



page 3 Commandant says Coast Guard can meet immediate needs in Arctic

Christy Lee loading platform



GLOBAL DIVING & SALVAGE

Hilcorp Alaska and contractors have salvaged and are in the process of repairing a fender which came off the Christy Lee loading platform earlier this year. See story on page 13.

Shell still waiting for completion of work on Arctic Challenger

The bulk of Shell's Arctic drilling fleet remains on hold in Dutch Harbor in the Aleutians while the company waits for the completion of modifications to its Arctic Challenger containment barge and U.S. Coast Guard certification of the modified vessel.

Shell spokesman Curtis Smith told Petroleum News in an Aug. 8 email that construction on the barge was nearly done. Meantime, three vessels from Shell's fleet — the Aiviq, Shell's new ice-capable anchor handler, the Fennica, the icebreaker carrying the company's new well capping stack, and the icebreaker Tor Viking — headed north from Dutch Harbor early in August to start preparations for drilling at one of Shell's Chukchi Sea drilling sites.

Shell had originally planned to move its fleet north to the Chukchi in early July, but exceptionally heavy sea ice in the

"Sea ice is still bordering our Chukchi prospects and is still quite persistent in the Beaufort."

— Shell spokesman Curtis Smith

see SHELL DRILLING page 19

OK if done right; NSB mayor supports responsible development

In the sometimes uneasy relationship between the Native communities of Alaska's North Slope and the oil industry the potential for shale oil development may raise new issues in the delicate balancing act between resource development and community concerns.

And in a speech at the Alaska Shale Conference on July 31, Mayor Charlotte Brower of the North Slope Borough expressed the borough's views of both shale oil development and oil and gas development in general.

"Let me be clear," Brower said. "My administration supports oil and gas development, and the broad goal of the North Slope Borough is to maintain a healthy environment supporting Inupiat subsistence practices, while at the same time promoting economic growth and responsible resource development."

The planning of oil and gas development in Arctic Alaska must involve the Native communities, to ensure that their particular concerns and perspectives are taken into account, she said.

"We Inupiat on the North Slope have always viewed the

see BROWER SPEECH page 18



CHARLOTTE BROWER

EXPLORATION & PRODUCTION

BRPC ready to ride

Independent audit confirms the commerciality of Mustang development

By ERIC LIDJI

For Petroleum News

With an independent audit confirming its exploration results, Brooks Range Petroleum Corp. is detailing its plans to bring its Mustang project into production by 2014.

The operating arm of Kansas-based Alaska Venture Capital Group LLC is also deciding how much exploration work in can maintain this winter across its properties and is considering between three and nine penetrations across five North Slope units.

According to the global consulting firm DeGolyer and MacNaughton, the Mustang



KEN THOMPSON

prospect contains proved (P1) gross reserves of 24.7 million barrels of recoverable oil. The firm also estimated the field contained 43.6 million barrels of proved and probable (P2) reserves and 51 million barrels of proved, probable and possible (P3) reserves.

"These estimates confirm commerciality and a favorable rate-of-return to proceed with development," AVCG lead member Ken Thompson told Petroleum

News Aug. 3.

The audit is the first publicly released third-party estimate of Mustang, a prospect in the Southern Miluveach unit, which is located just

see MUSTANG page 20

FINANCE & ECONOMY

Parker rig resolution?

Contractor says two new rigs soon could start drilling for BP on North Slope

By WESLEY LOY

For Petroleum News

BP and Parker Drilling appear to have come to an understanding with regard to a pair of new rigs that arrived on Alaska's North Slope in August 2011 but never went to work.

In January, Parker disclosed that BP was holding the Houston-based company in default under a drilling contract for failure to supply "operationally ready" rigs by Dec. 31, 2011. Parker disagreed that a default had occurred.

In an Aug. 2 investor conference call, Parker's chief executive, Bobby Parker, said one of his priorities was getting the Alaska rigs "completed and working."

"We are making good progress on this. One rig

In an Aug. 2 investor conference call, Parker's chief executive, Bobby Parker, said one of his priorities was getting the Alaska rigs "completed and working."

is scheduled to begin acceptance testing today," Parker said. "Once accepted by BP, it will move to its first location and begin operations. That could be before year end. The second rig is scheduled to begin testing shortly after the first rig has gone through the process. Our people on the North Slope have never been busier working to complete the rigs and their training for rig operations. They've made great progress since earlier this

see RIG RESOLUTION page 19

EXPLORATION & PRODUCTION

Upstream outlook bleak

Natural gas prices, soggy weather combined take toll on Western Canada drilling

By GARY PARK

For Petroleum News

Soft natural gas prices and a soggy spring and summer are taking a toll on drilling in Western Canada, with the industry bracing for even worse to come over the balance of 2012.

The downturn has forced the Petroleum Services Association of Canada to lower its expected well count for the year by 3 percent to 12,500, just three months after raising its target to 12,150 prior to an extended spring melt, followed by heavy rain that has kept utilization of the rig fleet under 40 percent.

"Commodity prices on the natural gas side have had a big impact on activity levels so far this year,"

CERI has also calculated that, at a gas price of C\$2 per thousand cubic feet, a well yielding 60 barrels of oil for every 1 million cubic feet of gas "makes economic sense" and at 120 barrels per 1 million cubic feet the gas would actually be free.

—Peter Howard, president of the Canadian Energy Research Institute

said Mark Salkeld, president of PSAC.

"As well, activity has been impacted by key shifts in the global economy, including the European debt

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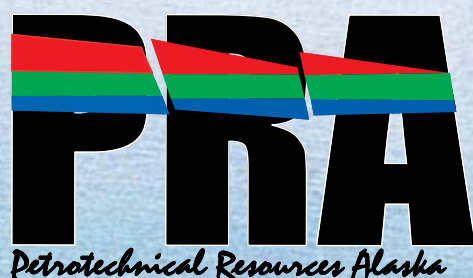
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GOVERNMENT

USCG commandant reviews cutter plans

Admiral Papp tells senators Shell showing an 'over abundance of caution' with 22 vessels planned for work in Chukchi, Beaufort

By KRISTEN NELSON

Petroleum News

Admiral Robert Papp, commandant of the U.S. Coast Guard, provided an update Aug. 6 in Kodiak on the Coast Guard's plans for cutter coverage in Alaska, and on its summer oversight of Shell's planned Arctic drilling.

Papp said he thinks Shell will have "everything in place and ready to go in an over abundance of precaution in case something happens" during the company's planned drilling this summer in the Beaufort and Chukchi seas off Alaska.

Papp, testifying at a field hearing of the U.S. Senate Homeland Security Appropriations Subcommittee, was asked by subcommittee Chair Mary Landrieu, D-La., about preparedness for a worst-case event in the Arctic based on the Macondo disaster in the Gulf of Mexico in April 2010.

The response to that disaster, Landrieu noted, was 47,000 personnel and some 7,000 vessels.

"I don't think you have nearly 7,000 vessels anywhere close," the senator said, asking Papp how the Coast Guard plans to be ready "in the event that something terrible happens."

Papp said that the Coast Guard and the Department of the Interior have reviewed Shell's oil spill response plans.

And while there are lessons to be learned from the Macondo disaster, Papp said, the Deepwater Horizon was basically "there by itself for the most part" prior to the explosion while "Shell is going to have up there 22 vessels. ... They will have everything in place and ready to go in an over abundance of precaution in case something happens."

The admiral also noted that Shell will be drilling in about 150 feet of water, as opposed to the Macondo well, which was in about 5,000 feet of water. That means you don't necessarily have to have remotely operated vehicles, "you can actually put divers out," Papp said.

He also said that Shell believes the reservoirs they will be drilling into are under much less pressure than those at Macondo, "so to a certain extent you're ... comparing apples and oranges."

The Coast Guard and the Department of the Interior's Bureau of Safety and Environmental Enforcement will have to sign off on response plans before Shell starts drilling, he said.

Icebreaker issues

Sen. Lisa Murkowski, R-Alaska, a member of the subcommittee, had requested the hearing in Alaska and both she and Landrieu had questions for the admiral on icebreakers, and on the overall capabilities of the Coast Guard's fleet to operate in Alaska.

Landrieu asked how the U.S. icebreaker fleet compares with its competitors, and how far behind the U.S. is.

Papp acknowledged that the U.S. icebreaker fleet is "in woeful condition right now."

"Healy is the one bright spot because Healy is only about a dozen years old and is in good shape," he said, adding that the senators are "fully aware of the dreadful condition of Polar Sea and Polar Star (the Coast Guard's only heavy-duty icebreakers)."

"They're well past their service life, very difficult and expensive to maintain, and I've had limited funding in order to be able to deal with them," he said.

But money has been transferred back into the Coast Guard's budget for fiscal year 2013 "which will give us sufficient funds to operate Healy properly and to operate one of the polars," Papp said, and with some money from past budget cycles, Polar Star is in a Seattle shipyard now undergoing renovation and will be back in service in 2013.

"So it will give us one heavy breaker (Polar Star) and one medium breaker (Healy) and that's my bridging strategy over the next probably decade until we get the new polar icebreaker built," Papp said.

The cost of the new icebreaker is estimated at \$800 million to \$1 billion, he told Landrieu, based on costs of icebreakers in other countries and on what Canada is allocating to build their new icebreakers.

He said Russia has in the neighborhood of a dozen heavy icebreakers; Canada has four heavy icebreakers; the U.S. has two heavy duty icebreakers, both currently out of service, "and we're rapidly working to get Polar Star" back into service.

Icebreaking concerns

Murkowski asked Papp whether "the practical reality that we do not have a polar class icebreaker" compromises the Coast Guard's mission capability, both for its current Arctic Shield and for other missions.

Papp said he had three levels of concern in the Arctic: this summer, the next decade and the long term.

For right now, the admiral said, "We are well prepared, because ... we have multimission assets that we can deploy that are very capable and that are sufficient for the level of human activity that's going on this summer (in Alaska's Arctic) and perhaps for the next three or four summers."

The Coast Guard doesn't expect the Arctic to be ice free during the summer until probably 2030.

"So our multimission assets — our helicopters, our fixed-wing aircraft, our national security cutters — these are all very ver-



ROBERT PAPP

satile assets that we can apply during the temporary times that there's human activity up there," Papp said.

With the Healy available and the Polar Star due back in service next year, Papp said the Coast Guard would "be able to respond to the types of challenges that we're facing over the next 10 years."

National security cutters

The Bertholf, the first of the Coast Guard's national security cutters, was commissioned in 2008 and is participating in Arctic Shield, the Coast Guard's 2012 summer operation plan for Alaska. That plan requires a flight deck-equipped cutter to be present in the Chukchi and Beaufort seas to respond to oil spill cleanup and participate in search and rescue.

He said the national security cutters will replace the 12 high-endurance cutters the Coast Guard currently has, with National security cutter No. 6 is in the FY13 budget.

The Coast Guard has 41 major ships and those will be replaced by 33 major ships, Papp said.

While there won't be as many major ships in the new fleet, many of the ships in the legacy fleet are only putting in "about two-thirds of the underway days that we program for because of major casualties and breakdowns."

The youngest of the Coast Guard's high-endurance cutters is more than 40 years old, putting those ships "well beyond senior citizen status," Papp said, comparing that to

the navy, where service life is usually about 25 years.

A lot of the current cutters were built in the 1960s and so there's a lot of 1950s technology in those ships, "many components that you just can't get spare parts for nowadays unless they're hand manufactured," he said.

"So when we have a breakdown, part of the problem is it takes us so long to get replacement parts and put them back into service that we lose those underway days and our effectiveness out there."

When the shipbuilding project is complete the Coast Guard will "basically have two major cutters: the national security cutter and the offshore patrol cutter," which will replace the high-endurance and medium-endurance cutters, Papp said.

The current medium-endurance cutters can't operate in the Arctic or in the Bering Sea, but requirements for the new offshore patrol cutters include that they be able to operate, to launch small boats and land and launch helicopters, in "sea state 5" which will allow them to operate in the Bering Sea, he said.

