Petroleum news

page 5 Q&A: SB 138 clears Finance, Kelly talks about equity plan issues

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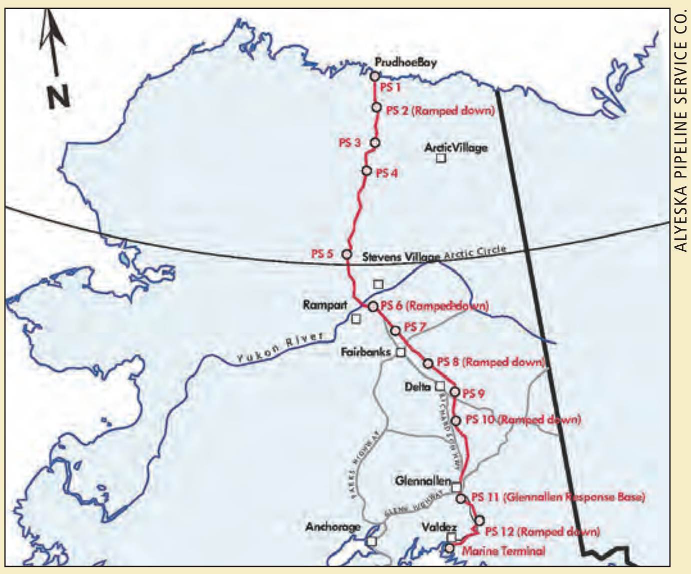
Fewer operating



Due to declining North Slope crude production, only four pump stations along the trans-Alaska pipeline currently are used to move oil: 1, 3, 4 and 9. Even retired stations contribute to line operation (see story page 7).

Pioneer lowering Oooguruk price

Pioneer Natural Resources is dropping the price of its Alaska subsidiary.

Under an amendment to a sale agreement announced last year, the Texas-based independent will now sell its Pioneer Natural Resources Alaska Inc. subsidiary to Caelus Energy Alaska LLC for some $300 million, the companies announced March 13.

The original deal announced last October called for the privately held Caelus to pay $550 million for the subsidiary, which operates the Oooguruk unit on the North Slope.

The amended deal is expected to close in the second quarter, retroactive to the start of the year, according to Pioneer. The original deal was supposed to close by the end of 2013.

Under the amendment, Pioneer expects to report a $30 million noncash loss in the first quarter of the year, in addition to the $350 million noncash loss expected last year.

Caelus said it will take on a $300 million second-lien term loan and a $115 million asset based loan facility to fund the purchase and to provide working capital for its operations.

Caelus declined to comment further on the amendment.

—ERIC LIDJI

Shell CEO sees Alaska challenges, potential; hard decisions needed

In an investor presentation on March 13, accompanying Shell's publication of its 2013 annual report, Ben Van Beurden, the company's new CEO, characterized Shell's Alaska Arctic program as one of some major initiatives designed for the company's potential future growth, but where the current pause in activity demonstrates the company exerting discipline in its capital spending on programs that are still in their relative infancy.

"There's a clear capital ceiling in the company and so we need to take some hard choices, and this means looking more closely at our options at an earlier stage and asking ourselves 'are these indeed the projects? Are these projects really a good fit for Shell?'" Van Beurden said.

Along with "no drilling this year in Alaska," Van Beurden cited a U.S. gas to liquids plant and liquefied natural gas development in the Asia Pacific region as projects on pause, where hard decisions are needed.

Court decision

Shell's annual report contains a section on its Alaska exploration program, citing a 9th Circuit Court of Appeals decision

see **SHELL IN ALASKA** *page 15*

NATURAL GAS

SB 138 in House

Governor's proposal for state equity in LNG project passes Senate 15-5

By KRISTEN NELSON
Petroleum News

Senate Bill 138, Gov. Sean Parnell's legislation enabling the state to take an equity share in the Alaska LNG project, has passed the Senate. Hearings began in House Resources March 19.

The 15-5 Senate floor vote on SB 138 came March 18 following hours of debate on amendments proposed by minority Democrats, none of which passed. The Senate did approve, without objection, an amendment by Sens. Mike Dunleavy, R-Wasilla, and Lyman Hoffman, D-Bethel, to change the name of a fund established in the bill. The rural capital energy fund became the Alaska affordable energy fund, which Dunleavy said in introducing the amendment reflected the intention that all sections of the state would benefit.

The fund, which Hoffman added to the bill in Senate Finance, would use 10 percent of revenue from state royalties transported in an Alaska LNG project — after payment to the Alaska permanent

Senate Finance amended the bill to increase the tax on gas from 10.5 percent to 13 percent. That tax, combined with the state's royalty, would give the state a 25 percent equity stake in the project.

see **SB138** *page 14*

EXPLORATION & PRODUCTION

CD-5 work to proceed

Federal judge declines to halt construction of ConocoPhillips Alaska oil project

By WESLEY LOY
For Petroleum News

A federal judge has denied a motion to stop construction on the CD-5 oil project within the National Petroleum Reserve-Alaska.

The ruling cheered ConocoPhillips Alaska Inc., the project developer. A work stoppage now, smack in the middle of the short winter construction season, would have been enormously troublesome and expensive, the company argued.

U.S. District Judge Sharon Gleason's March 12 decision comes in a case in which some residents of Nuiqsut, a predominantly Inupiat Eskimo village near the CD-5 site, are suing to challenge the federal permit issued for the project.

In her 12-page order, Gleason questioned the timing of the motion, saying it appeared ConocoPhillips was correct in asserting the village plaintiffs waited to file for an injunction "until the moment it would inflict the maximum possible

Gleason also found that an injunction wasn't in the public interest. She noted, for example, that "residents from various North Slope Borough communities, including Kuukpik shareholders who live in Nuiqsut, could lose their jobs and income."

see **CD-5 WORK** *page 15*

NATURAL GAS

Shuffles, hiccups in LNG

Malaysia's Petronas locks up potential gas supplies in BC; Enbridge secures land

By GARY PARK
For Petroleum News

Shuffling and maneuvering among the key players in British Columbia's LNG field continues unabated.

The latest developments that reinforce who the serious contenders are — assuming the pundits are accurate that no more than three of a dozen large-scale ventures will ever get to the starting line — involve Malaysian global super-major Petronas and Canadian pipeline power Enbridge.

But trouble is looming for what is supposed to be the lead off project.

The minnow BC LNG Cooperative venture, which was scheduled to start exports by either late 2015 or early 2016, is suddenly seeking court approval to reorganize under the Companies' Creditors Arrangement Act, which allows financially-troubled corporations to juggle their affairs.

Operator Houston-based equity firm LNG Partners, with the Haisla First Nation and Bermuda-based shipping company Golar as partners, is unable to pay its creditors more than C$100 million, according to a Supreme Court of British Columbia filing.

LNG Partners is reportedly seeking an agreement with Calgary-based utility AltaGas, along with Belgium-based Exmar NV and gas marketer EDT Trading, leaving the Haisla and Golar to pursue a separate project.

Rounding up gas

State-owned Petronas, operator of the Pacific NorthWest LNG project, showed how serious it is

see **LNG MANEUVERING** *page 16*

contents

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Alaska - Mackenzie Rig Report

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay DS 07-16A, workover	BP
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay MPF-78, workover	BP
Dreco D2000 Uebd	19 (SCR/TD)	Alpine CD3-316B	ConocoPhillips
AC Mobile	25	Prudhoe Bay B-19	BP
OIME 2000	141	Flat Top 1, Exploration	ConocoPhillips
TSM 7000	Arctic Fox #1	Rendezvous 3, Exploration	Contracted to ConocoPhillips Winter of 2013/2014
Kuukpik	5	Umiat Well 23H, Completing	Linc Energy Operations Inc.
Nabors Alaska Drilling			
AC Coil Hybrid	CDR-2	Kuparuk 2F-18	ConocoPhillips
Dreco 1000 UE	2-ES (SCR-TD)	Prudhoe Bay	Available
Mid-Continental U36A	3-S	Prudhoe Bay	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay	Available
Dreco 1000 UE	7-ES (SCR/TD)	Kuparuk	ConocoPhillips
Dreco 1000 UE	9-ES (SCR/TD)	Kuparuk	ConocoPhillips
Oilwell 2000 Hercules	14-E (SCR)	Prudhoe Bay	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Prudhoe Bay	Available
Emsco Electro-hoist-2	18-E (SCR)	Prudhoe Bay	Stacked
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Prudhoe Bay	Stacked
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Prudhoe Bay	Available
Emsco Electro-hoist	28-E (SCR)	Prudhoe Bay	Stacked
Oilwell 2000	33-E	Prudhoe Bay	Available
Academy AC Electric CANRIG	99AC (AC-TD)	Working for Repsol	Repsol
OIME 2000	245-E (SCR-ACTD)	Oliktok Point	ENI
Academy AC electric CANRIG	105AC (AC-TD)	Working for Repsol	Repsol
Academy AC electric Heli-Rig	106-E (AC-TD)	Working for Repsol	Repsol
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site 9-47A	BP
Superior 700 UE	2 (SCR/CTD)	Milne Point Well Drill Site L-09	BP
Ideco 900	3 (SCR/TD)	Kuparuk Well 1D-108	ConocoPhillips
Parker Drilling Arctic Operating Inc.			
NOV ADS-10SD	272	Prudhoe Bay DS 18	BP
NOV ADS-10SD	273	Prudhoe Bay DS W-59	BP

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
BP			
Top Drive, supersized	Liberty rig	Inactive	BP
Doyon Drilling			
Sky top Brewster NE-12	15 (SCR/TD)	Spy Island SP24—SE1	ENI
Nabors Alaska Drilling			
OIME 1000	19AC (AC-TD)	Oooguruk ODSN-02	Pioneer Natural Resources

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Kenai Land Ventures LLC (All American Oilfield Associates, labor Contract)			
Taylor	Glacier 1	Kenai Loop Drilling Pad #1	Buccaneer Energy Ltd.
All American Oilfield Associates			
IDECO H-37	AAO 111	Kenai Yard	Available
Aurora Well Services			
Franks 300 Srs. Explorer III	AWS 1	Stacked out in Sterling	Available
Nabors Alaska Drilling			
Continental Emsco E3000	273E	Kenai	Available
Franks	26	Kenai	Stacked
IDECO 2100 E	429E (SCR)	Kenai	Stacked
Rigmaster 850	129	Kenai	Available
Saxon			
TSM-850	147	Ninilchik Unit, Bartolowits pad drilling Frances #1	Hilcorp Alaska
TSM-850	169	Swanson River	Hilcorp Alaska

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
XTO Energy			
National 110	C (TD)	Idle	XTO
Spartan Drilling			
Baker Marine ILC-Skidoff, jack-up		Spartan 151 Upper Cook Inlet KLU#1	Furie
Cook Inlet Energy			
National 1320	35	Osprey Platform RU-1, workover	Cook Inlet Energy
Hilcorp Alaska LLC (Kuukpik Drilling, management contract)			
		Monopod A-31, Preparing to drill	Hilcorp Alaska LLC
Patterson UTI Drilling Co LLC			
	191	West McArthur River Unit #8	Cook Inlet Energy
Kenai Offshore Ventures			
LeTourneau Class 116-C, jack-up	Endeavor	Port Graham	Buccaneer Energy Ltd.

