



## Hydrokinetic prop. for Alaska



One of the articles posted on Greening of Oil's Web site is about a design to generate power from moving water. It was invented by the Greek mathematician Archimedes more than 2,000 years ago. Scott Anderson and his team believe they can convert abandoned oil platforms in Alaska's Cook Inlet into clean, renewable power sources. Read the story, Hydrokinetic proposition for Alaska, at [www.greeningofoil.com](http://www.greeningofoil.com).

## Greening of Oil: Latest from Mac Ackers

AND THE OSCAR DOESN'T GO TO ... We're talking Hollywood. Anything goes, right?

But this one backfired. The Academy of Motion Picture Arts and Sciences didn't play ball by delivering the goods on Oscar night.

In what might have taken the prize for Manipulation, a coalition of 50-odd nongovernmental, environmental and aboriginal organizations drew a tenuous link between the big-box, sci-fi movie Avatar and the oil sands.



MAC ACKERS

see MAC ACKERS page 21

## Untangling Mac line red tape; NEB calls for recommendation changes

Proponents of the Mackenzie Gas Project have waited the best part of a decade for a regulatory agency to streamline processing of their application.

But Canada's National Energy Board has done what the partners, the wider industry and some government leaders have repeatedly urged.

The federal regulator said March 9 it is ready to modify 85 of the 176 recommendations issued late in 2009 by the Joint Review Panel that examined the environmental and socio-economic impacts of the MGP.

In a letter to the JRP, the NEB said in its view "some recommendations fall within the jurisdiction of other regulatory authorities."

"Conditions imposed by the NEB in such cases could conflict with existing and future regulatory processes. Therefore

see NEB CHANGES page 19

## FINANCE & ECONOMY

# BP earns \$1.89B in '09

Company sees slight drop in Alaska profits, big drop in sales and taxes

By ERIC LIDJI  
For Petroleum News

**B**P Exploration (Alaska)'s 2009 balance sheet provides a pretty good example of how the progressive nature of Alaska production taxes impacts profits for a major oil company.

BP earned \$1.89 billion in Alaska in 2009, down around 3 percent from the \$1.95 billion the company earned in 2008. Those somewhat level year-over-year results came as oil production fell 8 percent and total annual revenue fell 35 percent from last year.

The reason? Taxation fell 64 percent as a result of progressive elements in the Alaska tax code that rise and fall along with oil prices, which backed off from 2008's record highs.

BP Exploration (Alaska) brought in \$5.04 bil-

*The numbers are instructive because 2009 was the first time oil companies posted earnings for two consecutive years under the same tax structure in Alaska since 2005.*

lion in revenues in 2009, down from \$7.76 billion in 2008. Meanwhile, the subsidiary paid around \$1.2 billion in taxes last year, compared to almost \$3.3 billion in 2008. Put another way, taxes ate up 42.3 percent of BP Exploration (Alaska)'s revenues in 2008, but took 23.5 percent in 2009. As a result, the company's profit margin was 37.5 percent in 2009, compared to 25 percent in 2008.

The numbers are instructive because 2009 was

see BP EARNINGS page 23

## EXPLORATION & PRODUCTION

# Critics eye Point Thomson

Environmental, Native groups question drill pads so close to Beaufort Sea surf

By WESLEY LOY  
For Petroleum News

**E**nvironmental groups are raising questions about ExxonMobil's Point Thomson project on Alaska's North Slope, arguing among other things that proposed drilling pads could be vulnerable to potential erosion along the Beaufort Sea coast.

The groups also are concerned the development crowds the western border of the Arctic National Wildlife Refuge, long a conservation priority for environmental campaigners.

The environmental groups raised their Point Thomson concerns in a joint comment letter submitted to the U.S. Army Corps of Engineers, which

*The Corps of Engineers expects to identify the "least environmentally damaging practicable alternative" and issue its record of decision by August 2011.*

is the lead federal agency for preparing an environmental impact statement on ExxonMobil's project.

The Fairbanks-based Northern Alaska Environmental Center wrote the letter on behalf of itself, the Alaska Wilderness League, the Sierra Club and The Wilderness Society.

see POINT THOMSON page 22

## GOVERNMENT

# Facing tough issues

Salazar states his position on OCS leasing, NPR-A and oil development

By ALAN BAILEY  
Petroleum News

**B**esieged on one side by development proponents and on the other by the environmental lobby, it seems that nowadays the U.S. Department of the Interior has difficulty keeping anyone happy when it comes to the thorny questions of whether or how to open federal onshore and offshore lands for oil and gas development. So, on March 3 Interior Secretary Ken Salazar walked something of a tightrope across a quagmire of conflicting land use agendas when answering questions about Interior's proposed 2010 budget before the U.S. Senate Energy and Natural Resources



KEN SALAZAR

Committee.

"We are working on some tough issues," Salazar said, reflecting on budget cuts that are driving the possible loss of DOI jobs equivalent to 1,300 full-time positions, in addition to the host of difficult land use issues that Interior faces.

And at the top of many agendas when it comes to Alaska oil and gas are long-awaited Interior statements and decisions relating to lease sales on the outer continental shelf.

"The outer continental shelf and how we move forward with the outer continental shelf has been one of the huge issues of work in the Department of the

see SALAZAR page 21

# contents

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## ON THE COVER

### BP earns \$1.89B in '09

Company sees slight drop in Alaska profits, big drop in sales and taxes

### Critics eye Point Thomson

Environmental, Native groups question drill pads so close to Beaufort Sea surf



### Facing tough issues

Salazar states his position on OCS leasing, NPR-A and oil development



### Greening of Oil: Latest from Mac Ackers

### Untangling Mac line red tape; NEB calls for recommendation changes

## ALTERNATIVE ENERGY

### 19 Kenai Hydro suspends activity on project

Reorganized Homer Electric venture tells FERC it needs timeout on proposal to harness Grant Lake, Falls Creek to make power

## ASSOCIATIONS

### 5 Who benefits, pays with subsidization?

## EXPLORATION & PRODUCTION

### 4 Ramping up the Alberta oil sands

Two startup companies roll out plans, with one seeking to raise C\$750 million; France's Total unloads regulatory frustrations

### 5 BP sets new record for coiled tubing

Milne Point sidetrack well extends out to a measured depth of 22,461 feet, beating the previous record of 20,540 feet set in 2005

### 8 February worldwide rig count up

### 9 TG World drops interest in Sak River

### 15 BP's heavy oil test facility ready



## GOVERNMENT

### 6 Lowering barriers to energy growth

### 12 Parnell requests corps reconsideration

### 13 Rural Energy Conference set for April

## LAND & LEASING

### 3 Chevron relinquishes 41 White Hills O&G leases

### 11 Talisman looking to sell Alaska assets

### 12 US, Canada battle over Beaufort boundary

## NATURAL GAS

### 6 Coalbed methane goes flat in Alberta

### 7 North Fork rights-of-way applications in

### 8 Persily confirmed as federal coordinator

### 8 Denali moves filing date back 2nd time

### 13 British Columbia cuts resource budgets

### 14 Some changes made to open season plan

TransCanada, ExxonMobil cite view of most that plan should go ahead, clarify some issues, say others not open season plan issues

### 16 Bill separates oil, gas in Alaska tax

### 17 DEC proposes new village utility permit



## OUR ARCTIC NEIGHBORS



### 10 Seismic surveys disturb fish, Norway finds

Alberta anticipates land sales bonanza, possibly topping C\$1B; Quebec test results could unlock new play, fuel junior share surge

### 10 Norwegian industry seeks bait for fishermen

### 10 Norway offers more offshore Arctic blocks

## SAFETY & ENVIRONMENT

### 8 Salazar announces Alaska climate center

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- Commercial analysis
- Risk Analysis



• LAND & LEASING

# Chevron relinquishes 41 White Hills O&G leases

*Dropped leases lie in southern end of prospect in Brooks Range foothills, but company plans to retain leases around recent exploration wells in the north*

By ERIC LIDJI  
For Petroleum News

Chevron is narrowing its focus at its White Hills prospect on the North Slope.

According to state land records, the state terminated 41 leases in White Hills on Feb. 1 because Chevron, through its subsidiary Union Oil Company of California, decided to stop paying rental fees on the acreage. The leases would have expired in January 2014.

Chevron, through Union Oil, picked up all 41 leases in a March 2006 lease sale.

The White Hills prospect is in the foothills of the Brooks Range 25 miles southwest of Prudhoe Bay. The relinquished leases represent only a portion of Chevron's land holdings at White Hills, comprising roughly the southern two thirds of the prospect.

Those leases include at least seven proposed well locations and surround at least another five proposed well locations on land not currently leased by Chevron or Union Oil.

***In the past, Chevron has said it was looking for both oil and gas at White Hills. Several previous wells drilled by other operators in the region have had oil shows, but Chevron planned several "relatively shallow" wells, which could signify a natural gas target.***

The leases Chevron is retaining in the northern end of the prospect include two wells Chevron is believed to have drilled in early 2008, Muskoxen 36-7-8 and Bluebuck 6-7-9.

That suggests Chevron isn't so much pulling out of White Hills as refining its focus toward the northern end of the prospect. That aligns with Chevron's activity at White Hills in recent winters. The company drilled three wells across the prospect in early 2008, but at the end of that year proposed four new well locations clustered in the north.

"Chevron has completed a two-year exploration program in the White Hills area of the North Slope," Roxanne Sinz, public affairs manager for Chevron in Alaska, told Petroleum News by e-mail on March 9. "We have dropped a portion of our White Hills acreage position. The analysis of the remainder of our acreage position continues."

## A return to northern Alaska

White Hills marked Chevron's return to North Slope exploration after more than a decade focused primarily on the Cook Inlet basin. As Union Oil, Chevron spent nearly \$7 million on 48 tracts in the region at the March 2006 North Slope areawide sale. That acreage added to 20 White Hills leases Union Oil picked up in 2001, before being acquired by Chevron.

Chevron didn't waste time, picking up some 2-D seismic of the area, commissioning a special lightweight drilling rig from Nabors Alaska and permitting well locations across the prospect, but from the start the

***"Chevron has completed a two-year exploration program in the White Hills area of the North Slope. We have dropped a portion of our White Hills acreage position. The analysis of the remainder of our acreage position continues."***

—Roxanne Sinz, public affairs manager for Chevron in Alaska

company proved to be shy with the program details.

Calling White Hills a "tight" venture, Chevron gave out little to no information about the targets and results of its drilling campaign. Public records suggest the company drilled three exploration wells at White Hills in early 2008 and two more in early 2009, but the company permitted many more wells that it may or may not have eventually drilled.

Before the 2007-08 winter drilling season, Chevron permitted 15 potential well locations in White Hills, and by the end of 2008 the company permitted four more potential well locations, mostly focused toward the northern end of the prospect.

Reports from the oil patch last spring suggested that Chevron would suspend work at White Hills and not drill in the 2009-10 winter season. The company did not substantiate those claims. Chevron may have suspended drilling, or may have simply finished its workload on a two-season program.

In March 2008, Chevron sold a 30 percent interest in its White Hills leases to Total E&P USA Inc., a subsidiary of the Paris-based Total S.A.

In September 2009, Union Oil dropped 11 leases in the Foothills picked up during lease sales in 2001 and 2002, and located near, but not in the White Hills area.

Although White Hills is referred to as a Foothills prospect, it's included in the North Slope areawide sales.

## What are they looking for?

One of the biggest questions about White Hills is whether it is gas or oil prone.

North Slope exploration is almost exclusively limited to the search for oil, because currently no infrastructure exists to bring northern natural gas to market. In recent years, though, Anadarko Petroleum began looking specifically for natural gas, opening the door to companies searching for gas to take advantage of a pipeline sometime in the future.

In the past, Chevron has said it was looking for both oil and gas at White Hills. Several previous wells drilled by other operators in the region have had oil shows, but Chevron planned several "relatively shallow" wells, which could signify a natural gas target.

In 2006, former Alaska Division of Oil and Gas Director Mark Myers pointed to oil shows at the unsuccessful Susie well Richfield drilled in the White Hills region in 1966, just before the discovery of Prudhoe Bay. Around the same time, state Division of Oil and Gas geologist Paul Decker told Petroleum News that several previous wells drilled on or near Chevron's acreage in the White Hills encountered good oil and gas shows.

The state apparently expanded its view by late 2008. "This is probably mostly gas, but it is an area where they could also find oil," Marty Rutherford, deputy commissioner of the Department of Natural Resources, said at the "Energy in Alaska" conference hosted by Law Seminars International in Anchorage. ●

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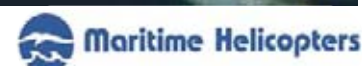
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• EXPLORATION &amp; PRODUCTION

# Ramping up the Alberta oil sands

Two startup companies roll out plans, with one seeking to raise C\$750 million; France's Total unloads regulatory frustrations

By GARY PARK

For Petroleum News

The push to exploit Alberta's oil sands is in full swing, with two startup companies rolling out project plans.

Athabasca Oil Sands Corp., which recently sold 60 percent stakes in two of its leases to PetroChina, and Grizzly Oil Sands have their sights set on commercial production by 2015.

AOSC has also filed a preliminary prospectus to raise C\$750 million from its initial public offering of common shares.

The company submitted an application to the Alberta Energy and Resources Conservation Board for the first phase of its MacKay River project, a thermal recovery operation designed to come on stream by late 2014 and yield a peak 35,000 barrels

per day (14,000 bpd net to AOSC).

Based on an independent evaluator's report, the best estimate of eventual output at MacKay is 150,000 bpd by 2021.

The MacKay lease consists of a contiguous land base with a gross 188,000 acres on leases that were purchased between 2006 and 2009.

It is the most advanced of AOSC's projects. Since 2006, 132 delineation wells have been drilled and MacKay is targeted for a four-phase development.

## 500,000 bpd possible

The company's other principal oil sands assets are at Dover, Dover West, Birch, Hangingstone and Grosmont. PetroChina paid C\$1.9 billion for shares in both Mackay and Dover.

AOSC estimates its total holdings could

eventually produce as much as 500,000 bpd.

AOSC's timetable is based on receiving regulatory approval in 2011-12 and completing construction along with the commissioning of facilities and startup in 2014.

