

AWS-1 rig at North Fork



COURTESY OF ARMSTRONG COOK INLET

Armstrong Cook Inlet, operator of the North Fork unit on the southern Kenai Peninsula, signed a gas supply contract with Enstar Natural Gas Co. late this summer, following successful 2008 drilling of the North Fork 34-26, the second well at North Fork. The Aurora Well Services AWS-1 rig is shown here at the field in the summer of 2008.

Arctic future at risk; Imperial wants NEB to expedite ruling

Imperial Oil and its sister company ExxonMobil Canada can't buy a break from Canadian regulators as they mull their future plans for the Arctic.

And Imperial has vented its frustrations in a letter to Canada's National Energy Board, warning that the latest hitch raises questions about the "attractiveness of investing in Canada's North."

Stalled on one hand by a drawn-out decision-making process for the Mackenzie Gas project they now face another obstacle in the Beaufort Sea.

The NEB has told the joint partners in a Beaufort exploration program their request for an advance ruling on drilling plans has been stalled.

see RISK page 19

Shell's Chukchi exploration plan gets conditional MMS OK

The Minerals Management Service has conditionally approved Shells' proposed Chukchi Sea outer continental shelf 2010 exploration plan.

But it's basically approval for data gathering — drilling won't be allowed until litigation over lease sale issues is resolved. The company also needs federal and state permits.

In a Dec. 7 letter of conditional approval of Shell's exploration plan, MMS said because the 2007-12 five-year oil and gas leasing plan was vacated and remanded by the U.S. Court of Appeals for the District of Columbia, the Secretary of the Interior told the court: "MMS will act upon exploration plans for Chukchi Sea leases, but will suspend activities under any approved plan pending the Secretary's reconsideration decision on the remanded program, thereby halting all but data gathering ancillary activities on those leases."

MMS said it would direct a suspension of operations and said no exploration drilling activities can be conducted under

see SHELL page 18

FINANCE & ECONOMY

Seeking answers

15 lawmakers ask Parnell if state oil tax policy helps or hurts Alaska investment

By WESLEY LOY
For Petroleum News

A group of leading state legislators on Dec. 4 asked Gov. Sean Parnell for a raft of information they want to use to evaluate whether the 2007 oil tax reform is helping or hurting industry investment in Alaska.

The 15 members of the House Majority Caucus posed nine questions covering such areas as lease sale results, oil and gas employment and requests for drilling permits.

The tenor of the group's letter to Parnell was one of skepticism that the tax change, known as Alaska's Clear and Equitable Share or ACES, is working to the state's advantage.

"We think that there are some issues there with

When the Legislature passed ACES in a special session in November 2007, Parnell was lieutenant governor under then-Gov. Sarah Palin, and the administration had huge popular support at that time for pushing the tax reform.

the ACES language and we'd like to get some clarifications on the rules so that we can determine if the legislation is working properly, or if we need to make changes," said House Speaker Mike Chenault, R-Nikiski. "We're focusing on how it affects job opportunities and exploration opportunities today, versus when it was enacted."

see ANSWERS page 22

NATURAL GAS

Unintended consequences?

Balash: Without exemption cap-and-trade scheme could sink NS gas line

By ALAN BAILEY
Petroleum News

Without some form of exemption for the planned gas treatment plant at the Prudhoe Bay end of a future gas pipeline from Alaska's North Slope, current climate change legislation working its way through Congress could add \$14 to the cost of every British thermal unit of gas flowing through the pipeline, thus sinking the viability of the pipeline project, Joe Balash, special assistant to the governor for energy and natural resource development issues, told Law Seminars International's Energy in Alaska conference on Dec. 7.

"That is something that frankly is going to push the project under water," Balash said. "... At a

minimum Congress needs to be sure to address that clearly, and not leave it ambiguous, so as to allow the investors and private sector enterprises to consider that as we move forward."

Carbon allowances

The problem is the cost of any carbon dioxide allowances that the pipeline operator might have to purchase under a carbon dioxide cap-and-trade scheme, if the carbon dioxide stripped out of North Slope gas in the gas treatment plant is treated as a carbon dioxide emission, even if that carbon dioxide is re-injected into field reservoirs for enhanced oil recovery. Prudhoe Bay natural gas typically contains about 12 percent carbon dioxide when it

see BALASH page 21

NATURAL GAS

LNG bulls running again

Huge Asian contracts suggest confidence region's long-term expansion won't slow

By ALLEN BAKER
For Petroleum News

Gloom and doom about Asia's long-term demand for liquefied natural gas are evaporating about as fast as the fuel itself does at room temperature. Big money deals are being signed between utilities and suppliers, and a \$15 billion project near Australia just got the green light.

One of the biggest LNG supply contracts ever was signed Dec. 4. Chevron announced the deal with Tokyo Electric Power Co. to deliver up to 4.1 million metric tons of LNG annually for up to 20 years from its proposed Wheatstone Project in northwestern Australia. The deliveries amount to

Calculating dollar values for confidential long-term contracts is iffy at best, but it appears the big Asian utilities want to lock in supply, and are willing to pay rates that are basically at par with prices for a similar amount of energy from oil.

the equivalent of 189 billion cubic feet a year, at an estimate cost of about \$82 billion over the life of the contract.

A few days later, ExxonMobil made a final investment decision on a \$15 billion LNG project

see LNG BULLS page 23

contents

Petroleum News

A weekly oil & gas newspaper based in Anchorage, Alaska

ON THE COVER

Seeking answers

15 lawmakers ask Parnell if state oil tax policy helps or hurts Alaska investment

Unintended consequences?

Balash: Without exemption cap-and-trade scheme could sink NS gas line

LNG bulls running again

Huge Asian contracts suggest confidence region's long-term expansion won't slow

Arctic future at risk; Imperial wants NEB to expedite ruling

Shell's Chukchi exploration plan gets conditional MMS OK

EXPLORATION & PRODUCTION

3 DGGs publishes CI research findings

4 Testing big leagues with new technology

Juniors bring talent to table, advancing 'next big thing' in Alberta oil sands by embarking on pilot projects in carbonate rocks

13 Remote basin exploration moves forward

SIDEBAR, Page 16: NANA splits departments

17 Fugro wraps up Shell survey in Chukchi

17 State lands still closed for tundra travel

FINANCE & ECONOMY

3 State: oil at \$67 in FY 2010

State expect prices to rise through 2019, production to rise slightly in 2013 before falling again

6 ExxonMobil expects rising energy demand

9 Speakers highlight oil's importance

GOVERNMENT

9 Murkowski proposes Arctic port site study

14 Parnell budgets Umiat road permitting

LAND & LEASING

7 State reverses Holitna license decision

Overtuning a 2006 decision, DNR finds that a gas exploration license in Southwest Alaska is in the best interest of the state

NATURAL GAS

5 Obama picks Persily as new coordinator

17 RCA holds workshop on gas storage issues

Cook Inlet Natural Gas Storage, Enstar, electric utilities, wrestle with how third-party storage should be regulated, role of RCA

18 Corps begins work on Point Thomson EIS

18 Exxon has begun Point Thomson drilling

OUR ARCTIC NEIGHBORS

12 LNG plant for Nenets Oblast?

Taking cue from Putin, independent considers LNG plant for commercializing Arctic fields instead of gas-chemical complex

12 Russian company gets share in Nenets field

12 Statoil postpones plant's startup again

SAFETY & ENVIRONMENT

8 Alberta touts carbon capture prospects

10 Response team finds source of oil leak

Overpressure from expanding ice plugs likely caused 24-inch rupture in pipeline between Lisburne drill pad and production center

SIDEBAR, Page 19: Produced water spill at R pad

15 Canada makes 'absolute' shift



For information about PRA including background material and a complete listing of our consultant staff, please visit our web site at www.petroak.com.

3601 C Street, Suite 822 Anchorage, Alaska 99503
Ph: (907) 272-1232 info@petroak.com
Fx: (907) 272-1344 www.petroak.com

Alaska's Premier Oil and Gas Consultants

We can provide clients with individuals to fill specific needs, or with integrated teams to manage exploration and development projects.

Skills

- Project Management
- Geophysics
- Geology
- Petrophysics
- Engineering

Data

- Digital Well Logs
- Well History
- Directional Surveys
- Formation Tops
- Seismic
- GIS

Areas of Expertise

- North Slope
- Cook Inlet
- Interior Basins
- Bristol Bay
- Gulf of Alaska

Tools

- Subsurface Mapping
- Seismic Interpretation
- Petrophysical Interpretation
- ArcView/GIS
- Commercial analysis
- Risk Analysis

State: oil at \$67 in FY 2010

State expect prices to rise through 2019, production to rise slightly in 2013 before falling again; Galvin says industry spending expected to be \$4.5B in FY 2010, \$5B in FY 2011

By ERIC LIDJI
For Petroleum News

When the State of Alaska released its revenue forecast in December 2008, guessing the price of oil in the coming year seemed as reliable as guessing the weather in the coming year. In the previous six months, the price of a barrel of oil fell \$100, among the fastest declines ever.

“What a difference a year makes. ... At this time last year, I was talking about how humbling it was to be a prognosticator of oil prices,” Revenue Commissioner Pat Galvin said on Dec. 10, as he unveiled the state’s forecast of revenue for the coming year.

Through the remainder of fiscal year 2010, the state expects oil prices to average \$66.93 a barrel, bringing \$4.8 billion in revenue to the state. That projection shows increased confidence in the stability of oil prices. In its forecast in April, the state predicted oil prices would average \$58.29 a barrel in fiscal year 2010, bringing \$3.2 billion in revenue.

For fiscal year 2011, the state expects average oil prices to jump to \$76.35 a barrel, bringing revenues of \$5.2 billion to the state, and to continue rising through the next decade, eventually topping \$100 a barrel again sometime around fiscal year 2019.

Oil continues to dominate the budget. The state expects oil production to provide more than 87 percent of the unrestricted revenue coming to the state through fiscal year 2019.

The fiscal year ends June 30.

Production to rise, then fall

While the state expects oil prices to stabilize and rise slightly in the near term, it expects oil production from the North Slope to actually increase in the middle of the next decade.

“We continue to see the two-decade-long decline in production of oil from the North Slope, although the rate of decline is moderating,” Galvin said.

Oil production fell 3.3 percent between FY 2008 and FY 2009, and the state expects production to fall 4.8 percent in FY 2010, down to 659,000 barrels per day.

In FY 2011, the forecast calls for production to fall 5.4 percent, down to 623,000 bpd.

But while the state expects production to drop again, to 617,000 bpd, in FY 2012, it forecasts increases in FY 2013 and FY 2014, as the Nikaitchuq unit and new Alpine satellites come into production and offset declines. The expected arrival of production from the Point Thomson unit in FY 2015 is also projected to temper declines.

However, production is expected to fall sharply through the end of the next decade.

The production forecast relies heavily on new investment. For FY 2010, the state is forecasting that “new oil” will account for around 2 percent of total production, but by FY 2019 that figure is projected to rise to around 47 percent of total oil production.

Spending expected to increase

Galvin said industry spending on the North Slope should remain steady or increase in the near term with expenditures of \$4.5 billion in FY 2010 and \$5 billion in FY 2011.

That contradicts some of the public statements from industry that the most recent tax system put into place in late 2007 is starting to direct investment to other oil basins.

While the state expects production to drop in fiscal year 2012, it forecasts increases in FY 2013 and FY 2014, as the Nikaitchuq unit and new Alpine satellites come into production and offset declines. The expected arrival of production from the Point Thomson unit in FY 2015 is also projected to stem declines.

Gov. Sean Parnell recently said the state planned to examine the current tax structure to see whether it continued to work as intended, but Galvin said there is a “disconnect” between what industry is saying in public and the expense projections it is providing to the state.

“We’re trying to figure out where that disconnect is coming from,” Galvin said.

Galvin said the state has asked the industry to back up claims that the current tax regime is stifling investment, but that no companies have provided that information so far.

“Show us what you need,” Galvin said.

Galvin also noted that the changing profile of the North Slope, where independent companies are exploring and bringing projects online, means “we can’t focus on just the three major producers or the two major operators as indicators of economic activity.”

The tax regime created in late 2007, called ACES, or Alaska’s Clear and Equitable Share, continues to bring additional revenue to the state. Galvin said the \$3 billion in revenues earned in FY 2009 would have been less than \$2 billion under the Petroleum Profits Tax, or PPT, and less than \$1 billion under the Economic Limit Factor, or ELF.

He added, though, that the state still thinks ACES “balances” the back end and front end of investment in new oil and gas projects by taking a larger share of industry profits through increased production taxes in return for tax credits to encourage exploration. ●

Contact Eric Lidji at ericlidji@mac.com

EXPLORATION & PRODUCTION

DGGS publishes CI research findings

Alaska’s Division of Geological and Geophysical Surveys has published the preliminary results of its 2006-07 research into the geology of the Homer and Kachemak Bay area of Alaska’s Cook Inlet. The primary purpose of the research, part of a multiyear Cook Inlet study that also involves scientists from Alaska’s Division of Oil and Gas, the University of Alaska Fairbanks and Purdue University, is to assemble information that will help explorers find the subtle stratigraphic traps where much of the remaining undiscovered natural gas in the Tertiary strata of Cook Inlet is thought to be located.

The research team carried out detailed mapping, measuring and sampling of Tertiary rocks that outcrop along the shore and in sea inlets, in and around Kachemak Bay, toward the southern end of the Kenai Peninsula. The report pulls together many of the results from this work and contains a wealth of maps, diagrams and photographs that illustrate the geology.

The U.S. Geological Survey is currently working in conjunction with DGGS to carry out a new resource evaluation of the Cook Inlet basin.

The DGGS report can be found in the publications section of the DGGS Web site at www.dggs.dnr.state.ak.us/pubs/pubs?reqtype=citation&ID=20161.

—ALAN BAILEY



ENGINEERING EXCELLENCE

Complete Multi-Discipline
Engineering Services
& Project Management
Concept and Feasibility Studies
Project Scope and Development
Cost Estimating and Scheduling
Engineering and Detailed Design
Procurement Services
Field Engineering
Inspection and Quality Control
Environmental Engineering

Serving Alaska Industry
Since 1974



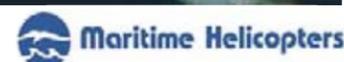
509 W. 3rd Ave. Anchorage, AK 99501-2237 (907) 276-2747 FAX: (907) 279-4088
50720 Kenai Spur Hwy. Kenai, AK 99611 (907) 776-5870 FAX: (907) 776-5871

At 78° N, Safety comes first



“When experience counts”

- 35 Years of Alaska/Arctic/Marine/Oilfield Operations
- Medallion Foundation Member, DOD Approved, OAS Approved
- Helicopter/Vessel service since 1973 throughout Alaska from the Western Aleutians to the Northern Arctic



3520 FAA Road
Homer, Alaska 99603

Phone (907) 235-7771
Fax (907) 235-7773

info@maritimehelicopters.com • www.maritimehelicopters.com

• EXPLORATION & PRODUCTION

Testing big leagues with new technology

Juniors bring talent to table, advancing 'next big thing' in Alberta oil sands by embarking on pilot projects in carbonate rocks

By GARY PARK
For Petroleum News

Investment banker Tristone Capital (now Macquarie Capital) observed last year that the Alberta oil sands region covers an area the size of Florida.

Thus, it suggested, a chunk equivalent to Disneyworld has the potential to support a 100,000-barrel-per-day project — “hugely material for a C\$100 million company.”

All of which explains why a host of small, privately held companies, backed by experienced management and technical teams, have secured footholds in the region, where the common valuation benchmark for undeveloped bitumen is roughly C\$1 per barrel.

But, as Tristone noted, moving from land acquisition to pilot or commercial

project development is far from plain sailing.

“Not all land contains oil sands resources and not all bitumen in-place resource estimates will result in economically recoverable reserves,” the research report on junior oil sands companies said.

Increased recoveries expected

Genuity Capital Markets, in a November report, suggested that new in-situ technologies are expected to increase total recoverable bitumen to about 300 billion barrels from the current 173 billion barrels of estimated potentially recoverable bitumen, with a yet-to-be-determined contribution from Saskatchewan.

Authored by Philip Skolnick and Benny Wong, the Genuity report said in-situ technology is still in its infancy and

innovative changes could positively impact recovery potential and reduce costs.

It suggested those gains could stem from work being done by Cenovus (the new EnCana oil sands spinoff), E-T Energy, Ivanhoe Energy, Petrobank Energy and Resources, Oilsands Quest and Alberta Oil Sands.

In addition, the report identified Husky Energy, Laricina Energy, OSUM Oil Sands, Royal Dutch Shell and Sunshine Oilsands as companies seeking a breakthrough in the emerging bitumen carbonates formation of Alberta.

It said a “positive shift-change in the economics and recoveries of new resources, such as the carbonates,” could be a catalyst for mergers and acquisitions.

Carbonates in Grosmont

The consensus view rates the carbonate rocks in the Grosmont formation — where companies of various sizes have invested hundreds of millions of dollars to lock up rights — as the next generation of oil sands development, leaving behind the conventional, unsightly surface mining operations that have blighted the landscape and allowed the critics to heap scorn on the industry.

“We’re always touring (in-situ development) as the future of oil sands development,” said Michael Burt, executive director of the In Situ Oil Sands Alliance.

The primary thrust now involves the injection of steam or solvents into deposits that are too deep for strip mining to melt the bitumen and force it to the surface — a technique that is being tailored to specific reservoirs, including carbonates.

Since pilot tests were run in the 1980s, the carbonates were off the radar screen until Shell, through its subsidiary in the Americas, invested almost C\$500 million in 2006 for rights to the formation.

Others to trumpet their stakes in the carbonates include Husky Energy, Laricina and Athabasca Oil Sands, which sold 60 percent working interests in two in-situ projects during the summer to PetroChina.

No proven technology

However, to date, no proven technology is known to exist for recovering bitumen trapped in the carbonate rock and opening a new geological and technological frontier for Alberta oil production.

Shell has made it clear from the outset that it is taking a long-term approach to the formation, indicating it is unlikely to proceed with a commercial project before 2015.

But the importance of the resource was underscored when it asked Alberta Energy Resources Conservation Board to grant at least eight years of confidential status to its Grosmont field test — a process the company says has been successfully tried in Colorado shales and to

upgrade bitumen in conventional oil sands near Peace River in northwestern Alberta.

Shell told the Alberta regulator that public disclosure of information obtained from its research project “may significantly jeopardize (Shell’s) competitive position and result in undue economic hardship.”

Asked by the ERCB to further justify its request, Shell cited the “sensitive nature of this type of technology” and the need to protect its intellectual property as it works on a design for a potential commercial project.

Sunshine planning pilot

While Shell keeps a blanket over its activities, Laricina and Sunshine are taking a higher public profile as they advance plans for pilot projects that some analysts believe could establish a market for foreign state-owned entities, such as PetroChina and Korea National Oil Corp., as they ponder their next moves in the oil sands.

Skolnick said in a research report that in-situ events could “dramatically improve the economics and increase Canada’s expected recoverable bitumen potential. This could be analogous to what has happened in the tight North American oil and natural gas plays,” such as the Montney and Bakken.

