BP Alaska to conduct groundwork for possible Liberty development

BP Exploration (Alaska) Inc. is preparing for its second consecutive season of geotechnical drilling in the vicinity of its Liberty oil discovery offshore the North Slope, east of the Endicott field.

Geotechnical drilling doesn’t seek to find oil and gas. Rather, it is something done in advance of a construction project.

Whether BP will actually construct an oil development at Liberty remains to be seen. The company in 2012 experienced a serious setback when it was forced to drop an ambitious plan to tap the offshore reservoir from shore with ultra extended-reach drilling.

BP drilled and tested the Liberty No. 1 discovery well in early 1997. The company’s most recent publicly stated resource estimate for the Liberty field is “approximately 150 million barrels of recoverable, high-quality light oil.”

BP now favors building an artificial island in the Beaufort Sea to develop Liberty, with a subsea pipeline carrying the oil ashore.

The Interior Department has given the company until the end of 2016 to gain public attention started down a different path Jan. 12 to vie for business.

First Nations ramp up sands dispute

Growing tensions between aboriginal communities and the Canadian and Alberta governments are facing a showdown that could see development of northern Alberta’s oil sands region tied up indefinitely in legal and civil action.

The aboriginal campaign to gain public attention started down a different path Jan. 12 when Canadian singer-songwriter Neil Young held the first of four fund-raising concerts across Canada.

“The important thing is that we have — the water and the land for our children.” — Chief Martin Louie of British Columbia’s Yinka Dene Alliance.

That will be followed on Jan. 23 and 24 when the Fort McKay First Nation hosts a conference to air concerns about environmental impacts, industry practices and the failure to resolve treaty and aboriginal rights.

Fort McKay is seeking permission from the Alberta Court of Appeal to challenge the Alberta Energy Regulator’s, AER, approval of the Dover Commercial Project by Albianas Oil Corp., AOC.

Dover and the nearby McKay River Commercial Project will be operated by Brion Energy, a partnership of AOC and Phoenix Energy, wholly-owned by PetroChina, with Dover scheduled to see SANDS DISPUTE page 15.

Competitive world

ConocoPhillips executive says Alaska has much potential but must compete

By ALAN BAILEY

Petroleum News

Saying that his company is excited about Alaska, both in terms of future oil potential and the possibility of exporting liquefied natural gas, Matt Fox, ConocoPhillips executive vice president, exploration and production, told the Alaska Support Industry Alliance Meet Alaska conference Jan. 10 that the Alaska oil industry must compete for investment capital in a world that is seeing a shale oil revolution and where multiple gas projects are lining up to vie for business.

Fox said that Alaska represents about 16 percent of ConocoPhillips’ worldwide production.

“ConocoPhillips we’re very committed to Alaska,” Fox said. “It’s strategically very important to us. . . . There is a lot of development potential remaining.”

But Fox attributed a new upsurge in interest in ConocoPhillips’ investment in Alaska to recent reform in the state’s oil production tax system.

Fox said that Alaska represents about 16 percent of ConocoPhillips’ worldwide production.

AIDEA chooses MWH

Global infrastructure firm would contribute $85M to North Slope LNG project

By ERIC LIDJI

Petroleum News

The Interior Energy Project aims to provide a long-term supply of natural gas to the Interior at prices 40 to 50 percent below fuel oil by late 2015.

The state is starting negotiations with MWH Americas Inc. to build a liquefied natural gas facility on the North Slope that would serve households across the Interior.

The board of the Alaska Industrial Development and Export Authority unanimously chose the global energy infrastructure firm for the project to go toward expanding the distribution grid in the Interior, which would increase the customer base for the LNG plant, according to AIDEA staff.

The AIDEA staff also recommended MWH because of its ability to fund plant expansions and distribution infrastructure, its “considerable technical resources and major project development experience” and its ability to work with customers in the see LNG PARTNER page 15.

Equity for state

Legislature asked to approve agreement on LNG project, TransCanada MOU

By KRISTEN NELSON

Petroleum News

Alaska Gov. Sean Parnell has the state moving ahead on a direction he took in 2011 when he asked the North Slope producers and TransCanada to work cooperatively on a liquefied natural gas project for Alaska’s natural gas.

The state is also moving ahead based on a study the Department of Natural Resources conducted by Black & Veatch which found that a state equity position in an LNG project would benefit the state and the producers.

Parnell told the Alaska Support Industry Alliance Meet Alaska conference Jan. 10 that the state was working with the producers — BP, ConocoPhillips and ExxonMobil — and TransCanada on a proposal for the LNG project which would include a state equity position, a direction the Legislature would be asked to approve in its upcoming session.

And part of moving ahead on a cooperative LNG project was moving beyond the Alaska Gasline Inducement Act, AGIA.

Parnell said the state had amicably agreed with see EQUITY POSITION page 18.

A weekly oil & gas newspaper based in Anchorage, Alaska

Week of January 19, 2014 • $2.50
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**Alaska - Mackenzie Rig Status**

**North Slope - Onshore**

- **Dayco Drilling**
  - Drillco 1210 (14 SCR/CTD) Prudhoe Bay: HS-28, workover (BP)
  - Drillco 1000 LE (10 SCR/CTD) Prudhoe Bay: MP-39, workover (BP)
  - Drillco 2000 Lebed (19 SCR/CTD) Alpine CDR-490 (ConocoPhillips)
  - Drillco 2000 (14 SCR/CTD) Kuparuk 2E-04 (ConocoPhillips)

- **Kazikpik**
  - 5 Waiting on ice paid for Umiak (Linc Energy Operations Inc. 2014)

**North Slope - Offshore**

- **BP Top Drive**
  - Liberty rig: Active (BP)

- **Doyon Drilling**
  - Sky top Brencher NE-12 (1 SCR/CTD) Spy Island 14-N6 (ENI)

**Mackenzie Rig Status**

**Canadian Beaufort Sea**

- **SDC Drilling Inc.**
  - SDC CANMAR (32 SCR/CTD) Lebeid #2: Set down at Roland Bay (Available)

**Central Mackenzie Valley**

- **Akita**
  - TSM-700 (37 Racked in Norman Wells, NT) (Available)

---

**The Alaska - Mackenzie Rig Report as of January 16, 2014.**

**TD** = rigs equipped with top drive units.

**WO** = workover operations.

**CT** = coiled tubing operation.

**SCR** = electric rig.

This rig report was prepared by Marti Reeve.

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**Baker Hughes North America rotary rig counts**

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<td>Gulf</td>
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**Highest/Lowest**

- US/Highest: 4300 (December 1981)
- US/Lowest: 489 (April 1999)
- Canada/Highest: 558 (January 2000)
- Canada/Lowest: 29 (April 1992)

*Issued by Baker Hughes since 1944*

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**The Alaska - Mackenzie Rig Report is sponsored by:**

**ARMSTRONG**
EXPLORATION & PRODUCTION
AOGCC issues two Repsol permits

The Alaska Oil and Gas Conservation Commission recently issued permits for Repsol E&P USA Inc. to drill two exploration wells on the North Slope, according to records.

The AOGCC issued permits for the Qugruk No. 5 and Tuttu No. 1 wells on Dec. 26.

The Qugruk No. 5 well on ADL 391452 will appraise the discovery the company made last year at the Qugruk prospect near the Beaufort Sea coast. The Tuttu No. 1 on ADL 391443 will be an exploration well in the Schrader Bluff/Weik area near the Kuparuk River unit. Previous exploration efforts in the region called the prospect Rock Flour.

Repsol recently hired Global Geophysical Services Inc. to shoot 3-D seismic this winter over some 293 square miles in the Schrader Bluff area south of the Kuparuk River unit. Repsol previously announced plans to drill a third well this winter. The proposed Qugruk No. 7 well would also appraise the hydrocarbon discoveries near the Beaufort Sea.

—A copyrighted oil and gas lease map from Mapmakers/Alaska was a research tool used in preparing this story.

The AOGCC issued permits for the Qugruk No. 5 and Tuttu No. 1 wells on Dec. 26.

BY GARY PARK
Petroleum News

The zone is seen as doubly attractive as it could provide back LNG export projects and because it is rich in condensates such as propane and butane.

The Montney is not without hope, given its large-scale transactions such as the takeover of Progess Energy by Malaysia’s Petronas for C$6 billion to underpin its Pacific Northwest LNG project, followed in January by a deal by Repsol to acquire Montney lands from Talisman Energy for C$1.5 billion. Earlier deals saw Encana reach a C$2.9 billion commitment with Japan’s Mitsubishi and ExxonMobil’s C$3.1 billion buyout of Caelus Exploration.