To speed progress towards a regulatory application for the Dover project, AOSC is acquiring about 4.7 square miles of three-dimensional seismic data and drilling up to 52 delineation wells during the current winter. More wells will be needed to support the regulatory submission, targeted for late 2010.

Initial production is scheduled for late 2015, peaking in the range of 200,000-270,000 bpd from a gross acreage of about 148,000 acres.

## Up to 12 wells this winter

AOSC plans up to 12 delineation wells during the current winter program at Dover West (Clastic Carbonates), which is being lined up for commercial production in 2016, peaking at 165,000 bpd when fully developed.

Dover West (Leduc Carbonates) is before regulators for approval to perform short-term, steam-based injection cycles followed by a production cycle in two wells expected to be drilled in the 2010-11 winter to establish production capability. A 3-D seismic data acquisition program will be conducted in the area designated for the pilot project.

A pilot application is due to be filed in 2011 and the first commercial development phase is possible as early as 2019.

AOSC has a net 389,000 acres in a joint 50-50 venture with ZAM Ventures Alberta in the Grosmont area, where four wells have been drilled and cored after yielding encouraging results and five more wells are expected to be drilled in the current winter program.

According to the company prospectus, independent evaluators have assigned about 14 million barrels of probable reserves, 26 million barrels of possible reserves and 7.1 billion barrels of contingent resources to AOSC's assets following completion of the PetroChina deal.

GMP Capital, one of two co-leaders of the initial public offering, with nine other companies in the syndicate, said it views the plan as signaling new life in the markets, with companies financing for growth rather than to repair balance sheets.

GMP Capital Chief Executive Officer Kevin Sullivan said the AOSC target of C\$750 million is one of the largest initial public offerings over the last several years in Canada and "will give us a sense for the market's desire to commit new money."

He described the offering as "an interesting project for use of proceeds in order to attract capital."

## Grizzly plans submitted

Grizzly has submitted its plans to start an 11,300 bpd project that is expected to produce an average 10,000 bpd over a 30-year period, using steam-assisted recovery tech-

nology, said Oklahoma-based Gulfport Energy, which has a 25 percent interest in Grizzly.

Gulfport said the Algar Lake project was chosen as Grizzly's first oil sands development because of its "clean pay interval, low geologic risk and proximity to established infrastructure."

It is near existing projects such as Japan Canada Oil Sands' Hangingstone operation and the Great Divide project by Connacher Oil and Gas.

McDaniel & Associates, Grizzly's third-party engineering firm, estimated Algar Lake will produce about 89 million barrels of bitumen, coming onstream 18 months after approval, which the company hopes to receive by mid-2011.

Each new phase is budgeted to cost about C\$120 million, with additional pad development costs of C\$35 million every five years for each phase.

## Total frustrated

Not every participant in the oil sands is in an upbeat mood, with France's Total venting its frustrations at the ERCB over delays in public hearings into a bitumen upgrader facility near Edmonton,

The regulator dropped dates in February and March and set May 18 to open the hearings, which Total attorney Martin Ignasiak said in a letter to the ERCB adds to "significant delays that have already been imposed on this application."

"In addition to the (money and human resource costs), companies like Total will consider these delays as precedents that add uncertainty to the regulatory process for other projects in Alberta, which in turn will affect future investment decisions."

Total said it has been asking for hearings ever since an environmental assessment was approved last August.

It said "steps must be taken to assess and rectify the types of delays that have been experienced" offering to work with the ERCB to "ensure" the processing of an application for its Joslyn North bitumen mine is "not subject to the same delays that have been experienced with the (upgrader proposal)."

An ERCB spokesman said the board is following standard procedures, which require applicants to prove "there is a sound and valid reason that would impact the quality of the hearing."

He said the ERCB has a duty to see that all parties are "on level ground when the hearing begins," which requires final decisions on whether to give standing to two parties, whose initial application was rejected.

Total's proposed 150,000 bpd upgrader, designed to double capacity in a second phase, must await approval of the 200,000 bpd Joslyn North mine, which is expected by late 2011. The two operations are part of an integrated project. ●

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# BP sets new record for coiled tubing

Milne Point sidetrack well extends out to a measured depth of 22,461 feet, beating the previous record of 20,540 feet set in 2005

By ALAN BAILEY  
Petroleum News

**O**n Feb. 25, after 19 days of drilling, a coiled tubing sidetrack from the MPL-36 well in the BP-operated Milne Point field on Alaska's North Slope reached a measured depth of 22,462 feet. BP thinks this is a world record for a coiled tubing well, Sean McLaughlin, BP coiled tubing drilling engineer, told Petroleum News March 9. BP set the previous record depth of 20,540 feet in the Niakuk field in 2005, said BP spokesman Steve Rinehart.

Nordic Calista's rig 2 drilled the record-breaking Milne Point sidetrack, hitting a field reservoir target 6,650 feet below the surface at a horizontal distance of 19,569 feet from the wellhead. BP thinks that the well's horizontal departure also sets a record for coiled tubing drilling.

The MPL-36 well required a huge 25,000-foot reel of coiled tubing, manufactured in Houston, Texas, and transported to the North Slope via the Alaska port of Whittier. The reel was fitted on a special trailer, so that the railroad car carrying it would fit through the rail tunnel at Whittier, for rail transportation to Fairbanks, and hence by truck to Prudhoe Bay, Rinehart commented.

## Continuous tubing

The coiled tubing technique involves drilling with a continuous length of narrow-diameter and relatively flexible steel tubing, rather than the rigid, 30-foot lengths of drill pipe used in a conventional drilling operation. And, as in the MPL-36 well, a typical coiled tubing operation involves extending the use of an existing well by punching a hole in the side of the well bore; feeding the coiled tubing down the well and out through the hole; and then drilling out from the old well.

In the case of MPL-36, the original well was no longer productive but BP wanted to use the well to access a new section of the Milne Point oil reservoir some distance from the wellhead without having to construct a new gravel well pad, McLaughlin explained.

"We're not making any more pads and so we drill all our wells from (existing) gravel pads with a tight well spacing and we have to drill out underground a con-

**"We really pioneered the service in the early '90s up on the North Slope and we are still expanding our knowledge of what we can do. ... This (record-breaking well) isn't the technical limit. This is a step for us."** —Sean McLaughlin, BP coiled tubing drilling engineer

siderable distance to access the reserves," McLaughlin said.

In addition, in the MPL-36 drilling operation BP wanted to test the practicalities of drilling out over very long distances, as a prelude to perhaps developing some other opportunities in oil pools far from a well pad.

Because the drill pipe is fed into the well from a coil of tubing on a large spool mounted on the drilling rig, it is impossible to rotate the drill pipe in the well, to turn the drill bit and thus auger the tubing through the subsurface rocks. Instead, a motor attached to the far end of the coiled tubing turns the drill bit, with the fluid mud that the drillers continuously pump through the well powering the motor. A device at the surface pushes the tubing into the well, to help drive the bit through the rocks.

## Electric line

An electric line passing through entire length of 2 3/8-inch-diameter coiled tubing in the MPL-36 well allowed the drilling crew to communicate with equipment located just above the drill bit, enabling the crew to steer the bit precisely along a planned drilling trajectory while also enabling the continuous collection of data about the rocks that the drill bit encounters.

A conventional drilling operation generally uses a system of pressure pulses transmitted through the drilling mud to communicate with downhole drilling tools, but this mud pulsing technique becomes problematic through 25,000 feet of coiled tubing, McLaughlin explained.

In addition, the electrical system enables the necessary level of directional control for the coiled-tubing drill bit, he said.

To prevent the collapse of the new sidetrack wellbore for the MPL-36 well, especially in the notoriously unstable shale horizons at Milne Point, the drillers

used a technique known as "managed pressure drilling" in which the drillers maintain from the surface the pressure of the drilling fluid in the well in situations where the tubing has to be extracted from the well.

## Particular challenges

The drilling in the MPL-36 well presented some particular challenges because the original well is inclined at about 80 degrees from the vertical, extending for more than 17,000 feet at this shallow angle. Teasing the flexible tubing down such a shallowly inclined well bore to a considerable distance before executing the sidetrack is especially difficult, and removing well cuttings up a very long incline also becomes problematic.

"Exactly what makes this well challenging is not just the major depth, it's the horizontal departure that we have," McLaughlin said.

**The MPL-36 well required a huge 25,000-foot reel of coiled tubing, manufactured in Houston, Texas, and transported to the North Slope via the Alaska port of Whittier.**

But, with coiled tubing drilling being relatively new, nobody really knows how far it might ultimately be possible to drill using the technique, he said.

"We really pioneered the service in the early '90s up on the North Slope and we are still expanding our knowledge of what we can do," McLaughlin said. "... This (record-breaking well) isn't the technical limit. This is a step for us. There are probably some big wins out there yet to come." ●

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## ASSOCIATIONS

### Who benefits, pays with subsidization?

Mark Foster of MAFA will be presenting a talk on "The economics of subsidization: health care reform and Alaska energy markets," at the Anchorage Chapter of the International Association of Energy Economics on March 17 at noon at the BP Energy Center. Foster will compare the economics of expanded health care coverage with government involvement in Alaska energy, and identify parallels as to where the subsidizations occur, who benefits, and who pays.

The meeting is open to the public. Admission is free for members. There is a suggested donation of \$5 for nonmembers. Contact Roger Marks at 907 250-1197 or [rogmarks@gmail.com](mailto:rogmarks@gmail.com) for information.

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## • NATURAL GAS

# Coalbed methane goes flat in Alberta

By GARY PARK  
For Petroleum News

Coalbed methane, once tagged as a vital new source of gas in Canada, has gone quiet, drowned out by the clatter surrounding shale gas.

And Calgary-based consulting firm Ziff Energy Group believes coalbed methane volumes will remain flat as activity is diverted to British Columbia's Montney and Horn River plays.

Ed Kallio, Ziff's manager of gas consulting, told a seminar there is so little upside that coalbed methane will just "hold its own."

Ziff's Chief Executive Officer Paul Ziff said southern Alberta's Horseshoe Canyon coalbed methane play, the launching platform for production in Canada, is

getting "pretty well drilled up," while the deeper, wet Mannville coalbed methane needs either stronger commodity prices or a breakthrough to make it economic.

## Production not yet at 1 bcf

Quicksilver Resources, a Horseshoe Canyon pioneer, has said its capital investment is being shifted from coalbed methane to Horn River, reflecting the failure of the resource to climb above 1 billion cubic feet per day, far short of the several billion cubic feet once forecast for Western Canada.

Kallio said Horn River and Montney are able to reach the breakeven point at low gas prices and, although Horseshoe Canyon is a good play, it offers less opportunity than the hot spots in British Columbia.

Ziff Energy's most recent study of Mannville

coalbed methane estimated the play needed minimum gas prices of C\$8 per thousand cubic feet to be economic, said the firm's director of gas services, Simon Mauger.

He said the threshold has probably been lowered since that estimate, but it remains to be seen whether Mannville can be commercially viable.

Mannville is "not number one, two or three in terms of the cheapest types of plays," said Ziff, who remains eager to see the wet coals take a larger role because of the huge Mannville potential.

Industry leaders have insisted that without Alberta government incentives Mannville coalbed methane and shale gas deposits will lag behind. ●

Contact Gary Park through [publisher@petroleumnews.com](mailto:publisher@petroleumnews.com)

## • GOVERNMENT

# Lowering barriers to energy growth

Canadian government delivers on promise to 'untangle a daunting maze of regulations'; eliminates separate environment assessments

By GARY PARK  
For Petroleum News

A promise to reduce red tape facing Canada's major energy projects — one that spans the four years since the government of Prime Minister Stephen Harper was elected — now seems destined for action.

The federal budget released March 4 included a commitment to shift responsibility for environmental reviews to the National Energy Board from the Canadian Environmental Assessment Agency.

The move won't have any impact on the Mackenzie Gas Project, but is seen as a plus for future northern, oil sands and pipeline proposals.

Brenda Kenny, president of the Canadian Energy Pipeline Association, said a change would have reduced by years the decade-long process of advancing the MGP by saving a "huge amount of time before the project even got under way."

Dave Collyer, president of the Canadian Association of Petroleum Producers, said only that the focus on regulatory efficiency is a "positive" step.

## Untangling needed

In a speech opening a new session of the Canadian Parliament, the government said Canada's "energy resource endowment" represents an unparalleled economic advantage that must be leveraged to "secure our place

as a clean energy superpower and a leader in green job creation."

As the world's seventh largest crude oil producer backed by the second largest proven reserves after Saudi Arabia; the third largest natural gas producer; and "by far" the largest supplier of energy resources to the world's largest marketplace in the United States, Canada must "untangle the daunting maze of regulations that needlessly complicates project approvals, replacing it with simpler, clearer processes that offer improved environmental protection and greater certainty to industry," the government said.

That requires a special emphasis on the Arctic and the importance of a strategy to realize the potential of Canada's North, it said.

But the Joint Review Panel that handled the environmental and socioeconomic impacts of the MGP took much longer than scheduled and overshot its original budget by C\$10 million before delivering its final report in November.

## Reform promised

The government said it will "reform the northern regulatory regime to ensure the region's resource potential can be developed where commercially viable, while ensuring a better process for protecting our environment."

The Harper administration said it will also give northerners a greater say over their future and accelerate the

process of turning more power over to the territorial governments — Northwest Territories, Yukon and Nunavut.

The government also pledged it will "continue to vigorously defend Canada's Arctic sovereignty (by) mapping resources and waters (and taking steps) to increase marine safety and reduce pollution from shipping and other maritime traffic."

As well, it said, Canada will work with other northern countries to settle boundary disagreements.

Environment Minister Jim Prentice said the objective is to have first-class environmental assessments, while eliminating duplication in the regulatory process.

But Linda Duncan, environmental spokeswoman for the opposition Liberal party, said it is a fallacy that there is duplication of environmental reviews between the federal and provincial governments.

She questioned whether the NEB will place the same importance as the Canadian Environmental Assessment Agency on evaluating a project's impact on land, water, air and wildlife.

## No major new spending

The budget contained no major new spending on climate-change programs other than C\$80 million for a tax incentive program that encourages retrofitting homes to improve energy efficiency.

