



EXPLORATION & PRODUCTION

Stepping out west

NordAq plans Smith Bay exploration well this winter using Arctic Fox rig

By ALAN BAILEY
Petroleum News

NordAq Energy Inc. plans to drill a single exploration well this winter in the southern part of Smith Bay, offshore the north-central part of the National Petroleum Reserve-Alaska, according to a plan of operations that the company has filed with Alaska's Division of Oil and Gas.

The well, located near the delta of the Ikpikpuk River and called the Tulimaniq No. 1, will essentially consist of a vertical stratigraphic test well, designed for the collection of rock samples from the subsurface, and well logging for obtaining a vertical seismic profile for calibrating seismic data, the company says. However, the company

Drilling will take place from a 500-foot diameter ice island in one to four feet of water near the mouth of the Ikpikpuk River.

says that the well may encounter liquid-hydrocarbon-bearing zones, in which case a well testing plan will go into operation, to evaluate hydrocarbon performance characteristics.

"Additional wells may be drilled in subsequent seasons depending on the results of the first well," the company wrote in the introduction to its plan.

Although in an extremely remote location, some 150 miles west of the oil infrastructure at Prudhoe Bay, Smith Bay exhibits much promise as

see **NORDAQ PLANS** page 16

NATURAL GAS

An aggressive timeline

MWH moving toward December financial close for North Slope LNG plant

By ALAN BAILEY
Petroleum News

With concurrent work progressing on multiple fronts, including a gas supply agreement, customer gas offtake agreements and plant cost estimates, a project to build a liquefied natural gas plant on the North Slope is moving rapidly towards a financial close in mid-December, executives from engineering firm MWH told the board of the Alaska Industrial Development and Export Authority, or AIDEA, on Sept. 25.

The LNG plant construction forms part of the Interior Energy Project, a project to bring affordable natural gas to Fairbanks by trucking LNG from the

North Slope along the Haul Road and then delivering the gas through a greatly expanded distribution pipeline system in the city.

"There's a lot going on right now, trying to meet this really accelerated schedule," Rick Adcock, vice president and managing director of MWH Infrastructure Development Inc., told the board.

AIDEA is providing state funding support for the Interior Energy Project and has commissioned MWH to manage construction of the LNG plant. The target is to supply gas to Fairbanks consumers at a cost of \$15 per thousand cubic feet or less, an energy cost substantially below the high cost of fuel oil

see **LNG PLANT** page 15

NATURAL GAS

BC signals tax retreat

Government may bend to pressure on special LNG production tax; will limit GHG

By GARY PARK
For Petroleum News

The British Columbia government has hinted it may be willing to soften its call for a special LNG tax as deteriorating economics threaten possible upstream capital spending of C\$219 billion.

Whether it has climbed down will be revealed shortly when the tax is unveiled by Finance Minister Mike de Jong, who now emphasizes that numbers contained in the tentative two-tier regime that was rolled out in February are "up to" figures.

Meanwhile, lurking in the background, are plans for a second levy on the industry when the province sets limits on greenhouse gas emissions from liquefaction facilities.

The final details will be contained in two bills to

be introduced in the provincial legislature in October and scheduled for passage before year's end.

Leslie Palti-Guzman, a senior analyst with the New York-based Eurasia Group, said in a recent report that the government's position has softened over the last few months and "it is now likely to introduce a more industry-friendly tax regime that will not impede investments."

"Eurasia Group expects additional concessions from both the provincial and federal governments to facilitate the fiscal environment for LNG developers," she said.

Intensified pressure

Pressure on the British Columbia government

see **TAX RETREAT** page 14



NIKISKI FIRE DEPARTMENT

Firefighting Oct. 2 at Hilcorp's Baker platform in Cook Inlet.

Fire at Hilcorp's Cook Inlet Baker platform extinguished

Four workers were evacuated by helicopter Oct. 2 when a fire broke out on Hilcorp Alaska's Baker platform in Cook Inlet's North Middle Ground Shoal field, destroying the living quarters on the platform.

A unified command was established to respond and said in an Oct. 2 statement that primary firefighting efforts came from the Ocean Marine Services vessel Discovery, which along with the Cook Inlet Spill Prevention & Response Inc. vessel Endeavor, were on scene.

The Alaska Department of Environmental Conservation said in an Oct. 2 situation report that four vessels responded to the fire. The unified command said personnel from the Nikiski Fire Department, ADEC, the U.S. Coast Guard, CISPRI, Offshore Marine Services and Hilcorp all responded.

ADEC said the fire started in the above deck structures and was discovered by the crew onboard the platform.

In an Oct. 3 statement from the unified command Capt.

see **PLATFORM FIRE** page 11

AOGCC denies Kenai Loop request; AIX, CIE wanted access to report

The Alaska Oil and Gas Conservation Commission has denied a request from two companies seeking access to a confidential report about the Kenai Loop gas field.

AIX Energy LLC and Cook Inlet Energy LLC had asked for access to the "Hite Report" — and to a corresponding section of confidential transcript from an April 21, 2014, hearing discussing the report — to improve their standing in bankruptcy proceedings involving Buccaneer Energy Ltd., which operates Kenai Loop through a subsidiary.

The Alaska Mental Health Authority land office commissioned the Hite Report from geological consultant David Hite as part of an ongoing dispute over drainage at Kenai Loop. The report and the section of testimony pertaining to it "appear to rely upon confidential information of other parties which was reviewed by Hite," according to the AOGCC. In a Jan. 31, 2014, order, the AOGCC required parties in the case to share certain confidential information among each other but not with any outside parties.

Even though AIX Energy and Cook Inlet Energy aren't parties to the case, they told the AOGCC that having access to the report

see **KENAI LOOP** page 12

While the Buccaneer portfolio includes a smattering of leases across the Cook Inlet basin, the Kenai Loop field constitutes the only leases currently in production.

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North America's source for oil and gas news

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GOVERNMENT

Feds goals for Arctic Council a concern

Stefanie Moreland, governor's appointee to Alaska Arctic Policy Commission, reviews issues with US chairmanship of Arctic Council

By STEVE QUINN
For Petroleum News

Stefanie Moreland came to Juneau two years ago as a special assistant to Gov. Sean Parnell, for whom she would carry a portfolio responsible for fisheries, wildlife, oceans and Arctic policy.

Today, she is a deputy commissioner for the Department of Fish and Game, spending time in Washington, D.C., and Alaska's rural Arctic communities immersed in emerging and pending Arctic policy issues.

Moreland represents Parnell on the Alaska Arctic Policy Commission, which is wrapping up work in the next several months on a report for the Legislature early next year.

She believes the Arctic represents a chance for economic development, just as it has with the North Slope oil patch for more than 40 years. As the U.S. prepares for a chairmanship in the eight-nation Arctic Council, Moreland says it's incumbent on Alaska's leaders to educate those in the Lower 48 that the Arctic is not a swath of barren tundra that needs protecting. Rather, it's a place where people live and work.

Moreland talked about her work and observations of how Alaska's Arctic region will soon become a focal point for President Obama's administration.

Petroleum News: So first talk about your role in the governor's office.

Moreland: As it pertains to the Arctic, I serve as a coordinator on Arctic policy. I work with commissioner's offices across the administration, everything from Health and Social Services to Department of Natural Resources to Department of Environmental Conservation. I work closely with the governor's office, particularly the governor's D.C. office because of federal focus and their relationships with that office. The governor considers Arctic policy to be Alaska's policy. That's why I reach into each of those departments. We have 50 years of experience in the Arctic. With the U.S. chairmanship coming for the Arctic Council, the federal government has been paying a lot more attention to the Arctic region and has started moving on developing a national strategy for the Arctic region and thinking about their chairmanship priorities.

So as the governor's advisor for Arctic policy, I'm tracking the international, federal, and state Arctic policy discussions. In each of those arenas, I'm finding the need to constantly remind policymakers Alaska policy and U.S. policy must be the foundation of Arctic policy. Any new efforts should be consistent with our laws and regulatory processes, and leverage our experience in the region.

Petroleum News: So where are we right now with Arctic policy and an outlook toward an economic development?

Moreland: The federal government is assessing where we are and they have gone through a lot of exercises to do that formally. It started with (former deputy secretary of the Interior) David Hayes' report (Managing for the Future in a Rapidly Changing Arctic) — we refer to it as Integrated Arctic Management. It referred to the unique Arctic environment, calling for a new way to conduct business through the whole of government, increased coordination, collaboration and partnership. We already have those strong relationships in

Alaska where unlike other states where there are many states, many boundaries and relationships with the federal governments.

So we have a lot of interagency work in coordination and sharing occurring. What this report did was identify a need to do business differently and a need to provide attention in the region. It was very informed by headquarters level leadership and that theme has carried to today where we have a lot of ideas, a lot of presumptions, a lot of gap analyses being done by leadership in Washington, D.C., without an awareness of where we already have strengths and programs in place for information sharing.

It was the first indication that we have new policies coming out, attention to the Arctic from the federal side headquarters level and they are not leveraging the strengths that they have in the Alaska region with federal employees and leadership here who are pretty knowledgeable with what we have going on.

Following the Integrated Arctic Management report, the White House began working on their national strategy for the Arctic region. They put out three priorities: security; stewardship; and international cooperation. That document recognized a role for the federal government for economic development in the Arctic region, and we were pretty encouraged by that, by the outreach and by the product.

