



Baker platform



KENAI PENINSULA BOROUGH

The U.S. Court of Appeals for the 9th Circuit has ruled that Alaska Department of Environmental Conservation must rework its certification for discharges into Alaska's Cook Inlet from offshore oil platforms, publish a public notice about proposed certification and allow for public comments. Shown in this photo, Baker platform in Cook Inlet. See story page 12.

Enstar examines its options if Southcentral has cold winter

Enstar Natural Gas Co.'s gas supply situation is very tight going into the coming winter, Colleen Starring, Enstar's president, told the Anchorage Energy Task Force on Nov. 3. Enstar is the main Southcentral Alaska gas utility.

"If the system is stressed, we could be looking at curtailment. ... In a worst case scenario we're about 10 million cubic feet a day short of what we believe we need," Starring said. "... This is the first winter in our 50-year history that we'll be going into the winter without all of our gas ... under firm supply commitment contracts."

Enstar has options to purchase additional gas supplies
see **SUPPLY OPTIONS** page 20



COLLEEN STARRING

RCA, FERC agree to split tariff hearings between Anchorage, DC

State and federal regulators have agreed to a schedule for a series of joint hearings next year that will dissect the rates charged for shipping oil on the trans-Alaska oil pipeline.

The two months of hearings, set to run from October 2011 to January 2012, will be divided equally between Anchorage and Washington, D.C., a compromise between the Regulatory Commission of Alaska and the Federal Energy Regulatory Commission.

At issue is whether and how to include the cost of a major pipeline upgrade project in the shipping rates paid by companies moving oil down the 800-mile pipeline.

That project, called Strategic Reconfiguration, is over budget and past deadline. For that reason, the State of Alaska and Anadarko Petroleum, both of which stand to benefit in different ways by lower shipping rates, believe some of the costs of Strategic Reconfiguration are the result of imprudence and should not be paid by shippers. The companies that own the pipeline, though, see Strategic Reconfiguration as a series of

see **HEARINGS** page 19

EXPLORATION & PRODUCTION

A source concept

Great Bear Petroleum wants to extract oil direct from NS source rocks

By **ALAN BAILEY**
Petroleum News

Great Bear Petroleum, the company that starred in the State of Alaska's Oct. 27 North Slope lease sale by picking up more than 500,000 acres south of Kuparuk and Prudhoe Bay, sees itself as a game changer in the North Slope oil and gas industry, Ed Duncan, the company's president and chief operating officer, told Petroleum News on Oct. 28. Rather than drilling for hydrocarbons in porous reservoir rocks, the company plans to go straight for the jugular, drilling right into oil and gas source rocks, and then using horizontal drilling techniques and intense fracturing, or fracing, of the rocks to entice oil and gas to the surface.

"We'll begin the permitting process almost immediately. We'll let that run in parallel with the lease review. ... As soon as the leasehold is cleared we would be in a position to drill, if the clearance occurs early enough." —Ed Duncan, Great Bear Petroleum president and COO

This approach to oil and gas development has become commonplace in the Lower 48 in recent years, in plays such as the Eagle Ford shale and the Barnett shale, but has yet to make its way to Alaska, Duncan said.

"It's new to Alaska but it's not new to resource
see **GREAT BEAR** page 19

ALTERNATIVE ENERGY

Troubled co-op seeks loan

Alaska electric utility aims to continue geothermal drilling despite bankruptcy

By **WESLEY LOY**
For Petroleum News

A small Southwest Alaska electric cooperative forced into bankruptcy because of an overbudget geothermal drilling project now wants to go deeper in debt to finish what it started.

A lawyer for Naknek Electric Association filed papers Oct. 29 in U.S. Bankruptcy Court in Anchorage seeking permission to borrow \$1.5 million from the National Rural Utilities Cooperative Finance Corp.

CFC, as it's known, is a private, nonprofit lender based in Herndon, Va.

Naknek Electric needs the money for equipment

Court papers say the \$1.5 million loan will allow the co-op to clean and test the well and file an application with the U.S. Department of Agriculture's Rural Utilities Service for a \$41 million loan guarantee.

necessary to clean out drilling mud that's clogging its geothermal well. The co-op drilled the 10,433-foot well beginning in August 2009 in hopes of finding a hot water source it can harness to generate electricity.

Unless the cleaning work is done, the co-op's lawyer has said, the only alternative might be to plug

see **NAKNEK ELECTRIC** page 20

PIPELINES & DOWNSTREAM

LNG comes into focus

Shale raises export interest; Shells says costs must fall to make projects viable

By **GARY PARK**
For Petroleum News

The vigorous pace of shale gas activity in northern British Columbia is being accompanied by an expanding debate over the prospects of production from that region being exported as liquefied natural gas to Asia.

Marvin Romanow, chief executive officer of Nexen, told analysts Oct. 28 that the Calgary-based independent is weighing the prospects of joint ventures to develop its rapidly expanding holdings in the Horn River, Cordova Embayment and Liard plays and LNG opportunities.

Without making specific reference to any LNG project, he made it clear that Nexen is interested only in partnerships with companies that are capa-

"Our view is that global gas demand could rise by one quarter by 2020 and almost 50 percent by 2030."

—Lorraine Mitchelmore, Royal Dutch Shell's top executive in Canada

ble of multiyear investment programs to build capital infrastructure.

The one LNG venture that is currently on the table is the proposal to build a terminal at the northern British Columbia port of Kitimat, a scheme operated by Apache with EOG Resources as a joint-venture partner, with the objective of converting 700 million cubic feet per day of gas

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North America's source for oil and gas news

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Alaska - Mackenzie Rig Report

Rig Owner/Rig Type Rig No. Rig Location/Activity Operator or Status

Alaska Rig Status

North Slope - Onshore

Doyon Drilling

Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay W-219i	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Stacked Doyon Yard	Available
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay DS 12-04/02	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD4-25	ConocoPhillips
OIME 2000	141 (SCR/TD)	Prudhoe Bay B-08A	BP
TSM 7000	Arctic Wolf #2	Stacked at Prudhoe Bay	FEX/Available

Nabors Alaska Drilling

Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
AC Coil Hybrid	CDR-2	Kuparuk 3K-08A	ConocoPhillips
Dreco 1000 UE	2-ES	Prudhoe Bay Stacked out	Available
Mid-Continental U36A	3-S	Prudhoe Bay Stacked out	Available
Oilwell 700 E	4-ES (SCR)	Milne Point MPF-65	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay S-129	BP
Dreco 1000 UE	9-ES (SCR/TD)	Rig Stacked	Available
Oilwell 2000 Hercules	14-E (SCR)	Prudhoe Bay Stacked out	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Prudhoe Bay Stacked out	Available
Oilwell 2000	17-E (SCR/TD)	Prudhoe Bay Stacked out	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Stacked at Point Thompson	Available
Academy AC electric Canrig	105-E (SCR/TD)	Stacked at Deadhorse	Available
Academy AC electric Heli-Rig	106-E (SCR/TD)	Stacked at Deadhorse	Available
OIME 2000	245-E	Oliktok Point OP17-02	ENI

Nordic Calista Services

Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site K-11a	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Well Drill Site X-19	BP
Ideco 900	3 (SCR/TD)	Kuparuk Well 2T-13	ConocoPhillips

North Slope - Offshore

BP (rig built & being assembled by Parker)

Top drive, supersized	Liberty rig	Endicott SDI for Liberty oil field	BP
-----------------------	-------------	------------------------------------	----

Nabors Alaska Drilling

OIME 1000	19-E (SCR)	Oooguruk ODSN-18	Pioneer Natural Resources
Oilwell 2000	33-E	Prudhoe Bay Stacked out	Available

Cook Inlet Basin – Onshore

Aurora Well Service

Franks 300 Srs. Explorer III	AWS 1	Stacked out on the west side of Cook Inlet near Tyonek	Available
------------------------------	-------	--	-----------

Doyon Drilling

TSM 7000	Arctic Fox #1	Beluga Stacked	Available
----------	---------------	----------------	-----------

Marathon Oil Co. (Inlet Drilling Alaska labor contractor)

Taylor	Glacier 1	North Fork Unit #32-35	Armstrong Cook Inlet LLC
--------	-----------	------------------------	--------------------------

Nabors Alaska Drilling

Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Rigmaster 850	129	Kenai Stacked out	Available

Rowan Companies

AC Electric	68AC (SCR/TD)	Stacked Kenai, Cosmopolitan	Pioneer Natural Resources
-------------	---------------	-----------------------------	---------------------------

Kuukpik

	5	committed to drilling LEA #1 well in early October	Linc Energy
--	---	--	-------------

Cook Inlet Basin – Offshore

Chevron (Nabors Alaska Drilling labor contract)

	428	M-29 Steelhead platform	Chevron
--	-----	-------------------------	---------

XTO Energy

National 1320	A	Coil tubing cleanout planned off Platform A in the near future	XTO
National 110	C (TD)	Idle	XTO

Mackenzie Rig Status

Canadian Beaufort Sea

SDC Drilling Inc.

SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available
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Central Mackenzie Valley

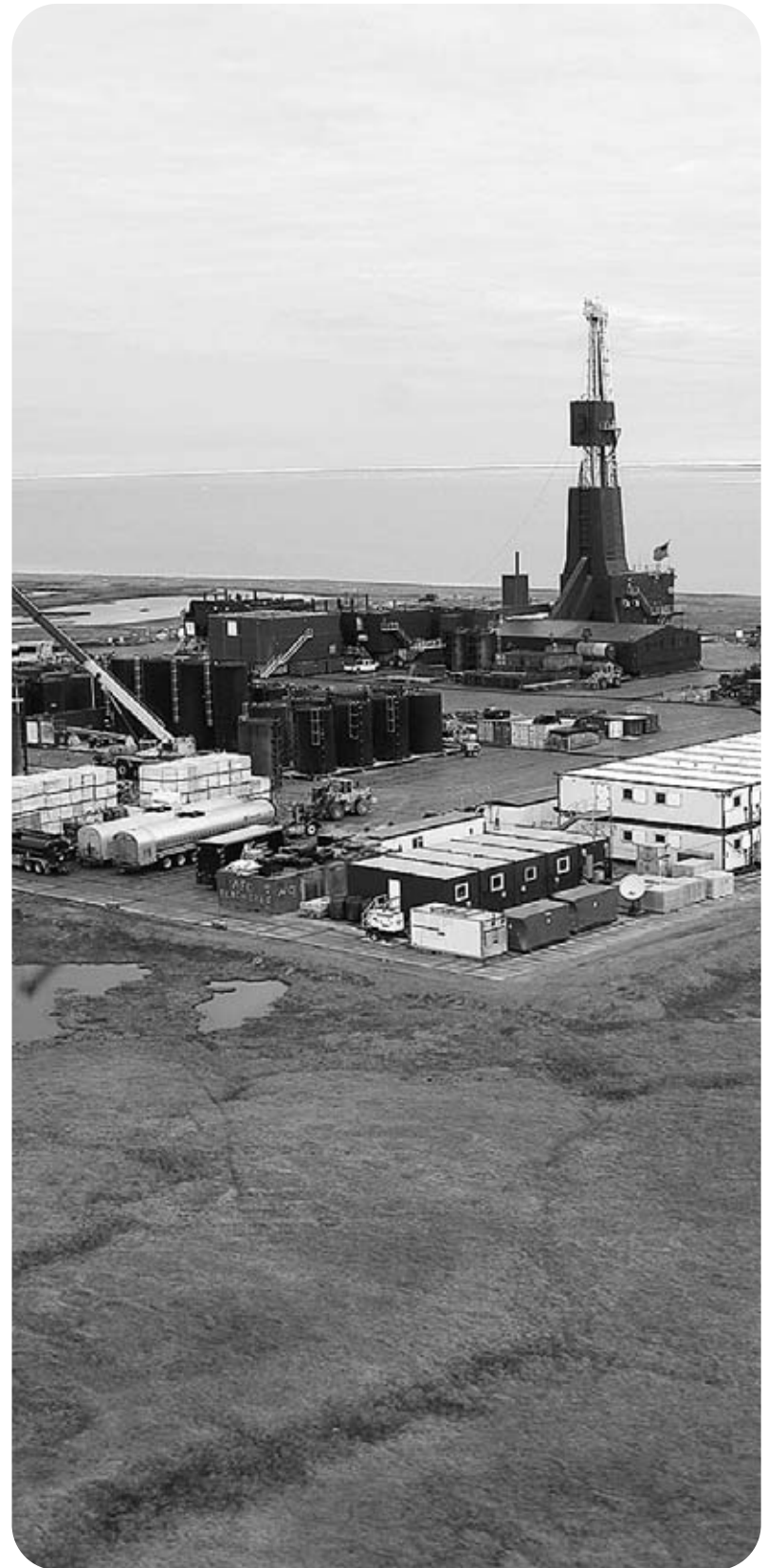
Akita/SAHTU

Oilwell 500	51	Racked in Norman Wells, NT	Available
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The Alaska - Mackenzie Rig Report as of November 5, 2010.
Active drilling companies only listed.