Prentice said there is "no need for us to increase the

see BARRIERS page 7



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• NATURAL GAS

# North Fork rights-of-way applications in

Construction should start in the fall for pipelines connecting new Kenai Peninsula gas field to Anchor Point and Enstar network

By ALAN BAILEY  
Petroleum News

In November the Regulatory Commission of Alaska approved a new supply of gas for Enstar Natural Gas Co. from Anchor Point Energy's North Fork gas field in the southern Kenai Peninsula. And state right-of-way applications have now appeared for the two pipelines needed to deliver gas from the field.

The pipelines will extend the Southcentral Alaska gas pipeline infrastructure south into a part of the Kenai Peninsula with potential for further gas field development.

One pipeline, to be constructed and operated by Anchor Point Energy, will deliver gas west over the seven miles or so from North Fork to Anchor Point on the Cook Inlet coast. Enstar subsidiary Alaska Pipeline Co. will build the second pipeline, to be known as the Anchor Point pipeline, running about 20 miles north from Anchor Point to connect with the Happy Valley extension of the Kenai Kachemak pipeline near Ninilchik. The existing Kenai Kachemak pipeline runs north to connect with other Kenai Peninsula lines.

The Anchor Point pipeline will generally follow the route of the Sterling Highway that runs down the west coast of the Kenai Peninsula.

**The pipelines will extend the Southcentral Alaska gas pipeline infrastructure south into a part of the Kenai Peninsula with potential for further gas field development.**

### Dual line possible

In its right-of-way application Anchor Point Energy said that it has not yet decided whether to lay a single 4.5-inch pipeline with a capacity of 9 million cubic feet of gas per day, or dual 4.5-inch lines with a combined capacity of 18 million cubic feet per day from North Fork to Anchor Point. The line (or lines) will be buried and will be manufactured from high-density polyethylene with a glass fiber reinforcement layer. Construction should start in the fall of 2010 in the upland areas of the pipeline route, with the laying of the line in wetlands areas taking place during the winter.

Five river and creek crossings are involved.

Anchor Point Energy anticipates the clearing of the pipeline route taking about a month, the installation of the pipeline taking another month and the construction of a metering building taking three to four weeks. Total construction cost is estimated at \$3 million, with the material for the pipeline and ancillary equipment costing another \$3 million. Winter construction would require about 40 people, with an

additional 50 people required to handle protective matting if any wetlands construction takes place in the fall.

Alaska Pipeline said that it plans to build the Anchor Point pipeline using buried 8.6-inch diameter, coated steel pipe and that the line will have a capacity of 50 million cubic feet per day. The line will pass under eight creeks, with trenching or directional drilling techniques being used for the crossings. Work on the pipeline should start in September 2010 and take about 10 months to complete, with pipeline operation expected to start in July 2011. Total construction cost is estimated at about \$15.9 million, with the required materials costing an additional \$5.4 million. Construction will require 40 to 50 people.

### Discovered in 1965

Standard Oil of California originally discovered gas at North Fork when it drilled a well there in 1965 when searching for oil in the area. However, the drilling of a second North Fork well by Armstrong Cook Inlet in 2008, to confirm the size of the gas resource, opened the possibility of developing the field. Armstrong, the company that remains the field operator, subsequently established Anchor Point Energy, a company formed from the five North Fork unit working interest owners, to contract with Enstar for the sale of North Star gas and to build the gas line from the field to Anchor Point. ●

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continued from page 6

## BARRIERS

budgetary resources of the department of environment to deal with climate change issues."

He said the government intends to announce later in March new Canada-U.S. emission standards for automobiles and will follow that with regulations for heavy trucks, ships, trains and planes.

In addition, Prentice said, there will be aggressive measures to reduce emissions in the power sector, although only cautious steps will be taken in the industrial sector, including the oil sands, to ensure the government does not drive jobs and investment out of Canada.

Finance Minister Jim Flaherty said Canada will continue to offer C\$500 mil-

lion in subsidies for the fossil fuel industry to invest in new technologies to capture carbon dioxide emissions from their operations and place those gases in storage.

However, environmental groups say Ottawa is failing to provide support for investment in clean technology or to impose limits on carbon dioxide emissions to achieve its goal of a 17 percent reduction in greenhouse gas emissions over the 15 year period from 2005 to 2020.

Tom Weis, director of renewable energy for the Alberta-based Pembina Institute, said the government apparently views the economy and the environmental as adversarial, unlike other governments around the world and even some of Canada's provincial governments. ●

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## NATURAL GAS

### Persily confirmed as federal coordinator

The U.S. Senate unanimously confirmed Larry Persily March 10 as Alaska natural gas transportation project federal coordinator.

U.S. Sen. Mark Begich, D-Alaska, recommended Persily to the Obama administration for the post.

The senator said in a statement after the March 10 confirmation vote: "Larry's confirmation is great news in the effort to develop Alaska's natural gas resources and take the gas line from vision and hope to reality."

Begich said Persily has more than three decades of experience in Alaska and more than a decade's experience working oil and gas issues, which make him "uniquely qualified to take this position, work with the White House on behalf of Alaskans, and get Alaska's gas to market."

"The White House has indicated once Larry takes his job, President Obama wants to elevate the coordinator's office into his executive office to further advance the Alaska gas line project," Begich said.



LARRY PERSILY

—PETROLEUM NEWS

## EXPLORATION & PRODUCTION

### February worldwide rig count up

Baker Hughes Inc. said March 5 that the worldwide rig count for February was 2,982 (2,632 onshore and 350 offshore), up 209 from 2,773 in January and up 229 from 2,753 in February 2009.

The U.S. rig count for February was 1,350, up 83 from 1,267 in January and up 30 from 1,320 in February 2009. The Canadian rig count for February was 564, up 105 from 459 in January and up 151 from 413 in February 2009.

The February international rig count was 1,068, up 21 from 1,047 rigs in January and up 48 from 1,020 in February 2009. For international rigs the offshore rig count was 301, up 13 from 288 in January and up 15 from 286 in February 2009.

The U.S. accounts for the most rigs worldwide (1,305 onshore and 45 offshore), followed by Canada (560 onshore, four offshore), Latin America (310 onshore, 72 offshore), Asia Pacific (143 onshore, 116 offshore) and the Middle East (219 onshore, 39 offshore). Europe had 85 rigs working in February (40 onshore and 45 offshore) and Africa had 84 (55 onshore, 29 offshore).

—PETROLEUM NEWS

## SAFETY & ENVIRONMENT

# Salazar announces Alaska climate center

By ALAN BAILEY  
Petroleum News

2009 order

Secretary of the Interior Ken Salazar announced March 4 that the Department of the Interior has selected the University of Alaska to host an Alaska regional climate science center. The University of Alaska center is the first of eight regional centers that Interior is setting up across the United States, to provide scientific information, tools and techniques that people can apply to anticipate, monitor and adapt to climate change at a regional level.

Interior hopes to formally establish the new center within six to eight weeks, Salazar said.

"With rapidly melting Arctic sea ice and permafrost, and threats to the survival of Native Alaska coastal communities, Alaska is ground zero for climate change," Salazar said in announcing the new center. "We must put science to work to help us adjust to the impacts of climate change on Alaska's resources and peoples. ... Climate science centers will better connect our scientists with land managers and the public."

Interior also plans to seek grant proposals within the next few weeks for four more of the regional centers, in the northwest, southeast, southwest and north central regions, Salazar said.

The new regional climate science centers, to be staffed by scientists from the U.S. Geological Survey, partner organizations and from elsewhere, represent an expansion of the reach and scope of the existing National Climate Change and Wildlife Center, housed in USGS headquarters, Interior said.

The establishment of the eight regional centers results from an order that Salazar issued on Sept. 14, 2009, to address climate change in the United States by establishing a Climate Change Response Council for the coordination of climate-change related activities in the various bureaus of the Department of the Interior. That order spelled out the formation of both climate science centers and landscape conservation cooperatives, with the cooperatives acting as self-directed partnerships between a variety of government and non-government organizations, to craft "practical, landscape-level strategies for managing climate change impacts within the eight regions," Interior said.

The climate science centers will prioritize fundamental science, data and decision-support activities, primarily in support of the landscape conservation cooperatives, Interior said. The new organizations will support climate change adaptation and mitigation efforts throughout their regions, and not just on public lands.

"I'm glad to see Secretary Salazar and the Department of Interior recognize climate change is a serious problem and put federal resources in place to understand how it impacts Alaska now and into the future," said Sen. Mark Begich March 4. "The effects of climate change are already far greater in Alaska than any other part of the country and this center will allow cooperation and consultation between federal experts and the world-class expertise of the UA system's climate researchers."

Begich said that the new center will be established in Anchorage. ●

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• NATURAL GAS

# Denali moves filing date back 2nd time

By KRISTEN NELSON  
Petroleum News

**D**enali — which delayed the date of its submittal of a FERC application for an Alaska gas pipeline project by more than a year last summer — has now moved that date back again.

The company said in its report to the Federal Energy Regulatory Commission on January activities that the company is now targeting to file for FERC and National Energy Board certificates of public convenience and necessity in the fourth quarter of 2013 to “allow Denali to conduct the two full field-work seasons in 2011 and 2012 which are needed for a complete certificate filing.”

Denali also said it is “not planning additional field survey activities in 2010 until after the initial open season is completed and its results are known.”

Denali spokesman Dave MacDowell told Petroleum News March 10 that Denali has completed the field work necessary for its open season, and won't have any new field-

work planned until the company has sufficient customer support for the project as a result of its open season. Denali has said it will file its open season plan with FERC in April.

The company's original target date for certificate filing, August 2011, was moved back to October 2012 last summer.

The October 2012 filing date matched the filing date set by the competing project, the TransCanada-ExxonMobil project.

Denali, jointly owned by BP and ConocoPhillips, has one of two proposals going to open season this year for a gas pipeline to take North Slope gas to market.

### More info requested

The other proposal, by a partnership of TransCanada and ExxonMobil, filed its open season plan with FERC at the end of January and FERC is taking comments and response on the open season plan.

FERC has requested information from TransCanada Alaska Co. on a data-gap analysis which TransCanada is conducting to identify additional environmental data the

company needs to collect in preparation for its FERC application.

In a March 5 letter FERC asked for a detailed description of how TransCanada plans to generate the resource data-gap analysis; a summary report of the data-gap analysis results; and a field study plan identifying the target start and completion dates for each element or study needed to fill an identified gap.

In its report to FERC on January activities, submitted in mid-February, TransCanada said FERC requested that activity on the Canadian portion of the line be included in project updates.

TransCanada said Canadian activities, like those in Alaska, have been focused on developing cost estimates for the open season. The company provided a list of activities and also said its environmental and regulatory support contractors “began mobilizing and initiated work planning” for the Canadian portion of the project. ●

Contact Kristen Nelson at [knelson@petroleumnews.com](mailto:knelson@petroleumnews.com)

• EXPLORATION & PRODUCTION

# TG World drops interest in Sak River

Calgary independent cites poor test results from Sak River No. 1-A sidetrack, retaining interest in other joint venture properties

By ERIC LIDJI  
For Petroleum News

**T**he Canadian independent TG World Energy Corp. is giving up its stake in a North Slope exploration well after judging initial production test results unsatisfactory.

A production test of the Kuparuk C-1 sandstone at the Sak River No. 1-A exploration well on March 5 and 6 “recovered water and a minor amount of oil,” according to a March 8 press release from the Calgary company. “The fluid composition was measured as 97 percent water on average with minor oil and gas content,” the company said.

As a result of what it called an “unsuccessful” well, TG World gave up “certain working interests in the Beechey Point Unit leases in Alaska to AVCG,” or the Alaska Venture Capital Group, the Kansas-based parent of Brooks Range Petroleum Corp., the independent operating a multiyear exploration program on behalf of several partners.

BRPC declined to offer further details on the results of Sak River No. 1-A testing.

BRPC spud Sak River No. 1-A in

**BRPC confirmed that it intends to begin drilling a North Tarn No. 1 well in 2011, saying the target spud date for the well is “less than 10 months away.”**

Gwydyr Bay on Jan. 26. The well is a sidetrack of Sak River No. 1, a suspended well BRPC drilled in early 2007 to a total depth of 11,348 feet and a measured depth of 13,110 feet. Sak River No. 1 did not encounter hydrocarbons.

On Feb. 17, BRPC said it drilled Sak

River No. 1-A to a measured depth of 12,726 feet and a total depth of 9,350 feet, “stopping within the Miluveach formation.” The company said, “Porous sandstones with hydrocarbon shows were encountered in sandstones of the Kuparuk formation at a depth of approximately 8,900 feet subsea (total vertical depth).”

### TG keeping other acreage

TG World paid 45.7 percent of the drilling, completion and testing costs of Sak River No. 1-A in return for a 35 percent interest in the well. Although dropping the well, TG World is keeping a “net

profit interest after payout” in the 2007 North Shore No. 1 discovery, as well as an interest in acreage at the Beechey Point unit “outside of the drilling blocks of Sak River, North Shore and Pete’s Wicked acreage.” TG World is also keeping its 25 percent stake in leases outside of the Beechey Point, and its 20 percent stake in the North Tarn farm-in.

BRPC confirmed that TG World is retaining its interest in the Tofkat prospect southwest of the Kuparuk River field and the South Thomson prospect

see TG WORLD page 11

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## OUR ARCTIC NEIGHBORS

### Norwegian industry seeks bait for fishermen

Offshore areas of the Norwegian Arctic will only be opened up to oil and gas activities if coastal residents can be persuaded there are benefits for them, the chairman of a local oil company told the Arctic Frontiers conference in Tromsø Jan. 26. Johann Petter Barlindhaug of North Energy said working with fishermen and indigenous people is crucial.

"They would like to participate in the early stage of the project," Barlindhaug said. "They will not be treated as a problem, they will be treated as (people) who have significant knowledge that they would like to have as input, so they can both kind of improve the development that will take place and also be part of the creation of concepts and things like that."

Explaining to people that the risks associated with oil and gas activities are small isn't enough, Barlindhaug told the conference.

"They then ask the question, why should we take that risk if we don't have a very clear and long-term benefit, and I think that is the major issue when we shall have a wide acceptance for the oil and gas industry," he continued. "And the goal is that when the oil and gas period is ended, then the region should be in a better situation than before." Advantages for the north could include more educational opportunities, involvement of local businesses in projects, and improved transportation and communications infrastructure, Barlindhaug added.