And then an implementation plan rolled out and that's balanced again toward academic focus, and it doesn't seem as balanced in recognizing a role for federal government in promoting and supporting economic investment and economic opportunity in this region. It's a lot more precautionary in terms of project priorities.

Petroleum News: So can Alaska have a voice — a meaningful voice rather than a token seat at the table — for Arctic policy, research and development? And what would make that voice valuable?

Moreland: The early documents that



STEFANIE MORELAND

rolled out from the federal government committed to partnering with Alaska. We've had a lot of exchange on what that means. But now, those communications have dropped off. I'm not blaming anyone in particular. It just is a big bureaucracy to vet all of this.

And there are a lot of pressures and competing priorities coming their way. We are not having as much opportunity for meaningful exchange and participation. There has been good outreach to Alaska in having a presence.

There was a lot for federal leadership visiting Alaska, but people came for listening sessions, so they didn't really provide a strong idea of where the U.S. chairmanship for Arctic Council was headed. They more listened to what's on people minds here. I'm concerned that input wasn't informed by what realistic outcomes might be, what might be possible in the current fiscal environment.

We engage in the Arctic Council where we have common objectives, where we have jurisdiction or particular expertise. In those areas where we have some alignment, we do have a true partnership. We do

have meaningful participation and dialogue.

Petroleum News: Where would you say those areas are?

Moreland: The governor submitted to the State Department a request for four themes to be considered for Arctic Council chairmanship: promoting economic opportunity; suicide prevention; developing safe sanitation and infrastructure; promoting safe, secure and reliable shipping. They seem to be picking up on some of those themes. I think

they are interested in a suicide prevention project, but we are not sure exactly where that's going to land. They have been enthusiastic about a proposal for safe water, water supply for Arctic communities. I think we will have an opportunity to advance a project in that area.

Petroleum News: Has there been any discussion on resource development, be it shipping lanes or infrastructure?

Moreland: Over and over in providing input in all of these things, we really have

see MORELAND Q&A page 13




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● ENVIRONMENT & SAFETY

To capture or not

Neighboring Canadian provinces take different view of whether CCS is route to cleaner atmosphere or just a 'science experiment'

By GARY PARK

For Petroleum News

Alberta and Saskatchewan agree on almost all major issues of energy policy, with the one exception of carbon capture and storage, CCS, to eliminate greenhouse gas emissions from the atmosphere.

Alberta's newly installed Premier Jim Prentice, who was a former Canadian government environment minister, discusses CCS as a "science experiment" that has failed to yield its promised results, while his Saskatchewan counterpart Brad Wall rates CCS as a chance for his province to set an example for the rest of the world.

SaskPower took a bold stride forward Oct. 2 by opening the world's first commercial-scale CCS plant, equipped with carbon capture and storage technology, with the prospect of generating global investment opportunities for the government-owned utility.

"This project is another Saskatchewan first," Wall said, referring to a province that pioneered radiation technology and the debit card. "The rest of the world is very interested to learn how they, too, can produce environmentally sustainable coal power."

Backing his claims, more than 250 people from 20 different countries attended the launch of the C\$1.4 billion Boundary Creek project (including C\$240 million in federal subsidies) which is designed to remove 1 million metric tons a year of carbon dioxide, while producing 110 megawatts of electricity to power 100,000 households.

SaskPower said it has known for more than a month that the technology works.

"We knew it would, we just didn't know exactly when it would work," said Mike Monea, SaskPower's president of CCS initiatives.

Prentice a skeptic

While the Saskatchewan government was reveling in its breakthrough, Prentice has listed himself among the skeptics.

During his campaign to become leader of Alberta's governing Conservative Party he vowed to scrap his province's subsidization of CCS projects, arguing Alberta has been "off its game" for years when it comes to climate change policy.

He gained support from Alberta Auditor-General Marwan Saher who issued a blistering report that found Alberta's climate change plan — heavily tied to CCS — had missed its greenhouse gas reduction targets, failed to monitor the plan's results and has yet to publish a single document on the outcomes.

The report noted that CCS projects are expected to contribute only 10 percent of the reductions originally targeted in 2008,



JIM PRENTICE



BRAD WALL

despite more than C\$1 billion committed by the province to schemes to capture carbon and use some in enhanced oil recovery projects.

Prentice said he intends to cut off CCS investments. "It's not a panacea, it's a science experiment," he said, but added the idea should not altogether be abandoned.

Wall takes a sharply different view, especially when it comes to Saskatchewan marketing its CCS technology.

He said that, despite the push in North America to eliminate coal-fired plants and move to either natural gas or nuclear power as the fuel source to meet power demands, 1,200 coal plants are being planned worldwide, more than 75 percent of them in China which has 4,500 megawatts of generation in the works.

Because it tends to be located in politically stable areas of the world, unlike oil or natural gas, coal production shows every sign of thriving, which Wall believes increases the pressure to advance CCS technology.

Majors committed

There is no shortage of Canadian oil and gas producing majors who are committed to the initiative.

Enovus Energy has for years been using carbon dioxide piped from North Dakota to boost production from its aging oilfield at Weyburn, Saskatchewan, while scientists from around the world are studying the project to determine whether the gas remains sequestered.

Shell Canada expects to start operating a CCS facility at its Scotford crude bitumen upgrader near Edmonton next year.

The company's Cansolv subsidiary has provided the technology to capture both carbon dioxide and sulphur dioxide.

Shell said it believes the venture will help prove the economic viability of the technology and pave the way for future projects.

Marc Jaccard, an energy economist at Vancouver's Simon Fraser University, said that when the world gets serious about reducing carbon emissions, "fossil-fuel-endowed regions" are likely to pursue CCS along with different renewables.

But he said those regions are unlikely to simply stop producing fossil fuel.

see CARBON CAPTURE page 6

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● EXPLORATION & PRODUCTION

September production up 25% from August

With end of summer maintenance season, ANS crude at 496,388 bpd, close to June levels; Cook Inlet production breaks 18,000 bpd mark

By KRISTEN NELSON

Petroleum News

Alaska North Slope crude oil production started September at 359,150 barrels, but ended the month at 533,561 barrels, a clear indication that the summer maintenance season has wound down and production levels are getting back to a seasonal norm.

The average for September was 496,388 barrels per day, up 25.44 percent from an August average of 395,726 bpd, and approaching the June average of 500,525 bpd.

The largest month-over-month increase was at the BP Exploration (Alaska)-operated Prudhoe Bay field, the Slope's largest, which averaged 270,336 bpd in September, up 58.8 percent from an August average of 170,268 bpd, an increase of slightly more than 100,000 bpd.

The largest month-over-month increase was at the BP Exploration (Alaska)-operated Prudhoe Bay field, the Slope's largest, which averaged 270,336 bpd in September, up 58.8 percent from an August average of 170,268 bpd, an increase of slightly more than 100,000 bpd.

Prudhoe Bay production includes satellite production from Aurora, Borealis, Midnight Sun, Orion, Polaris, Sag River and Schrader Bluff. It also includes production from the Milne Point and Northstar fields, currently operated by BP, but in the process of being transferred to Hilcorp Alaska, which will be the majority owner at Northstar and a 50 percent working interest owner at Milne Point, once that sale closes.

August production at Milne Point averaged 18,744 bpd, down 3.2 percent from a July average of 19,361 bpd. August production at Northstar averaged 8,394 bpd, down 4 percent from a July average of 8,747 bpd.

Information for September comes from the Alaska Department of Revenue's Tax Division which reports North Slope oil production consolidated by major production centers and provides daily production and monthly averages. More detailed data, including Cook Inlet and individual North Slope fields and pools, is reported by the Alaska Oil and Gas Conservation Commission on a month-delay basis.

Endicott, Alpine also up

Other fields with month-over-month production increases include the BP-operated Endicott field and the ConocoPhillips Alaska-operated Alpine field.

Endicott, which includes production

from Sag Delta and Eider, and the Savant Alaska-operated Badami field, averaged 8,932 bpd in September, up 6.7 percent from an August average of 8,371 bpd. Hilcorp will also take over as Endicott operator once the sale of BP properties is finalized.

August AOGCC figures show Badami averaged 1,019 bpd, down 2.3 percent from a July average of 1,044 bpd. Savant Alaska is in the process of being acquired by Miller Energy, parent company of Cook Inlet Energy,

Alpine production averaged 47,501 bpd in September, up 5.4 percent from an August average of 45,086 bpd. Alpine includes satellites at Fiord, Nanuq and Qannik. AOGCC figures show that the main Alpine field averaged 30,762 bpd in August; Fiord averaged 11,465 bpd; Nanuq averaged 1,178 bpd; and Qannik averaged 1,678 bpd.

Kuparuk, Lisburne down

The ConocoPhillips-operated Kuparuk River field, second largest on the Slope, averaged 145,006 bpd in September, down 1.14 percent from an August average of 146,674 bpd. Kuparuk production includes satellite production from Meltwater, Northeast West Sak, Tabasco, Tarn and West Sak, as well as from the Eni-operated Nikaitchuq field and the Caelus Alaska-operated Oooguruk field.

Data from the AOGCC shows that Oooguruk averaged 15,910 bpd in August, up 3.2 percent from an average of 15,414 bpd in July. Nikaitchuq averaged 22,944 bpd in August, down 2.5 percent from a July average of 23,522 bpd.

BP-operated Lisburne averaged 24,613 bpd in September, down 2.8 percent from an August average of 25,327 bpd. Lisburne, part of greater Prudhoe Bay, includes production from Niakuk, Point McIntyre and Raven.