Sunshine is about to take its first step into the reality of pilot projects by gaining ERCB approval to conduct a single-well cyclical steam stimulation test of under 1,000 barrels per day, setting the stage for 2,000 bpd from a commercial operation in 2014 followed by two 20,000 bpd phases, due to come on stream in 2017 and 2020.

The private company’s eventual plans for all of its 1 million acres of land holdings include a conventional heavy oil project and a 180,000 bpd production profile for 30 years.

Based on 58 core holes within an area of 253,000 acres, Sunshine estimated original bitumen-in-place of 9.1 billion barrels, with a “best case” recoverable resource of 1.3 billion barrels.

The pilot will test the application of a thermal recovery process that is expected to improve the feasibility of heavy oil recoveries from the Grosmont formation.

Sunshine Chief Executive Officer Doug Brown said the regulatory approval is “a significant element in the progressing of our business plan. This in-situ pilot will move the evaluation of our carbonate resources ahead substantially.”

Laricina has inventory

Laricina has assembled an extensive inventory of potential resources in both the established oil sands region and the carbonate plays, with its Grosmont prospects, where it has accumulated

see TECHNOLOGY page 5



An ISO 9001:2000 Company

Offering innovative process and environmental solutions, modular design and equipment retrofits.

Separation, Gas & Oil Processing Systems, Oily Water Treatment

Calgary, Alberta Phone: (403) 236-1850 Fax: (403) 236-0488
Visit our Website at www.natcogroup.com
Email: sales@natco-ca.com



www.PetroleumNews.com

Kay Cashman	PUBLISHER & EXECUTIVE EDITOR
Mary Mack	CHIEF FINANCIAL OFFICER
Kristen Nelson	EDITOR-IN-CHIEF
Clint Lasley	GM & CIRCULATION DIRECTOR
Susan Crane	ADVERTISING DIRECTOR
Bonnie Yonker	AK / NATL ADVERTISING SPECIALIST
Heather Yates	BOOKKEEPER
Shane Lasley	IT CHIEF
Marti Reeve	SPECIAL PUBLICATIONS DIRECTOR
Steven Merritt	PRODUCTION DIRECTOR
Tim Kikta	COPY EDITOR
Alan Bailey	SENIOR STAFF WRITER
Wesley Loy	CONTRIBUTING WRITER
Gary Park	CONTRIBUTING WRITER (CANADA)
Rose Ragsdale	CONTRIBUTING WRITER
Ray Tyson	CONTRIBUTING WRITER
John Lasley	STAFF WRITER
Allen Baker	CONTRIBUTING WRITER
Sarah Hurst	CONTRIBUTING WRITER
Judy Patrick Photography	CONTRACT PHOTOGRAPHER
Mapmakers Alaska	CARTOGRAPHY
Forrest Crane	CONTRACT PHOTOGRAPHER
Tom Kearney	ADVERTISING DESIGN MANAGER
Amy Spittler	MARKETING CONSULTANT
Dee Cashman	CIRCULATION REPRESENTATIVE

ADDRESS
P.O. Box 231647
Anchorage, AK 99523-1647

NEWS
907.522.9469
publisher@petroleumnews.com

CIRCULATION
907.522.9469
circulation@petroleumnews.com

ADVERTISING
Susan Crane • 907.770.5592
scrane@petroleumnews.com

Bonnie Yonker • 425.483.9705
byonker@petroleumnews.com

FAX FOR ALL DEPARTMENTS
907.522.9583

Petroleum News and its supplement, Petroleum Directory, are owned by Petroleum Newspapers of Alaska LLC. The newspaper is published weekly. Several of the individuals listed above work for independent companies that contract services to Petroleum Newspapers of Alaska LLC or are freelance writers.

OWNER: Petroleum Newspapers of Alaska LLC (PNA)

Petroleum News (ISSN 1544-3612) • Vol. 14, No. 50 • Week of December 13, 2009

Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518

(Please mail ALL correspondence to:

P.O. Box 231647 Anchorage, AK 99523-1647)

Subscription prices in U.S. — \$98.00 1 year, \$176.00 2 years, \$249.00 3 years

Canada — \$185.95 1 year, \$334.95 2 years, \$473.95 3 years

Overseas (sent air mail) — \$220.00 1 year, \$396.00 2 years, \$561.00 3 years

“Periodicals postage paid at Anchorage, AK 99502-9986.”

POSTMASTER: Send address changes to Petroleum News, P.O. Box 231647 Anchorage, AK 99523-1647.

Alaska's Underwater Professionals: "Where Safety is the First Step"



Offshore Oil & Gas Dive Support Services to 1,000ft
Production Platforms & Subsea Pipelines:
Installations, Inspections, Repairs, P&A, Decommissioning

Deepwater Mooring Systems
Installations & Maintenance

Office: (907) 563-9060 • www.gdiving.com • Fax: (907) 563-9061

Diving Services • ROV Services • Environmental Services • Emergency Response

• NATURAL GAS

Obama picks Persily as new coordinator

Veteran of state government, journalism will replace Pearce, lead small agency designed to streamline work on Alaska gas pipeline

By **WESLEY LOY**
For *Petroleum News*

President Obama on Dec. 9 announced he'll nominate Larry Persily of Juneau for the job of federal coordinator for Alaska natural gas transportation projects.

If confirmed by the Senate, Persily will replace Drue Pearce, who was the first person to hold the position and who has said she's resigning at the president's request effective Jan. 3.

Persily had confirmed to *Petroleum News* in November that he was under consideration for a federal post.

The coordinator's office was created with the Alaska Natural Gas Pipeline Act of 2004. It is headquartered in Washington, D.C., with a second office in Anchorage.

The intent of Congress was for an office to help coordinate and spur along the many regulatory agencies that would be involved in permitting a potentially \$30 billion megaproject to tap the vast natural gas reserves on Alaska's North Slope.

Two corporate partnerships are now proposing pipelines to carry gas out of Alaska and across much of Canada, and both are approaching key open seasons next year to try to recruit customers.

Persily's background

Persily, 58, has held a variety of jobs in state government as well as in journalism.

He currently works as a legislative aide to state Rep. Mike Hawker, an Anchorage Republican and co-chairman of the powerful House Finance Committee.

A press release from the Obama administration noted Persily's work under three Alaska governors, including his time as deputy state revenue commissioner.

"Mr. Persily is known statewide for his bipartisan credentials — he has worked for Democrats and Republicans — and his knowledge on oil and gas matters, particularly the history of the 40-year effort to develop a North Slope natural gas pipeline," the press release said.

The release cited his work as editor of the state Department of Revenue's 2002 report, "State Financial Participation in an

Alaska Natural Gas Pipeline."

Persily formerly was editorial page editor for the state's largest newspaper, the Anchorage Daily News, and he also was a writer for *Petroleum News*.

He has a journalism degree from Purdue University.

Congressional delegation applauds

Alaska's congressional trio commended Obama's choice of Persily.

"With more than 30 years experience in Alaska and more than a decade working on oil and gas issues for three governors, Larry is an excellent choice for this important position. Few people can match his depth of knowledge and history on Alaska oil and gas issues," said U.S. Sen. Mark Begich, a Democrat. "His credentials are outstanding and I look forward to working with Larry to move an Alaska natural gas pipeline project to reality."

"I've known Larry for years. He has

solid knowledge of oil and gas industry finance and the state's regulatory process," said Republican Sen. Lisa Murkowski. "Commercializing Alaska's vast reserves of natural gas is vital not only for the economy of the state, but the energy security of the nation as well. We've waited decades for this project to get under way. I have faith that the new coordinator will do his utmost to see it completed successfully."

"I appreciate the president's commitment to the natural gas pipeline," said U.S. Rep. Young, a Republican and Alaska's lone congressman. "I look forward to seeing Larry continue the good work done by Drue Pearce, a great supporter of the natural gas pipeline and a wonderful advocate for Alaskan resources."

First things first

Most likely, the coordinator's office will have an interim chief pending Senate confirmation of Persily.

That will be Thomas Barrett, now serving as deputy federal coordinator. Barrett is a retired vice admiral who formerly headed the U.S. Coast Guard in Alaska. He also ran the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration.

Persily, in an interview with *Petroleum News*, said he assumes the job will pay \$100,000-plus, but added he never asked about the salary.

He said his first priority as coordinator will be to "listen and learn." That means talking with the agency staffers as well as "all the players" in the gas pipeline derby, including the major energy companies now advancing projects.

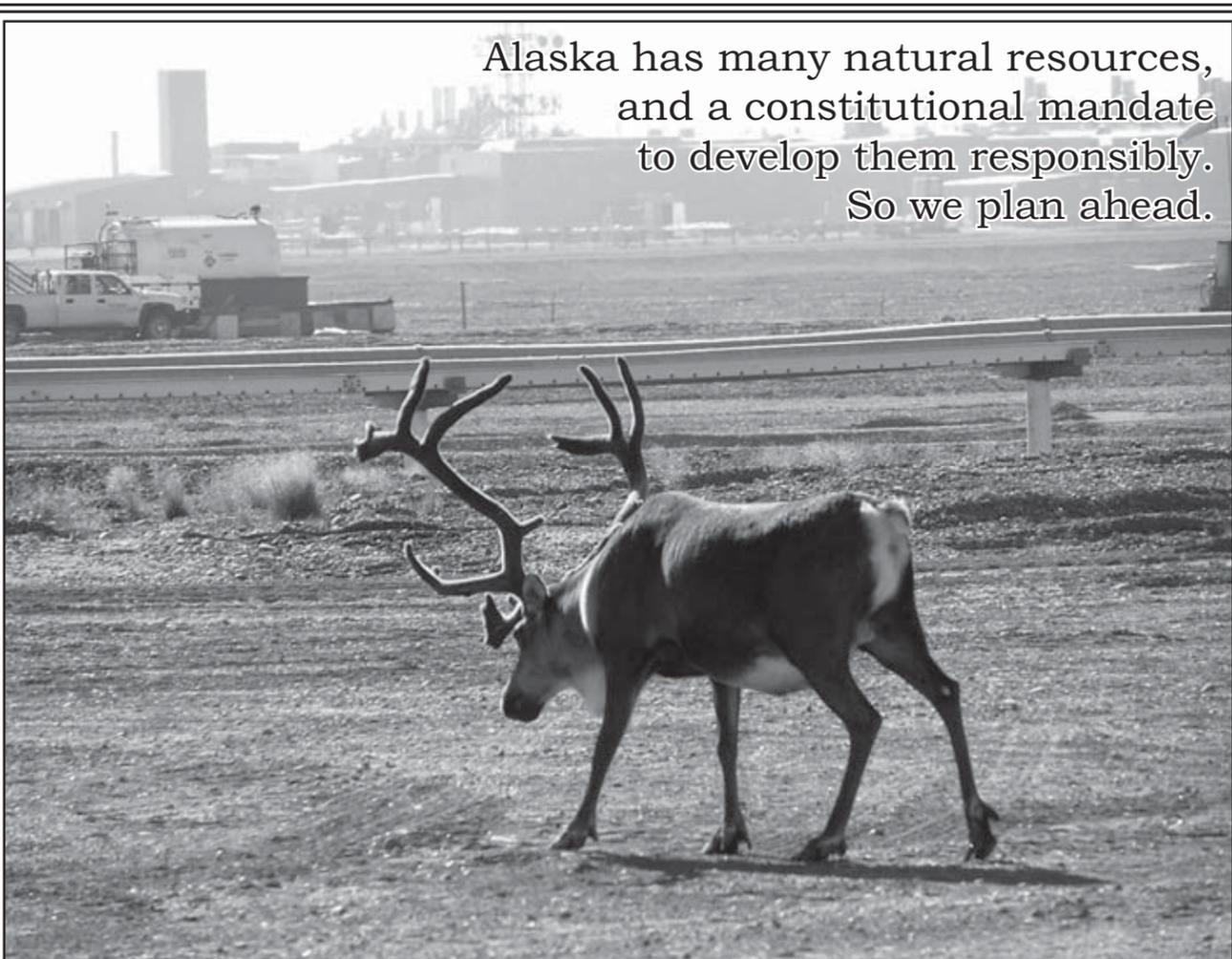
"We've started gas line projects before in the last 40 years and haven't gotten over," he said. "What can we do this time to make it different?" ●

Contact Wesley Loy
at wloy@petroleumnews.com



LARRY PERSILY

TOM KEARNEY



Alaska has many natural resources,
and a constitutional mandate
to develop them responsibly.
So we plan ahead.

Alaska believes predictability is a good thing. That's why we hold annual lease sales for areas with known petroleum potential. And when our lease sales take place, the environmental challenges of potential oil and gas development have already been assessed.

That way, you know before bidding on tracts what environmental issues you are likely to encounter, and what measures are required for exploration and development.

So once your lease is issued, you are ready to start the environmental permitting process.

Alaska: We're Open For Business!



Alaska Department of
**NATURAL
RESOURCES**
DIVISION OF OIL & GAS

Division of Oil and Gas
550 West 7th Avenue, Suite 1100
Anchorage, Alaska 99501-3560
tel: 907-269-8800
<http://www.dog.dnr.state.ak.us/oil/>

continued from page 4

TECHNOLOGY

180,000 acres, lying at an average depth of about 1,000 feet.

The lands have been verified by GLJ Petroleum Consultants as having estimated contingent resources of 4.1 billion-7.7 billion barrels.

The Germain zone has a potential 1.5 billion barrels net to Laricina and the potential for 180,000 bpd of production using Laricina's patent-pending recovery process.

The company has received regulatory approval for a 1,800 bpd pilot and is eyeing a 5,000 bpd commercial demonstration project to startup by late 2012 at an initial cost of C\$250 million.

The Saleski zone has a net 1.4 billion barrels and the potential for gross output of 270,000 bpd. Approvals are so far in place for a 1,800 bpd pilot. ●

• PIPELINES & DOWNSTREAM

New economic age for Canada

Final terms for Northern Gateway regulatory hearing coincide with Harper's declaration that Asia-Pacific supplanting US, Europe

By GARY PARK
For Petroleum News

The pieces are now in place for a Canadian regulatory hearing that carries profound overtones for Canada's economic future, now that Prime Minister Stephen Harper has rated the Asia-Pacific region ahead of the United States and Europe.

The Canadian Environmental Assessment Agency and Canada's National Energy Board issued an agreement Dec. 7 on the terms of reference for a review of Enbridge's proposed Northern gateway pipeline project.

The project consists of a 525,000-barrel-per-day, 36-inch crude oil pipeline to

deliver oil sands production from Edmonton to Kitimat's deepwater port in British Columbia and a 20-inch line to transport 193,000 bpd of condensate in the reverse direction.

The current timetable for Northern Gateway includes an estimated 18 months of regulatory hearings and three years of construction, pointing to pipeline commissioning and startup in the 2015-16 period.

But Enbridge is not expected to make an official application until late in the first quarter of 2010.

Preliminary construction costs were set in 2005 at C\$4.5 billion, but have not been publicly updated since then.

An Enbridge spokesman said crude from Northern Gateway would be primarily

directed at Asia and possibly California, which are "important markets that are currently underserved."

Patricia Mohr, a commodities expert at Scotiabank, said the project would benefit the Canadian energy sector by providing a second export outlet after the United States, which currently takes up to two-thirds of Canada's oil and natural gas.

Mohr said forecasts of slow growth in U.S. energy demand over the next decade elevate energy-hungry China and India as necessary escape valves for Canada.

Looser ties with U.S.

The step forward for Northern Gateway came just two days after Harper — who has made trips to Singapore, India, China and South Korea in the last month — set Canada on the road to loosening its economic ties with the U.S.

"I think we have every reason to believe that the markets in the United States and in Europe that have been our more traditional market will probably experience slower growth for some time to come," he said after meeting South Korean President Lee Myung-bak. "So the greater opportunity is obviously in the Asia-Pacific region."

In a speech to the South Korean National Assembly, he directed his remarks to the G20 — a collection of the world's largest economies that is scheduled to meet in Toronto next June following a summit of leaders from the G8 group of the world's major economic powers.

"The G20 will serve as the world's pre-eminent forum for economic cooperation," Harper said. "It is this group that has worked together to minimize the effects of the global recession."

He has openly acknowledged that the G20 — which includes the U.S., China, Japan, Canada, South Korea, Russia, Mexico and Indonesia — has supplanted the G8 as he ponders spreading Canada's economic risks beyond the U.S.

Harper: Canadian assets

Harper said Canada has two assets that give it an edge over other competitors in cracking the emerging Asian markets.

First, he said, "we can supply some of the raw materials, resources, that very few developed countries have to offer," and, second, "unlike most developed countries, Canada has very, very deep cultural links (the result of admitting millions of immi-

An Enbridge spokesman said crude from Northern Gateway would be primarily directed at Asia and possibly California, which are "important markets that are currently underserved."

grants from China, India and other Asian countries) with this region and that also should give us somewhat of a privileged position."

Without making any specific reference to Northern Gateway or other proposed energy links with Asia, including Kitimat LNG's proposed Kitimat terminal, he has set the stage for a crucial test case when the Enbridge application faces regulators and anticipated strong opposition from environmentalists, First Nations, local governments and landowners.

The terms of reference for the environmental and regulatory review allow a full airing of concerns from all stakeholders, notably environmental groups which will raise the issue of increased greenhouse gas emissions from oil sands production that will underpin Northern gateway.

The joint review panel has a mandate to consider whether the pipeline is likely to cause significant adverse environmental impacts and whether it is in the public interest.

No tanker moratorium

In issuing the agreement, the panel discredited a widely held belief that there is a moratorium on tanker traffic off the British Columbia coast.

"It is the government of Canada's position that there is presently no moratorium," it said, noting that tanker traffic already uses the ports of Vancouver, Kitimat and Prince Rupert.

The environmental group Forest Ethics wasted no time attacking the terms of reference, claiming they "fall short of what is required for a project of this magnitude," based on more than 2,000 comments that were made on the draft terms.

"The process the federal government has selected for considering this project turns a blind eye to the climate impacts of tar sands expansion," said Forest Ethics campaigner Nikki Skuce. "This is a review process that has historically approved 99 percent of the projects it has considered." ●

FINANCE & ECONOMY

ExxonMobil expects rising energy demand

Asia's amazing growth over the last decade or so is likely to continue after a brief speed bump for the 2009 recession. That's the conclusion of ExxonMobil's newly released "Outlook for Energy: A View to 2030."

In that report, issued Dec. 8, the company says it expects natural gas consumption in Asia to reach around 110 billion cubic feet a day by 2030, up nearly fourfold from the 30 bcf per day in 2000.

Exxon expects to ramp up LNG production from its own projects and affiliates from the current 35 million metric tons annually to about 100 million metric tons a year (equivalent to 4.6 trillion cubic feet, or roughly 13 billion cubic feet daily). That's equal to a couple Alaska gas pipelines at 6 bcf daily.

According to Exxon's outlook, natural gas demand worldwide will grow 55 percent by 2030, compared with 2005, an average annual rate of 1.8 percent. All of that growth will come from increased demand by developing countries, according to Exxon's estimates.