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

This rig report was prepared by Marti Reeve



Baker Hughes North America rotary rig counts*

	Oct. 29	Oct. 22	Year Ago
US	1,672	1,669	1,069
Canada	433	419	249
Gulf	22	23	34

Highest/Lowest

US/Highest	4530	December 1981
US/Lowest	488	April 1999
Canada/Highest	558	January 2000
Canada/Lowest	29	April 1992

*Issued by Baker Hughes since 1944

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● EXPLORATION & PRODUCTION

GMT excited about Alaska opportunities

Denver independent brought north by Armstrong, partnering at North Fork and White Hills, prepping approach for offshore acreage

By ERIC LIDJI

For Petroleum News

A decade ago, Armstrong Oil and Gas changed the Alaska oil industry by drilling wells quickly and then bringing on larger oil companies as partners to operate exploration and development programs with Armstrong's assistance. Now, Armstrong could be starting a second wave with a fellow Denver-based independent called GMT Exploration Co. LLC.

Although GMT doesn't have concrete drilling plans yet for Alaska, the company has been busy since arriving in the state early this year, appearing at several major lease sales and partnering with Armstrong on two ventures, one about to go into production. This year, GMT has amassed a sizable land position spread across three areas of Alaska: the southern Kenai Peninsula in

the Cook Inlet basin, the central North Slope south of the Kuparuk River unit and offshore in state waters off the coast of the North Slope.

"Had it not been for (Armstrong) we would not be here today, it's safe to say," Philip Wood, with GMT Exploration, told Petroleum News on Oct. 29.

GMT Exploration began an offshoot of GMT Capital Corp., an Atlanta-based private investment firm founded in the 1990s. GMT Exploration is now based out of Denver, a while it has common shareholders with GMT Capital, it's run independently, Wood said.

Midcontinent operator

GMT Exploration operates in Wyoming, East Texas and other midcontinent areas. The company first took notice of Alaska in 2005, going as far as incorporating in the

state.

That was at the tail end of Armstrong's first stretch of activity in Alaska, right around the time the company sold the last of its oil and gas assets in the state in August 2005.

That first run brought a unique strategy to the North Slope, a region long dominated by major oil companies with pockets deep enough to conduct expensive exploration campaigns and enough manpower to staff development operations as mammoth oil fields.

In less than three years, Armstrong brought three new companies to Alaska, the large independents Pioneer Natural Resources and Kerr-McGee, and the Italian major Eni Petroleum. Armstrong helped prove up the Ooguruk prospect that Pioneer brought online in 2008 and the Nikaitchuq and Tuvaq prospects that Kerr-McGee pursued initially and Eni combined and now hopes to bring online within the next few months.

Armstrong stayed quiet for a while after selling its assets, but returned in late 2007 by taking over the North Fork unit, a long dormant field in the southern Kenai Peninsula.

Armstrong eventually brought GMT Exploration and several other independents on as partners. GMT now holds between 20 and 30 percent interest in the leases at North Fork.

That partnership should pay off fairly soon, when the natural gas field comes online.

Also looking to operate

North Fork will give GMT its first production in Alaska, but it won't be the end of its partnership with Armstrong. GMT recently acquired a 25 percent interest in Armstrong holdings on the central North Slope, an area recently vacated by the Chevron affiliate Union Oil Co. of California. Known as White Hills, the area is believed to have both natural gas and oil

shows. Unocal drilled at least five wells there in 2008 and 2009.

As a minority partner, GMT isn't in a position to discuss the future of White Hills, but Wood said, "We have a lot of hopes and dreams for it and we're floating a million ideas."

North Fork and White Hills are atypical projects for GMT. Wood said the company typically owns 50 to 100 percent of its fields and operates the majority of its fields.

The two Alaska plays also do not represent GMT's full ambitions for Alaska. The company is gas-focused in the Lower 48 and sees Alaska as a chance to expand into oil.

Beaufort Sea acreage

This year, GMT pursued that goal by acquiring state acreage at the two Beaufort Sea lease sales this year. The acreage is mostly in Harrison Bay, northwest of the Colville River unit, but includes two leases adjacent to Pioneer's Ooguruk unit farther to the east.

"Winning at this week's sale really helped us put that plot together and now we're deciding how to go forward," Wood said, noting the challenges of Arctic exploration.

Before the October lease sale, GMT held nearly 86,000 acres in state leases.

GMT appears to have a similar strategy to Armstrong when it comes to developing its property. Armstrong has said it prefers to use existing revenue to fund new drilling projects. Wood said, "For one thing, we don't use outside capital that forces us to do anything on a timeline." GMT also seems to share Armstrong's enthusiasm for moving forward on new projects. He also said, "We're not afraid to drill," but noted that a small company drilling on the North Slope can eat up capital quickly, and may need partners. ●

Contact Eric Lidji
at ericlidji@mac.com



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Mary Mack	CHIEF FINANCIAL OFFICER
Kristen Nelson	EDITOR-IN-CHIEF
Clint Lasley	GM & CIRCULATION DIRECTOR
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Judy Patrick Photography	CONTRACT PHOTOGRAPHER
Mapmakers Alaska	CARTOGRAPHY
Forrest Crane	CONTRACT PHOTOGRAPHER
Tom Kearney	ADVERTISING DESIGN MANAGER
Amy Spittler	MARKETING CONSULTANT
Dee Cashman	CIRCULATION REPRESENTATIVE

ADDRESS
P.O. Box 231647
Anchorage, AK 99523-1647

NEWS
907.522.9469
publisher@petroleumnews.com

CIRCULATION
907.522.9469
circulation@petroleumnews.com

ADVERTISING
Susan Crane • 907.770.5592
scrane@petroleumnews.com

Bonnie Yonker • 425.483.9705
byonker@petroleumnews.com

FAX FOR ALL DEPARTMENTS
907.522.9583

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CORRECTION

Editing error in Point Thomson story

Due to an editing error in the Oct. 31 issue of the paper a story on Point Thomson incorrectly included a sentence indicating Chevron had not taken a position on the motion discussed in the story.

The previous sentence correctly notes that Chevron informed the court it did not oppose the motion.

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● EXPLORATION & PRODUCTION

Oil sands operations claim more ducks

By **GARY PARK**
For *Petroleum News*

If timing is everything, proponents of Canada's oil sands must be under the impression they have nothing.

Just as a senior official from the U.S. State Department was being shown the environmental and safety performance at northern Alberta's oil sands operations and just as a court was imposing a C\$3 million fine on Syncrude Canada for the worst environmental black eye the sector has received, another dose of trouble landed in the industry's lap.

An estimated 350 ducks met their end in the oil sands, again most of them in a toxic waste pond at the Syncrude operations, but others at the Suncor Energy and Shell Canada plants.

The latest incident came three days after an Alberta court imposed the largest environmental fine in Alberta history on the Imperial Oil-led Syncrude consortium for allowing 1,600 ducks to perish on a tailings pond in 2008 — a tragedy that became an international rallying point for critics of the oil sands.

The preliminary assessment of the Oct. 25 event suggested freezing rain forced the birds to land, many of

them in the tailings ponds. An investigation is under way.

Officials say penalty too light

But Canada's Environment Minister Jim Prentice and Alberta Premier Ed Stelmach reacted with dismay.

According to the National Post, Prentice already felt the C\$3 million penalty imposed on Syncrude was too light and may be inclined to introduce more punitive measures.

"In light of the courts just making their (Syncrude) decision, it's certainly aggravating and frustrating," said Stelmach, who has been leading government efforts to improve the oil sands' image.

He wants to know why the incident happened and whether the companies — who claim their warning systems for birds were functioning and that they deployed extra staff — failed to comply with regulations.

The biggest worry is what U.S. International Energy Affairs envoy David Goldwyn will have to say about his on-sight visit in his report to Secretary of State Hillary Clinton.



ED STELMACH

At stake could be a U.S. government decision on TransCanada's planned US\$12 billion Keystone pipeline expansion to the U.S. Gulf Coast and, with it, the future of oil sands exports to the U.S.

Birds die in wind turbines

The 11,500 green-energy wind turbines in California reportedly shred more migratory birds in a month than all of the ducks that have died in the two Syncrude events.

But Goldwyn said the impact of the oil sands on migratory birds and the region's water sources "are issues of great sensitivity in the U.S. We don't want to be aggravating the problem, so we're very interested in the government's response."

He said the Alberta government and the industry clearly understand how negative events affect their image, so "it's in everybody's best interest to deal with the issues."

And that's the challenge facing those who control and profit from the oil sands: What steps can they take before they might face limits on oil sands crude flowing into the U.S? ●

Contact Gary Park through publisher@petroleumnews.com

LAND & LEASING

Alaska court again slows Pt. Thomson case

The Alaska Supreme Court has granted another delay in the case pitting the state against ExxonMobil and other companies for control of the Point Thomson oil and gas field on the eastern North Slope.

Lawyers for the two sides say they're trying to settle the dispute, which involves an effort by the state Department of Natural Resources to dissolve the Point Thomson unit.

DNR, which appealed to the Supreme Court after an unfavorable lower court ruling back in January, was facing a Nov. 1 deadline to file its opening brief.

Deadline now February

But the high court, in an Oct. 28 order "entered at the direction of an individual justice," extended the deadline by three months to Feb. 1, 2011, after DNR and ExxonMobil jointly requested the delay.

Opposing lawyers said they wanted to save effort and expense by focusing for now on trying to settle the complex, high-stakes case.

This is the second time the Supreme Court has delayed the Point Thomson proceedings to accommodate settlement talks.

Point Thomson is believed to hold hundreds of millions of barrels of petroleum liquids plus an estimated 8 trillion cubic feet of natural gas. The gas is considered crucial to support a proposed gas pipeline.

State officials began an effort to reclaim the state acreage at Point Thomson out of frustration that ExxonMobil and other leaseholders had failed to develop the field decades after its discovery.

—WESLEY LOY

Contact Wesley Loy at wloy@petroleumnews.com

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• LAND & LEASING

State extends Susitna exploration license

Small oil and gas firm makes \$750,000 work commitment on land along Alaska's Parks Highway; Miller sending rig to Cook Inlet

By WESLEY LOY

For Petroleum News

The Alaska Division of Oil and Gas has granted Cook Inlet Energy LLC a three-year extension of its Susitna basin exploration license.

In exchange, the small oil and gas producer made \$750,000 in work commitments over the period. Cook Inlet Energy, based in Anchorage, is a subsidiary of Miller Energy Resources, a publicly traded firm headquartered in Huntsville, Tenn.

"Extending the license was one of the key initiatives for our team in Alaska this quarter," Miller chief executive Scott Boruff said in a Nov. 1 company press release.

The license area takes in mainly natural gas prospects.

"We are now moving into the development stage for Susitna as we finalize our drilling plans along with continuing to

evaluate joint venture opportunities," Boruff said. "This extension comes at an opportune time as the State of Alaska continues to promote drilling, offers advantageous drilling cost reimbursements, and the prices offered for natural gas continue at a premium."