People in northern Norway sometimes look on oil and gas companies as having a hit-and-run strategy, exploiting the resources, taking the oil and then leaving, Barlindhaug noted. "That, I think, is the most damaging impression that we can have. ... The fishermen are those who carry the public opinion. And I would say it so strongly that if they don't want us there, we should not be there. So we need to have a wide acceptance by the fishermen," he said.

—SARAH HURST

### Norway offers more offshore Arctic blocks

The Norwegian government has expanded the areas available for oil and gas exploration activities in the Barents Sea and Norwegian Sea in its announcement of the Awards in Predefined Areas 2010, the Ministry of Petroleum and Energy said in a release Feb. 19. An additional 20 blocks are now available to the industry in the Barents Sea and another 43 blocks in the Norwegian Sea. These are mainly relinquished blocks where petroleum activities have previously taken place.

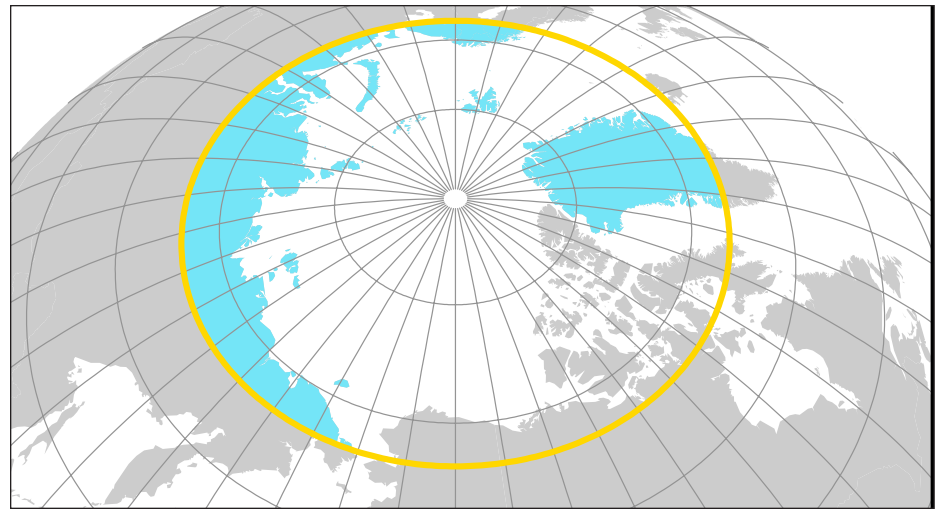
"Regular access to prospective acreage is key to ensuring further activity on the Norwegian shelf," said Norway's minister of petroleum and energy, Terje Riis-Johansen. "We are undertaking the largest extension of the predefined areas since the establishment of the APA in 2003. The extensions are in accord with the management plans. ... With this I hope we have laid a good foundation for new discoveries, new developments and new activities in the north."

The APA is the annual licensing round for mature areas on the Norwegian continental shelf. Together with the numbered rounds, which focus on frontier areas, the APA rounds ensure that companies maintain focus on all open areas on the shelf, the ministry said. The mature areas are the most explored areas and have known geology, fewer technical challenges and well-developed or planned infrastructure. In mature areas companies can often use existing infrastructure, but must act before the infrastructure associated with other fields is shut down.

The deadline for submitting applications for the APA 2010 is Sept. 15. The awarding of new production licenses is scheduled to take place in late 2010 or early 2011.

—SARAH HURST

**An additional 20 blocks are now available to the industry in the Barents Sea and another 43 blocks in the Norwegian Sea. These are mainly relinquished blocks where petroleum activities have previously taken place.**



• OUR ARCTIC NEIGHBORS

## Seismic surveys disturb fish, Norwegians find

Research project in Arctic waters shows varying effects on different species, but fish did react to sound from seismic guns

By SARAH HURST  
For Petroleum News

Seismic surveys do have an effect on fish, the Norwegian Petroleum Directorate has concluded after commissioning the Institute of Marine Research to conduct one of the largest-ever research projects on this issue. The research took place in summer 2009 off the district of Vesteralen in northwestern Norway, in an area that the oil and gas industry has been hoping the government will open up for licensing.

The sound waves from seismic data acquisition resulted in increased catches for some species and smaller catches for others, the NPD said in a release March 2.

"It appears that pollock may, to some extent, have withdrawn from the area, while other species seem to remain," the NPD said.

### Fish reacted to seismic

"The survey clearly indicates that the fish reacted to the sound from the seismic guns," the NPD said. "The most probable explanation for both the increased and reduced catches for the various species and fishing gear is that the sound waves from the seismic guns put the fish under some stress, causing more swimming activity. This would, for example, explain why more Greenland halibut went into the net, while long line catches of the same species declined."

During the research the vessel Geo

**The sound waves from seismic data acquisition resulted in increased catches for some species and smaller catches for others, the NPD said in a release March 2.**

Pacific acquired 3-D seismic for just over a month in an area known as Nordland VII. Chartered fishing vessels fished in the area using both nets and lines, while the research vessel Hakon Mosby worked with another chartered fishing vessel to map the occurrence of fish and plankton using echo sounders and sonar. Stomach specimens were also taken from the catches, and recordings were made of the sound from the air guns on the seismic vessel.

"To a large degree, the mapping using echo sounders and sonar substantiates the results from the fishing tests," the NPD said. "Analyses of the stomach contents in the fish caught did not reveal changes which could be attributed to the seismic survey. Neither were any changes in the distribution of plankton proven during the seismic data acquisition."

The results from this study deviate from the results of previous studies, which have demonstrated considerable reductions in the catch rates for trawl and line fishing, the NPD noted. In one of the previous studies the seismic acquisition activity was concentrated within a smaller area, which entailed a stronger and more continuous sound impact on the fish than in the latest study, the NPD added. ●



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• LAND & LEASING

# Talisman looking to sell Alaska assets

The Canadian company notes in annual filings that NPR-A and Foothills leases up for sale; company drilled five wells in Alaska

By ERIC LIDJI  
For Petroleum News

**T**alisman Energy appears to be looking to leave Alaska.

The Calgary-based independent, which operates in Alaska through its subsidiary FEX, wants to sell its interest in leases in northern Alaska, according to a financial filing posted by Canadian securities regulators March 8. In the filing, Talisman listed its holdings in the National Petroleum Reserve-Alaska and the foothills of the Brooks Ranges as being more than 1 million net acres and said it “has announced that these assets are for sale.”

Talisman, through FEX, owns a stake in 122 leases in the NPR-A and another 61 leases on state lands and waters, for a total of 1.7 million gross acres. While FEX owns one NPR-A lease outright, it owns the remaining 121 in a partnership with Petro-Canada.

Fellow Canadian company Suncor Energy took over Petro-Canada last year.

In its filings, Talisman also noted that it incurred a \$42 million dry hole expense in Alaska in 2008, but earned \$34 million in income tax credits for its Alaska exploration.

*continued from page 9*

## TG WORLD

south of Point Thomson. The company also confirmed that it plans to move ahead on exploration work this winter.

TG World also said North Tarn exploration, originally considered for this winter, was being pushed to early 2011 because of timing constraints as the end of winter approaches. BRPC confirmed that it intends to begin drilling a North Tarn No. 1 well in 2011, saying the target spud date for the well is “less than 10 months away.”

## Move allowed by contract

TG World backed off from joint venture drilling and development in Alaska in late 2008, when oil prices tanked and credit markets collapsed. In response, BRPC filed a lawsuit against TG World, forcing the joint venture to miss the 2009 exploration season. The companies eventually reached a settlement in time to prepare for the current season.

BRPC confirmed that under the terms of the current joint venture agreement, TG World is allowed to relinquish acreage in the manner it did at the Sak River well. ●

Contact Eric Lidji  
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**Talisman also noted that it incurred a \$42 million dry hole expense in Alaska in 2008, but earned \$34 million in income tax credits for its Alaska exploration.**

## A half-busy tenure in Alaska

Upon arriving in 2003, Talisman showed great interest in Alaska, leasing significant acreage and taking part in five exploration wells through early 2007, including some of the most remote and risky wildcats undertaken in the NPR-A since the 1950s.

In May 2007, FEX said two of those wells encountered more than 225 net feet of hydrocarbon-bearing sandstones, putting the “initial estimate of contingent resources present” at 300 million to 400 million barrels net to FEX. But FEX immediately tempered any excitement by saying it needed to focus on seismic before drilling again.

Talisman sanctioned a \$25 million onshore 3-D seismic program in the Smith Bay region of northern NPR-A the largest seismic program ever undertaken by the company.

In the summer of 2007, former BP executive John Manzoni took over as chief executive officer of Talisman and quickly launched a companywide strategic review aimed at getting long-term production growth from fewer fields, meaning a move toward developing a few big fields rather than numerous small satellites in maturing basins.

That didn’t bode well for the aging, satellite-strewn North Slope, but in May 2008 Talisman listed Alaska as one of nine exploration areas it would continue to explore.

With its seismic shoot completed, though, Talisman took a half-step back from Alaska in early 2009 by announcing that it wouldn’t begin drilling wells in Alaska any sooner than early 2011, saying it “takes quite

a while” to process and interpret new seismic data.

“The Alaska North Slope has a lot of oil and gas to be found. The only problem is it’s hard to find commercial quality reservoirs,” John ‘t Hart, then executive vice president of global exploration for Talisman told the Alaska Support Industry Alliance, adding, “It’s a super charged system, and if you can find the right reservoir, this is a great place to be.”

Unveiling its near-term strategy in January 2010, Talisman did not detail its intentions for Alaska, but showed increasing interest in its major shale plays across North America.

FEX also holds state leases in the central North Slope. It’s unclear how many of those leases are also up for sale, or if the company plans to eventually explore on state land. ●

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## GOVERNMENT

### Parnell requests corps reconsideration

Alaska Gov. Sean Parnell has requested that the U.S. Army Corps of Engineers reconsider its Feb. 5 denial of a permit request by ConocoPhillips Alaska for development of CD-5, the company's oil prospect which lies west of the Alpine field in the National Petroleum Reserve-Alaska.

The governor said in a letter to the corps' district commander that according to federal regulations the decision should have been referred upward from the district engineer to the division engineer for resolution because it is contrary to the written position of the governor of the state in which the work was to be performed.

Parnell said he had made his position in favor of the project well known to the corps, in writing and in a personal meeting.

As an alternative to referring the decision to the corps' division engineer, Parnell requested that the district reconsider its decision denying the permit request.

The governor said the Alaska Department of Natural Resources has "thoroughly reviewed potential impacts on subsistence users, fish, wildlife, and water quality in the project area and we are satisfied that ConocoPhillips' plan adequately addresses any concerns."

ConocoPhillips Alaska spokeswoman Natalie Lowman told Petroleum News in a March 9 e-mail that the company supports the governor "in getting clarity on the process as outlined in his letter."

She noted that the CD-5 project "represents more than \$600 million in investment, and 400 direct new jobs per year during construction, plus hundreds more support jobs."

"Until this permit is resolved with the Corps of Engineers, this project cannot move forward," Lowman said.

ConocoPhillips said in February after the corps issued its decision that it would appeal.



GOV. SEAN PARNELL

JUDY PATRICK

—KRISTEN NELSON

## LAND & LEASING

# US, Canada battle over Beaufort boundary

Alaska leasing proposal, US moratorium on fishing draw Canadian protests; Ottawa has signaled it wants 40-year issue settled

By ELIZABETH BLUEMINK

Anchorage Daily News

In the conflict between the United States and Canada over who owns a pie-shaped wedge of the Beaufort Sea off the Alaska-Yukon coast, it appears that what lies to the north of the wedge is the biggest wild card of all.

The dispute over the New Jersey-sized slice of ocean directly northeast of Alaska is getting big attention lately. Drawing a protest from Canada, the State of Alaska recently attempted but failed to auction oil leases within the disputed area.

Canadians also protested the U.S. decision last year, made without their input, to put a moratorium on commercial fishing in a large swath of the Arctic that included the disputed area.

The Canadian government draws a line running straight north from the Alaska-Yukon border as its international boundary — which gives it control of the disputed area. The United States draws a line to the east — which gives it control.

What boosts the dispute's importance is that using either line would impact the countries' future claims to seafloor more than 200 miles offshore. This area, called the extended outer continental shelf, stretches far beyond the disputed zone. It is still being mapped but is believed to hold vast oil and gas riches. Canada and other nations are preparing to claim ownership to

portions of the extended shelf, but the United States has not announced anything yet.

The countries need to gather more scientific information, said Ashley Roach, a retired U.S. State Department official.

"All of us, Canadians and Americans, are going to face some difficult choices in resolving the dispute," said Tony Penikett, a former Yukon premier.

No one even knows yet which parts of the seafloor hold the resources, Roach said.

For now, it appears that the United States would be able to claim a larger section of the seafloor if it accepted Canada's proposed boundary.

The fact that the Canadian boundary line might actually be a better deal for the United States was the key revelation at a meeting of Canadian and U.S. policy experts on March 6 in Anchorage. During the daylong meeting, the group brainstormed ways to resolve the boundary dispute. Roach and Penikett were among the participants. The Alaska attorney general stopped by for a briefing.

Ideas raised during the daylong meeting, hosted by the Institute of the North, ranged from treaties to agreements to jointly managing the disputed area.

Members of the group said they will forward ideas from the meetings to U.S. and Canadian officials. They are also hoping to organize public events in Alaska or Canada to allow tribes and other groups to weigh in.

In terms of oil leasing, it would be in Alaska's interest to resolve the dispute, "especially if it resulted in more territory," said Dan Sullivan, the state attorney general. The state's ownership extends three nautical miles off the coast.

The Canadian government has signaled in recent weeks that it is looking for a resolution to the nearly 40-year-old dispute.

In a speech equivalent of the State of the Union address, the Canadian government said March 5 it wants the country's northern boundary resolved. ●

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• NATURAL GAS

# British Columbia cuts resource budgets

Money diverted to health care, education, in anticipation of C\$1 billion decline in resource sector revenues over next 3 years

By GARY PARK

For Petroleum News

In what some critics see as biting the hand that feeds British Columbia revenues, the provincial government plans to divert spending in its key resource departments — energy, mines and forestry — by C\$320 million over the next three years to support health care and education programs.