Cook Inlet up 4.3 percent

Cook Inlet crude oil production averaged 18,079 bpd in August, up 4.25 percent from a July average of 17,343. This is the first time in recent years that Cook Inlet production has averaged more than 18,000 bpd.

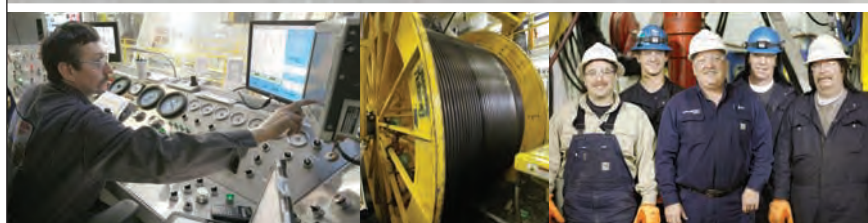
Of the three Cook Inlet crude oil producers — Cook Inlet Energy, Hilcorp Alaska and XTO — both Hilcorp and XTO had month-over-month production increases. Hilcorp, which averaged 13,335 bpd in August, was up 5.6 percent from July; XTO at 1,946 bpd was up 8.7 percent from July. Cook Inlet Energy averaged 2,799 bpd in August, down 4.5 percent from July.

Half of the Cook Inlet fields had

see **ANS PRODUCTION** page 7



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continued from page 4

CARBON CAPTURE

Instead they may decide that regardless of the extra cost CCS may be the cheapest way to get dependable energy.

Sierra Club Canada director John Bennett said the Saskatchewan project is a "waste of vital capital that should be invested in conservation, efficiency and renewable energy."

"It doesn't get us off fossil fuels," he said. ●

Contact Gary Park through publisher@petroleumnews.com

• LAND & LEASING

State, feds schedule back-to-back sales

BLM NPR-A tracts divided into high and low priority; state tracts divided based on location, whether ASRC a joint owner with state

By **KRISTEN NELSON**
Petroleum News

As they have in recent years, the state of Alaska and the federal Bureau of Land Management are holding back-to-back North Slope oil and gas lease sales in November.

The state sale, previously announced, will be at 9 a.m. Nov. 19 in the Dena'ina Civic and Convention Center in Anchorage. BLM will open bids at 1 that afternoon in the Denali Room on the fourth floor of the Anchorage Federal Office Building.

BLM will offer 270 tracts in the National Petroleum Reserve-Alaska covering some 3 million acres.

"The November sale is in line with the Administration's commitment to expand domestic energy production," BLM Director Neil Kornze said in a statement. He said BLM's approach to NPR-A development ensures "that future production is done safely and responsibly while protecting the subsistence resources of Alaska Natives and the habitat of world-class wildlife populations."

BLM sought public input on tract nominations for the sale in NPR-A planning areas not currently leased or deferred from leasing. The agency said it "made its selections based on evaluation of the comments received; natural resource information; resource potential; industry interest; and subsistence values."

The BLM NPR-A tracts are divided into high potential and low potential; both areas have 10-year primary terms.

For high potential tracts the minimum bid is \$25 an acre, the royalty is 16.67 percent and the annual rent is \$5 an acre. For tracts in the low potential area the minimum bid is \$5 an acre, the royalty

rate is 12.5 percent and the annual rent is \$3 an acre.

State terms and conditions

The state North Slope sale is divided into four sub-regions: north, south, adjacent to federal lands and lands jointly owned by the state and the Arctic Slope Regional Corp. All have 10-year primary lease terms.

For tracts adjacent to federal land in NPR-A and the Arctic National Wildlife Refuge, but excluding jointly owned ASRC-state tracts, the minimum bid is \$10 an acre, with a 12.5 percent royalty and annual rental rates from \$1 per acre in the first year to \$3 per acre in the fifth year and beyond.

For tracts owned jointly by ASRC and the state the minimum bid is \$25 an acre, the royalty rate is 16.67 percent and the annual rent is \$10 an acre for years one through seven, and \$250 an acre starting

in year eight.

As with all tracts where the rent goes to \$250 an acre, "beginning in the year after the year in which sustained production commences on the lease or the state otherwise determines in its sole discretion, upon request, that the lessee has exercised reasonable diligence in exploring and developing the lease," the annual rental will be \$10 an acre.

For all other tracts in the north sub-region the minimum bid is \$25 an acre, the royalty rate is 16.67 percent and the annual rents begin at \$10 an acre and jump to \$250 an acre in year eight. For all other tracts in the south sub-region, the minimum bid is \$25 an acre, the royalty rate is 12.5 percent and annual rents begin at \$10 an acre and jump to \$250 in year eight.

For the state's North Slope Foothills sale the minimum bid is \$10 an acre, the royalty rate 12.5 percent, the primary

lease term 10 years and the annual rent rises from \$1 an acre to a maximum of \$3 an acre.

The state's Beaufort Sea sale has three sub-regions, all with 10-year primary lease terms.

For tracts adjacent to federal land (outer continental shelf, NPR-A and ANWR), the minimum bid is \$10 an acre, the royalty rate is 12.5 percent and rents range from \$1 an acre in the first year to \$3 an acre in the fifth year and beyond. For joint ASRC-state tracts, the minimum bid is \$25 an acre, the royalty rate is 16.67 percent and the annual rent begins at \$10 an acre and jumps to \$250 an acre in the eighth year.

All other tracts in the state's Beaufort Sea sale have the same terms as the joint ASRC-state tracts. ●

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continued from page 6

ANS PRODUCTION

month-over-month production increases: the Hilcorp-operated Beaver Creek field averaged 124 bpd, up 16.5 percent from 107 bpd in July; Granite Point, also Hilcorp operated, averaged 2,702 bpd in August, up 1.4 percent from 2,665 bpd in July; the Hilcorp-operated McArthur River field, Cook Inlet's largest, averaged 5,670 bpd in August, up 19.9 percent from 4,730 bpd in July; and the XTO-operated Middle Ground Shoal averaged 1,946 bpd in August, up 8.7 percent from 1,790 bpd in July.

Remaining Cook Inlet fields had month-over-month production declines: the Cook Inlet Energy-operated Redoubt Shoal field averaged 1,031 bpd in August, down 3.4 percent from a July average of 1,068 bpd; the Hilcorp-operated Swanson River field averaged 2,188 bpd in August, down 1.8 percent from a July average of 2,229 bpd; the Hilcorp-operated Trading Bay field averaged 2,651 bpd in August, down 8.3 percent from a July average of 2,892 bpd; and the Cook Inlet Energy-operated West McArthur River field averaged 1,767 bpd in August, down 5 percent from a July average of 1,862 bpd.

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

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● FINANCE & ECONOMY

EIA projects \$98 Brent in fourth quarter

Spot price below \$100 per barrel for first time in more than 2 years driven by weakening global demand, higher Libyan oil exports

By KRISTEN NELSON

Petroleum News

North Sea Brent crude oil spot prices averaged \$97 per barrel in September, the first time that price has fallen below \$100 in more than two years, the U.S. Energy Information Administration said Oct. 7 in its Short-Term Energy and Winter Fuels Outlook.

EIA said the \$97 Brent spot price in September was down \$5 from August and the first time Brent has averaged less

than \$100 a barrel since June 2012.

“Brent crude oil prices were driven downward in large part because of weakening global oil demand and higher Libyan oil exports,” the agency said. EIA is forecasting Brent to average \$98 per barrel in the fourth quarter. The annual forecast has been lowered \$2 from last month to \$104 per barrel for 2014, and lowered \$1 a barrel to \$102 in 2015.

The West Texas Intermediate crude oil spot price fell from an average of \$97 per

barrel in August to \$93 per barrel in September, EIA said. The WTI discount to Brent averaged \$11 per barrel in 2013 and the agency said it expects that discount to average \$7 per barrel both this year and next.

“High refinery runs contributed to the discount of WTI crude oil to Brent crude oil falling from an average of \$8/bbl during the first half of this year to an average of \$4/bbl in the third quarter,” EIA said. The agency expects WTI to average \$91 per barrel in the fourth quarter and \$95 in 2015.

The Henry Hub natural gas spot price averaged \$3.92 per million Btu in September, EIA said, up slightly from August, and is expected to average \$4.45 this year and \$3.84 in 2015.

sector growth and higher electric power sector consumption offset lower residential and commercial consumption,” EIA said.

Natural gas marketed production is expected to grow by 5.4 percent this year and by 2 percent in 2015, with strong increases already seen in the Lower 48 expected to continue, offsetting declines in the Gulf of Mexico, EIA said, with marketed production 4.2 bcf per day greater in July — the most recent month for which data is available — compared to July 2013.

With growing domestic production, EIA said it expects continued downward pressure on imports from Canada and growth in exports to Mexico, particularly from the Eagle Ford, “because of growing demand from Mexico’s electric power sector and flat Mexican production.”

LNG imports to the U.S. have been down for four years because of higher prices in Europe and Asia.

“LNG exports are still a very small part of the total picture, however, and overall the United States will remain a net importer of natural gas because of pipeline imports from Canada,” the agency said.

The Henry Hub natural gas spot price averaged \$3.92 per million Btu in September, EIA said, up slightly from August, and is expected to average \$4.45 this year and \$3.84 in 2015. ●

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EXPLORATION & PRODUCTION

UAF contest targets Alaska’s heavy oil

The University of Alaska Fairbanks has a contest aimed at getting petroleum engineering students from across the country to collaborate on ways to produce Alaska North Slope heavy oil.

