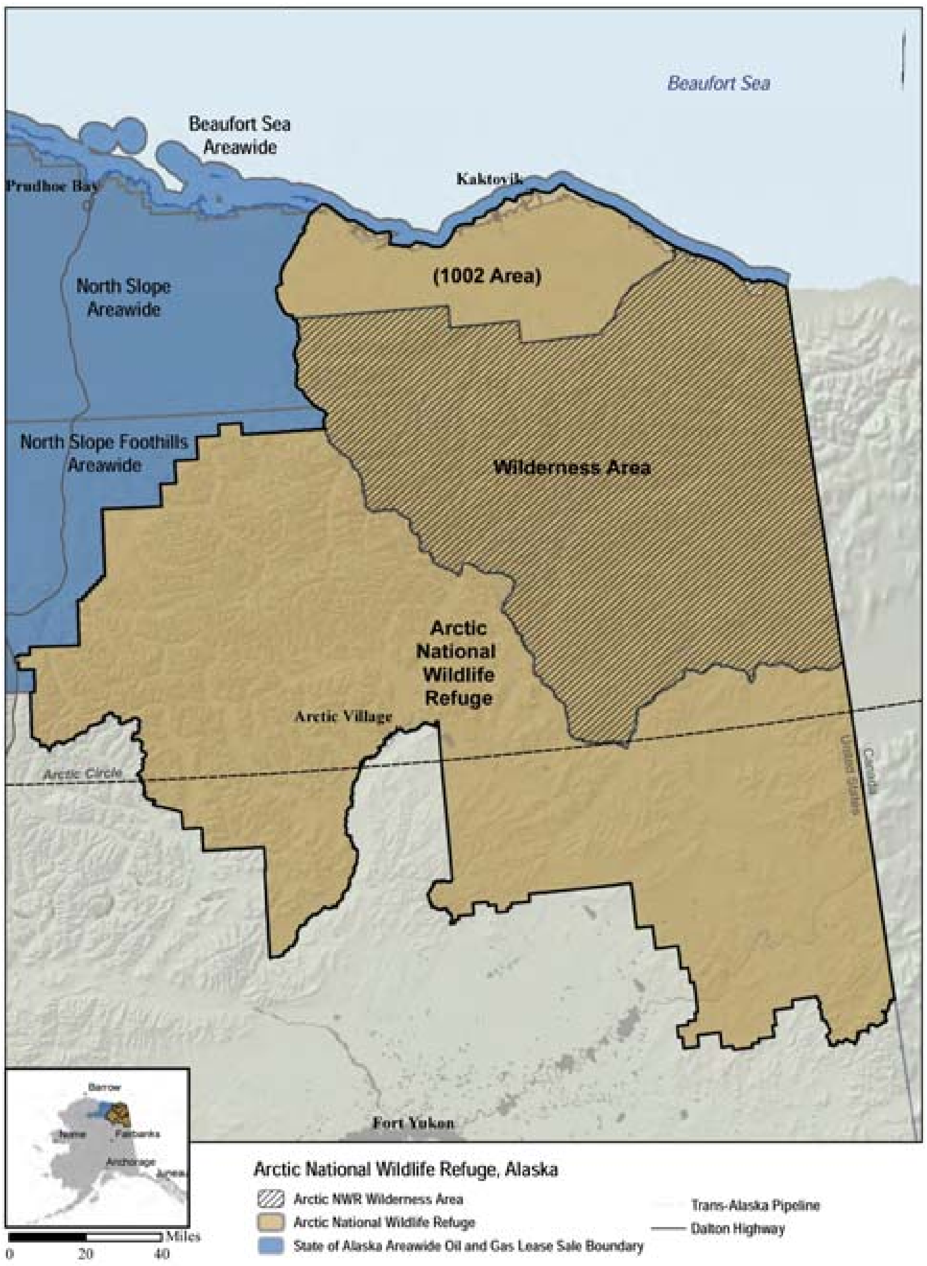
A snubbed alternative

A forthcoming new management blueprint for ANWR, known as the "comprehensive conservation plan," motivated Parnell and his natural resources commissioner, Dan Sullivan.

The U.S. Fish and Wildlife Service, landlord for the refuge, released a draft of the plan in August 2011. It featured six alternatives, ranging from no changes to recommending huge new chunks of ANWR, including the coastal plain, for wilderness designation.

Alaska political leaders questioned why the agency was even considering new wilderness designations. And Parnell and others were perturbed that no oil and gas alternative was included in the draft.