M&A activity down sharply

But the sharp decline in merger-and-acquisition activity is another reality, with ATB Financial reporting that oil and gas deals last year hit their lowest level since 2007, with 89 transactions reported at a value of C$8.9 billion, with prices per barrel of oil equivalent production at C$58.769 last year, compared with C$73.400 in 2012 and C$53.271 in 2007.

But analysts said much of the downturn was attributable to limits the Canadian government has imposed on foreign state-owned companies acquiring oil assets and oil production.

With oil majors unwilling to lessen their purse strings to buy assets in the face of low commodity prices and keen competition from U.S. basins, oil and gas M&A dropped 80 percent last year to US$10.2 billion — considerably more than the TD deal estimated compared with US$50 billion in 2012, according to IHS Herold.

Christopher Sheehan, director of M&A research at IHS Herold, told the National Post that a key reason for the downturn was “persistently weak natural gas prices” and the fact that global energy giants punted US$200 billion in shale and other unconventional resources over the past three years, even though unconventional transactions dropped by more than half last year to US$40 billion.

M&A activity down sharply

Analysts suggested the failure to negotiate a deal reflects the inability of junior companies to secure financing for a big capital project, even though they are the obvious buyers when majors unload assets.

The zone is seen as doubly attractive as it could provide back LNG export projects and because it is rich in condensates such as propane and butane.

The concern now is whether majors in the Montney will start delaying or shelving their exploration plans, although TD Securities said it expects companies such as ARC Resources, Encana, Tourmaline Oil, Advantage Oil & Gas, Birchcliff Energy and Paramount Resources to continue raising production and reserves.

Financing may be issue

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The zone is seen as doubly attractive as it could provide back LNG export projects and because it is rich in condensates such as propane and butane.

The concern now is whether majors in the Montney will start delaying or shelving their exploration plans, although TD Securities said it expects companies such as ARC Resources, Encana, Tourmaline Oil, Advantage Oil & Gas, Birchcliff Energy and Paramount Resources to continue raising production and reserves.
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By STEVE QUINN
For Petroleum News

Discussions on marketing Alaska's natural gas will be on the forefront, and Fairclough’s committee is looking to a pair of familiar names for assistance.

They are Janak Mayer and Nikos Tsafos, formerly of PFC Energy. The two will be paid $25,000 each to be available to the Legislature on a limited basis, plus $13,000 for living expenses.

Fairclough, an Eagle River Republican, discussed how this session could easily be pivotal for advancing a gas pipeline and getting the state's gas to market.

Petroleum News: Let's start with the consultants. So what do you like about these two?

Fairclough: Janak has a history with the Legislature and is trusted. He originally came under contract with the Senate Bipartisan Working Group (previous Senate majority). The way they conduct themselves, in my opinion, is trusted by the House and the Senate. We used them this past legislative session when we were modeling the oil tax issue. We have those overviews there, but it's a lot of information. That information came across an entire week's worth of investment in the Legislature staff time.

So we want to make sure that they produce for the Legislature and for the general public in Alaska a work product that Alaskans can know that politics aren’t involved in this and know that this is a global market and that it functions very differently than oil.

What I want is an overview of the gas symposium so that’s available to the general public in a much more consolidated manner. Sort of a 101 on the difference between oil and gas. During the symposium they made the audience laugh, (saying) oil is like speed dating and gas is like a long-term commitment. He gave a perfect parable on that. Gas is something that is going to require Alaskans to sign into a long-term agreement at a fixed price to secure contracts like a utility company does. So if you’re Einstar, you are looking for 10- and 20-year contracts. If Alaska wants to sell this particular commodity and export it — whether oil or gas — on the water and ship it as far away as Japan and China. But there are other cost factors involved in getting to Alaska’s gas that other nations don’t face. Nikos and Janak and others from PFC asked why would any corporation choose Alaska’s project over more easily accessed gas. So why wouldn’t they go to Texas or somewhere on the West Coast where transportation

Petroleum News: Do you see LB&A holding hearings? It’s not uncommon for LB&A to take the lead on energy issues during session as well as the interim like with the symposium.

Fairclough: I’m not sure. Right now I’ll be managing this. Both resources committee chairs have told me they are interested in showcasing the differences the gas symposium conversation brought up. It suggested Alaska can compete within pennies of transportation costs to Asia. We can compete if we place our asset — our natural gas — on the water and ship it as far away as Japan and China.

But there are other cost factors involved in getting to Alaska’s gas that other nations don’t face. Nikos and Janak and others from PFC asked why would any corporation choose Alaska’s project over more easily accessed gas. So why wouldn’t they go to Texas or somewhere on the West Coast where transportation

Charges may be similar? Why would they go to Alaska?

What they gave us was a model that showed us different places where different types of businesses invest along the value chain, or the production chain. So let’s start at the very end of the market. Alaska could invest by building ships, so we could do that and create a rate of return every time a barge sailed. If we owned a part of that shipping line it would be a fairly low rate for Alaskans. That means the producers of the gas have already made it into LNG, transported it 800 miles plus and have contracts with people to buy.

If we go up the value chain differently and look at the pipeline, it’s said in the general public, there is a rate of return between 8 percent and 12 percent that is fairly stable or sustainable for pipeline companies. So if you get a qualified pipeline company to partner and Alaska chose to invest in a pipeline, we may be able to guarantee for the residents of Alaska a rate of return and we can share in some of that profit. Again, low risk because that means we have signed gas contracts and we have the transportation in line and are ready to ship. They aren’t going to build a pipeline unless all of that is done.

see FAIRCLOUGH Q&A page 14
Apache applies for seismic authorization

By ALAN BAILEY
Petroleum News

Apache, Alaska Corp. has applied to the National Marine Fisheries Service for an incidental harassment authorization for seismic surveying in Cook Inlet in 2014. The authorization would allow the accidental disturbance of small numbers of marine mammals such as beluga whales during seismic operations. The area where surveying could take place under the terms of the authorization extends out from the coast in the area of Homer and Anchor Point in the southern Kenai Peninsula, and across the entire inlet north from a line extending west from Ninilchik up to an area north of Nikiski.

In 2012 Apache conducted a survey across the more northerly part of the upper Cook Inlet, under the terms of an incidental harassment authorization for that area. Then, in 2013, the company obtained an authorization for surveying to the south of that first area, across a similar area to that envisioned in this year’s authorization application. However, the company did not conduct any surveying in 2013 and, with the authorizations only being valid for a year at a time, the company has presumably had to apply for a new authorization.

Multi-year program

Apache is conducting a major multiyear offshore and onshore seismic survey program in the Cook Inlet basin as part of a search for new oil and gas resources in the basin. In addition to the 2012 offshore survey, the company has conducted some land-based surveying on the west side of Cook Inlet. During an August 2013 earnings call Apache CEO Steve Farris said that, while his company remains positive about the Cook Inlet basin, the company was slowing its exploration efforts in the region following disappointing results from the drilling of a well on the west side of the inlet.

Apache has in the past also expressed frustration with the time required to obtain some of the federal permits that it requires to conduct its Alaska survey operations. The company is conducting its surveys using a state-of-the-art system of wireless, nodal seismic receivers, each of which independently records seismic sound for downloading into a computer system. Offshore, each node is housed in a small, sealed, disk-shaped container that sits on the seafloor. Air guns towed behind a seismic vessel create the seismic sounds that are reflected off subsurface rock strata, to create an image of the subsurface geology.

More than $1.8B invested at Pt. Thomson

By KRISTEN NELSON
Petroleum News

Some $1.8 billion has been invested at Point Thomson through October, Gina Dickerson, ExxonMobil’s senior project manager at Point Thomson, told the Alaska Support Industry Alliance’s Meet Alaska conference Jan. 10, with a total of $4 billion projected by the time the initial production facility goes online in 2016.

The development, the most easterly on the North Slope, is a gas cycling project in the northeast part of the upper Cook Inlet, under the terms of the North Slope and a limited barging season, with no permanent road to Point Thomson and a helipad. With no permanent road to Point Thomson, the Alaska Clean Seas building and maintenance buildings are going in, including the Alaska Clean Seas building and maintenance buildings, as well as well pads and three permanent bridges.