Susitna license history

The license gives Cook Inlet Energy exclusive exploration rights on 471,474 acres west of the Parks Highway between the Houston and Talkeetna communities. The Susitna River skirts the eastern edge of the license area.

The license isn't the same as a state oil and gas lease. Rather, the state has used exploration licensing to supplement its conventional oil and gas leasing program. The idea is to encourage exploration on land with relatively low or unknown hydrocarbon potential — land typically far removed from the state's existing oil and gas fields.

The Susitna basin has been lightly explored, a state best interest finding from 2003 says. Nine oil and gas exploration wells and four core holes have been drilled in the region. All the exploration wells were dry holes, though some had minor gas shows.

The state originally licensed the 471,474 Susitna acres in 2003 to Forest Oil Corp. The award was known as Susitna Basin Exploration License No. 2. The state at the time made two more licenses available on neighboring tracts.

License No. 2 was good for a term of seven years, and carried a \$3 million work commitment with an option to extend the

primary term for up to three years.

Forest later sold its Alaska assets to California-based Pacific Energy Resources Ltd., which filed for bankruptcy in March 2009 and has since largely liquidated.

A newly formed company, Cook Inlet Energy, picked up numerous Pacific Energy assets out of bankruptcy in December 2009.

Two paths

State Oil and Gas Director Kevin Banks, in a Sept. 30 decision letter, said the state received Cook Inlet Energy's three-year extension request on April 29.

Banks noted the original work commitment was carried out, and said the state offered Cook Inlet Energy a choice: It could extend the license, or convert the acreage to leases.

Converting to leases would have required Cook Inlet Energy to pay the state a per-acre fee, and also commence drilling operations within specified timeframes, the Miller Energy press release said.

"Miller and Cook Inlet Energy elected to obtain an extension of the license term to allow for better control of our drilling schedule as we continue to develop our Alaskan resources," the press release said.

Banks approved the extension request, giving the Susitna No. 2 license a new expiration date of Oct. 31, 2013.

Under the extension, Cook Inlet Energy can choose one of two paths for fulfilling its work commitment.

Under the first path, the company

would review existing seismic data and determine if additional 3-D seismic is needed. If so, the company would spend the three-year term collecting the data, identifying well locations and preparing to drill.

Under the second path, which assumes no additional 3-D seismic data is needed, Cook Inlet Energy would pick a well location; secure a rig and permits; mobilize the rig to the site; and abandon, suspend or complete the well by the end of the third year.

If the full \$750,000 work commitment is met before the license expires, the company can convert its acreage to oil and gas leases.

Finally, Cook Inlet Energy must relinquish some acreage if it fails to spend at least \$250,000 in each of the first two years.

"Upon completion of the work commitment, Cook Inlet Energy will have the option to convert any or all of the license acreage to oil and gas leases with a five year term and a royalty rate of 12.5%, with annual rentals of \$3.00 per acre," the Miller Energy press release said.

Miller rig bound for Cook Inlet

Most of the assets Cook Inlet Energy and its parent Miller picked up from Pacific Energy are arrayed along the west side of Cook Inlet.

In a Nov. 3 press release, Miller said it had "completed preparations to mobilize Miller Rig 34 and associated support equipment to Cook Inlet."

Miller, which bills itself as a top driller in Tennessee, said the Atlas Copco RD20 rig has the capability to drill to 6,000 feet. The rig will be used to support development of Cook Inlet Energy gas prospects, Miller said.

The rig and other equipment will travel by land from Tennessee to Tacoma, Wash., then by cargo vessel to Nikiski on Cook Inlet, where the rig will be modified for winter operations.

From Nikiski, the rig will be deployed to company properties on the west side of the Inlet, Miller said.

"There will be significant cost saving with the use of a company owned rig that will use a mix of company personnel and local contractors," the Miller press release said.

"At Miller we have a history of successful drilling that goes back over forty years," said Boruff, the Miller chief executive. "Utilizing our own drilling equipment allows us more flexibility and affords us more control over costs. Our aggressive drilling schedule has required us to increase our capabilities in Alaska." ●

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GOVERNMENT

Senate Bipartisan Working Group organizes

The Alaska Senate Bipartisan Working Group announced its leadership roster following the Nov. 2 general election. The group said Nov. 3 that its leadership for the 27th Alaska Legislature, which convenes Jan. 18, includes:

Sen. Gary Stevens, R-Kodiak, Senate president;
Sen. Kevin Meyer, R-Anchorage, majority leader;
Sen. Johnny Ellis, D-Anchorage, Rules chairman; and
Sen. Lyman Hoffman, D-Bethel, and Sen. Bert Stedman, R-Sitka, co-chairs of Senate Finance.

Stevens, Hoffman and Stedman held the same leadership positions in the 26th Alaska Legislature; Ellis was majority leader.

Stevens said in a statement that the Senate Bipartisan Working Group expects "a seamless transition from the current organization to the new one. We believe that our effectiveness as a bipartisan organization, working on behalf of all Alaskans toward goals that are in the best interest of our state, was proven over the past two years."

Stevens said the remainder of the bipartisan organization will be announced after it has been finalized.

There is one new member of the Senate, Republican Cathy Giessel of Anchorage, filling what was formerly a Republican seat, leaving the Senate balanced with 10 Democrats and 10 Republicans.

—KRISTEN NELSON



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• NATURAL GAS

Energia Cura says larger line possible

Company proposing small-bore natural gas line from North Slope to Interior says expanded line could allow for gas to Cook Inlet

By KRISTEN NELSON
Petroleum News

Energia Cura believes its proposed 10-inch small-bore natural gas pipeline from Alaska's North Slope should be expanded to 18 inches and a flange provided at Livengood which would allow gas to be moved to Southcentral.

Beyond the flange, the line would drop down to 10 inches to serve Interior needs.

In an Oct. 28 letter to the Alaska Gasline Development Corp., Alexander Gajdos, a principal with Energia Cura, said expansion of the company's proposed line could be done "at a much lower capital cost" than building a 24-inch line from the North Slope to Cook Inlet.

A 24-inch bullet line from the North Slope to Southcentral is the project AGDC is working. The project team was established by the Alaska Legislature with House Bill 369 earlier this year work up a plan for an in-state natural gas pipeline. AGDC will present that project plan to the Legislature by July 1, defining a preferred reliable source of energy for Southcentral and Interior Alaska, with a startup date by the end of 2015.

Energia Cura is proposing a line just to Interior Alaska. It held a nonbinding open season and said after the open season closed in mid-October that it had received nominations in excess of 12 billion cubic feet per year (some 33 million cubic feet per day). The company said a volume of 12 bcf a year would allow it "to deliver natural gas to the Interior at less than half its current cost."

In excess of 19 bcf per year

Gajdos said in the letter to AGDC that to date Energia Cura has received nominations in excess of 19 bcf a year, or more than 52 million cubic feet per day.

He told AGDC that increasing the diameter of the small-bore line from 10 inches to 18 inches provides capacity to supply all Cook Inlet requirements for at least the next 25 years.

And the company's business model does

not require state subsidies, he said.

Gajdos said that whether the state subsidizes Alaska North Slope natural gas or a pipeline to Cook Inlet markets, the state's "attainable retained wealth from development and sales of both CI and ANS gas will be compromised." He said the cost of a bullet line, recovered in tariffs, "will both drive gas prices well beyond those now set in current wholesale contracts and reduce the State's net benefit from extraction and sales of these resources"; he also said the proposed 24-inch diameter for the bullet line would be some 70 percent excess capacity over current Cook Inlet demands.

Third-generation GTL

Gajdos said third-generation gas-to-liquids technologies, such as those Royal Dutch Shell is using at its Pearl GTL plant in Qatar, may allow North Slope natural gas to be exported as liquids within the next decade.

"If the Pearl GTL plant confirms Shell's commercial assumptions that inspired its huge capital investment within the next five years, another decade and a half will most likely follow before a similar or more evolved plant can be made operational on Alaska's North Slope," Gajdos said.

The capital requirements for such a plant would be significant, he said, and the Shell plant is not estimated to begin operation until 2012.

But, he said, if a GTL plant could move North Slope natural gas to market as liquids, it would be at premium crude prices "where the energy in crude trades for 2.5 times the energy in gas today."

Gajdos said that third-generation GTL technology, like shale gas, "has the power to instigate another paradigm shift in natural gas economies."

Another perspective

Another perspective comes from David Gottstein, who told AGDC in a letter dated July that "any pipeline project is largely a combination of economics, logistics, finance and politics."

With Southcentral running out of natu-

ral gas, he said the alternatives are waiting for the producers to build a gas pipeline — and importing liquefied natural gas in the short term — or "deciding to build an incredibly inefficient bullet or narrow gauge gas pipeline that will saddle Alaskans with high energy costs for decades. While at the same time severely handicapping the prospects for an export project."

Gottstein recommended that the state invest enough money to get natural gas to an Interior hub in a large-diameter line. Oil and gas companies have to wait until they can fill a line before they commit to build,

and he projects — based on uncertainty about both pricing and demand — that it could be five to 10 years before companies would actually fund a project.

The State of Alaska, he said, is the only entity in a position to invest money (specifically, "the \$3 billion extra it would take to increase the size of a pipe from the North Slope to the Interior suitable for export capacity"), because the state makes most of its money from selling the resource rather than transporting it. ●

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at knelson@petroleumnews.com

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ENVIRONMENT & SAFETY

Salazar proposes new safety institute

As a further response to the Deepwater Horizon disaster, Secretary of the Interior Ken Salazar has proposed establishing a new Ocean Energy Safety Institute, to facilitate research, development, training and systems implementation relating to offshore drilling safety, including oil spill response and the containment of well blowouts.

Although based in the Department of the Interior, in consequence of Interior's regulatory role, the institute would foster collaboration between government agencies, industry, academia and scientific experts, prioritizing research funding from a variety of governmental and non-governmental sources.

Raising bar on safety

"The Deepwater Horizon tragedy highlighted the importance of raising the bar on offshore drilling safety, practices and technology," Salazar said Nov. 2, in announcing his proposal. "The institute would serve to coordinate and institutionalize the lessons and strategies learned from the oil spill so that the United States can stay at the forefront of drilling safety, containment and spill response."

The new institute would develop enduring research capabilities and expertise in offshore drilling safety and would also develop a cadre of technical experts for deployment to deepwater drilling-related operations. The institute would also create a framework for achieving regulatory predictability within the global drilling market, Interior said.

Salazar has already discussed his proposal with potential partners in government, industry and elsewhere and has asked people to share their ideas for the proposed institute's formation and operations by Nov. 30, Interior said.

—ALAN BAILEY

LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
MHT	Northern Cook Inlet	Dec. 8, 2010
DNR	Alaska Peninsula Areawide	May 2011
DNR	Cook Inlet Areawide	May 2011
DNR	Beaufort Sea Areawide	October 2011
DNR	North Slope Areawide	October 2011
DNR	North Slope Foothills Areawide	October 2011
BOEM	Sale 211 Cook Inlet	2010*
BOEM	Sale 219 Cook Inlet	2011*

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

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

This week's lease sale chart
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FINANCE & ECONOMY

Not-so-happy holidays ahead at gas pump

By **SANDY SHORE**

Associated Press Business Writer

There's one place holiday shoppers probably won't find a bargain this year: At the gas pump.

There is plenty of oil and gasoline on hand, and pump prices usually fall this time of year. So what's causing the run-up? Most analysts point to the Federal Reserve's \$600 billion economic stimulus effort.

The national average for a gallon of unleaded gasoline was \$2.806 Nov. 4, according to AAA, Wright Express and Oil Price Information Service. That's about 7 cents more than a month ago and 12 cents above a year ago. It will probably keep rising. Some analysts think the price could be a nickel to a dime more by Thanksgiving.

The strength of the dollar and the price of oil are closely linked. The dollar has been getting weaker against other currencies for weeks, ahead of the Fed decision and will probably fall further as more dollars pour into the economy.