UAF said participants in the Petroleum Engineering Challenge will solve the problem of producing heavy oil from a typical North Slope reservoir, with the winning team to be awarded a minimum of \$2,000.

Teams must have two to five students from multiple colleges or universities; details are available at <http://cem.uaf.edu/petroleumchallenge>.

Obadare Awoleke, UAF assistant professor of petroleum engineering, is coordinating the challenge, part of a project within the Chancellor’s Innovation in Technology and Elearning program, a special project requiring creating an online community where students can build teamwork skills.

“I want to promote inter-university collaboration among petroleum engineering students,” Awoleke said in a statement. “The technology is there for students to look beyond the university walls and share knowledge.”

Deadline for initial submissions is Nov. 24.

—PETROLEUM NEWS

US production grows

U.S. crude oil production is continuing to grow, averaging 8.7 million barrels per day in September, EIA said, the highest monthly production since July 1986.

The agency is forecasting a 2014 domestic average of 8.5 million bpd and 9.5 million bpd in 2015; U.S. annual average production peaked at 9.6 million bpd in 1970.

Gulf of Mexico oil production is projected to increase from 1.3 million bpd in 2013 to 1.6 million bpd in 2015, with 11 projects starting this year, six in the first half of the year, EIA said.

Domestic production growth has contributed to a significant decline in imports, with the share of U.S. liquid fuels consumption from imports falling from 60 percent in 2005 to 33 percent last year and expected to decline to 20 percent next year, which would be the lowest level since 1968, the agency said.

Natural gas

Domestic natural gas consumption is expected to average 72.5 billion cubic feet per day this year, up 1.6 percent from 2013, with the industrial sector leading the growth. Natural gas consumption is expected to increase 0.3 percent in 2015, “as continued industrial



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• FINANCE & ECONOMY

The 'next big thing' gets lift

Chevron lands state-owned Kuwait company as Duvernay shale partner, raising hopes Alberta play can compete with Bakken, Eagle Ford

By **GARY PARK**

For Petroleum News

Chevron Canada has landed a deal to sell a 30 percent stake in its Duvernay shale properties in west-central Alberta for US\$1.5 billion to Kuwait Foreign Petroleum Exploration's subsidiary KUFPEC Canada.

The transaction represents an improved chance to answer one overriding question: Can the Duvernay, as some observers have suggested, match or surpass the Bakken and Eagle Ford for results.

In the process, Chevron has also opened up a logjam in the play, which has been rated as the hottest prospect in Alberta since the birth of oil sands development, but has been stalled by the inability of key participants to secure partners.

Chevron said the sale "demonstrates our focus on strategically managing our portfolio to maximize the value of our global upstream businesses and is consistent with our partnership strategy," said Jay Johnson, senior vice president of upstream operations.

The company said the price being paid by KUFPEC includes cash as well as carrying a portion of Chevron's share of the joint venture's future capital costs, which can run to C\$10 million-C\$15 million per well.

The new partnership, assuming the deal closes in November, will conduct appraisal and development of liquids-rich shale resources on about 330,000 net acres in the Kaybob area of the Duvernay, about 160 miles northwest of Edmonton.

A recent estimate by Robert Fitzmartyn, an analyst with FirstEnergy Capital, puts the resource potential at 330 trillion cubic feet of natural gas — making the Duvernay an obvious contender to supply gas for LNG exports — 0 43.3 billion barrels of condensate and gas liquids and 35.8 billion barrels of crude.

Chevron will retain a 70 percent interest in the joint venture and remain the operator.

Four years of work

Chevron has been conducting horizontal drilling and completion work in the Duvernay over the past four years, starting with an exploration program of 13 wells that were completed with hydraulic fracturing and has recently embarked on a 32-well appraisal program consisting of eight pads with four wells per pad.

The work is intended to evaluate well production rates and reservoir performance, the results of which Chevron and other Duvernay players have been reluctant to disclose in detail, even though they have dropped some enticing hints.

Chevron Chief Executive Officer John Watson told a Calgary seminar in September that his company has two rigs at work and could ramp up to 10 rigs over the next decade.

"It's as good an opportunity as we have in our portfolio based on what we've seen so far for liquids rich plays," he said.

But, in a rare step for such a highly competitive area, seven companies have formed the Fox Creek Operators Group as a forum to "encourage a collaborative approach for the responsible development" of the natural resources.

The group is aiming to win over communities in the area, including First Nations, with its commitment to achieve year-round activity and deliver long-term value.

The participants, including Chevron, are Apache Canada, Athabasca Oil Corp., Encana, Shell Canada, Talisman Energy and Trilogy Energy.

Although most are financially capable of operating independently and despite estimates that the Duvernay could match some of the shale developments in the United States, they have been searching for partners to hedge their bets.

Partly as a result of that hunt, the Duvernay has been slower to deliver production results than the Bakken and Eagle Ford, but not because of any doubts surrounding the formation's potential.

Large resource estimates

A recent estimate by Robert Fitzmartyn, an analyst with FirstEnergy Capital, puts the resource potential at 330 trillion cubic feet of natural gas — making the Duvernay an obvious contender to supply gas for LNG exports — 0 43.3 billion barrels of condensate and gas liquids and 35.8 billion barrels

of crude.

Not given to hyperbole, Encana Chief Executive Officer Doug Suttles has predicted his company's stake could hold "billions and billions of barrels of condensate."

Athabasca Oil, which is awash in cash after selling its final stake in Alberta's Dover oil sands project to PetroChina, and Talisman Energy have both openly been scouring the marketplace for prospective partners, while China's Sinopec has indicated it would welcome a participant in half of its holding.

Goldman Sachs, noting that the industry has invested about C\$3 billion over the last five years locking up Duvernay land positions, suggested in a report there should be stronger indications of what the formation can yield over the next 12 to 18 months.

"If exploration is successful we believe resource/production growth has the potential to rival established U.S. shale oil plays given the Duvernay's large footprint (of 3 million acres) and high quality operators," the investment bank said.

However, it cautioned that the play must find ways to lower well costs and provide more definite information on the Duvernay's ability to produce oil and liquids-rich gas.

Goldman Sachs issued a final warning: "We are not recommending any (E&P companies) at present for Duvernay exposure." ●

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GOVERNMENT

Canada seeks reform to land claims

Faced with a seemingly immovable object — First Nations resistance to resource projects, notably crude pipelines — the Canadian government is seeking an answer, Aboriginal Affairs Minister Bernard Valcourt has disclosed.

He said efforts are under way to overhaul procedures for negotiating land claims treaties and speed up talks involving governments and First Nations, especially in British Columbia.

Valcourt said it is “ridiculous” that settlements of such claims now take 20 to 25 years. His department is collecting the views of aboriginal leaders on the first changes in almost three decades to the negotiating policy, including changes that would give officials the ability to reach short-term deals of resource-revenue sharing and other options when land-claims settlements appear unlikely.

The pressure on the administration of Prime Minister Stephen Harper is extreme given that C\$650 billion of capital spending over the next decade is at stake.

Currently about 70 land-claims agreements have been completed, but another 100 remain unsettled, most of them in British Columbia.

Valcourt said the First Nations are positioned to benefit from substantial resource development that would benefit the economies of Canada, the provinces and aboriginal communities, but added it “takes two to tango.”

If anything, the various parties are drifting further apart as First Nations set aside negotiations to pursue lawsuits.

They have been emboldened by a Supreme Court of Canada ruling in June granting First Nations in British Columbia legal title to traditional lands regardless of how intensively the aboriginal communities use them.

The Assembly of First Nations, representing more than 900,000 people from 634 First Nations, views the landmark decision as a breakthrough that forces governments to take aboriginal land title seriously.

But Valcourt argues that the best way to resolve aboriginal rights and title claims is “through a negotiated process” by applying the principles contained in the court ruling, which he credits with laying out the conditions that must be met to support a declaration of aboriginal title.

—GARY PARK

ALTERNATIVE ENERGY

Wind power becoming more competitive

Annual Lazard report suggests cost of wind, solar power dropping to levels that may be competitive with conventional sources

By **ALAN BAILEY**

Petroleum News

Financial consulting and asset management firm Lazard has published a report suggesting that the costs of wind power and power from utility-scale photovoltaic solar systems have dropped to levels that are becoming competitive with more traditional ways of generating electricity. However, the cost data do not take account of the cost of integrating these varying and intermittent power sources into a power grid. Grid integration involves the provision of some alternative power source that can reliably fill in the dips in power output from the intermittent supply.

And the cost of power from solar systems installed by individual electricity consumers is still much higher than the cost of conventional power delivered by a utility, the report says.

The Lazard report makes comparisons

based on what it calls the levelized cost of energy, the cost per megawatt hour from an electrical generation system, taking into account factors such as the development and operating costs of the system and assuming a consistent set of parameters for the cost of investment capital. The analysis considers the cost of power at source, and does not take into account power transmission costs.

On that basis the levelized cost of wind power has dropped from somewhere in the range \$101 to \$169 in 2009 to a range of \$37 to \$81 in 2014, the report says. The corresponding figures for solar power are \$323 to \$394 in 2009 and \$72 to \$86 in 2014. The report attributes the steep drop in costs to a combination of declining manufacturing costs for the systems and dramatic improvements in system efficiencies. The cost figures do not assume any government subsidy.