Right now, only 12 of the Coast Guard's 41 major ships, the high-endurance cutters, can operate in Alaska, Papp said, but when the new fleet is complete, all 33 cutters will be able to work Alaska waters. ●

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● PIPELINES & DOWNSTREAM

Harper avoids raging pipeline debate

Canadian PM goes silent while B.C., Alberta, clash over revenue-sharing from Northern Gateway, debate spreads to other pipelines

By GARY PARK

For Petroleum News

Earlier this year, Canadian Prime Minister Stephen Harper was vigorously beating the drum in support of opening new markets for oil sands crude, above all in Asia.

These days, with the bitumen battle flaring up all over Canada, he seems to be avoiding the topic.

The only official word from the upper ranks of government has come from Natural Resources Minister Joe Oliver who said only that Ottawa will “fulfill our obligations” relating to pipeline safety and maritime environmental protection.

But the Harper administration shows no desire to become entangled in the brawl between Alberta and British Columbia, two of its political strong-

The only official word from the upper ranks of government has come from Natural Resources Minister Joe Oliver who said only that Ottawa will “fulfill our obligations” relating to pipeline safety and maritime environmental protection.

holds, especially when it comes to meeting British Columbia’s demand for a reallocation of revenues from oil sands pipelines.

“The economic benefits are, in fact, already shared across the country,” Oliver contended. “I just don’t want to get into that issue at this time.”

Andre Plourde, an energy economist and dean of the faculty of public affairs at

Carleton University in Ottawa, said the Harper government is smart to remain on the sidelines and “coax, smile and gently hope the two provinces can come to terms on this.”

If the federal government did intervene and “actually do something, you’re going to have all kinds of interprovincial issues come up.”

But observers believe that a hands-off approach will only last so far if Harper is truly determined to secure access in Asia for Enbridge’s Northern Gateway, especially as the public mood swings dramatically against Northern Gateway, Kinder Morgan’s planned expansion of its Trans Mountain system, and efforts by Enbridge and TransCanada to open new markets in the United States and Eastern Canada.

Enbridge getting hammered

With Enbridge being cast in the role of Public Energy No.1 in the U.S. and Canada, it is getting hammered from all sides and now faces a threat from First Nations in British Columbia of prolonged court challenges if it gets regulatory approval for Northern Gateway.

And, if the legal action fails, aboriginal leaders are warning they will resort to direct civil disobedience to block pipeline construction.

Enbridge, bothered by the refusal of its opponents to participate in moderate discussion, is now being pushed to a point where it must decide whether the C\$6 billion venture can proceed at all.

Kinder Morgan is getting backed into the same corner, with British Columbia Environment Minister Terry Lake stressing that the same environmental and revenue-sharing conditions his government wants from Northern Gateway apply equally to the proposed Trans Mountain expansion to 750,000 bpd from the current 300,000 bpd.

That includes a demand that British Columbia must receive a “fair share of the fiscal and economic benefits” of heavy crude pipelines that match the environmental risks facing the province.

The Clark administration is growing bolder and more assertive as polls show public opinion in British Columbia is shifting against Northern Gateway, while James Moore, a senior federal cabinet minister from British Columbia, is raising serious doubts that the project can sur-

vive.

5 to 1 against Gateway

A survey of British Columbians by the firm of Angus Reid showed Northern Gateway is opposed by a five-to-one margin, although half were ready to change their minds if the province could extract commitments on improved fiscal benefits and cutting-edge spill response measures.

A second poll by Forum Research found 65 percent outright opposition to the pipeline, up from 59 percent a month earlier.

Moore said the project will “not survive scrutiny unless Enbridge takes far more seriously their obligation to engage the public,” to which Enbridge President Al Monaco said the company has held about 17,000 meetings or consultations with the public since the pipeline was first proposed 13 years ago.

Alberta Deputy Premier Thomas Lukaszuk said his government is open to talks, but will not negotiate a “fair share” of royalties and taxes.

“It is abundantly obvious that if we compete domestically, we cannot compete internationally,” he said. “There will be no one-off discussions. That is very clear.”

A spokesman for Kinder Morgan, which expects to file its application with the National Energy Board in late 2013, said the company will consider improvements to pipeline safety and spill response procedures.

But he said Kinder Morgan does not view oil sands crude as “any more dangerous” than the light crude it has shipped on Trans Mountain over recent decades.

Resolute stand in B.C.

British Columbia Premier Christy Clark’s resolute stand was bolstered by a new report from the highly respected Canadian Energy Research Institute, which estimated Alberta could receive about C\$556 billion in taxes between 2011 and 2035 from three oil sands pipelines — Northern Gateway, Trans Mountain and Keystone XL. British Columbia would collect only C\$8 billion.

The report did not estimate the benefits related to construction and operation of the three pipelines. Those details will be released later in August.

Meanwhile, the flames from Northern

see PIPELINE DEBATE page 5



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● ENVIRONMENT & SAFETY

Research teams head to Chukchi Sea

Two different government-sponsored research programs aim to collect scientific data which will inform planners and decision makers

By ALAN BAILEY
Petroleum News

The first comprehensive oceanographic and fisheries survey of the Chukchi Sea is under way, with the first of two vessels being used for the survey about to head north from Dutch Harbor, the National Oceanic and Atmospheric Administration announced Aug. 3. A team of marine scientists from the University of Alaska Fairbanks and from federal and state agencies are conducting the survey, with funding from the Bureau of Ocean Energy Management, NOAA and the State of Alaska Coastal Impact Assistance Program.

And on Nov. 6 the Bureau of Ocean Energy Management, or BOEM, announced the departure from Dutch Harbor of the U.S. Coast Guard Cutter Healy carrying a team of scientists for a three-week expedition to study marine life in the Hanna Shoal area, in the northeastern Chukchi.

The project announced by NOAA is the first survey to sample the entire marine ecosystem throughout the U.S. waters of the northern Bering Sea and the Chukchi Sea, including waters at least 50 feet deep from south of Hooper Bay to north of Barrow on the eastern Chukchi Sea shelf, the agency said.

"We have scientists from UAF, NOAA's Alaska Fisheries Science Center, the U.S. Fish and Wildlife Service, and the Alaska Department of Fish and Game participating in this Arctic ecosystem integrated survey," said Franz Mueter from the University of Alaska, the lead scientist for the collaborative effort. "So it is a bit of a scientific dream team."

Gathering data

NOAA said that the primary purpose of the survey is the gathering of scientific data needed to avoid or mitigate the impacts on Arctic marine life of potential future oil and gas development projects. The scientific information collected will also help guide more general future economic development in the region, including possible transportation and fisheries opportunities.

"Although surveys have been conducted in both the Beaufort and Chukchi seas since 1959, past U.S. fishery research in the Arctic has been infrequent and limited in scope."

— National Oceanic and Atmospheric Administration

Topics of particular interest include: the abundance of fish, shellfish and plankton; biological and environmental connections between the Bering and Chukchi seas; the densities, compositions and distributions of fish communities at different levels in the water column; the biology of various fish and other marine species that are sources of food for seabirds, sea mammals and coastal communities; physical and chemical water properties; and the comparison of fish population data between this survey and other surveys conducted in parts of the region.

Two cruises

The first survey vessel to leave Dutch harbor will conduct a 60-day cruise traversing the southern Chukchi Sea, the northern Chukchi Sea and the northern Bering Sea, returning south in late September. The vessel will use a surface trawl net to sample fish and other organisms in the upper 65 feet of the water column. An acoustic system and mid-water trawl net will locate, characterize and measure fish populations at greater depths.

A second vessel, leaving Dutch Harbor a few days after the first vessel, will conduct a 47-day cruise in the northern and southern Chukchi Sea, using a bottom trawl net to count, measure and sample organisms that live on the seafloor.

"Although surveys have been conducted in both the Beaufort and Chukchi seas since 1959, past U.S. fishery research in the Arctic has been infrequent and limited in scope," NOAA said. "A similar comprehensive survey of the northern Bering Sea occurred for the first time in 2010."

Hanna Shoal expedition

The expedition to the Hanna Shoal area announced by BOEM will help identify and measure important physical and biological processes that contribute to the high concentration of marine life in this area, advancing BOEM's understanding of environmental considerations such as food dynamics and potential contaminant accumulations — previous studies of the Hanna Shoal have documented sustained biological productivity at the seafloor, accompanied by high concentrations of water birds, walrus and whales, BOEM said.

The research comes as part of the Obama administration's commitment to science-based resource management in the Arctic and will provide new scientific information for the implementation of the five-year outer continental shelf oil and gas leasing program for 2012-17, BOEM said.

"We are taking a cautious approach to any future leasing in the Arctic and scheduled Alaska sales later in the five-year program to allow for the continued development of exactly this kind of scientific information," said BOEM Director Tommy Beaudreau.

The Hanna Shoal project will continue to 2016 and will include the documenting of physical and oceanographic features; ice conditions; and information about wildlife species in the area. The project will require more than 30 sampling stations, some of which will overlap with stations used in previous research.

The research team comes from the University of Texas at Austin, Florida Institute of Technology, the University of Maryland, Old Dominion University and the University of Alaska Fairbanks. The scientists from the University of Alaska Fairbanks have previously conducted research in the same area with researchers from the University of Rhode Island and the Woods Hole Oceanographic Institution, BOEM said. ●

Contact Alan Bailey at abailey@petroleumnews.com

continued from page 4

PIPELINE DEBATE

Gateway, Keystone XL and Enbridge pipeline spills in the United States have spread to Ontario and Quebec, where environmental organizations have gone on the offensive against Enbridge's plans to move greater volumes of oil sands crude to refineries in those provinces.

The National Energy Board gave approval for Enbridge to start the first phase by reversing the flow of Line 9 in Ontario, targeting 152,000 barrels per day, expandable to 250,000 bpd, but limited the pipeline to carrying only light crude.

The federal regulator said that if Enbridge wants to deliver heavy crude from the oil sands it will have to apply for a change.

"If Ontario is to facilitate expansion of the oil sands, then let's have an open, public debate and proper public

scrutiny," said Albert Koehl, an attorney for Ecojustice.

Steven Guilbeault, with Quebec's-based Equiterre, said plans by Enbridge and TransCanada to use existing lines to ship oil sands crude are "not a slam-dunk."

He said the Enbridge line is 40 years old and wasn't built to handle oil sands crude, which is more corrosive than conventional light crude.

"It is important to protect waterways, wetlands and drinking water sources," said Quebec Environment Minister Pierre Arcand. "Environmental issues remain central to our concerns."

Outrage amped by policy debate

Monaco and outgoing Chief Executive Officer Pat Daniel suggested the public outrage over Enbridge pipeline spills in the past two years — one each in Michigan, Wisconsin and Alberta — has been "amplified" by the policy debate in North America over the

pace of oil sands development and the shipment of crude bitumen into the United States.

But they welcomed a decision by Canada's National Energy Board that it was stepping up safety audits of the company's pipelines and reviewing improvements at the Edmonton control center which the U.S. National Transportation Safety Board identified as a major reason for Enbridge's slow response to its Michigan rupture.

Monaco said Enbridge has "made excellent progress in terms of enhancing our systems and processes" since the Michigan event and demonstrated that in its response to the Wisconsin spill.

He said a new Operational Risk Management Plan covers six areas of safety, avoidance, detection and incident response gives Enbridge hope that it can achieve its goal of "zero leaks." ●

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PIPELINES & DOWNSTREAM

Spending C\$2.1 billion on oil sands pipe

Calgary-based Inter Pipeline Fund is moving ahead with a C\$2.1 billion expansion of its oil sands pipeline systems in northern Alberta after negotiating binding shipping agreements with the production joint venture of Cenovus Energy and ConocoPhillips Canada to transport bitumen blend and diluents.

The shipping agreement with FCCL Partnership is committed to 820,000 barrels per day of delivery capacity by constructing 522 miles of new pipeline and seven new pump stations.

The deal involves three thermal-recovery projects at Foster Creek, Christina Lake and Narrows Lake and is targeting completion of the additional capacity on Inter's Cold Lake and Polaris systems between mid-2014 and mid-2016.

Inter Chief Executive Officer David Fesyk said in a statement the expansion of his company's oil sands transportation business will "create a strong, integrated network of large diameter pipelines capable of providing our regional oil sands customers with both bitumen blend and diluent service."