Oil is priced in dollars and becomes cheaper for holders of foreign currency when the dollar falls. Europeans, for example, get more dollars for their euros and can buy more oil for fewer euros. Since oil is cheaper for them, they buy more, sending up the dollar price of oil.

Energy traders expect this to happen, so they buy oil when the dollar falls, boosting the effect.

"Gasoline prices are almost probably, in my opinion, double what they ought to be. So the question is ... those people who have jobs, how much longer can they afford to pay ever-higher prices at the pump."

—Cameron Hanover analyst Peter Beutel

Benchmark crude for December delivery rose \$1.69 to \$86.38 a barrel in Nov. 4 afternoon trading on the New York Mercantile Exchange.

When the dollar weakens, investors would rather hold hard assets like oil and other commodities because hard assets protect them against more weakening and inflation.

Higher prices projected

The likely outcome for consumers will be higher prices at the pump and for basics like food.

"Effectively, what the Fed did yesterday was impose a new tax on consumers," Cameron Hanover analyst Peter Beutel said.

Oil prices hit a high for the year of \$87.15 a barrel during intraday trading in early May, when gas pump prices were around \$2.90 a gallon. They're heading back there again.

For every penny the price at the pump increases, it costs consumers an additional \$4 million, Beutel said. If the price rises a dime, it means consumers pay \$40 million more each day that 10-cent hike is in place.

At the current national average of \$2.80 per gallon, a typical motorist using about 50 gallons of fuel per month will spend about \$140.

"Gasoline prices are almost probably, in my opinion, double what they ought to be," said Beutel. "So the question is ... those people who have jobs, how much longer can they afford to pay ever-higher prices at the pump?"

Discretionary driving down

Higher gas prices already have prompted consumers to cut back on discretionary weekend driving, said John Gamel, director of economic analysis for MasterCard Advisors SpendingPulse.

It's similar to the trend in 2008 when consumers started conserving on travel as gas prices first rose above \$3.15 a gallon and then spiked over \$4 a gallon.

Still, that doesn't necessarily mean consumers will cut back in other areas. Holiday shoppers, unlike summer vacationers, have options like buying online, said Kamalesh Rao, director of economic research for MasterCard Advisors SpendingPulse. In many cases online prices are lower than in stores.

Typically, about 10 percent to 11 percent of all retail spending is spent on gas in the winter. That increases to a range of 15 percent to 16 percent during the summer when more Americans take driving vacations, Rao said.

In other Nymex trading in December contracts Nov. 4, heating oil added 4.40 cents at \$2.3719 a gallon, gasoline gained 3.64 cents to \$2.1744 a gallon and natural gas fell 5 cents to \$3.786 per 1,000 cubic feet.

In London, Brent crude climbed \$1.55 to \$87.93 a barrel on the ICE Futures exchange. ●

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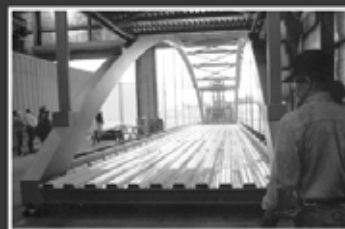
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• FINANCE & ECONOMY

Oooguruk dual lateral test successful

Nuiqsut well tests at 1,900 bpd, brought into regular production; more wells planned for 4Q and 1Q; still no news at Cosmo

By ERIC LIDJI

For Petroleum News

Oil production at the Oooguruk unit off the coast of Alaska's North Slope continues to rise, although external maintenance and outages kept quarterly production levels even for operator Pioneer Natural Resources, the Texas company reported in third-quarter filings.

The increase came from a successful test well brought into regular production.

Pioneer drilled one well during the quarter to "test the production capability of a dual lateral." The well tested at a rate of 1,900 barrels oil per day and is producing for sales.

Oooguruk, in the state waters of Harrison Bay northwest of the Kuparuk River unit, contains three production horizons: the Nuiqsut, the Kuparuk and the Moraine.

Pioneer drilled the third-quarter dual lateral into the deeper and larger Nuiqsut horizon. In the fourth quarter, the company plans to drill two more dual lateral wells into the Nuiqsut and one well into the Kuparuk, the middle horizon. In the first quarter of 2011, Pioneer plans to further test the Moraine, the shallowest and newest of the three horizons.

On average, Pioneer produced 7,000 barrels per day net from Oooguruk in the third quarter of the year, level from the second quarter. Pioneer said "unplanned maintenance and outages on the trans-Alaska oil pipeline offset production increases from new wells."

The company reported producing 6,000

bpd net in the third quarter of 2009.

Pioneer operates the Oooguruk unit and holds a 70 percent working interest in the field, while the Italian major Eni Petroleum holds the remaining 30 percent interest.

Companywide, Pioneer produced 114,600 barrels oil equivalent per day in the quarter.

No Cosmopolitan news yet

Pioneer continued to reap benefits from State of Alaska exploration credits, reporting an \$8 million after tax gain from the Petroleum Production Tax credit given for certain expenses.

But that's down from the \$14 million that Pioneer reported earning in the second quarter.

In the third-quarter filings, Pioneer did not provide an update on Cosmopolitan, an oil prospect off the coast of the southern Kenai Peninsula. In second-quarter filings, the company said it was planning an extended flow test of the Hansen 1A-L1 sidetrack well for the second half of the year and that it may also drill another appraisal well in 2011.

The southern Kenai is a burgeoning region for exploration. Although Pioneer appears mostly interested in oil at Cosmopolitan, the pending startup of the nearby North Fork field would provide Pioneer the infrastructure to produce and sell natural gas as well.

Pioneer has yet to release its 2011 capital budget. ●

Contact Eric Lidji at ericlidji@mac.com

GOVERNMENT

Parnell begins organizing administration

Alaska Gov. Sean Parnell, just elected governor in his own right, has begun the organization process for his administration. Parnell had been lieutenant governor, becoming governor in 2009 after Gov. Sarah Palin resigned, and inheriting her administration.

Parnell said Nov. 3, a day after the election, that he will be evaluating top appointed officials.

"Like every governor before me, I am requesting resignations from commissioners, deputy commissioners and directors and asking them to submit letters of interest if they would like to keep those positions," he said.

Parnell said he would go through an evaluation process for each of them, retiring some and keeping others. Some signed up for a four-year term and didn't expect to go on, he said, "and others I would like to replace."



SEAN PARNELL

Transition teams by area

Parnell also talked about the transition structure, saying he's going to do the process a little differently.


What's typical is the appointment of a transition team for each department, but departments don't work in a vacuum — they interact with other agencies, the governor said.

As an example he noted that the departments of Administration, Law and Public Safety work together every day. Rather than breaking the transition down by departments, it will be by topic area where there are common interests among a group of agencies and public stakeholders, he said.

Bryan Butcher, who is with the Alaska Housing Finance Corp., has been named transition coordinator and will be organizing the transition groups, which will be broken into resources, energy and the environment; health and education; infrastructure; science, technology and communications; financial services; public safety and justice; and the military.

Parnell said chairs and co-chairs for the transition teams should be named within the week. Draft recommendations will be released to the public, and he said he expected initial work will be completed in December.

—KRISTEN NELSON



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ENVIRONMENT & SAFETY

NSB and Shell start new science program

Shell will fund research into the Arctic offshore environment, with collaboration between industry and North Slope communities

By **ALAN BAILEY**

Petroleum News

The North Slope Borough and Shell are collaborating on a multiyear program of scientific research into the offshore Arctic environment, the two organizations announced Oct. 28. Shell is providing \$2 million in funding for the research in 2010 and 2011 — the organizations said they hope the program will eventually expand to include other private or government entities.

The North Slope Borough has long been concerned about the potential impacts of offshore development on the environment and on the subsistence hunting that underpins the culture of the Arctic communities.



PETE SLAIBY



EDWARD ITTA

"This program will add significantly to our understanding about the wildlife species and the ecosystem, of conditions at the front end of the development process," said North Slope Borough Mayor Edward Itta in announcing the new program. "It will also increase our capac-

ity to review and analyze a wide range of data. ... We in the North Slope Borough have banked on good science as being the foundation for making good decisions for both industry and for the permitting agencies, and also for us as the North Slope Borough."

Slaiby: extremely significant

"This is an extremely significant agreement," said Pete Slaiby, vice president of Shell Alaska. "It will allow both the North Slope Borough and Shell to pursue the same goal — quality, independent science through collaboration. We look forward to working with North Slope communities to build on the extensive baseline science work that has taken place over the last 30 years."

A steering committee with representatives from Shell, the borough and from the coastal villages of Wainwright, Barrow, Point Hope, Kaktovik and Nuiqsut will determine what specific research the program will include, with four independent scientists nominated by Shell and selected by the borough also participating in that committee, Itta said.

Stronger voice

The idea is to give the villages a much stronger voice in the direction of the research, and to encourage the use of traditional knowledge and the consideration of subsistence issues in the program, Slaiby said. Studies could cover a wide range of topics that people consider important, he said.

"This program will add significantly to our understanding about the wildlife species and the ecosystem, of conditions at the front end of the development process." —North Slope Borough Mayor Edward Itta

"This agreement will ... allow the communities to really have a say in what matters for them and what kind of science is important to them," he said.

Itta said that North Slope residents worry not just about offshore oil and gas development but also about issues such as the impacts of climate change and seawater acidification on the wildlife that lives in the ocean. It makes no difference whether you list an animal as threatened or endangered; the loss of organisms at the bottom of the food chain will result in all wildlife disappearing, he said.

And Slaiby said that scientific data gathered by the program could help provide the necessary basis of understanding of the offshore environment, in the event that offshore exploration leads to oil and gas development.

"There is no question that this is an unprecedented step on the part of Shell and the North Slope Borough," Itta said. Collaboration will help "create a relationship where we can find a middle ground when we need to." ●

Contact Alan Bailey
at abailey@petroleumnews.com

GOVERNMENT

BOEMRE holds Anchorage hearing

The Bureau of Ocean Energy Management, Regulation and Enforcement (formerly the Minerals Management Service) will hold a hearing in Anchorage Nov. 9 on its draft supplemental environmental impact statement relating to Chukchi Sea Sale 193.

The agency had hearings scheduled on the draft SEIS from Nov. 1-Nov. 5 in Kotzebue, Point Hope, Point Lay, Wainwright and Barrow.

The Anchorage hearing will be at 3801 Centerpoint Drive; it begins at 7 p.m.

BOEMRE said the SEIS addresses issues raised in the July 21 decision of the U.S. District Court for the District of Alaska that remanded Sale 193 back to the agency.

The draft SEIS is posted at <http://alaska.boemre.gov>.

BOEMRE will accept public comments on the draft through Nov. 29 and will consider those comments when it prepares the final SEIS.