By comparison, the report says that the levelized cost of power from a modern combined-cycle gas-fired power facility is in the range \$61 to \$87. The low-end cost of coal-fired generation is \$66, with that cost increased to \$151 if 90 percent of the carbon emitted by the plant has to be captured. Nuclear power costs somewhere in the range of \$92 to \$132. And, as will come as no surprise to rural Alaskans, the cost of diesel generated power comes in somewhere in the range of \$297 to a whopping \$332.

Other alternative energy sources include geothermal, with a cost range of \$89 to \$142, and biomass, with a range of \$87 to \$116.

A similar levelized cost analysis by the U.S. Energy Information Administration in its 2014 Annual Energy Outlook made a distinction between onshore and offshore wind power, saying that offshore power is much more expensive than wind power generated on land. The EIA report gives the cost of onshore wind power as \$80 per megawatt hour, with the corresponding figure for offshore systems being \$204. The EIA report estimates the cost of photovoltaic solar power as \$130, with the cost from a combined cycle gas-fired system coming in

see **WIND POWER** page 11

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PLATFORM FIRE

Paul Mehler, federal on-scene coordinator and Coast Guard Sector Anchorage commander, said: "The Unified Command is very pleased with the response effort and can confirm no evidence of debris or hydrocarbon release to Cook Inlet." Mehler also said that Coast Guard personnel would "remain in the area until we're certain all safety concerns have been thoroughly addressed."

Navigation light working

An update from Hilcorp Alaska provided to Petroleum News by spokeswoman Lori Nelson in an Oct. 8 email said the Nikiski Fire Department and Hilcorp Alaska personnel boarded the platform Friday, Oct. 3 and "were able to pave the way for us to make quite a bit of progress over the weekend."

The boarding crew verified that "all safety systems were working as they were supposed to and all electrical systems were safeguarded," the company said in the update. "They were also able to ensure the integrity of the tankage onboard."

ADEC said in its final situation report that no spill had been reported and that the platform had a capacity of some 10,000 gallons of petroleum products.

Two electricians boarded the Baker

platform Oct. 4 "and further assessed the situation," Hilcorp said.

"They restarted the generator and got the navigation light working again."

The Coast Guard provided overflights of the platform over the weekend, Oct. 4-5, "and reported no anomalies."

"Hilcorp has made no decisions regarding the restart or repair of the Baker platform," the statement said, and there is no timeline on results of the investigation into the fire.

Previously lighthoused

The Baker platform was installed for AMOCO in 1965 and prior to Hilcorp's 2012 acquisition of Chevron's Cook Inlet assets was operated by Chevron subsidiary Union Oil Company of California.

The state approved an abandonment plan for the Baker platform, which had been lighthoused, in early 2012. Hilcorp amended the plan later in the year saying it had decided to reactivate the platform to accommodate gas exploration.

Nelson said in an Oct. 2 email that minimal natural gas production from the platform has been shut-in.

The platform is north of the XTO-operated "A" and "C" platforms, some 18 miles northwest of Kenai.

—KRISTEN NELSON

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INTERNATIONAL

Companies work Barents seismic jointly

In an effort to minimize impacts on the fishing industry, companies exploring in the southeastern Barents Sea have conducted a joint seismic acquisition project in the region, rather than having individual companies conduct their own seismic surveys, according to a report on the Statoil website. Statoil is one of a number of companies with exploration interests in the Barents.

"We are pleased to have found a form of cooperation that has ensured good quality data sets and low acquisition costs," said Jan Helgesen, Statoil's head of geophysical operations. "This warrants rethinking and exploring new business approaches and forms of cooperation in order to reduce costs and work more efficiently also elsewhere."

With the Norwegian Ministry of Petroleum and Energy encouraging the oil industry to jointly conduct 3-D seismic operations in the southeastern Barents Sea, 33 companies participated in the acquisition of seismic data in the region, Statoil said. PGS and WesternGeco were the seismic contractors conducting the surveys.

Several oil companies actively participated in the planning of the surveys and in the data processing, thus bringing the companies' combined expertise to the program, Statoil said.

Helgesen said that the relationship with the fishermen proved cooperative and that the few incidents that did occur were efficiently resolved through dialogue offshore.

Statoil said data processing from the surveys is still in progress and that the final data will be ready for interpretation in the fall of 2015, for use in companies' decision making ahead of an upcoming round of oil and gas licensing.

—ALAN BAILEY

Statoil said data processing from the surveys is still in progress and that the final data will be ready for interpretation in the fall of 2015, for use in companies' decision making ahead of an upcoming round of oil and gas licensing.

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WIND POWER

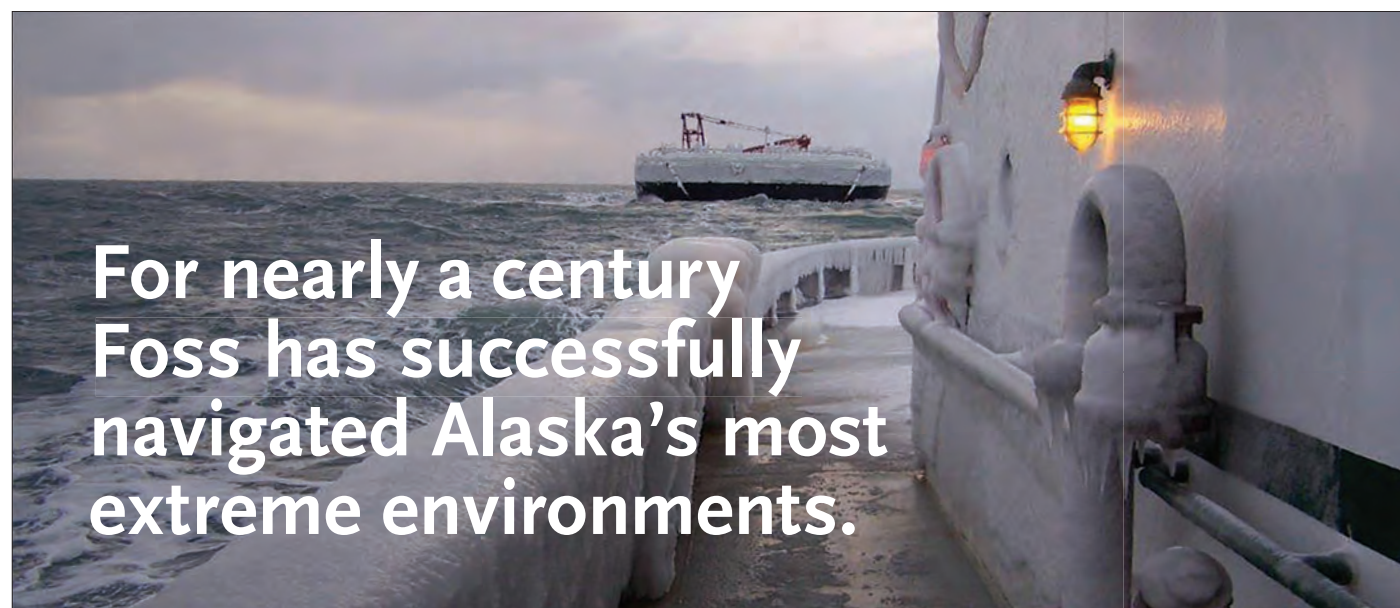
at \$64 and coal at \$95. The EIA estimates are quoted in 2012 dollars and appear to make different financing assumptions from the Lazard report.

And the cheapest form of energy? According to the Lazard report energy gains through improved efficiency in energy use max out at about \$50 per megawatt hour and may cost nothing. It is easy to turn the lights out when not required. ●

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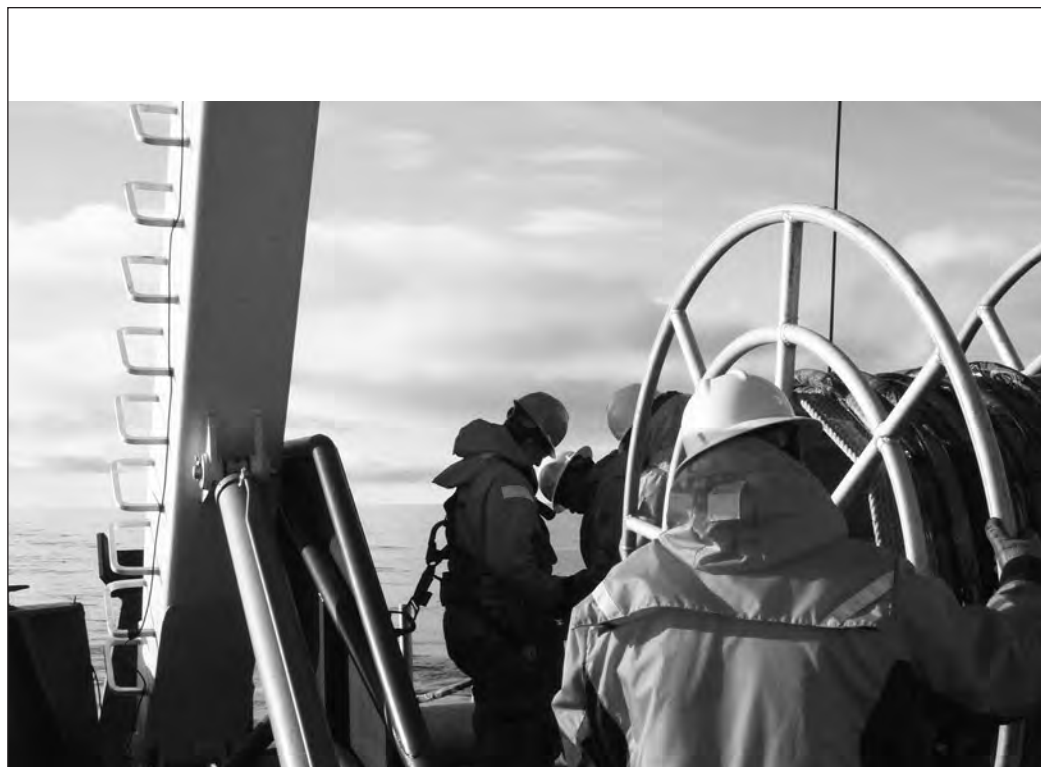
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KENAI LOOP

would allow them “to meaningfully participate in the upcoming bankruptcy sale of Buccaneer Alaska LLC” and added that disclosing the report “may also facilitate a settlement of issues pending before the commission.”

