



Osprey work ongoing



COOK INLET ENERGY

Cook Inlet Energy, the Anchorage-based subsidiary of Miller Energy Resources of Tennessee, has been focusing much of its energy on restoring production from the Osprey platform. See story page 8.

Ice damaged tanker limps to port

A 6,403-TON TANKER that had been carrying diesel fuel when it struck ice while negotiating Russia's Northern Sea Route has been emptied of its cargo and is being escorted by two nuclear powered icebreakers to its home port of Khatanga on the Taymyr Peninsula, according to a report in the Sept. 13 issue of the Barents Observer. The tanker, which was only certified to operate in light ice, collided with ice in the Matisen Strait north of the Taymyr Peninsula on Sept. 4. After the accident the tanker started taking water in one of its ballast tanks, the Barents Observer said.

According to Russian authorities the tanker had violated the terms of its Northern Sea Route permit by entering waters with medium ice conditions and by operating without an icebreaker escort.

The tanker drifted in the Matisen Strait for a week while it waited for help, the Barents Observer said.

At the time of the accident the Russian Navy's flagship battle cruiser the Petr Veliky accompanied by 10 ships including four nuclear icebreakers was traversing the Matisen Strait, the

see INSIDER page 14

Buccaneer exec: Southcentral gas supply problem is solved

James Watt, president and COO of Buccaneer Alaska, told the Alaska Oil and Gas Congress on Sept. 18 that new exploration and development in the Cook Inlet basin are solving the local utility gas supply problems and that the time has come to focus on expanding the gas market beyond the Southcentral region.

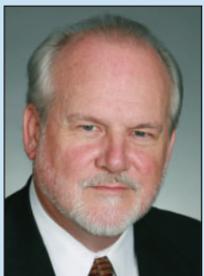
Market growth

"We need growth in the market to really allow that additional activity to move forward," Watt said. "Just meeting local demand should not be the goal of development for our industry."

Possibilities for expanding the market for Cook Inlet gas include the supply of gas to Fairbanks, either as liquefied natural gas or by pipeline; using the Alaska marine highway to supply liquefied natural gas to rural villages, as an alternative to expensive diesel fuel; and through industrial outlets for exporting natural gas products.

Buccaneer is an active explorer in the Cook Inlet basin. The company has brought on line the Kenai Loop gas field in

see WATT COMMENTS page 11



JIM WATT

NATURAL GAS

A sense of urgency

Alaska Railbelt utilities are still concerned about long-term gas supplies

By ALAN BAILEY

Petroleum News

Although Hilcorp Alaska's aggressive development program in the oil and gas fields of the Cook Inlet basin is now assuring gas supplies for local utilities through to March 2018, the utilities are unclear how their gas supply needs will be met after that time. And with a lead time of perhaps three years to establish alternative sources of gas, should supplies from Cook Inlet fall short of requirements, the utilities are continuing to investigate the possibility of importing gas into the region.

Railbelt electrical power comes predominantly from gas fired power stations, while people in

"We went from a sense of emergency ... to a sense of urgency."

— Jim Posey, general manager, Municipal Light & Power

Southcentral Alaska mostly use natural gas to heat buildings. But, as production from aging Cook Inlet fields has declined, gas supplies from the Cook Inlet basin have dwindled to worryingly low levels.

Before Hilcorp's development program came into action, the utilities had anticipated the possibilities of shortfalls in gas deliveries as early as the winter of 2014-15. Hilcorp, a relative newcomer to

see GAS SUPPLIES page 15

EXPLORATION & PRODUCTION

Pt. Thomson takes shape

ExxonMobil reaches 'milestones' in constructing new Alaska North Slope field

By WESLEY LOY

For Petroleum News

ExxonMobil says it has "completed a number of infrastructure milestones" on its Point Thomson development on Alaska's eastern North Slope.

The company is building out a new field to produce natural gas condensate beginning in early 2016.

Point Thomson is located on state land along the Beaufort Sea coastline, about 60 miles east of Prudhoe Bay. The field has several minority owners, including BP and ConocoPhillips.

Significant work began this past winter at Point Thomson. The field will feature three drill pads,

The conflict had reached the Alaska Supreme Court when the state and the oil companies, on March 29, 2012, reached a settlement that closed the case and laid out a schedule for phased development at Point Thomson.

with process and compression equipment located on the central pad. The production facilities are expected to be extra brawny, to handle Point Thomson's extraordinary subsurface pressures.

In a Sept. 13 press release, ExxonMobil touted its construction progress so far, emphasizing its

see POINT THOMSON page 14

EXPLORATION & PRODUCTION

Oil sands challenge

Technology advances take years to commercialize, not always unqualified success

By GARY PARK

For Petroleum News

There's a widely held belief that new thermal recovery oil sands projects can compete favorably with other North American tight oil plays.

A study by Calgary-based investment dealer Peters & Co. that weighed a 30,000 barrel per day development in the Eagle Ford against a comparable 30,000 bpd in-situ development yielded a competitive result.

"Operators such as Cenovus Energy have shown that, with time and scale, manufacturing advantages can be achieved," Peters said.

Glen Schmidt, chief executive officer of

The Canadian Oil Sands Alliance, made up of 14 producers, is exploring a variety of ways to reduce water needed for new steaming technologies and piping surplus water from mining to in-situ projects.

Laricina Energy, said "gains are realized and compounded once commercialized projects are established. Innovations (such as the use of injected solvents and infill wells) are leading to further reductions in supply costs below that of the base-case steam-recovery methods."

"As an industry, we are seeing lower steam-to-

see SANDS CHALLENGE page 10

contents

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ON THE COVER

A sense of urgency

Alaska Railbelt utilities are still concerned about long-term gas supplies

Pt. Thomson takes shape

ExxonMobil reaches 'milestones' in constructing new Alaska North Slope field

Oil sands challenge

Technology advances take years to commercialize, not always unqualified success

Buccaneer exec: Southcentral gas supply problem is solved

OIL PATCH INSIDER

- 1** Ice damaged tanker limps to port
- 14** Where does Arctic haze come from?
- 14** Greenpeace activists arrested in Russian Arctic oil protest

ENVIRONMENT & SAFETY

9 Air pollution from fracked wells measured

Research team finds some facets of natural gas production give off less greenhouse gas emissions than previously estimated

EXPLORATION & PRODUCTION

8 Miller aims for 4,000 barrels of oil per day

Tennessee-based, publicly traded company operates in Alaska as Cook Inlet Energy; local firm undertakes multiple drilling projects



FACILITIES

- 11** Second Drift River tank to come online

GOVERNMENT

4 Munoz brings family legacy to Legislature

Juneau Finance member breaks ranks with most Southeast colleagues, supporting SB 21, then standing by it in face of voter repeal



LAND & LEASING

- 11** State OK's Pt. Thomson, Oooguruk deals

NATURAL GAS

5 Fauske: separate AGDC getting under way

Entity charged with in-state gas pipeline getting organized, hiring more contractors, working toward open season ending early 2015



SIDEBAR, Page 5: Call for reality

6 RCA approves Enstar gas supply contract

New contract will meet Enstar's previously unmet needs through to March 2018; Rokeberg concurs but expresses concern about gas market

7 Parnell makes AGDC board appointments

Five citizens, two commissioners named; board result of HB4 passed by Legislature; goal to move North Slope natural gas to market

- 8** Alaska asks Conoco to reopen LNG plant

- 8** More LNG action in British Columbia



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Alaska - Mackenzie Rig Report

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

Alaska Rig Status

North Slope - Onshore

Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay DS 12-30i, workover	BP
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay DS 04-03, workover	BP
Dreco D2000 Uebd	19 (SCR/TD)	Alpine CD4-291	ConocoPhillips
AC Mobile	25	Prudhoe Bay Y-13A	BP
OIME 2000	141 (SCR/TD)	Kuparuk 1C-19	ConocoPhillips

Kuukpik	5	Rigged up on Umiat Disp#1 to spud November 2013	Linc Energy Operations Inc.
----------------	---	---	-----------------------------

Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Prudhoe Bay	Stacked
AC Coil Hybrid	CDR-2	Kuparuk 2F-18	ConocoPhillips
Dreco 1000 UE	2-ES (SCR-TD)	Prudhoe Bay	Available
Mid-Continental U36A	3-S	Prudhoe Bay	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay	Available
Dreco 1000 UE	7-ES (SCR/TD)	Kuparuk	ConocoPhillips
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay	Available
Oilwell 2000 Hercules	14-E (SCR)	Prudhoe Bay	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Prudhoe Bay	Available
Oilwell 2000	17-E (SCR/TD)	Prudhoe Bay	Stacked
Emsco Electro-hoist-2	18-E (SCR)	Prudhoe Bay	Stacked
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Prudhoe Bay	Stacked
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Prudhoe Bay	Available
Emsco Electro-hoist Oilwell 2000	28-E (SCR)	Prudhoe Bay	Stacked
Academy AC Electric CANRIG	33-E	Prudhoe Bay	Available
OIME 2000	99AC (AC-TD)	Prudhoe Bay	Available
	245-E (SCR-ACTD)	Oliktok Point	ENI

Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site C-41b	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Well Drill Site 2-38a	BP
Ideco 900	3 (SCR/TD)	Kuparuk Well 3M-23	ConocoPhillips

Parker Drilling Arctic Operating Inc.			
NOV ADS-10SD	272	Prudhoe Bay DS 18	BP
NOV ADS-10SD	273	Prudhoe Bay DS W-59	BP

North Slope - Offshore

BP			
Top Drive, supersized	Liberty rig	Inactive	BP

Doyon Drilling			
Sky top Brewster NE-12	15 (SCR/TD)	Spy Island SI35-W4	ENI

Nabors Alaska Drilling			
OIME 1000	19AC (AC-TD)	Oooguruk ODSN-02	Pioneer Natural Resources

Interior Alaska

Nabors Alaska Drilling			
Academy AC electric CANRIG	105AC (AC-TD)	Nenana Basin	Doyon Ltd.