Energy demand to rise

Demand for electricity in developing countries such as China and India will double by 2030, and overall energy demand will increase by 60 percent in those nations as the world adds 1.3 billion souls to the current population of 6.7 billion and living standards rise in poorer nations, Exxon figures.

Electric generation will soak up 40 percent of the energy consumed in 2030, far more than industrial demand, transportation, and residential/commercial demand, in that order.

Economic activity will rise 50 percent in the developed nations, Exxon estimates, but energy conservation will improve enough to keep demand steady at current levels.

Overall world energy demand will be 35 percent higher in 2030, the company predicts, as oil demand rises 0.8 percent annually and coal consumption 0.5 percent. Nuclear and renewables will have larger increases, but from a small base, and fossil fuel will remain the source for 80 percent of the world's energy.

The report is available through the ExxonMobil Web site at www.exxonmobil.com/Corporate/Files/news_pub_eo_2009.pdf.

—ALLEN BAKER



Successful camp operations begin with Chiulista Camp Services, the premier provider of remote logistics in the state of Alaska. Our professional and efficient services include:

Camp Setup • Camp Management
Catering • Housekeeping

Chiulista Camp Services

Global Resources. Regional Support. Local Hire.



907.278.2208 | 800.277.5516 | chiulista.com

• LAND & LEASING

State reverses Holitna license decision

Overturing a 2006 decision, DNR finds that a gas exploration license in Southwest Alaska is in the best interest of the state

By ERIC LIDJI
For Petroleum News

Alaska officials have again decided that an exploration license in the Holitna basin is in the best interests of the state, returning in a 2005 ruling that had previously been overturned.

In a decision released Dec. 9, Department of Natural Resources Commissioner Tom Irwin and Division of Oil and Gas Director Kevin Banks decided that the potential benefits of allowing exploration in the Holitna basin outweigh possible adverse impacts.

An exploration license would allow Holitna Energy Co. LLC to explore exclusively for natural gas in a 26,791-acre area of state land near the confluence of the Holitna River and Basket Creek, about 10 miles southeast of Sleetmute, in Southwest Alaska.

Although actual drilling in the remote region is likely some ways off, and the likelihood of natural gas in the region remains uncertain, a sizeable discovery could heat and power communities in a section of the state with notoriously high fuel costs, and could also give power to the proposed Donlin Creek Mine, which would need considerable electricity.

A large enough find could theoretically also supply power to the proposed Pebble Mine.

State skeptical

The state is skeptical about the natural gas prospects in the Holitna Basin, calling the potential “poor to fair,” but acknowledged that the whole point of the licensing program is to encourage exploration in areas where very little is known about resource potential.

The state also said that Holitna Energy “submitted new information that stated the potential for conventional gas was higher than previously thought.”

The decision is the latest in a series of rulings and appeals made over the past six years.

After signaling plans to approve the license back in 2005, the state received considerable opposition and concern from local communities and ultimately denied the application.

Holitna Energy provided additional information, hoping the state would reverse that ruling. When the state ultimately upheld its decision, Holitna Energy appealed the case to the state superior court. The state eventually asked the court to remand the

Although actual drilling in the remote region is likely some ways off, and the likelihood of natural gas in the region remains uncertain, a sizeable discovery could heat and power communities in a section of the state with notoriously high fuel costs, and could also give power to the proposed Donlin Creek Mine, which would need considerable electricity.

appeal.

This new ruling is the result of that remand, and considers the additional information Holitna Energy brought about concerns over the scope, size and support of the project.

State turns on three points

In the reconsideration, the state said that Holitna Energy’s decision to give up any rights to drill for coalbed methane in the area “significantly reduces the scope of the license application and avoids many potential environmental effects in the license area.”

The state also dismissed its previous concerns about the size of the licensing area. The state originally worried that buffers and protective measures required in the area would cover the entirety of the relatively small licensing area, effectively negating the license.

According to the state regulations, an exploration license must be between 10,000 and 500,000 acres. At 26,791, the proposed Holitna basin exploration license fell within that spectrum, but the state worried that its location would “make it difficult to condition the license in a manner that allowed exploration activities to occur harmoniously with the other uses in the area and without impact to sensitive fish and wildlife resources.”

In asking the state to reconsider its ruling, Holitna Energy claimed that the acreage remaining after taking mitigation measures into account is enough for developing enough natural gas to serve “the Donlin Creek Mine and the regional population for many generations.”

The state ultimately agreed, saying that its original decision “did not explain why it found the license area adequate in size to successfully implement mitigation strategies in the preliminary finding, but then found the license area ‘too small’ in

the final finding.”

Finally, the state said it had been “premature” to say the project didn’t have enough community support, because it failed to consider Holitna Energy’s “commitment to working with local residents.” When the state denied the application, it also denied Holitna Energy’s request for 120 days to “to develop and document local support.”

In the most recent ruling, the state addressed public concerns by saying, “future public involvement will continue to shape the project, and concerns of local residents will be taken into account during permitting that occurs in phases subsequent to licensing.”

Project dates to May 2003

Holitna Energy’s efforts to explore the Holitna basin date to May 2003, when it applied for the right to shoot seismic and drill in potential shallow gas deposits in the area.

The company made that application under the Shallow Gas Leasing Program, which the state Legislature repealed in January 2004. In getting rid of the program, though, state lawmakers let companies convert their applications into requests for exploration licenses.

The state created the exploration license program to encourage companies to look for oil and natural gas in parts of the state not traditionally known to be resource basins.

Since the state began the program, companies have asked for permission to explore basins from Houston to Circle to Glennallen, and this past summer, Rampart Energy actually drilled for natural gas in the

Nenana area using an exploration license.

An early step in the licensing process requires the Department of Natural Resources to determine whether or not a proposed license serves the best interest of the state.

In its preliminary finding in August 2005, the state decided that an exploration license in the Holitna basin did serve the interests of the state. But DNR reversed that decision in its final finding in October 2006, after reconsidering the application in light of concerns that emerged in public hearings held in several communities around Southwest Alaska.

Holitna Energy appealed that decision, and asked for time to bring more information to the table that might bolster its case for a license. The state agreed to take another look, but in June 2007 ultimately decided to uphold its decision to deny the application.

In July 2007, Holitna Energy appealed the case to the state Superior Court, arguing that the denial lacked a “reasonable basis” and asking that the case be remanded, or sent back to DNR for another look. The court agreed to remand the case in March 2008.

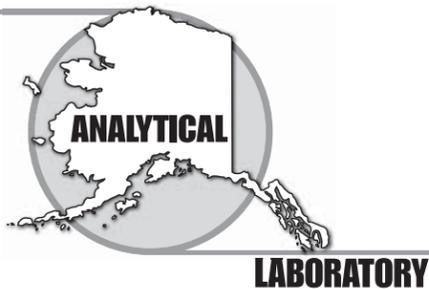
The Dec. 9, 2009, ruling is the final finding in the case, and can be appealed for 30 days.

The finding does not guarantee drilling. “Licensees must obtain approval of a detailed plan of operations from the director before conducting exploration, development, or production activities,” the state wrote. ●

Contact Eric Lidji at ericlidji@mac.com



ALASKA



Alaska Analytical Laboratory is an environmental lab performing the following services: soil analyses for Gasoline Range Organics (GRO), BTEX (Benzene, Toluene, Ethylbenzene, and Xylene); Diesel Range Organics (DRO) and Residual Range Organics (RRO) following the SW-846 EPA/Alaska Methods.

1956 Richardson Highway
North Pole, Alaska 99705
Phone: (907) 687-7394
Email: klovejoy@alaska-analytical.com

RESPECTING THE ROAD, GETTING THE JOB DONE.

Maybe it's his Southern roots or the fact that he's living his childhood dream to drive "big rigs." Whatever the reason, Carlile driver Carey Hall understands what it means to respect the road and his cargo - which means no matter what it is or where it's going, Carlile will deliver for you.

→ solutions finder.



Carey Hall is featured in the third season of the History Channel series Ice Road Truckers on the infamous Dalton Highway.

→→→→→→→→
ROAD - RAIL - SEA - AIR

www.carlile.biz | 1.800.478.1853
ALASKA | HAWAII | UNITED STATES | CANADA

SAFETY & ENVIRONMENT

Alberta touts carbon capture prospects

By GARY PARK
For Petroleum News

The Alberta government may not be putting all of its climate-change strategies in one basket, but it's coming close as it pursues recognition as a world leader in advancing carbon capture and storage technologies.

It is now close to doling out the promised C\$2 billion to four projects that it hopes will turn demonstration projects into full-scale commercial ventures, creating thousands of jobs, billions of dollars in additional royalties from enhanced oil recovery schemes and put it on the leading edge globally in proving the worth of CCS.

The government has so far allocated C\$1.67 billion to three projects — Shell's Quest, TransAlta's Pioneer and the Alberta Carbon Trunk Line, a joint venture by North West Upgrading and Enhance



ED STELMACH

Energy — and has confirmed the SwanHills Synfuels initiative will receive the last C\$300 million.

In late November, Alberta agreed to pay C\$495 million over 15 years to the carbon trunk line plan for a ground-breaking project that backers say could generate an extra 1 million barrels per day of new oil production and generate C\$15 billion in royalties.

Largest CCS venture in world

After signing a letter of intent with the partners, Premier Ed Stelmach told reporters the C\$600 million line will be the largest CCS venture in the world.

"It will be useful in other jurisdictions around the world where emissions are higher than in Alberta," he said.

"The knowledge garnered here will be shared, which will further reduce the cost of carbon capture projects and facilitate its broader use," Stelmach said.

He said the project will be able to store 14.6 million metric tons of CO2 per year when it starts operations in 2012, initially transporting 5,100 metric tons per day of compressed CO2 over 145 miles from an Agrium fertilizer plant near Edmonton to

"It will be useful in other jurisdictions around the world where emissions are higher than in Alberta."

—Alberta Premier Ed Stelmach

a depleted oil field in central Alberta.

The CO2 volumes, which will eventually reach 40,000 metric tons per day, will be used to rebuild reservoir pressures to recover oil from a field which has so far produced 70 million barrels of light crude from 166 million barrels of discovered petroleum initially in place.

The pipeline will advance a joint Fairborne Energy and Enhance CO2 project by extending the producing life of the Clive field by another 20 years, Fairborne said in a statement.

The company said an estimate of its own 60 percent working interest points to a contingent resource associated with the CCS project of 24 million barrels.

Canada also contributing

The Canadian government is contributing C\$63 million, which Natural Resources Minister Lisa Raitt said

demonstrates Canada's desire to "show international leadership in CCS technology."

Stelmach said the oil produced from the EOR technology will be subject to royalties and taxes to both his government and freehold landowners over the life of the project.

Enhance President Susan Cole claimed the investments will enable Alberta to "lead the world in CO2 management and ... in turn, generate C\$15 billion of royalties to the province."

She estimated it will cost C\$600 million to build the pipeline and another C\$200 million for operating costs.

To date, there has been no opposition from 400 landowners along the pipeline route, Cole said.

They have agreed to contribute a combined C\$865 million to a Royal Dutch Shell plan to capture 1.2 million metric tons per year of CO2 beginning in 2015 at its Scotford refinery on the outskirts of Edmonton and a C\$774 million plan to capture CO2 at a TransAlta coal-fired power plant to be used for EOR in nearby conventional oil fields, starting in 2015 with the capture of 1 million metric tons per year.

SwanHills final recipient

The final recipient of government money is expected to be SwanHills Synfuels, which is working on a C\$30 million demonstration project to turn ultradeep coal deposits into synthetic natural gas.

If it receives the additional C\$300 million, the privately held company plans to replicate its demonstration project with 20 pairs of wells over a section of land, supplying enough syngas for an initial eight years of power generation by a 300-megawatt clean-energy plant, which is planned to be in service by 2015.

SwanHills President Douglas Shaigec said the demonstration project has clearly demonstrated that the prospects of turning deep coal (about 4,600 feet deep) into energy are immense.

"It was a demonstration of what has been done in the world previously, taking the proven process and applying it to the deep coals we have in Alberta," he said.

"We made some excellent quality syngas. It was all very much in line with what the theory had predicted," Shaigec said.

CO2 created from the conversion of coal into gas will be used by local firms for enhanced oil recovery. ●

RIG MATS

Custom Designed to Suit Your Needs

1/4" Flat Bar Top and Bottom
2" x 6" Kiln Dried Lumber On Edge - Glued and Nailed
W5 x 15 Beam
Boxing Plate
Lister I - Laminated Mat
Lister Arctic Mats
Proven Durability

LISTER INDUSTRIES LTD.
Our Rig Mats Have Covered the World Since 1968

Thank you to the Oilpatch for 40 years of continued success through the ups & downs. Lister Industries is the longest serving rig mat company in North America - blazing the trails where others are following. We continue to lead the way.

For rental Inquiries in Alaska Call
Arctic Mats
AT 907-448-3092

Inverted Line Crossing

For Protecting Pipes, Wires and Hoses where they cross access and secondary roads.

HSS 4x2x.250
Flag Sockets - 4 per side
HSS 8x8x.250
1/4" plate
Plate removed for illustration
30'-1"
3" XH pipe
Flag Pole 7/8" steel
Checked Plate

Global Leader since 1968 in "Rig Mat Design & Manufacturing"

For Sales Inquiries Contact:
info@listerindustries.com | PH 780.468.2040 | FX 780.468.3337 | Edmonton, AB. | www.listerindustries.com

INSPIRATIONS

Hair & Nail Salon

We offer personalized service, catering to the busy professional.

- 11am — 7pm (Late night appointments by pre-arrangement only)
- Each stylist has a separate, enclosed work area for your privacy and comfort

700 W Northern Lights Blvd., Anchorage, Alaska 99503

Mention
this ad and
receive a 10%
discount on
hair services!

• Call for appointments • 561-9499

• FINANCE & ECONOMY

Speakers highlight oil's importance

Goldsmith, Langland, Samuels urge more attention for oil industry if Alaska is to have vibrant economy, avoid state budget crisis as production declines in next few years

By WESLEY LOY
For Petroleum News

An economist, a banker and a politician sounded a familiar alarm Dec. 8 at a special luncheon of the Resource Development Council for Alaska: The state's vital oil production is running out, the industry needs some serious attention and Juneau is spending too much.

It all adds up to a bad end for Alaska unless action is taken soon, the trio said.

"Without oil and gas, we just don't have the ability to have a vibrant economy," said Marc Langland, chairman and chief executive of Anchorage-based Northrim Bank.

The other speakers were Scott Goldsmith, an economist with the University of Alaska Anchorage Institute of Social and Economic Research, and former state Rep. Ralph Samuels, an Anchorage Republican who after the luncheon announced he'll run for governor next year against the Republican incumbent, Sean Parnell.

Nothing the three said was particularly new.

But everything they said bears repeating over and over because oil and gas is so crucial to Alaska's economic health, RDC Executive Director Jason Brune told Petroleum News.

He denied the luncheon was held to support a Dec. 4 call from a group of legislators for a review of the state's oil tax regime as a possible deterrent to exploration and industry investment.

'Small, thin, seasonal, poor'

Goldsmith is well-known for his "fiscal gap" concept, the idea that oil production someday will decline to such an extent that the state government will face enormous budget deficits. He was writing and speaking about the fiscal gap in 1989, and he still is 20 years later.

Speaking to an audience of 300 people at the Dena'ina Civic and Convention Center in downtown Anchorage, Goldsmith laid out what Alaska might look like without oil, and described how vital petroleum is today.

Imagine, he said, that a terrorist set off an atomic bomb underneath Prudhoe Bay, rendering all the state's oil radioactive and unsalable.

"About one-third of Alaska jobs would be gone," Goldsmith said.

Oil is a rock of stability for the state, unlike tourism and fishing, which are highly seasonal and anyway not nearly as lucrative as oil, he said.

Without oil, Alaska might look very much as it did at the time of statehood in 1959, Goldsmith said, "small, thin, seasonal, poor, dominated by the federal government."

Recent high oil prices and record employment in the oil patch have masked the fact that production today is only about a third of its peak of more than 2 million barrels a day in the late 1980s, he said.

After the luncheon, in announcing his run for governor, Samuels vowed to look at the tax structure for ways to stem the production decline and spur more exploration.

The state has made a number of failed attempts to diversify its economy, but the most important move it could make is directing more attention to petroleum resources, Goldsmith said.

Bad policy?

Langland said Alaska's got a leadership problem among its elected officials.

Alaska, with its high costs, huge risks and distance from markets, already is an expensive place for industry to invest and state decisions haven't helped, he said.

When oil prices spiked, Alaska two years ago "got pretty greedy" and hiked taxes with passage of a policy known as Alaska's Clear and Equitable Share or ACES, Langland said.

ACES as well as AGIA, the Alaska Gasline Inducement Act of 2007, need changes to entice companies to invest here as opposed to elsewhere in the world, he said.

Right now Alaska is having trouble attracting dollars to explore, to develop difficult deposits such as the North Slope's heavy oil, and to build a natural gas pipeline, he said.

Much has changed since ACES and AGIA were passed, Langland said.

"In today's global economy, we can't afford to stick with bad policy," he said.

Budget crunch coming

Samuels, now working as an executive for cruise ship operator Holland America Line, is known as the only legislator to vote against AGIA, which Sarah Palin pushed at the height of her political power as governor.

"Quite frankly, the state government doesn't have a problem next year or the year after or the year after," Samuels told the RDC luncheon crowd.

But in five years, assuming oil production declines by 5 percent a year, the state won't be able to balance its budget unless oil pays \$94 per barrel, he said. And that would be a barebones budget, he added.

Samuels said oil benefits the state in three ways: through private investment and jobs, royalties and production taxes.

Lately, the state has emphasized the third one, taxes, perhaps to the detriment of the other two, he said.

After the luncheon, in announcing his run for governor, Samuels vowed to look at the tax structure for ways to stem the production decline and spur more exploration. ●

Contact Wesley Loy at wloy@petroleumnews.com

GOVERNMENT

Murkowski proposes Arctic port site study

U.S. Sen. Lisa Murkowski has introduced a bill to study the possibility of building a deepwater port in the Arctic. The measure would direct the defense secretary to conduct the study with an eye toward protecting U.S. strategic interests in the region.

Murkowski, an Alaska Republican, says the two-year study would try to determine the best location for a port and what strategic capabilities it could provide.

It also would look at the resources needed to establish a port.

Murkowski says the United States needs to be able to guard its territorial claims and its economic interests in the Arctic, especially as a decrease in seasonal ice leads to increased marine activity.

—THE ASSOCIATED PRESS

Quadco Inc.
Serving the Oilfield in Alaska and the Rocky Mountains with Quality Products and Innovations Since 1966

303-659-3339 BRIGHTON, CO.
970-263-8402 GRAND JUNCTION, CO.
505-327-0486 FARMINGTON, NM.
307-472-3110 CASPER, WY.
907-563-8999 ANCHORAGE, AK.
907-659-9449 PRUDHOE BAY, AK.