In early 2015 the drill rig will come in by barge, Dickerson said. The total workforce last year — $2014. The authorization would allow the accidental disturbance of small numbers of marine mammals such as beluga whales during seismic operations. The area where surveying could take place under the terms of the authorization extends out from the coast in the area of Homer and Anchor Point in the southern Kenai Peninsula, and across the entire inlet north from a line extending west from Ninilchik up to an area north of Nikiski. Dickerson said. The peak workforce on the North Slope this winter will be about 700, she said. The total workforce last year — $2015, Dickerson said, “and we’ll connect those like Legos to make that gas processing facility.” — Gina Dickerson, ExxonMobil’s senior project manager at Point Thomson

January, Dickerson said. The airstrip was completed in September, replacing what had been just a helipad. With no permanent road to Point Thomson and a limited barging season, “logistics are fairly complicated” and the completion of the airstrip was significant for the project, she said.

This winter the pad will be extended, with gravel haul for that project, and the sealift bulkhead will be finished. Facility modules will be offloaded there when they come in by sealift, she said. Supporting foundations for support buildings are going in, including the Alaska Clean Seas building and maintenance buildings, as well as well pads and three permanent bridges. Vertical support members for the export pipeline were installed last winter, Dickerson said, and the 12-inch export pipeline and five miles of gathering lines will be installed this winter. The export pipeline will connect Point Thomson with an existing line at Badami. A permanent camp also went in last year.

The peak workforce on the North Slope this winter will be about 700, she said. The total workforce last year — $2015, Dickerson said, “and we’ll connect those like Legos to make that gas processing facility.” — Gina Dickerson, ExxonMobil’s senior project manager at Point Thomson

In early 2015 the drill rig will come in and work will be done preparing the pads for the modules. Three wells are planned, one production well and two injection wells, all directionally drilled. The gas processing facility modules will come in by barge in the summer of 2015, “and we’ll connect those like Legos to make that gas processing facility.” — Gina Dickerson, ExxonMobil’s senior project manager at Point Thomson

The gas processing facility modules will come in by barge in the summer of 2015, “and we’ll connect those like Legos to make that gas processing facility.” — Gina Dickerson, ExxonMobil’s senior project manager at Point Thomson
A new study from the U.S. Geological Survey finds much greater geothermal energy potential than originally thought on Akutan Island.

Akutan is in the Aleutian chain, just east of Dutch Harbor. The island is home to a tiny village as well as the Trident Seafoods Corp. processing plant, one of the country’s largest.

The island also has one of the most active volcanoes in the United States. Interest in Akutan’s geothermal energy potential stretches back decades. Like much of outback Alaska, Akutan is highly reliant on expensive and polluting diesel fuel to generate electricity.

In July 2012, USGS field researchers conducted a five-day survey of the hydrothermal system on Akutan Island.

“The results of our study confirm the existence of a substantial geothermal resource on the island,” says a USGS report released Jan. 9.

27 eruptions

The Akutan volcano hosts a geothermal system that includes a fumarole field on the flank of the volcano, and a series of hot springs that discharge close to sea level on the northeast side of the island, USGS said.

A fumarole is a steam vent. The volcano has erupted at least 27 times since the late 1700s. The most recent eruption was in 1992, followed by a “seismic crisis” in March 1996.

In the past few years, industry-led geophysical studies and test drilling had proven the existence of a geothermal resource, the USGS says.

Reconnaissance surveys of the hot springs on Akutan Island date back to 1953.

“The first detailed geochemical and geophysical investigations to assess geothermal potential occurred during the early 1980s,” the new study says. “Additional investigations at Akutan took place in 1996, several months after the seismic crisis. Studies at Akutan beginning in 2009 were related to renewed interest in geothermal development of the Akutan hydrothermal system for use by the City of Akutan and other population centers on the island.”

During the five-day survey in July 2012, samples of gas and water were collected from the hot springs, and gas was collected from fumaroles on the flank of the volcano and from steaming ground on the cone inside the summit caldera.

Promising results

The geochemistry of the hot springs on Akutan Island was studied in detail for the first time since the early 1980s.

“The results from this study document higher concentrations of hydrothermal components in the hot spring waters and an increase in water discharge from the hot spring system,” the USGS says in a news release on the study. “The current heat output of the hot spring system is estimated at 29 megawatts — nearly ten times higher than measured in the early 1980s. This large increase may reflect the volcanic and seismic events of the 1990s, and if so, it cannot be considered a short-term anomaly. Modern geothermal plants could use this heat to generate several MW of elec-
ConocoPhillips planning two NPR-A wells

The company plans to drill the Rendezvous No. 3 and Flattop No. 1 wells this winter at the federal Greater Mooses Tooth unit

The Rendezvous well is one of four locations ConocoPhillips staked on two leases near the center of the unit in September 2013 to drill Rendezvous No. 3 and in early January for Flattop No. 1.

The Rendezvous well is one of four locations ConocoPhillips staked on two leases near the center of the unit in September 2013 to drill Rendezvous No. 3 and in early January for Flattop No. 1.

In its previously announced 2014 budget, ConocoPhillips included preliminary engineering and permitting for the GMT-1 development and two exploration wells.

A decade at Rendezvous

The Rendezvous prospect is among a group of discoveries from the early 2000s. ... The Flattop prospect is a more recent target.


When the BLM approved the Greater Mooses Tooth unit in 2008, the unit boundaries partially included AA-81798. ConocoPhillips expanded the unit in 2009 to include four leases along the eastern edge: AA-87896, AA-81798, AA-81797, AA-81796 and AA-81795. In October 2012, ConocoPhillips staked a new Flattop No. 1 well location on AA-87896 and also a Flattop No. 2 well on AA-81796, but ultimately drilled neither well.

With the expansion, the BLM required that ConocoPhillips spud an exploration well — targeting the upper Jurassic — on the additional acreage by the third quarter of 2015.

The current Flattop No. 1 well proposal would fulfill that requirement.

—A copyrighted oil and gas lease map from Mapmakers Alaska was a research tool used in preparing this story.

Contact Eric Udall at ericudall@ajc.com

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Land rush slows in Western Canada

By GARY PARK
For Petroleum News

There was a time when Canada’s resource provinces and territories could count on a useful cash infusion — consistently in the billion-dollar-plus range in Alberta, British Columbia and Saskatchewan — from the sale of oil and natural gas land rights.

Not anymore.

Returns across the country slipped to C$992 million last year from almost C$1.4 billion in 2012, with Western Canada’s Big Three raking in the lion’s share at C$980 million.

Alberta collected C$698 million, compared with C$1.12 billion in 2012 and a staggering C$3.5 billion in 2011 — posting its lowest return since C$477 million in 2002.

In the oil sands, Alberta sold only 147,000 hectares last year for a mere C$28 million, compared with the record 1.5 million hectares which fetched C$1.96 billion in 2006.

British Columbia, despite positioning itself as the leading source of gas for LNG exports, auctioned off C$235 million of rights, C$85 billion better than 2012, but far short of the benchmark C$2.7 billion in 2008 from its hot shale and tight gas plays.

Saskatchewan collected a modest C$67 million last year, compared with C$102 million in 2012 and not even close to its take of C$1.2 billion in 2008 when exploration companies started awakening to the Bakken potential.

Among the other regions, Manitoba dropped to C$2.03 million from C$11.3 million, while work commitments contributed C$19.2 million in the Northwest Territories, underpinned by the Canol shale play in the Central Mackenzie Valley, and Saskatchewan added C$4.61 million.

Per-hectare average prices moved in two directions, with Alberta slipping to C$306 from C$334 in 2012, while British Columbia surged to C$1,886 from C$1,020 and Saskatchewan climbed to C$605 from C$266.

Calgary investment bank Peters & Co. said in a recent note that successful bids in Western Canada generated an average C$397 per hectare, compared with C$391 in 2012.

Deals seen as barometer

Land deals are seen as one of the strongest barometers of upstream confidence and company plans for drilling within the next year.

Many factors have contributed to the drop off in overall returns, led in Alberta by a cooling down in the feverish scramble to secure rights in the Duvernay formation, with its high liquids content. Already delivering sweeping budget cuts, the Alberta government is unable to count on land returns to soften those blows.

For the fiscal year ending March 31, 2014, it has been counting on C$1.15 billion from land, but the most recent budget update showed it was C$30 million short of the C$211 million in had expected in the first quarter of the budget year.