Mackenzie Rig Status

Canadian Beaufort Sea

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Akita			
TSM-7000	37	Racked in Norman Well, NT	Available

The Alaska - Mackenzie Rig Report as of March 20, 2014.
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

JUDY PATRICK

Baker Hughes North America rotary rig counts*

	March 14	March 7	Year Ago
US	1,809	1,792	1,776
Canada	522	587	503
Gulf	52	53	51

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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● FINANCE & ECONOMY

MGM Energy close to fading

Describes NWT regulatory process as too complicated, unpredictable and costly for small company; NWT promises improvement

By GARY PARK
For Petroleum News

Paramount Resources has made its predicted move to reabsorb control of MGM Energy.

If the deal is concluded, it will consign one of the smallest and boldest explorers in Canada's North to the history books and send a strong message to the Northwest Territories government to do as it has promised and accelerate regulatory approvals when the Canadian government relinquishes control over resource development to the NWT on April 1.

In what could be a parting message to the NWT, MGM President Henry Sykes said MGM's downfall stemmed partly from complicated, unpredictable and costly processes, despite what he described as a "tremendous job" within his company.

Typical of the barriers confronting NWT explorers is a regulatory application filed by Husky Energy to drill four wells in the Canol oil shale of the Central Mackenzie Valley, subjecting itself to reviews by 40 different agencies, having so far invested C$160 million in the program.

> *Sykes said that companies in the Canol play, led by Husky and ConocoPhillips Canada, have indicated the outlook is promising, but until the road to commercialization is opened up investors are not interested.*

Paramount's takeover offer involves the 86 percent of MGM shares it doesn't already own for the equivalent of 15 cents a share — one of its shares for 300 MGM shares — or a total transaction value of about C$47 million.

Clayton Riddell, chief executive officer of both Paramount and MGM, personally owns 31.6 percent of MGM and has agreed to support the deal.

MGM shares immediately fell 23 percent to 15.5 cents, less than half their trading value of a year ago.

Sykes, who has been president of MGM since it was spun off from Paramount in 2007, told reporters the development is the "most frustrating aspect of our time operating in the North," which was initially spurred on by hopes of making enough natural gas discoveries in the Mackenzie Delta to become a significant shipper on the planned Mackenzie Gas Project pipeline.

Sykes and other MGM officials have repeatedly warned that delays in gaining approvals for exploration work are beyond the economic capacity of a small company.

They said that obtaining a permit for a horizontal well in the NWT was taking longer than a year and costing millions of dollars, a process that was extended by even more years if an environmental assessment was ordered.

Sykes told the Calgary Herald that delays in the natural gas sector made MGM's gas reserves irrelevant and he is now concerned that if the United States makes the advances with unconventional oil that it has with unconventional gas the costly NWT oil will not be needed for a "significant time."

MGM drilled one of its 11 wells in partnership with Royal Dutch Shell, but was forced to concede on Feb. 27 that it had failed to find a replacement partner, despite estimates that the Exploration License 466 held estimated oil-in-place of 625 million barrels.

When an application by the MGM-Shell partnership to drill a horizontal well on the license was referred for an environmental assessment — even though MGM had already drilled and tested a vertical well in the 2012-13 winter — Shell decided it was time to quit.

MGM had submitted a project description to regulators entailing more than 1,000 pages, listing all of the chemicals that would be used for hydraulic fracturing and outlining how the land and subsurface would be protected.

Overall, MGM had a positive working capital of C$11.2 million at the end of the third quarter 2013 and holds about 3,700 net hectares (9,140 acres) of NWT land, valuing the Paramount offer at about C$127 per hectare.

Sykes said that companies in the Canol play, led by Husky and ConocoPhillips Canada, have indicated the outlook is promising, but until the road to commercialization is opened up investors are not interested.

The one glimmer of hope, when regulatory control of the NWT's onshore is transferred to the NWT government, is a commitment by the NWT to streamline reviews and approvals.

FirstEnergy Capital analyst Cody Kwong said in a research note that if the Paramount offer is accepted, MGM's assets would be transferred to a "better capitalized company."

Geoff Ready, an analyst with Dundee Capital Markets, doubts that a rival bidder will emerge because of the failed search for a joint venture partner. ●

Contact Gary Park through publisher@petroleumnews.com

Petroleum news
www.PetroleumNews.com

Kay Cashman	PUBLISHER & EXECUTIVE EDITOR
Mary Mack	CEO & GENERAL MANAGER
Kristen Nelson	EDITOR-IN-CHIEF
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Forrest Crane	CONTRACT PHOTOGRAPHER
Tom Kearney	ADVERTISING DESIGN MANAGER
Renee Garbutt	CIRCULATION SALES
Ashley Lindly	RESEARCH ASSOCIATE
Dee Cashman	RESEARCH ASSOCIATE

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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EXPLORATION & PRODUCTION

Umiat well reaches target depth

The Umiat No. 23H well has reached its target depth, according to its operator.

Linc Energy Ltd. said the horizontal well at the Umiat oil field has reached a total measured depth of 4,100 feet and the company soon plans to conduct a flow test.

The flow test will use an open-hole configuration with a slotted liner requiring no cementing or perforations, according to the company. The company decided to pursue an open-hole configuration for its flow tests at the Umiat field after mechanical problems last winter compromised a planned flow test on the Umiat No. 18 vertical well.

Umiat No. 23H is the first horizontal well at the oil field in the foothills of the Brooks Range Mountains along the border of the National Petroleum Reserve-Alaska.

—ERIC LIDJI

GOVERNMENT

Kelly steers LNG bill through Finance

Fairbanks senator talks about issues his committee faced with enabling legislation giving Alaska an equity stake in an LNG project

By STEVE QUINN
For Petroleum News

Last year Sen. Pete Kelly let his Senate Finance Committee co-chair Kevin Meyer handle the oil tax reform legislation, one of Gov. Sean Parnell's signature laws to advance through the Legislature.

This year, Kelly, a Fairbanks Republican now in his second year of his second tenure in the Senate, handled Parnell's major resource offering: Senate Bill 138, Parnell's LNG legislation.

A few days after the committee passed SB 138 and one day before the Senate approved the bill, 15-5, Kelly sat down with Petroleum News to discuss the work Senate Finance did to advance the bill, including provisions for rural Alaska derived from project-driven state earnings, giving the Alaska Gasline Development Corp. more authority and giving the state 25 percent equity into the project.

Petroleum News: Can you give us an overview on how you approached the bill?

Kelly: We began to have presentations before the bill came into the committee. I knew it was going to take a long time; there were things we needed to be sure on as best as we can. I mean, we are looking pretty far into the future. You can't be 100 percent. So I had asked that we get the information in committee going before we had the bill. I thought the consultants that we had and the consultants the administration had made a case that this is a fairly elegant package that's been put together.

Clearly the state can't do this on its own. If we just did the taxing scenario, which most sovereigns do, we'd probably end up with a lot less money and more risk, risking future money wouldn't be there. Obviously, there is risk involved in being a partner in this. I don't mean to minimize that. I think they made the case that the state is better off being a partner because we can get into it at a more significant participation if we have a partner and we can make more money being in the gas business given that we'll have to do that through some surrogates.

So I thought the case was made and I thought it was important, as I looked at how we were going to proceed as a sovereign, did we want to start remaking everything that we had done in HB4 last year. The administration didn't make the case, but others made the case that we probably should give AGDC more authority than the governor wanted to give them. That's why you saw that we put a program director in there. We fought a little over whether the Attorney General should be the lead counsel on this. Ultimately it was the feeling of the committee that he should not. That may be resolved in the House, I don't know, but that was part of the bill that was a bit contentious.

We thought we should be in at 25 percent. We were at 20. We moved it up to 25. The reason was that this is so early in the process. You can stake your claim at 25 percent now. In the future, you can back off of that and sell your share actually at a premium. If you go in at a lower amount, and say we want more, you will have to pay someone else at a premium. Fact is, you probably couldn't get in at a greater amount anyway. So the best thing to do is go in higher and you always have the opportunity to drop back, and you can probably drop back and get some money out of the process in the first place.


SEN. PETE KELLY

Then we went to the rural energy fund. I actually like changing the name of that because I think there is some misunderstanding of what we created. I had discussions with people who think it should be an outreach energy fund. What you have is this line going down the middle of the state. There are people on the other sides of the line who will benefit from that fairly quickly. There are people that going all the way out who will probably need some help from an energy fund to make sure gas or lower cost energy gets to them. Those people might live on Chena Hot Springs Road in Fairbanks, they might live in Nenana, the might live in Wasilla. There are a lot of places that don't have gas that aren't necessarily deep rural Alaska.

We also want to make sure people of rural Alaska have it also, that we didn't miss this opportunity to set something up. I think Lyman (Hoffman, Bethel senator) made a pretty good case that we'll look back on this and we'll wish we had done something like this. We'll take income stream from this project and put it into an outreach energy fund.

Petroleum News: OK, you guys started working on this before the bill got to your committee, so what was your thinking doing it that way and is 90 days really enough to accomplish something this big?

Kelly: Ninety days is a bad idea whether it's something this big or something else, so we adjust and we do the best we can. You saw we did HB4 last year, we did the gas trucking to Fairbanks last year, we did the oil taxes. So we can do it, but 90 days doesn't serve the people of Alaska well at all. It kind of dawned on me that this is the second committee of referral (between the Senate and House). We've had exhaustive presentations and there came a time we had to get the bill out. That's why I'm a little inoculated from criticism from when people say we are rushing this. We've known there has been gas up there on the North Slope since the first headline in 1954 or something like that. We're not rushing.

Petroleum News: There is this prevailing thought that the window of opportunity is now, and it's always been there. So is it necessary to get it done in 90 days or is it that it can be done in 90 days?

Kelly: The minority is always going to find a way to criticize it. The less meat there is to their criticism, the more you'll hear things like you're rushing it, or the people in Alaska haven't had input — those kinds of clichés. I don't take it very seriously. I refer the last two to fellas who we serve with here who are in the minority and more from certain people in the press who just complain about everything. It's always the same stuff: going to fast; not listening to the people of Alaska. They just ask questions but they have no substantive contribution. They ask questions that can't be answered but are designed to damn the actions of the Legislature or whoever happens to be in power that they don't agree with.

Petroleum News: Let's go to your point about giving AGDC more power. What's driving that?

Kelly: they seem to be the entity that's available that can do this. You don't want government trying to accomplish these types of things. You can't have the talent that you need for something like this because you have all kinds of pay restrictions. AGDC was created to be fairly powerful, fairly nimble and you need those kinds of things to pull off a project like this. I have great trust in the board and particularly the executive director Dan Fauske. He's a home run hitter.

Petroleum News: The chairman (John Burns) is an attorney, as well as a former attorney general; does that enhance your confidence in the board?

Kelly: I'm not sure I need more confidence. This is the type of project where you need the F. Lee Bailey of pipeline attorneys. I'm not sure who that is. That's who you want and you want access to them. If you wanted to go through the attorney general's office, you have to remember they have a lot on their plate and they are distracted. They are not motivated like a law firm is money wise.

We structured the bill so you didn't have that separate subsidiary, that separate corporation the governor wanted. You are really handing AGDC the ball on this one. There may be some criticism in there and I may be one of them that there still may need to be some changes to boost AGDC's role in this.

Petroleum News: There are people who staunchly support AGDC, so what else is it that you like about this body?