FCCL has agreed to provide C\$225 million of cash funding commitments to cover the purchase of long lead-time materials, engineering costs, land procurement and regulatory activities.

Cash up front

Under a shipper support agreement, FCCL has agreed to provide C\$225 million of cash funding commitments to cover the purchase of long lead-time materials, engineering costs, land procurement and regulatory activities.

In the event the transportation agreements are not executed Inter Pipeline will be reimbursed for C\$225 million of incurred expenditures.

Total pumping capacity on the Cold Lake pipeline system will be increased by about 310,000 bpd, while 20-inch and 30-inch diameter pipelines from Narrows Lake will each have initial capacity of 190,000 bpd, with the option to expand the 30-inch line to 600,000 bpd.

Construction of a 145-mile, 42-inch pipeline from La Corey to Hardisty in central Alberta will add 540,000 bpd of mainline capacity, of which 500,000 bpd is expected to be committed to FCCL.

On the Polaris diluents system, wholly owned by Inter Pipeline, planned capacity will be raised to 820,000 bpd from 120,000 bpd at an estimated capital cost of C\$1 billion.

—GARY PARK

LAND & LEASING

A legal perspective on NS shale oil

Will Alaska's leasing and unitization laws help or hinder the development of oil production directly from oil source rocks?

By ALAN BAILEY

Petroleum News

Great Bear Petroleum is moving ahead with a drilling program near the Haul Road on Alaska's North Slope, testing the possibility of oil production directly from the prolific source rocks of the region. But, assuming the company succeeds in achieving the start of commercial production, using the horizontal drilling and fracking techniques that have proved so successful elsewhere in North America, how appropriate for this mode of development are the Alaska statutes and regulations that govern the access to and development of state land for oil production?

The Alaska legal process involves the competitive sale of leases over land tracts to companies interested in oil and gas exploration. Following a decision to develop a commercially viable hydrocarbon resource, leases that straddle the resource are generally combined into what is termed a unit, to enable all companies with working interests in land containing the discovered hydrocarbons to pool their interests as a single legal entity for hydrocarbon production.

During the Alaska Shale Conference on July 31 Louisiana Cutler, a lawyer with K&L Gates LLC, explained some of the potential pitfalls of the current Alaska legal framework, should shale oil development proceed in the state.

Lease terms

A state lease generally exists for a term of seven to 10 years, while a unit, designed to promote the efficient use of the state's natural resources, will extend the terms of any leases it contains, as a field is brought into production. The eventual expiry of a lease gives a company owning the lease an incentive to move ahead with exploration and development. That type of legal arrangement was configured around a conventional oil field development in which multiple wells draw from a discrete pool of oil in a reservoir rock, Cutler explained.

A shale oil development, in contrast, involves the "unlocking" of oil from an oil source rock that is regional in extent, rather than drawing oil from a distinct and isolated pool. And each well in a shale oil develop-

ment accesses oil just from source rock in its immediate neighborhood, rather than being in communication with a complete oil pool along with other production wells.

That lack of subsurface communication from one well to another reduces the justification for unitization in a shale oil development, Cutler said. Not only that. With a shale oil resource extending across a broad area of territory, and with every well functionally independent, it may not be in the state's best interests to push a company into drilling into every one of its leases within a standard lease term — the rational development of a leased area of shale oil resource may require deferral of drilling in some leases relative to others.

Confusing language?

In addition to these general questions over the legal framework for shale oil development, the current laws, being based on conventional developments, contain language that could cause some head scratching when it comes to legal interpretations for shale oil.

For example, it is not completely clear from the regulatory language for unitization whether unitization could legally be applied to a shale resource. In addition, the regulations relating to unitization often refer to a something called a "potential hydrocarbon accumulation." Is a shale oil resource a "potential hydrocarbon accumulation," in the same sense as a conventional oil pool targeted in a conventional exploration project?

Regulations for unit agreements also include the concept of a "participating area," a specification of a conventional oil or gas pool with unified ownership rights for hydrocarbon production. Would this regulatory language need modification, to accommodate a continuous shale oil resource?

State statutes for ensuring the conservation of hydrocarbon resources also contain some provisions relating to issues such as drilling agreements and contracts. Would these types of agreements and contracts, structured for a conventional development, be applicable in a shale oil situation?

see **SHALE OIL** page 7



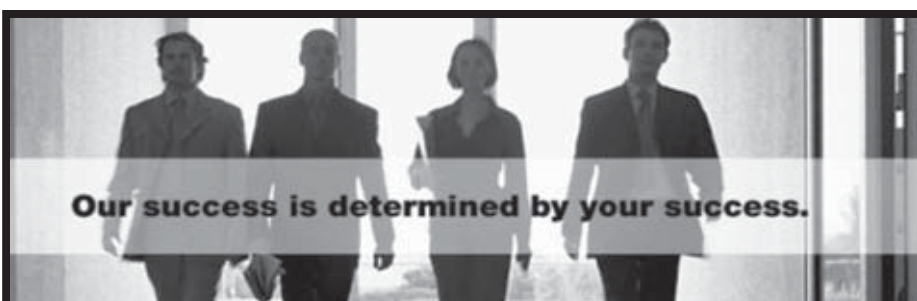
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• LAND & LEASING

Apache and CIRI sign exploration pact

Agreement allows Apache to explore for oil and gas in CIRI land around Cook Inlet basin; company already shooting Cook Inlet seismic

By **ALAN BAILEY**
Petroleum News

Apache Corp. and Cook Inlet Region Inc., or CIRI, have announced an agreement that allows Apache to explore for oil and gas on CIRI land in the Cook Inlet basin. CIRI is the Alaska Native regional corporation for the Cook Inlet region.

Houston-based independent Apache has been pursuing an aggressive exploration program in the Cook Inlet basin since starting to buy state leases in the basin in 2010. The company is in the process of conducting a major program of 3-D seismic surveys in the basin and plans to drill two exploration wells later this year. The new agreement,

announced in an Aug. 6 notice on the Apache website, increases the extent of land accessible to the company.

"Cook Inlet is a proven basin with material oil potential," said John Hendrix, general manager of Apache Alaska Corp., in the Aug. 6 release. "We believe there is substantial oil yet to be discovered, and new 3-D seismic will be the key to unlocking the basin's potential. We are looking forward to working with CIRI to develop this important resource in a safe and environmentally responsible manner."

"CIRI welcomes Apache's significant commitment to explore its lands for commercial oil and gas resources," said CIRI President and Chief Executive Officer Margie Brown. "We have confidence that Apache has the capacity,

expertise and drive necessary to thrive in a basin like the Cook Inlet. We look forward to working with Apache in the responsible development of our resources."

Apache is using state-of-the-art, nodal seismic technology for its 3-D seismic program, being conducted onshore and offshore the Cook Inlet, on both sides of the inlet. By avoiding the need to lay cabling, the technology does not require the cutting of seismic trails through land vegetation while, offshore, seismic recording nodes can be laid directly on the seafloor rather than having to tow hydrophones behind a seismic vessel. ●

Contact Alan Bailey at abailey@petroleumnews.com

• NATURAL GAS

RCA approves Nikolaevsk pipeline

By **ERIC LIDJI**
For Petroleum News

After a delay, Nikolaevsk is cleared for natural gas.

With a series of approvals Aug. 8, the Regulatory Commission of Alaska is allowing Anchor Point Energy LLC and Enstar Natural Gas Co. to proceed on a small pipeline connecting the North Fork unit to the small southern Kenai Peninsula community.

The approval took some time to sort out, in part because applicant Anchor Point Energy asked regulators to waive certain reporting requirements. In particular, those requirements included details about the cost, expenses, financing and rates of the pipeline project and financial information for the companies that own Anchor Point Energy.

The RCA ultimately granted those waivers.

The project involves a two-inch, 8,930-foot pipeline to Nikolaevsk from the existing North Fork Pipeline — a line from the North Fork field to coastal Anchor Point.

Anchor Point Energy asked regulators to waive the requirement to report project details because the state is funding the project and because the extension wouldn't impact rates on the North Fork Pipeline, which operates on contract and serves a single customer.

Anchor Point Energy asked regulators to waive the financial reporting because only one of its four owner companies currently has independently audited financial statements. In that case, state regulations require companies to file two-years of unaudited statements.

Confidentiality granted

The companies provided this information, but asked that be kept confidential, saying the risk of a competitive or financial disadvantage would "outweigh the public interest."

Anchor Point Energy is owned by North Fork operator Armstrong Cook Inlet and by its three partners at the field. All four companies are small independent producers.

The RCA granted the request.

The RCA previously granted confidentiality to the owners of Anchor Point Energy in earlier proceedings involving the North Fork Pipeline, a larger and costlier project.

The \$447,000 state grant will pay for the pipeline and an associated regulator station.

Nikolaevsk is home to some 308 people, according to the most recent state estimates. The initial build out would bring gas to a school, a community fire station and 12 homes. ●

Contact Eric Lidji at ericlidji@mac.com

ENVIRONMENT & SAFETY

Exceptional number of grey whale calves

National Oceanic and Atmospheric Administration scientists involved in an aerial survey of the Beaufort and Chukchi seas have reported an exceptional number of grey whale calves so far this year, NOAA says.

"More than 50 calves have been sighted in just the first month of the survey," NOAA said in an Aug. 2 news release. "Even though some of the calves are undoubtedly repeat sightings, the total number is far higher than normal."

The survey, which started around the beginning of July, is part of a multi-year NOAA program called the Aerial Surveys of Arctic Marine Mammals, or ASAMM. With flights from Barrow and Deadhorse, the survey covers a massive area of the two Arctic seas, NOAA says. The goal of the program, funded by the Bureau of Ocean Energy Management, is to document the distribution and relative abundance of marine mammals including bowhead, gray, right, fin and beluga whales in areas of potential oil and gas exploration, development and production in the Alaska Arctic.

This year, in addition to grey whales, the scientist have observed bowhead whales in both the Chukchi and Beaufort seas; large groups of beluga whales in several areas; one minke whale near Cape Lisburne; and one feeding humpback whale near Wainwright, NOAA says.

The survey team also helped a team from the U.S. Geological Survey to find large groups of walrus on ice for a USGS walrus satellite tagging project. The survey team is also providing the National Weather Service Ice Desk and the U.S. Coast Guard geo-referenced photographs of sea ice.

The ASAMM team anticipates continuing to conduct flights almost daily through October, weather permitting. Despite the varying character of the Arctic weather, with episodes of fog and low cloud, the team has succeeded in collecting some excellent data this year, NOAA says.

The survey, which started around the beginning of July, is part of a multi-year NOAA program called the Aerial Surveys of Arctic Marine Mammals, or ASAMM

—ALAN BAILEY

continued from page 6

SHALE OIL

In summary, the current state leasing and unitization system really needs to be reviewed, to ensure that it can promote the exploration, development and production of shale oil in a "measured and deliberate way," avoiding a shale-oil land rush in a Wild-West atmosphere, Cutler said. ●

Contact Alan Bailey at abailey@petroleumnews.com



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● FINANCE & ECONOMY

EIA projects \$103 Brent in second half

WTI discount to Brent expected to narrow from \$14 in 3rd quarter to \$9 by late 2013; domestic crude production to average 6.3M bpd

By KRISTEN NELSON

Petroleum News

The U.S. Energy Information Administration said Aug. 7 in its Short-Term Energy Outlook that it is projecting the Brent crude oil spot price to average about \$103 per barrel in the second half of the year, up \$3.50 from its July projection. EIA said the West Texas Intermediate crude oil spot price discount to Brent is expected to narrow from \$14 in the third quarter to \$9 by late next year.

The agency's price forecasts assume the world oil-consumption-weighted real gross domestic product, which increased by 3 per-

cent last year, will grow by 2.8 percent this year and by 2.9 percent in 2013.

U.S. total crude oil production is projected to average 6.3 million barrels per day this year, up 600,000 bpd from last year, and the highest level of production since 1997, EIA said. Next year's domestic production is projected to increase to 6.7 million bpd.

The Henry Hub natural gas spot price is projected to average \$2.67 per million Btu this year, compared to \$4 last year and a projected \$3.34 in 2013.