Providing project management professionals for major projects throughout Alaska and the world

www.hawkpros.com
907.278.1877

strength in experience

AN INTERGRATED APPROACH TO SURVEYING

Global Land Services, Inc. is a leader in providing survey services to the energy industry. Our company delivers experienced field and office staff to tackle any construction project. From route selection to mainline as-built surveys Global's record of success has proven the company's dedication to meeting our clients' needs.

ALASKA	645 G St., Suite 100 #1160, Anchorage, AK 99501 — (866) 881.0647 ext. 714
CALIFORNIA	9744 Beach Blvd. #492, Huntington Beach, CA 92648 — (866) 881.0647 ext. 701
TEXAS	2040 N Loop 336 #314, Conroe, TX 77304 — (866) 881.0647 ext. 704
WISCONSIN	1711 Woosley St. #D, Delavan, WI 53115 — (866) 881.0647 ext. 708
ONLINE	www.GLOBALLANDSERVICES.com

Global Land Services, Inc.
Surveying & Mapping

SAFETY & ENVIRONMENT

Response team finds source of oil leak

Overpressure from expanding ice plugs likely caused 24-inch rupture in pipeline between Lisburne drill pad and production center

By ALAN BAILEY
Petroleum News

In a situation analogous to the bursting of a frozen water pipe during the winter, it appears that pressure from expanding ice plugs inside the 18-inch pipeline that carries three-phase fluids from Lisburne drill pad L-3 to the Lisburne Production Center caused the oil spill discovered Nov. 29 at one of the pipeline's vertical support members. The Lisburne field lies within the BP-operated Prudhoe Bay unit on Alaska's North Slope.

Safety concerns

In the initial response to the spill, the response team had been unable to examine the leak site on the pipeline because of concerns that possible high fluid pressures caused by ice plugs in the pipeline might place the responders at risk. However, after making x-ray images of the line to deter-

mine the positions of ice plugs and fluids, specialists were able to determine that it was safe to approach the area of the leak, albeit with appropriate precautions for possible toxic fumes.

So, on Dec. 5 responders started entering a previously off-limits 40-foot diameter safety zone around the spill source, to start removing snow that was heavily contaminated with oil and produced water — the responders had previously cleared away more lightly contaminated snow farther out from the spill location. On Dec. 7, when it became possible to closely examine the pipeline, a visual inspection revealed a 24-inch lengthwise rupture in the line, with the rupture displaying characteristics consistent with pressure inside the line having ripped the line open.

It appears that expanding internal ice plugs on either side of the rupture point had built up the fluid pressure in the line, BP spokesman Steve Rinehart told Petroleum News Dec. 8.

"We had ice plugs on either side of this leak. There's roughly 1,300 feet in between the ice plugs," Rinehart said. "... Ice expands as it freezes and those ice plugs growing on each side would ... have exerted significant pressure on that material between them."

In fact, the x-ray survey has indicated extensive ice plugging in the line, with one ice plug measuring 1,500 feet in length.

46,000 gallons

On Dec. 5 the spill response unified command published an estimated spill volume of about 46,000 gallons, a volume determined using mapping and surveying techniques applied at the spill site. That preliminary estimate will be later superseded by a more accurate estimate based on volumes of material recovered from contaminated snow. Fluid is no longer leaking from the pipeline.

The majority of the spilled material had semi-frozen into a large dome-shaped mass occupying about one-quarter of an acre around the pipeline leak. Another half-acre of snow around the heavily contaminated area had been impacted by light oil misting.

The spilled fluid consists of a mixture of crude oil and produced water. BP does not know the relative proportions of oil and water in the spilled material, but the damaged line typically carried a mix of 75 percent water and 25 percent oil, Rinehart said.

The estimated spill volume can be compared with the approximately 200,000 gallons of crude oil spilled in the largest North Slope spill, the 2006 Prudhoe Bay field spill that resulted from corrosion in a transit line between a Prudhoe Bay gathering center and pump station 1 of the trans-Alaska oil pipeline.

Rinehart declined to speculate on how the ice plugs had formed in the Lisburne line, saying that an investigation into the cause of the problem was already under way. The failed line is paired with a parallel 24-inch line carrying Lisburne three-phase fluids along the same route, with a temperature sensor at the downstream end of each line — BP has assessed its other North Slope pipelines and has determined that the same ice-plug situation is not developing elsewhere, Rinehart said.

"We've got other lines that operate in pairs or are looped, but we've got the systems in place to monitor them," he said.

There are means of dealing with ice plugs, an uncommon but not unknown

B. FULTZ ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION



A responder collects contaminated snow from the Lisburne pipeline spill site.

Visit www.alaskaalliance.com today:

- view conference agenda • explore sponsorship options • register online

MA
Meet Alaska
Alaska's energy conference

January 22, 2010
Sheraton Anchorage Hotel & Spa

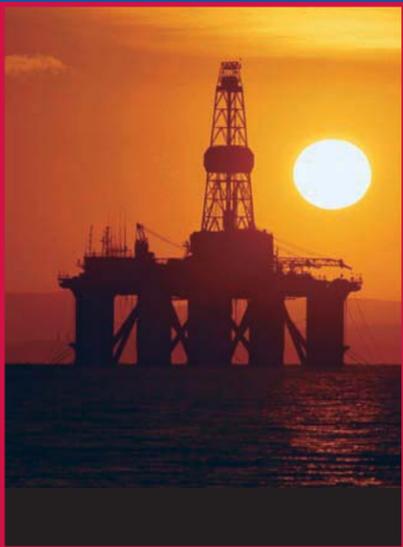
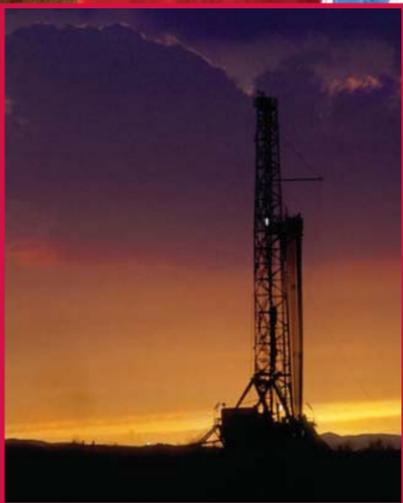
Alaska Support Industry Alliance • 646 W. 4th Ave., Suite 200 • Anchorage, AK 99501
(907) 563-2226 • info@alaskaalliance.com • www.alaskaalliance.com

Register before Jan. 8 to receive an early bird discount!

see LISBURNE SPILL page 19



**Value Technology for
today and tomorrow in the
fight against corrosion!**



TODAY

- DUOLINE® internal lining systems reliably beat corrosion in oilfield tubing and line pipes.
- More than 80 million feet of DUOLINE® have been successfully installed worldwide since 1964!
- DUOLINE® is a high performance, high-value, cost-effective alternative to Corrosion Resistant Alloys.

TOMORROW

- DUOLINE® Technologies is a problem solver in winning the fight against corrosion. If your application falls into any of the following categories, you have a reason to talk with us!
 - Offshore platforms • Onshore work-over rigs • Sour gas service
 - Oil and gas producing wells • Waterflood injection wells
 - Brine/chemical disposal wells • Transportation pipe lines
 - CO₂ injection wells • Saltwater disposal systems
- Contact us today to be part of our communications network. DUOLINE Technologies is continuously developing new anti-corrosion solutions. In fact – a new value-added product for high H₂S applications is soon to be available.

Let us know how to keep you informed!

DUOLINE®
TECHNOLOGIES

9019 North County Rd. West
Odessa, TX 79764
800-345-7423

1100 US Highway 271 South
Gilmer, TX 75644
903-843-5591

www.duoline.com

sroot@duoline.com



OUR ARCTIC NEIGHBORS

Russian company gets share in Nenets field

Total E&P Russie, a subsidiary of France's Total, is transferring a 10 percent interest in the Kharyaga oil field in Russia's Nenets Autonomous Okrug to Russian state-owned company Zarubezhneft, Total said in a release Nov. 27. A memorandum of understanding signed in 1999 at the same time as the Kharyaga Production Sharing Agreement stipulated that a Russian partner would take a stake in the project.

Total is the operator of phases two and three of the Kharyaga field. The development of phase three, which received the go-ahead in December 2007, should increase output to 30,000 barrels per day, compared to 20,000 bpd in 2008.

"The addition of Zarubezhneft as a partner in the Kharyaga field will further strengthen relations between Russian oil companies and Total," said Yves-Louis Darricarrère, president of Total Exploration & Production. Another partner in the field, Norway's Statoil, is also transferring a 10 percent interest to Zarubezhneft.

Under the agreement, Total will continue to operate Kharyaga with a 40 percent interest, along with its partners Statoil (30 percent), Zarubezhneft (20 percent) and Nenets Oil Co. (10 percent).

—SARAH HURST

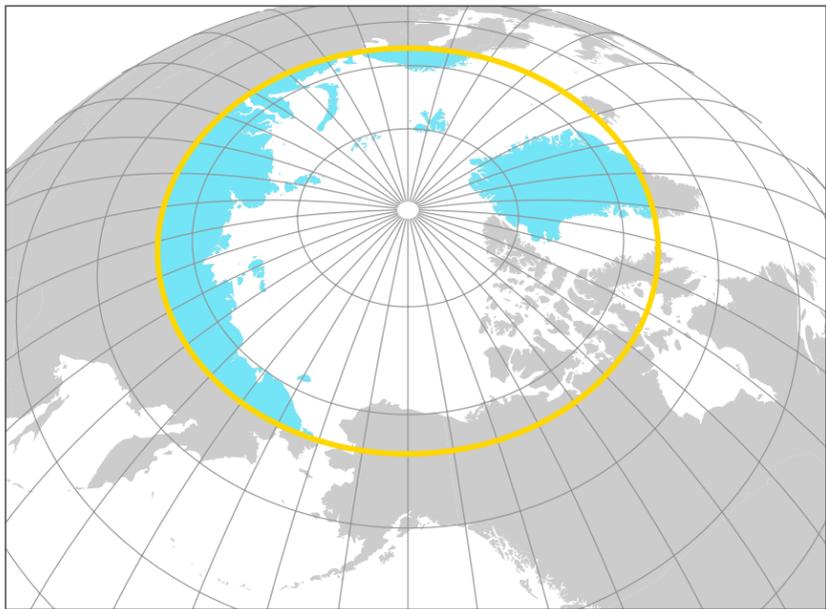
Statoil postpones plant's startup again

Technical challenges are still delaying the startup of Statoil's Melkoya liquefied natural gas plant near Hammerfest in northern Norway, the company said in a release Nov. 23. The plant, which processes gas from the Snohvit field in the Barents Sea, was shut down in the fall for planned upgrading and maintenance. Running-in after the completion of the turnaround began Nov. 7.

A fault in one of the plant's utility systems arose during the running-in, which has now been repaired. A second fault then occurred in an electric motor which forms part of the cooling process. Statoil decided that the motor must be replaced by a reserve unit that is stored at the nearby Polarbase in Hammerfest.

"Replacement work is already well under way, and personnel from the operations organization and the contractor will work around the clock until the plant is ready to resume startup," the release said. "The unexpected faults which have occurred during the first running-in phase are not related to the work done during the turnaround," the company added.

—SARAH HURST



OUR ARCTIC NEIGHBORS

Liquefied natural gas plant for Nenets Oblast?

Taking cue from Putin, independent considers LNG plant for commercializing Arctic fields instead of gas-chemical complex

By SARAH HURST

For Petroleum News

A little-known Russian independent, Moscow-based CH-Oil & Gaz, has announced plans to build a liquefied natural gas plant in the Nenets Autonomous Oblast. The LNG Pechora Project, as it is called, was introduced by the company's CEO, Viacheslav Pershukov, at the 10th World LNG Summit in Barcelona Dec. 3.

The plant would be built as an alternative to the gas-chemical complex that CH-Oil & Gaz had planned to assist with commercialization of the gas reserves of the Kumzhinskoe and Korovinskoe fields, the company said in a release Dec. 3. According to a feasibility study that has been prepared by engineering firm Technip Italy, construction of the LNG plant and the associated infrastructure could begin in 2011 and would require more than \$4 billion in investments.

The plant would make it possible to commercialize 138 billion cubic feet of dry gas per year in the first stage, and it may be possible to increase production to 275 bcf in the future, according to CH-Oil & Gaz. The plant could be launched in 2015, at the same time as the start of production at the fields. The LNG would be exported mainly to the Asia-Pacific region.

Lack of infrastructure

"The project will allow us to commercialize the reserves of natural gas in Nenets Autonomous Oblast that have not been developed due to a lack of the necessary infrastructure, so if we complete our project we can create a new gas province in Russia," Pershukov said at the summit.

"Initially we considered only one way of commercializing the reserves by constructing a gas-chemical complex near Indiga village," Pershukov said. "But recently new opportunities have opened up for independent Russian operators in the LNG sector. At the conference in Salekhard in September

2009, Prime Minister Vladimir Putin stated that it is now important to take the leading positions in the LNG market.

"It is no secret that construction of the LNG plant in Nenets Autonomous Oblast requires more approvals and is subject to various regulations; nevertheless we decided to consider this option. Simultaneously with the development of pre-project documentation for the LNG plant, gas transmission infrastructure and marine facilities, we are negotiating on strategic cooperation with foreign companies. We hope that our project will make a valid contribution to the realization of our country's plans," Pershukov said.

Development of the Kumzhinskoe field is controversial. Located in the delta of the Pechora River, 37 miles from the town of Naryan-Mar, a massive blowout occurred at one of the field's wells in November 1980. The Soviet government detonated a nuclear device underground at the field in 1981 after other attempts to halt the flow of gas and condensate from one of its wells had failed.

Environmental groups such as Norway's Bellona say that gas is still leaking from the deposits. Bellona wants to renovate and reinforce a protective dam, and opposes any gas production at the field. The administration of the Nenets Autonomous Oblast proposed restarting development of the field in 2007 "to reduce the intrastatal pressure so that the risk of gas discharge shall be minimized," CH-Oil & Gaz says on its Web site. The administration has placed serious environmental obligations on any company that develops the Kumzhinskoe field, the Web site notes.

The plant in Nenets is the third proposed LNG plant in the Russian Arctic, along with the plant envisaged in the village of Teriberka on the coast of the Kola Peninsula to handle gas from the Shtokman field in the Barents Sea, and a proposed plant on the Yamal Peninsula. The only operating LNG plant in the Arctic is Statoil's Melkoya plant in northern Norway, which has been plagued by technical difficulties. ●

Delta Means Business

Delivering leasing solutions for Alaska's oil and gas, mining and construction industries

Alaskan-owned.
Deadline driven.
Results oriented.



4040 B St. Suite 200
Anchorage, AK 99503
907.771.1300
www.deltaleasing.net



Fleet Vehicles | Industrial Equipment | Remote Camps & Facilities

ABB

Power and productivity
for a better world™

Power Systems

Control Systems

Safe Productivity

Alaska@us.abb.com
907-317-7715

• EXPLORATION & PRODUCTION

Remote basin exploration moves forward

Independent Trio Petroleum plans to drill first well in Selawik basin in late 2010, permitting for both oil and gas

By KAY CASHMAN
Petroleum News

A Bakersfield, Calif., independent is preparing to drill an oil and gas well next year in one of North America's last unexplored basins — northwest Alaska's Selawik basin, in more recent years referred to as the Kotzebue basin. The project manager for the program is long-time Alaska geologist Arlen Ehm, whose 44-year career in the state stretches from the National Petroleum Reserve-Alaska and the coastal plain of the Arctic National Wildlife refuge in the far north to Cook Inlet basin in the south.



ARLEN EHM

Ehm spent several days this past summer staking four well locations in three different areas within the 2.2 million acres Trio has under lease from NANA Regional Corp., the Alaska Native regional corporation that owns the subsurface rights to the acreage.

Trio executives spent five days with Ehm in August visiting with locals, whose village corporations control large chunks of the surface of the 2.2 million acres, and with officials from NANA and the Northwest Arctic Borough. More visits and discussions are expected in 2010, specifically to the villages of Noorvik, Selawik, Buckland and Deering, he said.

"Trio's agreement with NANA requires them to hire as many NANA shareholders as possible ... and to use NANA subsidiaries and joint ventures whenever possible," Ehm told Petroleum News in early December. "I am looking at trying to arrange to train shareholders at the roughneck school in Seward, but the company man, the toolpushers and the drillers will all have to have Arctic drilling experience."

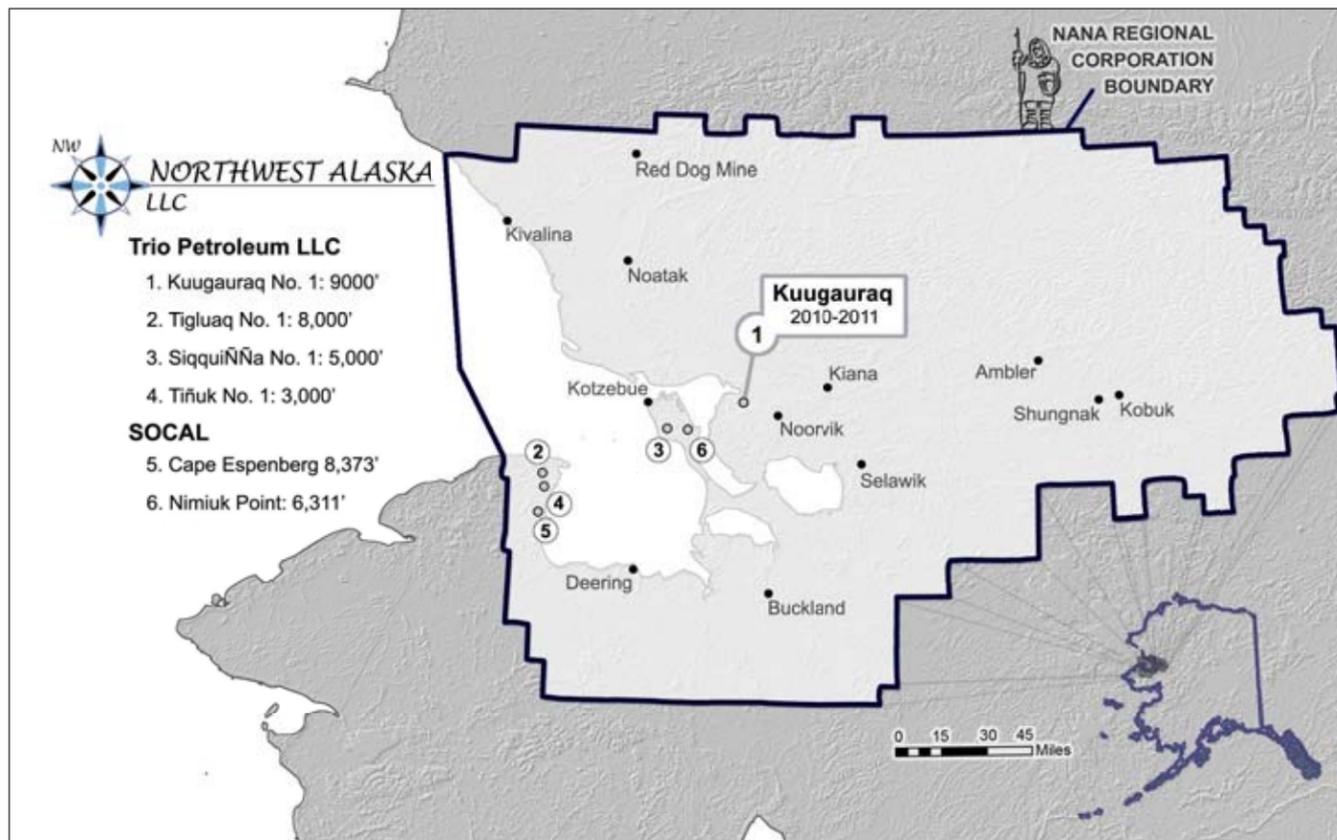
Archaeological surveys first

The four wells staked by Ehm are as follows (see map). They are listed in the order that they are likely to be drilled, although sidetracks and second wells at each location might be drilled, depending on drilling results:

- Kuugauraq No. 1 near Melville Channel, named for NANA shareholder Billy Sheldon;
- Tigluaq No. 1, at Cape Espenberg north, named for NANA shareholder Gilbert Karmun;
- Tiñuk No. 1, at Cape Espenberg south, named for NANA shareholder Herbie Nayokpuk; and
- Siqqiñña No. 1, Baldwin Peninsula, named for NANA shareholder Sigwien Savok.