It's a swift response to projections in the 2010-11 budget, released March 2, that gas and lumber royalties will fall C\$1 billion by 2013 over what had been forecast just six months ago.

The downturn started in the current fiscal year, which ends March 31, with revenues from the gas sector being lowered to C\$464 million from the budgeted C\$522 million, after averaging more than C\$1 billion a year in the three previous fiscal years.

However, despite the scaling back of royalty targets over the next three years, the government expects a recovery to C\$698 million in 2010-11, then C\$1 billion and C\$1.2 billion for the following two years, reflecting anticipated growth in shale gas development and solid gains in commodity prices.

Gas prices at British Columbia's plant gates for 2009-10 are expected to average C\$3.06 per gigajoule, down 45 cents from the September estimate, and are forecast to climb to C\$4.29 in 2010-11, then C\$5.09 and C\$5.38 in the succeeding years. Every C\$1 change in price generates an extra C\$255 million to C\$305 million in revenues.

## Abundance of gas

Energy Minister Blair Lekstrom said he takes a positive view of industry expectations that North America will have an abundance of gas from the continent's shale plays.

"Natural gas is the cleanest burning fossil fuel we have. Everybody is looking towards cleaning up the environment, working at reducing greenhouse gas emissions."

He said the challenge for the gas industry is to open up new markets, especially by using gas rather than coal to generate

electricity in the United States.

Also on the horizon is the possibility of using gas as a transportation fuel.

In addition, Lekstrom believes LNG exports, starting with the Kitimat LNG project, will play a key role in the province's gas development.

The government estimated British Columbia's remaining gas reserves were 21.37 trillion cubic feet at the end of 2008, the eighth successive year of increases, including a sharp rise of 5.7 tcf since 2005.

Gavin Dirom, president of the Association for Mineral Exploration B.C., said that despite the revenues forecasts for the resource sector, the government has opted to cut the budget for the Ministry of Energy, Mines and Petroleum Resources by 14 percent, following a 4 percent trimming in 2009.

## Revenue growth projected

Finance Minister Colin Hansen said British Columbia's stimulus packages, including royalty initiatives, are contributing to a strong performance by the oil and gas industry.

As a result of the initiatives and forecast improvements in the marketplace, revenues from the industry should grow by an annual average of 39 percent over the next three years, he said.

British Columbia enjoyed five straight years of budget surpluses before the recession, but is now in the first of four anticipated deficit years, starting with C\$2.8 billion in 2009-10, C\$1.7 billion in 2010-11, then C\$945 million and C\$145 million.

Hansen said overall spending has to be reined in if British Columbia is to regain a surplus, thus government budget growth is being held to an average 2.34 percent while a 7.3 percent decline in revenue over the last three years has time to close the gap.

The government is targeting 2.2 percent economic growth this year, 2.3 percent in 2011 and 2.7 percent in 2012, but concedes it is uneasy about the prospect of a "double-dip" recession in the United States if fiscal and monetary stimulus spending is prematurely ended. ●

Contact Gary Park through publisher@petroleumnews.com

## GOVERNMENT

### Rural Energy Conference set for April

The 2010 Rural Energy Conference will be held April 27-29 at the Westmark Conference Center in Fairbanks, conference organizers — the Alaska Energy Authority and the Alaska Center for Energy and Power at the University of Alaska Fairbanks — said March 9.

This year's conference theme is "New Energy for Sustainable Communities."

Invited speakers include Gov. Sean Parnell, U.S. Sens. Lisa Murkowski and Mark Begich, U.S. Rep. Young, Alaska Sens. Lesil McGuire and Bill Wielechowski, Alaska Reps. Charisse Millett and Bryce Edgmon and Denali Commission Federal Co-Chair Joel Neimeyer.

"Alaska is in the beginning stages of a journey that requires focus, determination, innovation and balanced risk-taking," said AEA Executive Director and Energy Coordinator Steve Haagenson. "We are striving to reduce our reliance on fossil fuels by looking at local resources as a way to stabilize energy costs."

Technical sessions will focus on management and economics, current technologies, forward-future technologies and energy conservation. Well-known Alaska Native leader Willie Hensley will lead a panel discussion on innovation and change in energy use in rural Alaska.

Conference registration information is available by calling the Alaska Center for Energy and Power at 907-474-5402 or by visiting their Web site: www.uaf.edu/acep.

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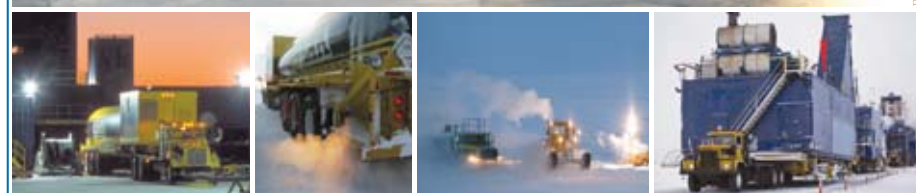
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## • NATURAL GAS

# Some changes made to open season plan

TransCanada, ExxonMobil cite view of most that plan should go ahead, clarify some issues, say others not open season plan issues

By KRISTEN NELSON  
Petroleum News

In response to comments on its open season plan, TransCanada and ExxonMobil, sponsors of the Alaska Pipeline Project, the APP parties, have addressed “certain discrete procedural issues raised by ConocoPhillips and BP,” and also responded to a request by the State of Alaska for clarification of standards of conduct governing the open season.

But APP said “the majority of the issues BP raises are beyond the parameters of the current proceeding” and should not be considered by the Federal Energy Regulatory Commission in its review of the APP open season plan, while “BP’s comments relating to the data room and the availability of information are unfounded.”

Interestingly, in limited reply comments Denali—The Alaska Gas Pipeline LLC, agreed with TransCanada, telling FERC that an argument by a potential shipper that FERC do a “comprehensive review of any potential commercial issue inherent in the indicative tariff and simi-

**In its own reply comments APP said of the five interested parties filing comments on the open season plan, four basically supported FERC approval — with requests for clarification on process issues — and none argued denial of the plan.**

lar materials and provide commercial guidance to the parties in order to satisfy its regulatory responsibilities ... is exactly the opposite of the procedural safeguards adopted by the Commission to ensure that any such challenges, when they become ripe, will be fully adjudicated in a proceeding where an application for a certificate of public convenience and necessity is under consideration.”

Denali, whose pipeline project is in competition with the TransCanada-ExxonMobil project, is co-owned by BP and ConocoPhillips. Denali plans to file its open season plan with FERC in April and that plan will be subject to the same FERC pre-approval as the APP plan.

## This review new

Denali said FERC’s role, “during this compressed open season procedural schedule, is not to rewrite the commercial offering contained in the open season plan or to assist in the negotiations between potential shippers and the pipeline sponsor.”

The company said FERC has never before “reviewed and approved the procedures by which a new interstate natural gas pipeline planned to conduct an open season in the United States.”

Because the Alaska project is unique, FERC established regulations for the conduct of the open season process, Denali said, and: “By its very nature, the pre-approval review is preliminary and narrow.”

Denali also said FERC’s pre-approval of an open season plan “is not a final agency action and does not determine, resolve, or prejudice issues raised by a potential shipper that may be presented later.”

“Despite any assertion to the contrary, the Commission is well within its regulatory responsibilities to avoid the delay inherent in the potential shipper’s request to resolve issues that are properly addressed during the certificate phase or in commercial negotiations between the parties,” Denali said.

## APP’s response

In its own reply comments APP said of the five interested parties filing comments on the open season plan, four basically supported FERC approval — with requests for clarification on process issues — and none argued denial of the plan.

While four of the comments recognized the limited scope of FERC’s pre-approval review, BP “filed lengthy comments directed principally to terms and conditions of the APP commercial offering or to rate and tariff issues,” issues which APP said “have nothing to do with APP’s compliance with the Open Season Regulations or with the Commission’s pre-approval review.”

“APP, in the shipper negotiations that will be conducted as part of the open season process, will address these issues and any other commercial concerns BP may have about the offering,” and if the issues are not resolved during negotiations, then they would be appropriately raised with FERC after the application for a certificate of public convenience and necessity is filed (a step which will occur after the open season).

APP said ConocoPhillips raised two discrete issues about process: a request for clarification on when notification of bidders would occur and a request that the bidder can decline an open season capacity award in the event that there is oversubscription and capacity requests of all shippers are reduced.

APP said it had been its intent to notify bidders at the same time “and APP agrees to the requested clarification.”

On the oversubscription issue, APP said while it believes its approval provisions “implicitly provide bidders with this option, APP has no objection to making more explicit a bidder’s opportunity to decline a prorated capacity award.”

“BP’s comments raise certain other issues about the process for executing Precedent Agreements and about the standards for accepting non-confirming bids,” and APP said it “has no objection to revising the Notice to ensure timely Board approval and execution of the Precedent Agreements by both parties and to more clearly explain the difference between conforming and non-conforming bids and how bidder-proposed changes in conforming bids will be addressed by APP.”

APP said it would revise its proposed open season notice to address these issues, and attached a copy of the notice reflecting the revisions.

## BP, Exxon issues

APP said most of BP’s lengthy comments have nothing to do with conduct of the open season or with FERC’s open season regulations.

In a footnote APP said that while it did not intend “to respond on the merits of BP’s assertions,” the terms and conditions of the APP offering “have been tailored to address the unique challenges that will be faced” by the Alaska gas pipeline project. APP quoted FERC’s statement in Order No. 2005A, that “existing Commission policies predicated on competitive conditions in the lower 48 states are ill-suited for application in the case of an Alaska natural gas transportation project, particularly in view of ANGPA’s directives.” (The Alaska Natural Gas Pipeline Act, passed in 2004, found an Alaska natural gas pipeline to be in the national interest and, among other provisions, directed FERC to establish regulations for the project and to quickly permit the project once certain requirements are met.)

APP also said that while BP said that consideration of the issues it raised would not delay the open season, “the short time period in which the Commission’s decision is to be rendered is not conducive to the development of a full record, let alone an informed decision, with regard to the BP issues.”

APP said ExxonMobil Gas & Power Marketing sought a FERC ruling that approval of the open season plan “will not constitute a binding determination with

see OPEN SEASON page 16

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• EXPLORATION & PRODUCTION

# BP's heavy oil test facility ready

Company plans to start production in May to test technical feasibility of producing resource without the need for underground heating

By ALAN BAILEY  
Petroleum News

**B**P has nearly completed the construction of a \$100 million facility on the Milne Point S-Pad on Alaska's North Slope to test ways of producing heavy oil from the Ugnu formation a few thousand feet below the pad. The tests should start in May, company spokesman Steve Rinehart told Petroleum News March 10.

BP has completed four wells, including one horizontal well, at S-Pad for the tests, Rinehart said.

Eric West, BP manager for heavy oil in Alaska, told the State of Alaska House Resources Committee Feb. 16 that the purpose of the tests is to determine whether the techniques that BP eventually hopes to use for commercial heavy oil production are technically feasible. And, given the many technical and commercial unknowns, commercial heavy oil development, if feasible, could still be four to five years away, West said.

## Cold honey

Heavy oil has a consistency similar to cold honey and is too viscous for production through a conventional oil well using conventional oil production techniques, West said. And heavy oil is distinct from viscous oil, a product with a viscosity somewhere between heavy oil and regular crude oil. Viscous oil can flow through a conventional well and has been produced successfully from the North Slope for



BP's new heavy oil test production facility, seen on the left side of this recent photo of the Milne Point S-Pad on Alaska's North Slope, should go into operation in May. The two large, cylindrical tanks in the center of the facility will separate sand from the heavy oil, pumped as an oil and sand slurry from the Ugnu formation 4,000 feet below the pad.

several years using horizontal drilling techniques.

West said there are between 13 billion and 21 billion barrels of heavy oil known to be in place under the North Slope. The combination of North Slope heavy oil and viscous oil resources represents a total volume of about 20 billion barrels of oil in place, he said.

"Even if we only get a fraction of that, say 10 percent, to the surface, it's still a huge potential oil field," West said. "... This could be really, really big."

But the economic viability of producing North Slope heavy oil is uncertain. The difficulty of bringing the thick, viscous oil to the surface would make production of the oil relatively expensive. At

the same time, the relatively low content of light hydrocarbon products such as gasoline in the oil means that heavy oil is less valuable than light oil.

"At \$100 per barrel for light oil, Alaska heavy oil will fetch probably about \$90 on the market," West said.

But, although it makes sense to place a

see HEAVY OIL FACILITY page 17

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## • NATURAL GAS

# Bill separates oil, gas in Alaska tax

Senate Finance Committee begins work on SB 305, result of work on what happens with progressivity when gas is added to tax base

By KRISTEN NELSON

Petroleum News

The Alaska Senate's Finance Committee started hearings March 9 on Senate Bill 305, a bill which would separate oil from gas for purposes of calculating the state's oil and gas production tax.

The bill was one of a pair introduced in the Senate, and Sen. Bert Stedman, R-Sitka, the committee's co-chair, said March 9 that two versions were finalized and Finance Committee members decided unanimously that they wanted to work on SB 305, which removes progressivity on gas, rather than on the longer bill. The discussion was part of an exchange on the bill at the Senate bipartisan working group weekly press availability.



BERT STEDMAN

Stedman has been leading the charge in the Alaska Legislature to make a change in how natural gas is taxed before the beginning of the first open season for Alaska North Slope gas, scheduled to begin April 30.

The state's hydrocarbon production tax, Alaska's Clear and Equitable Share or ACES, calculates tax on the combined value of oil and gas. Gas is converted to barrels of oil equivalent on a Btu basis for the calculation, and because the value of gas is so much lower than the value of oil, the volume of gas expected for a North Slope to market pipeline dilutes the value from which progressivity is calculated.

Progressivity is a feature of the state's production tax which gives the state a larger share of profits from production as the price of oil — and the profits — rise.

As the price of oil and the price of natural gas diverge, the value of the combined resources drops below the point at which progressivity is triggered.

SB 305 would remove natural gas from the progressivity calculation, so the progressivity trigger would not be diluted by the addition of gas.