Growing US production

U.S. crude oil production last year was

5.7 million bpd, an increase of 3.9 percent, 210,000 bpd, and EIA said it is forecasting 6.3 million bpd this year, the highest annual production since 1997.

Lower 48 onshore crude production is expected to grow by 670,000 bpd this year, with Gulf of Mexico output stabilizing after falling in 2011 and Alaska production continuing to drop by 30,000 bpd.

U.S. total crude oil output is projected to rise another 390,000 bpd next year, most of that from increases in Lower 48 production, EIA said, with the increase "driven by increased oil-directed drilling activity, particularly in onshore tight oil formations."

The agency said Baker Hughes reported 777 onshore oil-directed drilling rigs at the beginning of 2011, 1,191 at the beginning of this year and 1,429 on Aug. 3.

The share of U.S. consumption met by liquid fuel net imports — crude oil and products — "has been falling since peaking at over 60 percent in 2005, and averaged 45 percent in 2011, down from 49 percent in 2010," EIA said, noting that it expects a further decline to 41 percent this year and to 39 percent in 2013 "as a result of lower consumption and the substantial increases in domestic crude oil production."

The agency said that if its 2013 projection holds, "it would be the first time the share of total U.S. consumption met by total liquid fuel imports is less than 40 percent since 1991."

Natural gas

U.S. natural gas consumption is expected to average 69.8 billion cubic feet per day this year, EIA said, an increase of 3.2 bcf per day, 4.8 percent, from 2011.

"Large gains in electric power use in 2012 will more than offset declines in residential and commercial use," the agency said.

Growth in natural gas consumption is expected to slow in 2013, averaging 70.9 bcf per day, "driven by consumption increases from the residential, commercial and industrial sectors, as consumption in the electric power sector levels off."

U.S. marketed production of natural gas grew by 4.8 bcf per day in 2011, 7.9 percent, "driven in large part by increases in shale gas production," EIA said, and year-over-year growth is expected to continue this year, with an increase of 2.5 bcf per day projected.

Baker Hughes reported 498 natural gas rigs on Aug. 3, compared with 811 at the beginning of the year, the agency said.

There have been some declines in production this year, but declines from less profitable dry natural gas plays such as the Haynesville shale and continuing long-term decline in the Gulf of Mexico have been "offset by growth in production from liquids-rich natural gas production areas such as the Eagle Ford and wet areas of the Marcellus Shale, and associated gas from the growth in domestic crude oil production," EIA said.

Gross pipeline imports of natural gas are expected to fall by 0.1 bcf per day, 1.3 percent, this year, "as domestic supply continues to displace Canadian sources." Pipeline gross imports are expected to remain flat in 2013, at about 8.4 bcf per day. Pipeline gross exports grew by 1 bcf per day last year, driven by increased exports to Mexico, but are expected to be flat this year and to grow by 0.2 bcf a day next year.

Liquefied natural gas imports are expected to fall by 0.5 bcf per day (51 percent) from last year.

EIA said it expects between 0.5 and 0.6 bcf per day of LNG to arrive, mainly at the Elba Island terminal in Georgia, this year and next respectively, "either to fulfill long-term contract obligations or to take advantage of temporarily high local prices due to cold snaps and disruptions." ●

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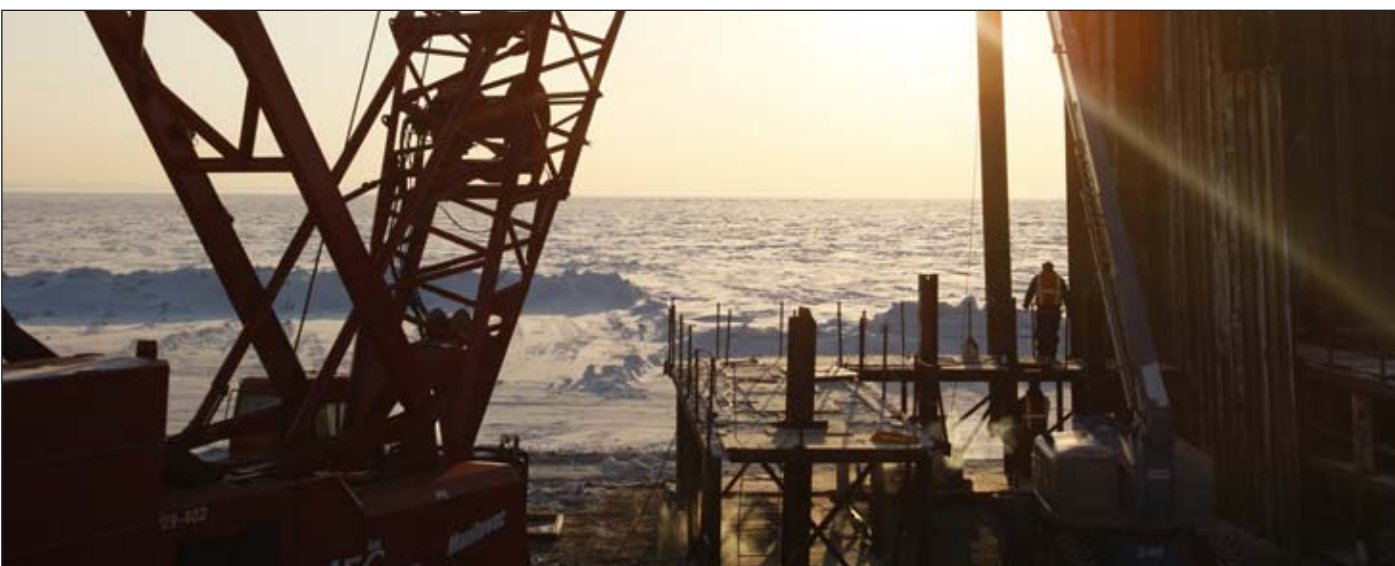
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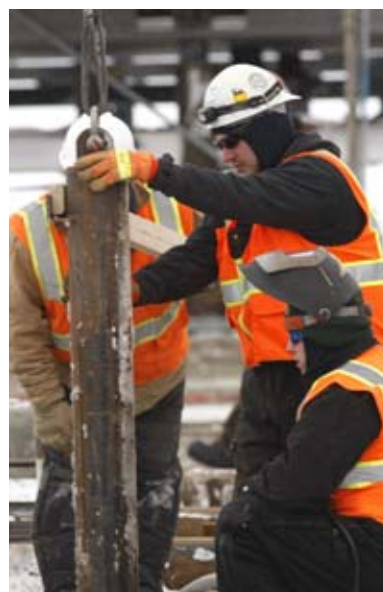
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● PIPELINES & DOWNSTREAM

Exxon seeks expedited pipeline approval

In application to Alaska regulators, company stresses tight schedule for building 22-mile line to carry Point Thomson condensate

By WESLEY LOY

For Petroleum News

In a further sign that Alaska's long-undeveloped Point Thomson field really is headed for first production, ExxonMobil is asking state utility regulators for authority to build and operate a 22-mile pipeline for its promised gas cycling project.

The company wants "expedited consideration" from the Regulatory Commission of Alaska, stressing that it faces a tight seasonal construction schedule to meet its target of commencing production from Point Thomson by the winter of 2015-16.

The pipeline would carry hydrocarbon liquids known as condensate west to the nearest existing pipeline at the Badami field. From there, the condensate would flow into the 800-mile trans-Alaska oil pipeline.

An ExxonMobil affiliate, PTE Pipeline LLC, on July 17 filed an application with the commission for a certificate of public convenience and necessity for the new pipeline. PTE was established to build and operate the Point Thomson Export Pipeline.

In its application, PTE "respectfully requests" that the commission issue the certificate by Nov. 30, so construction can begin right away.

A long time coming

The Point Thomson field, located on state land along the Beaufort Sea coast about 60 miles east of Prudhoe Bay, is rich in natural gas as well as oil. But it has gone undeveloped for more than 30 years after its discovery.

In March, ExxonMobil and the state reached a landmark legal settlement that laid out a schedule for starting development at Point Thomson.

ExxonMobil is now working on multiple fronts to make construction arrangements and to obtain all the necessary permits and other regulatory approvals.

Aside from the commission certificate, ExxonMobil is trying to clear a number of other hurdles to make the Point Thomson development happen.

The company's initial development will involve cycling gas to collect condensate, a liquid that can be piped like oil. Production will start at 10,000 barrels a day, a modest volume considering that overall North Slope oil production approaches 600,000 barrels a day.

But ExxonMobil says developing the complex, high-pressure Point Thomson reservoir will take billions of dollars.

The pipeline alone is a big investment. Estimated costs total \$253 million, including \$18 million for materials, \$190 million for construction and \$45 million for contingency, PTE told the regulatory commission.

Annual operating and maintenance costs are estimated at \$45 million.

Tight schedule

Under the agreement with the state, ExxonMobil says it is obliged to put Point Thomson into production by the winter season of 2015-16.

To make that goal, ExxonMobil says it must take full advantage of the three upcoming winter construction seasons.

In its certificate application, PTE notes that Point Thomson is remote, without road access. Construction materials must be brought in by coastal barge in summer, when Beaufort Sea waters are open, or by ice road in winter. Most construction must take place in winter to avoid damaging the delicate tundra.

To support construction this coming winter, ExxonMobil wants to build a 50-mile ice road to Point Thomson from Endicott, the easternmost point that grav-

el road reach.

"Construction of the ice road is a massive, multi-million dollar undertaking which must be started as early in the season as possible and completed before any actual pipeline construction can begin," PTE's application says. "It would be commercially impractical to undertake construction of the ice road without permits necessary to initiate later pipeline construction activities. The Commission is respectfully requested to act on this application by November 30, 2012, in order to ensure certainty in the mobilization of the very significant resources to construct an ice road and begin construction of the pipeline. It is also important to appreciate that, given the seasonal constraints on supply and construction, loss of a part or all of a winter construction season could delay completion of the (pipeline) for an entire year."

Experience and financial muscle

Aside from the commission certificate, ExxonMobil is trying to clear a number of other hurdles to make the Point Thomson development happen.

The U.S. Army Corps of Engineers oversaw the drafting of an extensive environmental impact statement for the condensate project, and ExxonMobil is hopeful the Corps will issue a dredge and fill permit in September.

ExxonMobil also is working to secure a state right of way for the pipeline to cross state land. A decision on that also is expected in September, ExxonMobil says.

One other hurdle already was cleared when the North Slope Borough, on July 10, approved a zoning change for a portion of the pipeline route.

In seeking a certificate from the regulatory commission, PTE must show its fitness to provide service on what will be a common carrier pipeline. It points to its powerhouse parent company, ExxonMobil Pipeline Co.,

see POINT THOMSON page 11

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● GOVERNMENT

EPA hit with lawsuit over dispersants

By WESLEY LOY

For Petroleum News

A coalition of conservation, wildlife, trade and public health groups have filed suit against the U.S. Environmental Protection Agency over the issue of dispersants used to combat oil spills.

The groups contend the EPA has failed to put sufficient dispersant rules into place in compliance with the Clean Water Act. They say some 1.84 million gallons of dispersants were applied in the Gulf of Mexico following the Deepwater Horizon disaster in 2010 “despite widespread recognition that little was known about the health and environmental effects of applying such massive quantities of dispersants, and applying them beneath the ocean’s surface.”

The 42-page suit was filed Aug. 6 in the District of Columbia federal court.

The plaintiffs are Alaska Community Action on Toxics, Cook Inletkeeper, Florida Wildlife Federation, Gulf Restoration Network, Louisiana Environmental Action Network, Louisiana Shrimp Association, Sierra Club and Waterkeeper Alliance.

continued from page 10

POINT THOMSON

which nationwide transports more than 2.7 million barrels per day of oil and other products through 8,000 miles of operated pipeline, PTE’s application says.

Among ExxonMobil Pipeline’s holdings is an ownership interest in the trans-Alaska pipeline.

Its financial strength is so great, in fact, that “no financing will be required” for the Point Thomson pipeline, the application says.

It adds that the initial tariff for the pipeline is estimated to range from \$15 to \$20 per barrel.

Bullet-proof design

The carbon steel pipeline will have a 12.75-inch outside diameter and a minimum mainline wall thickness of 0.406 inches, the certificate application says.