Calgary investment bank Peters & Co. said in a recent note that successful bids in Western Canada generated an average C$397 per hectare, compared with C$391 in 2012.

Saskatchewan Energy and Resources Minister Tim McMillan is confident that companies operating in his province are shifting their emphasis from accumulating assets to the exploration and development phase.

Noting that Saskatchewan was ranked as the top jurisdiction in Canada for oil and gas investment policies in the Fraser Institute’s latest annual study, he said that vote of confidence from the industry “shows that our government is taking the rights steps to ensure we remain competitive in Canada and globally.”

Contact Gary Park through publisher@petroleumnews.com

BOEM asks Shell for more information

Still has some questions about Chukchi Sea exploration plan; wants more details about Noble Discoverer oversight and air emissions

By ALAN BAILEY
Petroleum News

The Bureau of Ocean Energy Management, or BOEM, wants more information about Shell’s revised Chukchi Sea exploration plan, the agency notified the company on Jan. 14.

Shel wanted to restart exploration drilling in the Chukchi and in early November submitted a revised plan to BOEM for approval — Shell started the drilling of a Chukchi Sea in 2012 under the terms of an earlier version of the plan.

The agency has to confirm that the revised plan is complete before initiating a public comment period as part of the plan approval process. On Nov. 29, the agency sent Shell some questions, spelling out a list of items that the agency considered to be missing from the plan.

Shell responded to those questions on Dec. 20. And in its Jan. 14 notification BOEM asked Shell for clarification of some of the points in Shell’s response.

Noble Discoverer

BOEM requires more information relating to modifications and repairs to the Noble Discoverer, the drillship that Shell is chartering from Noble Corp. for the Chukchi Sea drilling.

Shel had determined some safety and environmental non-compliance issues with the Noble Discoverer following Shell’s 2012 drilling season. The vessel had also suffered engine problems. The vessel has since undergone repair, upgrade and modification in an Asian shipyard.

BOEM says that it will accept a certificate of compliance from the U.S. Coast Guard as evidence that the deficiencies in the Noble Discoverer have been corrected. But the agency still wants Shell to explain how in future the company will apply adequate management oversight of the vessel to ensure that any operational deficiencies are quickly detected and fixed.

Air emissions

BOEM’s latest request for further information relating to modifications and repairs to the Noble Discoverer, the drillship that Shell is chartering from Noble Corp. for the Chukchi Sea drilling. The U.S. Coast Guard had determined some safety and environmental non-compliance issues with the Noble Discoverer following Shell’s 2012 drilling season. The vessel had also suffered engine problems. The vessel has since undergone repair, upgrade and modification in an Asian shipyard.

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**LAND & LEASING**

**State issues Tolsona basin license**

The Alaska Department of Natural Resources issued an exploration license in December 2013 to Athna Inc. for the Tolsona basin, according to recently released land reports.

The five-year exploration license covers some 43,492 acres in the Glennallen area and requires Athna to spend at least $415,000. The license is listed as ADL 392209.

In late October 2013, a Cook Inlet Energy Inc. exploration license in the Susitna basin north of Anchorage expired as the lands were converted to 25 traditional leases.

Also in Cook Inlet, independent investors Lee Higgins and Terri L. Stull Higgins are looking to transfer a 0.25 percent royalty interest in seven leases to Shawn Batholomae.

In the Nenana basin, the department issued 21 leases to Dayon Ltd., which had previously held an exploration license in the region. In November 2013, a former partner in the exploration program, Cedar Creek Oil & Gas Co., asked to transfer a 0.25 percent overriding royalty interest in 38 leases in the basin to Windmill Canyon LLC.

On the North Slope, ConocoPhillips is seeking to transfer a 22 percent working interest and 19.25 percent royalty interest in six onshore leases to Andarko E&P Offshore LLC.

The leases — ADL 392341, ADL 392342, ADL 392343, ADL 392348, ADL 392349 and ADL 392350 — are located along a bend in the Colville River just south of Nuiqsut.

ConocoPhillips and Andarko have long been partners on the North Slope.

The department issued two Beaufort Sea leases to the Armstrong Oil & Gas Inc. subsidiary 70 & 148 LLC. The leases are ADL 392538 and ADL 392539.

The department approved a transfer of a 10 percent working interest and 8.75 percent royalty interest in two Devon Energy Production Co. LP leases at the Point Thomson unit to the unit operator ExxonMobil Corp. The leases are ADL 47562 and ADL 47567.

The five-year exploration license covers some 43,492 acres in the Glennallen area and requires Athna to spend at least $415,000. The license is listed as ADL 392209.

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**NATURAL GAS**

**Enstar to install gas line under Kenai River**

Enstar Natural Gas Co. is planning to install a gas distribution pipeline underneath the Kenai River to extend service to several subdivisions on the river’s south side.

Anchorage-based Enstar is the main gas utility serving Southcentral Alaska.

The company has applied to the Alaska Department of Natural Resources for an easement across the Kenai at river mile 34 in the Sterling area.

A DNR public notice published Jan. 10 says the gas main will be installed with horizontal directional drilling.

It will be a plastic pipe, 6 inches in diameter, operating at 60 pounds per square inch gauge, Enstar’s application says.

Boring beneath the Kenai will begin on the north side of the river at Huske Street. The bore will extend about 950 feet, with 360 feet beneath the river and the rest beneath the banks. The bore will maintain a minimum depth of 20 feet below the river, Enstar says.

Construction is planned for between February and August.

The Kenai is famed for its runs of Chinook and sockeye salmon. Development along the river is a longstanding concern because of the potential impact on salmon habitat.

—WESLEY LOY

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**CHUKCHI PLAN**

information also includes a list of items relating to air emissions from Shell’s planned drilling operations. The agency has taken over air permitting for the Arctic outer continental shelf from the Environmental Protection Agency. But, rather than separately approving an air permit for Shell’s drilling project, BOEM will review Shell’s air emissions data for legal compliance as part of an overall review of the company’s exploration plan.

BOEM has, however, accepted Shell’s explanations regarding quite a few of the issues that the agency had raised, including questions regarding a reduced frequency of blowout preventative testing; a need for more detail about an expanded man camp planned for Barrow; and a need for more information about the Polar Pioneer, the semi-submersible drilling rig that Shell plans to station at Dutch Harbor, as a backup rig for relief-well drilling.

Integrated operations plan

In addition to its exploration plan, in November Shell submitted to BOEM an integrated operations plan for its planned Chukchi Sea drilling — BOEM required Shell to file this plan as a consequence of one of the findings of a Department of the Interior review of the company’s 2012 Arctic exploration activities. BOEM has now completed its review of the integrated operations plan and has submitted a list of 14 comments on the plan, in addition to the request for further information on the exploration plan.

The comments include a request for a completion schedule for activities listed in the plan, a request for some further detail on decision-making authority in the event of unplanned interruptions to drilling operations, and a request for further clarification on lines of communication and accountability between Shell and its contractors — the Department of the Interior review criticized Shell’s management of the various contractors involved in its drilling program.

Shell hopes to restart its Chukchi Sea exploration drilling during the summer of 2014. However, the company has expressed some uncertainty about whether the restart will occur in 2014 or 2015 and has said that it will need to complete all of the necessary permitting for its latest drilling fleet before drilling can take place.

Contact Alan Raitel at araitel@alaskanews.com

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**CHUKCHI PLAN continued from page 9**

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FINANCE & ECONOMY

US oil output stabilizing prices

The U.S. Energy Information Administration, or EIA, has commented that oil production growth in the United States contributed to the relative stability in global oil prices seen in 2013. As U.S. production climbed, with oil transportation infrastructure improvements easing the flow of oil from new shale oil plays in the Bakken, Permian basin and the Eagle Ford, and from Cushing Okla., in 2013 West Texas Intermediate spot prices climbed 4 percent to an average price of $98 per barrel. At the same time, North Sea Brent prices dropped 3 percent to $109 per barrel, EIA said.

"Brent prices came down under downward pressure as rising U.S. light sweet crude oil production reduced the need for U.S. imports, thereby increasing supplies of Brent-quality crude oil available to the global market," EIA said.

In 2013 U.S. domestic oil production reached its highest level in 24 years, increasing by 1 million barrels per day, an increase greater than the combined increases achieved by the rest of the world, and the largest observed production increase in U.S. history, EIA said. And, for several weeks, U.S. production exceeded imports, the first time this has happened in nearly two decades, the agency said.