—PETROLEUM NEWS

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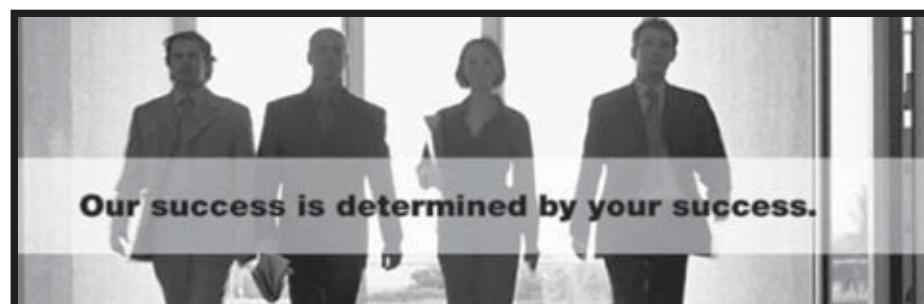


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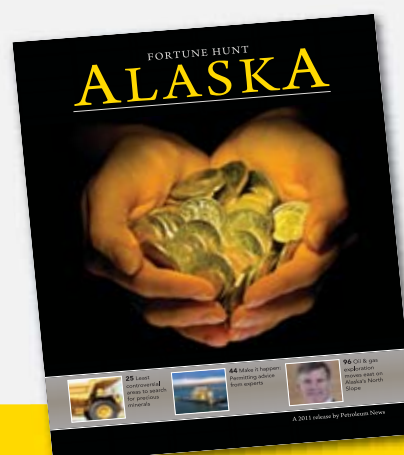
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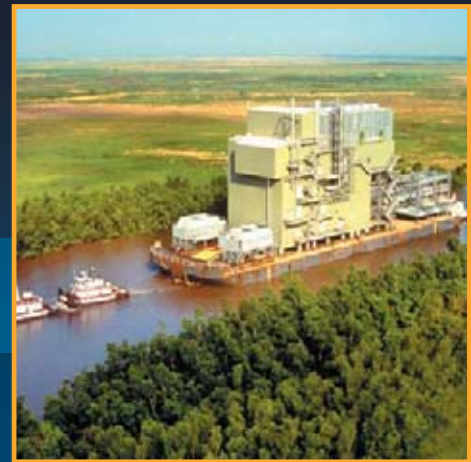
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● ENVIRONMENT & SAFETY

Court rules on Cook Inlet discharges

9th Circuit says ADEC must invite public comments on its revised certification of discharges; discharge permit remains in place

By ALAN BAILEY
Petroleum News

A panel of three judges in the U.S. Court of Appeals for the 9th Circuit has ruled in an appeal against the U.S. Environmental Protection Agency's general permit for discharges into Alaska's Cook Inlet from offshore oil platforms. In a memorandum filed on Oct. 21 the judges said that the Alaska Department of Environmental Conservation must rework its certification for the discharges, publish a public notice about the proposed certification and then allow a period for public comments.

Since ADEC certification of the discharges is a prerequisite for the EPA permit, rework of the certification will trigger the issuance of a revised permit. But, if a new permit were to significantly reduce the quantities of allowable discharges from the platforms, required modifications to the platforms could presumably prove uneconomic, given the low and declining oil production rates from the aging Cook Inlet oil fields.

Old platforms

Cook Inlet oil platforms built in the 1960s were designed to discharge drilling waste and produced water into the sea. And when in 1995 EPA introduced new zero-discharge standards for offshore platforms, the agency issued a general permit exempting the Cook Inlet facilities from the new standard, saying that it would be impractical to retrofit the platforms with the required disposal technol-



The Baker platform

ogy and that the platforms had a limited remaining life expectancy.

Although the quantities of pollutant discharged from the platforms are subject to defined limits, environmental organizations, commercial fishermen and some Native villages have criticized the continuing discharges from the platforms, claiming that toxic pollutants dumped into the seawater impact important subsistence, commercial and recreational fisheries in Cook Inlet. The oil industry has countered by saying that the strong tidal currents in the inlet rapidly disperse the waste material from the platforms and that numerous studies have found no evidence of industry contamination of water or sediments.

Some Cook Inlet oil producers have said that they have taken voluntary steps to reduce or eliminate the discharge of

produced water from the platforms, while EPA has said that the permit ensures that the platform discharges meet federal water quality standards.

2007 appeal

After EPA renewed the general permit for the discharges in May 2007, Cook Inletkeeper, Cook Inlet Fishermen's Fund, United Cook Inlet Drift Association and the Native villages of Port Graham and Nanwalek appealed to the 9th Circuit Court over the permit renewal. One of the issues raised in the appeal was an apparent relaxation of the stipulations governing allowed discharges.

But the involvement of both the State of Alaska and the federal government in the permitting process complicates the legal situation in the appeal: The permit is federal, under EPA jurisdiction, but EPA requires the Alaska Department of Environmental Conservation to certify that a permitted operation will meet state water quality standards before the permit can be issued.

In their Oct. 21 ruling, the 9th Circuit judges accepted an EPA motion to require ADEC to publish its certification findings for public review, saying that the state had neither issued a public notice nor allowed a public review period for the certification, as required under federal law for a federal permit following the relaxation of permit stipulations.

EPA also conceded, and the judges agreed, that ADEC had not published a methodology for applying the state water

Sharmon Stambaugh, ADEC's program manager for water quality, told Petroleum News Nov. 2 that, following the court ruling, EPA is characterizing the court-ordered rework of the Cook Inlet general permit as a "re-proposal of less stringent limits in a new permit."

anti-degradation policy, as required under federal law.

Permit still in place

In making its ruling, the court allowed EPA to keep the discharge permit in place, given the disruption that cancelling the permit would cause, provided that ADEC reports periodically on progress toward publishing its anti-degradation methodology.

And although by requiring a rerun of the state's certification of the platform discharges the 9th Circuit Court appears to have somewhat addressed the concerns raised by the organizations appealing the discharge permit renewal, the court also rejected other claims in the appeal, including requests for consideration of additional information about the Cook Inlet discharges. The judges said that some of this information was only relevant to state certification of the discharges and, therefore, not relevant to the EPA permitting procedure. In other cases Cook Inletkeeper should have voiced its concerns during the public comment period for the permit renewal, the judges said.

Sharmon Stambaugh, ADEC's program manager for water quality, told Petroleum News Nov. 2 that, following the court ruling, EPA is characterizing the court-ordered rework of the Cook Inlet general permit as a "re-proposal of less stringent limits in a new permit." EPA is going to revise the permit and an associated fact sheet for review by ADEC, with a request for ADEC's preliminary draft certification by Dec. 20, Stambaugh said.

The federal and state agencies will then work together, with the intention of issuing a public notice for a new permit and draft certification at the end of January. That will lead to a public comment period ending sometime in early March, with the final permit coming out in April or May.

Already complied

Stambaugh said that ADEC has already complied with the court's ruling on the state's anti-degradation methodology, with the state having on July 14 published an interim anti-degradation implementation policy as guidance for ADEC permit writers.

About a year ago ADEC convened an Alaska conference involving experts in water anti-degradation policies and methods, with the intention of informing people about ways of implementing anti-degradation policies. And the agency is now planning a workgroup of Alaska stakeholders to review the state's anti-degradation approach, Stambaugh said. The state anti-degradation policy, a part of ADEC's regulations, has much wider application than just the Cook Inlet platform discharges, she said. ●

Contact Alan Bailey
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• EXPLORATION & PRODUCTION

Eni pushes first oil at Nikaitchuq

Italian major tells RCA oil production could start early with at least 3,500 barrels per day, but several permits outstanding

By ERIC LIDJI

For Petroleum News

Eni Petroleum appears to be ahead of schedule at the Nikaitchuq unit.

The Italian major recently told state regulators that it believes oil production at the nearshore field off Alaska's North Slope could start as early as Dec. 15. For the past 18 months, Eni predicted that oil production would begin before the end of 2010, but in filings from mid-August, the company pegged the startup date as January 2011.

The new date comes from filings Eni made to the Regulatory Commission of Alaska on Oct. 19, as part of a request to connect Nikaitchuq to the North Slope pipeline grid.

Eni attributed the potential bump in scheduling to the completion or near-completion of several final details. The company said it has finished building its processing facility on Oliktok Point, which will prepare crude oil for transportation, and is "ahead of schedule" on installing equipment and utilities associated with the facilities. Eni has also already finished building other infrastructure, like a new gathering line and a fuel gas pipeline. Eni said it expects to sign the contracts to buy and move that fuel gas by Nov. 15.

Eni said it is still waiting for the Alaska Oil and Gas Conservation Commission to approve certain metering equipment, but expects a ruling "no later than" Dec. 1.

Eni did not offer RCA certainty that Nikaitchuq would start up earlier than planned, as that startup will depend on a number of factors, not all of which are under the company's control.

Connecting to Kuparuk Pipeline

Eni is looking to connect its new 14-mile crude oil gathering line into the Kuparuk Pipeline, where oil can then be transported to the trans-Alaska oil pipeline. The Kuparuk Transportation Co. is asking RCA to approve the interconnection agreement.

In its filings, KTC said that Eni plans

to drill 76 wells at Nikaitchuq: 34 producers, 34 injectors, up to six water wells and two disposal wells. In its August filings, Eni detailed a 52-well program: 26 producers, 21 injectors, three water wells and two disposal wells.

While Eni will begin producing oil at Nikaitchuq through its onshore facilities at Oliktok Point, the company is simultaneously constructing offshore facilities at Spy Island.

First oil production at Nikaitchuq will come from the new onshore production site at Oliktok Point. Eni told the RCA that it expects initial production rates to start at a minimum of 3,500 barrels per day from six oil wells, "of which four currently exist."

Eni plans to begin drilling from Spy Island in the third quarter of 2011.

Speeding up after slow down

The new timeline is good news for Eni, especially considering the delays at Nikaitchuq.

Eni sanctioned the Nikaitchuq unit in January 2008 and that fall officials spoke publicly in Anchorage about bringing onshore facilities online by late 2009, and offshore facilities by late 2010. In March 2009, though, Eni slowed down its pace by six months to a year.

Rumor at the time suggested Eni slowed development because of low oil prices and a weak global economy in the wake of the credit crunch. Those explanations, though, didn't take into account that Eni got the state to modify the royalty rates on much of the unit, allowing the company to pay lower rates during periods of lower oil prices.

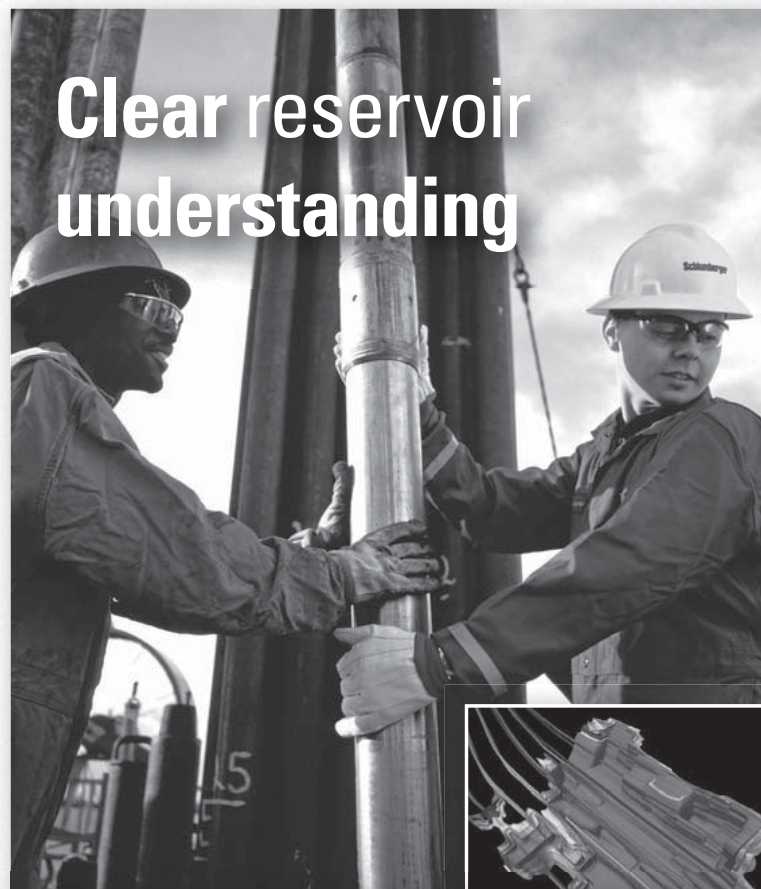
In filings from May 2009, Eni said the delay came not only from those economic factors, but also because the company missed the seasonal window to barge "processing and operations modules" to the North Slope due to a hurricane in the Gulf of Mexico.

At that time, Eni first began listing December 2010 as its expected startup date. ●

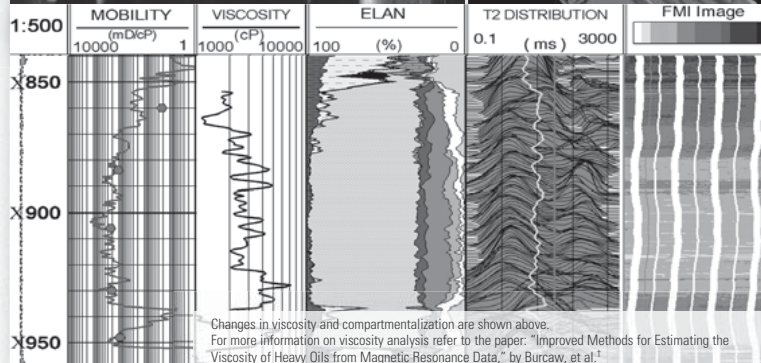
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Changes in viscosity and compartmentalization are shown above. For more information on viscosity analysis refer to the paper: "Improved Methods for Estimating the Viscosity of Heavy Oils from Magnetic Resonance Data," by Burcaw, et al.