The line will feature increased wall thickness in areas with higher potential for accidental bullet strikes from local subsistence hunters.

As is common with the North Slope’s many above-ground pipelines, the Point Thomson line will be covered with a layer of foam insulation, as well as a galvanized metal outer jacket.

Estimated commercial life for the pipeline is 30 years.

In terms of pipeline capacity, the application says “initial configuration and capacity corresponds to the 10,000 barrels a day” of production at field start-up. The pipeline has “an eventual design capacity for up to 70,000 barrels a day,” which will allow it to accommodate increased Point Thomson production, or production from elsewhere on the eastern North Slope.

“Access to the export pipeline will be provided on reasonable and non-discriminatory terms,” the application says. ●

The 42-page suit was filed Aug. 6 in the District of Columbia federal court.

The environmental law firm Earthjustice filed the suit on behalf of the groups.

Arctic harm feared

The first page of the complaint says the EPA and Administrator Lisa Jackson are being sued “for their ongoing failure to publish a schedule that identifies dispersants and other oil spill control agents eligible for use in oil spill response, identifies the waters in which these agents may be used, and identifies the quantities of these agents that can be used safely in

see LAWSUIT page 12

LAND & LEASING

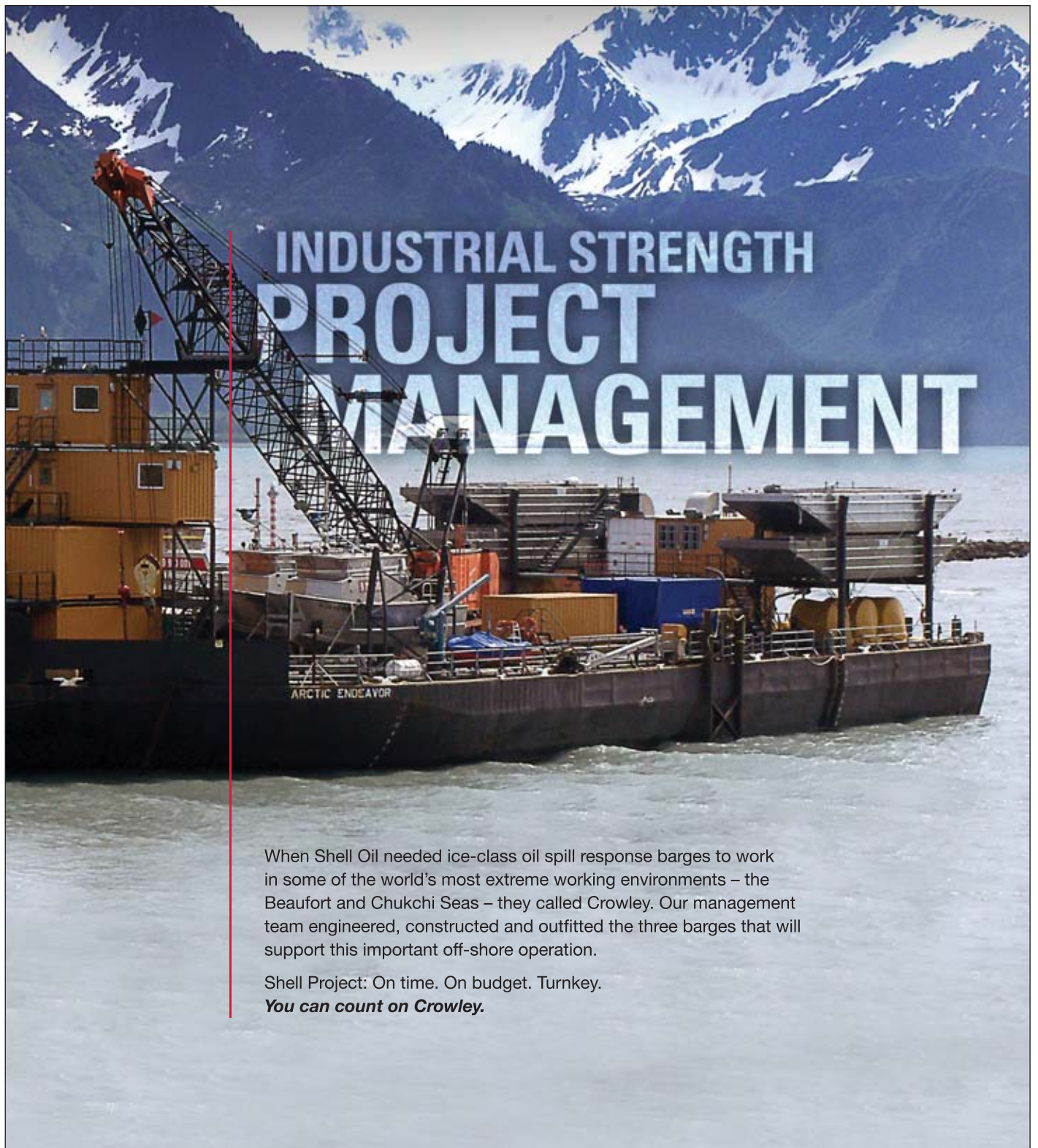
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DNR	North Slope Areawide	fall 2012
DNR	North Slope Foothills Areawide	fall 2012
BLM	NPR-A	November 2012
DNR	Cook Inlet	spring 2013
DNR	Alaska Peninsula	spring 2013
BOEM	2013 Cook Inlet (special interest)	2016
BOEM	Beaufort Sea	2016
BOEM	Chukchi Sea	2017

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

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EXPLORATION & PRODUCTION

BP applies to expand Prudhoe Bay Pad A

Prudhoe Bay field operator BP Exploration (Alaska) has applied to expand Pad A in the Prudhoe Bay unit by 0.8 acres. In a July 24 application to the Alaska Department of Natural Resources Division of Oil and Gas BP said the expansion would accommodate drill rig access and movement, because "rigs used for existing well head work are larger than the ones used when the pad was constructed."

A Pad is some 18 miles west of Pump Station 1.

The company earlier applied to expand two pads at the Milne Point unit for the same reason (see story in July 29 issue).

BP said it expects to do the work over the next year, with completion by August 2013.

Approximately 9,500 cubic yards of gravel will be placed on tundra adjacent to the existing pad and will be spread by equipment working on the existing pad, so no tundra travel will be required. The gravel will come from permitted sources, BP said.

—PETROLEUM NEWS

ENVIRONMENT & SAFETY

Conoco's Kuparuk field renewed for VPP

ConocoPhillips Alaska's Kuparuk field has been approved for Alaska Occupational Safety and Health Voluntary Protection Program renewal based on employee safety and health programs.

"Being recertified in the AKOSH VPP program is another significant milestone for the workforce in the Greater Kuparuk Area," Bill Arnold, interim vice president of ConocoPhillips North Slope operations and development, said in a statement.

"This achievement requires the entire organization to pursue and demonstrate a relentless commitment to health and safety on a daily basis," Arnold said.

The Alaska Department of Labor and Workforce Development said that fewer than 2,500 U.S. worksites have achieved VPP status, about one for every 8 million worksites. Twelve sites in Alaska have the AKOSH VPP designation.

In addition to Kuparuk facilities with those are: Air Logistics of Alaska; Alaska Clean Seas; Arctic Slope Regional Corp. Energy Services grind and inject plant and oily water injection facility; BP Exploration (Alaska) central power station; BP Exploration (Alaska) gas plants — central compressor plant and gas facility; ConocoPhillips Alaska's Alpine field operations; ConocoPhillips Alaska's Anchorage office tower; ConocoPhillips Alaska's Beluga River unit; Fairbanks Memorial Hospital; Insulfoam Inc.; and UniSea Inc.

VPP is a voluntary program which recognizes and promotes effective workplace safety and health management through a cooperative program between the company's management, employees and AKOSH.

As a VPP Star recipient, ConocoPhillips' Kuparuk operations won't be subject to random enforcement inspections for two years, the department said. Enforcement regulations remain in effect, however, and if there are employee complaints, accident investigations or other significant incidents, those would trigger enforcement inspections.

—PETROLEUM NEWS



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FINANCE & ECONOMY

CNOOC-Nexen deal encounters trouble

By GARY PARK

For Petroleum News

The proposed blockbuster takeover of Canada's Nexen by China's CNOOC is entangled in a web being woven by a leading U.S. lawmaker and securities regulators.

Top-ranking Democratic Senator Charles Schumer of New York wants the Obama administration to use the \$15.1 billion deal as leverage to solve long-standing trade and investment issues with China.

Compounding that challenge the U.S. Securities and Exchange Commission has obtained a court order to freeze the assets of traders using accounts in Hong Kong and Singapore, alleging they pocketed more than \$13 million by trading in advance of the acquisition announcement on July 23.

The SEC alleges that Hong Kong-based firm Well Advantage Ltd. and other unknown traders bought shares of Nexen based on confidential information ahead of the deal.

Schumer in a letter to Treasury Secretary Timothy Geithner, who also chairs the inter-agency Committee on Foreign Investment in the U.S., said that although he does not oppose the takeover of Nexen's global assets on its merits the U.S. should not pass up an opportunity to apply pressure on China to open up its markets and treat trading partners equally.

The bulk of Nexen's assets are tied up in Alberta's oil sands and British Columbia's

shale gas plays. About 10 percent of the value is assigned to the U.S. Gulf of Mexico, with other properties held in West Africa and the United Kingdom's North Sea.

Multiple approvals required

The deal needs approval from regulators in Canada, the U.S., China and possibly the European Union.

"It is rare that we have so much leverage to exert upon China," Schumer wrote. "We should not let this window of opportunity pass us by."

He was one of the most vocal critics of CNOOC's proposed merger in 2005 with Unocal, a deal which fell apart under political pressure.

The purchase of U.S. assets by state-controlled foreign companies can be blocked on national security grounds.

Like Canadian regulators, a division of the U.S. Treasury Department has the power to impose conditions on foreign acquisitions.

"At some point, we have to put our foot down over China's refusal to play by the rules of free trade," said Schumer.

He argued China should be forced to join a government procurement agreement, simplify its review system for foreign investments in China and step up enforcement of intellectual property infringements. ●

Contact Gary Park through publisher@petroleumnews.com

continued from page 11

LAWSUIT

such waters."

"We sent EPA a notice of intent to sue in October 2010 following the debacle of the BP Deepwater Horizon disaster and the unprecedented use of dispersants during that response," Earthjustice attorney Hannah Chang said in a press release. "Our filing ... will push EPA to take further action to follow through on its promise to get a much-needed rule in place."

Bob Shavelson of Cook Inletkeeper, an Alaska conservation group, said: "The oil industry learned from the Exxon Valdez that 'out of sight, out of mind' is its pre-

ferred spill response strategy, so the first tool out of the box these days is dispersants. But dispersants add toxic insult to injury for Alaskan fisheries and Alaskans have a right to know about toxic pollution around our coastal communities."

"These dispersants would likely have devastating effects on the sensitive marine waters, fish, marine mammals and coastal communities of the Arctic," said Pamela Miller, executive director of Alaska Community Action on Toxics. "We cannot allow a repeat in Alaska of the uncontrolled experiment with dispersants that followed the BP spill in the Gulf." ●

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● PIPELINES & DOWNSTREAM

Hilcorp works to repair oil-loading dock

Job involved retrieving lost fender from bottom of Alaska's Cook Inlet; company continues effort to reopen Drift River terminal

By **WESLEY LOY**

For *Petroleum News*

Hilcorp and its contractors are working to pull off a heavyweight salvage job in Alaska's Cook Inlet.

The story began in March, when a piece of equipment known as a fender fell off the Christy Lee tanker loading platform on the inlet's west side.

The offshore platform's two fenders are what ships lay against while docked to pick up crude oil. The huge fenders, comprised of a steel truss with a wooden face, can be raised or lowered with winches to adjust for the level of a tanker as it loads.

In March, water got into a gearbox and caused the winching system to fail. A fender released as a result, and ended up on the seafloor, said Lori Nelson, spokeswoman for Hilcorp Alaska LLC.

Temporary fix

A Hilcorp subsidiary, Cook Inlet Pipe Line Co., operates the Christy Lee platform, located at the Drift River oil terminal.