At the same time China has overtaken the United States as the largest importer of crude oil. Unplanned oil supply disruptions around the world averaged 2.6 million barrels per day in 2013, with producers in the Organization of Petroleum Exporting Countries accounting for 1.8 million barrels of this figure. In 2013 higher U.S. production coupled with some elevated Saudi Arabian production stabilized prices by offsetting outages. OPEC liquid fuel production dropped by 0.9 million barrels per day, while non-OPEC production grew by more than 1.4 million barrels per day.

—ALAN BAILEY
Ahtna seeks Copper River gas supplies

Native corporation looking for affordable energy for people in a region that has been losing population because of energy costs

By ALAN BAILEY
Petroleum News

Ahtna Corp., the Native regional corporation for Alaska’s Copper River valley region, has compiled an energy strategy and plan for its region, with a search for natural gas being part of the plan, Joe Bovee, Ahtna land and resource manager, told the Alaska Support Industry Alliance Meet Alaska conference on Jan. 10. Bovee said that the prime purpose of seeking natural gas is to establish an affordable source of energy for the region, although if a sufficiently large find were made it might also be possible to export gas from the region.

“Our primary focus is to lower utility costs for most consumers,” Bovee said.

In October Ahtna gained a state exploration license for gas exploration in 72 square miles of state land, west of the town of Glennallen.

In October Ahtna gained a state exploration license for gas exploration in 72 square miles of state land, west of the town of Glennallen.

Loss of population

Bovee said that the region had lost 10 to 15 percent of its population in the last three to four years, that numerous schools had closed and that many restaurants and other businesses had closed because of the high cost of energy. Ahtna’s energy planning had found that energy-related data for the region was outdated but, more importantly, had identified the region’s people as the region’s most important resource, Bovee said.

If commercial quantities of gas cannot be found, the corporation anticipates importing liquefied natural gas into the region. Ahtna is in the process of preparing an application for an RCA certificate of public necessity and convenience to do that, Bovee said.

Gas potential

The Copper River basin, a broad area of sedimentary rock lying under the Copper River valley region, is thought to be gas prone. Its geology is similar to that of the prolific Cook Inlet basin to the southwest — in particular the Mesozoic strata of the basin are broadly equivalent to strata that have generated oil and gas in the Cook Inlet region.

The basin is one of six Interior basins that qualify for state exploration tax credits, Bovee said, commenting that the tax credits are essential to the funding of the Copper River gas exploration.

During the past 50 years or so 11 wells were drilled in the Copper River basin and all of these wells had gas shows, Bovee said, adding that 640 miles of 2-D seismic had been shot in the basin during the same period. The most recent of the wells was drilled between 2005 and 2007 by Rutter and Wilbanks near the town of Glennallen. Although this well found a gas reservoir, the drillers encountered severe unsolved difficulties resulting from excessive downhole pressures and the flow of water into the well.

Ahtna’s new exploration license encompasses land not far from the Rutter and Wilbanks well. The corporation is particularly interested in the gas potential of the Nenchina sands, a highly pressured, porous and permeable gas-bearing sandstone that occurs in faulted blocks over an area of roughly 120 square miles. The corporation has already reprocessed much of the existing seismic data that exists for this area — potential gas targets exist at depths ranging from 4,000 feet to 12,000 feet, Bovee said.

Other energy sources

The Ahtna energy plan also encompasses other possible energy sources. The corporation has erected 11 weather observation towers and has used these to identify two to three sites with commercial grade wind, Bovee said. One wind tower for power generation has been erected at Cantwell, on the south side of the Alaska Range. Weather observations have also indicated excellent residential solar power potential.

There are five hydroelectric projects in Ahtna’s region, including the planned massive Susitna-Watana dam, Bovee said.

There are some geothermal energy prospects near Glennallen and in the western portion of the Wrangell Mountains to the east. In particular, near Glennallen are some mud volcanoes, a rare phenomenon found worldwide only at Glennallen and at a location in South America — testing in the mud volcanoes has revealed temperatures of up to 300 F and the emission of methane at one spot, Bovee said.

The region also has an estimated 4 million tons of accessible biomass fuel, the equivalent of 300 million to 400 million gallons of fuel oil and, in principle, sufficient fuel to heat the region’s buildings for the next 150 years. But it would require much energy to dry the biomass material sufficiently for use as a fuel, Bovee said.

Contact Alan Bailey at abaily@petroleumnews.com
**G O V E R N M E N T**

**Dear Mr. President:**

Let’s lift export ban

Murkowski urges president to clear way for shipping out US crude oil, LNG and pipeline projects also need action, she says

By WESLEY LOY
For Petroleum News

U.S. Sen. Lisa Murkowski is now taking her recommendation to the top. The Alaska Republican sent a letter to President Obama urging him to lift the ban on exporting domestic crude oil.

Murkowski, in her Jan. 14 missive, also touched on other energy matters she believes need attention.

Murkowski is the top-ranking Republican on the Senate Energy and Natural Resources Committee. Majority Democrats control the committee.

Lifting the export ban was part of a Jan. 7 speech Murkowski gave at the Brookings Institution, a Washington, D.C., think tank.

She warned of a coming oil glut that could crimp the nation’s crude production.

**Export reforms sought**

With her letter to Obama, Murkowski enclosed a copy of her speech as well as her white paper outlining her ideas on reformatting energy export policy.

“In particular, I would draw your attention to the status of our nation’s hydrocarbon trade,” Murkowski wrote the president. “While exports of our natural gas and petroleum products have grown, our work is far from finished, and our policies are, in some cases, far from adequate.”

The letter continued: “Despite the obvious geopolitical, economic, and environmental benefits of building out our nation’s (natural gas) liquefaction capacity as soon as possible, the Department of Energy continues to slow-walk its approval of export licenses to our allies. The Keystone XL pipeline, which the State Department estimated would support over 42,000 jobs, remains unapproved even after years of delay. I once again urge you to take immediate action on these infrastructure projects, which you have generally promised to champion.”

**Administration might agree**

Obama’s energy secretary, Ernest Moniz, has suggested it might be time to reconsider the oil export ban, in place since the 1970s when the Arab oil embargo shocked the nation.

Support for removal of the export ban, however, faces considerable opposition including one that applies to oil from Alaska’s Cook Inlet and North Slope.

“The necessity of lifting the prohibition on crude oil exports … presents us with a rare opportunity to work together in a bipartisan fashion to address this situation before it becomes a problem,” Murkowski wrote Obama. “Lifting the ban will help create jobs, boost the economy, and keep our production at record levels.”

She added: “While I believe you retain the executive authority necessary to lift the ban on crude oil exports, if you need legislative support from the Congress in order to do so, you will always have a willing partner from Alaska.”

Contact Wesley Loy
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**EXPLORATION & PRODUCTION**

US drilling rig count up by 3 to 1,754

Oilfield services company Baker Hughes Inc. says the number of rigs drilling for oil and natural gas in the U.S. rose by three the week ending Jan. 10 to 1,754.

The Houston firm said in its weekly report that 1,393 rigs were drilling for oil and 357 for gas. Four were listed as miscellaneous.

Of the major oil- and gas-producing states, Oklahoma gained 14 rigs, New Mexico, Utah and West Virginia were up two, while Kansas and Wyoming rose one apiece.

Texas lost seven, Colorado and North Dakota each were down six, Louisiana dropped by two, and Alaska and Pennsylvania were off one.


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**FINANCE & ECONOMY**

Oil prices ease after sharp gains

Oil prices eased Jan. 16 but remained above $94 a barrel after sharp gains a day earlier on improved demand in the U.S.

Benchmark U.S. crude oil for February delivery was down 8 cents at $94.09 a barrel at mid afternoon Kuala Lumpur time in electronic trading on the New York Mercantile Exchange. The contract surged $1.58 to settle at $94.17 in New York Jan. 15.

Brent crude, used to set prices for international varieties of crude, was down 44 cents at $103.85.

The U.S. Energy Department reported that oil supplies fell bigger than expected by 7.7 million barrels the week ending Jan. 10, the seventh straight decline. It was sharply above market expectations of a 1.6 million barrels decline.

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Again, what the contractors asked at the symposium, is what Alaska? You know, we make all of those investments in British Columbia, in Oregon, in California or in Louisiana. All of those things are still available. So why Alaska when the gas has to be transported over such a long distance? If you back up to the North Slope, the most risky project in the value chain for the producers to be successful is the LNG.