Ultimately, the AOGCC disagreed.

“Because neither AIX nor (Cook Inlet Energy) is a party to this proceeding the AOGCC will not order the entities which are parties to provide access to the Hite Report or the testimony,” the commission concluded in an Oct. 3 order. Furthermore, the AOGCC decided that the Trust Land Office would need to get written authorization from any affected parties before releasing confidential sections of the report to outside parties.

After Buccaneer filed for bankruptcy protection in late May, the company mentioned plans to auction “substan-

tially all” of its Alaska assets to repay creditors.

In early iterations of those plans, AIX Energy LLC — Buccaneer’s largest secured creditor — had committed at least \$58.5 million as a “stalking-horse” bidder. A stalking horse bidder provides a guaranteed minimum bid to protect a seller from low bids.

In September, Cook Inlet Energy parent company Miller Energy Resources Inc. said that it had entered into a non-binding letter of intent to buy “substantially all” of Buccaneer’s operating assets in Alaska for approximately \$40 million to \$50 million.

While the Buccaneer portfolio includes a smattering of leases across the Cook Inlet basin, the Kenai Loop field constitutes the only leases currently in production. The field currently produces about 10 million cubic feet of gas per day, according to the AOGCC.

To date, Buccaneer has drilled four wells at the field, one of which was a dry hole and one of which has been

suspended until a correlative rights dispute reaches resolution.

The two producing wells are located on Alaska Mental Health Trust Authority leases but have also been draining from surrounding acreage owned by the Trust, Cook Inlet Region Inc. and the state of Alaska. The case before the AOGCC — and a case in Alaska Superior Court — are attempting to fairly allocate production to date and going forward.

On May 23, the court required Buccaneer to deposit all future profits from Kenai Loop production into an escrow account until the parties could reach an allocation agreement. The order was effective June 1. Buccaneer declared bankruptcy on May 31. The bankruptcy proceedings stayed aspects of pre-existing legal and regulatory cases.

—ERIC LIDJI

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MORELAND Q&A

been looking for more tangible progress, tangible outcomes. Instead all we have been faced with I feel like is more process, more suggestion that there needs to be more interagency work. We are looking for commitment to mapping, monitoring, domain awareness, infrastructure investment, progress in coordination on permitting in order to support development activities that are needed.

Petroleum News: With infrastructure, I keep hearing what a priority it is. Do you see it that way?

Moreland: It's high in the priorities for us. We are sponsoring a study for Arctic sighting and development. The Corps of Engineers is moving on that study. We understand those kinds of infrastructure projects are going to require some creative public partnerships in order to move forward. They are critically needed. We are eager to have that discussion, but it's unclear who to have it with. There is a lot of energy in these discussions, but who the deciders are is unclear.

Petroleum News: With the U.S. taking over as Arctic Council chair, what do you think the country, and by association, Alaska can gain from this change?

Moreland: The U.S. chairmanship of the Arctic Council provides opportunity to educate the rest of the U.S. that we are an Arctic nation and have significant national interests and responsibilities in the Arctic: security, energy, human health and environmental protection.

So we are hopeful that getting some attention on the Arctic would be beneficial to Arctic residents and to promoting investment in Alaska. Educating the Lower 48 on our unique position for economic and national security I think is a huge opportunity that we are hoping to see focus on. Just the unique environment, that there are residents in this environment, that we do have governance, that we do have systems in place, really rich cultures and information for the pan Arctic discussion.

I feel like a record is building toward starting a climate change agenda in the Arctic first: methane reduction; black carbon reduction; looking at the Arctic Council agenda as a mechanism to advance progress in that area. We are really concerned about any kind of agenda that says let's start in Alaska first with any kind of more costly or burdensome new regulations.

It will be unfortunate if the Lower 48 is led to believe the melting Arctic ice cap can be effectively or responsibly stemmed by turning much of Alaska and surrounding waters into a park or sacrificing Alaska res-

idents to achieve black carbon or greenhouse gas emission reductions in the name of "leading by example" on the global stage.

What does all of this mean for OCS (exploration and development)? Unless there's a course correction, I anticipate all of this attention creating more roadblocks and uncertainty for energy permitting and regulation in the U.S. Arctic — not facilitating and coordinating improved domestic governance and decision-making.

Petroleum News: So when you say a climate change agenda first, is that first and only? Is that the predominant priority?

Moreland: Projects for the U.S. chairmanship aren't final yet, but there have been a lot of events with leadership including Admiral Papp and Ambassador Bolton. Climate change mitigation, methane reduction, black carbon emission reduction was a major theme coming from the leadership. To us, that's signaling that's an interest in using the Arctic Council forum as means to provide guidance, best practices, possibly inform decision making toward reductions in these areas. The geography of the Arctic Council is such that it's the eight Arctic nations at the table. We would hate to see this climate change agenda advanced with only Alaska being what the U.S. is putting on the table.

In recent months, it seems Alaska's interests and broader national interests in the Arctic region are being set aside to use the chairmanship for a messaging opportunity on the administration's climate change agenda. We know the chairmanship will be used to advance the Obama administration's climate change agenda.

Petroleum News: What else should be part of that agenda? Resource development? Infrastructure? It sounds like you're seeing climate change would be in direct conflict with resource development.

Moreland: I've let you know what the governor's themes are, and in turn what we are seeing is a call for improved Arctic Ocean governance and stewardship, climate change and mitigation, working with Arctic states on regional seas agreements, moral imperative to protect the Arctic. That's the language coming out from the leadership developing the Arctic council agenda and those things are in contrast to what we've been pushing: things that are relevant to Arctic residence, improve living conditions, provide additional opportunity and promote infrastructure investment.

Petroleum News: So let's go back to educating people in the Lower 48. I continually hear how people in the Lower 48 have a disconnect from what takes place here. Do you find that as well?

Moreland: All the time. It's difficult for people to understand the scale of the state.

People view the Arctic as an untouched environment and that any footprint or disturbance is going to be something that is going to be highly disruptive. The Arctic is a huge geography, and people have lived there for tens of thousands of years. They are seeking opportunity to continue to support healthy communities and there is room for that.

Policy makers with little experience in the U.S. Arctic have stated the Arctic is a blank slate, offering an opportunity to create new approaches to governance. That's true to some extent for the central Arctic Ocean, but not for Alaska or domestic waters off Alaska where governance authorities are well defined. Any new governance, planning processes, or guidance would be a new layer of bureaucracy for Alaska residents and business.

If there's a gap, let's consider how best to address it. I'm only seeing a flood of ideas for new precautionary management and spatial planning tools that could actually impede economic opportunity and our ability to manage adaptively in changing Arctic conditions.

Petroleum News: Canada now holds the chairmanship. Is there anything we can learn from their leadership, and the way they held the position?

Moreland: Absolutely. Canadian leadership's theme was development for people of the north. That's a theme that our federal counterparts have not supported. The Canadian theme has been one we have supported. They are interested in the Arctic Council being relevant to the lives of the people who live in the north. They have the advantage of Canadians viewing themselves as northerners; they don't have the disconnect we do in the Lower 48 of not having that direct tie to the Arctic. The other major difference is the Canadians started with the northern territories inform-

ing their federal priorities. We've had the opportunity to participate; we certainly aren't driving the content on the agenda.

Petroleum News: You're on the state's Arctic Policy Commission. How helpful has that commission been in building a voice for Alaska?

Moreland: It showed that the members of the Legislature do want to be at the table and do want to be providing input in shaping federal policy. It's also been an opportunity for the legislative members and members of the private sector to educate each other and their colleagues on the importance of these Arctic discussions and get them thinking that we do have a new waterway. So the Arctic Policy Commission is readily drawing attention to the issues.

Petroleum News: What have you learned from the people who live in the places you've visited with the commission: Nome, Kotzebue, Dillingham, Barrow?

Moreland: They are excited about the interest in their communities and the challenges that they face. They are looking for a response to be supportive to priorities established at the community level. Just as we want a voice at the table when we are talking about federal policy development, we are hearing communities want to be at the table for the Arctic Policy Commission. The interests in Arctic policy are vast. There is a lot of interest in ensuring we have good science to inform good decision making and have processes in place to appropriately balance economic opportunity and resource development with environmental protection. There is a lot of interest in really addressing the issue of getting infrastructure in place quickly in the Arctic region.

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TAX RETREAT

from industry organizations and proponents of 17 LNG projects has intensified this year, culminating in late September with a threat by Malaysia's Petronas to abandon its Pacific NorthWest scheme because of uncertainty over taxes and approvals, along with the "lack of appropriate incentives" for the industry.