The loss of the fender was a serious problem, potentially forcing a shut-in of west Cook Inlet oil production had tankers not been able to dock at the platform. The tankers haul oil for refiner Tesoro, on the opposite side of Cook Inlet.

With the help of Global Diving & Salvage Inc., a temporary floating fender was devised for the platform, Nelson said. But the temporary fix would not be able to withstand the rigors of winter and the ice that bulls about the inlet.

The question was whether to fashion a new fender, or try to salvage the one on the seafloor.

The salvage job won out, Nelson said.

Big barge

In late July, a huge barge-mounted crane — said to be the largest marine crane operating in Alaska — succeeded in recovering the fender off the bottom. The fender weighs well in excess of 100 tons, Nelson said.

The fender was barged to the east side of Cook Inlet, to the ASRC Energy Services dock.

The plan is to repair the fender and then barge it back to the Christy Lee platform for re-installation, Nelson said. The hope is to have it in place by the end of September.

"We're just super proud of the fact that we were able to execute so quickly and salvage the original system," Nelson said.

Seattle-based Pacific Pile & Marine operates the derrick barge, known as the Salvation.

Jason Davis, Alaska division manager for Pacific Pile & Marine, told *Petroleum News* his company hopes to homeport the barge in Homer to serve the oil and gas industry. The company is leasing the equipment, he said.

Terminal reopening

Hilcorp is working to reopen the Drift River terminal, which includes a tank farm for storing crude oil produced from west Cook Inlet fields.

The facility has been largely closed since nearby Redoubt volcano erupted in March 2009. The eruption sent mud flows known as lahars down the Drift River, but protective berms built around the termi-



A mechanical failure caused a fender on the Christy Lee loading platform to fall into Cook Inlet. The fenders are the large, flat pieces visible here. Tankers lay against the fenders while docked to load crude oil.

nal saved it from a potentially disastrous inundation.

Now Hilcorp is working to upgrade the terminal fortifications, and is seeking permission from the state Department of Environmental Conservation to reopen the terminal.

"We're still working through the permitting process," Nelson said.

Since the terminal shutdown, operators have used an alternative method to pipe oil directly onto tankers at the Christy Lee platform. It's a method Hilcorp says is far from ideal.

Hilcorp plans to install steel sheet piling to bolster the tank farm protections. Site preparation work already has begun.

"An incredible amount of steel" is




being shipped from Antwerp, Belgium, via Vancouver, British Columbia, says a Hilcorp Alaska blog on the terminal reopening project.

Hilcorp is aiming to finish the terminal improvements by Oct. 1. ●


Contact Wesley Loy
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GOVERNMENT

Murphy named BLM-Alaska associate director

Ted Murphy has been named the new associate state director of the Bureau of Land Management in Alaska. He begins his new position Aug. 13.

"Ted's extensive field office, state office and national experience in Washington, D.C., in combination with his understanding of BLM-Alaska's key programs have prepared him for this leadership role," BLM-Alaska State Director Bud Cribley said in an Aug. 3 statement.

Cribley noted that that Murphy has been involved with National Petroleum Reserve-Alaska oil and gas lease sales including planning for and management of the reserve. His previous duties also included responsibility for BLM-Alaska's other planning efforts, and minerals, subsistence, wildlife, fisheries, recreation, forestry, and cultural resource programs.

Murphy has a degree in mining engineering from Montana Tech, and began his federal career with the U.S. Geological Survey.



TED MURPHY

—PETROLEUM NEWS

PIPELINES & DOWNSTREAM

Alyeska wraps summer pipeline shutdowns

Alyeska Pipeline Service Co. has completed the five shutdowns it scheduled for the trans-Alaska oil pipeline this summer.

A major project was the Pump Station 6 "straight pipe" project, Alyeska said on its website, involving removal of the manifold building and most mainline piping connections. This type of work had already been completed at Pump Stations 2, 8, 11 and 12, stations which the company said are not expected to be required for future operations.

Alyeska said elimination of the nonessential elements of the pump stations enhances integrity of the mainline and reduces maintenance requirements, as well as reducing risks associated with "dead legs" and potential corrosion issues. Pump Station 10 is next in line for a "straight pipe" project, the company said.

Work began at Pump Station 5

The summer's first shutdown, May 18 at Pump Station 5, was for installation of a temporary bypass to isolate the station while piping was modified. The bypass was removed May 27 and normal flow was restored at Pump Station 5. Safety integrity pressure protection system, or SIPPS, work was also done at Pump Station 3 during that shutdown.

The June 2 shutdown was for mainline valve testing from Pump Station 5 to Pump Station 7 and SIPPS work at Pump Station 11.

The July 28 and Aug. 5 shutdowns were for the "straight pipe" project at Pump Station 6.

North Slope producers BP Exploration (Alaska) and ConocoPhillips Alaska schedule major maintenance work around Alyeska's shutdowns of the pipeline.

ConocoPhillips' summer schedule included major planned maintenance at the Kuparuk River field beginning in mid-June and at Alpine beginning in late July.

The majority of BP's planned maintenance was scheduled to begin in July, with work planned at Prudhoe, Milne Point and Northstar.

—KRISTEN NELSON

PIPELINES & DOWNSTREAM

Conoco seeking 16 percent increase

With its fifth request since late 2008, the company would more than triple its most recently approved rates for Alaska markets

By ERIC LIDJI

For Petroleum News

17 cases now outstanding

The ConocoPhillips case is one of 17 before the Regulatory Commission of Alaska.

The RCA consolidated the first 12 cases into a single docket, currently at the center of concurrent hearings with the Federal Energy Regulatory Commission. ConocoPhillips is asking for the five most recent cases to be consolidated into a separate docket. The other four cases have been held in abeyance pending the outcome of the concurrent hearings.

The RCA approved ConocoPhillips' four previous rate increases on a temporary and refundable basis while it studies aspects of the increasingly complex case.

ConocoPhillips' most recent permanent rates, from 2002, charge \$1.25 per barrel to North Pole and \$1.96 per barrel to the PetroStar refinery or the Valdez Marine Terminal.

If the RCA decides that any or all of the four increases it has temporarily approved since 2008 are not justified, ConocoPhillips would be forced to issue refunds with interest.

The 800-mile pipeline from the North Slope to Valdez is owned by transportation subsidiaries of BP, ConocoPhillips, ExxonMobil, Koch and Union Oil Co. of California.

ConocoPhillips Transportation Co. owns an undivided, 28.2953 percent stake in the pipeline, making it the second largest owner after BP and before ExxonMobil. Unocal and Koch together own less than 5 percent and are currently marketing their shares.

BP is the only pipeline owner that hasn't asked for an increase to in-state shipping rates. ●

Contact Eric Lidji at ericlidji@mac.com

ConocoPhillips is asking state regulators for a roughly 16 percent increase to the rate it charges to ship crude oil on the trans-Alaska oil pipeline to destinations within the state.

ConocoPhillips wants to charge \$3.91 per barrel to ship from the North Slope to a Golden Valley Electric Association pipeline in North Pole leading to the Flint Hills Refinery, \$6.14 per barrel to ship to the PetroStar refinery in Valdez and \$6.17 per barrel to ship to the Valdez Marine Terminal, also in Valdez. Those fees represent a 16 to 16.8 percent increase over ConocoPhillips' existing rates of \$3.37 per barrel to North Pole, \$5.26 per barrel to the PetroStar refinery and \$5.28 per barrel to the Valdez Marine Terminal.

As has becoming standard in similar rate cases, ConocoPhillips said it needs the increase because pipeline throughput continues to decline while operating costs have increased.

The proposed rate increase would generate an additional \$4.8 million per year, or \$33.5 million total, for ConocoPhillips. Through its pipeline subsidiary, the company currently ships most of its oil bound for local markets to the PetroStar refinery with a small amount going to North Pole, but does not appear to ship any to the Valdez Marine Terminal.

ConocoPhillips wants the higher rates to go into effect starting Sept. 1, 2012.

The request is the fifth ConocoPhillips has made since late 2008, when the owners of the trans-Alaska oil pipeline began filing rate cases using a newer court-approved methodology, rather than a methodology established in a 1985 settlement with the state.

ConocoPhillips made its most recent request in May 2011.



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• EXPLORATION & PRODUCTION

July ANS production down 17% from June

By KRISTEN NELSON
Petroleum News

Alaska North Slope crude oil production averaged 430,456 barrels per day in July, down 16.7 percent from a June average of 516,871 bpd, as operators had fields and portions of fields down for scheduled summer maintenance.

The ConocoPhillips Alaska-operated Alpine field had the biggest drop in production — down 39.5 percent from June — as the field was shut down completely for planned maintenance (see story in July 29 issue). Alpine production averaged just 45,375 barrels per day in July, compared to 75,049 bpd in June. Production dropped to 34,511 bpd July 20 as shutdown began and reached zero July 22, where it remained for the rest of the month. The field was expected to be down completely for about 20 days.

Alpine production includes satellite production from Fiord (which accounts for some 30 percent of total production), Nanuq and Qannik.

Except where noted, production volumes in this story are from the Alaska Department of Revenue's Tax Division, which reports oil production only by major production centers and provides daily production and monthly averages for the most recent month.

Planned maintenance is also going on at other North Slope fields, including the BP Exploration (Alaska)-operated Lisburne and Prudhoe Bay fields, which had month-over-month production drops of 33.9 percent and 16.4 percent respectively.

Lisburne averaged 18,108 bpd in July, down from a June average of 27,376 bpd (Lisburne includes volumes from Point McIntyre and Niakuk), while Prudhoe Bay averaged 255,220 bpd in July, down from 305,132 bpd in June (Prudhoe Bay production includes satellite production from Aurora, Borealis, Midnight Sun, Orion and Polaris, as well as production from the BP-operated Northstar and Milne Point fields).

Kuparuk almost level

The ConocoPhillips Alaska-operated Kuparuk River field held almost level, down just 0.1 percent. The field averaged 101,985 bpd in July compared to 102,095

The ConocoPhillips Alaska-operated Kuparuk River field held almost level, down just 0.1 percent.

bpd in June. Kuparuk includes production from satellites at Tabasco, Tarn, Meltwater and West Sak, as well as production from the Nikaitchuq and Ooguruk fields.

Production information for the Eni-operated Nikaitchuq field and the Pioneer Natural Resources Alaska-operated Ooguruk field is only available on a month-delay basis from the Alaska Oil and Gas Conservation Commission, which reports both by individual field and by pools within each field.

For June, Nikaitchuq averaged 6,962 bpd, down 2.6 percent from a May average of 7,146 bpd, while Ooguruk averaged 8,122 bpd, down 18.3 percent from a May average of 9,938 bpd.

The BP-operated Endicott field averaged 9,768 bpd in July, up 35.3 percent from a June average of 7,319 bpd. Endicott production includes production from the Savant-operated Badami field. AOGCC figures for June show Badami averaging 1,401 bpd, down 8.7 percent from a May average of 1,535 bpd.

Cook Inlet down 3.6 percent

Volumes reported by AOGCC for June production in Cook Inlet averaged 10,222 bpd, down 3.6 percent from a May average of 10,600 bpd.

Only three Cook Inlet fields average more than 1,000 bpd: the Hilcorp-operated Granite Point field, which averaged 2,241 bpd in June, up 1.8 percent from a May average of 2,201 bpd; the Hilcorp-operated McArthur River field, which averaged 3,639 bpd in June, down 9.7 percent from a May average of 4,030 bpd; and the XTO-operated Middle Ground Shoal field, which averaged 2,193 bpd in June, down 7.9 percent from a May average of 2,381 bpd.

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

Contact Kristen Nelson
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INTERNATIONAL

2nd Cuban offshore oil well also a bust

A second deepwater exploratory well in the Gulf of Mexico has proved a bust, Cuba's state oil company announced Aug. 6, dealing another blow to the island's dreams of petroleum riches.

The drilling operation carried out by PC Gulf, a subsidiary of Malaysia's Petronas, and Gazpromneft of Russia, concluded July 31 off the western province of Pinar del Rio, Cuba's state oil company Cubapetroleo said in a statement.