Kelly: They are powerful and they are nimble. We gave them plenty of statutory authority to do these kinds of projects. We have talented people in place. We've given them lots of money in the original fiscal note, plus in the fiscal note this year. They should be able to deliver for us. I'll be really curious to see if the big line doesn't go forward and we are removed from the requirements under AGIA, I'll be interested to see how quickly AGDC adapts itself to the needs of in-state energy of getting gas to the burner tip. They will have to take that 36-inch line down to something quite a bit smaller. There are so many restrictions with AGIA right now. Later on when AGIA is off the table and there is no major LNG line, they are going to still deliver gas to Alaskans, I hope.

Petroleum News: Has the bill done enough to set aside AGIA?

Kelly: I honestly don't know the answer to that. I really don't.

Petroleum News: OK, let's go to your point about the 25 percent. How did you

see **KELLY Q&A** page 13

● NATURAL GAS

Return on natural gas long time coming

Persily cites differences, similarities to state's 2002 efforts; sees value of TransCanada in letting state use cash elsewhere

By KRISTEN NELSON
Petroleum News

In 2002, the year the Alaska Department of Revenue put out a report on potential state participation in an Alaska natural gas pipeline, Larry Persily was a deputy commissioner in the department.

Today, he's the federal coordinator for Alaska gas line projects.

On March 10 he discussed with the Alaska Senate Finance Committee the differences between the state participation proposed in a natural gas project in 2002 and the participation the Alaska Legislature is considering today.

Persily told the committee that what has really changed since 2002 is the world market for natural gas, with growing demand in Asia and double-digit growth in China's demand.

Alaska, he said, could be a "victor of circumstances" where things work out in the state's interest after a 40-year wait to commercialize North Slope natural gas.


JUDY PATRICK
LARRY PERSILY

The price issue

Persily said divergence in prices is also a change, demonstrating with a chart from the BP Statistical Review of World Energy showing the difference between gas prices in Japan, the United Kingdom and the United States between 1996 — when the range was between $2 per million Btu in the U.K. and just under $4 in Japan — to 2013 when the price in Japan was above $17 per million Btu, compared to $11 in the U.K. and $4 in the U.S.

He cautioned against an assumption that the gap in prices will continue to grow or to be as wide as it has been. Supply and demand doesn't work that way, Persily said, adding that the price won't come down enough so that LNG will be uneconomic, because prices accommodate the high cost of LNG production. Alaska will have to be competitive in the world market — and the economics for an Alaska LNG project are "much more attractive" at the lower end of the $45 billion to $65 billion estimated cost.

He also said there won't be cheap gas from new projects, because they cost too much to build.

'Patience' the key word

Changes Persily cited include a transition on the North Slope from oil to oil and gas, especially with Point Thomson coming online.

And producers and the state are willing to put up serious money to see if the project will work — there's never been a willingness to spend that much, he said.

> *If the state takes 25 percent, Persily said, that's probably more than the state can afford and having someone else put up the money is an advantage.*

But, Persily cautioned, Alaskans need to keep reciting the word "patience."

He said he's not aware of any LNG project which has lost money. You may not make as much money as projected because costs may turn out to be higher, but you still make money, Persily said.

There is, however, a long payback period on projects like this. He compared it to investments the Norwegian government made in oil and gas projects where it had to wait years for any money to come back — a decade before profits really came back in.

Persily said the 2002 Revenue report looked at a pipeline to the Lower 48 and at a time when the state was down to $2 billion in the constitutional budget reserve. That was not a time when there was money to invest, he said, compared to today when the state has $17 billion in the CBR.

What hasn't changed?

The 2002 report recommended that the state take royalty in kind and match up royalty share with gas pipeline ownership, Persily said.

And there was the conflict of owning something you also regulate, although a state-owned entity minimizes those conflicts, he said.

Persily urged Alaskans to keep politics out of business and said it would take money to get answers and the information needed to make a decision, hence the cost to the state for pre-FEED (front-end engineering and development) and FEED work.

He said that looking back over the 2002 report as an Alaskan, the state needs to be careful not to fall too much in love before we know more about each other. The project could produce revenues, but there are also risks, and while oil is like dating, gas is like getting married, Persily said.

As to the expense of pre-FEED and FEED, he said it's what you have to do to get to a decision.

TransCanada issue

Asked about TransCanada, Persily said he wanted to be careful not to be a federal official telling the state what to do.

He said the state has unfunded needs and by taking on TransCanada as a partner the state reduces the money it has to come up with in pre-FEED and FEED.

If the state takes 25 percent, Persily said, that's probably more than the state can afford and having someone else put up the money is an advantage.

He said that as an Alaskan he recommended that the committee not chart out the project at high prices, but rather look at the lowest possible gas price, because while there won't be loses long term in LNG, projects have made less than they expected.

If the state looks at the worst case, then it can make a risk decision, Persily said. ●

Contact Kristen Nelson at knelson@petroleumnews.com

● PIPELINES & DOWNSTREAM

They're retired, but still relevant

Status, disposal plans updated for several pump stations no longer used to move North Slope crude oil down the trans-Alaska pipeline

By WESLEY LOY
For Petroleum News

As Alaska North Slope oil production has declined over the years, the operator of the trans-Alaska pipeline hasn't needed to run as many pump stations to move the crude.

Today, only four pump stations do the main work along the 800-mile line.

Several others are, for the most part, retired.

But the retired stations aren't entirely irrelevant. All continue to contribute something to the job of safely operating the pipeline. And they continue to consume significant dollars for maintenance, and for work toward the day when the stations could be dismantled.

The pipeline owners — BP, ConocoPhillips, ExxonMobil and Chevron — recently filed required annual updates with the Regulatory Commission of Alaska on the status of work at pump stations 2, 6, 7, 8, 10 and 12.

Alyeska Pipeline Service Co., which operates the line on behalf of the owners, has effectively disconnected most of these stations from the pipeline, and has done considerable work toward their permanent disposal.

Concurrently, the company has mounted a hugely expensive program to upgrade the four workhorse stations that today move around 550,000 barrels of oil per day. That's a lot of oil, but far less than the peak of 2.1 million barrels seen in 1988.

Alyeska spokeswoman Michelle Egan told Petroleum News the company has conducted work such as "straight pipe" projects to route oil through idle stations, bypassing valves and other equipment.

The company has no immediate plans to remove entire pump stations, she said.

Here are a few notes from each of the six status reports the owners filed with the commission in February under docket No. P-04-021.

Pump Station 2 — This station, located toward the northern end of the pipeline, has been in "ramp down status" since 1997. The station is now permanently isolated from the main oil line, and is currently unmanned.

The station still has support equipment such as a communications module and pressure and temperature instruments.

"Preparation for final disposition remains to be done for some buildings, structures, systems and piping," the update says. "Final disposition of these items may mean abandonment-in-place, removal for use elsewhere, salvage, or removal and disposal."

Removal of structures and equipment is scheduled for no earlier than 2016. Asset retirement costs are estimated at $6 million to $10 million.

Pump Station 6 — This station has been in "ramp down status" since 1997, and is permanently isolated from the main oil line.

"Facilities that are currently active at this site include a refrigeration skid, vehicle fueling station, microwave communications tower, the pump station control room containing communications and control equipment, and a new communication module containing control and communication equipment," the update says. "In addition, this site serves as an oil spill response base."

Several buildings remain active for housing workers, and the site also serves as the base for the Yukon River bridge security detail.

"Preparation for final disposition and demolition is ongoing, with work currently planned for 2016 or later for some buildings, structures, systems and piping," the update says.

Pump Station 7 — This station is no longer required to move crude. However, since 2011 it has played an important role in combating problematic chilling of oil inside the pipeline.

A single mainline pump at PS 7 has been configured to recirculate oil, which adds heat, the update says.

This pump will be operated in winter months when required to maintain crude temperatures above 31 degrees. The station also can assist with a "cold restart" of the pipeline.

The station will remain in service for crude oil heating until 2016, and is not currently scheduled for permanent isolation from the pipeline.

Capital improvements at the station totaled more than $12 million in 2013.

Pump Station 8 — The station has been in "ramp down status" since 1996, and is now permanently isolated from the main oil line.

Equipment such as flow meters for pipeline leak detection remains active at the station.

Future asset retirement costs are estimated at $6 million to $10 million.

Pump Station 10 — The station has been in "ramp down status" since 1996, and is now permanently isolated from the main oil line.

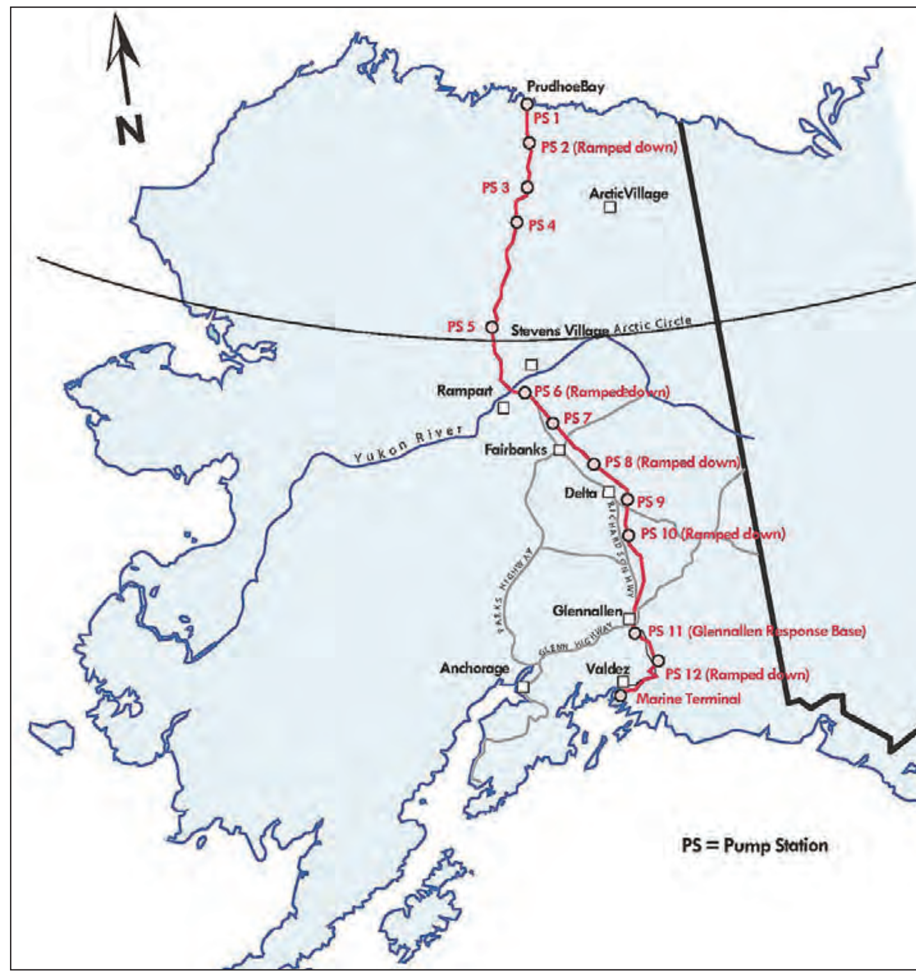
Work in 2013 included straight-lining the oil pipeline through the station, and draining and cleaning in preparation for demolition work.