Ehm said archaeological surveys on "approximately two acres surrounding each of the drill sites were conducted at the time that the wells were staked" this past summer.

Additional archaeological surveys of the "proposed staging areas, roads and airstrip areas for the Kuugauraq No. 1



BIG RISK, BIGGER REWARDS

Big Risk, Bigger Rewards magazine is designed to attract both new operators to Alaska and encourage investment in existing Alaska projects. If you're an oil company, Big Risk, Bigger Rewards is an opportunity to tout your Alaska projects and success to potential investors. If you provide services, supplies or equipment to Alaska's energy industry, advertising in this magazine is an opportunity to tell oil and gas companies entering the state what you can do for them.

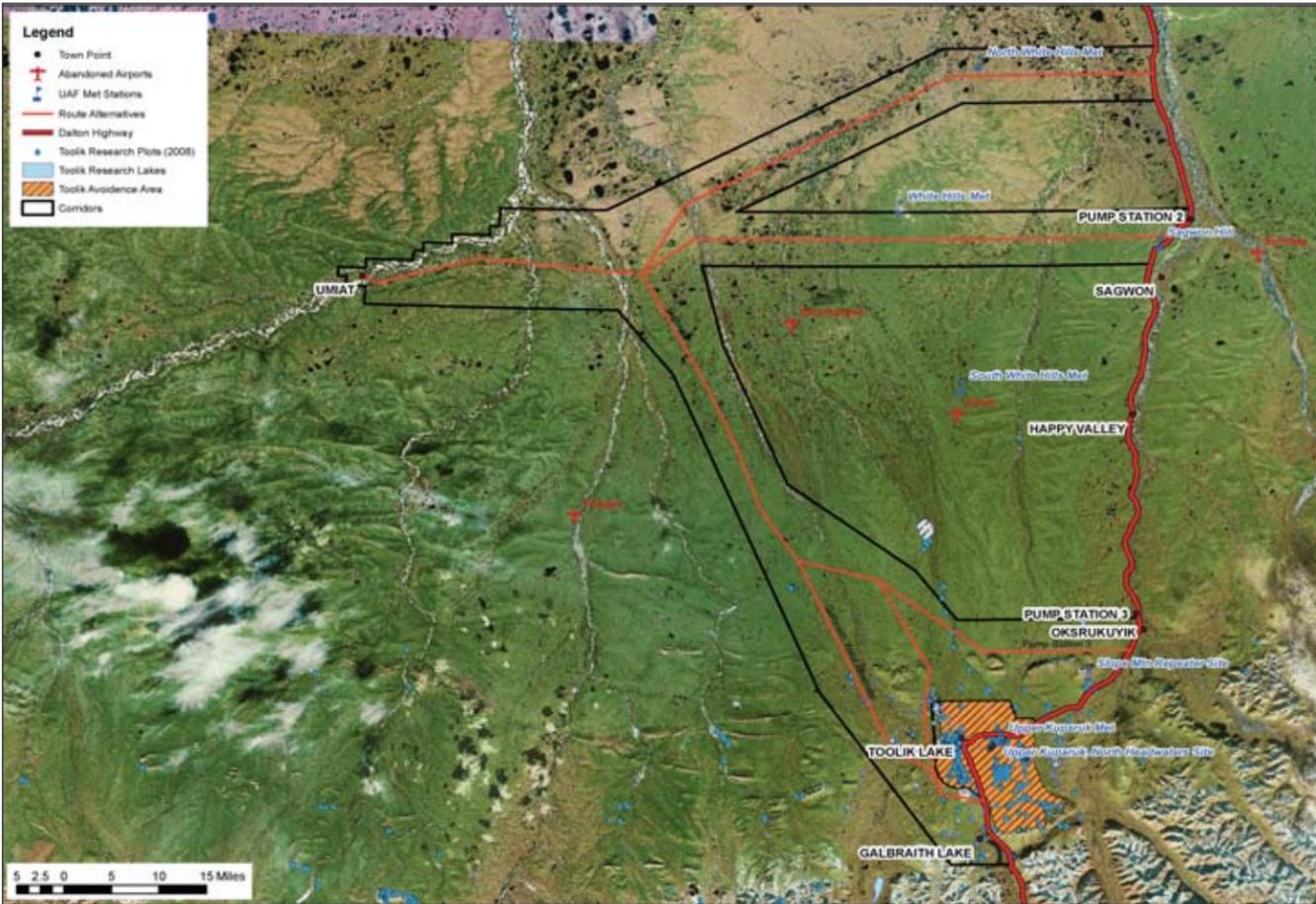
Big Risk, Bigger Rewards will premiere in February 2010.

To advertise in this special publication, please contact:
Susan Crane — 907-770-5592, scrane@petroleumnews.com
Bonnie Yonker — 425-483-9705, byonker@petroleumnews.com

CONTACT US TO ADVERTISE TODAY!



see SELAWIK BASIN page 16



This past summer, The Alaska Department of Transportation and Public Facilities studied five potential corridors for a road to Umiat and is currently leaning toward a route running northwest to Umiat from Galbraith Lake.

• GOVERNMENT

Parnell budgets Umiat road permitting

Proposes \$8 million line item in FY 2011 budget for permitting an all-season road; claims lack of infrastructure holding up development

By ERIC LIDJI

For Petroleum News

Alaska Gov. Sean Parnell is planning to include \$8 million in his fiscal year 2011 budget for the Department of Transportation and Public Facilities to permit a road to Umiat.

A road to Umiat, a staging area along the Colville River near the northern foothills of the Brooks Range, would allow year-round access to oil and gas prospects in the region.

On Dec. 8, Parnell said transportation costs account for 40 percent of exploration in remote areas like the foothills, which he claimed has delayed production in the region.

This past summer, the DOT&PF studied five potential corridors for the road and is currently leaning toward a route running northwest to Umiat from Galbraith Lake.

“Getting this road built will significantly lower costs for the explorers and will likely speed up production of the first gas and oil from the region,” Parnell said in a statement. “Development of these fields will provide jobs for Alaskans and revenue for the state.”

The project is a carry-over from the final months of the Palin administration, with roots in the Murkowski administration, based on ideas that go back decades in Alaska politics.

In her State of the State address in January 2009, then-Gov. Sarah Palin announced plans to commission “preliminary” work on a road to Umiat as a way to “access our resources.”

In March, DOT&PF set an “accelerated schedule” to conduct \$1 million in fieldwork before winter. The Joint Pipeline Office and DOT&PF outlined a two-phase project: an 85-mile section from the Dalton Highway to the Gubik gas fields east of the Colville River and a 15-mile stretch to Umiat including a bridge across the Colville River.

State active this past summer

This past summer, DOT&PF conducted basic engineering and environmental studies

DOT&PF also studied five potential corridors for the road. The department is currently leaning toward a route running northwest to Umiat from Galbraith Lake.

The other potential corridors include an alternate path heading out of Galbraith Lake, and paths starting at Pump Station 3, Pump Station 2 and Franklin Bluffs respec-

see UMIAT ROAD page 15

Alaska Resources 2010

Thank You Corporate Sponsors! November 18-19, 2009

Platinum Sponsors

AadlandFlint
BP Exploration (Alaska) Inc.
ConocoPhillips Alaska, Inc.
ExxonMobil
Northrim Bank
Teck Alaska/NANA Development Corporation

VIP Reception Host

Government of Canada

Centerpiece Sponsor

Peak Oilfield Service Company

Gourmet Break Sponsors

ExxonMobil
Petrotechnical Resources of Alaska
Stoel Rives, LLP

Breakfast Sponsors

ConocoPhillips Alaska, Inc.
Solstice Advertising

Espresso Stand Sponsors

Carlile Transportation Systems
LRS Corporation

Portfolio Sponsor

ExxonMobil

Cosponsors

AFC, Inc: Alaska Frontier Constructors
AIC LLC
Alyeska Pipeline Service Company
Arctic Slope Regional Corporation
CH2M HILL
Cook Inlet Region, Inc.
Denali: The Alaska Gas Pipeline
Eni Petroleum
LRS Corporation
Pebble Limited Partnership
Pioneer Natural Resources
Shell Exploration Alaska
The Alaska Pipeline Project, A Joint Project of TransCanada & ExxonMobil
Wells Fargo
Westward Seafoods, Inc.
XTO Energy

General Sponsors

ACS
Alaska Airlines
Alaska Business Monthly
Alaska Cruise Association
Alaska Laborers
Alaska National Insurance Co.

AT&T

Barrick Gold Corporation
Chevron
Cruz Construction
Dowland Bach
Fluor
Harbor Enterprises, Inc.
Kinross - Fort Knox
Koniag Incorporated
Lynden
Morris Communications
MWH
North Slope Borough
Perkins Coie LLP
Petroleum News
Salt + Light Creative
SRK Consulting
Statoil
Temco Helicopters
Tesoro Alaska Company
Udelhoven Oilfield System Services
Usibelli Coal Mine, Inc.

Underwriters

AECOM Environment
AIDEA
Alaska Department of Labor & Workforce Development
Alaska Housing Finance Corporation
Alaska Partnership for Economic Development
Alaska Railroad Corporation
Alaska USA Federal Credit Union
Aleut Corporation
American Marine Corporation
Anadarko Petroleum
Anchorage Sand and Gravel
Anglo American US LLC
ARCADIS-US
Beacon OHSS
Bering Straits Native Corporation
BHP Billiton
Brenntag Pacific Inc.
Brice Companies
Bristol Bay Native Corporation
Brooks Range Petroleum Corporation
Calista Corporation
Chugach Alaska Corporation
Chugach Electric Association
Chumley's Inc.
City of Unalaska
Coeur Alaska - Kensington Mine
Conam Construction Company
Crowley
Donlin Creek LLC

Doyon Family of Companies
Edison Chouest Offshore
ENSTAR Natural Gas Company
Era Helicopters
ERM
FEX
First National Bank Alaska
Flint Hills Resources
Flowline Alaska
GCI
Global Land Services
Golder Associates, Inc.
Granite Construction Inc.
Halliburton Energy Services
Hartig Rhodes Hoge & Lekisch
Hawk Consultants LLC
HDR Alaska, Inc.
Hecla Greens Creek Mine
Holland America Line
Hotel Captain Cook
IBEW Local 1547
Key Bank
Koncor Forest Products
Marathon Alaska Production LLC
Michael Baker Jr., Inc.
Mikunda Cottrell & Company
Municipal Light & Power
Nabors Alaska Drilling, Inc.
NC Machinery
Northern Air Cargo
NovaGold Resources
Pacific Seafood Processors Association
PacRim Coal, LP
PENCO: Pacific Environmental Corporation
Petro Star Inc.
Port of Anchorage
Port of Tacoma
Price Gregory International
Providence Health Services Alaska
Renaissance Alaska LLC
Resource Data, Inc.
Samson Tug & Barge
Savant Alaska LLC
Sealaska Corporation
Security Aviation
Sourdough Express Inc.
STEELFAB
Three Parameters Plus
Totem Ocean Trailer Express
UMIAQ
Univar USA Inc.
URS Corporation
Weaver Brothers Inc.
Weston Solutions
WorleyParsons



RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development



• SAFETY & ENVIRONMENT

Canada makes 'absolute' shift

By GARY PARK
For Petroleum News

The Canadian government has entered the Copenhagen climate change summit hinting that it may be ready to make a fundamental course correction in its environmental policy by imposing absolute emission caps and abandoning intensity-based reduction targets.

Environment Minister Jim Prentice, just prior to leaving for Denmark, indicated to a parliamentary committee that the government is "talking about a cap-and-trade system that involves absolute emission reductions, not intensity targets."

The intensity-based approach, under which reductions would be imposed on units of production, such as a barrel of oil, has been scorned by domestic and international critics as too weak, while rigorously defended by Prentice, Prime Minister Stephen Harper and industry leaders.

The apparent change of heart coincides with growing momentum in the United States to legislate cap-and-trade and set absolute emissions targets, regardless of increasing



JIM PRENTICE

production.

Gary Leach, executive director of the Small Explorers and Producers Association of Canada, said that assessing the impact of "absolute" targets is not possible until the industry knows exactly how such a policy would be implemented and over how many years.

He endorsed the Alberta government's per-unit approach, which he said focuses on large industrial emitters, but allows for economic growth.

Leach said Western Canada, which relies heavily on energy exports, could pay a heavy price if faced with absolute caps, particularly if that would result in a transfer of wealth from the region under a carbon permit trading system.

But he said a bill passed in the U.S. House of Representatives, giving the coal industry a "free pass" on most of its emissions, could point to a possible solution for Canada's oil and gas industry.

For now, the proposal President Barack Obama will take to Copenhagen, setting a reduction target of 17 percent below 2005 levels by 2020, is still roughly in line with the Harper administration's pledge to cut greenhouse gas emissions by 20 percent from 2006 levels by 2020, then chase a goal of lowering 2006 emissions by 60-70 percent by 2050.

Prentice said he is confident Canada holds "several

Gary Leach, executive director of the Small Explorers and Producers Association of Canada ... said a bill passed in the U.S. House of Representatives, giving the coal industry a "free pass" on most of its emissions, could point to a possible solution for Canada's oil and gas industry.

strategic cards ... not the least of which is our plan to harmonize our approach with that of the United States. Harmonization is absolutely crucial for Canada and for the U.S."

Newfoundland Premier Danny Williams, one of the harshest opponents of the Harper government on several fronts, expressed sympathy in a Calgary speech Dec. 3 for the challenges Harper and Prentice face in Copenhagen.

He called for all 10 Canadian provincial governments to offer a unified position to the federal government by agreeing to a measured, cooperative approach to climate change that would work best for all.

Williams said it is not right for the rest of Canada to abandon Alberta in the climate change fight after benefiting for so many years from the transfer of Alberta's economic wealth across the country. ●

continued from page 14

UMIAT ROAD

tively.

In his recent announcement, Parnell suggested the road could eventually be extended into the National Petroleum Reserve-Alaska, a remote, but resource-rich corner of the state.

Parnell said the Umiat reservoir "holds about 250 million barrels of economically recoverable oil, with the potential for hundreds of millions more in place," and NPR-A holds an "estimated 12 billion barrels of oil and 73 trillion cubic feet of natural gas."

While a road from the Dalton Highway to the foothills and Umiat and farther west would significantly increase access to NPR-A, a single road could not intersect the entirety of the oil, natural gas and coal deposits spread across the 23 million-acre federal reserve.

\$3 million to \$4 million per mile

The \$8 million proposed budget line item covers only permitting of the project.

In a September 2009 talk before the Anchorage Chamber of Commerce, Parnell estimated that a road to Umiat would cost around \$3 million per mile. At that rate, a 100-mile road would cost \$300 million, likely higher with a bridge across the Colville.

Previous estimates have put construction costs for the road at \$4 million a mile.

The current push to build a road to Umiat is tied to increased exploration in the region.

Anadarko Petroleum is in the middle of a multiyear search for natural gas in the Gubik Complex, while Renaissance Alaska is judging the economics of oil exploration at Umiat.

The road project, though, isn't new.

The state requested preliminary information about a road to Umiat in 2005 and 2006.

Former Gov. Frank Murkowski created the "Roads to Resources" program to direct state dollars toward transportation projects designed to encourage development. Former Gov. Wally Hickel also proposed major road projects as a way to spur economic development. ●

Contact Eric Lidji
at ericlidji@mac.com

**DRILL
BABY
DRILL...**

...using the most sophisticated techniques and skilled personnel. It's what we do everyday across Alaska and around the globe.

NABORS ALASKA DRILLING, INC.
Always Moving Forward

Photo by Judy Patrick Photography

continued from page 13

SELAWIK BASIN

well will be done early in the summer of 2010 before entry is made into the areas," he said.

Ehm hopes to spud the first well, Kuugauraq No. 1, in December 2010.

Right now he is preparing permits, with an eye on starting to file "in a couple of months."

He is also shopping for a drilling rig.

"We're going to have a lot of downtime, when we can't drill, when the rig will be idle. We'd have to pay for it, of course, even when it wasn't working if it belonged to a drilling company, so it probably makes more sense for Trio or NANA to own the rig," he said.

"I am leaning toward a trailer-mounted rig. It's not as heavy as a truck-mounted rig. I am looking at one now that the engineer who did most of the engineering on Marathon's (Cook Inlet basin) rig was present while this one was being built."

This particular rig would be coming in from outside Alaska, but Ehm would like to see it made Arctic-ready in Alaska.

"I'd like the rig fabricated here, winterized here by people who know what they are doing," he said.

Water source a challenge

The schedule Ehm is hoping to meet would have Trio offloading the rig and all materials from a barge in Kotzebue in late August, then transferring the rig and some materials for Kuugauraq to "shallow-draft barges for shipment up the Melville Channel of the Kobuk River in September."

The materials not needed early in the project would be kept in a yard in Kotzebue, he said.

Gravel would be barged in first, "to the north bank of the Melville Channel" where Trio would establish a staging area and wait for the ground to freeze.

"We'll place a dry watch on the rig and materials; ideally a husband-wife team," Ehm said.

Next would come the building of the ice road to the drill site, as well as a 4,500-to-5,000-foot airstrip to haul in people and the rest of the supplies.

One challenge Trio faces is finding a source of fresh water for drilling operations and camp use.

"The Melvin Channel is reported to freeze to bottom, so we will send someone out in February of 2010 to drill the ice and determine for sure," he said. "Water may need to be hauled in from a lake several miles away."

Memory logging will be used

Trio plans to grind and inject the waste that comes from the wells by annular injection. Ehm said that this is "the least expen-

NANA splits departments

As reported in the October edition of North of 60 Mining News, a sister publication to Petroleum News, NANA Regional Corp. said Oct. 21 that it had separated its lands and natural resources department into two separate departments to better serve the more than 12,000 Inupiat shareholders who belong to the Native regional corporation and to take advantage of current and future opportunities.