Cook Inlet Basin – Onshore

Kenai Land Ventures LLC (All American Oilfield Associates, labor Contract)			
Taylor	Glacier 1	Kenai Loop Drilling Pad #1	Buccaneer Energy Ltd.

All American Oilfield Associates			
IDECO H-37	AAO 111	On the West side for NordAq Energy's Tiger Eye Central Well	NordAq Energy

Aurora Well Services			
Franks 300 Srs. Explorer III	AWS 1	NCU 2, workover	Aurora Gas

Doyon Drilling			
TSM 7000	Arctic Fox #1	North Kenai, stacked	Contracted to ConocoPhillips Winter of 2013/2014

Nabors Alaska Drilling			
Continental Emsco E3000	273E	Kenai	Available
Franks	26	Kenai	Stacked
IDECO 2100 E	429E (SCR)	Kenai	Available
Rigmaster 850	129	Kenai	Available
Academy AC electric Heli-Rig	106-E (AC-TD)	Kenai	Available

Cook Inlet Basin – Offshore

XTO Energy			
National 110	C (TD)	Idle	XTO

Spartan Drilling			
Baker Marine ILC-Skidoff, jack-up		Spartan 151 Upper Cook Inlet KLU#1	Furie

Cook Inlet Energy			
National 1320	35	Osprey Platform RU-1, workover	Cook Inlet Energy

Hilcorp Alaska LLC (Kuukpik Drilling, management contract)			
		Monopod A-18, workover	Hilcorp Alaska LLC

Mackenzie Rig Status

Canadian Beaufort Sea

SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

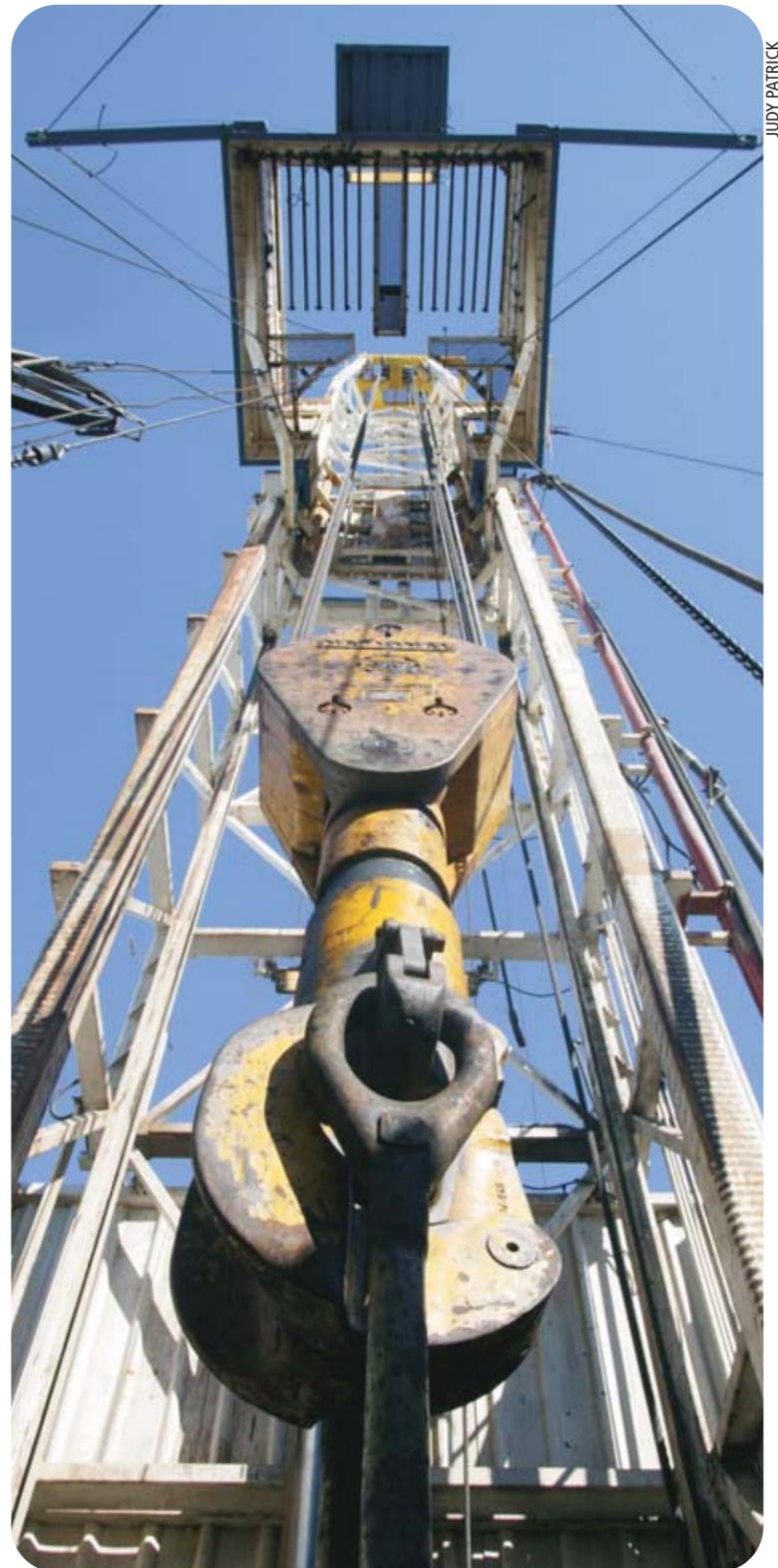
Central Mackenzie Valley

Akita			
TSM-7000	37	Racked in Norman Well, NT	Available

The Alaska - Mackenzie Rig Report as of September 19, 2013.
Active drilling companies only listed.

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

This rig report was prepared by Marti Reeve



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	Sept. 13	Sept. 6	Year Ago
US	1,768	1,767	1,864
Canada	380	389	354
Gulf	63	62	50

Highest/Lowest

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

*Issued by Baker Hughes since 1944

The Alaska - Mackenzie Rig Report
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GOVERNMENT

Munoz brings family legacy to Legislature

Juneau Finance member breaks ranks with most Southeast colleagues, supporting SB 21, then standing by it in face of voter repeal

By STEVE QUINN

For Petroleum News

When Cathy Munoz secured one of two Juneau House seats in the state Legislature, the state's oil tax scheme known as Alaska's Clear and Equitable Share, ACES, was in place and bringing in billions. Soon the oil tax debate would be reprised and Munoz, a Republican, would be on the frontlines first on the Resources Committee and now on the Finance Committee.

Munoz, a third-generation Alaskan to serve in the Legislature, brings unique bloodlines to the House.

Her paternal grandmother Thelma Engstrom served in the Alaska Territorial House in 1947 at a time when the Legislature met during odd numbered years only.

Her paternal grandfather Elton E. Engstrom served in the Territorial Senate (1951, 1953 and 1957) and again the State Senate (1961-63).

Her father Elton E. Engstrom Jr. served in the House (1965-66) and the Senate (1967-70).

In her first year on House Finance, she reviewed every major piece of energy legislation that eventually went before the full House: Senate Bill 21, oil tax reform; House Bill 4, in-state gas line; and Senate Bill 23, LNG trucking.

The view of oil and gas exploration and production can be slightly different from Southeast. Munoz, who supported SB 21 on the reconsideration vote, discussed her perspective of oil and gas issues from Southeast Alaska with Petroleum News.

Petroleum News: This is your first year on Finance after spending two years on the Resources Committee, among several others in your previous term. What's different?

Munoz: First of all, it's important for our region, the Southeast region, to have a position on Finance. With the changes in the last election — the loss of (Rep) Bill Thomas as co-chair, and (Sen) Bill Stedman as co-chair and Sen. Egan not maintaining the position on Finance, it became really important that Southeast had at least one seat on Finance. My priorities changed after the election and after the outcome of those particular races and the positions we had both in the House and Senate. Also, I think on

Finance, it's really important that being on just that committee we focus our attention and work on the topics that are coming to just that committee, which are already complex and varied for sure. By no longer being on five or six standing committees and running like a chicken with your head cut off, I find it much more reasonable and better for my schedule to better focus on one committee and to really dig down on the issues and focus on that one committee. I'm able to focus on the topics at hand. I found it very difficult when I was on five committees and chairing one or two of those committees to not really be able to get into the depth of some issues the way I wanted because you're spread so thin. On the Finance Committee you're able to have much more time and opportunity to get to know the issues in a much deeper way.

Petroleum News: On Finance, every heavy hitting bill comes before you. Last session, two of those bills were SB 21 and HB 4. How do you bring an appreciation for something like the oil patch and gas line that geographically is about as far away from the North Slope as you can get in Alaska, short of the Aleutian chain?

Munoz: I was elected in 2008 and we have debated the oil tax issue every year I've been in office. This is the most

important issue facing Alaska because it's the economic engine; it's the economic foundation that funds state government. Really, the changes in law that were necessary were changes, are changes, about protecting our future and creating a sustainable economy for Alaska. How does Southeast fit into that? Very directly. Because state government funds a majority of our governmental operations in Southeast Alaska.

Petroleum News: Supporting SB 21 is not always the most popular thing in Southeast, especially in Juneau. You might have voted yourself out of office. Granted, we won't know for another year, but how do you feel about that?

Munoz: I have listened to five years of public testimony and five years of expert testimony around ACES and the problems with ACES. Both the Democrats and Republicans were united in believing that ACES was flawed, particularly that progressivity was seen as being too punitive. The credits under ACES were tied to investment, not necessarily tied to production. Whether you voted for SB 21 or not, both sides recog-

see MUNOZ Q&A page 13



REP. CATHY MUNOZ

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CORRECTION

Name misspelled

The last name of Rep. Geran Tarr, D-Anchorage was misspelled in the Q&A in the Sept. 15 issue of Petroleum News. We apologize for the error.

• NATURAL GAS

Fauske: separate AGDC getting under way

Entity charged with in-state gas pipeline getting organized, hiring more contractors, working toward open season ending early 2015

By KRISTEN NELSON
Petroleum News

In presentations to the Alaska Oil & Gas Congress and the Mayor's Energy Task Force Sept. 17 and 18 in Anchorage, Dan Fauske, president of the Alaska Gasline Development Corp., provided updates on work to date by the entity, created as an independent public corporation of the state in House Bill 4, signed by Gov. Sean Parnell May 21.