## The process, the title

Senate President Gary Stevens, R-Kodiak, said normally such a bill would go first to the Resources Committee and then to Finance. Because of the relatively short time remaining in the session, which ends April 18, Stevens said he asked the co-chairs of Senate Resources if instead of the Resources committee hearing the bill, they would participate in the Finance work on the bill.

House Minority Leader Beth Kerttula, D-Juneau, said earlier March 9 at the House minority press availability that she was concerned that the bill's title was so broad that once it reached the House provisions could be added to the bill which would lower the current tax on crude oil, a subject currently under discussion in House Resources.

Asked about this concern, Stedman said the title of the bill would be focused down before it leaves Senate Finance.

The urgency behind this bill is that the Alaska Gasline Inducement Act or AGIA provides an incentive to those committing to ship gas in the first open season for an AGIA-licensed line. The gas tax in place at the beginning

of such an open season, scheduled for April 30, will be the tax in place for the first 10 years of gas shipment for those quantities of gas committed in the upcoming open season.

The concern expressed by Stedman is that if the current tax system is locked in, the state could actually face reduced income from its oil tax because of the diluting effect of gas on progressivity.

## The value calculations

Senate Finance began consideration of the bill March 9.

Roger Marks, working with Chuck Logsdon of Logsdon and Associates under a contract with the Legislative Budget & Audit Committee, told the committee that a cubic foot of North Slope gas will have about 1,100 Btu.

Looking at 4.5 billion cubic feet per day of natural gas — the amount frequently discussed for a North Slope gas pipeline to markets in the Lower 48 — that's the equivalent of 900,000 barrels of oil, he said.

When a gas line is in place and shipping North Slope gas, 10 or more years from now, the production forecast for ANS crude oil is 500,000 barrels per day. Adding in natural gas, that's 1.4 million BOE.

When you combine the two, as ACES does, the lower-value gas is weighting down the higher-priced oil.

If the West Coast price for ANS crude oil was \$80 a barrel and the market price for North Slope gas was \$6 per million Btu, oil would be worth nearly 10 times as

see SB 305 page 17

continued from page 14

## OPEN SEASON

regard to the substance of the APP submission, and will not preclude bidders from entering into negotiations with APP

concerning the commercial issues presented by the APP offering." APP said it agrees with ExxonMobil's comments on this issue and has no objection to the FERC ruling ExxonMobil seeks.

## ConocoPhillips' reply

In its reply comments ConocoPhillips said it agreed with BP that "TransCanada should be directed to provide additional information respecting the costs and rates associated with the Alaska natural gas transportation project that it proposes," and said such information should be available before the open season begins.

ConocoPhillips also wants more information on expansion options and costs, telling FERC that, "Given the significant

cost risk placed on initial shippers in connection with potential expansions of an Alaska natural gas transportation project, much more information must be forthcoming."

ConocoPhillips said it also agrees with BP in principle that "ambient incremental capacity should be made available to the initial firm transportation shippers who would actually be paying for all of the pipeline's ability to provide physical capacity," and said the magnitude of such capacity is a major component of shippers' project economics.

With Alaska weather, ConocoPhillips said, "Such ambient incremental capacity could range as high as 300,000 to 400,000 MCFD, and could last for a period of 4-5

months per year."

ConocoPhillips said the issue could be addressed through enhancements to the authorized overrun service but said it supports a model similar to that associated with the Alliance Pipeline's negotiated rates, where firm shippers are allowed a pro rata priority to the authorized overrun service available capacity on any given day.

"Such an AOS paradigm in Alaska will help provide initial shippers with the economic certainty they require" to make the necessary long-term transportation commitments, the company said. ●

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• NATURAL GAS

# DEC proposes new village utility permit

*Nuiqsut Power & Light would gain permission for 'unlimited operation' of two gas-fired generators; gas comes from Alpine oil field*

By **WESLEY LOY**  
For *Petroleum News*

The Alaska Department of Environmental Conservation is proposing to issue a new air quality control permit to the North Slope Borough for the power utility in the village of Nuiqsut.

The "minor permit" would cover not only four diesel-fired generators, but also two generators fired with natural gas.

The new permit will straighten problems under the existing permit for the Nuiqsut Power & Light plant.

According to a DEC technical analysis, the borough installed the two gas-fired generators in September 2008 without first obtaining the necessary authorization under the Clean Air Act.

The new minor permit will authorize the continued operation of the gas-fired generators, as well as the four

diesel-fired generators, the DEC says.

## Alpine gas

The Nuiqsut utility takes its gas via pipeline from the ConocoPhillips-operated Alpine oil and gas field, located eight miles north of the Inupiat village of about 450 people.

Local residents negotiated for free gas as compensation for having a large industrial neighbor. Oil production began in 2000 at Alpine, which involves the use of some village corporation land.

Natural gas is helping reduce the cost and air pollution associated with diesel-fired generators, the DEC says.

The gas-fired generators will allow the North Slope Borough to hold diesel consumption to a limit of 185,200 gallons per year under the proposed new permit. The existing permit, which the DEC intends to rescind,

authorizes the Nuiqsut utility to burn up to 825,000 gallons of diesel per year.

The borough asked the DEC for a consumption limit of 151 million cubic feet of gas per year, which equates essentially to "continuous, full-load operation of both generators," the DEC says. Thus, the new permit will allow "unlimited operation" for the gas-fired generators.

The North Slope Borough's Department of Public Works coordinated construction of the gas pipeline from Alpine to Nuiqsut, and is working to hook up residential and commercial customers to the gas supply, according to tariff filings with the Regulatory Commission of Alaska.

The intent is to make natural gas the main fuel for generating electricity and for cooking and heating in the village, the filings say. ●

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continued from page 15

## HEAVY OIL FACILITY

higher priority on producing the more valuable light oil than on producing heavy oil, it is important to start heavy oil production from the North Slope before light oil production runs too low: Light oil is needed for mixing with and diluting the heavy oil, so that the heavy oil can be shipped through the trans-Alaska oil pipeline system to market, West said.

Without light oil to dilute the heavy oil, the oil producers would need to use other extremely expensive techniques such as refining the heavy oil on the North Slope or heating the transportation pipeline, to be able to ship the heavy oil products from the Slope, West explained.

"Given that linkage with (light oil), we need to be looking into heavy oil now, not later," West said.

### Production factors

But determining the optimum way of producing heavy oil depends on the exact composition of the oil and the quality of the reservoir rocks that contain the oil, he said. And that in turn links back to the way in which the heavy oil originated.

Both viscous and heavy oil have formed as a consequence of bacteria eating the lighter components of regular light oil, thus leaving heavier residues. And because the bacteria cannot survive in the relatively high temperatures at depth, North Slope heavy oil occurs in the shallow Ugnu formation at depths of about 4,000 feet. Viscous oil occurs in slightly deeper strata, at depths above 5,000 feet.

But, with the various rock strata sloping to different depths at different locations across the central North Slope, the quality of the heavy oil and the nature of the rocks that host the oil vary across the region. And, as a consequence, different produc-

tion techniques are likely to be more effective in different places, West said.

In Canada, the "epicenter" of heavy oil development, companies have developed a variety of heavy oil production techniques, including the mining of the heavy oil deposits; steam heating the oil to reduce its viscosity for flowing through production wells; and the cold production of heavy oil through wells, perhaps using solvents to help flow the oil.

BP has rejected the possibility of mining North Slope heavy oil. And, although the nature of the heavy oil deposits in the area of the Kuparuk field would appear to be appropriate for steam-induced production, the deposits at Milne Point and over the Prudhoe Bay field are more suited to cold production, West said.

### CHOPS

So, BP has homed in on a specific cold technique known as cold heavy oil production with sand, or CHOPS, for its Milne Point heavy oil tests. The company is also going to test the technical viability of using horizontal wells — a horizontal well running along the rock layer that contains the oil could contact a much larger volume of oil than a steep or vertical well that cuts straight through the layer.

The CHOPS technique only works in soft, unconsolidated rock and involves the use of what is called a progressive cavity pump, in effect a kind of Archimedes screw that spins at high speed at the bottom of a well, sucking a mixture of sand and oil into the well through 1-inch perforations in the well casing. The slurry of oil and sand that consequently flows up to the wellhead is piped into a heated separation tank, where the sand sinks out of the oil for removal and disposal.

In 2008 BP successfully tested the CHOPS technique in a single well at the Milne Point S-Pad, extracting about 700 barrels of heavy oil from the Ugnu forma-

tion at a peak rate of about 120 barrels per day, but using standard oilfield equipment to process the produced material.

### Scaled up

The new test facility at S-Pad represents a major scaling up of that initial test, with multiple wells and custom-built heavy oil production equipment. That equipment includes two large sand separation tanks, for safety reasons heated indirectly by a closed loop of circulating fluid. And the facility has a control module containing instrumentation and electronic controls.

This relatively complex facility is significantly more expensive than simple

CHOPS facilities used in Canada, West said. The complexity reflects in part the need to meet BP's safety standards as well as federal and state codes, he said.

In addition, BP views the facility as a scientific test bed, to flesh out suitable North Slope heavy oil production techniques.

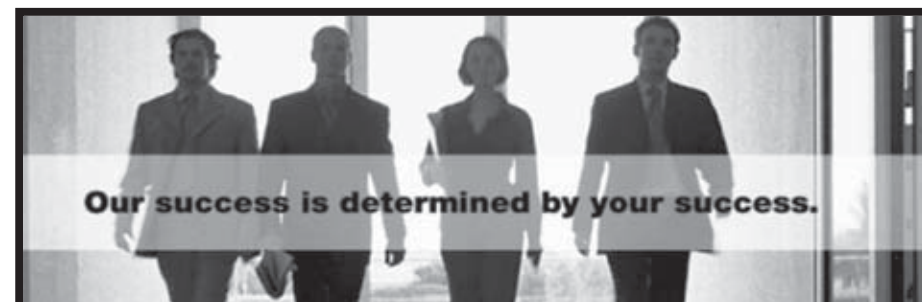
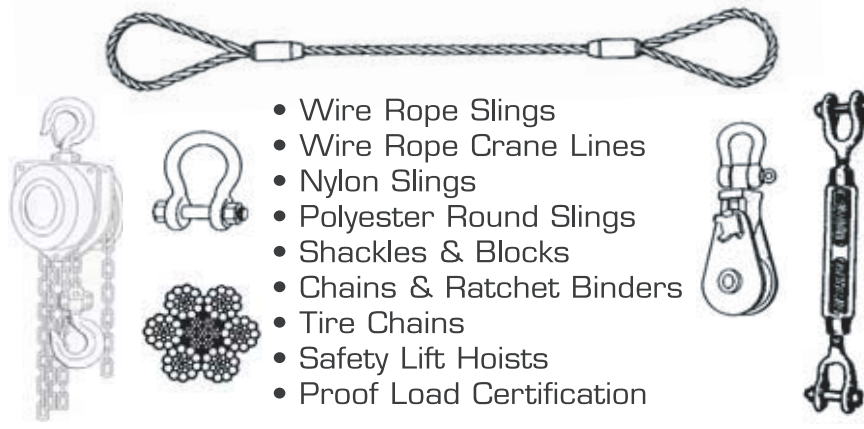
"We're actually trying to develop some fundamental science about how heavy oil extraction techniques work, such that we can master them and reduce the unproductive well count," West said. "... This is very much an experimental prototype." ●

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continued from page 16

## SB 305

much as gas, Marks said.

In addition to the price difference, the relative cost of transportation for oil is a lot less than it is for natural gas. At \$80 a barrel, Marks estimated, the wellhead value of oil is \$73.75 after you subtract the trans-Alaska oil pipeline tariff (\$4.18) and the marine shipping cost (\$2.07) per barrel.

Natural gas, however, could end up

with a gross value of only \$1.37 per million Btu (estimating the Alaska tariff at \$3.54, the Alberta hub at 24 cents and the tariff from Alberta to the Lower 48 at 85 cents). Multiply the gross value of the gas times 5.5 to get the equivalent on a BOE basis, and the gas comes in at \$7.54 compared to \$73.75 for oil, Marks said. ●

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• ALTERNATIVE ENERGY

# Kenai Hydro suspends activity on project

Reorganized Homer Electric venture tells FERC it needs timeout on proposal to harness Grant Lake, Falls Creek to make power

By WESLEY LOY  
For Petroleum News

Progress on a proposed Alaska hydroelectric project near Moose Pass north of Seward appears to be slowing down, at least for now.

The project developer, Kenai Hydro LLC, told the Federal Energy Regulatory Commission in a Feb. 8 filing the company is “suspending major activities to consider how best to proceed with its schedule and scope of work given its financial constraints and reorganization.”

Kenai Hydro has been studying a relatively small hydroelectric project involving Grant Lake and Falls Creek. The project would generate 4.5 megawatts, compared to peak power supply of 90 megawatts on the Homer Electric Association system.

Homer Electric is the parent company of Kenai Hydro.

Previously, Kenai Hydro had an additional owner in Wind Energy Alaska LLC, which was co-owned by Cook Inlet Region Inc. and enXco Inc., a California renewable energy firm.

Homer Electric “is now the sole owner” of Kenai Hydro, according to a nonprofit organization opposed to the Moose Pass project. State corporate registration records confirm that.

A representative of Homer Electric told Petroleum News on March 10 only one

person at the co-op, Joe Gallagher, was authorized to talk about Kenai Hydro’s status, and he was traveling and unavailable to comment in time for this article.

## The project

The opposing nonprofit, Friends of Cooper Landing, believes the hydro project is a threat to the downstream Kenai River, which is famous for its salmon fishing.

The group said in a March 2 update it believes Kenai Hydro might continue studies on the project should it obtain additional state grant money.

Homer Electric is eager to diversify its energy supply. The co-op currently buys all its power wholesale from Anchorage-based Chugach Electric Association.

That contract expires at the end of 2013, and Homer Electric aims to be a generator of power from natural gas or alternatives by then.

Kenai Hydro’s project is centered on

Grant Lake, a 1,664-acre, L-shaped mountain lake just east of the Seward Highway near the Moose Pass community.

Kenai Hydro proposes to withdraw water from the lake and send it down a 2,800-foot horseshoe tunnel to a powerhouse.

To raise the lake level to provide more water for power generation, Kenai Hydro would build a concrete dam about 10 feet high and 120 feet wide at the lake’s only outlet.