Those projects, as I understand, typically again require $4 to $7 billion of upfront assets but they see no rates of return on. Those projects, typically, if someone hasn’t built a project before, cannot come online when anticipated. So there can be delays. If you look at Australia and Papua New Guinea, those are places building large LNG plants and they are not coming in and being completed on time for a variety of reasons. And those cause costs of the actual commodity — the gas — to go up when they don’t complete the project on time.

For me, when I was listening, it seems like it’s the LNG is risky for the producer, but it also has the potential for the greatest long-term return for Alaska’s dollar. And it makes it less risky for someone who wants to produce on the North Slope if the state was a partner in that. You wouldn’t be a partner in that until you have those confirmed shipping contracts, either.

I know this is a long version, but it’s important to note that there are different spots along the value chain that Alaska can invest in. We can also invest our royalty gas. So I think that’s what we have to discuss. We also have to keep in mind, wherever we choose to invest or if we choose to invest, we have to weigh like the private sector developer would do, the risk versus reward and where is our comfort level for risk?

I said a long time ago in the finance committee, I would give up my Alaska dividend to be part of a pipeline. There is very low risk and a standard rate of return once you make that risk. You don’t have a lot of downside. There could be a natural disaster, like an earthquake that would damage the line. For overall, the last 30 to 50 years, pipelines have been safe investments.

Petroleum News: That leads to the next question, and you’ve spoken to some of that, what are your thoughts on the Black & Veatch report that suggests taking an equity interest in the projects?

Fairclough: I’m not sure. I think we need to look closely at the Black & Veatch report. It’s part of the work we negotiated within our discussion. I specifically asked our contractors to look at that Black & Veatch report and true up the assumptions being made in that report. That’s not something to do with the governor or the quality of that report. It’s just as the Legislature, we should be taking a look at these issues and the numbers associated with those issues on our own. We want to fact check and make sure we agree with the assumptions used in that report. It’s just a re-check in a global market when you are looking at billions of dollars when you are looking at the assumptions the Legislature agrees with.

Petroleum News: OK, still on the administration, what are your thoughts on the governor’s announcement to set aside AGIA and the separation from TransCanada?

Fairclough: Well, I voted no on the license. I voted yes on trying to extend the opportunity for someone to bid on it. When TransCanada came forward, it was my belief that TransCanada would have Canadian interest in front of Alaskans interest. That’s just a personal feeling. I think we are all loyal to our countries. They are a business and they are loyal to their shareholders but I didn’t think Alaskans interest would be first. They have done everything technically to meet the conditions of the license. But for them to continue in Alaska’s value stream, I think that the governor is making the right decision. If they are a pipeline company which wants to bid and be part of it, they can bid like anyone else. I think they are a quality pipeline company with professionals who do a great job for their business. But there are other pipeline companies out there, so it is my hope that TransCanada will exit gracefully and allow Alaskans an opportunity to provide for ourselves.

Petroleum News: On the point of a company not having Alaska’s interest, there’s been concern in some circles that oil companies consider interest outside of Alaska first. Does that differ from TransCanada?

Fairclough: I think oil companies like any companies have shareholder interest first. I look at any organization that comes before the Legislature and I have to put on a face and I tell them that if you were running the operations in Alaska’s best interest. That’s supposed to be my job. I’m supposed to be able to filter that out and see that they are advocating for a business reason that benefits them — from their perspective. From my perspective, I’m looking to see if they offer a benefit that’s worth investing in for Alaska. We have hundreds of people who want to get access to the Legislature each year, whether it’s electrical generation and infrastructure improvements. That’s trying to benefit a utility, but in the end it could benefit ratepayers. Sometimes it’s trucking natural gas to Fairbanks. That’s an interest for Fairbanks but it may not be as high an interest for Anchorage, but it’s still a valid interest for the community advocating for that. Certainly I don’t think everyone has Alaska’s interest first, but the Legislature should.

Petroleum News: You’ve already covered a great deal on what’s ahead for the session, is there anything else you consider a priority for the session?

Fairclough: I think about the governor’s interest to introduce a tax bill. I mean it’s going to be generated from the administration. The administration is the one who has going to have to manage that. It needs to go through committees so that we understand 360 degrees how it affects the administration, those businesses which might be involved as well as the general public.

As I’ve said, gas is very different from oil and we need to lock arms with the general public so that we all understand how different that is and what that means to Alaska. I’m all about good business decisions that benefit the people of Alaska long term. Quite frankly, the governor needs to introduce a gas taxation bill. We will not be able to get long-term gas commitments without a tax bill so that there is certainty when producers go to their corporate boardrooms either in Texas or in London. If they go to those board rooms and they can’t articulate that actual margin of profit that they can see or at least a minimum of profits that they might see over a period of time, we are not going to be able to compete. Gas is very long-term as opposed to oil that can be on the spot market and can be sold very quickly. Gas cannot. Gas is streaming as feedstock, or it’s feeding a refinery long term or it’s feeding into a utility to move turbines for decades. So it’s very different.

I think the biggest push up, if the producers don’t do what the governor has asked them to do as far as alignment goes, I hope the Legislature will take up the philosophy that the state owns components that would be involved in gas taxing so that the people of Alaska have the opportunity to discuss those issues.

One of the other things that came up in the gas symposium, is the actual window opening and that is China and Japan are our two largest consumers for gas. The contracts are for 2023 and 2025. China and Japan were one of the highest growth potentials for selling. To have those contracts coming up, that fits in Alaska’s plan very well. That’s why we need to push hard — now. If it takes four years to build something, there is very little wiggle room and knowing those projects in Australia and Papua New Guinea have build out times that push that window, we have to push now.

Petroleum News: What does the change with AGIA do for the in-state line and the Alaska pipeline?

Fairclough: We’ve been trying to drive the projects together for some time. I think you’ll see farther alignment. As budgets get tighter, the general public is talking about it more. By that I mean, appropriations that seem to be going toward similar types of programs have a good chance of being a great job to make sure there is value in each project going forward so they weren’t duplicating work, that we were trying to make sure that there was no duplicating work, that each organizations were doing that would merge together into one project. I think we should prioritize our investments so we don’t have multiple people doing the same things.

Petroleum News: OK, let’s close with oil. SB21 still remains a hot topic with the referendum to repeal the tax regime.

Both sides are starting to dig in a little more on public messages. What’s your take on this?

Fairclough: I think we have to get buy-in. I think it’s important to the livelihood of the state and the people of Alaska that in the end, the people will make the right decision, they will vote no. In between voting no and the current conversation, it’s going to be hard to hear the real facts. The facts as I understand it is SB21 is faring better than ACES under lower prices. We would not have seen more money under ACES. For those thinking about voting yes, I hope they spent some time to consider SB21 and see if they would apply to see what they would receive with less production and with a lower price. It’s my understanding that SB21 is more durable because we are now producing equal or better in the form of revenue at lower oil prices. Why this is important and why we passed it this last legislative session, just like fracking changed the access to natural gas and oil in the entire U.S., if you look back we were looking at net impacts, and the public members grew. Now that conversation has changed dramatically and now we hear we have 100 or 200 years of natural gas available. When you may mean that 5 billion of oil and natural gas will be lower. If that stays lower, that means SB21 has anticipated and has responded appropriately to that lower level of revenue coming in for that commodity.
SANDS DISPUTE

Interior, such as the two natural gas distribution utilities and the regional electric cooperative.

Several AIDEA board members described the MWH proposal as being the most straightforward and least risky of the three and praised the deep pockets of the company.

The AIDEA board spent nearly two hours in executive session before voting.

**Ranking three choices**

After soliciting interest in the project last year, AIDEA received proposals in November 2013 from MWH Americas Inc., Pentex Alaska Natural Gas Co. LLC and Spectrum Alaska LLC. AIDEA staff spent the intervening months comparing the three proposals.

Now, AIDEA wants to sign a letter of intent with MWH by the end of the month, produce a development agreement by mid-March and close the deal by the end of May.

Given that quick timeline, the AIDEA board ranked the remaining proposals by preference. Should negotiations with MWH fall apart, AIDEA would begin negotiations with Natives Arsorta Natural Gas Co. LLC and then with Spectrum Alaska LLC.

The Interior Energy Project aims to provide a long-term supply of natural gas to the Interior at prices 40 to 50 percent below fuel oil by late 2015. As envisioned, the project involves a 9 billion-cubic-feet North Slope LNG facility, a trucking operation to the Interior, storage and re-gasification facilities in the Fairbanks North Star Borough, and relationships with local heating and electric utilities, as well as industrial customers.