With multiyear funding provided by the Legislature and a board named by the governor, AGDC is moving ahead to completing an open season in the first quarter of 2015. The goal for ASAP, Alaska's In-State Gas Pipeline, is first gas to Fairbanks in 2019 and gas to Southcentral in 2020. A successful open season would be a requirement to move forward to project sanction in the first quarter of 2016, the period covered by the \$400 million in state funding.



DAN FAUSKE

AGDC was an outgrowth of HB 369, passed in 2010. The goal of that legislation was combining existing in-state gas projects to develop an in-state natural gas pipeline plan for delivery to the Legislature by July 1, 2011. The plan was defined in statute as getting North Slope natural gas to Alaskans at the lowest possible cost. AGDC, originally a subsidiary of Alaska Housing Finance Corp., became a separate entity under HB 4; it is housed in the Alaska Department of Commerce, Community and Economic Development.

AGDC, AGIA commitments

The state has \$400 million committed to AGDC, funding to take it through an open season and to project sanction. The state also has \$500 million committed to a large-diameter export project line through the Alaska Gasline Inducement Act or AGIA. The original AGIA licensee, TransCanada, has been joined by ExxonMobil and more recently by BP and ConocoPhillips, and that project is now focused on a liquefied natural gas export project.

The governor has asked for alignment

between the large project, the Alaska Pipeline Project or APP, and ASAP.

Fauske said Sept. 17 that with the ability AGDC now has under HB 4 to sign confidentiality agreements it is in active discussions with APP, following the governor's direction to work toward alignment. If APP goes ahead, he said, ASAP would provide a spur line to Southcentral.

Fauske said if the big line doesn't go forward, the state with AGDC is in a position to do something on its own. Asked after his presentation to the Mayor's Energy Task Force what is different about this attempt to move gas from the North Slope compared to earlier efforts, he said what's changed is recognition of the high cost of doing nothing and the potential that Alaska's major cities will collapse from lack of fuel. Oil is about revenue, Fauske said, but gas is about security.

New organizational structure

Fauske said AGDC has business and project execution plans written and those will be fine tuned in the direction of the newly appointed board of directors.

CH2MHill has been selected as the program management contractor, he said, and Sussex out of Boston will be working with AGDC on the open season.

2013 major work activities are focused on advancing facilities and pipeline engineering, open season and construction planning and regulatory engagement. Summer field work included 444 geotechnical boreholes from the Yukon River to Point Mackenzie, geohazard investigation, stream crossing surveys, air monitoring, terrain unit mapping, cultural resource surveys and routing surveys.

Fauske noted that there is an effort not to duplicate work done by APP, and AGDC is doing air monitoring from Livengood south while TransCanada is doing Livengood north.

ASAP requires a special permit from PHMSA, the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration. Fauske said this is a troubling area since Congress has given PHMSA "vast power and authority." Some of what the agency requires could be overkill, he said, and the cost of that permit could be significant.

Schedule changers

In the question and answer session after

see **GETTING ORGANIZED** page 6

Call for reality

What's the most realistic outcome for gas line development in Alaska?

Larry Persily, federal coordinator for Alaska Natural Gas Transportation Projects, addressed that question Sept. 17 at the Alaska Oil & Gas Congress in Anchorage.

Among three options — the producer line, now focused on liquefied natural gas exports; the smaller state-sponsored line; and the port authority LNG project — which is the most realistic outcome?

Persily said this was his opinion on which of the three was most probable "on the assumption that we have to assume one of the three is going to get built. None of the above is not an option," he said, likening it to the challenge of a bookie who has to pick the most probable winner "even though both teams have weaknesses."

Persily said he thinks the odds lie with the producer line based on "money, markets and merit."

Real money is needed to pull off a multibillion dollar project, he said, cash for a down payment and money to cover cost overruns.

The companies in the producer project — BP, ConocoPhillips, ExxonMobil and TransCanada — have combined assets of more than \$700 billion, he said.

"If they decide that a gas line looks good to them, they can afford it."

But all four have to decide they want to build it, he said. They have to decide that on the same schedule; they have to decide how to divide up ownership; and they need to sign up buyers.

Buyers will require real prices and firm delivery dates. The market for LNG is competitive, he said, and Alaskans have to realize "you can't sell it for whatever you want — there's a lot of other suppliers out there."

Economies of scale can get the price down to something competitive in Asia, but the companies and the state "need to negotiate a fiscal deal that the public will accept."

The Alaska Gasline Development Corp., the state entity planning an in-state gas line, would have an important role to play delivering gas for use in Alaska, he said, but warned that "populist politics could also ruin the odds of the Alaska project. If you tell people what they want to hear long enough they start believing it even if it's not true," he said, calling for "more reality" and the need for Alaskans "to understand the world as it is."

—KRISTEN NELSON

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• NATURAL GAS

RCA approves Enstar gas supply contract

New contract will meet Enstar's previously unmet needs through to March 2018; Rokeberg concurs but expresses concern about gas market

By **ALAN BAILEY**
Petroleum News

The Regulatory Commission of Alaska, or RCA, has approved a new gas supply agreement between Enstar Natural Gas Co. and Hilcorp Alaska. The new contract will ensure that Enstar can obtain all of the gas that it needs until March 31, 2018, the date at which the contract terminates. Hilcorp has recently filed similar gas supply agreements with two other Southcentral utilities, Chugach Electric Association and Matanuska Electric Association, but RCA has yet to rule on these other contracts.

The utilities had been facing pending shortfalls in gas supplies because of production declines in the Cook Inlet gas fields. However, Hilcorp, now the dominant Cook Inlet gas producer, has been pursuing an aggressive development program in gas fields that it purchased from Chevron and Marathon Oil Co. Hilcorp has said that it can fill previously unmet utility gas needs through to March 2018: The three new gas supply contracts form the tangible manifestations of that statement.

Commissioner Norman Rokeberg, while supporting the RCA decision, given what had been a pending crisis in Southcentral Alaska utility gas supplies,

Railbelt consumers, who now pay the highest natural gas prices in North America, "are now confronted with the possibility of escalating prices when several explorers have found natural gas but will be hindered in bringing it to the market."

— RCA Commissioner Norm Rokeberg

expressed his concern that the three new Hilcorp contracts may stifle competition in the Cook Inlet gas market, thus deterring independent gas producers from exploring for more gas.

Specified gas volumes

The contract with Enstar that RCA has just approved allows for estimated annual supplies of gas ranging from 15 billion cubic feet in the first year of the contract, running from April 1, 2014, to March 31, 2015, to 21.5 bcf in the contract's final year. There is a clause in the contract that allows for variations in delivery rates at different times of year, to account for Enstar's need for more "base load" gas in the winter than in the summer. However, the contract also has a provision allowing Enstar to purchase some additional gas in the summer for storage for winter use.

Under the contract Enstar can buy "discretionary gas," gas that the utility may want beyond normal contracted volumes, if Hilcorp has sufficient gas available. And the contract contains provisions for dealing with some situations in which either Hilcorp or Enstar is unable to meet the contract's specifications for the volumes of gas delivered or purchased.

Consent decree pricing

Following an investigation by the State of Alaska and the Federal Trade Commission into Hilcorp's purchase of Marathon's Cook Inlet assets, the state and Hilcorp agreed on a consent decree that sets, among other things, maximum price levels that Hilcorp can charge for the sale of its gas to local utilities. The state and federal authorities were concerned about Hilcorp's dominance of the Cook Inlet gas market following the Marathon purchase. The consent decree allowed the purchase of Marathon's assets to proceed.

The gas prices in the Enstar contract follow the maximum allowed under the consent decree, with prices for base-load gas ranging from \$6.86 per thousand cubic feet in year one of the contract to \$8.03 per thousand cubic feet in the contract's final few months. There are higher prices for emergency gas supplies and for "swing load" gas, gas volumes needed above the volumes specified as base load and typically required in severe winter cold.

Rokeberg critique

In his critique of the contract, Commissioner Rokeberg says that, while he concurs with commission approval of the contract, he also has misgivings. Praising Hilcorp's efforts to make more gas available to Southcentral utilities and recognizing that recent concerns about gas supply shortages had compelled Enstar to enter into new gas supply agreements, Rokeberg said the commission had found that the contract, which would ensure a reliable supply of gas for Enstar, is necessary and serves the public inter-

est.

But the three new Hilcorp utility gas supply contracts, taken together, tie up substantial volumes of gas demand through a single gas supplier for an extended period of time, locking up the utility gas market and potentially impeding new exploration investment by smaller exploration and production companies, Rokeberg said. The state Legislature has enacted many laws to encourage gas exploration in the Cook Inlet basin, but the new gas supply contracts may have the unintended consequence of undermining the impact of those laws, he said.

Supplier oligopoly

And, while the consent decree had enabled Hilcorp to move ahead with "extraordinary efforts" in its newly acquired Cook Inlet assets, the decree has also "assisted in the concentration of gas suppliers into an oligopoly of fewer sellers who produce an (almost) identical ... product," Rokeberg wrote. Furthermore, the price caps in the consent decree have become a "benchmark and de facto 'price mechanism'" for all gas supply agreements filed with the commission this year, creating a "stair-step" price mechanism and discounting other possible pricing models.

Railbelt consumers, who now pay the highest natural gas prices in North America, "are now confronted with the possibility of escalating prices when several explorers have found natural gas but will be hindered in bringing it to the market," Rokeberg wrote.

Possible solutions to the Cook Inlet gas market problem include the re-opening of the liquefied natural gas facility or of a mothballed fertilizer plant, both on the Kenai Peninsula, or industrial uses for gas associated with a future North Slope gas line, Rokeberg suggested. Or there may be the possibility of the direct sale of gas to entities that transport gas through Enstar's pipeline system, he wrote. ●

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continued from page 5

GETTING ORGANIZED

his Oil & Gas Congress presentation, Fauske said if AGDC gets the producers in the room, things could move faster.