Long-time NANA employee Walter Sampson now serves as vice president of NANA's new Department of Lands & Regional Affairs, and Lance Miller serves as vice president of the new Department of Resources.

Miller came to the regional corporation from NANA subsidiary, WHPacific, where he served as a geoscientist. His past positions include work as a project manager for NovaGold; executive director of the Juneau Economic Development Council; Eurasia project manager for Placer Dome; and chief geologist for Echo Bay Mines on the AJ project.

In a Dec. 9 interview with Petroleum News, Miller said what prompted the creation of two separate departments was NANA's board of directors "recognizing how important resources are for the region."

The company, he said, is "focused on both lands and subsistence, as well as responsible resource development. It's sort of new but in a way it is not. Years ago there used to be two department — lands and resources. It folded into one for a number of years."

NANA has the Red Dog mine, which began producing in 1989, but "it will not last forever. We're planning for the future," Miller said.

It took nearly a decade of discussions with the region and villages before Red Dog moved into development.

Miller does not see that long of a timetable for Trio, which first heard about the area in 2000 and "began serious discussions with NANA in 2006. ... It's not like we did a quick deal with them."

And "Red Dog was a much bigger project," he said,

Still, NANA's philosophy, he acknowledged, is "very inclusive," to "consult with the villages and the region ... so on a big project it does take time to make sure all the stakeholders are reached, if you will. But Trio and Arlen (Ehm) did village visits this past summer, and depending on their financing, the goal is still to drill the first well in the winter of 2010-2011."

—KAY CASHMAN

sive approved method" for disposition of wastes at a remote site. "The cuttings are ground up and pumped back into the same well" they came from. The company will use memory data logging.

There are two primary methods of logging wells by wireline tools, Ehm explained. "One is to take all of the logging equipment except the downhole tools to the proposed site when everything is mobilized. Standby charges begin very early on and can exceed the cost for the logging operation itself. The logging personnel are flown in with the downhole tools," he said.

The second method is to use memory logging, which he said "does not require a cable containing electronics. This method can be run on any cable system that is available. A sand line is a small continuous line often a part of the rig and that can reach depths of 10,000 or more feet."

The only equipment that is brought to the site when memory logging begins is "downhole tools along with the logging personnel. I have used memory logging when a twin well was drilled to one that had used the conventional logging methods a number of years earlier and the results were nearly identical. The costs were vastly different," Ehm noted.

Finally, the well will be tested for oil and gas "if warranted," he said.

Drilling of the first well and a possible sidetrack will likely be finished in March, "at the latest April" 2011.

Only two wells in basin to date

The Cenozoic Kotzebue basin, which is about 80 miles wide and 350 miles long, lies just south of the Arctic Circle adjacent on the west to the offshore Hope basin. Government geologists consider the region primarily gas-prone, although they have not ruled out the possibility of oil deposits — and neither does Ehm, who is permitting to drill for both oil and gas.

Conventional oil and gas exploration to date in the Kotzebue basin includes only one 1,500-mile 2-D seismic program and two conventional wells — all by Standard Oil of California, or Socal, predecessor to Chevron, which began exploring the region with the seismic shoot in 1973.

Using what it learned from that seismic, in 1974 the company drilled the Nimiuk Point No. 1 well to a total depth of 6,311 feet, but found no oil or natural gas. However, the well's mud log did show small amounts of methane at several depths.

Methane, or CH₄, is the major constituent of natural gas (about 75 to 99 percent), and is an important source of hydrogen and a wide variety of organic com-

pounds.

In 1975 Socal drilled a second well in the Kotzebue basin, the Cape Espenberg No. 1, to a total depth of 8,373 feet. Again, although no oil or natural gas was found, the mud log showed small amounts of methane.

Combinations of methane (64 to 97 percent), nitrogen (1 to 26 percent), oxygen (less than 1 percent to 6 percent), carbon dioxide (2 to 17 percent) and trace amounts of ethane and higher alkanes were encountered in three seismic holes that were drilled in Socal's 1973 shoot.

Socal held onto its Kotzebue basin leases until 1992, its data the property of NANA and available to Trio under its agreement with the Native regional corporation.

Crude oil seeps have also been reported in the Kotzebue basin by locals, but none have been confirmed by government geologists on their few excursions into this remote area of Alaska which, unlike the central North Slope, is not connected by a road to the rest of the state.

A U.S. Geological Survey report also refers to a hole drilled in 1949-50 at the community of Kotzebue to test for fresh water that discovered gas "under high pressure in Quaternary deposits at 238 feet." The gas reportedly "lifted the heavy string of drilling tools several feet into the air, showered the area with mud, and continued to flow at decreasing pressure for more than 24 hours."

A major zinc mine in the region, Red Dog, which sits on land owned by NANA, is currently testing the properties of shale gas formations in the region.

Resources unknown

How much natural gas and oil does Trio expect to find?

Ehm wouldn't commit to specific numbers.

But in a February interview with Petroleum News, Trio Chairman Stan Eschner, a geologist, was enthusiastic about the potential of the undeveloped Kotzebue basin.

"There's good analog in Cook Inlet ... a thick tertiary section ... a lot of sequences of coal, sand and shale. ... The natural gas could be on the order of trillions of cubic feet — several trillion," he said.

He also said that he believes the basin has "very significant" oil potential.

"On the seismic we've seen a lot of sizeable structures that have never been drilled ... big fat anticlines that have never had a well on them."

But neither Eschner nor Trio's other top executive, Vice President Steve Rowlee, was willing to comment on the amount of oil and gas that might be commercially extractable from their acreage.

"We think we have in the trillions of cubic feet for natural gas," Rowlee said, "but we won't really know what we have until we drill."

Ehm did say it would take a very major find to make development economic, "although energy for local use could be a tremendous boon to the local populace."

Trio was founded in 1983 by former Occidental Petroleum executives, two of whom are Eschner and Rowlee. ●

Editor's note: The State of Alaska reimburses up to 40 percent of the cost of exploration on state, federal, Native and private acreage in Alaska. And the state's tax take increases and decreases with oil prices and the level of investment: The more you invest, the less tax you pay. The state also offers credit for capital investments, plus a 25 percent credit for net losses.

Contact Kay Cashman
at publisher@petroleumnews.com



American Marine Services Group
6000 A Street, Anchorage, AK 99518
907-562-5420
www.amarincorp.com • www.penco.org
alaska@amarincorp.com



- COMMERCIAL DIVING
- MARINE CONSTRUCTION SERVICES
- PLATFORM INSTALLATION, MAINTENANCE AND REPAIR
- PIPELINE INSTALLATION, MAINTENANCE AND REPAIR
- UNDERWATER CERTIFIED WELDING
- NDT SERVICES
- SALVAGE OPERATIONS
- VESSEL SUPPORT AND OPERATIONS



- ENVIRONMENTAL SERVICES
- OIL-SPILL RESPONSE, CONTAINMENT AND CLEAN-UP
- HAZARDOUS WASTES AND CONTAMINATED SITE CLEAN-UP AND REMEDIATION
- PETROLEUM VESSEL SERVICES, E.G. FUEL TRANSFER
- BULK FUEL OIL FACILITY AND STORAGE TANK MAINTENANCE, MANAGEMENT, AND OPERATIONS

Anchorage
Honolulu
Los Angeles




PORTABLE MACHINING & MILLING
HEAT TREATING - HYDROTESTING
CONTROLLED BOLTING - HOT TAPS
SHUTDOWN MAINTENANCE & MORE

1-866-796-1295 www.tomco.ca

• NATURAL GAS

RCA holds workshop on gas storage issues

Cook Inlet Natural Gas Storage, Enstar, electric utilities, wrestle with how third-party storage should be regulated, role of RCA

By KRISTEN NELSON
Petroleum News

Regulation of third-party natural gas storage is an issue which could hold up construction of such a facility in Southcentral Alaska. Third-party gas storage, with gas injected during warmer months and drawn down in colder months, would help manage the area's seasonal swing in natural gas use.

Utilities that would use the service want to know that the Regulatory Commission of Alaska would allow them to pass through storage charges to their customers.

Without that assurance the utilities won't commit to use of the storage facility.

And without the commitment of customers to use the facility the company proposing to build it, ANR Pipeline Co., a subsidiary of TransCanada, won't begin construction. Cook Inlet Natural Gas Storage LLC is the entity formed by ANR for the Southcentral storage project.

RCA is in the middle. Assuming the commission has the authority to regulate a gas storage facility, it would have to complete its work before next summer if construction is to begin in time to allow storage for use in the winter of 2011-12.

That was what brought local utilities, ANR-CINGS officials and other stakeholders to the table at a Dec. 8 RCA workshop on natural gas storage.

Enstar spearheading effort

Enstar Natural Gas Co., the Southcentral Alaska gas distribution utility, said in August that it was working with Houston-based ANR Pipeline Co. to develop storage.

ANR formed CINGS in October to develop a Cook Inlet gas storage facility, company representatives said at the workshop, including surface facilities and wells at a depleted Cook Inlet reservoir. Natural gas would be injected and stored and would be available to CINGS' customers when needed. The facility would be some 20 acres and does not include pipelines.

ANR — operating as CINGS — would fund, build and operate the storage facility as a third-party operator. Enstar and other utilities would pay for storage space.

CINGS officials said they would be offering fixed levelized rates for a 20-year period. Base gas in the facility, which stays in the reservoir, is owned by the storage facility owner, while customers provide storage gas.

The tariff for storage is in two parts: the amount of space and the withdrawal rate. Customers pay based on the volume of storage capacity they reserve and also based on the deliverability rate they want, with faster withdrawal rates costing more.

CINGS officials said the company did an exhaustive search in Southcentral for usable reservoirs and pared it down to the top prospects. If more storage was required in the future CINGS would first look at expanding its initial facility but then could look at other reservoirs.

Enstar biggest user

While Municipal Light & Power, Chugach Electric Association and Matanuska Electric Association were among those present at the workshop, Enstar is expected to be the largest user of the service.

Nan Thompson, Enstar's vice president and general counsel, said Enstar asked for

the RCA workshop because storage is essential to Enstar's ability to continue to service customers and Enstar, as a regulated utility, needs to know what the commission will do.

The goal of the workshop was to try to identify issues the commission would face and what timeline would be required for RCA to make a decision on third-party storage in advance of this summer's construction season, since CINGS' goal is to have the storage facility complete and gas stored available for use in the winter of 2011-12.

Issues included how third-party storage would be regulated and what existing statutes pertain to third-party storage.

Blythe Marston, the RCA administrative law judge who facilitated the workshop, said at one point that she was hearing that the deal doesn't go forward without agreement from the utilities — and the utilities won't go forward without assurance the commission will approve the storage charge in the tariff.

The timeline

One of the issues RCA would need to consider is whether it has the authority to regulate gas storage, an issue workshop participants said could be put before the commission early on.

January was a target for filings with the commission.

To get RCA approval in time for next summer's construction season workshop participants discussed an application by CINGS for a certificate of public conven-

ience and necessity, which would put CINGS' information in front of the commission, and filings by the utilities proposing to use the service of their agreements with CINGS for approval.

If the commission determined it did not have authority to regulate CINGS as a utility, then the CINGS information would be available to the commission as it considered filings by the utilities for approval to include their costs of storage in their rates.

The goal was to find a way forward which would get to a decision by summer.

A lot is required to get started with RCA in January: The utilities are still negotiating with CINGS and would have to complete that process before RCA could review those contracts.

Regulatory Affairs and Public Advocacy, which represents the public interest in utility matters before RCA, is in the process of formulating views on storage regulation, but an assistant attorney general with RAPA said his personal view is that there would be two inquiries: a determination that gas storage was valuable and needed by the market, with just and reasonable rates, leading to a certificate of public convenience and necessity for the storage facility if it were regulated as a utility; then a determination of whether it was reasonable and prudent for a utility to acquire storage vs. other measures it could take to encourage conservation and reduce peak demand. ●

Contact Kristen Nelson
at knelson@petroleumnews.com

EXPLORATION & PRODUCTION

Fugro wraps up Shell survey in Chukchi

News reports that the U.S. offshore division of Fugro GeoServices has successfully completed the fieldwork portion of a shallow hazards survey in Alaska's Chukchi Sea for Shell E&P were confirmed Dec. 9 by Curtis Smith with Shell Alaska External Affairs.

Data processing from the two-month survey is under way, with the first set of interpretation scheduled for delivery at the end of December. Additional reporting work is expected to continue into 2010.

Noting the importance of cleared sites for the company's 2010 exploration plans, Shell Alaska's exploration operations coordinator told Scandinavian Oil and Gas in early December, "The 2009 season has been extremely successful and positions us well for 2010 and beyond."

Fugro's survey involved equipment customized for the Arctic, and was conducted in part to meet U.S. Minerals Management Service permitting requirements.

Fugro's survey involved equipment customized for the Arctic, and was conducted in part to meet U.S. Minerals Management Service permitting requirements.

—PETROLEUM NEWS

State lands still closed for tundra travel

The Dec. 4 Alaska Department of Natural Resources report on the status of off-road travel restrictions on state lands in northern Alaska indicated that all areas remained closed at that time. In coastal areas the soil temperatures had dropped below the minus 5 degrees C threshold for off-road travel but the snow cover was still too thin for a tundra travel opening. By contrast, in the Brooks Range foothills there was adequate snow cover but the soil temperatures were mostly too high.

However, DNR said that it had approved the pre-packing of ice roads using summer-approved off-road vehicles for several projects, with the possibility of ice-road construction being allowed in coastal areas because the ground is well frozen. Companies wanting to construct ice roads need to submit a request for approval to DNR.

—ALAN BAILEY



North Slope Warm Material Storage



Paul Nelson, Anchorage
1.907.346.1319

Scott Coon, Anchorage
1.907.646.1219

Or Call Our
National Call Center
1.800.268.3768
www.coverall.net

• NATURAL GAS

Corps begins work on Point Thomson EIS

PETROLEUM NEWS

ExxonMobil is moving ahead with development permitting for its Point Thomson project.

The U.S. Army Corps of Engineers published a notice Dec. 4 of intention to prepare a draft environmental impact statement for the project, including construction and operation of the proposed development of the Thomson Sand reservoir.

The corps said the Environmental Protection Agency issued a notice of intent to prepare a DEIS in 2002 for a similar proposal, potentially including designation of ocean dredged material disposal sites. The corps said EPA was the lead on that project because it would have required authorization under the Marine Protection, Research and Sanctuaries Act.

The applicant, Exxon Mobil Corp., requested termination of that application.

In October ExxonMobil submitted a new project which would not require authorization under the MPRSA but would require authorization from the corps under Section 10 of the Rivers Harbors Act of 1899 and Section 404 of the Clean Water Act.

Because of those required authorizations the corps is the lead federal agency for the revised project.

Scoping in January

The application included construction and operation of a minimum of five wells from three pads. Natural gas would be produced from the reservoir and liquid condensate would be recovered, with residual gas re-injected. Offshore portions of the reservoir would be developed using long-reach directional drilling techniques from onshore pads. The liquids would be shipped through a new 22-mile, elevated pipeline that would tie into the existing Badami common carrier pipeline, which would deliver liquids to the trans-Alaska oil pipeline system.

In addition to the three drilling pads the project includes a gravel airstrip, a bulkhead and dolphins, in-field gravel roads, ice roads, in-field pipelines and a gravel mine. The corps said dredging may be required at the bulkhead.

Scoping for the draft EIS will begin Jan. 11 and end Feb. 25. The corps said it expects to hold scoping meetings mid-January in Anchorage, Barrow, Fairbanks, Kaktovik and Nuiqsut, and said further information on the meetings will be published in advance of the meetings.

Information will be available at the project Web site, www.pointthomsonprojecteis.com, prior to the meetings. ●

Exxon has begun Point Thomson drilling

ExxonMobil Production Co. said in a Dec. 9 statement that it has resumed drilling at two wells started earlier in the year at Point Thomson.

The company said it is on schedule to reach total depth at the two wells by the end of 2010.

Each of the wells was drilled to approximately 5,000 feet over the summer, as deep as possible during the ice-free season. Drilling into deeper formations is permitted only between Nov. 1 and April 15.

"We are making real progress at Point Thomson, and are on schedule to start production in 2014," Dale Pittman, Alaska production manager for ExxonMobil, said in the company's statement.

Point Thomson, a natural gas and condensate field, holds an estimated 8 trillion cubic feet of natural gas and some 200 million barrels of condensate.

The company said development of the resources "will present significant technical challenges, including drilling and production of a high pressure gas reservoir."

—PETROLEUM NEWS

continued from page 1

SHELL

the exploration plan until the suspension of operations has been terminated.

Shell said in a Dec. 7 statement that the approval was another positive step toward the company's goal of drilling in 2010.

The company said the conditional approval of the Chukchi exploration plan adds significance to the fact that the Environmental Protection Agency has not yet issued an air discharge permit for the drilling rig. Shell said it is critical that it receives that permit in a timely manner "to enable a go-ahead decision on our 2010 program."

Responsible exploration

"A key component of reducing our country's dependence on foreign oil is the environmentally responsible exploration and development of America's

renewable and conventional resources," Secretary of the Interior Ken Salazar said in a statement on the conditional approval. "By approving the Exploration Plan, we are taking a cautious but deliberate step toward developing additional information on the Chukchi Sea."

Shell paid \$2.1 billion for Chukchi Sea leases in an MMS outer continental shelf lease sale in 2008.

The exploration plan — approved but stayed — is for drilling up to three exploration wells during the July-October open water drilling season.

Shell plans to use one drillship, one ice management vessel, an ice-class anchor handling vessel and oil spill response vessels.

The 2007-12 OCS plan is undergoing review in response to an order of the appeals court which required additional environmental analysis. Interior said the decision on the remaining plan "is forthcoming."

No significant impact

In a finding of no significant impact for the 2010 exploration drilling program at Burger, Crackerjack and SW Shoebill, MMS said drilling activities using the M/V Frontier Discoverer are planned to begin about July 4.

Shell Alaska Vice President Pete Slaiby said in a statement: "Shell believes the Chukchi Sea could be home to some of the most prolific, undiscovered hydrocarbon basins in North America. We will continue to work closely with regulators, local communities and the State of Alaska as we move closer to responsibly exploring for oil and gas reserves that could ultimately lead to tens of thousands of jobs, extended life for the trans-Alaska pipeline and increased domestic energy security for decades to come."

Appeal pending

In addition to pending litigation

against the 2007-12 OCS lease sale program, Shell's exploration plan is also an issue in an appeal by the Native Village of Point Hope, the Inupiat Community of the Arctic Slope and 12 environmental organizations against the 2008 Chukchi lease sale. Briefing in the case is on hold pending issuance by MMS of an amended lease sale environmental assessment which the agency is preparing at the direction of the appeals court in the ruling against the 2007-12 OCS lease sale program.

MMS told the court in mid-November that it had made substantial progress but had not yet completed the required work; another status report on the work is due in mid-December.