Additional water would be diverted from nearby Falls Creek into the lake via a 13,000-foot pipe.

A FERC license would be required for the project, the cost estimates for which range from \$30 million to \$40 million.

Construction would take 30 to 36 months after issuance of the FERC license, Kenai Hydro has said. ●

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continued from page 1  
**NEB CHANGES**

(the NEB) is considering not including such recommendations.”

The NEB is required to combine the JRP findings and its own conclusions about the economics of the MGP in a report to the Canadian government, setting the stage for a final decision in September. The NEB is scheduled to start the last phase of public hearings on April 12.

“If the satisfaction of conditions (recommended by the JRP) must be approved by others, accountability becomes unclear,” the NEB letter said.

“Multiple approvals for the same requirement do not contribute to achieving concrete results. Accordingly, the NEB considers it inappropriate to delegate these decisions to others by requiring their approval for conditions to be satisfied.”

A spokesman for Imperial Oil, the lead partner in the MGP consortium, told the Calgary Herald that his company’s intention is to provide comment on the proposed JRP conditions to the NEB before the April hearings.

He said it would be “inappropriate to comment outside of that process.”

Sheila Muxlow, acting director of the Prairie chapter of the Sierra Club, registered concern that the NEB was prepared to “brusquely” dismiss four years’ of work by the JRP “on ensuring economic and ecological sustainability and the need to examine the cumulative effects” of opening an Arctic oil and natural gas basin.

She said the NEB appeared to be taking a “business-as-usual” approach.

—GARY PARK

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### Stoel Rives welcomes Tucker to Anchorage office

Stoel Rives LLP said March 3 that it was pleased to announce that S. Lane Tucker has joined as a partner in the firm's Anchorage office. Tucker will focus her practice on government contracting and construction law matters, including Contract Disputes Act, False Claims Act and bid protest litigation, dispute resolution, audit and compliance issues, and internal investigations. Tucker has more than 20 years of experience in federal government contracts, construction, white collar and health care litigation. She has handled to resolution hundreds of contract claims, bid protests and fraud investigations on a wide variety of matters and has extensive experience in construction disputes.

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continued from page 1

## SALAZAR

Interior for a very long time. We are hopeful that we will be able to make the announcement on where we are moving forward in the outer continental shelf yet this month, and are trying to move on that as quickly as we can," Salazar said in response to questions on the various OCS lease sale issues from Sen. Lisa Murkowski, R-Alaska, ranking member of the committee.

### Environmental review

The U.S. Minerals Management Service, the agency within DOI that administers the outer continental shelf, is reworking the Alaska-related environmental analysis for the 2007-12 outer continental shelf lease sale program, the sequence of lease sales that includes the February 2008 Chukchi Sea sale which raised \$2.6 billion in bonus bids and in which Shell and ConocoPhillips picked up leases that they are now intent on exploring.

In April 2009 the United States Court of Appeals for the District of Columbia upheld an appeal against the lease sale program and required MMS to carry out the environmental analysis rework, meantime placing some legal uncertainty over the status of the Chukchi Sea leases issued in 2008. But, while MMS has yet to deliver its revised environmental analysis, Shell wants to drill in some of its Chukchi Sea leases in the summer of 2010; the company needs to move ahead with the expensive process of preparing its drilling fleet for deployment.

Salazar slammed what he characterized as the inadequate original environmental analysis for the 2007-12 lease sale program.

"The second highest court in the land essentially said that the Department of the Interior had simply not followed the law, the Department of the Interior had not done the environmental sensitivity analysis that was required before making decisions concerning the entire outer continental shelf," he said.

Interior is close to a decision on that plan that "will hopefully not suffer from the inadequacies of the last plan and will be able to survive the challenges that are certain to come with respect to the final release of that plan and from people who do not like where we ultimately land on that plan," Salazar said.

Meantime MMS has approved Shell's exploration plans for both the Beaufort Sea and the Chukchi Sea, he said.

### 2010-15 program

Interior is also considering a 2010-15 OCS lease sale program proposed in early 2009, in the dying days of the Bush administration. That program, which would include lease sales in several OCS regions previously off limits to oil and gas development, would supersede the already disputed 2007-12 lease sale program. Interior, under the Obama administration, decided to extend the public comment period for the 2010-15 program — the public comment period ended in September but Interior has yet to publish its decision on the program.

Sen. Murkowski questioned Salazar about a February Wall Street Journal report of a leaked e-mail from the director of

MMS, implying that Salazar might delay comment on an apparent two-to-one split favoring OCS development, in public comments on the proposed 2010-15 lease sale program.

"This five-year plan that we have been awaiting is incredibly important for the development of activities up north and to read of this spin, if you will, or an effort to delay causes some concerns," Murkowski said.

Interior received about 500,000 comments on the new five-year plan and has been determining the various factors to be considered in making its decision on the plan, Salazar said.

"We are now marching through each of those factors and getting very close ... to announcing where we are going to go," Salazar said. "So, I expect that in the month ahead we will be getting to a decision that can be announced. Perhaps this may happen even earlier, so we can get all of the documentation together."

### CD-5 permit denial

Murkowski also quizzed Salazar on the Army Corps of Engineers' Feb. 5 denial of ConocoPhillips' permit to construct a bridge over a branch of the Colville River for road access to the company's planned CD-5 development in the National Petroleum Reserve-Alaska. The CD-5 project, if it proceeds, would be the first oil and gas development in NPR-A.

But the permit denial, based on the findings of the Department of the Interior's Fish and Wildlife Service and of the U.S. Environmental Protection Agency, would require ConocoPhillips to fly all the required heavy equipment to the CD-5 site and to construct a pipeline under the river, Sen. Murkowski said.

"If the producers can't get across the Colville River, NPR-A's resources are effectively off limits," she said.

Sen. Murkowski said that the Corps decision referenced the designation of the Colville River Delta as "an aquatic resource of national importance," but there was no information or related public comment on what that designation means.

### Committed to NPR-A

Salazar responded that Interior is fully committed to a continuing program of oil and gas lease sales in NPR-A, and he said the agency recognizes the rights of leaseholders to develop their leases. Interior has no control over the Army Corps of Engineers. However, after Murkowski made him aware of Fish and Wildlife's input to the permitting decision, he had asked the chief of staff to the Assistant Secretary for Fish, Wildlife and Parks to investigate exactly what happened in the permitting decision and to try to find a workable solution to the problem, Salazar said.

And in response to a question from Sen. John Barrasso, R-Wyo., about an apparent "war against American oil and natural gas production," with increased regulation of the oil and gas industry coupled with proposed increases in fees and royalties, Salazar said that the Obama administration's approach to oil and gas leasing on public lands reflects a desire to do things "in the right way," in the context of a com-

see SALAZAR page 23

continued from page 1

## MAC ACKERS

Making their pitch through a full-page ad in the trade publication Variety, they lobbied for the movie and director James Cameron to win Oscar honors.

The special Oscar edition noted that Cameron was born in Canada near the "majestic boreal forest" that oil sands critics say is being devastated by oil sands development and awarded their vote to Cameron for shining a "light on a dark reality" in Avatar.

The ad carried the words "Avatar Sands" spread over a background of dirt roads and tailings ponds.

Greenpeace spokesman Mike Hudema said there was a clear parallel between Avatar's good-versus-evil themes and what is happening in the oil sands.

The movie portrays the attempted steamrolling of a native population on the moon Pandora by a military, representing corporate greed. It ends in defeat for the corporate ogres.

The Canadian Association of Petroleum Producers gave a short shrift to the coalition, telling them to stop "blurring the lines" between fact and fiction.

CAPP Vice President Janet Annesley invited the "activists back to planet Earth to discuss the appropriate balance between environmental protection, economic growth and a safe and reliable supply of energy."

She said Canada's oil and gas companies are "committed to constructive engagement and consultation with aboriginal peoples. No oil sands project may go ahead without direct and meaningful consultation about both impacts and benefits."

F.Y.I. There is no record of Cameron taking a public stand against

the oil sands. And he had no chance either way on Oscar night when The Hurt Locker — directed by his ex-wife Kathryn Bigelow — swept the floor with six of the golden statuettes. Ouch.

**LESSON PLANS FOR ANTARCTICA ...** Attention teachers, students and the educational savvy! I'm putting together a lesson plan to complement our recently launched Antarctica expedition blog and I'd really appreciate your feedback regarding structure, topics, what works and what doesn't, both from the teacher's and student's standpoint. The expedition lasts two weeks and teachers and students will have access to our blogger who has a degree in mechanical engineering, a master's in development studies and a strong interest in energy and the environment. If you're not familiar with the blog check it out here:

<http://www.greeningofoil.com/antarctica.aspx>

**HE MADE IT TO 103 ...** On a more serious note, conservationist Edgar Wayburn died at his home in San Francisco on March 5. The five-term president of the Sierra Club, who received the Presidential Medal of Freedom for helping preserve vast acres of U.S. wilderness, was 103 when he passed. A practicing physician, much of Wayburn's work as a conservationist was done in his spare time. "As we destroy our environment, we destroy ourselves," he said in 1995 after receiving the Albert Schweitzer Prize for Humanitarianism.

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

continued from page 20

## OIL PATCH BITS

to download ExxonMobil service station locations to their GPS devices. This feature is downloadable from the ExxonMobil station locator Web site and is compatible with the leading consumer GPS devices, including Garmin, TomTom and Magellan. The site features easy to follow instructions along with a video tutorial. "This GPS download feature provides a fast and convenient way for our customers to locate Exxon and Mobil stations," said Ben Soraci, director, U.S. Retail Sales. Last

spring ExxonMobil revamped its Web site to include Google mapping technology. For the first time ExxonMobil customers were able to produce turn-by-turn driving directions to Exxon and Mobil stations, as well as a range of useful consumer services such as repair shops, convenience stores and ATM locations. For more information visit [www.exxonmobil.com](http://www.exxonmobil.com).

*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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continued from page 1

## POINT THOMSON

Two Native organizations also signed onto the letter — the Gwich'in Steering Committee and Resisting Environmental Destruction on Indigenous Lands, or REDOIL.

The Corps of Engineers would not provide a copy of the letter. It also declined to provide access to other comments it received from a number of government and civic agencies.

The Corps did, however, provide a list of organizations that submitted comments by the Feb. 25 deadline.

Pamela A. Miller, Arctic program director for the Northern Alaska Environmental Center, was traveling and unable to provide a copy of the letter she helped draft. However, she shared her group's concerns in a March 10 interview with Petroleum News.

### Location, location, location

The environmental and Native groups have major concerns about Point Thomson's proximity to the Beaufort Sea, ANWR and the Native village of Kaktovik, Miller said.

ExxonMobil's project features three drilling sites — the West Pad, Central Pad and East Pad — arrayed along the coast between 250 and 500 feet from the water's edge, Miller said.

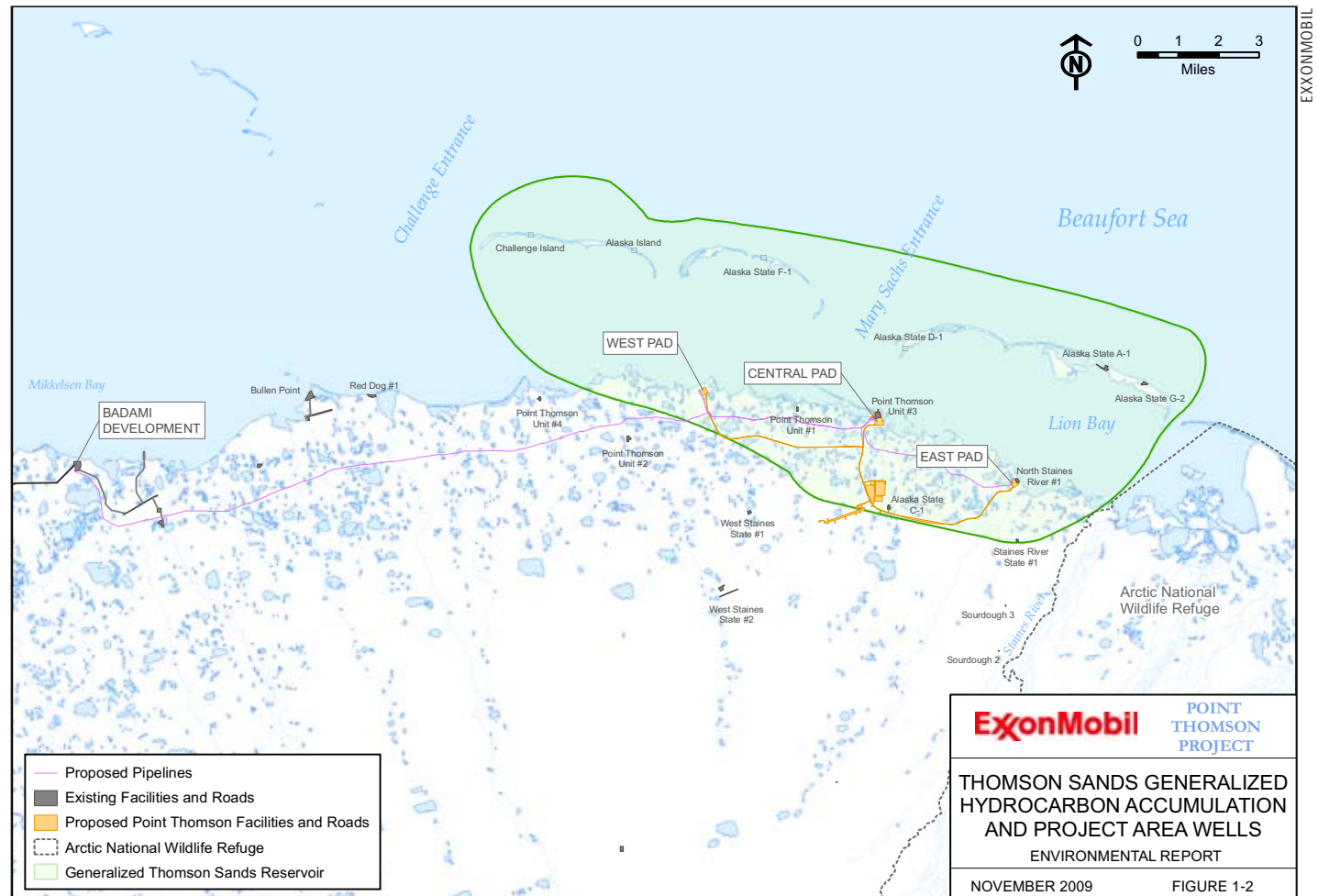
Placing the pads so close to the sea would make them vulnerable to coastal erosion seen along the North Slope with the coming of climate change, Miller said.