According to AIDEA staff, all three proposals met the requirements of Senate Bill 23, which provided some $332.5 million in grants, loans and bonds to help bring the Interior Energy Project into fruition. All three proposals would yield “substantial savings” for Interior households currently using heating oil, some 55 percent, or $2,800 per year.

Specifically, SB23 provided the Interior Energy Project with a $57.5 million capital appropriation, up to $125 million in low interest loans from the Sustainable Energy Transmission and Supply Development Fund and up to $50 million in AIDEA bonds.

The MWH proposal released in November 2013 used the entire $125 million SETS loan and up to $85 million in private equity at 65 percent debt to fund the plant at a 12 to 15 percent return. MWH based its proposal on high-end AIDEA estimates for capital and operations costs, which are both likely to change as the project moves from analysis into actuality.

**Loan to FNG**

The AIDEA decision follows other recent movement on the Interior Energy Project.

The Regulatory Commission of Alaska recently gave the municipal Interior Alaska Natural Gas Utility permission to distribute gas throughout much of the Fairbanks North Star Borough including the city of North Pole, and encouraged the Pentex-subsidiary Fairbanks Natural Gas LLC to expand within its existing service area in Fairbanks.

To accommodate that expansion, AIDEA has also approved a $20 million loan to help FNG build a liquefied natural gas storage and distribution facility in Fairbanks. The 5 million gallon facility would allow FNG to increase its local sales by 40 percent, or 400 million cubic feet per year. Perhaps more important to the isolated and weather-prone residents of Fairbanks, the facility could hold between 10 and 15 days of supplies.

The $20 million loan would cover a little more than half of the $35 million project, with Northern Bank loaning the remaining $15 million. Northern Bank asked AIDEA to participate in the project. The AIDEA loan is for 25 years at 5.68 percent interest.

The loan goes to FNG and its wholly owned subsidiary Cassini LNG Storage LLC. The wholly owned Pentex subsidiary Titan Alaska LNG LLC is guaranteeing the loan. The loan gives AIDEA a first lien on all assets of FNG, Cassini and Titan. The finished storage facility would be worth some $55 million, according to a third party appraisal.

The project would be eligible for $15 million in state tax credits, but the AIDEA loan requires FNG to invest $5 million of those credits into expanding its distribution grid.

The storage facility is a crucial component of the Interior Energy Project, but AIDEA staff said the project would be economically viable without the Interior Energy Project.

The project is expected to create 90 construction jobs and five permanent jobs.  

Contact Eric Lide at ericlide@nns.com

The Nature Conservancy is proud to collaborate with a wide range of partners to ensure Alaska’s lands and waters continue to support abundant salmon and wildlife populations. We thank these corporations for sharing our vision of a healthy and productive Alaska for many generations to come.

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SANDS DISPUTE

**The Nature Conservancy**

Protecting nature, Preserving biodiversity

The mission of The Nature Conservancy is to conserve the lands and waters on which all life depends.
Growth drives change at Price Gregory and CONAM

In response to market demand in the Alaska construction industry, Price Gregory and CONAM Construction are making the following staffing and organizational changes to better respond to client needs. Robert “Bob” Stinson has been named senior vice president of Price Gregory International, Alaska Division. Stinson has 38 years of experience in Alaska, primarily with Price Gregory and CONAM Construction, where he has been instrumental in developing both companies’ roles as well-respected, long-term oil, gas and industrial construction companies. In his new position, he will lead the organization in all aspects of its Alaska operations. Stinson is taking over Price Gregory responsibilities from Dave Matthews who will be retiring in March. In addition to serving the oil and gas sector, he will be introducing a new Industrial Power Division in response to awards of EPC electrical power plant contracts in Alaska and Hawaii.

Dale Kissee has been promoted to president of CONAM Construction Co., where he will continue to manage the operation of the company’s capabilities in construction and maintenance of oil and gas, and infrastructure projects. Kissee is a 38-year veteran in the oil and gas industry, with more than 34 years spent with the Price Gregory and CONAM companies in Alaska. Supporting Kissee are Bill Brinford, CONAM’s North Slope area manager and Mike Sheppard, CONAM’s Cook Inlet area manager. Kenneth Yockey, P.E., has joined Price Gregory International, Alaska Division as its oil and gas construction manager. He will be responsible for managing the oil and gas initiatives of the company and continuing to support strong client and labor relations for existing and new projects under Stinson. Yockey has more than 20 years of experience as a senior corporate manager on construction projects throughout the state of Alaska, including extensive experience with the development of the North Slope oil fields.

Olgoonik/Fairweather team awarded ANIMIDA III contract

Olgoonik/Fairweather LLC in conjunction with a team of scientists from the University of

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

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All of the companies listed above advertise on a regular basis with Petroleum News
end of 2014 to submit a new development and production plan for the federal leases in the Liberty unit. The regulators have cited 2020 as the goal for first oil.

On Dec. 18, BP submitted a request for approval of a winter geotechnical and seafloor investigation to the Bureau of Ocean Energy Management.

BP plans a range of activities on land and on the frozen sea, with the work to begin in March and end in early May. The program will involve drilling holes onshore to investigate potential sources of gravel that would be needed for construction.

Offshore, BP plans to drill numerous holes to gather soil information for "possible future offshore pad locations," and for evaluating pipeline routes, the company’s submittal to BOEM says.

A field team will drill about 40 geotechnical boreholes from the sea ice to depths of about 100 feet below the seafloor, BP’s plan of operations says.

The geotechnical investigation area covers both federal and state waters.

**Surveying the seafloor**

For the seafloor investigation, BP proposes dropping a camera or a remotely operated vehicle through holes augered in the ice to capture geotechnical and biological data. The offshore investigation will involve drilling holes to gather soil information for “possible future offshore pad locations,” and for evaluating pipeline routes, the company’s submittal to BOEM says.

A field team will drill about 40 geotechnical boreholes from the sea ice to depths of about 100 feet below the seafloor, BP’s plan of operations says.

The geotechnical investigation area covers both federal and state waters.

**BP Alaska spokeswoman Dawn Patience told Petroleum News.**

The company this year plans to monitor the ice pack, in light of horizontal movement of the land-fast ice formation seen in Foggy Island Bay during the 2013 geotechnical program.

“BP’s plan of operations says. Up to four remote sensors mounted on steel poles will be installed in the ice pack.

The geotechnical investigation presents certain challenges unique to the Arctic. Crews will use forward-looking infrared radar, or FLIR, to look for denning polar bears prior to work activities. A trained bear guard will be employed. —WESLEY LOY

Workers also must take care to avoid seal lairs and breathing holes.

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**OIL PATCH BITS**

Alaska Fairbanks, the University of Texas at Austin, the Florida Institute of Technology, Battelle Memorial Institute and Kinetic Laboratories Inc., has been awarded the Bureau of Ocean Energy Management contract to continue environmental monitoring research in the Beaufort Sea. The project is titled Arctic Nearshore Impact Monitoring in the Development Area. ANIMIDA III is a two-pronged monitoring project that includes a separate effort involving the monitoring of Boulder Patch help beds in the area around Camden Bay.

The group will conduct comprehensive scientific studies to characterize the lease areas and surrounding environs of the Beaufort Sea that expand beyond past sampling efforts conducted prior to ANIMIDA I and ANIMIDA II work. The duration of the project will span from 2014 to 2017, with field programs planned during the open-water seasons of 2014 and 2015 and through-ice sampling events in the spring of 2015. Data synthesis is planned for years three and four, with the 2014 field season data informing the research for subsequent years.

The ANIMIDA III scientific program will involve interdisciplinary research including benthic ecology, chemistry and physical oceanography. The chemistry work will evaluate the presence of oil industry contaminants, including a selection of metals and hydrocarbons in sediments and biological tissues, to detect possible changes as a result of future oil and gas activities.

Olgoonik/FAIRWEATHER LLC is a joint venture with Olgoonik Oilfield Services, a subsidiary of the Alaska Native corporation for the Village of Wainwright and Fairweather for more information visit www.fairweather.com/environmentalscience.