Shell has indicated that it needs to make a go-or-no-go decision on its 2010 Chukchi drilling plans by early in 2010.

—KRISTEN NELSON

Contact Kristen Nelson
at knelson@petroleumnews.com

Give the gift of Petroleum News

Give the gift of Dispelling the Alaska Fear Factor, a 307-page guide to Alaska's oil and gas basins and business environment, and they will receive a one year online subscription to Petroleum News FREE!

Print subscription
Regular price \$98.00 — Gift Price \$78.00

Call 907 522-9469 and order today.
(free one year online subscription available to new subscribers only)

TELECOMMUNICATIONS AT WORK IN ALASKA

Engineering
Project Management
Drafting
Fabrication
Installation
Maintenance
Procurement
System Design

(907) 562-4693 www.nstia.com

**NORTH SLOPE
TELECOM, INC.**

continued from page 1

RISK

Application for early verdict

Imperial had applied to the federal regulator to get an early verdict on “same-season relief well” capability in the Beaufort.

In a Nov. 19 letter, the NEB said it has decided the application will be considered as part of a generic policy review that will be conducted by way of a written process.

Imperial geosciences manager Michael Peacock replied that Imperial, although welcoming the NEB’s decision to undertake a comprehensive review of the same-season relief well policy, is “very concerned” that Imperial’s application will have to await the review results.

He said that has “very serious implications” for Imperial’s ability to meet the terms of Exploration License 446, which was awarded to Imperial and ExxonMobil in mid-2007, after the two companies made a joint work commitment of C\$585 million to secure exploration rights to 508,000 acres.

Peacock said the restricted Beaufort drilling season could remove an entire year from the nine-year license.

He noted that Imperial has so far spent C\$150 million on its plans for a well, including the acquisition of 3-D seismic and engineering for a new Arctic drillship, which is now ready for a corporate decision to proceed with construction.

The Imperial response said the “continuing regulatory uncertainty introduced by the delay in our SSRW application increases the risks associated with these investments.”

“Deferral of the additional investment to allow for the comprehensive policy review by the NEB will jeopardize Imperial’s ability to procure the Arctic drillship, obtain the necessary permits, drill an exploration well

and conduct the formal evaluations necessary to make an application for a Significant Discovery License before the EL 446 expires in October 2016.”

Importance of timely consideration

Peacock said Imperial made every effort to update the NEB on the importance of timely consideration of its same-season relief well application.

In blunt terms, he told the NEB the delay “would further increase the costs and add to the already onerous inhibitions to development of Canada’s Arctic resource.

“A one-year drilling delay to accommodate this policy review will add an additional year of overhead costs and project delay costs. . . .”

“This will be viewed by the industry and northern stakeholders as another example of the regulatory system slowing down development and will further reduce, from a global perspective, the attractiveness of investing in Canada’s North.”

Imperial has urged the NEB to apply its mandate and deal with the company’s SSRW application without waiting for completion of the review.

To date, Imperial and ExxonMobil have remained coy about their plans for the Beaufort, beyond insisting from the outset that the substantial work commitment is separate from the lead roles in the Mackenzie project.

They have given no indication whether they view the exploration license area as an oil or natural gas target.

However, Devon Canada reported in fall 2007 it has made the first oil discovery in 25 years in the Canadian Beaufort on Exploration License 420, south of the Imperial-ExxonMobil property, estimating the recoverable oil at 240 million barrels.

—GARY PARK

continued from page 10

LISBURNE SPILL

problem in Arctic pipelines, he said.

In parallel with determining how the Lisburne spill happened, response crews have been clearing away contaminated snow from the spill site. Responders have been scooping the material into bins using small mechanical loader vehicles called bobcats, Rinehart said. And according to a response situation report, the material is being moved to an ice pit at the Prudhoe Bay East Dock, for later melting and measurement. Presumably, the contaminants will then be disposed of by recycling them through the field production facilities.

The responders have also placed on site a steamer device with a 4-foot square stainless steel head, to melt the contaminated snow for removal using a vacuum truck. However, mechanical removal using bobcats is proving to be the most successful technique, Rinehart said.

BP is building an ice road from the spill site to enable trucks to remove the bins of excavated material but is meantime shifting the material by rolligon, a special tundra-certified vehicle, Rinehart said.

The damaged 18-inch pipeline was out of operation at the time of the spill and BP

Produced water spill at R pad

In an incident unrelated to the oil spill from the Lisburne field pipeline, about 7,000 gallons of produced water were spilled from a 34-inch produced water flow line inside a manifold building on the Prudhoe Bay R pad on Dec. 3. The cause of the spill is under investigation.

About 5,000 gallons of the spilled water remained inside the building, with the remainder of the water escaping to the gravel pad, according to a Dec. 3 situation report. BP was using a vacuum truck to collect the water in the building and planned to use a variety of techniques to recover the water from the gravel outside, the report said. The company estimated that about 3,000 square feet of the snow-covered gravel pad were impacted.

—ALAN BAILEY

has been able to maintain production from the Lisburne field through the parallel 24-inch line. ●

Contact Alan Bailey
at abailey@petroleumnews.com



TDS
Tire Distribution Systems, Inc.

Toll Free: 800 478-2010
Anchorage: 907 562-2010
Fairbanks: 907 452-7131

COMPLETE TIRE SERVICE
PASSENGER
TRUCK
INDUSTRIAL
OFF THE ROAD

Bridgestone, General, Bandag,
Cooper, Firestone, Yokohama

Support Alaska's Future Workforce Today

Teacher Industry Externships provide educators with opportunities to upgrade and apply their content knowledge and skills, to discover ways to make their content more relevant, and to acquire first-hand knowledge of potential Alaska career pathways for their students. Moreover, teachers learn about Alaska's industries, their practices and procedures and their role in Alaska's economy and future. Industries benefit from practical projects teachers complete with their industry hosts, and by helping Alaska's educators gain experience to enhance their content and their instructional practices; as they play a critical role in educating and developing Alaska's workforce.



To host an Alaska Teacher Extern call
Alaska Process Industry Careers Consortium (APICC)
at 907.770-5250.

For an informative film and more information visit us online at
www.apicc.org





FRIENDS OF PETS

P.O. Box 240981
Anchorage, AK 99524

MARYLEE IS A BEAUTIFUL SPAYED FEMALE CALICO LONG HAired CAT WHO IS VERY AFFECTIONATE WITH PEOPLE BUT WOULD LIKE TO BE YOUR ONLY CAT. SHE IS VACCINATED, MICROCHIPPED AND HEALTHY! FOR ADOPTION INFO CALL 333-9534 OR APPLY ON-LINE @ WWW.FRIENDSOFPETS.ORG.

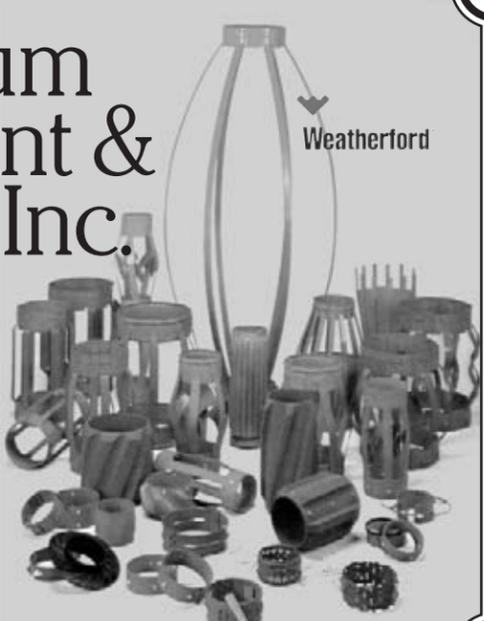


COURTESY ALASKA PETOGRAPHY

Petroleum Equipment & Services Inc.

is proud to represent
Weatherford/Gemoco Casing Accessories

Anchorage: (907) 248-0066
Prudhoe Bay: (907) 659-9206
fax: (907) 248-4429
5631 Silverado Way, Suite G
Anchorage, AK 99518
www.pesiak.com



Ukpeagvik Inupiat Corp.

UIC is the village corporation for Barrow. With more than 1,500 employees, UIC is consistently ranked among the top 10 Alaskan-owned businesses by Alaska Business Monthly's Top 49ers, and provides services to clients worldwide including resource development, construction and engineering, marine operations, and government contracting.

Bernard "Bernie" Nidowicz, P.E. has been named Chief Operating Officer for UIC. With more than 30 years of engineering and management experience throughout Alaska, Nidowicz holds a Master of Science in Civil Engineering from the University of Alaska Fairbanks. His project experience includes leading programs involving operations for major resource development clients. He has demonstrated his management ability by showing consistent growth of operations under his leadership, including his most recent role as General Manager of UMIAQ, a subsidiary of UIC.



COURTESY PHOTO

Bernie Nidowicz,
P.E., Chief Operating Officer

*Call today to spotlight
your company and key
people here!*

Call 907-522-9469 for details.

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

ADVERTISER	PAGE AD APPEARS	ADVERTISER	PAGE AD APPEARS	ADVERTISER	PAGE AD APPEARS
A					
ABB	12	Dowland-Bach Corp.	21	Nature Conservancy, The	
ACS		Doyon Drilling		NEI Fluid Technology	
Acuren USA		Doyon LTD		NMS Employee Leasing	
Advanced Supply Chain International (ASCI)		Doyon Universal Services		Nordic Calista	
AECOM Environment		Duoline Technologies	11	North Slope Telecom	18
Air Liquide		EEIS Consulting Engineers		Northern Air Cargo	
Air Logistics of Alaska		Egli Air Haul		Northern Transportation Co.	
Alaska Air Cargo		Engineered Fire and Safety		Northland Wood Products	
Alaska Analytical Laboratory	7	Equipment Source Inc.		Northrim Bank	
Alaska Anvil	3	ERA Helicopters		Northwest Technical Services	
Alaska Computer Brokers		Evergreen Helicopters of Alaska		Oilfield Improvements	
Alaska Coverall	17	ExxonMobil		Opti Staffing Group	
Alaska Dreams		Flowline Alaska		P.A. Lawrence	
Alaska Frontier Constructors	22	Fluor		PacWest Drilling Supply/Taiga Ventures	
Alaska Interstate Construction (AIC)		Foundex		Panalpina	
Alaska Marine Lines	24	Friends of Pets	19	PDC Harris Group	
Alaska Railroad Corp.		Frontier Alaska		Peak Civil Technologies	
Alaska Rubber & Supply		G-M			
Alaska Sales & Service		GBR Equipment		Peak Oilfield Service Co.	
Alaska Steel Co.		GCI Industrial Telecom		Penco	16
Alaska Telecom		Global Land Services	9	Petroleum Equipment & Services	19
Alaska Tent & Tarp		Global Offshore Divers	4	Petrotechnical Resources of Alaska	2
Alaska Textiles		GPS Environmental		PGS Onshore	
Alaska West Express	24	Guess & Rudd, PC		Polar Supply	
Alliance, The	10	Hawk Consultants	9	Price Gregory International	
Alta Air Logistics		Holiday-Parks		Prism Helicopters	
American Marine	16	Ice Services		Q-Z	
Arctic Controls		Inspirations	8	QUADCO	9
Arctic Foundations		Jackovich Industrial & Construction Supply		Rain for Rent	
Arctic Slope Telephone Assoc. Co-op.		Judy Patrick Photography		Safety One	
Arctic Wire Rope & Supply		Kenai Aviation		Salt + Light Creative	
ASRC Energy Services		Kenworth Alaska		Schlumberger	
Avalon Development		Kuukpik Arctic Services		Seekins Ford	
B-F					
Badger Productions		Kuukpik - LCMF		Spenard Builders Supply	
Baker Hughes		LaBodega		STEELFAB	
Bald Mountain Air Service		Last Frontier Air Ventures		Stoel Rives	
Brooks Range Supply		Lister Industries	8	Swift Oil & Gas	
Builders Choice Inc.		Lounsbury & Associates	23	3M Alaska	
Calista Corp.		Lynden Air Cargo	24	Taiga Ventures/PacWest Drilling Supply	
Canadian Mat Systems (Alaska)		Lynden Air Freight	24	Tire Distribution Systems (TDS)	19
Canrig Drilling Technologies	22	Lynden Inc.	24	TOMCO Group of Companies	
Carlile Transportation Services	7	Lynden International	24	Total Safety U.S. Inc.	
CCI		Lynden Logistics	24	TOTE	
CGGVeritas U.S. Land		Lynden Transport	24	Totem Equipment & Supply	
CH2M HILL		MACTEC Engineering and Consulting		TTT Environmental	
Chiulista Camp Services	6	Mapmakers of Alaska		Tubular Solutions Alaska	
Colville		MAPPA Testlab		Udelhoven Oilfield Systems Services	
ConocoPhillips Alaska		Maritime Helicopters	3	Umiaq	
Construction Machinery Industrial		Marketing Solutions		Unique Machine	23
Cosco Fire Protection		Mayflower Catering		Unitech of Alaska	
Crowley Alaska		M-I Swaco		Univar USA	
Cruz Construction		MRO Sales		URS Alaska	
Delta Leasing	12	N-P			
Delta P Pump and Equipment		Nabors Alaska Drilling	15	Usibelli	
Department of Labor & Workforce Development		Nalco		West-Mark Service Center	
DNR Division of Oil and Gas	5	NANA WorleyParsons		Weston Solutions	
		Natco Canada	4	Western Towboat	
				XTO Energy	

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

continued from page 1

BALASH

comes out of the ground — most of that carbon dioxide will need to be removed from the gas before the gas can be pumped down the pipeline. And both climate change bills currently in Congress contain cap-and-trade provisions.

A gas pipeline project might also have to face the cost of cap-and-trade carbon dioxide allowances for the gas-powered compressors used for driving the gas down the pipeline — that cost might amount to 15 cents per British thermal unit of gas shipped through the line, Balash said.

“The tolls will go up,” Balash said. “It will become marginally more expensive to move gas, and if that occurs you are adding another level of risk and challenge to the economics of the pipeline.”

Written testimony

The state has provided written testimony to Congress with regard to the proposed climate-change legislation; the state supports a transition to a lower carbon economy with renewable energy but is questioning how to reach that low carbon future, Balash said.

“There are potential economic consequences and threats to both Alaska and the nation in the current (climate change) legislation,” he said.

And Balash emphasized the importance of a North Slope gas line as a factor in reducing U.S. carbon emissions.

“We have estimated that if just half of the gas delivered by the natural gas pipeline is able to meet markets in the Lower 48, you could do without 120 to 190 coal-fired plants. The difference in emissions is staggering,” Balash said.

And if natural gas does not come from Alaska people will seek alternative sources, either from overseas or from more expensive domestic production, he said.

Oil industry

Cap-and-trade regulation of greenhouse gas emissions could have a major impact on the North Slope oil industry, with its 1970s and 1980s era facilities that emit huge amounts of greenhouse gas. The cost of retrofitting those facilities with more efficient, modern equipment would dramatically impact the economics of producing new Arctic resources, Balash said.

“If retrofits are too expensive, there could be a decision to just live out the

useful life that’s left and that would again hurt domestic (fuel) supplies,” Balash said.

Balash also expressed concern that the cost to the Alaska oil and gas industry of carbon dioxide allowances would significantly impact state oil revenues, given that those revenues are in part calculated net of production costs.

“It’s likely that the cost of obtaining allowances, if they were imposed upon producing companies at the wellhead, would flow through our tax system and be felt in the Treasury,” Balash said.

The revenue impact could be anywhere from \$600 million to \$10 billion over a 34 year period, he said.

And, if the cost of carbon dioxide allowances were to be added to gas pipeline tolls that would reduce the wellhead value of the gas, thus reducing the state’s natural gas royalty and tax take.

Oil refineries

Balash also expressed major concern about the possibility of the state’s three oil refineries going out of business as a consequence of the cost of carbon dioxide allowances, under the terms of the current versions of the federal legislation. The Alaska refineries are simple plants that don’t process the whole of the crude oil stream and, thus, are not as profitable as many refineries elsewhere, he said.

“The cost of the allowances to keep those refineries in operation, we’ve estimated, in a mid-case scenario would approach \$6 billion over 34 years,” Balash said. “That cost is tremendous, and if those refineries aren’t able to deal with those costs, either through increased pricing for consumers or the failure to attract the necessary capital from their owners to keep them operating, then we face the possibility that they would shut down.”

The shutdown of the refineries would result in fuel having to be shipped to Alaska, with a consequent major increase in tanker traffic to the Port of Anchorage and a need for a huge increase in Alaska fuel storage capacity. Loss of a viable source of jet fuel in Fairbanks could put the international airport there out of business. And the lack of locally available fuel supplies would massively increase the length of the supply chain for fuel for Alaska’s military installations, Balash said. ●

Contact Alan Bailey
at abailey@petroleumnews.com



ASG’s chairman and CEO, Bob Magee, passes away

American Shipping Group said Dec. 1 that its long-term chairman and CEO, Bob Magee, passed away after a courageous battle with cancer. Magee joined Totem Ocean Trailer Express in May 1986 as vice president marine operations. He went on to become president and CEO of TOTE, later chairman of Sea Star Line LLC, and then chairman and CEO of American Shipping Group. In 2004, Magee was presented with the United Seamen’s Service Admiral of the Ocean Sea Award, recognizing his longtime career in the maritime industry, leadership and fine American spirit. He received numerous maritime awards, while giving all the credit to his employees. Magee was also known for giving generously of his time and money, sitting on the advisory boards for USMMA Kings Point and United Way of Peirce County, and for being involved in many other clubs and association.



BOB MAGEE

“Bob will be missed by all of us,” said Tim Engle, president of Saltchuk Resources Inc, “those who work in our family of companies, our customers, labor partners, vendors, public policy representatives, members of our industry and the communities in which we serve. Our thoughts are with his wife Marie, and the rest of the family.”

HoTH’s air carrier group gets new name and logo

HoTH said Nov. 30 that its air carrier operations will have a new name and logo, “Era Alaska,” to represent the airline brand for consumers of in-state travel, with individual carriers operating under their own certificates doing business as Era Alaska. “Seamless branding will allow a single shopping path for passenger and cargo services statewide, with connections to and from hub communities throughout bush Alaska. All services provided by the individual Frontier Alaska carriers will be consolidated into one-stop shop for in-state customers,” said Bob Hajdukovich, company CEO. The new name and logo will be applied to all signage, company apparel, Web site, reservations systems, freight network, and equipment on or about Jan. 10, 2010. HoTH Inc., an Alaska corporation, is owned by John Hajdukovich, Mike Hageland, and James Tweto, and the parent holding company of Frontier Flying Service, Hageland Aviation Services, Arctic Circle Air Service and Era Aviation Inc.