A new generator module and a control system upgrade are planned for the station in 2014, at a total cost of up to $10 million.

Pump Station 12 — The station was permanently isolated from the main oil line in 2005-06.

The site continues as a base for spill response and cold restart equipment. A control system upgrade is planned. ●

Contact Wesley Loy at wloy@petroleumnews.com



ALYESKA PIPELINE SERVICE CO.

Due to declining North Slope crude production, only four pump stations along the trans-Alaska pipeline currently are used to move oil: 1, 3, 4 and 9. Pump stations 2, 6, 8, 10 and 12 have been ramped down and permanently isolated from the main oil pipeline. Pump Station 5 serves as a relief station to ease pressure that builds up in the pipeline as oil descends Atigun Pass. Pump Station 7 is available for winter operation to recirculate crude, which adds heat to ward off freezing in the oil stream. Pump Station 11 was never built, as the development of drag reducing agent — a chemical additive that makes oil flow more easily — reduced the need for pump stations. The site now serves as the Glennallen Response Base for oil spill response along the southern pipeline route.

● UTILITIES

An independent operator for the grid?

Efficient and reliable operation of the evolving Alaska Railbelt power transmission grid appears to depend on unified management

By ALAN BAILEY
Petroleum News

The question of how to better manage the Alaska Railbelt power transmission grid, a recurring topic of debate and concern, came up again at the March 12 meeting of the Anchorage Mayor's Energy Task Force. Currently various sections of the grid are owned and managed by six independent electrical utilities and the State of Alaska. But, while the grid has worked reliably over the years, there will be costly inefficiencies and potential reliability issues in the operation of the grid unless the grid is upgraded and its management structure unified, officials from the Alaska Energy Authority and electricity utility Chugach Electric Association told the task force.

The grid extends from Homer in the southern Kenai Peninsula through Anchorage and the Matanuska and Susitna valleys, north to Fairbanks in the Interior.

Many roles

Bradley Evans, CEO of Chugach Electric, told the task force that the transmission network performs many critically important roles, in addition to the obvious role of carrying electrical power from where it is generated to where it is used. The network, for example, enables the rapid connection of reserve generation from different locations, to enable the continuity of electrical supplies should an operational problem occur somewhere in the system. The transmission network also provides flexibility in hooking up electrical supplies for new applications or facilities requiring electrical power.

"You've got a suite of benefits that you really should be thinking about when you think about the benefit of the grid," Evans said.

> **On the web**
>
> See previous Petroleum News coverage:
>
> "The Railbelt grid: an operational puzzle," in Nov. 17, 2013, issue at www.petroleumnews.com/pnads/239277847.shtml
> "The Railbelt grid: an expensive need," in Nov. 10, 2013, issue at www.petroleumnews.com/pnads/593170149.shtml
> "Power to the people," in July 14, 2013, issue at www.petroleumnews.com/pnads/994943793.shtml

Rethink needed

But changes in power generation arrangements, including new power stations and the startup of some independent power producers, are driving a need for a rethink of how the grid is managed. As a consequence of new power generation coming on line, for example, the number of utilities involved in handling the dispatch of power around the grid is increasing, thus complicating the manner in which the grid is managed and resulting in disagreements over factors such as grid reliability rules, Evans said.

The current business structure for managing the grid does not support the inter-regional transmission of power; nor does it support the economic and most efficient usage of power generation facilities on the grid. And the management of different segments of the grid by different entities leads to an over-complex layering of the recovery of operating costs through the various tariffs charged for the various grid segments.

While the grid ownership, operation and control is fragmented and decentralized, ideas of somehow integrating the utilities into a single entity have never progressed, Evans said.

Independent system operator

Evans argued instead for the formation of an independent organization for operating the entire grid, along the lines of the independent system operators that manage transmission networks in a number of regions of the Lower 48.

"I myself believe this is doable," Evans said. "I believe we can take an existing model that doesn't look too weird to my rating agencies, my bond lenders … I think we can scale it down here and make this work."

Ownership of the various components of the grid by the utilities and the state could remain much as it is at present, but the independent operator would have the authority to ensure non-discriminatory access to the grid; to maintain reliability standards; to plan and approve projects; to develop an efficient system-wide tariff; and to manage the dispatch of power, balancing power generation with power loads throughout the grid.

A board of stakeholders in the grid, including representatives from the utilities, independent power producers and electricity consumers, would provide strategic oversight of the independent operator.

Bills introduced

The Regulatory Commission of Alaska, or RCA, would have regulatory jurisdiction over the independent operator: During the current state legislative session bills have been introduced in the House and the Senate proposing that the RCA work with the utilities to prepare a report, assessing whether the establishment of an independent system operator would be beneficial to the operation of the transmission grid and recommending any legislation or regulation changes that would be required to make the independent system operator concept work.

Asked about comparison between these bills and a bill for unification of the Railbelt power grid that the Legislature failed to pass in 2010, Gene Therriault, deputy director of the Alaska Energy Authority, or AEA, told the task force that the 2010 bill encompassed the management of both power transmission and power generation, while the new proposal only considers the transmission network.

And Evans emphasized that the question of establishing an independent system operator for the grid is completely separate from and does not depend on another possibility, the formation of a company to own facilities within the transmission grid and hence to achieve economies of scale in facility construction and operation. By not owning assets in the grid, the system operator can independently adjudicate over issues relating to grid operation, he said.

Need for upgrades

Therriault told the task force there are growing issues, both with the way the operation of the grid is governed and with the need for grid upgrades.

He said that an AEA evaluation of the needs for grid upgrades highlighted the way in which the current grid configuration is constraining the amount of power that can be shipped out of the Kenai Peninsula from the Bradley Lake hydropower station, the cheapest power source on the grid. The inability of some electrical utilities to make use of Bradley Lake power at times when they need it results in the use of more expensive power generation, thus increasing electricity costs for consumers, Therriault said. And the movement of power from Bradley Lake around an unduly long transmission route leads to high transmission losses, a wastage that also increases electricity costs.

The AEA study recommended several upgrades to alleviate the Bradley Lake congestion, including the construction of a high voltage direct current transmission line under Cook Inlet, between the northern Kenai Peninsula and the west side of the inlet.

The AEA evaluation also said that some upgrades to the transmission network are needed in the Anchorage and Palmer areas. And the study recommended major upgrades to the transmission intertie between Southcentral Alaska and

see GRID OPERATOR page 10

● NATURAL GAS

US LNG exports vital for Canada

By GARY PARK
For Petroleum News

Oregon is shaping up as the doorway to Asia for Canadian natural gas producers who are struggling to find outlets for their production.

Canada's National Energy Board has cleared the way for one Oregon LNG project to use up to 1.55 billion cubic feet per day of feedstock gas from Western Canada and is expected to decide soon on another application to use 1.3 bcf per day.

Veresen, a Calgary-based diversified energy infrastructure company, has secured a 25-year permit from the NEB to tap into Western Canadian gas for its $6.8 billion Jordan Cove operation, but it is still waiting for a ruling from the U.S. Department of Energy on its proposal to ship LNG from the U.S. West Coast.

Next in line for the NEB is an application from the Oregon LNG project, which is proposed by Leucadia National Corp., a diversified holding company based in New York.

Canadian gas sidesteps US export issues

Gaining access to Canadian gas brings the proponents closer to reality by enabling them to sidestep the U.S. government's gas export threshold of 12 bcf per day.

So far U.S. regulators have given the go-ahead to six LNG projects with a combined capacity of 8.5 bcf per day, to ship gas to countries that do not have free trade agreements with the U.S.

U.S. businesses, especially petrochemical companies, have raised concerns about risks they face if large-scale exports of shale gas are allowed from the Eagle Ford and other U.S. basins and have warned that U.S. domestic gas prices could increase as a result.

The NEB has also approved export permits for seven LNG projects on the British Columbia coast which could consume about 15 bcf per day of gas supplies, noting it is not yet concerned that exports of those volumes would undermine Canada's energy security.

Although NEB permits require final ratification from the Canadian government, the regulator has been unhesitating in estimating that the gas assigned to LNG exports would be surplus to Canadian requirements for the 25-year permit periods.

Robert Kwan, an analyst with RBC Capital Markets, said in a note to clients he did see approval of the NEB permit as a "major hurdle," suggesting that obtaining U.S. Department of Energy permits for non-FTA countries as a much tougher obstacle.

Lifeline for producers

Among producers, LNG shapes up as their lifeline, with export pipelines from British Columbia and Alberta to the U.S. carrying about 8.2 bcf per day of available capacity of 15 bcf per day, with Ziff Energy Group forecasting those levels will drop to about 5 bcf per day by 2020.

Canadian gas exports to the U.S. were down to about 2 bcf per day last November, off one-third from the peak in 2007, while benchmark prices at the AECO trading hub in Alberta have been dragged about $1 per thousand cubic feet below the U.S. benchmark at Henry Hub over the past year.

Don Althoff, chief executive officer of Veresen, told the Financial Post that the Jordan Cove project offers some relief to mid-size Canadian producers.

"It will utilize existing infrastructure to take advantage of Canadian resources and we think it is a great Canadian project — it just happens to be in a different part of North America," he said.

Veresen is looking for investors and partners for its project and has secured heads of agreements with three unnamed Asian buyers.

The company hopes to have its off-take contracts in place this fall, allowing a final investment decision by either late 2014 or early 2015, with the first LNG consignments targeted for shipping in 2019.

If the venture goes ahead, gas will be shipped through the TransCanada pipeline network and a 230-mile connector pipeline, jointly owned with Williams Partners, in Oregon which will gather gas from Western Canada and the U.S. Rockies. ●

Contact Gary Park through publisher@petroleumnews.com

EXPLORATION & PRODUCTION

Shale drilling efficiency increasing

A steady increase in the efficiency with which companies are drilling into shale oil and gas plays in the Lower 48 is playing a role in the rise in U.S. oil and gas production, according to the U.S. Energy Information Administration. EIA says that the increasing precision and efficiency of horizontal drilling and hydraulic fracturing, the two techniques at the heart of the shale oil and gas revolution, are enabling each drilling rig to create more new production.

EIA tracks production and drilling from six shale plays: the Bakken, the Eagle Ford, the Haynesville, the Marcellus, the Niobrara and the Permian. Despite the diverse nature of the geology across these plays, five of the plays have seen increases in production per drilling rig over the past few years, with the Eagle Ford leading the pack for increased oil production and the Marcellus leading in increased gas production, EIA says.

Data from April 2013 show that each drilling rig in the Eagle Ford added 400 barrels per day more to production than it would have done in the same shale formation in January 2007. And in the Marcellus shale, the corresponding increase for gas productivity was 6 million cubic feet over the same period, EIA says.

According to EIA data, the Permian has shown a slight drop in gas productivity since 2007, although oil productivity in that basin has increased.

—ALAN BAILEY

continued from page 9

GRID OPERATOR

Fairbanks, to increase the capacity of the transmission system to ship power between Anchorage and the Fairbanks region and to improve the stability of the system.

"What we're looking for is an improvement in the system to increase the capacity, but also increase the reliability by having some redundancy in the system," Therriault said.

More than $900 million

The AEA study put a total price tag of more than $900 million on its complete list of recommended upgrades. But, although the study estimated electricity cost savings from the upgrades that would more than offset the cost and could thus reduce electricity rates by from 1.5 cents to almost 3.5 cents per kilowatt hour for consumers, the utilities have said that they do not have the financial capacity to meet this huge upgrade bill.