Editor’s note: All of these news items — some in expanded form — will appear in the next Arctic Oil & Gas Directory, a full color magazine that serves as a marketing tool for Petroleum News’ contracted advertisers. The next edition will be released in March.
TransCanada to move from the AGIA license, which TransCanada was awarded in 2008, into commercial agreements. In addition to a memorandum of understanding with TransCanada, he said he expected a commercial agreement to be signed "very soon" to provide "a transparent set of terms and road map for Alaskans to consider. That commercial agreement is known as a heads of agreement for the Alaska LNG project," he said.

Both documents, the MOU and the heads of agreement (HOA), became pub- lic Jan. 15 and available online at www.dor.alaska.gov.

MOU

The MOU, signed Jan. 12 by TransCanada and the commissioners of Revenue and DNR, covers the transition between AGIA and a commercial agreement. It states that a commercial agreement between the state and TransCanada would benefit the state but terms proposed in the MOU would not be effective until passage of enabling legislation.

The MOU proposes that TransCanada would hold an ownership interest in the midstream portion of the Alaska LNG project (the pipelines and the gas treatment plant) and the state would have an option to acquire a share of that interest, up to 40 percent. TransCanada would provide gas processing and transportation services for the state's share of gas.

Once enabling legislation becomes effective and commercial agreements are executed for the pre-FEED (pre-front-end engineering and design) phase, the commissioners would initiate the process of making a determination under AGIA that the licensee's AGIA licensed project is uneconomic.

HOA

The heads of agreement, signed by the state and TransCanada Jan. 14, says the parties are currently negotiat- ing commercial agreements for pre-FEED to move to the next phase of the project, and wish to ramp up to the pre-FEED phase, estimated to cost more than $400 million.

Enabling legislation, as defined in the HOA, includes a confidential process so the administration could participate in developing terms for contracts, and would allow for contract terms addressing such issues as state participation; a state share of gas (royalty in kind and gas in lieu of production taxes); property taxes; upstream costs and lease expenditures; insta- nt gas delivered; other state LNG or gas sales contracts; and Alaska hire.

Upon passage of acceptable enabling legislation, the HOA says pre-FEED work would ramp up in the second quarter of 2014 and take between 18 and 24 months to complete.

Upon completion of pre-FEED work, the parties would individually decide whether to proceed with the Alaska LNG project.

Legislative review

The agreements, signed for the state by Natural Resources Commissioner Joe Balash; Revenue Commissioner Angela Rodell and Alaska Gasline Development Corp. President Dan Fauske, would be reviewed by the Legislature.

Rodell said the "agreement is essential to establishing the commercial structure of this project," and will allow investors to move the project forward.

Balash said that the state, as an equity partner, would play a critical role in set- ting the terms for decades-worth of gas production from the North Slope with the goal of maximizing the "royalty value of Alaska's gas on behalf of all Alaskans."

Fauske said the agreement "reaffirms AGDC's central role as Alaska's gas pipeline company and further enables the corporation to explore every option for delivering gas to Alaskans at the lowest possible cost," adding that AGDC is "moving full steam-ahead with the initia- tion of terms and road map for Alaskans to consider. That commercial agreement is known as a heads of agreement for the Alaska LNG project," he said.
EQUITY POSITION

Parnell said he “set Alaska on a different course” in 2011, challenging the reigning regime, he quipped, referencing ConocoPhillips’ advocacy for Alaska tax reform.

Worldwide strategy

Characterizing his company’s overall worldwide strategy as consisting of a portfolio of oil and gas opportunities coupled with decisions over how to allocate capital between those opportunities, Fox said that ConocoPhillips will spend a total of $16 billion worldwide in 2014. About 10 percent of that money will be spent on maintaining the integrity of the current production assets, 40 percent on overseeing the new oil and gas resources to develop. And then about another 30 percent of the investment will be channeled into major infrastructure-led projects, such as the new CD-5 development in the National Petroleum Reserve-Alaska. The remaining 45 percent of the spend will pay for development programs, such as the type of infill drilling using coiled tubing that is done in Alaska. Development projects will lift what would otherwise be a worldwide production decline rate of about 10 percent per year to total production that remains approximately constant. And then about another 30 percent of the investment will be channeled into major infrastructure-led projects, such as the new CD-5 development in the National Petroleum Reserve-Alaska. Fox said. These major projects should lead to a compound growth rate of 3 to 5 percent in ConocoPhillips’ production over the next five years, he said.

The remaining 15 percent of capital investment will go into exploration, seeking new oil and gas resources to develop.

Shale oil

In terms of oil development, Alaska now faces significant competition for investment dollars from the rapidly growing shale oil industry in places such as Texas and North Dakota.

“There really is a revolution going on in U.S. oil production,” Fox said, showing a graph depicting Texas oil production rocketing up in the past couple of years, North Dakota production increasing rapidly and California production overtaking that of Alaska.

Fox said that ConocoPhillips is heavily involved in both the Eagle Ford play in Texas and the Bakken play in North Dakota, the two plays that have led the shale oil revolution. Wells in the Eagle Ford can achieve initial oil flow rates of 1,000 barrels per day, with up to 1 million barrels of oil ultimately flowing from each well. The finding and development costs run to about $20 per barrel, with cost of oil supply from the plays being in the range of $40 to $50 per barrel, Fox said.

“We didn’t even know this play existed five years ago,” Fox said, commenting that his company will likely spend $8 billion in the Eagle Ford and $4 billion in the Bakken over the next five years. In addition to several other shale oil provinces, the Permian basin play is growing fast, with its production possibly overtaking that of the Eagle Ford and the Bakken in the next five years, Fox said.

And there are other oil development opportunities, such as in offshore deepwater situations.

“That is the context in which we have to look at Alaska’s competitive situation,” Fox said.

LNG market

When it comes to the market for liquified natural gas, or LNG, there are currently wide disparities in gas prices around the world, Fox said. Following the shale gas revolution, gas sells in the United States at a price in the range of $3.50 to $4.50 per million British thermal units, a price range that seems likely to prevail for some time to come. By comparison, gas is priced at around $10 in Europe. In Japan, where gas prices are indexed to oil prices and nuclear power issues have caused a faster-than-expected increase in demand, the price is around $16.

“Certainly there’s a prize in trying to access and take advantage of this (price) differential,” Fox said. “Everybody in the industry knows there’s a prize there. … The global LNG business is shaping up to be really very, very competitive.”

And as LNG projects around the world line up to meet the future LNG demand, so-called “brown-field sites,” sites with an existing gas infrastructure that can be expanded at relatively low cost, appear to have a significant competitive advantage. Fox showed a graph indicating that sites like this, in places such as Qatar, Indonesia, Malaysia and Papua New Guinea, can cover their capital costs in the range of $4 to $8 per million Btu.

Competitive landscape

On the other hand, “green-field sites,” where wholly new infrastructure is needed, require significantly higher priced gas. These sites, in regions such as western Canada, the U.S. Gulf Coast, East Africa and Arctic Alaska, all appear to need broadly similar gas prices, somewhere around $11 or $12.

“The key is that there’s an enormous amount of gas that can come to the market at the same cost of supply,” Fox said.

“The competitive landscape for LNG is going to be really fierce.”

In this environment an Alaska LNG project will have to make sure that it controls its costs, working within an appropriate fiscal regime — investment also requires long-term confidence in that fiscal regime, he said.

But, with 24 trillion cubic feet of natural gas in just the Prudhoe Bay field gas cap, Alaska gas definitely presents an opportunity.

“There is definitely potential for us to develop LNG here in Alaska,” Fox said.

Tax change

At the same time, the recent change in the Alaska oil production tax is a key to new oil exploration and development, he said, commenting that ConocoPhillips has already added a new drilling rig to the Kuparuk unit and is the process of bringing in a second new rig to the unit. The company is laying gravel for a new Kuparuk drill site and is permitting for a potential Greater Mooses Tooth project that the company hopes will follow its CD-5 development in the National Petroleum Reserve-Alaska — the company is also conducting exploration in the reserve.

The major increase in capital investment in Alaska this year is going into development drilling, development projects, major projects and exploration, those components of ConocoPhillips’ overall strategy that target increased oil production, Fox said.

“It’s a step change,” he said.

And, to address the need to tackle production decline in what are now old fields on the North Slope, ConocoPhillips has a really committed Alaska workforce, including some of the company’s most creative people, he said. Past achievements include the use of 4-D seismic data to find new oil in old fields; taking a world leadership position in the use of coiled tubing drilling and steerable drilling; running one of the largest miscible gas flood operations in the world; and experimenting with other enhanced oil recovery techniques, Fox said.
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