Asked if Alaska Oil and Gas Conservation Commission determination of how much gas can be sold could hold up the project, Fauske said AGDC has met with the commission and got no indication an allowable gas offtake would be beyond the scope of the 500 million cubic feet per day maximum for ASAP. He said an approach to AOGCC for an order on gas offtake would probably occur after an open season.

Asked what else could hold up the project, Fauske said if the referendum to revoke the new oil tax law, Senate Bill 21, were to pass, "this gas line's toast." Without fiscal certainty there won't be a gas line, he said. ●

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• NATURAL GAS

Parnell makes AGDC board appointments

Five citizens, two commissioners named; board result of HB4 passed by Legislature; goal to move North Slope natural gas to market

By KRISTEN NELSON
Petroleum News

Alaska Gov. Sean Parnell has made appointments to the Alaska Gasline Development Corp. board of directors. AGDC is a state entity tasked with advancing a project to move North Slope natural gas to market.

It was established by the Legislature in 2010 as a subsidiary of the Alaska Housing Finance Corp. and became an independent state entity this year with passage of House Bill 4.

"The people appointed today bring deep and diverse expertise to the AGDC Board," Parnell said in a Sept. 13 statement. "They have proven individual track records and success in team settings. I am confident that AGDC will meet the goal of getting Alaska's gas to Alaskans and markets beyond."

The public members appointed by the governor are Albert "Al" Bolea, John Burns, Dave Cruz, Drue Pearce, and Richard "Dick" Rabinow. In addition, Commissioner of Commerce, Community and Economic Development Susan Bell and Commissioner of Labor and Workforce Development Dianne Blumer were named to the board.

House Bill 4, passed by the Legislature in April, provided that the AGDC board have five public members appointed by the governor and subject to legislative approval and two commissioners. As long as the state is party to an Alaska Gasline Inducement Act agreement the commissioners of the departments of Revenue and Natural Resources, the state's signatories to the AGIA agreement, are ineligible to serve on the AGDC board.

HB4 provides that in selecting public members the governor "shall consider an individual's expertise and experience in natural gas pipeline construction, operation, and marketing; finance; large project management; and other expertise and experience relevant to the purpose, powers and duties of the corporation." The public members serve staggered five-year terms, with one of the initial members to serve a five-year term and two members each two- and three-year terms. Burns was named to the five-year term, Pearce and Rabinow to the three-year terms and Bolea and Cruz to the two-year terms.

Bill's sponsors pleased

"Gov. Parnell's appointments will be critical in establishing AGDC as the professional, competent, and independent entity we envisioned," Mike Hawker, R-Anchorage, said in a statement. "Our legislation was specifically designed to keep politics out of AGDC's work delivering Alaska gas to Alaskans, and I thank the Governor for respecting that intent."

"With this well-rounded board, AGDC is primed to take on its mission of developing gas pipelines to serve Alaska," said House Speaker Mike Chenault, R-Nikiski. "Gov. Parnell has included the expertise we identified in House Bill 4, and has brought together a strong combination of people with global pipeline experience and knowledge of Alaska and our unique needs."

Hawker and Chenault were sponsors of HB4. They said in their statement that the bill provided the statutory framework for AGDC — previously a subsidiary of Alaska Housing Finance Corp. — to become a standalone independent corpo-

"Gov. Parnell has included the expertise we identified in House Bill 4, and has brought together a strong combination of people with global pipeline experience and knowledge of Alaska and our unique needs." —House Speaker Mike Chenault, R-Nikiski

ration "charged with pipeline development to get Alaska gas to Alaskans."

Dan Fauske, formerly head of AHDC, was recently named executive director of AGDC, which is charged with advancing an in-state natural gas pipeline from the North Slope to Southcentral, while also evaluating participation in the larger, producer-led pipeline and LNG project.

Varied experience

Bolea, of Big Lake, is a retired BP

executive who has served as chairman of Alyeska Pipeline Service Co. and CEO of Dubai Petroleum. He has a bachelor's degree in management from Robert Morris University and a master's degree in business administration from the University of Pittsburgh.

Burns, a lifelong Alaskan from Fairbanks, is a former attorney general for the State of Alaska and works for Burns & Associates. He has a bachelor's degree in history from UAF and a juris doctorate from the University of Puget Sound School of Law.

Cruz, of Palmer, is also a lifelong Alaskan. He has been involved in construction and resource development since 1976 and is the president of Cruz Construction, Cruz Energy Services, and Cruz Marine — firms specializing in heavy civil construction, remote camp construction, oil field services, and construction support.

Pearce, of Anchorage, was an Alaska legislator for 17 years, and was Senate president for two terms. She served as the first federal coordinator for Alaska natural gas transportation projects. Pearce is president of Spill Shield of Anchorage. She holds an MPA from Harvard University's Kennedy School of Business.

Rabinow worked for ExxonMobil for 34 years, serving in numerous posts, including president of ExxonMobil Pipeline Co. He was also president and CEO of Longhorn Pipeline Partners. Rabinow has a bachelor's degree in engineering mechanics from Lehigh University and master's degrees in mechanical engineering and management from the Massachusetts Institute of Technology. ●

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NATURAL GAS

Alaska asks Conoco to reopen LNG plant

The state of Alaska wants ConocoPhillips to reopen its mothballed Kenai Peninsula liquefied natural gas plant to provide an incentive for petroleum companies to explore and invest in Cook Inlet.

In a Sept. 5 letter to ConocoPhillips President Trond-Erik Johansen, acting Natural Resources Commissioner Joe Balash requested that the company apply for a three-year federal LNG export license for the plant at Nikiski, about 70 miles southwest of Anchorage.

ConocoPhillips in March announced it would not extend its natural gas export license beyond March 31 but said it would consider a new license if the needs of local gas markets were met and sufficient natural gas was on hand to export.

Balash said contracts are in place to support local utility needs through 2018. Concerns exist, he said, for future exploration.

“Without market opportunities for gas discoveries, companies lack the incentive to invest in continued exploration activities,” he wrote. “In addition to the economic challenges this would present for those employed in the Cook Inlet energy industry, a lack of healthy exploration now may lead to supply contractions in the future as existing wells’ production levels decline.”

Conoco will evaluate

ConocoPhillips spokeswoman Natalie Lowman said Sept. 17 the company appreciates the state’s comments and shares its interest in promoting local energy security and the local economy.

“We’re going to begin evaluating this and working with stakeholders to evaluate the feasibility of resuming LNG export,” she said.

The U.S. Geological Survey has estimated the Cook Inlet basin may hold trillions of cubic feet of gas, Balash said.

“More market opportunities would create a more attractive business environment for gas sales that would in turn encourage aggressive exploration,” he said.

Balash also requested that ConocoPhillips install equipment that could be used to truck LNG throughout Alaska. The plant could back up plans for providing North Slope natural gas to Fairbanks and other interior Alaska communities.

Lowman said truck-rack facilities would be part of the evaluation.

—ASSOCIATED PRESS

In a Sept. 5 letter to ConocoPhillips President Trond-Erik Johansen, acting Natural Resources Commissioner Joe Balash requested that the company apply for a three-year federal LNG export license for the plant at Nikiski, about 70 miles southwest of Anchorage.

EXPLORATION & PRODUCTION

Miller aims for 4,000 barrels of oil per day

Tennessee-based, publicly traded company operates in Alaska as Cook Inlet Energy; local firm undertakes multiple drilling projects

By WESLEY LOY

For Petroleum News

Tennessee-based Miller Energy Resources Inc. says it’s on track to reach 4,000 barrels of oil equivalent per day by the end of the calendar year.

The company, however, is producing some substantial red ink along the way, financial reports show.

Most of Miller’s oil and gas production is in Alaska through its subsidiary, Anchorage-based Cook Inlet Energy LLC.

Cook Inlet Energy operates the offshore Redoubt unit, and the onshore West McArthur River field.

On Sept. 9, Miller reported revenue of \$13 million for the first quarter of fiscal 2014, which ended July 31. That compares to \$8.3 million in the first quarter of the prior year.

The company said “costs and direct expenses” increased for the quarter to \$19.2 million, up from \$13.3 million.

The operating loss was \$6.2 million, versus \$5 million in the prior first quarter.

The company reported capital expenditures of \$16 million during the quarter, primarily to “accelerate oil development opportunities in Alaska.”

“Currently, our total production from both Alaska and Tennessee is approxi-

mately 3,300 boepd,” Scott Boruff, Miller’s chief executive, said in a press release. “We are well on our way to reaching our goal of 4,000 boepd before the end of the calendar year, which now appears conservative.”

Focus on Osprey sidetracks

As the numbers reflect, Miller Energy is a small company. Its shares are listed on the New York Stock Exchange.

Miller’s subsidiary, Cook Inlet Energy, launched as an Alaska oil and gas operator in late 2009 after acquiring a collection of west inlet properties out of the bankruptcy of the previous operator, California-based Pacific Energy Resources Ltd.

Since then, Cook Inlet Energy has focused much of its efforts on restoring production from the formerly shut-in Osprey platform, which sits in the Redoubt unit.

Osprey is the newest and southernmost of the platforms in Cook Inlet. Prior operators met mostly with disappointing production results from the platform.

Cook Inlet Energy managers say problems such as collapsed casings impaired the performance of Osprey wells.

The company commissioned construction of a custom rig for Osprey, and is using it now to drill sidetracks to existing wells.

One of these sidetracks, known as RU-2A, is “our highest producing oil well to date,” averaging 1,307 barrels of oil per day during the first quarter, Boruff said.

“This well alone contributed \$4.1 million to our revenues for the quarter,” he said.

“We are also very excited about our most recently completed sidetrack, RU-1A, which came online in mid-August,” Boruff continued. “The oil well showed a 14-day average initial production rate of 754 bopd, but we have been running the well at a reduced speed while we analyze formation response. Once the analysis is complete, we will adjust the pump speed accordingly to maintain optimal formation stability.”

Work on another sidetrack, RU-5B, is nearly complete, Miller reported.

Two more Osprey wells, RU-3 and RU-4, are producing natural gas to fuel field operations. The company is selling excess gas from these wells under a sales contract with an undisclosed buyer. Miller reported \$270,000 in gas sales for the quarter.