One obstacle to possible state assistance with funding for grid upgrades may be questions over how the improved system is operated to the benefit of the electricity consumers, Therriault commented.

"I think right now perhaps we're at a little bit of a standoff," he said. "We know we've got these needs to answer some policy questions on the governance side and then we also know we need some investment on the infrastructure side." ●

Contact Alan Bailey at abailey@petroleumnews.com

EXPLORATION & PRODUCTION

Apache gathering more Cook Inlet seismic

Apache Alaska Corp. has resumed its program of seismic surveying in the Cook Inlet basin and in February started an onshore survey in the Kenai National Wildlife Refuge, in the northern Kenai Peninsula, Lisa Parker, Apache Alaska's manager, government relations, told Petroleum News March 18. In July the U.S. Fish and Wildlife Service issued a special use permit, allowing Apache to conduct a seismic survey on surface land in the refuge.

"We have some plans for conducting additional seismic operations and currently have seismic operations in the area north of Nikiski," Parker said.

The company expects to soon start a new marine seismic survey in the northern Cook Inlet, offshore the area where the onshore survey is taking place, Parker said. This new offshore survey will be to the north of a marine survey that the company conducted in 2012 along a fairway across the upper Cook Inlet to the west of the northern Kenai Peninsula.

Parker did not comment on any other exploration activities that Apache might be planning.

"We are evaluating our options and our alternatives," she said.

On March 4 the National Marine Fisheries Service issued an incidental harassment authorization, allowing Apache to conduct offshore seismic surveys across much of the upper Cook Inlet in 2014. The authorization allows the unintended minor disturbance of marine mammals in the inlet, provided that Apache implements specified mitigation measures for minimizing wildlife impacts.

Apache is conducting a major multiyear program of 3-D seismic surveying in the Cook Inlet basin, exploring primarily for oil but also with an interest in natural gas. In addition to the marine survey across the northern part of the inlet, the company has conducted an onshore survey on the west side of the inlet. The company, which has said that it sees the gathering of 3-D seismic as essential to finding new opportunities in the basin, is using a high-tech system of wireless seismic recording nodes that simplify the logistics of conducting surveys while also reducing environmental impacts. In 2012 the company spud an exploration well onshore the west of the inlet but later commented that the results from that well had proved disappointing.

—ALAN BAILEY

GOVERNMENT

BSEE to fund spill response research

The Bureau of Safety and Environmental Enforcement is inviting proposals for oil spill response research projects relating to operations on the U.S. outer continental shelf. The agency says that it will invest up to $5 million in appropriate projects in 2014. The deadline for proposal submission is April 10. A previous solicitation for research proposals, with potential funding of $7 million, closed in January.

In the latest round of research funding BSEE is seeking projects that fit within the following topic areas:

- Best practices for emergency response exercises.
- The comparison and ranking of worst-case oil discharge scenarios.
- Technology and methods for separating oil from slush or frazil ice.
- The effectiveness of dispersants in slush and broken ice conditions.
- The geo-referenced identification tagging of response equipment to enable inventory management and for locating equipment.
- The in-situ disposal of the decanted oil-water mix from oil skimmer operations in the Arctic.
- The use of remote controlled equipment to minimize risks to spill response personnel when marking and tracking the location and movement of oil under ice.

Further information about the types of project that BSEE is looking for can be found on the FedBizOps website at www.fbo.gov.

—ALAN BAILEY

PIPELINES & DOWNSTREAM

State sues Williams and Flint Hills

By ALAN BAILEY

Petroleum News

The State of Alaska has sued Williams Alaska Petroleum Inc. and Flint Hills Resources over environmental contamination from the North Pole refinery near Fairbanks. The refinery processes some of the oil passing through the trans-Alaska oil pipeline, primarily for the production of jet fuel for use at Anchorage International Airport.

Leakage from the plant has caused contamination of groundwater around the plant by sulfolane, a chemical solvent used in the refinery.

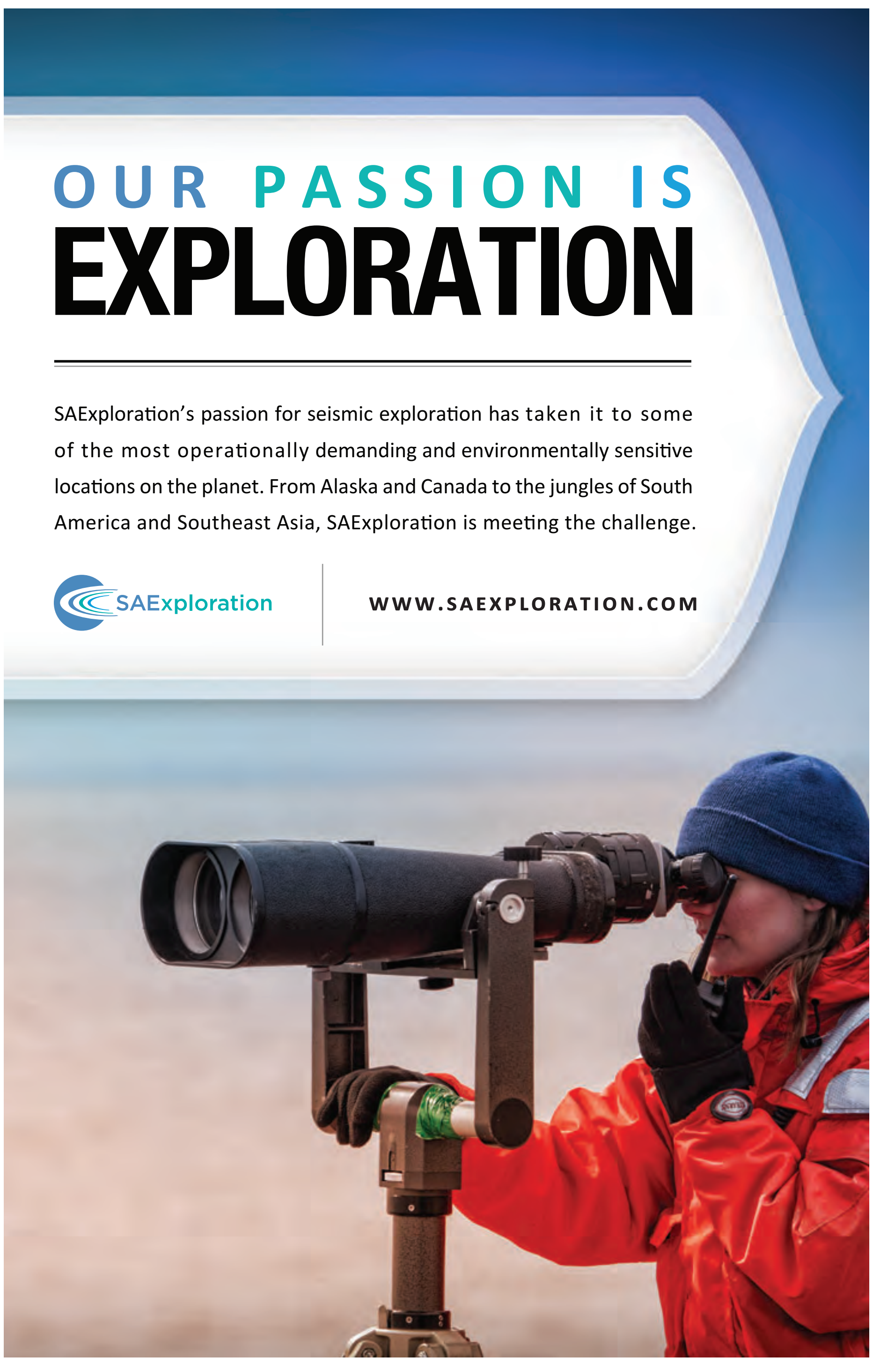
Flint Hills, the current owner of the refinery, purchased the refinery from Williams in 2004 but now wants to close the facility, citing the environmental contamination as a factor in its closure decision. The company says that the contamination took place when Williams owned the refinery and that, because the state owned the land under the refinery at that time, Williams and the state are responsible for the pollution. Flint Hills wants any future purchaser of the refinery to takeover liability for the contamination, with that liability being reflected in the refinery's price.

However, the state claims that sulfolane contamination continued and spread after Flint Hills acquired the refinery, and that a long history of spills and leaks of petroleum products from the refinery also continued through to 2012. Sulfolane has migrate beyond the land occupied by the refinery and Flint Hills has taken steps to provide alternative water sources for more than 300 properties impacted by contaminated water wells, the state says.

The state alleges that both Williams and Flint Hills have polluted the soil and groundwater, rendering the groundwater unfit for human consumption. And the companies have not made reasonable efforts to contain and clean up the discharges and releases, the state says. The state wants a court injunction prohibiting "continuing violations" of state environmental laws. And the state is seeking compensation for the costs to the state of responding to and cleaning up the contamination, in addition to civil penalties for infringement of state laws.

In early March Gov. Sean Parnell authorized the state to release any future purchaser of the refinery from responsibility for groundwater contamination. ●

Contact Alan Bailey at abailey@petroleumnews.com



● GOVERNMENT

DOE funding for methane hydrate research

Agency looking to share the cost of projects aimed at field tests in Arctic Alaska and the sampling of subsea deposits on the OCS

By ALAN BAILEY
Petroleum News

The U.S. Department of Energy, or DOE, has announced a government funding opportunity for methane hydrate research. The agency is inviting applications for projects in two areas: methane hydrate field testing in Alaska, and the characterization of naturally occurring methane hydrate on the U.S. outer continental shelf.

Methane hydrate is a naturally occurring ice-like material that concentrates methane, the primary component of natural gas, in a lattice of water molecules within a specific range of relatively low temperatures and high pressures. In certain situations methane hydrate deposits could become a prolific source of natural gas for use as a fuel, if viable ways of producing gas from the hydrates can be developed.

DOE says that total federal funds of up to $20 million may be available over financial years 2014 and 2015, with individual projects having values of up to $80 million — the government funding will be contingent on applicants sharing the costs of the projects. The agency says that it anticipates making one to four funding awards, depending on the sizes of the individual awards.

Particular preference will be given to projects that use some North Slope land tracts that the State of Alaska earmarked in 2013 for methane hydrate field testing.

North Slope

There are known, extensive deposits of methane hydrate around the base of the permafrost under Alaska's North Slope. Some significant research has already been carried out into the nature of these deposits and two methane hydrate test wells have been drilled. In April 2013 the state signed a memorandum of understanding with DOE for collaboration in research into Alaska's unconventional fossil energy resources, including methane hydrates.

DOE says that its new funding opportunity for Alaska research is intended to target projects that will evaluate the occurrence and nature of Arctic methane hydrate deposits and the response of the material to extended-duration destabilization through depressurization and other techniques. Particular preference will be given to projects that use some North Slope land tracts that the State of Alaska earmarked in 2013 for methane hydrate field testing.

The concept behind the outer continental shelf research is the collection of samples from sub-sea methane-hydrate-bearing sediments within high potential areas that have recently been identified by the Bureau of Ocean Energy Management, DOE says. ●

Contact Alan Bailey at abailey@petroleumnews.com

● GOVERNMENT

Alberta top of class

Leads Canada in job creation, economic growth, despite uncertainties over major energy projects; windfall from oil sands forecast

By GARY PARK
For Petroleum News

By all rights, Alberta should be reeling and gasping for air.