"Rather than ensuring the development of the LNG industry through appro-

priate incentives and assurances of legal and fiscal stability, the Canadian landscape of LNG development is now one of uncertainty, delay and short vision," said Petronas Chief Executive Officer Shamsul Abbas.

That was the biggest outright challenge yet to British Columbia's plan to impose an initial 1.5 percent tax on the net income of LNG facilities after commercial production begins, rising to 7 percent once eligible capital costs of building the plants are recovered.

In addition to the LNG sales revenue,

the province is ready to tax rents and fees for third-party use of the facilities as well as processing revenue.

Industry observers believe the second stage is the one that is most likely to get modified if the government broadens its definition of what constitute capital deductions.

Marc Lee, a senior economist in British Columbia with the Canadian Center for Policy Alternatives, said the pressure should see the 7 percent drop to 5 percent, or even less.

But he said the danger is posed by Premier Christy Clark's insistence that LNG underpins much of her economic strategy to wipe out British Columbia's debt (currently C\$60 billion and climbing), generate C\$1 trillion in economic activity, build a C\$100 billion prosperity fund and create 100,000 jobs.

Prices in Asia down

It doesn't help these grand dreams that LNG prices in Asia have dropped to multiyear lows of about US\$10 per million British thermal units, as new supplies come onstream and the Chinese economy turns sour, from the once-heady heights of US\$20.

A major export pipeline from Russia to China is largely responsible for the decline, which is forcing Qatar, which has some of the lowest breakeven LNG costs in the world, to discount its prices.

The result is grim for British Columbia, which is believed to need sales prices of up to US\$15 to earn an acceptable profit.

Although de Jong says there will not be "huge surprises" in the final tax package, he concedes negotiations have concentrated on finding the right balance and what qualify as eligible capital costs.

He said that any LNG proponent, if asked what level of taxation would be acceptable, would likely say zero.

"Folks are going to advocate for the best interests of the organization they represent," he said. "The organization we represent is the taxpayers of British Columbia."

Natural Gas Development Minister Rich Coleman said he believes British Columbia has reached a "sweet spot" in its negotiations.

Tax on top of royalties

What troubles the energy industry is that the LNG tax comes on top of regular corporate income tax and the payment of royalties for use of British Columbia's

underlying natural gas resources, plus property taxes, sales taxes and a provincial carbon tax.

Jennifer Winter, associate director of energy and environmental policy at the University of Calgary, said the new tax would amount to a "revenue grab," and would be no different from the government imposing a special tax on pulp mills.

She said there is no justification for taxing the liquefaction of natural gas "other than the government wants the money."

The government recently asked Ernst & Young to weigh its fiscal-framework plans against those already in place in Australia and five U.S. states: Alaska, Georgia, Louisiana, Oregon and Texas.

The accounting firm said that British Columbia's proposed taxes and royalties on LNG, including the next tax, would be competitive with other jurisdictions.

But E&Y carefully avoided commenting on the "appropriateness" of any fiscal regimes it studied.

E&Y partner Byron Beswick said the mood of confidence in the industry has not been helped by government delays in releasing the planned legislation.

Andrew Weaver, the Green Party's sole member of the provincial legislature, said the dithering has caused Petronas to miss a supply window of 2018-19 while other companies such as Apache and Encana have backed away from getting involved in LNG.

If Petronas doesn't like what de Jong puts on the table, the company is unlikely to wait long before quitting Canada, while Chevron, already struggling to find a replacement for its former 50 percent partner Apache in the Kitimat project, would likely take the same exit door.

Environmental obstacles

Adding to its concerns, Petronas is facing environmental obstacles related to the site for its export terminal near Prince Rupert.

The partnership has asked for more time to work out changes to the jetty and terminal design at Lelu Island to include "substantial" mitigation measures to offset potential adverse impacts on the marine habitat, notably salmon and steelhead trout, from dredging 7 million cubic meters of sediment in the area.

The British Columbia Environment Ministry has also flagged concerns about species-at-risk, air pollution, inadequate consultation with First Nations and potential human health risks.

Petronas has asked for an additional 45 days to answer issues raised by the Canadian Environmental Assessment Agency, meaning a final decision may not be reached until Dec. 20.

China's Sinopec, a 15 percent partner in Petronas, has joined the piling on process, with Executive Vice President Feng Zhiqiang declaring that unless there are government concessions, "many projects will drop," citing a shortage of skilled workers.

"You have a very limited number of people," he said, estimating there are currently insufficient tradespeople to support even one project, given that the Canadian government has capped the number of foreigners on any project at 30 percent of the work force.

But Feng said it is still possible for several LNG projects to go ahead in Canada if the issues of taxes and labor are resolved.

"That's the reason companies are watching instead of investing," and why some companies are thinking about pulled out, he said. ●

EXPLORATION & PRODUCTION

Conoco signs three long-term contracts

ConocoPhillips Alaska recently signed three engineering contracts to support its North Slope business.

The company said five-year contracts with URS Corp., CH2M Hill and ASRC Energy Services "are intended to support engineering and procurement services for dozens of projects at Kuparuk, Alpine and Cook Inlet over the life of the contracts."

"The contracts will support new projects like 1H NEWS (Northeast West Sak) as well as maintenance projects and expansion of infrastructure to accommodate increased drilling," Trond-Erik Johansen, president of ConocoPhillips Alaska, said in an Oct. 7 statement.

The company said that since passage of Senate Bill 21 in March 2013 it has announced the addition of three rigs to its North Slope drilling fleet, as well as its intention to pursue three major projects: Kuparuk Drill Site 2S, 1H NEWS and Greater Mooses Tooth 1, GMT-1, projects representing some \$2 billion in new investments, job potential, opportunities for Alaska businesses, additional revenue to the state "and tens of thousands of barrels per day of new oil."

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LNG PLANT

and diesel fuel that Fairbanks currently uses.

On Sept. 19 AIDEA and MWH signed a concession agreement, creating the legal framework under which AIDEA will own and MWH subsidiary Northern Lights Energy LLC will build, operate and maintain the LNG plant. And, in anticipation of plant construction, a pad on which the plant will be sited has been completed on the Slope.

Decision-making process

During the board meeting questions arose regarding the feasibility of the decision-making process leading to the LNG plant project's financial close, given factors such as having to finalize gas offtake agreements with Fairbanks utilities within a short period after completing the estimates of the LNG facility construction costs and schedule. Board member Gary Wilken suggested that, given the lack of alignment between the interests of the various stakeholders in the project, it would take significant time to iron out the various wrinkles in the "funding cocktail."

Adcock responded that the project team is addressing the aggressive schedule by progressing several activities in parallel, and by holding meetings with stakeholders, to keep people apprised of the issues that need to be resolved, paving the way for efficient decision making by the necessary deadlines. Rather than facing people with the need for quick decisions, starting from scratch, the project team is keeping people informed, helping them towards the decision-making point, he said.

At the same time, having an aggressive schedule focuses minds, Adcock commented.

"It does put a lot of pressure on people to come to a decision," he said.

Project status

Chris Brown, vice president and regional manager for MWH Americas Inc., reviewed the status of the various activities that need to be accomplished to achieve the financial close.

The project team has been negotiating with BP over an agreement for the supply of North Slope gas to the project. At the same time, negotiations are in progress over a joint development agreement between MWH, Golden Valley Electric Association and a private investment company, to form a special company for capitalizing the project. Under the terms of the concession agreement between AIDEA and MWH, the project financing will involve a mixture of AIDEA and private funds. According to the MWH project schedule, negotiations leading to the gas supply and joint development agreements will be completed in the latter part of October.

Meantime, MWH has selected a company to operate the LNG plant and is in the process of conducting the negotiations required for the award of an operating contract, Brown said. Estimates for the operating costs for the plant will be completed by the end of October, with the contract with the plant operator expected to be finalized in early December, he said.

Engineering and construction

Another major piece of the jigsaw puzzle leading to financial close is the contract for the engineering and construction of the LNG plant, including cost estimates for completion of the plant and an estimated work schedule. AIDEA has already contracted directly with engineering firm Kiewit for the construction of the pad for the LNG facility and to conduct early design, engineering and procurement work.

MWH has engaged a third-party cost estimating firm to help with the estimating process, while a team that includes AIDEA, MWH and Kiewit is close to achieving a design freeze, an important milestone in developing an engineering, procurement and construction contract, Brown said. The team envisages delivering estimates for the project costs and schedule on Nov. 4, with these results being issued on Nov. 7 following a validation process.

This anticipated timing led to some of the discussion in the board meeting about the project scheduling concerns, given that the AIDEA board has apparently planned a meeting in early November to review the project estimates.

Gas offtake agreements

Gas offtake agreements with the utilities that are interested in purchasing the North Slope gas are also critical to the financial close. According to the project schedule, discussions and negotiations over these agreements started in early July and have been ongoing — approvals of the agreements by utility boards are anticipated in November, a week or two after finalization of the project cost estimates. Much progress has been made in these negotiations, with a willingness from all concerned to find common solutions to the various issues that arise, Brown commented.

Brown also commented that the early procurement of some long lead time equipment needed for the plant is under way. And the utilities have been working cooperatively on the LNG trucking and storage arrangements needed to support the project — the plan is to form a trucking and LNG storage consortium, using the services of a trucking company.

"There's growing confidence in how that's going to work," Brown said.