SBC expands senior global leadership team

Schlumberger said Dec. 3 that its management consultancy arm, SBC, appointed five vice president-level staff to help meet its continually growing business and coincide with the launch of four new offices in New York, Delhi, Rio de Janeiro, Beijing and Abu Dhabi. “Since its launch five years ago, SBC has been about transforming the world’s energy business for the 21st Century. The brainpower we’ve just brought on board is only helping us to do so quicker and the senior management team we now have in place represents the finest in management consultancy,” said Antoine Rostand, president of SBC. Launched in 2004, SBC has rapidly grown to become one of the world’s largest energy sector management consultancy firms. It works with global energy leaders and many of the world’s IOCs, NOCs and independents.

Editor’s note: All of these news items — some in expanded form — will appear in the next Arctic Oil & Gas Directory, a full color magazine that serves as a marketing tool for Petroleum News’ contracted advertisers. The next edition will be released in March.



I want in!

To advertise in Petroleum News, please contact Susan Crane at 907-770-5592, or Bonnie Yonker at 425-483-9705.



Dowland-Bach Corporation

6130 Tuttle Place, Anchorage, AK 99507
Phone: (907) 562-5818
Fax: (907) 562-5816
www.dowlandbach.com

- UL508A Industrial Control Panels
- UL698 Explosion Proof Industrial Control Panels
- UL50 Electrical Enclosures, Type 3R & Type 4X, Custom Sizes Made to Order
- UL696 Marking and Labeling Systems
- Instrumentation Panels
- PLC Cabinets
- Custom Electrical Control Systems
- Weathertight Enclosures
- In-house Design and Engineering



MADE IN ALASKA

TRANSNORTHERN AVIATION



ANYWHERE IN ALASKA, THE LOWER 48 & CANADA
24-HOUR ON-DEMAND CHARTERS & CARGO SERVICE

- North Slope in 2 Hours, Dutch Harbor in 3 Hours, Crews and Freight 24/7
- Last minute meetings on your time
- Oil Field Passenger/ Freight Support
- 9 Passenger Jet-Turbine Passenger & Cargo Service
- 18 Passenger Super DC-3 Service w/Cargo
- Depart from our passenger lounge or our Anchorage Airport gate
- Flying throughout Alaska since 1994

245-1879 / TRANSNORTHERN.COM

continued from page 1

ANSWERS

Pat Galvin, the state revenue commissioner and one of the architects of ACES, told Petroleum News on Dec. 9 the administration was happily compiling the information the lawmakers requested. He also said he believes industry investment has been robust under ACES, even as it rakes in more revenue for the state.

Election year perils

The request from the mostly Republican

lawmakers sets up an interesting situation with Parnell, also a Republican.

When the Legislature passed ACES in a special session in November 2007, Parnell was lieutenant governor under then-Gov. Sarah Palin, and the administration had huge popular support at that time for pushing the tax reform.

Oil prices and company profits were extraordinarily high at the time. And Palin and many legislators regarded a prior oil tax overhaul only the year before — the Petroleum Production Tax or PPT initiative — as tainted because some legislatures were hit with federal corruption charges in

connection with that legislation.

Palin, of course, has moved on and Parnell took over as governor on July 26 after she resigned.

Parnell is running for re-election next year, as are legislators. So the idea of reopening the huge subject of oil taxes, possibly to make some concessions back to oil companies in hopes of spurring more exploration or development spending, is tricky business politically for elected officials.

What they're saying

Aside from Chenault, the other lawmakers who signed the data request to Parnell include Rep. Alan Austerman, R-Kodiak; Rep. Nancy Dahlstrom, R-Eagle River; Rep. Bryce Edgmon, D-Dillingham; Rep. John Harris, R-Valdez; Rep. Mike Hawker, R-Anchorage; Rep. Bob Herron, D-Bethel; Rep. Kyle Johansen, R-Ketchikan; Rep. Craig Johnson, R-Anchorage; Rep. Charisse Millett, R-Anchorage; Rep. Cathy Munoz, R-Juneau; Rep. Jay Ramras, R-Fairbanks; Rep. Paul Seaton, R-Homer; Rep. Bill Stoltze, R-Chugiak; and Rep. Peggy Wilson, R-Wrangell.

Most of the legislators contributed a comment to a "quote sheet" distributed with the four-page letter to the governor. A sampler:

"Alaskans who are losing jobs that were dependent upon a robust oil patch economy want to know if the significant tax increases enacted by ACES are attracting or discouraging the new oil field investment needed to put them back to work. The administration needs to hear these questions and provide tangible evidence supporting their answers," said Hawker, the House Finance Committee co-chairman.

"As a returning legislator not involved in the nitty-gritty of the ACES debate, and listening to those legislators who were involved, I'm of the opinion that it's time to take a look at it as a potential detriment to the state of Alaska and the investments in our oil patch," said Austerman, the House majority whip.

"While we enjoyed the short-term bump to the state treasury, we need to focus on the long view in light of recent decisions coming from the companies on the North Slope. It is clear the oil and gas industry has changed the way they approach Alaska business decisions, and we need to make sure those long-term investments come back on track for future generations," said Millett, the House Special Committee on Energy co-chair.

In their letter to Parnell, the legislators noted recent "disconcerting" announcements from oil companies. For example, ConocoPhillips, historically the state's top North Slope explorer, said it will not drill any new exploration wells for the first time since 1965, the letter said. And a BP executive said other areas of the world, such as the Gulf of Mexico, are more attractive for capital investment.

Plans by some companies to explore Alaska's Outer Continental Shelf is good news, the letter said, but "we all know those leases are in federal waters and will not result in any production tax or royalty for the state."

The data requests

The legislators pose nine questions seeking information from the revenue, natural resources and labor departments and the Alaska Oil and Gas Conservation Commission, which regulates downhole activity.

Among the data requests and questions:

- The average number of bidders and average dollar amount per acre in state lease sales from 2005 through this year.
- Actual and forecasted employment numbers attributable to the oil and gas industry in recent years.
- A read on whether the number of new drilling permits has fallen since enactment of ACES and PPT.
- The number of active drilling rigs and new holes drilled per month from 2005 through the current year.
- A read on whether the industry has "increased its level of exploration and development in general," especially with respect to smaller fields.
- Considering the tax rates and credits under ACES, is the law fostering new exploration, development and enhanced recovery projects?
- What recommendations does the administration have for changing ACES?

Galvin's take

Revenue Commissioner Galvin told Petroleum News he believes it's "completely appropriate" for the legislators to pose the questions now that ACES is two years old, and the global economy has been in such upheaval.

But Galvin said he believes ACES is working well, and that some people are overstating the state's oil production decline to "create a sense of crisis."

Yes, oil production has been declining in recent years, but nothing indicates the decline is accelerating, he said.

The administration is heartened by the level of "lease expenditures" oil companies are claiming today and expect to claim in the future, Galvin said. Operators provide the state with their projections of operating and capital spending for up to five years into the future.

"That number is significantly higher than it was a few years ago," he said.

The Department of Revenue, in presenting the state's new revenue forecast on Dec. 10, said spending on the North Slope is expected to continue at or above current levels with lease expenditures of \$4.5 billion and \$5 billion in fiscal years 2010 and 2011 respectively.

Galvin added: "We've got companies that have never been on the North Slope drilling wells." This is typical of mature oil provinces that lose the interest of the majors but subsequently see a "renaissance" as smaller companies move in, he said.

Asked flatly whether the state oil production tax is too high, Galvin said: "I don't believe so based on the evidence of today." ●

Contact Wesley Loy
at wloy@petroleumnews.com

One Solution



Canrig Drilling Technology and Epoch Well Services have merged and the result is a dynamic, integrated organization. Canrig brings advanced, state-of-the-art drilling equipment design and manufacturing and worldwide, around-the-clock after sales support service. Epoch brings world class wellsite data acquisition and data management systems.

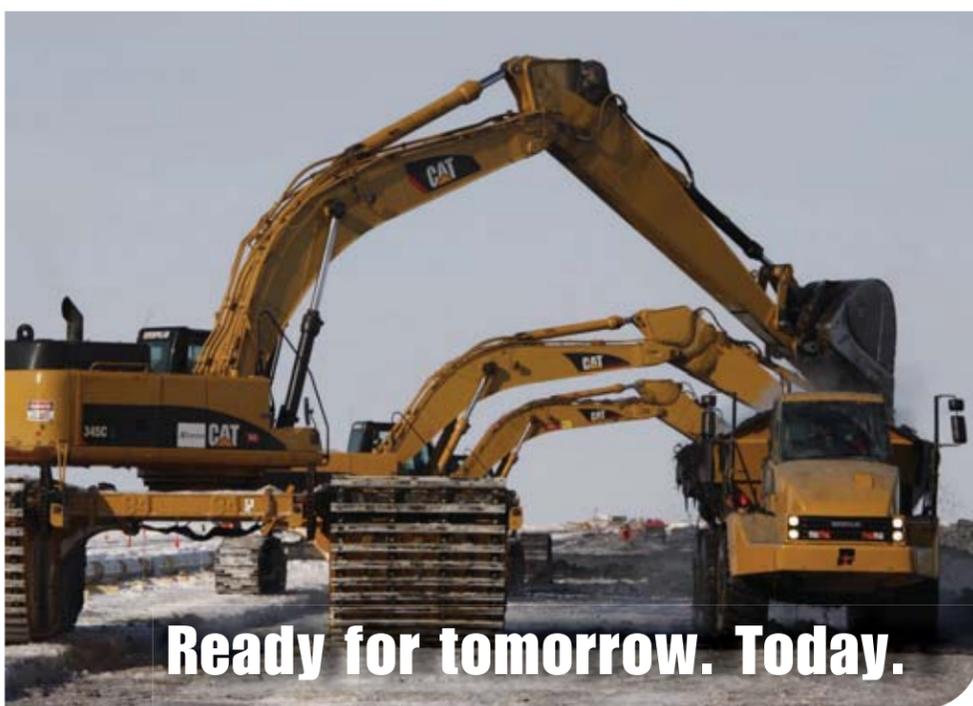
The result: One solution for your drilling program.

Call the new Canrig today and see for yourself.

Canrig: Ahead of the game.



www.canrig.com



Ready for tomorrow. Today.



6751 S. Airpark Place
Anchorage, Alaska 99502

907.562.5303
907.562.5309 fax

akfrontier.com

AFC
Alaska Frontier Constructors, INC.

continued from page 1

LNG BULLS

in Papua New Guinea, and immediately started letting construction contracts. ExxonMobil's investment announcement Dec. 7 came just after TEPCO signed a deal for LNG from that project, on top of the Wheatstone contract a couple days earlier. Talk about a Christmas shopping spree.

ExxonMobil and its partners will ship TEPCO 1.8 million metric tons each year for two decades from the Papua New Guinea project. China's Sinopec committed on Dec. 3 to take 2 million metric tons a year, also for 20 years.

Huge Deals

The deal between TEPCO and Chevron is the biggest Australian LNG deal ever signed, according to the Western Australia government, which put the value at an eyebrow-raising \$82 billion (U.S.).

Calculating dollar values for confidential long-term contracts is iffy at best, but it appears the big Asian utilities want to lock in supply, and are willing to pay rates that are basically at par with prices for a similar amount of energy from oil.

Some analysts had speculated earlier that the economic downturn would create an LNG glut, and that a significant spot market would develop as large LNG projects come on line in the next year or so in Qatar, Yemen, and elsewhere.

There are a few cargoes on the spot market, and some shiploads are coming to the United States as storage fills up elsewhere. U.S. LNG imports have amounted to 1.3 bcf per day so far in 2009, according to the Energy Information Administration, up from 1.0 bcf per day in 2008, when imports were depressed. But so far, it doesn't look like a glut.

Asia's LNG demand holds

At this point, Asian demand is down only slightly from 2008 levels, and the International Energy Agency is predicting Asian consumption will rise 3.8 percent a year through 2030.

In Japan, the largest LNG importer, shipments in the first half of 2009 were 31.6 million metric tons, down 8.9 percent from the same period a year earlier. Oil imports dropped 14.8 percent in the same period and coal imports more than 20 percent. Japan's LNG imports peaked at 66.8 million tons in 2007.

Tokyo Electric, or TEPCO, brings in about 20 million metric tons a year, the output of three good-size LNG projects. It's been in the LNG import business since 1969, when it and Tokyo Gas Co. Ltd. started importing the fuel from — you guessed it — the Nikiski LNG facility in Alaska. TEPCO has been generating electricity with Alaska gas ever since, though the amount has dwindled to relative insignificance in recent years.

Across the rest of Asia, demand hasn't shown a big drop despite slower economies. KOGAS, the state-owned monopoly importer for South Korea, expects a slight decline in LNG sales from the 2008 total of 26 million metric tons, blaming a slack economy that cut demand for electricity. Taiwan purchased 917,000 metric tons in October, up slightly from 915,000 tons a year earlier, paying about \$8.80 per million Btu. That price is down from the peak in the \$20 range, but still about double the price in the U.S. domestic market.

Exxon motors ahead

Exxon's Dec. 8 decision to proceed with its Papua New Guinea LNG project was followed the next day with the

announcement of five construction and engineering contracts, including one with Chiyoda Corp. of Japan to build the liquefaction trains to produce 6.6 million metric tons a year.

With TEPCO taking 1.8 million tons and Sinopec 2 million, the project could add another major customer or a couple smaller ones.

The ExxonMobil project will represent the largest foreign investment ever for Papua New Guinea, an impoverished former colony of Australia that shares its island with Indonesia, and could provide a major boon to its economy.

The island has a welter of ethnic groups and has been prone to violence. The project will require a 190-mile overland pipeline plus a 250-mile undersea pipe to reach the proposed loading facility near Port Moresby, the capital. That makes it a dangerous proposition.

But ExxonMobil has some partners with experience in the country, notable Australia's Oil Search, which has a 34 percent stake to 41.5 percent for Exxon and its affiliates. Santos Ltd., also of Australia, has 17.7 percent, Nippon Oil 5.4 percent, and a couple others the remaining share. The government of Papua New Guinea will get an equity stake later.

First shipments are expected late in 2013 or early in 2014.

Chevron coup

Chevron's huge sale to Japan's TEPCO gives a big boost to the Wheatstone project in northwestern Australia, and may hurt other Australian developers looking for anchor customers — as well as scarce Australian laborers.

TEPCO is taking a 15 percent equity share in the offshore Wheatstone field licenses, as well as an 11.5 percent interest in the processing facilities to be constructed near Onslow on the coast.

A final investment decision won't come until 2011, but landing the big Japanese customer is a good start. TEPCO will take nearly half of the initial annual capacity of 8.6 million metric tons.

"TEPCO is among the most experienced LNG buyers in the world," noted John Gass, president of Chevron Global Gas. "Their commitment to secure long-term LNG supplies from Wheatstone is a strong demonstration of their confidence in Chevron and represents an important step forward for the project."

Korea's KOGAS has also said it's interested in a share of the Wheatstone LNG.

Earlier this year, Chevron took on a couple of partners for Wheatstone, gaining added supply in the bargain. Subsidiaries of Apache Corp. and Kuwait Foreign Petroleum Exploration Co. agreed to become 25 percent equity partners and to supply 25 percent of the inlet gas from their Julimar and Brunello fields. Apache has 16.25 percent and KUFPEC 8.75 percent.

Chevron's Wheatstone field is about 650 feet of water and was discovered in 2004. The nearby Iago field, another potential source, was found in 2000.

So far, there's no firm cost estimate for the development. Chevron awarded a front-end engineering and design contract last July.

Huge gambles

LNG projects represent major gambles for the companies involved — even firms such as ExxonMobil that generate monster cash flows.

The capital involved is billions of dollars; the timelines are long; the projects are complex and prone to overruns as well as expensive delays. Shell found that out at Sakhalin when the cost estimate doubled.

When Gorgon got investment approval this past fall, the development cost equaled a quarter of Chevron's market capitalization. Chevron has a 50 percent share of the \$37 billion project.

Still, profits from LNG also can be immense, and LNG represents one of the few growth areas available for major private energy companies as national oil companies take over more and more of the world's oil fields and gas pipelines.

"The world's growing demand for gas will challenge our industry to deliver projects on a scale that was barely considered even a decade ago," said Tom Walters, president of ExxonMobil Gas and Power Marketing Co., at the International Petroleum Technology Conference in Doha, Qatar, Dec. 8. "The ability to conceptualize, commercialize and execute large-scale, multibillion-dollar projects has become an increasingly important differentiator, which will remain over the coming decades."

With its lower carbon output, efficiency and flexibility, gas will be the largest growth area in the traditional energy arena over the next couple of decades, according to ExxonMobil analysts.

"Not only will energy demand be much larger in 2030 than it is today, the mix of fuels used to meet that demand will change as well," Walters said. "Gas in particular will play an increasingly important role in meeting the world's future energy needs, growing at 1.8 percent over the 2005 to 2030 period."

The common wisdom is that LNG demand will double from today's levels by 2020, hitting 400 million metric tons a year by then. Common wisdom, of course, can be wrong. ●




A SUMITOMO CORPORATION SUBSIDIARY

Serving Alaska's Petroleum Industry for Over 35 Years

Threading

API - 5CT & 7B • Vallourec • VAM AB • Tenaris • Hunting
NS Connection Technology • NOV Grant Prideco • Vam USA

Welding

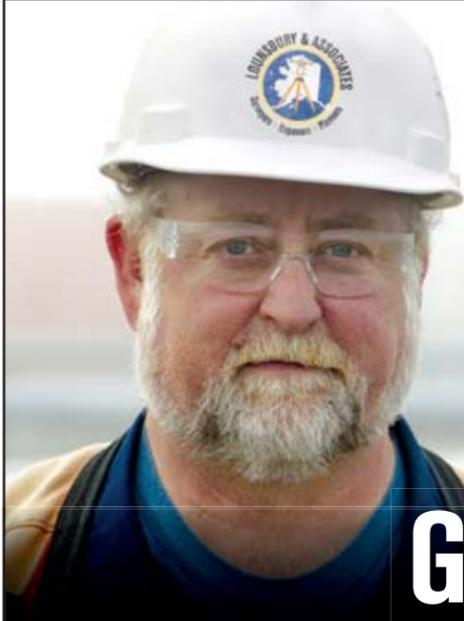
Production Welding
Certified Welding
Fabrication

Machining

OEM Equipment
Accessories
Repair and Overhaul

- ISO 9001 and API Q1 Certified -

8875 King St., Anchorage | 907 563-3012 | pat.hanley@umalaska.com | www.umalaska.com



60
YEARS

PARTNERS IN QUALITY
GROWING TOGETHER

When looking for an engineering and surveying consultant, Alaska's oil and gas industry seeks experience, performance and proven success. Lounsbury meets these expectations and provides the quality service our clients demand for exploration, design and construction projects. Together, we are helping to meet America's energy needs.

www.lounsburyinc.com

experience you can use

ESTABLISHED 1949



The Lynden logo features a stylized green 'L' icon composed of horizontal lines, followed by the word 'LYNDEN' in a bold, green, sans-serif font.

*When you need to
talk to a freight...*

Expert!



“When you need assistance with your shipping, call a freight expert at Lynden. Whether you need to find the fastest or the least expensive way to move a shipment, a Lynden freight expert can assist you with finding out all your options.”

www.shiplynden.com

1-888-596-3361

The Lynden Family of Companies



Innovative Transportation Solutions