It has been hammered by a prolonged stretch of lower natural gas prices which reduced its royalty take from the resource to C$1 billion from C$8 billion.

The deep price discounting on North American markets for its crude bitumen and heavy oils have further punished the province's budgets.

And unmatched opposition has delayed and threatened to scuttle plans for big pipelines to deliver its oil sands production to markets in Canada, the United States and the Asia-Pacific region.

Yet ...

Alberta is credited with creating nine out of every 10 net new jobs in Canada over the past year (82,000 out of a total 94,700), raising its employment growth by 3.8 percent, seven times greater than the national average, and unemployment has dropped to 4.7 percent.

Economic growth in Alberta is forecast at 3.5 percent, far outstripping any other province, while the median hourly wage is almost C$3 above the national average.

Mood upbeat

And now, despite the uncertainties hanging over pipelines and the challenge faced by energy companies beyond the majors in raising capital, the mood within Alberta is upbeat.

The forecast result in a new provincial budget is for a windfall from the oil sands over the next three years, with royalties from bitumen targeted at C$5.6 billion in the 2014-15 fiscal year, up C$2 billion from two years ago, and projected to exceed C$7 billion in 2016-17.

Those numbers have enabled Finance Minister Doug Horner to target a C$1.1 billion surplus in the new budget year, ending six straight years of deficits.

But clouds still hang over a government that expects record-high revenues of C$44.4 billion.

It plans to borrow C$5.1 billion for infrastructure alone this year, raising the accumulated debt to C$14.5 billion, just a decade after Alberta led North American jurisdictions in wiping out a debt of C$23 billion.

Horner told the legislative assembly that Alberta, faced with population growth that is triple the national average, "will not sit idle because of some ideology against debt at all costs."

He said there is no sense for Alberta to spend provincial savings, which earn an 11 percent return, when it can borrow money at less than 4 percent interest.

Horner said rising bitumen output and strong commodity prices will see oil sands projects moving into a higher royalty payout tier as capital costs are paid off.

Investment projected at C$34 billion

The province expects overall oil sands investment will reach C$34 billion this year, with production from the resource expected to top 2.8 million barrels per day in 2016-17, an increase of 900,000 bpd in four years.

Before capital payout, oil sands projects deliver 1 percent to 9 percent of gross revenues to the provincial treasury; after payout, that rate is 25 percent to 40 percent of net revenues.

As of a year ago, the government estimated 61 of 112 oil sands projects had moved to the second tier.

Scotiabank commodity economist Patricia Mohr said the forecast for light crude prices could be a shade optimistic, warning there is a "definite risk" benchmark prices could slide across North America in the next few years because of rising U.S. output.

For the 2014-15 fiscal year, the province is counting on West Texas Intermediate prices averaging US$95.22 per barrel, with heavy oil/oil sands prices averaging C$77.18 a barrel.

In addition, auctions of exploration lands are forecast to bring in C$623 million, compared with C$3.3 billion in 2011, but Horner said stagnant gas prices have been a drag on those sales, but he held out some hope that a recovery in the gas sector could encourage exploration and production companies to tackle new formations. Gas prices for the new year are set at C$3.29 per gigajoule.

The 2014-15 fiscal year is expected to generate C$9.2 billion in non-renewable resource revenue, up 6.7 percent from 2013-14. ●

Contact Gary Park through publisher@petroleumnews.com

Oil Patch Bits

Delta Leasing welcomes Schouten to team


JOSH SCHOUTEN

Delta Leasing has named Josh Schouten vice president of sales and marketing. He has been welcomed onboard to continue cultivating and developing Delta's reputation as the premier leasing company in the state of Alaska.

Schouten comes to Delta with nearly a decade of sales and heavy duty truck design experience, as well as print and web marketing experience. He will be responsible for overseeing all new business development, as well as refining and improving on what Delta has already built. Schouten has been brought on to the Delta team as a part of their commitment to being the premier leasing company for Alaska's industries.

Rudi von Imhof, President of Delta Leasing, said "Josh's knowledge and experience will make him a key addition to the Delta Leasing team. We view his appointment as a crucial step in furthering our reach as a company. Hiring Josh is a part of Delta's commitment to continuing to provide exceptional service for our current and potential clients."

Andrew DeNittis joins URS as IT coordinator

URS announced that Andrew DeNittis has joined its team as an IT coordinator with seven years of experience working in the information technology field. As IT Coordinator, DeNittis is responsible for all tasks involving information technology within the firm. His technical expertise includes Windows operating system environment, computer hardware and software installation and maintenance, LAN/WAN/wireless networking, OSI/ TCP/IP /firewalls, and troubleshooting. Previously, DeNittis was employed with CGI as an engineering technician, task manager, and training development specialist.


ANDREW DENITTIS

Calista provides $177,750 in scholarships

The Calista Heritage Foundation announced that $177,750 in scholarships was distributed to 203 students for the spring semester. To-date more than $3.5 million in scholarships have been awarded. All scholarship recipients are Calista Corp. shareholders or descendants.

For this spring semester 6 percent are in graduate programs, the average GPA is 3.19 and 41 of the 56 villages in the Calista region are represented. More than 80 percent are recipients of the fall 2013 scholarship distribution.

The top five fields of study this semester are business, nursing, biology and health, education and engineering. The top five schools students are attending the University of Alaska

see OIL PATCH BITS page 13

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

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

● FINANCE & ECONOMY

Goldsmith counsels state to trim spending

University economist surveys Alaska's savings and expected oil revenue and predicts calamity with 'business as usual' budgeting

By WESLEY LOY
For Petroleum News

Scott Goldsmith, a University of Alaska Anchorage economist, long has warned the state government not to overspend.

Recently, he repeated that admonition in an update to his "maximum sustainable yield" research series.

Goldsmith endeavors to estimate how much Alaska's state government can afford to spend without risking sudden big budget deficits and a painful economic recession.

In general, he says, the state has overspent. And if it continues "business as usual," it will outstrip its lifeblood oil revenue and deplete its billions of dollars in savings.

Most worrisome, perhaps, is his conclusion that not even new taxes on the citizenry could save the day.

His advice: Spend less, save and invest more.

Are legislators listening?

Goldsmith's advice is timely, as the Alaska Legislature is in session now, crafting the budget for fiscal year 2015.

The session is scheduled to conclude on April 20.

In his research paper, Goldsmith says the state government can afford to spend about $5 billion from its unrestricted general fund in 2015. It can then increase that amount in subsequent years commensurate with population growth and inflation.

> *"If this year's spending is $6 billion ("business as usual"), and it grows at an annual rate just 1 percent faster than population and inflation, the cash reserves (not including the Permanent Fund) would be exhausted by 2024 and the fiscal gap could reach $3.5 billion."* **—Scott Goldsmith**

Goldsmith bases his recommendation on an analysis of the state's expected revenue from oil and gas yet to be produced, combined with the Alaska Permanent Fund and other savings accounts.

His 2015 spending recommendation is nearly 10 percent lower than his guidance of $5.5 billion for fiscal year 2014.

Two factors account the decrease: a big drop in the state Department of Revenue's projection of future petroleum revenues from conventional oil, and a large draw on the state's cash reserve to cover the 2013 and 2014 deficits.

Coming into the legislative session, Gov. Sean Parnell proposed a fiscal 2015 budget of $5.6 billion, down considerably from the prior year, Goldsmith writes.

Goldsmith projects the final budget will be about $6 billion after legislative add-ons. Spending at that level, he says, is "not sustainable."

$74 billion in oil revenue

"If this year's spending is $6 billion ("business as usual"), and it grows at an annual rate just 1 percent faster than population and inflation, the cash reserves (not including the Permanent Fund) would be exhausted by 2024 and the fiscal gap could reach $3.5 billion," Goldsmith writes. "But if the fiscal year 2015 budget were $5 billion, and it grew only as fast as population and inflation ("maximum sustainable yield"), the cash reserves would last much longer and a growing petroleum nest egg could produce enough earnings to sustain the state budget long into the future."

Goldsmith says the state has two revenue sources available for general fund spending once the cash balance runs out in 2024 — new taxes and the Permanent Fund. (One might also imagine higher taxes on oil production.)

"But adding both a statewide income and a statewide sales tax at rates comparable to other states would not bring in enough new revenue to offset the loss of the cash reserve," he writes. "Spending would still need to fall to the level of available revenues. The simultaneous combination of new taxes and less public spending ... would knock the economy into a sustained recession and put it permanently onto a slower growth path."

Goldsmith's study includes an estimate of the state's future petroleum revenue, expressed as "net present value."

The total is about $74 billion, broken down this way: $47.4 billion from conventional oil produced from known fields through 2064; $9.8 billion from unconventional and new oil; and $16.5 billion from natural gas.

Goldsmith's 16-page paper is available at http://bit.ly/1jcBxj5. ●

Contact Wesley Loy at wloy@petroleumnews.com

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OIL PATCH BITS

Anchorage, UA Fairbanks, AVTEC in Seward, Alaska Career College and Alaska Pacific University.

"It is exciting to see a technical field like engineering make the top five majors," said Calista Heritage Foundation President Rea Bavilla. "As we begin preparing for the annual Golf Classic, the main fundraiser for the scholarship program, we would like to remind local and state businesses that nothing compounds interest like education."

Registration is open for the 15th Annual CHF Golf Classic, which sells out each year. Sponsorships are also available. It will be held June 18 at the Moose Run "Hill Course" at Arctic Valley near Anchorage. For more information please visit CHF's website at www.CalistaHeritage.org.

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KELLY Q&A

reach this figure?

Kelly: Early on everybody said we need to go to 25 percent. The consultants said go to 25 percent because if you don't like it you can pull back on it a bit. One of the great challenges of this bill is that people want to discuss things that aren't in it. They want to discuss the larger pipeline and from time to time, you have to remind yourself this bill is getting us to pre-FEED (pre-Front-End Engineering and Design). The consultants are saying you're just going to pre-FEED, establish yourself early on. It was kind of a general consensus. I didn't hear anyone in the Finance Committee object even once.

Petroleum News: And back to the outreach fund. Several said 20 years from now you'll look back and be glad you've done this. You've got the five off-take points, so how does this outreach fund make this a statewide endeavor?

Kelly: I think that is probably going to develop over time. Just as we don't know exactly where the off-take points are now, we don't exactly know what the needs for rural Alaska are or even 100 yards over there are going to be years from now. I don't have an answer for that. It's going to take some crystal ball gazing. The point is we want to make sure that in this fund delivers lower cost energy to Alaska. It doesn't have to be LNG. That's one of the reasons I don't like the renewable energy fund. It's too esoteric. It's wind. It's solar. It could be construed by some that it's a slush fund for rural Alaskan projects. I don't care if it's coal. I don't care if it's oil; I don't care if it's LNG; as long as it's lower cost. We got off on all of this solar, which is interesting, but our needs are much greater than that. We have the resources to get lower cost energy to rural Alaska. Our challenge is transportation.

Petroleum News: Your committee was criticized for not considering two reports critical of this plan. The first was by Roger Marks and the second by Rick Harper, which was posted on LB&A's website a few days after you passed the bill out of committee. What are your thoughts on those reports?