Uncertainties

Adcock presented an analysis of the major uncertainties relating to the project. It appears that the level of gas demand in Fairbanks and the cost of trucking LNG from the North Slope have particularly high sensitivities in terms of their potential impacts on the costs of LNG delivered in Fairbanks. Uncertainties in the financing of the project have the least potential impact. However, the management of the operating cost of the LNG plant is also extremely important in keeping the cost of the LNG as low as possible, Adcock said. ●

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MORELAND Q&A

Petroleum News: Going back to discussions you've had with people in the Lower 48, is there a sense of fear that allowing development could destroy pristine waters and land perhaps unawareness that oil has been produced for nearly 40 years to the tune of 17 billion barrels of oil?

Moreland: The state of Alaska has a great record of permitting development in the Arctic with success. I don't think people in the Lower 48 understand that people live there — much less have the type of development that we do, much less without significant risk and without significant sacrifice to our environment.

I think that education is important. With the chairmanship theme shaping up the way it is and how I'm hearing about them in a public message in a call for stewardship and a moral imperative to protect this area, I'm concerned that it's going to stir up fear in the Lower 48 of tremendous risk, that any development is going to come at a major sacrifice to the environment and that any activity is a threat to our fish and wildlife resources. That's not been our experience. We've been able to operate successfully in an Arctic environment. We are looking forward to investing in infrastructure. I think we have a good story to tell. With the federal government leaning more toward protection and an overly cautionary

approach they argue is necessary in the face of uncertainty or absence of information, it would lead people in the Lower 48 to conclude that we are not ready to support development. That's just not the case.

Petroleum News: So what can the state do, be it this office, the Legislature, the Arctic Policy Commission or the people who live in Barrow, Nome, Kotzebue or Kaktovik?

Moreland: I think it's important that we influence the Arctic Council agenda, chairmanship themes and messages coming from the federal government — that they need to recognize they do have a role in promoting economic development and opportunity for Arctic residents. That existing law and permitting processes is sufficient for us to continue.

We're keeping an eye these efforts and urging the federal government to work with us to make real and tangible progress towards advancing national security, economic opportunity and environmental protection to meet national obligations in the Arctic region and promote healthy, sustainable Arctic communities.

There is still time for Robert Papp to make room in the U.S. chairmanship for measureable outcomes that would foster healthy economies and thriving communities, consistent with Canada's theme for their time as Arctic Council chair. ●

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NORDAQ PLANS

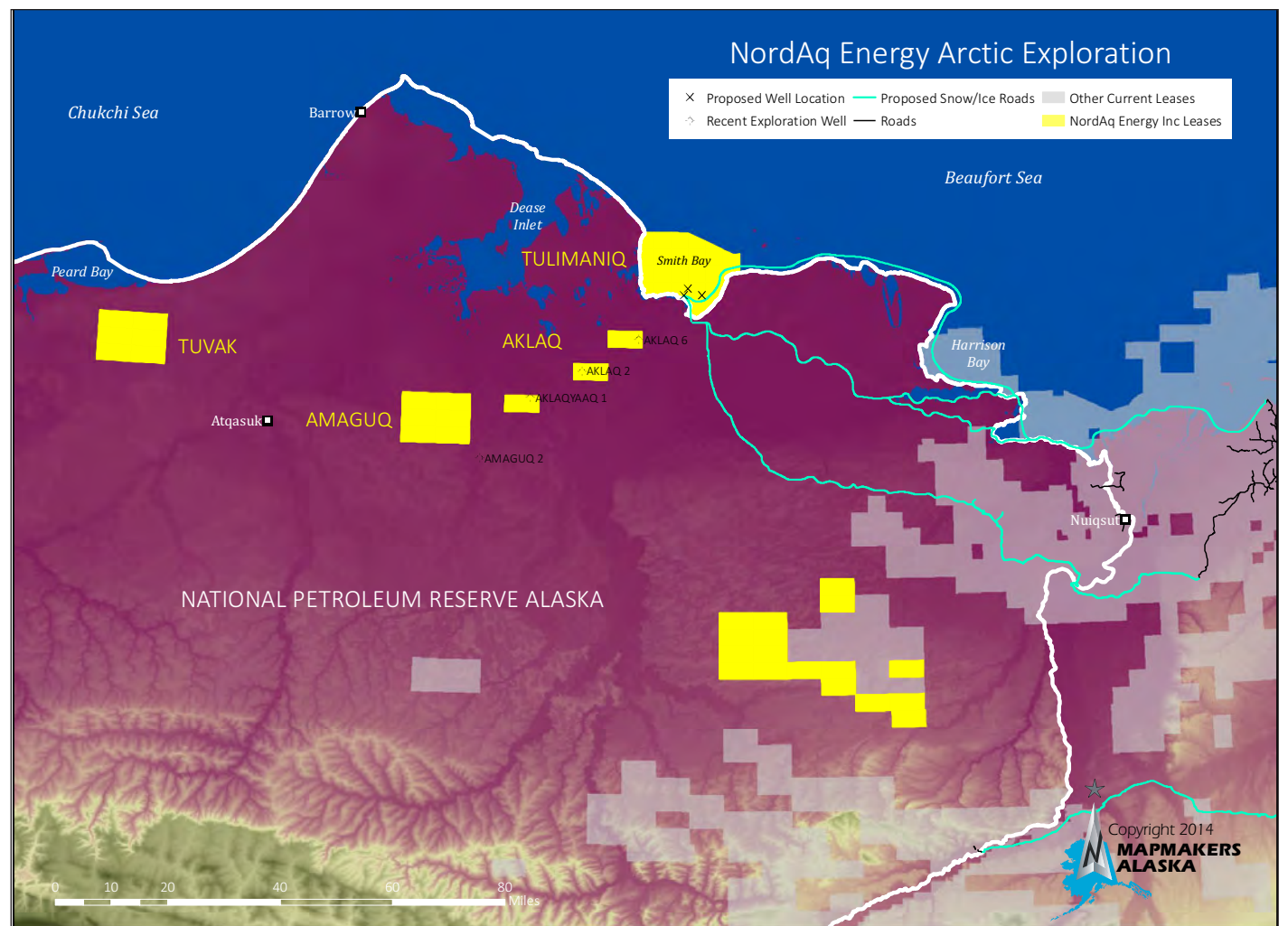
an oil exploration area — there is a long-known oil seep at Cape Simpson on the west side of the bay, and the bay lies close to the westward extension of the Barrow Arch, the major geologic structure associated with the producing oil fields of the central North Slope.

According to the NordAq plan, the company will conduct the drilling at Smith Bay using Doyon Drilling's Arctic Fox drilling rig, transporting the rig, other equipment and supplies to the drill site by ice road from the central North Slope.

Drilling from ice pad

NordAq has identified three possible surface locations, all within two miles of each other, in state lease 392275 for the Tulimaniq well and will select a single location using the results of geophysical studies. Drilling will take place from a 500-foot diameter ice island in one to four feet of water near the mouth of the Ikpikuk River. Ice-pad construction will start upon the onset of shore-fast ice conditions in Smith Bay, with construction equipment and a small construction camp being located onshore. A 5,000-foot ice runway to be constructed on a nearby lake will enable air support for the Smith Bay operations, NordAq's plan says.

NordAq is permitting three different ice-road routes from the central North Slope to the Tulimaniq well site, with the intention of deciding which of these roads to construct once the tundra and ice conditions are known, as the ice-road construction season approaches. The company's preferred route runs west from Oliktok Point



along the coast at Harrison Bay, maximizing the use of sea and lake ice, before running overland, to the north of Teshekpuk Lake. If tundra conditions prove unsuitable for cross-country road construction along that route, a second route option would be to follow the coast all the way around to Smith Bay. A third route option would start at one of the drill pads on the road system in the central North Slope, traversing overland to the south of Teshekpuk Lake.

The company says that it has planned to install thermistors in the ground along both of its proposed inland road routes, to transmit soil temperature data by satellite as a means of determining tundra travel opening dates.

NordAq's plan also says that the company has considered moving its equipment by barge to Smith Bay during the summer open-water season but would only use this option if it could contract with some third-party organization that is working in the area and has available barge capacity.

Deployment

According to the company's plan, NordAq anticipates the start of ice-road pre-packing in early November, with equipment being staged at the eastern end of the ice-road route at the beginning of December. If using its preferred ice-road route, the company expects to mobilize its equipment to Smith Bay, starting in mid-December. However, if the more southerly route is used mobilization likely would not start until Jan. 1, assuming that tundra travel opens at that time. Ice-island construction should start around Jan. 19, with drilling then beginning in mid-February. Drilling should be completed by April 20, with demobilization starting a few days later. Final tidying up of the drill site and site inspection would occur in the summer.

Equipment will probably be demobi-

lized along the same ice road as was used for mobilization at the beginning of the season. However, should a tundra-travel closure preclude that demobilization option, equipment could be staged on the coast to the east of Simpson Bay, to be picked up by barge during the summer, NordAq's plan says.

Recent funding

In September NordAq announced that Chinanx, a private investment group, had agreed to invest \$90 million and provide a \$150 million debt facility in support of NordAq's Alaska operations. In addition to its Smith Bay venture, NordAq has been exploring in the Cook Inlet basin. The company discovered gas in 2011 in its Shadura No. 1 well in the northern Kenai Peninsula and is currently appraising that find. The company has also drilled a well in its Tiger Eye unit on land to the west of the Cook Inlet — the company has proposed an eight-well gas development program in that unit.

In Arctic Alaska, in addition to its acreage in state land in Smith Bay, NordAq has acquired a number of federal leases in the National Petroleum Reserve-Alaska. The federal leases include the inland Aklaq, Amaguq and Tuvak prospects. ●

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