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EXPLORATION & PRODUCTION

October ANS production up 2.8 %

Alaska North Slope crude oil production averaged 644,022 barrels per day in October, up 2.8 percent from an average of 626,357 bpd in September.

The main per-barrel increase is from the BP Exploration (Alaska)-operated Prudhoe Bay field, the North Slope's largest, which averaged 330,582 bpd in October, up 6.9 percent (21,409 bpd) from a September average of 309,173 bpd. Prudhoe Bay includes production from satellite fields Aurora, Borealis, Midnight Sun, Orion and Polaris.

The largest percentage increase was from the BP-operated Lisburne field, which averaged 29,993 bpd in October, up 12.86 percent from a September average of 26,575 bpd (a 3,418-bpd increase). Lisburne includes production from Point McIntyre and Niakuk.

Despite the overall month-to-month production increase, Alaska Department of Revenue figures show all other North Slope fields had lower production in October than in September.

The largest per-barrel decline was at the ConocoPhillips Alaska-operated Kuparuk River field, the North Slope's second largest field, which averaged 138,989 bpd in October, down 3,800 bpd (2.66 percent) from a September average of 142,789 bpd. Kuparuk includes satellite production from Tabasco, Tarn, Meltwater and West Sak, as well as production from the Pioneer Natural Resources Alaska-operated Oooguruk field. Revenue does not report Oooguruk figures separately and the most recent figures available from the Alaska Oil and Gas Conservation Commission are for September, when Oooguruk production averaged 12,692 bpd.

Milne Point down 6.28%

BP's Milne Point field had the largest percentage decline, averaging 25,735 bpd in October, down 6.28 percent from a September average of 27,459 bpd.

The BP-operated Endicott field averaged 10,965 bpd in October, down 4.75 percent from a September average of 11,512 bpd.

The ConocoPhillips-operated Alpine field averaged 90,762 bpd in October, down 1 percent from a September average of 91,712 bpd. Alpine includes satellite production from Fiord, Nanuq and Qannik.

The BP-operated Northstar field averaged 16,996 bpd, down 0.8 percent from a September average of 17,137 bpd.

The temperature at Pump Station 1 on the North Slope averaged 24.8 degrees F in October compared to 38.9 degrees in September.

Cook Inlet production averaged 10,397 bpd in October, up 14.1 percent from a September average of 9,110 bpd.

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

—KRISTEN NELSON

EXPLORATION & PRODUCTION

Big Oil resets sights on Gulf of Mexico

By CHRIS KAHN

Associated Press Energy Writer

Big Oil is ready to go back to work in the Gulf of Mexico, even with the U.S. government promising to rule the waters with a heavier hand.

Chevron, Exxon, Royal Dutch Shell are willing to endure the additional time to secure permits and extra costs that will result from new government regulations because they've come to depend on deepwater drilling to replenish their reserves. The companies outlined plans for the Gulf at the end of October as most of them reported improved earnings for the third quarter.

These big oil and gas companies know the geology of the Gulf much better than other parts of the world. Taxes and royalties for projects in U.S. waters are considered to be much lower than foreign operations, and it's much easier and cheaper to deliver the oil to the consumer.

"It's one-stop shopping," said Fadel Gheit, an analyst with Oppenheimer & Co. "When you're working in the Gulf, you're sitting in the belly of the largest energy-consuming economy in the world."

Wells very profitable

Wells in the Gulf can be very profitable. Drilling projects there typically break even when oil sells for \$50 to \$60 per barrel. It's currently trading near \$82 per barrel.

The oil companies' reliance on the oil-rich deposits below the Gulf grew as they became more adept at pumping crude from the sea floor. In March, a month before BP's well ruptured, the industry produced 52.6 million barrels of oil from Gulf wells. That's the highest total for that month in records dating back to 1981.

Shell's got 7 percent of its total oil and gas so far this year from wells in the Gulf. And before the Deepwater Horizon explosion in April, BP's wells accounted for about 10 percent of its overall production.

The U.S. drilling moratorium brought well-drilling activity to a relative standstill over the summer. New production wells were put on hold.

As a result, Chevron expects Gulf production to fall as much as 10,000 barrels per day in the second half of the year. Shell predicts a similar drop and expects a further decline of 10,000 barrels per day in 2011.

"There could be further impacts into 2012," said Shell's Chief Financial Officer, Simon Henry. "We just don't know yet."

All the companies that reported third-quarter earnings this week, except Chevron, said profits improved thanks to higher oil and gas prices.

Time to go back to the Gulf

Exxon's net income rose 55 percent while ConocoPhillips' profit doubled. Higher prices helped Royal Dutch Shell increase earnings even though it booked more than \$1 billion in asset write-downs. Chevron lagged its peers, however, reporting earnings of \$3.77 billion, or \$1.87 per share, down from \$3.83 billion, or \$1.92 per share, in the year-ago period.

And they all said it's time to get back to work in the Gulf.

The Interior Department ended its drilling ban on Oct. 12. New agency requirements will make it much harder for companies to obtain offshore drilling permits. The companies must submit to additional inspections on their rigs and they might need to add new equipment and train crew members. They'll also re-examine the worst-case scenario for a ruptured well. CEOs must certify that a company has met the new regulations. Chevron said Oct. 29 it already has submitted one permit application to the government to drill again in the deep water, and expects to file several more in the next few months.

Exxon Mobil Corp. said earlier in the week ending Oct. 29 that it's preparing to develop its Hadrian project in the Gulf, while Royal Dutch Shell said it filed a number of requests for offshore projects shortly after the moratorium was lifted earlier in October.

Analysts expect that BP, which hasn't yet disclosed its plans for the Gulf, should also report a decline in production. BP reports its results Nov. 2. ●

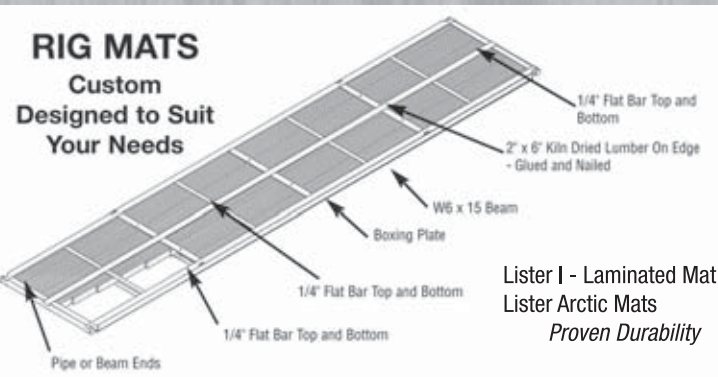


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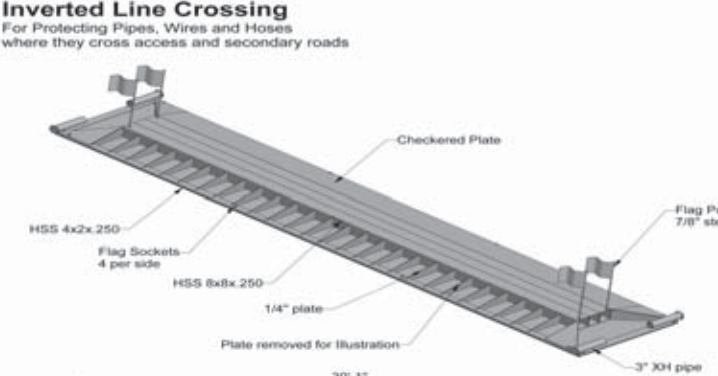
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E&P

US rig count up by 3 to 1,672

The number of rigs actively exploring for oil and natural gas in the U.S. increased by three the week ending Oct. 29 to 1,672.

Houston-based Baker Hughes Inc. said 967 rigs were exploring for natural gas and 696 for oil. Nine were listed as miscellaneous. A year ago this week, the rig count stood at 1,069.

Of the major oil- and gas-producing states, Texas gained five rigs, Alaska gained two and California and Louisiana each gained one. Arkansas, New Mexico, Oklahoma and Wyoming each lost one, while Colorado lost two rigs. North Dakota, Pennsylvania and West Virginia remained unchanged.

The rig count tally peaked at 4,530 in 1981, during the height of the oil boom. The industry posted a record low of 488 in 1999

—THE ASSOCIATED PRESS

ENVIRONMENT & SAFETY

Companies fight to keep GHG data secret

By **DINA CAPIELLO**
The Associated Press

Some of America's largest emitters of heat-trapping gases, including businesses that publicly support efforts to curb global warming, don't want the public knowing exactly how much they pollute.

Oil producers and refiners, along with manufacturers of steel, aluminum and even home appliances, are fighting a proposal by the Environmental Protection Agency that would make the amount of greenhouse gas emissions that companies release — and the underlying data businesses use to calculate the amounts — available online.

As the EPA prepares to regulate greenhouse gases, the data companies are being required to submit will help determine what limits eventually are put in place and whether they are working.

While gross estimates exist for such emissions from transportation and electricity production and manufacturing as a whole, the EPA is requiring companies for the first time to submit information for each individual facility.

Competitive issue cited

The companies say that disclosing details beyond a facility's total emissions to the public would reveal company secrets by letting competitors know what happens inside their factories. More importantly, they argue, when it comes to understanding global warming, the public doesn't need to know anything more than what goes into the air.

"There is no need for the public to have information beyond what is entering the atmosphere," Steven H. Bernhardt, global director for regulatory affairs for Honeywell International Inc., said in comments filed with the agency earlier this year. The New Jersey-based company is a leading manufacturer of hydrofluorocarbons, a potent greenhouse gas used in a variety of consumer products. Honeywell wants the EPA to reconsider its proposal, which the company said would damage its business.

Other companies are pressing the agency to require a third party to verify the data, so they don't have to submit it at all, or to allow them to argue on a case-by-case basis to keep some of it confidential, a suggestion the EPA warned would delay public release.

EPA wants to check calculations

The EPA says it's necessary to make the data public in order for the companies' calculations to be checked.

"It is important for outside groups and

Even the Federal Trade Commission has weighed in, and asked the EPA to treat data used in emissions equations as confidential since it could lead to collusion among companies and raise prices for consumers.

the public to have access to this information so they can essentially see and check EPA's and the company's math — giving the public greater confidence in the quality of data," the agency said in a statement.

The EPA required companies responsible for large amounts of heat-trapping pollution to begin this year collecting 1,500 pieces of information. The data, which is due to be reported by March, will be used in the first-ever inventory of greenhouse gases, a massive database that will reveal most sources of greenhouse gases in the United States.

Suppliers of fossil fuels, which when burned release greenhouse gases, plus manufacturers of engines and vehicles, and facilities that release 25,000 tons or more of any of six heat-trapping gases, all must comply with the regulation, the first by the government on pollution blamed for global warming.

Most companies don't have a problem telling the government or the public how much they pollute; they already do it for other types of pollution, such as toxic chemicals and sulfur dioxide, the gas that forms acid rain.

What they oppose — almost unanimously — is the public disclosure of the underlying data necessary to calculate the annual amount of greenhouse gases.

The EPA wouldn't need that information if companies actually measured greenhouse gas pollution at its source. But that equipment is expensive and for many companies would cost millions of dollars.

Even FTC opposed

Even the Federal Trade Commission has weighed in, and asked the EPA to treat data used in emissions equations as confidential since it could lead to collusion among companies and raise prices for consumers.

Aluminum smelters want 11 of the 15 data fields the EPA intends to make public kept confidential, according to comments filed by the Aluminum Association.