Exploratory drilling, rig dispute

Onshore, the company reports “making considerable progress” on a couple of exploratory drilling projects.

The Sword No. 1 oil well is being drilled from a site adjacent to the West McArthur River pad. The well was spudded on June 19 using Patterson-UTI Drilling Co.’s rig 191.

Sword is a directional, extended-reach well targeting a bottom hole location beneath the inlet. The company has said it’s aiming for a total depth of 19,000 feet.

Cook Inlet Energy also is drilling an

see MILLER OUTPUT page 9



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● ENVIRONMENT & SAFETY

Air pollution from fracked wells measured

Research team finds some facets of natural gas production give off less greenhouse gas emissions than previously estimated

By **WESLEY LOY**

For *Petroleum News*

A new study from University of Texas and other researchers finds that air pollution from natural gas production might be lower than previously estimated.

The research involved direct measurements of methane emissions from 190 onshore natural gas production sites in the Lower 48, including the Gulf Coast, Midcontinent, Rocky Mountain and Appalachian regions.

Methane is the primary component of natural gas and is also a greenhouse gas, says the six-page research article published online Sept. 16 by the journal *Proceedings of the National Academy of Sciences*.

The article is available at <http://bit.ly/1gqeTka>.

The shale gas boom, with its extensive use of horizontal drilling and hydraulic fracturing, forms the backdrop for the research.

The tested sites included 150 production sites with 489 wells, all of which were hydraulically fractured.

"In addition to the 150 production sites, 27 well completion flowbacks, 9 well unloadings, and 4 well workovers were sampled," the article says.

Nine different companies operated the sites: Anadarko, BG Group, Chevron, Encana, Pioneer Natural Resources, Shell, Southwestern Energy, Talisman and XTO Energy.

Comparing with EPA inventory

The researchers attempt to determine the accuracy of methane emission estimates reflected in the Environmental Protection Agency's latest national inventory of greenhouse gas emissions.

These published estimates possibly are outdated, given the significant change in gas production processes during the past two decades, the article says.

The researchers, however, found they were able to make useful comparisons only for certain gas production activities.

One of these was well completion flowbacks.

"After a well is drilled, the well is 'completed.' Completion is the process of making a well ready for continuous production," the article says. "Specifically, after drilling and fracturing, before natural gas production can begin, the well must be cleaned of sand and liquid of various types that had been injected into the well. The recovery of these liquids is referred to as a flowback, and gas, including methane, can be dissolved or entrained in the flowback liquids. Some of the methane in the liquids can be sent to sales or emission control devices, but some can be emitted."

Flowback emissions overstated

The researchers took measurements of methane emissions during 27 completion flowback events.

"The completions with the lowest emissions were

those in which the flowback from the well was sent immediately, at the start of the completion, to a separator, and all of the gases from the separator were sent to sales," the article says.

Based on their testing, the researchers estimate the annual national methane emissions from completion flowbacks at wells with hydraulic fracturing is far less than what the EPA inventory shows.

Measurements made from certain equipment that releases or leaks methane, however, suggested an increase in the national emission estimate, the researchers found.

The lead author, David T. Allen, is with the Center for Energy and Environmental Resources at the University of Texas.

The article acknowledges the Environmental Defense Fund as a sponsor of the work.

"This study tackles one of the most hotly debated issues in environmental science and policy today," said Mark Brownstein, of the Environmental Defense Fund. "It shows that when producers use practices to capture or control emissions, such as green completions, methane can be dramatically reduced. The study also demonstrated, however, that certain methane emissions are larger than previously thought, indicating that there are many further opportunities to reduce emissions." ●

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● NATURAL GAS

More LNG action in British Columbia

By **GARY PARK**

For *Petroleum News*

Another piece has been added to the LNG puzzle in British Columbia, while an established piece has started to alter its shape.

Quicksilver Resources Canada has launched Discovery LNG with plans to sidestep the potentially crowded field on the British Columbia mainland coast by eyeing the construction and operation of gas liquefaction, storage and onloading terminal facilities north of Campbell River on Vancouver Island.

Separately, a subsidiary of United Kingdom gas giant BG Group has raised the possibility of sharing infrastructure such as pipelines in hopes of cutting

costs.

The Discovery project would be built and operated by QRCI and an unidentified third party, although the company has yet to disclose the scope or cost of the venture.

Major gas holdings

Ed Kallio, the director of gas consulting with Ziff Energy, a division of HSB Solomon Associates, said that although the company is "mute" on the details, including whether it plans an underwater pipeline from the B.C. mainland to Vancouver Island, Quicksilver has major gas holdings in the Horn River basin of northeastern British Columbia.

He said those properties face being left undeveloped unless the company can open up export markets.

The facility would be built on a remediated industrial site formerly used by a paper mill.

Construction of the initial phase is expected to take four years, targeting 2019 for start-up.

Meanwhile, BG Group Chief Operating Officer Martin Houston told a company markets day seminar that discussions are under way with promoters of other western Canada LNG projects on possible cooperation in developing a shared pipeline from gas fields to the Pacific Coast.

He said BG, in the absence of its own gas reserves, is "pursuing several supply options and anticipates supply from owned resources and purchased from the market."

Houston said there are probably five serious LNG projects in British Columbia of the dozen that have been announced.

BG, which has secured 300 acres on Ridley Island near Prince Rupert for a terminal site, has proposed two trains to export 14 million metric tons of LNG a year, with an option for a third train. The initial startup is aimed at 2020. ●

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continued from page 8

MILLER OUTPUT

exploratory well on its Olson Creek natural gas prospect west of the ConocoPhillips-operated Beluga River gas field. The company previously said it had hoped to wrap up drilling on the Olson Creek No. 1 well by the end of August.

Miller in July disclosed it was disputing \$531,000 in invoices from the Osprey rig builder, Voorhees Equipment and Consulting Inc.

The parties were to arbitrate the matter beginning in mid-September. But the arbitration has been postponed until early January, Miller said in a Sept. 9 filing with the U.S. Securities and Exchange Commission. ●

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continued from page 1

SANDS CHALLENGE

oil ratios, faster startups and techniques and expansions built on initial operations.”

Schmidt said the use of solvents is adding incremental value of about 30 percent to production, while recovery of oil in-place is increasing by 10 to 15 percent.

Technology challenges

However, as the oil sands sector sifts its emphasis from the raw, brute force of open pit mining to recover bitumen to the more environmentally friendly technologies such as steam-assisted gravity drainage (and its many variations) the challenges grow.

Not least is the use of restricted quantities of fresh water, which is consumed at the average rate of 3.1 barrels for every 1 barrel of oil produced from mines and 0.4 barrels for every barrel of bitumen extracted from in-situ operations, creating a fresh environmental challenge for the sector.

Although the Canadian Association of Petroleum Producers estimates that only 0.6 percent of river flows from the

Athabasca River — the major waterway through northeastern Alberta — is consumed by oil sands operations, that does not sway environmental organizations who are indignant over how much water is used and how much is contaminated.

The Canadian Oil Sands Alliance, made up of 14 producers, is exploring a variety of ways to reduce water needed for new steaming technologies and piping surplus water from mining to in-situ projects.

Currently, about 60 water experts from the alliance's member companies are collaborating in the search for water solutions.

But it's an accepted fact that taking an idea from conception to commercial application in the oil sands takes years and, even when a breakthrough seems imminent, trouble is lying in wait.

Toe-to-heel recovery

Petrobank Energy and Resources has long championed THAI, toe-to-heel, recovery methods, which inject air through a vertical well to spark combustion of some oil, creating a heated chamber that warms the remaining oil, allowing it to reach the surface through a hori-

zontal well.

The company's hopes were pinned on its Kerrobert heavy oil field in Saskatchewan, until it reported a 43 percent drop in second quarter production to 135 bpd from 236 bpd a year earlier, causing a drag on share values.

Despite the disappointment with Kerrobert results, Chief Financial Officer Peter Cheung said “we do believe we know what the major challenge is,” with the blame divided between some technology hitches along with oil that could not be sold due to a lack of rail shipping.

The company said it is now experimenting with “multi-THAI,” adding more air injection wells along each horizontal section to expand the combustion zone. The first test is expected this fall.

Seepage of emulsion

But that setback coincides with another challenge facing a new-generation technology that has been evolving over 30 years.

Since late May, Canadian Natural Resources has been grappling with the seepage of more than 8,700 barrels of bitumen emulsion in the Alberta oil sands region from four locations in the Primrose

field.

The incident, which is being investigated by Canadian and Alberta government officials, has been tied to the use of high pressure cyclic steam stimulation, HPCSS, one of several variations on thermal recovery methods that now account for more than half of Alberta's oil sands production.

CNR has insisted the seepage is being contained and recovered and believes the cause is more human error than the technology.

HPCSS, which is designed to reduce energy and water consumption, injects steam to separate bitumen from sand, allowing the bitumen to be pumped to the surface, is estimated to account for about 35 percent of all in situ production.

It also underpins a core element of CNR's operations, with the Primrose area contributing 120,000 bpd in July of the big independent's 440,000 bpd of oil and liquids output.

Bob Curran, a spokesman for the Alberta Energy Regulator, the province's energy authority, said in a statement the four locations are being investigated to determine if they are related.

To date, he said the AER has not responded to a request by environmentalists and First Nations for a public inquiry into the steam injection process.

Curran noted that HPCSS is quite distinct from steam-assisted gravity drainage, which he viewed as a method of enhanced oil recovery, with the two main variations being cyclic steam stimulation and steam flooding.

The AER notes that HPCSS has been used for oil recovery in Alberta for more than 30 years, notably by CNR at its Primrose and Wolf Lake projects near Cold Lake, where Imperial Oil has gross output of about 150,000 bpd and expects to add 40,000 bpd from its Nabiye facility by late 2014.

May be mechanical failure

CNR President Steve Laut said he is “pretty confident” that a mechanical failure of the well bores, not the technology itself, is responsible.

“At Canadian Natural everyone takes this event very seriously,” he said in a statement. “We are responsible and we are committed to ensuring the Primrose cleanup and reclamation work.”