Analysis of the findings revealed an "active petroleum system that could extend to other parts of the four blocs contracted by PC Gulf and Gazpromneft, and even beyond their limits," read the statement, which was published by Communist Party newspaper Granma.

"Nevertheless, at that point the rocks are very compact and do not have the capacity to deliver significant quantities of petroleum and gas," it continued, "so it cannot be qualified as a commercial discovery."

For a cash-strapped country hoping for an economic lifeline, it is the second disappointment this year after an exploratory well sunk by Spanish company Repsol came up dry in May. Repsol later announced that it was opting out of its contract to drill a second well. Cubapetroleo said PC Gulf and Gazpromneft will study the geologic information gained from drilling the 15,300-foot well to evaluate the potential of other parts of the four blocs they have contracted.

The Scarabeo-9 drilling platform now passes to Venezuelan state oil company PDVSA for another attempt off the island's western tip. The platform can drill in Cuba without triggering sanctions under the U.S. embargo because it was built with less than 10 percent U.S.-made parts.

Sonangol of Angola has an option to drill next, but after that the Scarabeo-9 is under contract to drill off Brazil with no word on when it might again be available to return to Cuban waters.

—ASSOCIATED PRESS

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Rick McAuliff, Project Manager

Rick McAuliff joined CH2M HILL in April 2012 as a project manager in support of the Operations and Maintenance Services group. Beginning his 26-year career in the construction industry as an apprentice, he worked his way up to general foreman then transitioned to management. He lives in Wasilla with his wife of 23 years and three children, fulfilling his childhood dream of living and working in Alaska.



Rick McAuliff

FORREST CRANE

Usibelli Coal Mine Inc.

Founded in 1943 by Emil Usibelli, Usibelli Coal Mine Inc. is located in the mountains of the Alaska Range, near the town of Healy, Alaska. UCM has a work force of about 130 employees, and operates year-round. Mine production has grown from 10,000 tons in 1943 to an average above 2 million tons of coal per year; the Healy mine is currently the only operational coal mine in Alaska.

Bob Pearson, Electrical General Foreman

In May 2012 Bob Pearson joined UCM with more than 20 years experience in process controls, electrical and instrumentation and an eye for detail in everything he does.

During his time off Pearson enjoys archery, filming and photographing the outdoors, hiking and most outdoor activities, and serving God is very important to him. He resides in Healy with his wife and youngest daughter.



Bob Pearson

COURTESY PHOTO

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

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EXPLORATION & PRODUCTION

US rig count increases by 6 to 1,930

The number of rigs actively exploring for oil and natural gas in the U.S. rose by six the week ending Aug. 3 to 1,930 from the previous week. The count had fallen for three consecutive weeks.

Houston-based oilfield services company Baker Hughes Inc. reported that 1,429 rigs were exploring for oil and 498 were searching for gas. Three were listed as miscellaneous. A year ago, Baker Hughes listed 1,920 rigs.

Of the major oil- and gas-producing states, Oklahoma gained six rigs, and Texas rose by five. New Mexico increased by three, and Alaska was up two. West Virginia jumped by one.

North Dakota lost four rigs, Pennsylvania dropped three and Colorado two. Arkansas, California and Louisiana each lost one rig. Wyoming was unchanged.

The rig count peaked at 4,530 in 1981 and bottomed out at 488 in 1999.

—ASSOCIATED PRESS

Of the major oil- and gas-producing states, Oklahoma gained six rigs, and Texas rose by five.

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UPSTREAM OUTLOOK

crisis.

“But we’re cautiously optimistic about activity levels staying at or around the 2011 well count, with activity more weighted towards liquids-rich gas and oil,” he said.

Salkeld said the revised forecast includes “positive numbers with regard to efficiency in the patch,” with the average well exceeding 6,600 feet in depth while the average operating days per well are expected to drop by 7 percent.

PSAC is basing its latest predict on average natural gas prices of C\$2.50 per thousand cubic feet and US\$90 per barrel for West Texas Intermediate.

Drillers stick with May numbers

The Canadian Association of Oilwell Drilling Contractors is sticking with its May forecast of 11,834 wells, which was trimmed by 7 percent from its initial forecast of 12,672 wells made last November.

CAODC President Mark Scholz said his member companies are troubled by the latest analyst predictions of continued depressed commodity prices extending into 2013.

“There is a tremendous amount of uncertainty in the market right now and that may or may not affect projects coming into the fourth quarter,” normally the start of Canada’s peak drilling season, he said.

“We have reports of up to a 20 percent reduction in capital expenditures in the final quarter,” Scholz said.

Gary Leach, executive director of the Small Explorers and Producers Association of Canada, agreed there could be an overall pullback in drilling for the balance of 2012.

“The larger trend to watch will be the

extent to which the usual recovery in drilling activity over the summer is moderated due to producers cutting spending.

“A number of junior and intermediate producers have already cut their previously announced capital spending for this year and if the uncertainty persists, and if larger operators follow suit, then drilling activity will be negatively impacted,” Leach said.

However, Salkeld noted that some producers are less affected as they embark on multi-well pads, especially to target liquids-rich gas.

Institute: no gas price recovery

Peter Howard, president of the Canadian Energy Research Institute, told a conference in July that with no sign of a gas price recovery in the foreseeable future, the emphasis is all on “efficiency, efficiency, efficiency,” especially the deployment of multi-well pads.

He estimated that a single well off a pad would have a supply cost of C\$5 per thousand cubic feet, “which is not going to market too soon,” but operators who drill upwards of five wells per pad could achieve a supply cost saving of up to 30 percent.

Howard said companies such as Encana, Birchcliff Energy and Advantage Oil & Gas are moving towards multi-well pads, but 75 percent of the horizontal wells licensed in Alberta remain listed as single holes.

Howard said CERI has also calculated that, at a gas price of C\$2 per thousand cubic feet, a well yielding 60 barrels of oil for every 1 million cubic feet of gas “makes economic sense” and at 120 barrels per 1 million cubic feet the gas would actually be free. ●

Contact Gary Park through publisher@petroleumnews.com

FINANCE & ECONOMY

Oil above \$93 as China inflation eases

By ALEX KENNEDY

Associated Press

Oil hovered above \$93 a barrel Aug. 9 in Asia as lower inflation in China reinforced expectations for more stimulus measures to boost waning economic growth.

Benchmark crude was up 14 cents to \$93.49 a barrel at late afternoon Singapore time in electronic trading on the New York Mercantile Exchange. The contract fell 32 cents on Aug. 8 to settle at \$93.35 in New York.

In London, Brent crude was down 29 cents at \$111.85 on the ICE Futures exchange.

Crude has surged from below \$78 in late June amid hopes that policymakers in the U.S., Europe and China will soon implement monetary and fiscal stimulus measures to help reverse slowing economic growth.

Lower than expected non-OPEC crude production and recent pipeline and refinery accidents have also helped push prices higher.

China on Aug. 9 said its inflation rate fell further in July, giving the government more room to stimulate growth amid mixed signals about whether the world’s second-largest economy is recovering from a painful slowdown.

Analysts are also closely watching

China on Aug. 9 said its inflation rate fell further in July, giving the government more room to stimulate growth amid mixed signals about whether the world’s second-largest economy is recovering from a painful slowdown.

political upheaval in Syria. While Syria is not a major crude producer, its chaotic civil war could undermine stability in its neighbors, which include oil heavyweights Saudi Arabia, Iran, Iraq and Kuwait.

“Oil markets remain choppy, but the strong six-week uptrend remains in place,” Barclays energy analyst Paul Horsnell said. “Syria represents a severely complicating factor for Middle East geopolitical issues, with a high potential for spillovers and intensification of other issues.”

The U.S. was scheduled to report weekly initial jobless claims, its June trade balance and wholesale inventories data for June later Aug. 9.

In other Nymex trading, wholesale gasoline futures were down 0.7 cent at \$2.97 a gallon and heating oil was steady at \$3.02. Natural gas was down 3 cents at \$2.90 per 1,000 cubic feet. ●





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BROWER SPEECH

world through a different cultural lens, and sometimes that has led others to a conclusion that we are anti-development," Brower said. "Let me assure you that this is simply not the case."

Borough support

In fact, the borough can help oil and gas development in a number of ways: in the streamlining of the permitting process; in long-term planning; in the training and mentoring of local people to enter the industry workforce; and in ensuring responsible development, avoiding negative impacts, Brower said.

The borough has accommodated and supported National Petroleum Reserve-Alaska development, other than in the area around Teshekpuk Lake; the borough is increasing its planning capacity to assist that development and is developing a new digital-map-based permit tracking system; the borough has parcels of land for development as gravel sources; and the borough is beginning the permitting and planning for a new fiber optic service into NPR-A for Chukchi Sea development, Brower said.

Much to do

When it comes to North Slope shale oil development, a possibility being researched by Great Bear Petroleum through a test drilling program, there is much to be done to make the North Slope communities comfortable with what may lie ahead. In particular, while the borough "wholeheartedly" supports Great Bear's efforts to determine whether oil can be commercially extracted from North Slope source rocks, the scale and intensity of shale development is new to the North Slope, Brower said.

"If shale development becomes a reality we will push you to minimize your footprint," Brower said. "We will push hard to protect freshwater resources. We will push for the design and routing of pipelines to have the least possible impact on caribou migration and subsistence activities. And we will insist that there will be job opportunities for local residents."

Seat at the table

And, for shale oil and any other development, a key concern for the borough is to have a seat at the table during development planning, Brower said.

The borough has learned that a task force with representatives from state agencies has already been meeting to evaluate what

might be involved in North Slope shale oil development, Brower said.

"If this preplanning is going to be successful the North Slope Borough needs to be part of the process as well," she said. "We understand this is a state government task force, but imagine setting the table and not inviting the host to the dinner."

The people of the North Slope are the experts on the Arctic environment, having subsisted off the land and ocean for thousands of years; they have the necessary experience to assess potential industrial impacts. People are eager to share their experience and to work collaboratively, but not to be overrun as an afterthought, Brower said. Brower particularly cited the Arctic Policy Commission, newly formed by the State legislature, as an institute for promoting Arctic dialogue.

Revenue sharing

Another major concern revolves around the equitable sharing of oil and gas revenues with North Slope communities.

The North Slope Borough has twice had to take litigation to the state's Supreme Court to protect its rights to collect its share of tax on oil and gas properties in the face of interpretations of a tax cap provision in state statutes, Brower said. The oil industry has

successfully lobbied against the removal of the tax cap, despite the fact that removal of the cap would not have impacted industry tax liabilities, she said.

"When questioned on why they opposed it, all they would say is it scares us. Well, let me tell you this: oil and gas development scares us," Brower said, adding that she and her staff are always willing to sit down and discuss the tax issue with the oil companies.

"You have asked us to work with you in achieving your goals. Now I ask you to work with us in achieving ours," Brower said, addressing oil industry executives attending the conference.

Cultural impact

A third key concern for the borough and its constituents is the impact of an ever-expanding North Slope oil infrastructure on the cultural identity of the North Slope communities. And in addressing this particular issue, community leaders have been flexible, recognizing that there are no simple "yes" or "no" solutions to the complexities of the modern world, Brower said.

"Our leaders engaged with those who had competing interests, and they and we adapted," Brower said. "Rather than fighting the inevitable advancement of Western culture, they chose to participate in modern life and the corporate world, and created the North Slope Borough, the Arctic Slope Regional Corp., the Alaska Eskimo Whaling Commission and many other organizations, programs and corporations that now protect and sustain our people. Adapting is not a threat to our culture; it is what we have done to protect it."

With "subsistence," the word that refers to traditions at the heart of the Native culture, being an awkward word to some, people of the borough have coined a new phrase "food security" as another expression that captures the essence of the Arctic hunting tradition, Brower said. Subsistence and food security are not just a way of life: They define the Native people and hold families together, Brower said, describing how her five-year-old grandson's eyes light up at the prospect of whaling like his father's, and recounting the annual tradition of preparing for living through the dark nights of winter.

Understanding needed

"When we express a concern regarding a new project, it's for the same reasons that any other community might have when a resource company wants to drill in their backyard," Brower said. "These concerns need to be addressed in the analysis that precedes a project. It takes time to create a level of trust between parties with different cultural and economic perspectives. By making an investment of time, agencies and companies send the message that they're not just in it for oil; they also understand and honor the values that connect the Inupiat to the land and sea."