Koch Nitrogen Co. LLC, a fertilizer producer, questions the EPA's desire to make unit-specific or facility-specific emissions available, calling it "misguided" since a change in pollution from a single factory is unlikely to influence policy on a global problem.

For DuPont, a founder of the U.S. Climate Action Partnership — a group of

release greenhouse gases when generating power.

"We actually lobbied for this reporting bill because we think it is a very good idea," Parr said in an interview. "What we are trying to get across is that if you take that information about how the plant runs and you make that available to the public it does not make the public any better informed about what is coming out of my plant. It exposes the fruits of all my innovation." ●

ALTERNATIVE ENERGY

AEA seeks enviro firms for hydropower

The Alaska Energy Authority has issued a request for proposals, seeking firms who can provide environmental services as part of an AEA study into the feasibility of large hydropower projects in Alaska. The planned environmental work will be funded from a 2010 state appropriation of \$10 million for AEA to investigate the feasibility of new hydropower systems for the Alaska Railbelt, and to carry out some initial planning, design and permit reviews for candidate systems.

50% target

The Alaska Legislature has set a target of using renewable energy sources to generate 50 percent of the state's power by 2025. Prime possibilities for large hydropower systems are previously considered projects at Lake Chakachamna, near Mount Spurr west of Anchorage, and on the Susitna River south of the Alaska Range.

The request for proposals envisages a budget of up to \$5 million for the environmental work, which will include activities such as reviewing previous studies; environmental field work; permit acquisition; developing and updating environmental inventories; mapping; hydrology; and the review of cultural resources. However, AEA says that, depending on future appropriations, the environmental work associated with hydropower development could cost as much as \$20 million.

Initial contracts will be awarded for two years, starting in December.

—ALAN BAILEY

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Nabors expands board, appoints Yearwood as director

Nabors Industries, parent of Nabors Alaska Drilling, said Oct. 29 that it is expanding the number of its board members from seven to eight, appointing John Yearwood to fill the eighth position. Yearwood, whose term will be through the company's 2012 annual general meeting, was also appointed to the board's Governance and Nominating, Technical and Safety, and Risk Oversight committees, serving as chairman of the latter.

Yearwood currently serves on the board of directors of NFR Energy and Sheridan Production Partners. Until recently, he served as the chief executive officer, president and chief operating officer of Smith International. He successfully negotiated and completed the sale of Smith to Schlumberger in August. Before joining Smith, Yearwood spent 27 years with Schlumberger in numerous positions throughout Latin America, Europe, North Africa and North America.

Tom Crowley receives Vincent T. Hirsch award

Crowley Maritime Corp. said Oct. 28 that its Chairman, President and CEO Tom Crowley Jr. was awarded the Vincent T. Hirsch Maritime award for outstanding leadership from the U.S. Navy League. Rear Admiral Mark H. Buzby, USN commander, Military Sealift Command, presented the award at the Sea Services Award luncheon during the League's 2010 national

convention, which was held in downtown Jacksonville.

The Vincent T. Hirsch Maritime Award is named for a patron of the Merchant Marine and past national president of the Navy League. This award is presented to an individual in private or public life whose efforts and or achievements have contributed substantially to an increased public awareness of the vital role of a privately owned U.S.-flag merchant fleet, both to the United States defense establishment and to the nation's economic well-being.



COURTESY CROWLEY

NAC resumes service to St. Paul island community

Northern Air Cargo said Oct. 28 that it will introduce jet service between Anchorage and the Pribilof Island community of St. Paul beginning Thursday, Nov. 18. This will not be a first for NAC. The company offered service to St. Paul for many years but discontinued service in

see OIL PATCH BITS page 18

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

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Hanley named coach of the year
 The 10th South Shore Alaska coach of the year program recognized the coaching staff of the Alaska State High School Athletic Association (ASHSAA) for their outstanding performance in the 2009-2010 season. Coach Hanley was named the coach of the year for his leadership and dedication to the sport.

NACLink goes independent, Hothaus named president
 The Alaska National Contractors Association (NACLink) has elected Hothaus as its new president. Hothaus has a long history in the industry and is expected to lead the association through a period of growth and change.

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 The Alaska Arctic Area Developmental Education (AADE) organization recently held a fundraising event that combined a delicious meal with a fun-filled evening for a worthy cause.

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 Examples of web advertisements that can be placed on the website to reach a wider audience.

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LNG FOCUS

into LNG, possibly as early as 2015.

Apache and EOG have cautioned that there is a long way to go in arranging gas suppliers and end-use customers and dealing with formidable opposition from First Nations and environmentalists to an overland pipeline to Kitimat and tanker traffic off the British Columbia coast.

But quiet headway is being made on the commercial side, with four other producers signing memorandums of understanding to deliver gas to the project.

Shell sees growing demand

However, the challenges to be overcome were laid out Oct. 28 by Lorraine Mitchelmore, Royal Dutch Shell's top executive in Canada, who said the cost of developing gas in Canada must be reduced before the fuel can take advantage of a global LNG opportunity.

"Our view is that global gas demand could rise by one quarter by 2020 and almost 50 percent by 2030," she told the Calgary Chamber of Commerce.

She said that forecast is underpinned primarily by forecasts that China alone wants to more than double the share of gas in its energy mix to about 8-10 percent by 2020.

"As a result, within a decade China's annual gas demand could be comparable to half of the current U.S. demand," Mitchelmore said.

"This is part of the reason why, even in these difficult times, China and other Asian countries remain keen to secure supplies through long-term contracts."

She said the world has enough "technically recoverable" gas to last 250 years at current production rates, much of it stemming from the acceleration of shale gas production.

Costs need to come down

Mitchelmore said the difference

Apache and EOG have cautioned that there is a long way to go in arranging gas suppliers and end-use customers and dealing with formidable opposition from First Nations and environmentalists to an overland pipeline to Kitimat and tanker traffic off the British Columbia coast.

between gas prices in North America and Asia (where the price is tied to oil) is sufficient to justify construction of an LNG export terminal on the British Columbia coast.

"But we've got to think about ways to drive our costs down as a country to attract the Chinese and other Asian countries to enter our market," she said. "It's very important for us to access that growing market."

Shell, which doesn't provide a breakdown of its Canadian production, is a key player in the Montney and Deep basin plays of northern British Columbia and Alberta, after paying C\$5.8 billion in 2008 to take over Duvernay Oil.

Mitchelmore also argued that the gas sector is "hampered" by the existing infrastructure and must find a timely way to open up new markets for Canadian energy, notably through Enbridge's Northern Gateway project to ship oil sands bitumen to Asia, TransCanada's Keystone pipeline from the oil sands to the U.S. Gulf Coast, the Mackenzie Gas Project and an LNG export terminal.

Nexen land holdings up

Nexen has more than tripled its land holdings in northeastern British Columbia, moving this year from 90,000 acres at Dilly Creek in the Horn River basin to more than 300,000 acres in Horn River, Cordova and the newly emerging Liard play.

It is now on track to start Horn River

production this winter, with an initial target of 50 million cubic feet per day from Dilly Creek, where recoverable gas is estimated at 3 trillion to 6 trillion cubic feet, based on a 20 percent recovery factor. Romanow promised to release estimates of his company's "resource potential" for its complete B.C. prospects within the next month.

The company reported that it has recently completed a 144-well fracture program on an eight-well pad at an industry-leading 3.5 fracs per day with 100 percent success.

He indicated Nexen favors 18 fracs for each horizontal well, with the laterals extending about 1,800 meters, estimating the cost of a nine-well pad at C\$115 million.

"The economics are very strong," he said, while cautioning that Nexen was "still on a learning curve."

Nine-well pad this winter

Romanow said a nine-well pad will be drilled this winter, with first production targeted for the final quarter of 2011, while an 18-well pad is expected to come onstream in late 2012.

"Our performance in Horn River continues to be top quartile with the successful execution of our drill and frac strategies," he said, adding the pay is expected to earn a 10 percent rate of return with gas prices at US\$4 per thousand cubic feet.

Romanow said Nexen has had a number of unsolicited approaches from companies eager to take a stake in British Columbia, but emphasized his company will move carefully before doing any deals.

"We don't have to do a joint venture, but we will look at offers when somebody can bring more than cash to the table," he said.

Nexen also disclosed that it has been one of the successful bidders for land rights in the Liard basin, joining Apache and EOG, along with a handful of junior companies.

So far this year, companies have invested about C\$110 million in Liard land, or about 14 percent of the total successful bids at government auctions, adding to about C\$80 million in the previous two years.

So far this year, companies have invested about C\$110 million in Liard land, or about 14 percent of the total successful bids at government auctions, adding to about C\$80 million in the previous two years.

Liard and its associated Fold Belt region cover more than 3 million acres and extend into the Northwest Territories and Yukon as part of the Western Canada Sedimentary basin.

Analysts and government officials rate the Liard shales as similar to, although deeper than those of Horn River, pointing to the need for more exploration to evaluate the commercial prospects.

The government says Apache and EOG have completed drilling wells, but have yet to release any results.

Transeo Energy, which is also active in Ukraine and Armenia, has tentatively set a capital budget of C\$15 million for Liard in 2011, although its spending will depend on results at its other operations.

Transeo Vice President David Parry said two of the three wells drilled at Liard have been producing for two years and four years.

Edward Kallio, director of gas consulting at Ziff Energy Group, said it is too early to be certain that Liard shales can be fractured to release gas in commercial volumes.

But the B.C. government hopes producers will be able to apply lessons learned at Horn River in the Liard play within two or three years. ●

Contact Gary Park through publisher@petroleumnews.com



**Division of Mining, Land & Water
Department of Natural Resources
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Fairbanks, Alaska 99709
907-451-2740**

Public Outcry Auction # 465

DNR North Slope/Deadhorse Lease Tracts

Auction Location: 3700 Airport Way, Fairbanks, AK 99709

Bidder Registration: December 16, 2010 at 9:30 AM
Auction: December 16, 2010 at 10:00 AM

Tract	Acres	Min. Bid/Min. Annual Rent
14	10.96	\$142,400.00
15	9.75	\$123,700.00
16	11.77 / 8.24 usable	\$98,100.00

These lease tracts are in the immediate Deadhorse area, have road frontage and are partially improved with gravel. These are the last three unleased tracts under DNR ownership in Deadhorse vicinity.

To obtain an auction brochure, contact the Northern Region-Land Section at the above address and phone number, or use the following link: <http://dnr.alaska.gov/mlw/hottopics/auction465/index.cfm>

The State of Alaska, Department of Natural Resources, complies with Title II of the Americans with Disabilities Act of 1990. The State is prepared to accommodate individuals with disabilities by providing auxiliary aids when requested seven days prior to the auction date, by December 7, 2010. Individuals with audio impairments with questions may call the DNR Public Information Center in Fairbanks between the hours of 10:00 a.m. and 5:00 p.m., M-F at TDD 907-451-2770.

AO: NRO-10-118

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OIL PATCH BITS

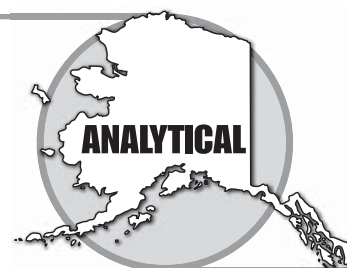
2002 due to market conditions.

"The Northern Air Cargo family is thrilled to be returning to St. Paul," said David Karp, NAC's president and CEO. "The community has been asking for a resumption of NAC service for years, and we've finally been able to find a model that works for both the company and the community." The company's Boeing 737-200 freighter is scheduled to touch down on St. Paul on Mondays and Thursdays, allowing the residents of St. Paul to transport larger items by air, thus providing more options for the community to shop in Anchorage and the rest of Alaska.

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



ALASKA



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GREAT BEAR

play exploitation in the Lower 48," he said.

A new direction

Over the past 50 years the production of oil from traditional reservoir rocks has driven oil development in fields such as Prudhoe Bay and Kuparuk — Great Bear Petroleum believes that source rock plays will drive development for the next 50 years or more, said Bob Rosenthal, the company's vice president for new ventures.