Walter Janvier, a councilor with the Cold Lake First Nations, said there is no sign the leaks are slowing down, making a case for a serious technical review of HPCSS.

“It's not so much the surface spill, which can be cleaned up,” he said. “When you can't control what happens underground, that's different story. We want an investigation that looks at all the technical data.”

Janvier said he is also concerned that CNR initially kept First Nations away from the sites, then limited visits to only two of the four locations.

Laut insists HPCSS is viable, having been used for 30 years by thousands of wells with only a few incidents, but said he does not disagree with an AER report into a 2009 spill which raised concerns about a possible geological weakness in the area.

Darren Bilous, energy spokesman for the New Democratic Party in the Alberta legislature, said rules and regulations tied to cyclic steam stimulation have not been updated since 1994, despite the 2009 spill.

He said the AER should take decisive action and adopt draft regulations that were written last year. ●

Contact Gary Park through publisher@petroleumnews.com

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FACILITIES

Second Drift River tank to come online

The operator of the Drift River terminal on the west side of Alaska's Cook Inlet is planning to bring another of the facility's huge crude oil storage tanks back into service.

At present, only one of the terminal's 270,000-barrel tanks, tank 3, is in use, state officials said.

The operator, Cook Inlet Pipe Line Co., wants to reactivate tank 4.

To allow this, CIPL has applied to amend its oil spill prevention and response plan. The agency considering the application is the Alaska Department of Environmental Conservation.

DEC is taking public comments on the application until Oct. 4.

"The department will hold a public hearing on the plan application if it determines that good cause exists," DEC said.

CIPL is a subsidiary of Hilcorp, a major oil and gas operator in Cook Inlet.

The Drift River terminal consists of a tank farm and a dock for loading oil tankers.

It closed in 2009 following a series of volcanic eruptions of nearby Mount Redoubt. Since then, Hilcorp has worked to better fortify the terminal against volcano-related flooding and to resume limited use of the tank farm.

Built in the 1960s, the terminal is located about 12 miles southeast of the base of Mount Redoubt.

—WESLEY LOY

It closed in 2009 following a series of volcanic eruptions of nearby Mount Redoubt.

Since then, Hilcorp has worked to better fortify the terminal against volcano-related flooding and to resume limited use of the tank farm.

LAND & LEASING

State OK's Pt. Thomson, Oooguruk deals

Through a series of about 100 separate transactions in August, Exxon Mobil Corp., ConocoPhillips Alaska Inc., BP Exploration (Alaska) Inc. and Chevron U.S.A. Inc. shuffled their working and royalty interests in 35 leases at the Point Thomson unit.

The transactions include all the Exxon-operated leases at the eastern North Slope unit, but not the two Point Thomson unit leases operated by Devon Energy Production Co.

The transfers range from less than 5 percent to as much as 45 percent working interest and similar royalty interest percentages, according to recent Alaska Department of Natural Resources records. The state approved the transfers retroactive to June 2012.

Also in August, the state approved a deal at the Oooguruk unit, where Eni Petroleum US LLS transferred a 30 percent working interest and some 24 percent royalty interest in four leases to unit operator Pioneer Natural Resources Alaska Inc. The four leases — ADL 390505, ADL 390697, ADL 391434 and ADL 391908 — are in the southern end of the unit, in the recent expansion area associated with the burgeoning Nuna development.

Historically, Eni has held a 30 percent interest in the Oooguruk project.

—ERIC LIDJI

The transactions include all the Exxon-operated leases at the eastern North Slope unit, but not the two Point Thomson unit leases operated by Devon Energy Production Co.

continued from page 1

WATT COMMENTS

the northern Kenai Peninsula, is about to start an onshore exploration well in the southern Kenai Peninsula and is engaged in offshore exploration drilling using a jack-up rig. The company has announced the discovery of a new gas pool in its Cosmopolitan prospect offshore the southern Kenai Peninsula.

Projected shortfall

A study carried out for the Southcentral Alaska utilities in 2012 had projected an imminent shortfall in utility gas supplies. But recent field development work by Hilcorp Alaska has flattened out the gas production decline curve to 2018. And continuing work by a number of independent companies — Buccaneer, Furie Operating Alaska, Nordaq Energy, Cook Inlet Energy, Armstrong Cook Inlet and Aurora Gas — will push the supply curve above the level of Southcentral demand, Watt said.

On the other hand, with maximum field gas deliverability currently only about 15 percent higher than average annual deliverability of around 220 billion cubic feet per day, there is a continuing requirement for gas storage to bolster the rate at which gas can be delivered, he said.

The Cook Inlet basin currently has total proven reserves of 664 billion cubic feet, Watt said. Dividing that figure by annual gas production results in a reserves-to-production ratio of about eight years, he said. But Buccaneer, by itself, has an independently verified gas resource potential of 372 bcf in the various exploration and development projects that the company is engaged in. Divide that volume by the eight years of production from basin reserves indicates the potential of something in excess of 40 bcf per year of production above current Cook Inlet production levels, he said.

And that figure for additional production does not take into account new future production from Cook Inlet players other than Buccaneer, Watt said.

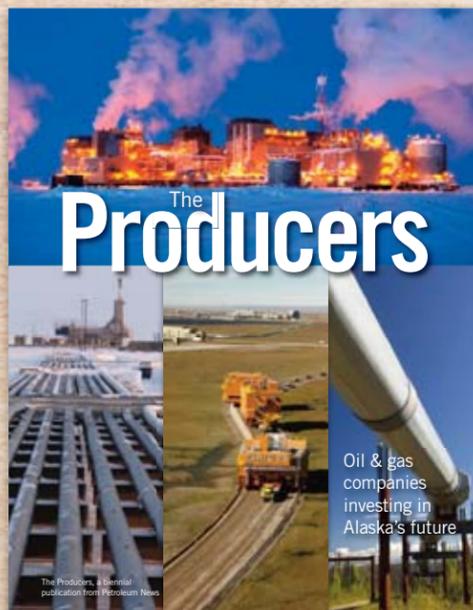
DNR correct

Referencing a study that the Alaska Department of Natural Resources, or

see **WATT COMMENTS** page 15



THIS YEAR IT'S THE PRODUCERS MAGAZINE



Every other year Petroleum News is replacing The Explorers with The Producers, a magazine that will carry the same subtitle "oil & gas companies investing in Alaska's future," but focus on companies that operate producing fields in Alaska, such as Armstrong, Aurora, Buccaneer, BP, ConocoPhillips, Cook Inlet Energy, Pioneer, Hilcorp, XTO, Savant and Eni — or have oilfield infrastructure under construction, such as ExxonMobil and Brooks Range (The North Slope Borough's Barrow gas fields will also be covered.).

The Producers magazine will be released at the annual Resource Development Council (RDC) conference in Anchorage in November. It will be distributed to several conferences, as well as sent to all Petroleum News subscribers (including lawmakers).

PLEASE CONTACT ANY OF THESE REPRESENTATIVES FOR MORE DETAILS.

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continued from page 4

MUNOZ Q&A

nized that those were areas that needed to be changed or addressed in ACES.

There were aspects of SB 21 that needed further work. Particularly I was concerned about the issue of new oil. I supported amendments that would have tightened up that definition and put a sunset on that new oil provision at seven years. I think that was reasonable because the big challenge now is defining what is new oil versus old oil? How do you meter it? How do you determine what is new oil in the legacy fields? And once you've established new oil, it remains new oil for the life of the operation.

So when you're layering new oil upon new oil and also trying to calculate the decline rate of between 5 percent and 7 percent, it becomes very complicated. That was an issue that I and others thought needed further work on SB 21. The public comment period for the regulations that have to do with this area of new oil closed in August. The Dept. of Revenue is actively reviewing at those comments and making every effort to put into place a system that matches the intent of the law. It is possible that we may have to come back to the legislation and further clarify what makes new oil versus old oil. But right now we are going through the reaction to the public comment period. Within three to four months, we'll have a sense of where the department is going.

Petroleum News: If any are made, we won't specifically know what they are now, but if the Legislature does adjust SB 21, do you think it could affect how people vote on the referendum?

Munoz: First of all there is a lot of misinformation about why the change was so necessary but also what the impact of that change will be. When you get down to the nitty-gritty of SB 21 and what it does, it comes very close to the revenue projections under the original ACES. As ACES was originally introduced, the revenue projections were roughly in the area of what SB 21 is anticipated to bring in. In the final days of the (special) legislative session, when they were adopting ACES, I was not in the Legislature, but I understand there were some significant changes that were happening that were not properly modeled at high prices. When ACES was put into effect, and we had an environment with very high oil prices, Alaska was bringing in tremendous revenue from those high prices. That was a result that was not anticipated with the final changes that happened under ACES. SB 21 puts more reason into our tax policy, more predictability and brings the revenue projections pretty close to what the original ACES package envisioned and slightly more than what the PPT system brought in.

Petroleum News: A consultant who appeared at a recent LNG symposium told some who attended that it can appear that Alaska doesn't really know what it wants because it's investing in a large-diameter line, a small-diameter line and massive hydro project in Susitna Watana dam. From the Southeast perspective you're pursuing that kind of diverse use. With that in mind, what are your thoughts on that observation?

Munoz: One model does not fit all of the regions of Alaska. Certainly in Southeast Alaska the resources that are predominant here may not be similar to other parts of the state. We really believe

strongly in Southeast that we need to develop our hydro potential to its full capacity. The communities of Juneau, Ketchikan and Sitka rely on dependable hydro resources. Many of our smaller communities still pay high prices for diesel fuel generation. Even with (Power Cost Equalization), the electrical rates in communities in Angoon and Hoonah come close to 50 cents a kilowatt hour. First of all, when we talk about HB 4 and getting gas to Alaskans, what I'm looking at and what other members of Finance are looking at, is how do other areas outside of the Railbelt benefit. To that end, we included language in HB 4 that ensures the coastal communities and the river communities will be considered when the distribution of those resources is made possible. Obviously it's going to take great investment into infrastructure and transportation to put that system in place, but we also want to, in Southeast, not lose sight of the importance of developing hydro potential in these smaller communities where hydro exists and also getting our fair share of the pie as these resources are divided around the state.