Kelly: It's mostly against Trans Canada (Marks report). I like the Trans Canada model. You've got a company that's built pipelines, that's willing to fund our portion and willing to get us a larger share, a company that's got $130 million worth of data that's relevant to this project and by the way a company that has met the terms of AGIA. We are the ones who created the terms of AGIA. They signed off on it with us. There are people who wanted to criticize them for being part of AGIA or they are carrying around sour grapes because they are part of AGIA. The big problem is you say let's go to somebody else. It's going to take a year to develop the RFP to go out to get people and it's going to take a year to get a response. The last time we put an RFP out, TC was the only one who responded (with a conforming bid), so we might have anybody in the future and they are willing to go now. Like I said they've got $130 million invested in the project.

Petroleum News: So without playing Monday morning quarterback, is there anything that you wish you had worked into the bill?

Kelly: My answer is no but maybe not for the reason you think. I'm more of a quarterback than a coach. I don't have to have my personal paw prints on everything that goes through my committee. Sometimes you've got to realize you've got to get a decent product through your committee and keep it moving through the process. That was only the second committee of referral. We massaged it and squeezed it. If we had examined it anymore, we would have just been taking up time and not made any changes that were worth the time.

Petroleum News: You're in your second year of co-chair this go-around. What's the learning curve been like?

Kelly: It's been a pretty steep learning curve because I wasn't around for the debates — the oil debates (ACES) and pipeline debates (AGIA).

Petroleum News: So do you think it helps to bring fresh eyes and ears to the debate?

Kelly: Not necessarily. You need somebody who doesn't get wrapped up in a lot of the nonsense that accompanies a bill like this. If you don't have a chairman that ultimately comes to the point and realizes this is the second committee of referral and the bill has to get through the floor, over to the other body, then it's got Resources, Labor & Commerce and Finance. If you don't have chairmen who understand that, they don't know how to get a bill through the process. That's one thing I do understand, whether it's oil and gas or anything else. That's probably what I bring to the table. You don't need a fresh set of eyes as far as the substance of the bill, but you do need people who are willing to move the process along and who don't get caught up too deeply into the politics. Yes, politics is what we do here. But what we saw a few years ago with the bi-partisan working group, stuff got stalled and stalled and stalled. And there were always reasons for killing something. I just don't play those games.

Petroleum News: As someone who has been in leadership positions, and in this state watching this debate go back and forth for decades, do you see this as the only window of opportunity? We've heard "the time is now" a great deal in this building.

Kelly: At a certain point, you've got to believe the people that you hire, and that's kind of what they are telling us. I don't know if it's the only, but it's the next window. There is the old adage don't let the perfect become the enemy of the good. I was down on the floor today and a guy that I really like — Hollis French — was talking about rushing the process. Come on. Every time we get close on this thing, there is something you can dangle. With our AGDC structure, we are so not confined that we can't shift courses a little bit. This is the biggest project in the world of its kind to get what we know is somewhere in the neighborhood of 36 trillion cubic feet of gas off the North Slope. There are markets in Asia who will say we'll take it or it's anticipated that they'll say we'll take it. There are companies are who willing to put a lot more on the line than we are. If it doesn't work out, we've got off ramp after off ramp after off ramp built into this thing. This is an opportunity. It's probably worth the investment. We should take it. ●

Contact Steve Quinn at squinnwrite@gmail.com

● GOVERNMENT

Parnell continues to press on ANWR

State sues federal officials in bid to force them to consider the governor's plan to conduct 3-D seismic survey of coastal plain

By WESLEY LOY
For Petroleum News

The state of Alaska has gone to court to try to force federal officials to consider Gov. Sean Parnell's proposal for a seismic survey across the Arctic National Wildlife Refuge coastal plain.

The state's lawsuit, filed March 14 in federal court in Anchorage, names Interior Secretary Sally Jewell and ranking officials in the U.S. Fish and Wildlife Service as defendants. The service manages ANWR.

GOV. SEAN PARNELL

These officials have all rejected Parnell's exploratory proposal, citing a lack of authority in the law to entertain the plan.

Parnell and his attorney general, Michael Geraghty, insist the law does allow for seismic exploration. And they're asking the court to order the federal officials to seriously consider it.

The suit drew both cheers and jeers.

State Rep. Ben Nageak, who says he's the only legislator born in ANWR, hailed the lawsuit.

"Quyanaqpak, Gov. Parnell and Attorney General Geraghty, thank you," the Barrow Democrat said in a press release. "We have been trying to open ANWR to development through the federal process for decades, only to be met with roadblocks, push-back, disinterest, and environmental extremists. The area was set aside for exploration. The federal government has not held up its end of the bargain. Our people need the energy underneath the ground there, and the economic opportunity it will bring."

Reading ANILCA

Parnell in 2013 offered two exploratory plans, the most recent of which would involve conducting a three-dimensional seismic survey on the coastal plain but no drilling.

The Republican governor pledged to ask the Alaska Legislature for $50 million to fund the plan.

He says existing seismic data is outdated, and a modern 3-D survey could better inform everyone regarding the coastal plain's oil and gas potential.

The coastal plain has long been thought to be highly prospective for perhaps billions of barrels of oil. But leasing and development would require congressional approval.

Parnell and the state's lawyers contend that a provision in ANILCA, the Alaska National Interest Lands Conservation Act of 1980, allows for exploratory activity.

But federal officials disagree with the state's reading of ANILCA and certain regulations, saying any authorization for exploration expired long ago.

The state's lawsuit asks the court for a declaratory judgment that the federal defendants violated the law by "summarily refusing" to consider the state's exploration plan and application for a special use permit.

The court should "vacate and set aside that refusal," and order the federal defendants to review the state's plan, the suit says.

'Enough is enough!'

Opening ANWR to oil development has long been a top economic development objective for Alaska elected officials. But they have been unable to overcome opposition in Congress and the White House. Environmentalists and others say industry activity is incompatible with the coastal plain's caribou and other wildlife.

U.S. Sen. Lisa Murkowski of Alaska, the top-ranking Republican on the Senate Energy and Natural Resources Committee, issued this statement:

"I support Gov. Parnell's decision to move forward with litigation against the U.S. Fish and Wildlife Service. As I have repeatedly said, the agency has clearly lost sight of its responsibility to Alaskans. Any legitimate 'all of the above' energy policy must include all 50 states, especially Alaska. Right now, however, we are being shut out by this administration, with good ideas and great opportunities for needed production rejected out of hand. Congress specifically reserved the 1002 Area for further study and production — but today, we can't even survey the resources located there. Litigation is warranted."

The coastal plain is also called the 1002 area, after a section in ANILCA.

Cindy Shogan, executive director of the Alaska Wilderness League, had this to say:

"Enough is enough! The state of Alaska and Gov. Parnell continue to pursue the same dead-end, roundly rejected drilling proposal in the sensitive Arctic Refuge over and over again. The latest chapter: Gov. Parnell has brought a wasteful suit against the U.S. Fish and Wildlife Service despite the fact his quest for seismic oil testing in the Arctic Refuge is prohibited without an act of Congress."

Shogan added that the Obama administration "has been clear — oil development in the Arctic Refuge is 'off the table.' It is time for the state of Alaska to take no for an answer and move on."

Parnell, in a press release announcing the lawsuit, said: "It is both disappointing and disturbing that the Obama administration, which claims that it is pursuing an 'all of the above' energy policy, is afraid to let the people of the United States learn more about ANWR's oil and gas resources. The modern technology that we are seeking to use is responsibly utilized all across the North Slope with extremely limited environmental impact, and would dramatically improve our understanding of ANWR's resources. The state has filed this lawsuit to ensure all Americans have an opportunity to learn about the vast resource base Americans own in the 1002 Area of Alaska." ●

Contact Wesley Loy at wloy@petroleumnews.com

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fund — to address the energy needs of Alaskans. If we can't address the energy needs of Alaskans, what good are we doing? Hoffman asked in Senate Finance March 14, the day the committee moved the amended bill.

Senate Finance had earlier amended the bill to direct the Alaska Energy Authority to develop a plan extending energy infrastructure to parts of the state without direct access to a North Slope natural gas pipeline. The Dunleavy-Hoffman amendment also added direction that for citizens with no economically viable infrastructure available, the AEA plan must recommend means for underwriting energy costs to make energy more affordable. The AEA plan is due to the Legislature in January 2017.

Equity at 25%

Senate Finance amended the bill to increase the tax on gas from 10.5 percent to 13 percent. That tax, combined with the state's royalty, would give the state a 25 percent equity stake in the project. Both production tax and royalty would be paid in molecules, based on negotiated changes to leases, giving the state a share of natural gas matching its share in the project.

The bill gives the administration authority to negotiate contracts with the parties to the heads of agreement and memorandum of understanding announced in January. The HOA is between the state, the Alaska Gasline Development Corp., BP, ConocoPhillips, ExxonMobil and TransCanada and is the first step to legally binding contracts for an Alaska LNG project. The MOU, between the state and TransCanada, is a step away from the license which TransCanada holds under the Alaska Gasline Inducement Act, and provides for negotiation of a commercial agreement between the state and TransCanada under which TransCanada would hold the state's interest in the gas treatment plant on the North Slope and in the pipeline, and invest necessary monies for the pre-FEED (front-end engineering and development) and FEED phases of the project. AGDC would hold the state's interest in the LNG facility.

The project would be phased, with any party able to step aside after pre-FEED and again after FEED, before a final investment decision is made.

Under the bill the Legislature will review and approve contracts for the project and confidentiality provisions allow legislators to be briefed and provide input as the administration works on agreements so that contracts presented for final approval do not fail, as was the case with the agreement negotiated by the Murkowski administration under the Stranded Gas Development Act.

No AGDC subsidiary

Senate Finance also changed the governor's bill to eliminate a proposed AGDC subsidiary for the LNG project, instead giving that authority directly to AGDC, with separate funds for the in-state gas pipeline AGDC was charged with last year and its work on the AKLNG project.

The AGDC board is also instructed to hire a project manager for the LNG project.

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CD-5 WORK

damage and disruption" on the company.

The ruling applies only to the current winter construction season. Gleason left open the possibility for the villagers to seek injunctive relief for future construction seasons.

Industry expands west

CD-5 takes its name from the nearby Colville River Delta.

It will function as a satellite to the large Alpine oil field, which ConocoPhillips operates in partnership with Anadarko and Petro-Hunt.

In addition to the Nuiqsut villagers, the Center for Biological Diversity also is challenging the CD-5 permit, which the U.S. Army Corps of Engineers issued in December 2011.

Lawyers for ConocoPhillips have called CD-5 an unremarkable project that's being used as a "proxy" in the debate over oil industry expansion into the western frontier.

CD-5 is poised to become the first oil production drill site inside the vast petroleum reserve. The site, however, is on a private inholding owned by Kuukpik Corp.

ConocoPhillips is aiming for first oil from CD-5 in December 2015, with production expected to peak at about 16,000 barrels per day. CD-5 oil will be piped to Alpine for processing.

ConocoPhillips had a tough time getting the green light for CD-5.

The Corps initially denied the permit, saying the satellite could be a roadless development. ConocoPhillips appealed with support from state officials, and ultimately the Corps issued a permit authorizing construction not only of the drill site, but also a six-mile gravel access road and four bridges.

The challengers question why the Corps reversed position on the permit, and charge the agency failed to conduct a proper, up-to-date environmental impact study.