The North Slope Borough has just celebrated its 40th anniversary, under a theme of "unity then, unity now, 40 years strong," Brower said. It is now crucial that the residents of the North Slope continue to work together to ensure sound and safe oil and gas development, maintaining a balance between the benefits of development and the need for social and cultural wellbeing, while also recognizing the need for U.S. domestic sources of energy.

Brower pledged to work with the state governor, state legislators, the congressional delegation and industry to find that necessary balance.

"Let's look for common ground, common purpose. ... Our common interests are greater than our differences," Brower said.

—ALAN BAILEY



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SHELL DRILLING

region of its drilling locations coupled with delays in the completion of modifications to the Arctic Challenger have delayed the start of the drilling project.

“Sea ice is still bordering our Chukchi prospects and is still quite persistent in the Beaufort,” Smith said in his Aug. 8 email.

Because of the delays, Shell says that it is scaling back its drilling plans to just one well in its Chukchi Sea Burger prospect and one well in its Beaufort Sea Sivulliq prospect this year — the company had planned to drill up to three wells in the Chukchi and up to two wells in the Beaufort. However, the company plans to drill the top-hole sections of some additional wells, to gain a head start on next year’s drilling program.

Arctic Challenger

Shell contractor Superior Energy is retrofitting the Arctic Challenger in Seattle with Shell’s new Arctic oil containment system, designed to gather oil from a leaking wellhead in the unlikely event of a subsea well blowout. Upon completion of the modifications, the barge will require Coast Guard certification, to ensure that the vessel can be operated safely for its intended purpose.

Following an agreement with the Coast Guard in July, the Coast Guard is applying the safety standards for a mobile offshore drilling unit for the certification.

Approval of Shell’s drilling permits by the Bureau of Safety and Environmental Enforcement is apparently contingent on certification of the containment barge.

In an Aug. 6 email Cmdr. Christopher O’Neil of the U.S. Coast Guard told Petroleum News that a stability test of the vessel was successfully completed on Aug. 2 and that the Coast Guard was evaluating the results. Certification of the vessel involves verifying about 400 inspections and review items relating to factors such as the design, construction and installation of safety, structural, electrical and other systems and subsystems, O’Neil said. The timeline for the certification depends on how quickly Shell, Superior Energy or the shipyard can furnish the necessary information to the Coast Guard, as the work on the vessel is completed, O’Neil said.

“The Coast Guard cannot speculate as to how long it will take for the Arctic Challenger to receive a certificate of inspection. What I can tell you is that we continue to provide marine inspectors to attend the vessel as construction and systems are completed and made ready for our inspection,” O’Neil wrote, adding that the Coast Guard’s prime concern is the preservation of life at sea.

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RIG RESOLUTION

year, and I want to thank them for their perseverance, their dedicated work and their safety performance.”

BP says deal reached

Dawn Patience, spokeswoman for BP Exploration (Alaska) Inc., provided Petroleum News a brief statement on Aug. 8.

“BP has reached an agreement with Parker on the two rigs and we are working to incorporate the rigs into our existing fleet,” the statement said.

Parker is trying to re-enter the Alaska market after an absence of several years. But the re-entry hasn’t been easy.

In addition to the issues with rigs 272 and 273, it encountered serious problems with a giant, extended-reach drilling rig built for BP’s proposed Liberty offshore oil development. BP in June suspended the project, citing the need for “substantial modifications” to the rig as a key factor in the decision.

A BP Alaska spokesman said in August 2011 that the Parker-owned 272 and 273 rigs were part of the oil company’s effort to modernize its North Slope drilling fleet. BP operates giant Prudhoe Bay and several other oil fields on the Slope.

Parker refers to the Alaska rigs as Arctic Alaska Drilling Units, or AADUs.

In a Jan. 17 press release, Parker touted the rigs as “a new class of drilling rig that incorporates some of the most advanced features available in the global land rig market, including a safety-engineered, state-of-the-art equipment package; a highly automated drilling system; zero-discharge capabilities; and a modular design allowing the entire rig to transport itself in three, fully enclosed mobile units.”

But the main purpose of the press release was to announce that completion of the rigs had been delayed to allow the company to modify them to “meet their design and functional requirements.”

The press release referred to the rigs as “prototype drilling rigs.”

Liberty rig remarks

Kirk Brassfield, Parker’s chief financial officer, said during the conference call: “We expect there will be some months ahead in which we will have little or no revenues from these rigs.”

Revenues will be generated only after BP accepts each rig, and the rigs move on location and begin operations, Brassfield said.

That’ll be toward year’s end or in early 2013, he said.

“We currently estimate our overall capital cost for the ... rigs will be approximately \$400 million, including capitalized interest,” Brassfield said.

In the January press release, Parker had estimated the cost of the two rigs at completion would be \$385 million, including capitalized interest.

Brassfield also touched briefly on the subject of the Liberty rig built for BP, and BP’s decision to suspend that project.

“While we had hoped we would be in line to operate that rig once it was ready for drilling, BP’s announcement does not impact any of our current activity, nor does it affect the expectations for our AADU rig deployment,” he said.

As for Parker’s fortunes overall, CEO Parker said “we expect reduced levels of revenues and earnings until markets strengthen and our initiatives in Alaska and internationally begin to take effect.” ●

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Air permits

Before Shell can start drilling in the Chukchi Sea the company also needs approval by the Environmental Protection Agency of requested modifications to the air permit for the Noble Discoverer, the drillship that the company plans to use for its Chukchi Sea wells. EPA has yet to announce any decision on Shell’s request. The agency has said that changes to the permit require a public review but Shell has said that it is working with the agency to obtain a compliance order, enabling the company to continue with its 2012 drilling pending a full review of the permit. Apparently the requested changes do not cause the total emissions from Shell’s operations to exceed permitted levels.

The requested permit changes include an increase to the permitted emissions of particulates from the engine exhaust of the Nanuq, Shell’s purpose-built, ice-capable oil spill response vessel. On Aug. 6 Shell told EPA that, although Shell is requesting an increase to the particulate limit for the Nanuq, recent testing has shown that a smaller increase is required than originally thought.

Shell has also requested some changes to the air permit for the Kulluk, the floating drilling platform that the company plans to use in the Beaufort Sea. However, under the terms of the Kulluk permit, Shell can use the vessel while EPA is reviewing the change request.

Major upgrades

In 2010 Shell spent around \$25 million upgrading the Noble Discoverer’s exhaust systems, to reduce the vessel’s air emissions. And in June the company completed a \$100 million upgrade to the Kulluk. The Nanuq was purpose built for Shell’s Arctic operations in 2007.

In its application to modify the Noble Discoverer air permit Shell said that it had conducted hundreds of tests on emissions units in the vessel and its support fleet since the issue of the permit and that those tests had revealed issues that warranted additional explanation or permit revisions.

—ALAN BAILEY

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MUSTANG

southwest of the Kuparuk River unit.

Brooks Range Petroleum plans to complete engineering on its standalone facilities this year, lay gravel this coming winter and start building the modular facilities in 2013. The company expects production will begin in the first half of 2014 and peak at 14,000 barrels per day in 2016. Brooks Range Petroleum is estimating a 20-year field life.

Brooks Range Petroleum is exploring and developing the region through a joint venture with the Nabors Industries subsidiary Ramshorn Investments Inc. Brooks Range Petroleum previously estimated it would take “a few hundred million dollars to develop Mustang” and said it needed additional partners to tackle all its North Slope prospects.

A quick turnaround

The joint venture has drilled three penetrations at Mustang in recent years.

The joint venture drilled the North Tarn No. 1 in early 2011 to test targets in the Brookian formation and the deeper Kuparuk formation. Brooks Range

“These estimates confirm commerciality and a favorable rate-of-return to proceed with development.”

—AVCG lead member Ken Thompson

Petroleum estimated at the time the Brookian reservoir contained some 35 million barrels of oil and the Kuparuk reservoir contained an additional 6 million barrels of oil, but said the Kuparuk presented a better bet for initial development because of the complex geology of the Brookian.

North Tarn No. 1 found oil, but well control challenges kept the company from testing the well at the time. The joint venture began a sidetrack, North Tarn No. 1-A, but suspended the well at the end of the winter drilling season. This year, Brooks Range Petroleum returned to complete the sidetrack and drill the Mustang No. 1 delineation well.

While the joint venture originally planned to drill as many as three Mustang wells this past winter, it learned what it wanted to learn after just one well and released its rig.

What the companies learned was the deeper Kuparuk sands at Mustang held

more recoverable oil than they originally estimated. “The Kuparuk is good quality sands with excellent pressure and oil flow capability,” Thompson told Petroleum News in April.

At the time, the company announced a 40 million barrel oil discovery at Mustang, estimating the field could produce for 15 years and peak at 13,500 barrels per day.

And while the oil shows in the Brookian sands were of “lower permeability than anticipated,” Brooks Range Petroleum plans to test ideas for the formation during development. Those ideas include long horizontal wells completed with fracturing or recompleting depleted Kuparuk producing wells into the Brookian using horizontals.

Additionally, Brooks Range Petroleum wants to explore a potential Kuparuk formation extension to the northwest called Appaloosa that could add reserves and field life.

Exploration still a focus

With a successful development plan, Mustang would make Brooks Range Petroleum a producer after more than a decade as one of the most prolific explorers in Alaska.

And while Thompson estimated that

some 80 percent of future capital would go toward developing proved oil reserves, the company still plans to remain an active explorer.

Brooks Range Petroleum currently operates five North Slope units — Southern Miluveach, Kachemach, Tofkat and Putu in the fairway between the Kuparuk River unit and the Colville River and Beechey Point in the Gwydyr Bay region north of the Prudhoe Bay unit. And it’s waiting for approval of a sixth, the proposed Telemark unit over leases on the eastern North Slope, in the area south of the Badami and Point Thomson units.

This coming winter, Brooks Range Petroleum plans to drill a delineation well and a sidetrack in the Tofkat unit, offsetting the discovery it made with the Tofkat No. 1 well.

The wells would test 3-D seismic anomalies in the Brookian formation, confirm the size of the previous discovery in the Kuparuk and test the deeper Jurassic by “offsetting two high flow rate Jurassic wells in ConocoPhillips’ Nanuq Field area,” Thompson said.

In early 2008, Brooks Range Petroleum drilled the Tofkat No. 1 well and two sidetracks east of Nuiqsut. The well collected 10 oil samples from four different sandstone reservoirs and found six feet of net pay in the Kuparuk formation, the deepest zone tested. The company also acquired 210 square miles of 3-D seismic over the prospect.

Brooks Range Petroleum is also planning an exploration well this winter into the Kuparuk formation at Beechey Point “in an area where we think there is a Midnight Sun field lookalike,” Thompson said, referring to the western Prudhoe Bay satellite.

Decisions pending

The joint venture also plans to spend the coming months finalizing geology and seismic evaluations to assess between three and six potential exploration wells in the Putu, Kachemach and proposed Telemark units. “Decisions on proceeding — or not proceeding — with some or all of these wells will be made in the next few months and will be based on working interest owners’ technical and capital budgeting priorities,” Thompson said.

While six units would make Brooks Range Petroleum the most active operator on the North Slope — by comparison, the global giant BP operates “just” five North Slope units — Thompson believes the company can continue geoscience and engineering work on all six simultaneously and stagger its operations year by year to meet its work commitments.

“The state has allowed us to time various work over the next few years to manageable levels each year for development and exploration, although some exploration locations might be better technically with less chance of being dry holes if drilled in 2014 after seeing results from exploration wells in 2013,” Thompson said. “We plan to talk to the state about this as they are also exposing exploration risk dollars via their tax credits.”

But, Thompson added, “After further geosciences’ review and prioritizing the capital budget, working interest owners may also elect to not proceed with certain unit commitments, and if so, will drop units if that is deemed the best business decision.”

Additionally, the joint venture is evaluating what to do about the roughly 40,000 of its 161,000 gross acres not held by units. Some of those leases are set to expire this fall, and others would expire in subsequent years, if the companies don’t drill and form units. ●

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