Both Duncan and Rosenthal have previously worked in the Alaska oil industry and are very familiar with the petroleum geology of northern Alaska.

And Northern Alaska's regionally extensive, world-class source rocks are what have motivated the partners in Great Bear Petroleum to form the company and to purchase North Slope leases, Duncan said. Source rocks like this are fundamental to oil and gas plays that are now being developed worldwide — the North Slope of Alaska is a very source-rich region, he said.

In its new lease position, the company anticipates seeking both oil and gas development opportunities close to the existing North Slope oil infrastructure, Duncan said. Success in the company's strategy will result in more oil flowing down the

Great Bear Petroleum sells \$6M in equity

According to a U.S. Securities and Exchange Commission filing dated Oct. 27, Great Bear Petroleum has sold \$6 million in equity to 14 new investors in the company "to pay deposits and acquisition costs for oil and gas leases and for initial development expenses for leased properties."

In the filing the company declined to declare its size, either in terms of revenue or in terms of assets.

Great Bear Petroleum is a private company, formed in 2010 by a group of five people interested in developing oil and gas in northern Alaska, using modern horizontal drilling and fracing techniques for extracting hydrocarbons direct from hydrocarbon source rocks.

—ALAN BAILEY

trans-Alaska pipeline, more revenues for the State of Alaska and more business for Alaska Native corporations, he said.

But the company has not discounted the possibility of encountering oil and gas in conventional reservoirs in its leases.

"It's going to be unlucky if we don't have conventional potential in that lease position, but that's not why we're here," Duncan said. "We're not here exploring for these conventional resources."

No new seismic needed

Duncan said that, with the subsurface depths of the company's target source rocks already known from existing seismic and well data, Great Bear Petroleum will not need to shoot any new prospect-specific 3-D seismic before embarking on a drilling program. Instead, the drilling plans will incorporate the flexibility to adjust to

any discrepancies between rock depths inferred from the data and actual rock depths encountered by the drill bit.

"Our work program is designed to address any uncertainties we have as to where the source rocks are actually located," Duncan said.

The company is anxious to move ahead as soon as possible with its drilling program, being extremely well funded and having adequate financing for its planned activities, he said.

And the state has been extremely supportive and helpful, he said.

Duncan told Petroleum News Nov. 2 that his company hopes to drill two test wells on the North Slope during the winter of 2010-11. The company is going to select well locations and start the permitting of the wells in parallel with the state's efforts to finalize the leases from the lease sale.

"We'll begin the permitting process

almost immediately," Duncan said. "We'll let that run in parallel with the lease review. ... As soon as the leasehold is cleared we would be in a position to drill, if the clearance occurs early enough."

The proximity of Great Bear Petroleum's leases to the North Slope road system will simplify the logistics of carrying out the drilling, although there is a risk that the drilling might have to be deferred into the next winter if the leases are not cleared in time, Duncan said.

Environmentally responsible

Karen Bryant Duncan, Great Bear Petroleum's corporate general counsel and secretary, will manage the company's regulatory interface with the state — she emphasized that the company is committed to environmental protection and is anxious to conduct its business in an environmentally responsible manner.

Ed Duncan said that the company wants to work with Native corporations as strategic partnerships and that the company will introduce itself to the corporations in due course.

"It's a real pleasure to be back in Alaska. ... We're really looking forward to building the business here," Duncan said. "... If this play works the way we believe it will, it's transformative. It truly is a transformative event in the history of the state." ●

Contact Alan Bailey
at abailey@petroleumnews.com

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HEARINGS

projects to reduce costs and increase efficiency, including several successful ventures.

The issue is complex and is complicated further by the number of players involved.

Although the pipeline is a single system, it is divided in several ways. First, five companies own undivided shares of the pipeline. Next, oil bound for out of state markets is overseen by FERC while oil bound for Alaska markets is overseen by the RCA.

Since late 2008, four of the five pipeline owners have each requested two increases

for in-state rates before the RCA. The RCA consolidated those eight cases this past August.

Since that consolidation, though, the RCA also approved two more increases, for ConocoPhillips and Koch Alaska. Those 10 outstanding temporary and refundable increases more than double the last permanent in-state shipping rates set in 2002.

At the same time, the pipeline owners also requested rate increases from FERC, which decided to split its cases in two "phases," one covering everything not related to Strategic Reconfiguration and the other focused entirely on Strategic Reconfiguration.

As is common in rate cases, the State of Alaska, Anadarko Petroleum and the refin-

er Tesoro Alaska challenged various pieces of the rate increases. Each of those third parties stands to gain by lower rates: the state by getting higher royalties, Anadarko by paying less to ship its oil and Tesoro by paying less for oil it takes off the pipeline for refining.

Because of the similarity of the various rate cases, parties on both sides of the issue asked the RCA and FERC to consider some form of joint hearings. The two regulatory bodies previously set up a system for handling such hearings in a 2003 memorandum.

FERC scheduled hearings and in August the RCA agreed to the dates, but only as long as the hearings were held entirely in Anchorage, where the RCA is

headquartered.

In October, the two bodies agreed to split the hearings equally between Washington, D.C., and Anchorage, and arrange for videoconference of the Washington, D.C., hearings. They also set up a system for administrative law judges from both bodies to work together.

The hearings will begin with three weeks in Anchorage from Oct. 31 to Nov. 18, 2011, move to Washington, D.C., for a month — from Nov. 30 to Dec. 21, 2011, and from Jan. 9 to Jan. 13, 2012, and conclude with a week in Anchorage from Jan. 23 to Jan. 27, 2012.

—ERIC LIDJI

Contact Eric Lidji
at ericlidji@mac.com

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SUPPLY OPTIONS

through a bid process, but there is no guarantee that the additional gas would be available, she said.

Southcentral Alaska depends heavily on gas for heating and for power generation, but gas production from the aging oil and gas fields of Cook Inlet has been steadily declining for a number of years. And, although Enstar is in the process of building a new gas line to the southern Kenai Peninsula, to ship gas from a new gas field at North Fork, that field is unlikely to come on line before the spring, Starring said.

Depends on temperatures

If the coming winter is as mild as last winter, Enstar should be able to deliver as much gas as is needed, but a sustained cold period or some operational problem could cause the utility to invoke a gas emergency

agreement subscribed to by all of the Alaska Railbelt gas and power utilities, Starring said. Emergency procedures could include energy exchanges between different utilities, with some power utilities perhaps resorting to diesel-fueled generators.

In a worst case scenario during a cold snap, supplies to gas-fired power stations might need to be curtailed, to ensure the maintenance of adequate gas pressure in utility gas lines. That would lead to rolling power blackouts in the Southcentral region. However, in addition to heading off blackouts through the utilities' emergency agreement, Enstar hopes that the Southcentral Energy Watch program will encourage consumers to reduce their gas usage in the event of a gas shortage — a recent Enstar poll indicate that 55 percent of Southcentral consumers are aware of a possible energy deliverability crisis, Starring said.

Gas storage

And help is on the way, to alleviate gas

deliverability issues in the future.

Cook Inlet Natural Gas Storage Alaska is engaged in a project to build a new gas storage facility on the south side of the city of Kenai — if that project progresses to plan, the new facility will greatly alleviate the gas deliverability situation in 2012 and 2013, Starring said.

Questioned about the ability of the gas pipeline system to support the delivery of gas to and from the new storage facility, Starring said that CINGSA does not yet know where its customers' gas is going to come from or where it will need to be delivered. However, once that information is available, Enstar can if necessary configure its system to enable the appropriate gas flows by, for example, adding compressors, Starring said.

LNG imports

Enstar and other utilities have been investigating the possibility of importing LNG into Southcentral, to supplement

local gas supplies. In addition to talking to potential suppliers, the utilities are participating in a study of the LNG import concept, Starring said. However, Enstar is not yet in a position to say anything publicly about factors such as potential LNG pricing, she said.

Starring thinks that utility gas in Southcentral will become more expensive, with people becoming increasingly concerned about security of supply. On the other hand, she doesn't see gas producers drilling the numbers of new gas wells needed to sustain local gas supplies.

"I just don't think the market is there any longer," she said. "Without Agrium (the defunct Kenai Peninsula fertilizer plant) and with the LNG plant having reduced export capacity, we are just a very small market," she said.

—ALAN BAILEY

Contact Alan Bailey
at abailey@petroleumnews.com

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NAKNEK ELECTRIC

and abandon the well, ending a quest to get away from burning expensive diesel to make electricity for the villages of Naknek, South Naknek and King Salmon.

What led to bankruptcy

Naknek Electric filed for Chapter 11

bankruptcy reorganization and protection from creditors on Sept. 29, citing assets of \$10 million to \$50 million and liabilities in the same range. Among the co-op's creditors are oil and gas contractors such as Baker Hughes and BJ Services that had a hand in the geothermal project.

The co-op's biggest creditors, however, are lenders such as CFC that specialize in financing rural utilities. CFC loaned the co-op \$8.5 million to buy the drilling rig that

remains atop the geothermal well seven miles northeast of King Salmon.

In October, the co-op mailed a newsletter to its members explaining the situation, and citing Continental Airlines, Macy's and Texaco as examples of companies that "reorganized and flourished" after a bankruptcy filing.

The newsletter attributes the co-op's financial distress to three main items:

*The U.S. Department of Energy unexpectedly barred the use of \$8.5 million in grants for the co-op's first geothermal well "due to the lack of an environmental assessment." The funds were to be used only for subsequent wells.

*The Alaska Oil and Gas Conservation Commission caused more than \$4 million in added expense by requiring the co-op to treat its geothermal well as an oil and gas well — that is, a well that could encounter dangerous hydrocarbons. The AOGCC notified the co-op three days prior to spudding that it would have to comply with certain regulations, the newsletter said.

*The co-op experienced shortfalls in an anticipated \$15 million line of credit and other financing.

Alternative energy dream persists

The newsletter suggests the co-op had little alternative but to embark on the risky geothermal drilling campaign.

In 2008, diesel to run the utility's gener-

ators soared above \$4 a gallon. Meantime, higher heating, transportation and food costs "drove residents and small businesses to leave town and close up shop." Co-op membership and residential electricity sales declined.

Faced with the possibility of losing large power customers such as Bristol Bay salmon processors, and unwilling to let the co-op "die with the community," the board of directors and managers chose to try to tap the region's known geothermal potential.

"The Directors and management knew there were risks involved, but the analysis indicated the risks were ones that NEA could cope with," the newsletter said. "Doing nothing was not an option, and NEA's Board stands by its initial decision to begin the drilling of its first exploratory geothermal well."

The well contains sufficient temperature and water to provide a minimum of 2 to 3 megawatts of power, even though the drilling fluids haven't been completely cleaned out, the newsletter said.

Court papers say the \$1.5 million loan will allow the co-op to clean and test the well and file an application with the U.S. Department of Agriculture's Rural Utilities Service for a \$41 million loan guarantee.

"With a \$41,000,000 loan, supplemented with grants available to NEA for the geothermal project, NEA will pay off the creditors in this case, drill additional wells and purchase a geothermal power generation plant and distribution system," said a motion the co-op's attorney, Erik LeRoy, filed Oct. 29. "NEA's preliminary test results and utility projections indicate that while a geothermal project will cause a spike in the cost of electricity for its members, in the long run, its members will benefit. NEA estimates that a geothermal plant will supplant 60% to 70% of its diesel generated electricity."

What's next

On Dec. 4, the co-op plans to hold a special membership meeting to vote on raising its \$25 million debt ceiling. Already, it has almost \$50 million in debt and vendor liabilities, court papers said.

Still, the co-op membership "appears to remain supportive of the geothermal project."

To secure the \$1.5 million loan, CFC would receive a lien against the co-op's diesel-fired power plant in Naknek.

A hearing on the co-op's motion to approve the loan is scheduled for 9 a.m. Nov. 24 in the bankruptcy court in Anchorage. ●

Contact Wesley Loy
at wloy@petroleumnews.com

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