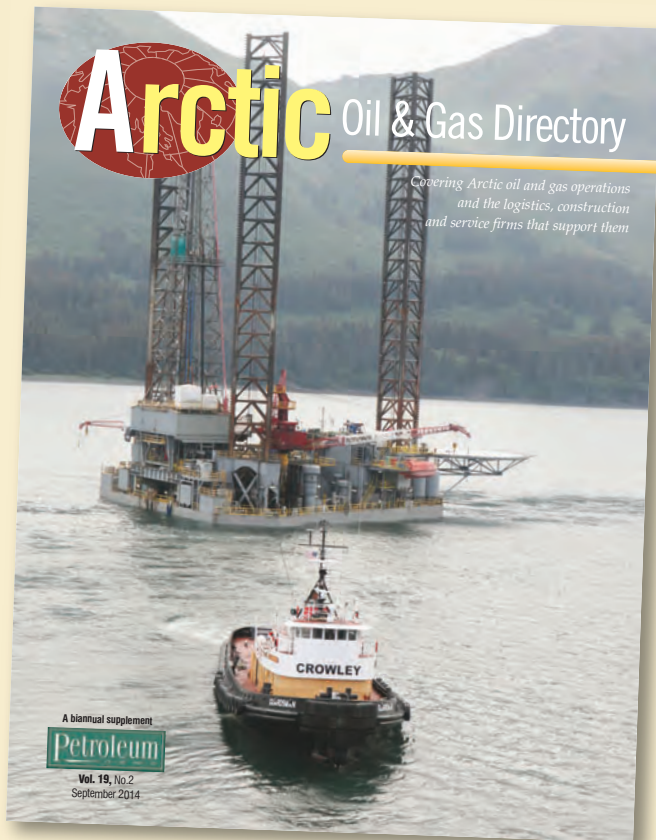




### Latest Arctic Directory released



### Shell plans simultaneous drilling in the Chukchi using two rigs

Shell is planning for the possibility of drilling two exploration wells simultaneously in the Chukchi Sea, using two drilling vessels, according to the company's revised exploration plan that the Bureau of Ocean Energy Management, or BOEM, has now published on the agency's website. The company had already announced that it plans to deploy two drilling units, the Noble Discoverer and the Polar Pioneer, to the Chukchi, with each vessel being capable of backing up the other, should a well problem necessitate the drilling of a relief

see **SHELL DRILLING** page 19

### BlueCrest plans Cosmopolitan oil development; gas also possible

BlueCrest Energy Inc. is moving forward with an oil field development in the Cosmopolitan prospect, in Cook Inlet, offshore the southern Kenai Peninsula, Benjamin Johnson, the company's president and CEO, told the Alaska Oil and Gas Congress on Sept. 17. But, although the Cosmopolitan oil pool lies in offshore leases, all oil drilling will be done from an existing onshore well pad using extended reach drilling techniques, Johnson said. The company's site plan for the onshore facilities envisages up to 30 wells. And BlueCrest has a letter of intent for the use of an

see **BLUECREST** page 18

### Chevron has LNG laundry list for 'economics-driven' Kitimat

Finding a new partner to replace Apache, securing sales contracts, agreement with First Nations and certainty in fiscal arrangements with the British Columbia government top the list of issues to be resolved before Chevron will sanction its Kitimat LNG project, Chevron Corp's Chief Executive Officer John Watson said.

"This is not a schedule-driven project, it's an economics-driven project," he told reporters in Calgary on Sept. 12.