Another consideration is that Point Thomson will have compressors and wells operating under exceptionally high pressure, increasing blowout risk and making it especially worrisome to have such wells so close to the shoreline, she said.

Miller's group is suggesting to the Corps that a larger coastal buffer zone is needed, with all oil and gas facilities moved one to five miles farther inland.

The group also suggests consolidating the project's three drilling pads into a single, central pad. This would reduce the 12 miles of gravel roads ExxonMobil is proposing to link the drilling pads, Miller said.

"We don't want to end up with a proliferation of facilities like at Prudhoe Bay — poorly planned, a road here, a road there," she said.



The environmental and Native groups also are concerned that the easternmost drilling pad would be only two miles away from the western boundary of ANWR.

Miller's group suggests a larger buffer zone between the Point Thomson development and ANWR to minimize degradation to the refuge in terms of noise, unsightly industry and so forth.

Other reasons for consolidating the development as much as possible include reducing impacts on polar bears, caribou herds that attract subsistence hunters from Kaktovik, and migratory birds that feed in the area's coastal lagoons, Miller said.

The environmental and Native groups also urge the Corps to analyze cumulative impacts to the region: Just how big a development does ExxonMobil ultimately see at Point Thomson? And would production from Shell's offshore Sivulliq prospect be tied into Point Thomson?

Miller's group does see some positives in ExxonMobil's development plan.

"It is positive that there are no proposed offshore production well or processing sites (given that much of the oil and gas reservoir is located offshore) or other permanent facilities in the Beaufort Sea or on Flaxman Island which is partic-

**One of North America's richest undeveloped fields, Point Thomson contains an estimated 8 trillion cubic feet of natural gas — about a quarter of the North Slope's total gas reserves — and 200 million barrels of condensate.**

ularly important polar bear denning habitat," the Northern Alaska Environmental Center's Web site says.

Miller said she's also pleased that ExxonMobil decided to drop plans for a dock and gravel causeway out in the Beaufort Sea.

### ExxonMobil's project

The Point Thomson field straddles the Beaufort Sea shoreline about 60 miles east of Prudhoe Bay.

One of North America's richest undeveloped fields, Point Thomson contains an estimated 8 trillion cubic feet of natural gas — about a quarter of the North Slope's total gas reserves — and 200 million barrels of condensate.

ExxonMobil is the operator of the Point Thomson unit, with other major

leaseholders including BP, Chevron and ConocoPhillips.

Drilling already has commenced on Point Thomson's Central Pad as part of a \$1.3 billion, five-well plan to produce 10,000 barrels a day of gas condensate by the end of 2014.

Horizontal wells will tap the mostly offshore Thomson sands reservoir, bringing gas to the surface for processing to collect condensates, with the dry gas then shot back underground for storage pending construction of a natural gas pipeline.

ExxonMobil's development plan calls for laying a new 22-mile elevated pipeline to carry Point Thomson condensates west to the Badami field, where an existing pipeline connects to Prudhoe Bay and the trans-Alaska oil pipeline.

Other elements of the Point Thomson project include a gravel airstrip, a gravel mine and a barge landing that might require some dredging.

Although ExxonMobil has begun drilling, the work is proceeding under awkward circumstances. The leaseholders are fighting in court, and administratively before the Alaska Department of Natural Resources, to retain the Point Thomson unit and the underlying leases.

Beginning in 2005, the state took steps to reclaim the Point Thomson acreage, saying the oil companies had failed to develop the field three decades after its discovery.

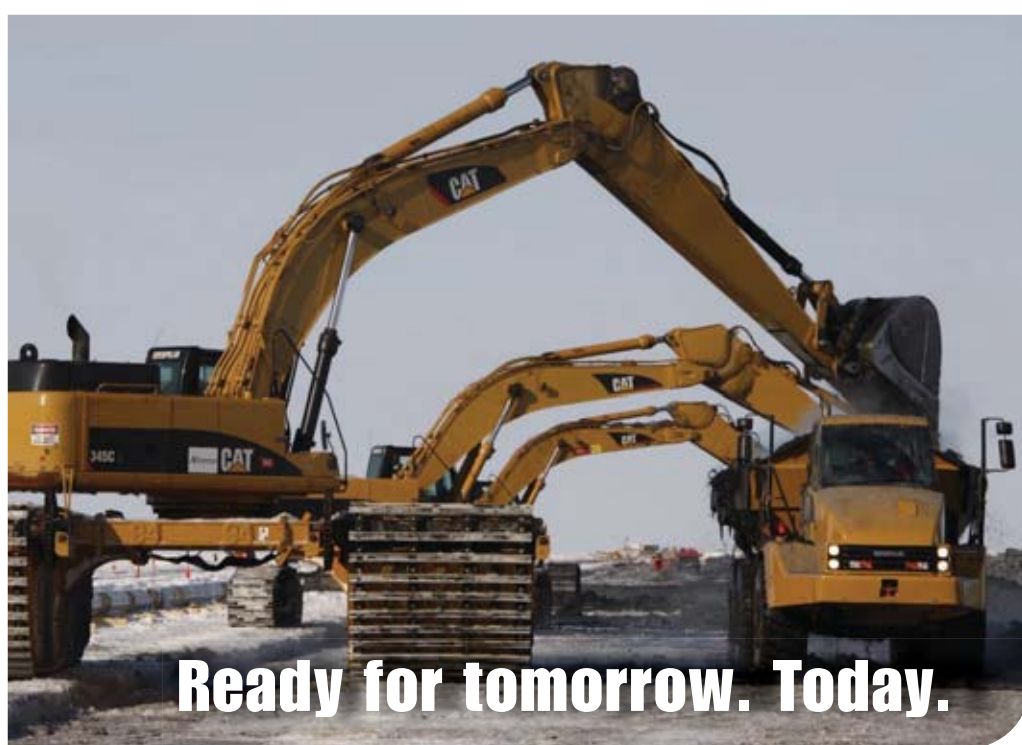
Despite the still unresolved legal conflict, DNR Commissioner Tom Irwin allowed ExxonMobil to start drilling in 2009. And the company, eager to hold onto a property worth many billions of dollars, has proceeded smartly.

### Erosion worry discounted

ExxonMobil is seeking a federal permit from the Corps of Engineers to develop and operate the Point Thomson field.

In a 796-page Point Thomson Project Environmental Report submitted to the Corps on Nov. 19, ExxonMobil wrote: "To achieve effective development of the reservoir using three pads will require drilling world class wells that are at the edge of the envelope of existing directional drilling technology and experience for the depth and pressures" of the Thomson sands.

The report continues: "The West and East Pad locations have sufficient set back from the coast to accommodate pro-



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see POINT THOMSON page 23



continued from page 1

## BP EARNINGS

the first time oil companies posted earnings for two consecutive years under the same tax structure in Alaska since 2005.

In 2006, the state passed the Petroleum Production Tax, or PPT. In late 2007, it passed Alaska's Clear and Equitable Share, or ACES, which changed the basic tax rate and certain progressive elements, as well as making retroactive revisions. As a result, it's been difficult to measure how the tax code operates under different economic environments.

Last year was the first time since 2004 that BP paid less tax in Alaska than the year before, but the fifth year in a row the company's tax burden topped \$1 billion. It's also the lowest profits BP has reported in Alaska since 2004, when oil was below \$40 a barrel.

The delivered price of Alaska North Slope crude is currently around \$80 a barrel.

ConocoPhillips, the largest producer in

BP Exploration (Alaska) profits and taxes 2002-2009						
YEAR	BPXA Oil prod	BPXA Gas prod	ANS WC price	BPXA revenue	BPXA taxes	BPXA profits
2002	309,000 bpd	52 mmcfpd	\$24.72		\$543 million	\$550 million
2003	311,000 bpd	83 mmcfpd	\$29.59		\$893 million	\$907 million
2004	295,000 bpd	78 mmcfpd	\$38.96		\$819 million	\$1.85 billion
2005	268,000 bpd	81 mmcfpd	\$53.55	\$6.08 billion	\$1.49 billion	\$2.68 billion
2006	224,000 bpd	67 mmcfpd	\$63.57	\$6.01 billion	\$1.67 billion	\$2.43 billion
2007	209,000 bpd	55 mmcfpd	\$71.68	\$6.59 billion	\$2.10 billion	\$2.47 billion
2008	197,000 bpd	41 mmcfpd	\$98.86	\$7.76 billion	\$3.29 billion	\$1.95 billion
2009	181,000 bpd	58 mmcfpd	\$61.29	\$5.04 billion	\$1.18 billion	\$1.89 billion

NOTE 1: Profits and taxes reflect most recent revisions reported by BP.  
NOTE 2: All oil prices come from BP, except 2002 and 2009, which come from the Alaska Department of Revenue

the state, earned \$1.54 billion in Alaska last year, a 33 percent decline from \$2.31 billion in 2008. ConocoPhillips produced 235,000 barrels per day on average in Alaska last year, down 3.7 percent from 244,000 bpd in 2008.

### Production declines continue

BP Exploration (Alaska) produced 181,000 barrels of liquids a day in 2009,

down about 8 percent from 197,000 bpd in 2008 and down 13.4 percent from 209,000 bpd in 2007.

The company's average production rates declined 4.2 percent at Prudhoe Bay, 11.1 percent at Milne Point and 6.3 percent at Kuparuk. Production declines sped up in 2009 at Prudhoe Bay and Milne Point compared to 2008, but slowed somewhat at Kuparuk.

The company produced 58 million

cubic feet of gas per day in Alaska last year, up 42.5 percent from 41 million cubic feet per day in 2008 and up 5.5 percent from 55 million cubic feet per day in 2007.

BP operates Prudhoe Bay, the largest oil field in North America, as well as 14 other North Slope oil fields, and holds a major share in six other fields. BP also owns four North Slope pipelines, including the largest share of the trans-Alaska oil pipeline.

In its financial filing, BP said the reconfiguration of the fourth and final pump station on the pipeline would begin this year with installation planned for 2012. Alyeska Pipeline Service Co., the consortium that runs the pipeline, is in the middle of a multiyear project called Strategic Reconfiguration to upgrade and automate operations. The company brought two of the reconfigured pump stations online in 2007 and a third in May 2009. ●

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continued from page 21

## SALAZAR

prehensive energy plan for the United States.

"We believe that we need to explore and develop in the right places and with the right information," Salazar said.

The rush to oil and gas leasing by the Bush administration had led to a situation where almost 50 percent of issued leases had ended up in endless litigation, he said.

"That was because there was a failure in thoughtful planning with respect to where oil and gas production should in fact be taking place in the public domain," Salazar said.

The Department of the Interior has moved forward on renewable energy and climate change initiatives, but it also strongly supports oil and gas development, he said.

It is also necessary to review the applicability of the federal oil royalty rate of 12.5 percent, a rate that dates back to 1920 and which was originally derived from what was termed "the king's share" in English common law, Salazar said. That rate may no longer be applicable nowadays and Texas, for example, charges a royalty rate of 22.5 percent, he said.

"We are supportive of oil and gas developments," Salazar said. "... We also are very adamant about making sure that at the end of the day the taxpayer gets a fair return for this property."

### Land withdrawals

Salazar also responded to a number of questions regarding Interior's intentions when it comes to the possibility of future withdrawals of federal land from access for resource development. Some questions related to a leaked Department of the Interior memo describing some possible new national monument designations under the Antiquities Act — for Alaska, that memo mentioned Bristol Bay and the Teshekpuk Lake area of the North Slope as potential national monuments.

"There's no hidden agenda on the part of my department," Salazar said. Nor has the White House directed any requirement relating to a future land conservation program, he said.

The Department of the Interior would only develop new land conservation initiatives on the basis of discussions at the state and local level, Salazar said. Salazar cited the example of the 2009 Omnibus Public Lands Bill, a bill that had involved listening to the views of people from each state and that had resulted in the designation of 2 million acres of new wilderness and 1,200 acres of wild and scenic rivers.

Other senators' conservation questions related to a new Department of the Interior budget item titled "treasured landscapes." What is the definition of the treasured landscapes program, and is this a new initiative, or is this some renamed program, asked Murkowski.

Salazar said that he had thought up the name "treasured landscapes" as an appropriate placeholder in the DOI budget for several specific conservation projects.

On the other hand, with 2 million acres lost to development every year in the United States, there is a need for Interior to work in partnership with states and local government to identify target areas for land conservation. And, in the light of the U.S. population growth, a coherent and coordinated approach to conservation in the

21st century seems appropriate as an "important conversation and an important national dialogue that we ought to have," Salazar said.

Perhaps then a definition for "treasured landscapes" would be "something that we'll all find together as we move forward," he said. ●

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continued from page 22

## POINT THOMSON

jected coastal erosion without the need for slope protection."

Using three drilling pads situated close to the coast offers several benefits, the report says.

First, the reservoir can be delineated, developed and produced from the mainland using LRDD — long-reach directional drilling technology — as opposed to building drill pads offshore on barrier islands. Second, locating the pads adjacent to the shore allows for the use of two old exploratory gravel pads, thus reducing the footprint of new gravel. Third, the beachfront pads reduce drilling distance, time and costs.

ExxonMobil concedes its coastal pad array has drawbacks.

"Coastal wetlands and near-shore terrestrial habitat would be impacted," the environmental report says. "There

could be a greater potential for polar bear interaction with this option than a site located further inland, because there is some movement and denning of polar bears along the coast line. Closer proximity to the coast could increase the chances of a spill reaching marine waters. The pads may be more visible from the ocean side and closer to subsistence hunters transiting along the shoreline in boats."

ExxonMobil considered moving the East and West well pads a mile inland. But doing that would mean "large areas of the reservoir could not be reached using current LRDD technology."

The Corps of Engineers expects to identify the "least environmentally damaging practicable alternative" and issue its record of decision by August 2011. ●

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