The village plaintiffs filed their motion for a temporary restraining order and preliminary injunction on Feb. 5. They argued the construction could cause irreparable harm to the environment and their subsistence way of life.

'Could not be a worse time'

ConocoPhillips told the judge an injunction halting construction on the remote project could actually increase the chances for environmental degradation. For example, partially finished bridges could be vulnerable to river ice and erosion during spring breakup.

James Brodie, a ConocoPhillips capital projects manager, said in a written declaration "there could not be a worse time to face an unplanned work stoppage than the March to April time frame."

The project was more than 10 years in the planning, Brodie said. ConocoPhillips started driving bridge pilings on Jan. 17. The company was to open a gravel mine and build 25 miles of ice road and 170 acres of ice pads. As of February, more than 35 million pounds of project materials had been staged.

Interrupting the work would have affected hundreds of workers and put the project "a year behind schedule and massively over budget," Brodie wrote. Having to mobilize for an extra ice road season would have cost $105 million, he said.

What's more, Brodie said, a delay on CD-5 would in turn have delayed another planned oil project, known as Greater Mooses Tooth 1, eight miles farther west.

In considering the legal hurdles for an injunction, Gleason found it was "questionable" whether the plaintiffs had shown they were likely to suffer irreparable harm.

They didn't help their case by waiting until two months after the construction season began to file their motion, Gleason wrote.

Lawyers for the villagers said they filed for the injunction "almost immediately after learning that Conoco had begun construction."

But Gleason held the plaintiffs weren't required to wait until construction began to file their motion, particularly where for over two years ConocoPhillips had "consistently declared its intention to begin construction on CD-5 during the 2013-2014 winter."

Gleason also found that an injunction wasn't in the public interest. She noted, for example, that "residents from various North Slope Borough communities, including Kuukpik shareholders who live in Nuiqsut, could lose their jobs and income." ●

Contact Wesley Loy at wloy@petroleumnews.com

PIPELINES & DOWNSTREAM

Economic challenges for cellulosic ethanol

The production of ethanol biofuel from cellulosic material, a technology that seems to offer much benefit over the corn ethanol that has been added to gasoline in recent years, is facing an uphill economic struggle, according to an article published in the March 11 issue of Nature.

Although produced and marketed as a biofuel, the benefits of corn ethanol over gasoline in terms of reduced carbon dioxide emissions are fairly modest, given the use of fertilizers and fossil fuels in corn production and processing. Corn production has benefited from government subsidies, while the production of corn for the manufacture of fuel has proved controversial because of potential knock-on effects on food prices.

Cellulosic ethanol, on the other hand, offers the possibility of manufacturing fuel from agricultural waste: the cellulose-rich leaves and other materials remaining after corn has been harvested, for example.

But the relative complexity of processing cellulose into ethanol means that the production cost of cellulosic alcohol is higher than that of either gasoline or corn ethanol, the Nature article says. In addition, the U.S. market for ethanol as an additive to gasoline has hit a wall, given the limit on the percentage of ethanol in the fuel mix and a decline in U.S. gasoline demand.

In November, recognizing the constraints on U.S. cellulosic ethanol production, the Environmental Protection Agency proposed changing its renewable fuel standard by substantially reducing the volume of cellulosic ethanol mandated for use in transportation fuel. The agency has yet to publish a final ruling on this question.

—ALAN BAILEY

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SHELL IN ALASKA

faulting the Interior Department environmental analysis for the 2008 Chukchi Sea lease sale as the prime reason for a continuing delay in moving ahead with drilling in Alaska's Arctic offshore. In January the court upheld an appeal against the validity of the lease sale and remanded the case to the federal District Court in Alaska. On March 17 the District Court ordered the parties in the case to submit a report by March 31, to indicate how they wish to proceed in the light of the 9th Circuit opinion.

Shell drilled top-hole sections of two exploration wells, one in the Beaufort Sea and one in the Chukchi, in 2012. The company wants to continue drilling in Chukchi Sea leases that it purchased in the 2008 lease sale, but the court decision in January has put the legal status of the leases into question. Damage to the Kulluk drilling rig when the rig ran aground in the Gulf of Alaska after the 2012 drilling season has stymied Shell's drilling efforts in the Beaufort Sea.

"A 9th Circuit Court decision against the Department of the Interior in January 2014 raises obstacles to our plans for drilling offshore Alaska," Shell's annual report says. "As a result, we have decided to suspend our exploration program for Alaska for 2014. We look to relevant agencies and the court to resolve their open legal issues as quickly as possible, and review our options going forward."

Next step

The report says that if the regulatory and legal issues are sufficiently resolved, the next step for the company would be to review the readiness of its Alaska drilling fleet and the timeline for securing the required permits for the drilling. The report also acknowledges that issues relating to meeting the requirements of Environmental Protection Agency permits during the 2012 drilling season, and problems with moving the Kulluk drilling rig out of Alaska at the end of that season, had caused a pause in the company's drilling activities in the Chukchi and Beaufort seas in 2013.

—ALAN BAILEY

Contact Alan Bailey at abailey@petroleumnews.com

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LNG MANEUVERING

about rounding up natural gas sources in British Columbia by closing its previously announced acquisition, along with C$130 million for additional acreage in the prolific Montney formation.

Progress Energy Canada, the Petronas unit that is driving the search for gas, said in a March 12 release that the new element of the asset accumulation covers 33,500 undeveloped acres in the Julienne area of northeastern British Columbia.

The company did not identify the seller, but Calgary-based Enerplus said late last year that it was selling Julienne Montney assets for C$130 million to an unnamed buyer.

Chief Executive Officer Michael Culbert said the acquisitions set the stage for Progress Energy to "build on our natural gas resource base in the north Montney" through assets that he described as "strategic" and capturing "operational synergies."

The Talisman transaction includes 127,000 net acres of Montney lands and has current production of 12,500 barrels of oil equivalent per day in the Kobes area, where Progress Energy has existing joint operations with Talisman.

In addition, Progress will acquire Talisman's 50 percent stake in the Farrell and Cypress areas.

Under the terms of the agreement, there is a "capital carry" of C$870 million that will be used to fund the majority of Progress Energy's share of upstream capital investments in the joint venture area and will offset the acquisition cost of about C$1.5 billion.

Earlier in March, Pacific NorthWest filed it project applications with the British Columbia and Canadian environmental assessment agencies, setting in motion a 180-day review of the initial C$11 billion phase of the project.

Enbridge acquires land

In a separate deal, Enbridge said it has paid C$20 million for land on the northern British Columbia coast that hints it plans to enter the LNG arena.

The 160 acres is at Grassy Point alongside land blocks where Australia's Woodside paid C$17 million for about 2,500 acres and Nexen, owned by China National Offshore Oil Corp., has agreed to pay C$24 million for almost 2,000 acres to acquire the provincially owned land from the British Columbia government.

Enbridge competitors TransCanada, Spectra Energy and Pacific Northern Gas have already secured stakes in pipeline plans to deliver gas to liquefaction plants on the Pacific coast.

But Enbridge will not disclose what plans it has for the land beyond saying it is "always looking for possible business opportunities."

That lends weight to comments Chief Executive Officer Al Monaco made to an investors conference last fall that Enbridge was engaged in "very preliminary" discussions with producers to deliver gas to LNG terminals.

Fiscal issue

The stumbling BC LNG Cooperative points to growing concerns within British Columbia's LNG sector as the major players stall on final investment decisions, pending a final resolution of the provincial government's planned fiscal regime.

So far British Columbia's framework for a two-tier tax has failed to gather the unanimous support of LNG operators and the signs of confusion within the BC LNG Cooperative lend weight to those who have claimed that LNG projects need those with deep pockets and long experience.

The venture has National Energy Board approval to export as much as 1.8 million metric tons per year from two trains for an initial capital outlay of C$500 million.

The Haisla First Nation could not be reached for comment and AltaGas was keeping tight-lipped.

AltaGas, in a joint venture with Japan's Idemitsu Kosan, is separately working on the Triton LNG project to export 2.32 million metric tons per year of LNG and is also planning to ship LPG over 25 years, starting in 2017.

It has also negotiated transportation agreements with BC LNG Cooperative to expand its Pacific Northern Gas pipeline from northeastern British Columbia to a liquefaction terminal at Kitimat's deepwater port. ●

Contact Gary Park through publisher@petroleumnews.com

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SB 138

Other changes included a request that the governor establish an interim advisory board to advise on municipal involvement in a North Slope natural gas project. The HOA calls for PILT, payments in lieu of property tax, based on the volumes moving through the gas pipeline. The trans-Alaska oil pipeline is taxed based on value of the line and there has routinely been litigation over the value of the line.

Under a proposal by Sen. Lesil McGuire, R-Anchorage, Senate Resources amended the bill to allow individual ownership in the line, and requiring the Department of Revenue to report on how that might be done. Senate Finance added local governments and Native organizations to those who could have ownership portions.

Sen. Click Bishop, R-Fairbanks, sponsored amendments in Senate Finance to strengthen training for Alaska workers to ensure that Alaskans will be trained and available for jobs on the project.

The three 'Ps'

"I applaud the Senate for voting today to advance the Alaska LNG Project and ensure Alaska's gas is maximized for Alaskans' benefit," Parnell said in a statement following passage. He said the legislation "paves the way for Alaskans to become owners in the project and ensures an open, public process going forward."

Sen. Anna Fairclough, R-Eagle River, who led debate in favor of the bill on the Senate floor, said in a statement following passage: "The Senate took into account three principles as it considered this legislation: Should we participate? If so, at what percentage? And lastly, what will be the process to advance Alaska's LNG project."

Fairclough said she believes that with the work the Senate did on the bill, "we are looking at the right gas at the right time," and said the project would "bring affordable energy to Alaskans" while fortifying the treasury and economy "for generations to come."

Senate Resources Chair Cathy Giessel, R-Anchorage, said the bill "allows us to develop the project engineering and construction plans, while the fiscal details are also scrutinized."

"Business as usual has prevailed in our effort to get gas from the North Slope. But business as usual has gotten us no gas," said Finance co-Chair Pete Kelly, R-Fairbanks. "That's why I like the approach of SB 138. It's different from anything we've done and I think it will work."

Sen. Peter Micciche, R-Soldotna, a former Soldotna mayor, said the advisory board addresses "concerns we heard from affected municipal leaders along the route of the project from the North Slope to the Nikiski terminus."

McGuire said she believes the individual ownership proposal "will get Alaskans reinvigorated about our robust oil and gas industry by allowing them the opportunity to have an equity share in the project, or, in other words, own a piece of the pipe."

On job training Bishop said the state learned an important lesson from construction of the trans-Alaska oil pipeline: "And that was if we want to hire Alaskans, we have to train them for the jobs."

Opposition to the bill

In 16 proposed amendments — none of which passed the Senate — Senate minority members argued a number of points: that the state should have a majority ownership position (Sen. Hollis French, D-Anchorage); that leaseholders are required under the terms of their leases to develop hydrocarbons (Sen. Bill Wielechowski, D-Anchorage); that the state needs to go to open bidding for a pipeline partner, rather than partnering with TransCanada (French); that any contract should be subject to a 90-day public comment period (Sen. Berta Gardner, D-Anchorage); and that contracts not authorize payments in lieu of taxes to a municipality (Sen. Johnny Ellis, D-Anchorage). ●

Contact Kristen Nelson at knelson@petroleumnews.com