The Fish and Wildlife Service is expected to release its final management plan any time now. That step had been on hold as the Interior Department transitioned to new leadership under Jewell.



ALASKA DNR DIVISION OF OIL & GAS

Parnell's exploration proposal essentially stands as a seventh alternative for ANWR management.

Sullivan touted the exploration proposal at a press event May 20 at the U.S. Chamber of Commerce in Washington, D.C.

He had support at the event from Charlotte Brower, mayor of the North Slope Borough, and Rex Rock, chief executive of Arctic Slope Regional Corp.

The exploration proposal is a seven-year program to acquire high-quality, 3-D seismic data from across the coastal plain, followed by drilling on the best identified prospects.

The environmental impact would be negligible, Sullivan said, because all the work would be done exclusively in winter when the fragile tundra is safely frozen, when ice roads and pads could be built to support equipment, and when the area is relatively devoid of wildlife such as caribou.

Sullivan called it "a modest proposal" to learn what everyone should want to know: the true oil and gas potential of the coastal plain, and its potential for helping the nation and Alaska.

Updating old data

The 15-million-acre coastal plain, also known as the 1002 area, has been crisscrossed before to gather seismic data. But this was in the mid-1980s, using outmoded 2-D technology.

Only one exploratory well, the Chevron KIC No. 1, has been drilled within the 1002 area. Results of that well remain secret.

The government's most recent petroleum assessment for the 1002 area was prepared in 1998 by the U.S. Geological Survey. The study estimated between 4.3 billion and 11.8 billion barrels of technically recoverable oil could be within the 1002 area.

That's a great deal of oil. But the Parnell administration evidently believes that a seismic survey using advanced 3-D technology, followed by the drilling of several wells, could very well prove up a much more tantalizing resource base.

If only access to the area can be won.

"The debate over the opening of the 1002 Area has been ongoing for decades, and we are using data just as old," the open-ANWR lobby group Arctic Power said in a statement endorsing the Parnell proposal. "If we want to have a fully formed discussion over the merits of oil and gas exploration in potentially one of the largest reserves of conventional North American oil and gas, then we need to use the most modern of technology to provide us all with the best possible data."

Alaska Congressman Don Young, who in 2008 turned back Parnell's challenge in the Republican primary, and dubbed him "Capt. Zero," thanked the governor for his "continued leadership" on the ANWR issue.

Young said Parnell's proposal offers "yet another chance for the Obama Administration to commit to develop oil and gas on federal land."

Seismic and drilling details

The exploration proposal lays out "one plausible scenario" for conducting seismic and drilling operations on the coastal plain to "definitively establish the area's oil and gas resource endowment."

The proposal has three phases: seismic surveys, planning and permitting, and exploratory drilling.

The seismic survey phase would cover three years, acquiring up to 3,305 square miles of 3-D data. It would focus first on the western coastal plain, particularly the Undeformed area.

"This area should have the highest priority for investigation because of assumptions of reservoir quality, likely oil charge characteristics, and proximity to existing infrastructure to the west," the proposal says.

Seismic work would progress to areas farther south and west, including the Marsh Creek area, the Hulahula area, the Jago area, and the Sabbath area.

The Hulahula area, in the central coastal plain, contains a subsurface structural depression called the Hulahula Low.

"This area preserves some of the youngest and best potential reservoir sandstones on the coastal plain, and is interpreted to be a key 'kitchen,' or area where oil and gas has been generated from source rocks," the proposal says.

To help fund the seismic program, Parnell said in his letter to Interior Secretary Jewell that he'd request up to $50 million from state legislators during their 2014 session. Parnell recommended the USGS conduct the 3-D seismic program in conjunction with the Alaska Division of Geological and Geophysical Surveys.

"We would of course need a positive indication that the federal government would want to partner with the State of Alaska on such a seismic program before submitting a budget request to our Legislature at the end of the year," Parnell wrote.

Sullivan said the survey data would be available publicly.

Following the seismic survey phase, Parnell's exploration proposal would move into the planning and permitting phase, and then into the exploratory drilling phase.

The proposal calls for drilling up to 16 wells on 14 key prospects with four rigs working over four winter seasons.

A map shows hypothetical drilling locations.

"The State's proposal is a way forward," the document concludes. "At the end of the exploration program, Congress, the State, industry, and the public will all know what oil and gas resources are available under the 1002 Area. This will allow Congress to make an informed decision regarding an area that has been under debate since the 1980s."

Petroleum News asked the Fish and Wildlife Service for comment.

"We really have no position on Gov. Parnell's proposal," agency spokeswoman Cathy Rezabeck said. ●

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