Petroleum News: Even as you've served on Resources, what have you learned most about your one year on Finance with all of these resources bills that come to your desk, be it trucking LNG to Fairbanks, SB 21, HB 4?

Munoz: We are fortunate to have such a robust resource base, be it oil and gas or mining. All of these bases are the envy of the world. It's a matter of developing these resources properly and training Alaskans for these jobs that are happening here at home. For example, mining here in Southeast, the industry is booming. One of my great interests is to make sure local Alaskans are training for those jobs so that the high paying jobs are not going to people who come to Alaska for two weeks at a time then go back to Montana for two weeks. Of course a certain number of those positions will be filled by individuals from Outside, but we need to do as much as we can as a state to ensure that Alaskans are getting trained in mining, engineering, diesel mechanics — all the trades — the career opportunities that are happening because of our strong resource base.

Petroleum News: There seems to be a greater distrust for the oil industry more

so down here in Southeast than other parts of the state. What's your take on that?

Munoz: We have had a history over environmental concerns: the spill in Prudhoe Bay, the Valdez spill, the spill in the Gulf recently. So there will always be an environmental concern. In the coastal communities, we're away from the Railbelt and the majority of the population is not employed by the oil industry, so the perception of separation exists when your neighbor or your family member is not directly employed by the industry.

The fact of the matter, without the benefits of revenue that comes through the state, think of the difficulty we would have in funding our school budget, our university budget or even our transportation budget. Everything is so closely linked to the money coming in through the oil industry. It's trying to educate people of those direct benefits. For communities not in the Railbelt, it is a greater challenge.

It's just like the mining industry here in Juneau. Before Greens Creek and Kensington opened, I think there was a greater distrust of mining in general. Even though we were built on the mining industry, that disconnect developed over the years when there was no activity, made individuals generally distrustful of what it would look like in the communities once it was in place.

Now, there are several hundred jobs at each site; think of how the community has turned around in terms of how we view mining and how we support mining. I think it's fair to say Juneau is a mining town now. Two of Alaska's six working mines are right here in Juneau.

Petroleum News: Circling back to SB 21, one of the prevailing criticisms is that the referendum will have a chilling effect on investment until the issue gets resolved. Do you believe that's true?

Munoz: It's bound to happen. Alaska over the last 10 to 15 years, we've changed our oil tax policy several times. Three or four times at least. I have to believe that creates uncertainty for investment in the international investment community. I'm hopeful with SB 21 that the public will see the benefit of creating a stable tax policy and the long-term benefit that it will have of creating a stable economy. When I was elected in

2008, we were at 650,000 barrels of production a day. Today, we are at about 520,000 a day. That's a huge loss, about \$3 billion in revenue a year.

We cannot continue to decline at the rate that we are. We have to be able to level out that decline curve. That's what changes in our tax policy. That's what we are attempting to stabilize — our fiscal system — so that we can encourage new development, encourage new investment. Until we have that stability, I think investment will be tentative. My hope is that once we get through this, we can look to a brighter future.

Petroleum News: When ACES passed, there wasn't a great outcry to change or repeal it, but after SB 21 passed, the level of discussion remained intense. Why do you suppose there was such a disparate reaction?

Munoz: Part of it was the environment going on during ACES. The high profile (federal) probing going on here with the Legislature, really the misconduct of certain legislators. There really would have been great hesitation to unravel something that came out of that period. In all fairness, there was a bit of greediness. ACES brought in huge amounts of revenue at high oil prices. We were swimming in money. From a legislative perspective — the capital perspective — it's more fun to be involved in a climate where you are able to fund your favorite projects as opposed to not being able to do so. Those two elements had a tremendous effect.

Now with this incredibly fast decline in production to a point where operationally it becomes more difficult and more challenging when the oil flow is so low, to see over 150,000 a day decrease in my five years, that's outstanding. When you consider it's your primary source of revenue, this has to be an incredible wakeup call when you look at the collision course we're on without meaningful change. We have been declining rapidly and the high oil prices have been masking some of that decline. When you start looking over the precipice and in a matter of 10 or 15 years you could be at 400,000 barrels a day or even 350,000. You're facing a much more shocking reality. ●

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continued from page 1

POINT THOMSON

hiring of Alaskans and Alaska contractors and its “commitment to Alaska’s energy future.”

ExxonMobil and its contractors employed more than 1,100 Alaskans during the winter work season, and more than 500 people worked on Point Thomson site development during the summer, the company said.

Airstrip, pier, camp and more

More than 35 Alaska companies worked on the project in the summer, ExxonMobil said.

Alaska Frontier Constructors was involved in completing an airstrip and finishing construction of a service pier, the company said.

A permanent camp, providing meals and housing to project workers, was built and is now fully operational, ExxonMobil said. Point Thomson’s telecommunications and power systems also are fully operational.

Part of the project involves laying a new 22-mile insulated pipeline to tie Point Thomson into the existing North Slope oil transportation network.

Completion of the pipeline is expected this coming winter, ExxonMobil said. More than 2,200 vertical support mem-

bers — rackets to support the above-ground pipeline — already have been installed.

Australian firm WorleyParsons, the primary engineering, procurement and construction management contractor for Point Thomson, recently awarded two subcontracts for the next major phases of development.

“CH2M Hill Alaska was awarded a subcontract for the installation of production system modules that make up the principal components of the permanent Point Thomson facilities,” ExxonMobil said. “CH2M Hill is partnering with ASRC Energy Services and Delta Construction on field work beginning in 2014.”

CH2M Hill Alaska also was awarded a subcontract to fabricate and install a standby power generation module, which will provide backup power for the entire facility in 2014, ExxonMobil said.

“These subcontracts will provide employment opportunities for many Alaska-based contractors,” the company said.

Cutting steel

Karen Hagedorn, ExxonMobil’s Alaska production manager, discussed the Point Thomson project in a Compass column published Sept. 14 in the Anchorage Daily News.

“We’ve moved into our permanent

work camp and we’re about to cut the steel to build modules that will handle up to 200 million cubic feet per day of natural gas,” Hagedorn wrote.

Neither the column, nor the ExxonMobil press release, said where the industrial modules will be built. In the past, major oil field modules have been built out of state, in Louisiana or elsewhere, then barged to the North Slope.

Hagedorn and ExxonMobil touted the potential for Point Thomson, and especially the new pipeline, to open the eastern North Slope frontier to additional exploration and development.

The pipeline will have a capacity for up to 70,000 barrels per day, far more than the modest 10,000 barrels of condensate ExxonMobil plans to produce to start.

Natural gas condensate is a form of light oil. ExxonMobil plans to produce the condensate by cycling gas to the surface. Liquids will be collected, and then the dry gas will be shot back underground for storage.

In her Compass piece, Hagedorn said a class of Point Thomson operators is now in training.

“We have also started gearing up for our next round of hiring this fall,” she wrote.

The state’s pressure

Development of Point Thomson has

long been an important economic development goal for Alaska’s elected officials.

The field was discovered in the 1970s, but ExxonMobil didn’t develop it, citing its technical challenges and the lack of a North Slope natural gas pipeline.

Tired of waiting, the administration of former Gov. Frank Murkowski in 2005 began taking steps to dissolve the Point Thomson unit and underlying leases. This would spawn a heavyweight legal conflict, with succeeding governors Sarah Palin and Sean Parnell continuing the fight that Murkowski started.

The conflict had reached the Alaska Supreme Court when the state and the oil companies, on March 29, 2012, reached a settlement that closed the case and laid out a schedule for phased development at Point Thomson.

Now the first phase of development is proceeding. State officials have said if ExxonMobil and its partners don’t follow through, they will lose acreage.

The condensate signifies only a fraction of the Point Thomson’s value. The field holds an estimated at 8 trillion cubic feet of gas, or about a quarter of all the known gas reserves on the North Slope. If and when the state gets its long-sought trans-Alaska gas line, Point Thomson will be a major contributor to the project. ●

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continued from page 1

INSIDER

Barents Observer reported on Sept. 12. Apparently two of the icebreakers in that flotilla were dispatched to assist the stricken tanker.

The U.S. Coast Guard and some Alaska coastal communities have been expressing concern about the potential for an oil spill as a result of a marine accident, as vessel traffic in the Arctic increases and Russia opens its Northern Sea Route. Of particular concern is the Bering Strait, where traffic becomes funneled into the relatively nar-

row sea passage.

—ALAN BAILEY

Where does Arctic haze come from?

IT HAS BEEN KNOWN FOR SOME TIME that tiny particles called aerosols cause haze in the Arctic atmosphere at certain times of the year. And in 2009 some scientists from the National Aeronautics and Space Administration published research indicating that these aerosols may account for as much as 45 percent of the climatic warming in the Arctic region. The

NASA scientists said that two human-generated aerosols, sulfates from the burning of oil and coal and black carbon, a soot-like product of the burning of a variety of fuels, play especially important roles in this warming effect.

Now a team of scientists from Norway, Austria, Finland and Russia has published in a paper in the journal “Atmospheric Chemistry and Physics,” saying that a computer simulation has indicated that 42 percent of the near-surface black carbon in the Arctic atmosphere has originated from gas flaring at oil fields, with most of the flaring-related carbon remaining fairly close to the surface rather than rising higher in the atmosphere. The burning of residential fuels also appears to make a significant contribution to atmospheric black carbon in the Arctic, the paper says.

The NASA scientists had commented that black carbon emissions have increased significantly in recent years, especially from Asia, and that precipitation that would flush particulate matter from the air is relatively sparse in the Arctic.

The paper in “Atmospheric Chemistry and Physics” references “strong flaring emissions” in the region to the south of

the White, Barents and Kara seas. Gas flaring at oil fields is in general banned in Alaska. Gas produced from the North Slope fields is either used as fuel gas in power stations or is re-injected into the fields to maintain oil reservoir pressures and to flush oil from reservoir rocks.

—ALAN BAILEY

Greenpeace activists arrested in Russian Arctic oil protest

REUTERS IS REPORTING that the Russian coastguard has arrested two Greenpeace activists who scaled the Prirazlomnaya oil platform in the Barents Sea.