When Apache announced its departure this summer, Chevron was quick to put out word that it has no interest in

see **KITIMAT PROJECT** page 20

### EXPLORATION & PRODUCTION

## Platform arrives

*Furie's Kitchen Lights platform in Cook Inlet but to be installed in 2015*

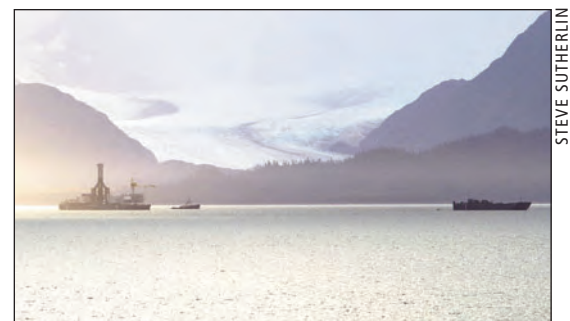
By ALAN BAILEY

Petroleum News

**F**urie Operating Alaska's Kitchen Lights gas production platform has arrived by barge in Kachemak Bay, on the east side of Cook Inlet. But the platform will not be installed on location in the company's Kitchen Lights unit until 2015, the company has announced.

Furie says that all of the components needed for the Kitchen Lights platform, for the gas gathering pipeline from the platform to the shore, and for the onshore gas processing facility for the new field are now in Alaska and that the offshore installation will begin as soon as the ice leaves the inlet in the spring.

The heavy lift vessel for placing the platform on the seafloor arrived in Cook Inlet in July, along



STEVE SUTHERLIN

The monopod caisson for Furie Operating Alaska's Kitchen Lights gas production on a barge in Kachemak Bay, on the east side of the Cook Inlet

with the template to be used for positioning the platform's monopod leg and the piles that will hold the leg in place. Furie had planned to have the plat-

see **FURIE PLATFORM** page 20

### FINANCE & ECONOMY

## Miller eying Buccaneer

*Miller signs non-binding letter of intent for outstanding Cook Inlet properties*

By ERIC LIDJI

For Petroleum News

**C**ontinuing its aggressive acquisition of producing properties across Alaska, Miller Energy Resources Inc. is looking to buy the Cook Inlet assets of Buccaneer Energy Ltd.

In a Sept. 15 press release, Miller said that it had entered into a non-binding letter of intent to buy "substantially all" of Buccaneer's operating assets in Alaska for approximately \$40 million to \$50 million. The Tennessee-based independent would fund the acquisition "with its existing facilities or other borrowings," the company said.

While any final agreement requires board

*Buccaneer recently asked the court for permission to pay back taxes to the state of Alaska for gas production from Kenai Loop that were due at the end of June 2014.*

approval, "management believes the transaction would be accretive to both credit and cash flow per share metrics."

The Australian independent Buccaneer is currently in the middle of bankruptcy proceedings and had been planning an auction to sell most of its

see **MILLER INTEREST** page 19

### FINANCE & ECONOMY

## Busy times for Miller

*Company makes changes at the top, pursues new acquisition, drilling projects*

By WESLEY LOY

For Petroleum News

**M**iller Energy Resources Inc. is making moves just about everywhere you look — in the boardroom, in the field and in court.

On Sept. 15, the Tennessee-based oil and gas producer announced changes to its senior leadership, including the retirement of founder and board chairman Deloy Miller.

The company also announced plans to buy the Alaska assets of Buccaneer Energy, which is going through bankruptcy proceedings.

Miller continues to advance various drilling projects around Alaska's Cook Inlet basin, and is

*Miller has focused much of its efforts on well workovers and drilling on its Osprey offshore platform, which stands in the Redoubt unit.*

close to resolving a long-running investor lawsuit.

Aside from these developments, the company recently filed financial statements showing it roughly doubled its production rate and revenue in a year's time. But the red ink is rising.