Reuters said Sept. 17 that the activists were in custody on the coastguard vessel.

The Prirazlomnaya platform is operated by Gazprom.

Greenpeace told Reuters in an emailed message that it sent five boats to the rig early Sept. 17, one of which was arrested by the Russian coastguard which fired warning shots across the bows of the Arctic Sunrise base vessel.

—PETROLEUM NEWS

continued from page 12

OIL PATCH BITS

“STG stands out in Alaska as a proven company with dedicated employees, led by Jim and Sandy St. George,” said Calista Corp. President and CEO Andrew Guy. “Calista continues to strengthen and grow with complementary acquisitions. That is one of our key obligations to our shareholders.”

The acquisition also includes Alaska Crane Ltd., Terra Foundations Inc. and Gambell Properties LLC. Alaska Crane provides crane equipment and operators for nearly any sized project. Their equipment includes the largest crane in Alaska, currently working on the Blue Lake Hydroelectric project in Sitka. Three years ago Calista acquired Brice Inc. and Yukon Equipment Inc.

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continued from page 1

GAS SUPPLIES

the Cook Inlet basin, has purchased oil and gas fields in the basin that had belonged to Chevron and Marathon Oil and is now the dominant gas producer in the basin.

New contracts

Enstar Natural Gas Co., Chugach Electric Association and Matanuska Electric Association have now all signed contracts with Hilcorp for gas supplies to 2018, and the Regulatory Commission of Alaska has approved the contract with Enstar. The commission has yet to rule on the other contracts.

During a talk at the Alaska Critical In-State Energy Summit on Sept. 16, Jim Posey, general manager of Anchorage electric utility, Municipal Light & Power, reflected on the changes, as Hilcorp has geared up its oil field activity.

“We went from a sense of emergency ... to a sense of urgency,” Posey said.

Joe Griffith, general manager of Matanuska Electric Association told the In-State Energy Summit that obtaining gas from Cook Inlet is the preferred solution to long-term gas supplies. But, if that does not prove possible, some form of importation arrangement would be an alternative. The utilities have been considering the possibility of importing liquefied natural gas, probably from western Canada, into Southcentral, a proposal that has been met by gasps of horror by some people in the state.

People in the state administration “get all tensed up about it,” Griffith said. “I can understand, but for heaven’s sakes, we’ve got to keep the lights on.”

There are also proposals to bring North Slope gas to Southcentral Alaska by pipeline, either as an in-state line or as an

offshoot of a major gas line for exporting gas from the Slope.

Four large fields

During a talk to the Commonwealth North Energy Action Coalition on Sept. 13 John Lau, Enstar’s director of engineering, commented that Cook Inlet gas supplies are still heavily dependent on four large gas fields: the Kenai, North Cook Inlet, Beluga and Trading Bay fields. The combined size of these fields, all discovered several decades ago, amounted to 7.5 trillion cubic feet of gas, with the remaining fields in the Cook Inlet basin only contributing about another 1.5 tcf, Lau said. The last discovery of a gas field more than 1 tcf in size was in 1965, Lau said.

Smaller field have been discovered more recently, but many of these fields would be needed to make total gas reserve increments that compare with the large fields, he said. For example, the construction of the Kenai Kachemak Pipeline about 10 years ago started to open up new gas developments in the more southerly part of the Kenai Peninsula: There are now 10 or 11 properties in that area that have been developed or have development potential, Lau said. But, the total contribution of these developments to overall gas reserves amounts to about 250 billion cubic feet, not the trillion cubic feet or more that would be equivalent to the old legacy fields that are now in a serious state of decline, he said.

New exploration

Exploration for new oil and gas is taking place in the basin — Furie Operating Alaska has announced a gas find in its offshore Kitchen Lights prospect, Nordaq Energy is developing a new gas field in the northern Kenai Peninsula and Buccaneer Energy has a gas resource in

its Cosmopolitan prospect, offshore the southern Kenai Peninsula. But none of these companies has yet published any gas reserves figures for its find, and in the absence of published reserves predicting the contributions that new fields can make to future gas supplies becomes an exercise in speculation.

Clock ticking

Meantime the clock is ticking for fields that are in production.

The total maximum gas deliverability, the rate at which gas can be delivered from the gas fields, has declined from nearly 1 billion cubic feet per day in 1997 to somewhere around 270 million to 280 million cubic feet per day at present, Lau said. And, with the possibility of the Southcentral utilities needing up to perhaps 425 million cubic feet per day in a worst-case winter cold snap, the utilities now depend on the 140 million to 150 million cubic feet per day that could be delivered from the new Cook Inlet Natural Gas Storage Alaska, or CINGSA, storage facility on the Kenai Peninsula, he said.

“We’re right on the cusp,” Lau said.

CINGSA stores surplus gas produced

in the summer and then releases that gas in the winter when gas demand is high.

Options needed

With a duty to ensure continuity of energy supplies for their customers, the utilities, unable to make assumptions about what new gas reserves might come on line from Cook Inlet exploration, are looking to options such as the import of liquefied natural gas for future gas supplies. And, with sizable lead times and high potential costs, the utilities need to move forward on these alternatives well before gas shortages hit the region. The time horizon for establishing an import arrangement might be three to four years, with a project cost of perhaps \$100 million or \$200 million, Lau said.

And so, while the Hilcorp contracts have provided some breathing room, enabling the process of establishing alternative gas supplies to slow down, the utilities still need to make sure that the import option remains available, Lau said. ●

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continued from page 11

WATT COMMENTS

DNR, conducted in 2011, showing the decline curve for Cook Inlet gas production but suggesting that the decline curve could be flattened through the development of potential gas reserves and through exploration and development for new gas resources likely to exist in the Cook Inlet basin, Watt said that recent activity in the basin had demonstrated the DNR analysis to be correct and that people can take some comfort that local gas demand can be met.

“I think we’re there,” Watt said. “The DNR projection in 2011 has proved to be essentially on target.”

However, Watt also commented that he sees Cook Inlet gas production as a solution to Southcentral gas supply needs for perhaps 10 years into the future, with gas through a pipeline from the North Slope being the longer term means of establishing secure gas supplies in the Southcentral and Fairbanks regions.

—ALAN BAILEY

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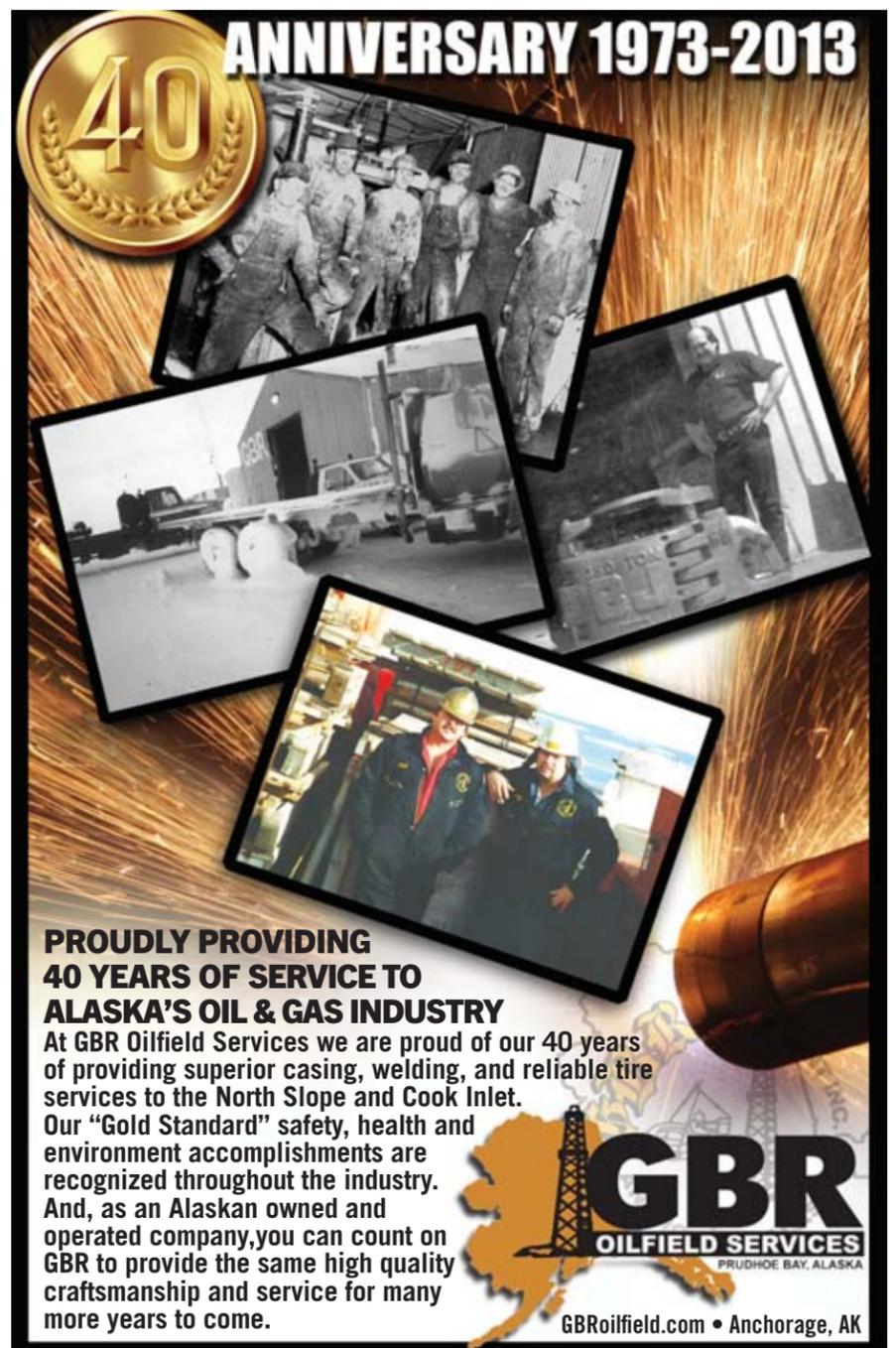


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