Miller Energy is a small company, yet it's listed on the Big Board — the New York Stock

see **BUSY TIMES** page 18



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# Alaska - Mackenzie Rig Report

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

### North Slope - Onshore

<b>Doyon Drilling</b> Dreco 1250 UE Dreco 1000 UE Dreco D2000 Uebd AC Mobile OIME 2000	14 (SCR/TD) 16 (SCR/TD) 19 (SCR/TD) 25 141 (SCR/TD)	Prudhoe Bay DS01-02, workover Prudhoe Bay C-19, workover Alpine, rig maintenance Prudhoe Bay DS 14-22 Kuparuk 2E.01	BP BP ConocoPhillips BP ConocoPhillips
<b>Kuukpik</b>	5	Prudhoe Bay	Available
<b>Nabors Alaska Drilling</b> AC Coil Hybrid Dreco 1000 UE Mid-Continental U36A Oilwell 700 E Dreco 1000 UE Dreco 1000 UE Oilwell 2000 Hercules Oilwell 2000 Hercules Emsco Electro-hoist-2 Emsco Electro-hoist Varco TDS3 Emsco Electro-hoist Canrig 1050E	CDR-2 2-ES (SCR-TD) 3-S 4-ES (SCR) 7-ES (SCR/TD) 9-ES (SCR/TD) 14-E (SCR) 16-E (SCR/TD) 18-E (SCR) 22-E (SCR/TD)  27-E (SCR-TD)	Kuparuk 2F-18 Prudhoe Bay Prudhoe Bay Prudhoe Bay Kuparuk Kuparuk Prudhoe Bay Prudhoe Bay Prudhoe Bay Prudhoe Bay Deadhorse, under contract to ExxonMobil for 2015	ConocoPhillips Available Available Available ConocoPhillips ConocoPhillips Available Available Stacked Stacked
Emsco Electro-hoist Oilwell 2000 Academy AC Electric CANRIG OIME 2000 Academy AC electric CANRIG Academy AC electric Heli-Rig	28-E (SCR) 33-E 99AC (AC-TD) 245-E (SCR-ACTD) 105AC (AC-TD) 106-E (AC-TD)	Prudhoe Bay Prudhoe Bay Deadhorse Oliktok Point Deadhorse Deadhorse	Stacked Available Available ENI Available Available
<b>Nordic Calista Services</b> Superior 700 UE Superior 700 UE Ideco 900	1 (SCR/CTD) 2 (SCR/CTD) 3 (SCR/TD)	Prudhoe Bay Drill Site D-14B Prudhoe Bay Well Drill Site H-28 Kuparuk Well 1Y-14	BP BP ConocoPhillips
<b>Parker Drilling Arctic Operating Inc.</b> NOV ADS-10SD NOV ADS-10SD	272 273	Prudhoe Bay DS 18 Prudhoe Bay DS W-59	BP BP

### North Slope - Offshore

<b>BP</b> Top Drive, supersized	Liberty rig	Inactive	BP
<b>Doyon Drilling</b> Sky top Brewster NE-12	15 (SCR/TD)	Spy Island SD37-DSP 1 RWO, workover	ENI
<b>Nabors Alaska Drilling</b> OIME 1000	19AC (AC-TD)	Oooguruk OdsN-02	Caelus Alaska

### Cook Inlet Basin – Onshore

<b>Kenai Land Ventures LLC (All American Oilfield Associates, labor contract)</b> Taylor	Glacier 1	Kenai Loop Drilling Pad #1	Buccaneer Energy Ltd.
<b>All American Oilfield Associates</b> IDECO H-37	AAO 111	Kenai Yard	Available
<b>Aurora Well Services</b> Franks 300 Srs. Explorer III	AWS 1	Sterling, Stacked out at D&D yard	Available
<b>Doyon Drilling</b> TSM 7000	Arctic Fox #1	North Kenai, stacked	Nordaq
<b>Nabors Alaska Drilling</b> Continental Emsco E3000 Franks IDECO 2100 E Rigmaster 850	273E 26 429E (SCR) 129	Kenai Kenai Kenai Kenai	Available Stacked Stacked Available
<b>Saxon</b> TSM-850	147	Ninilchik Unit, Bartolowits pad drilling Frances #1	Hilcorp Alaska
TSM-850	169	Swanson River	Hilcorp Alaska

### Cook Inlet Basin – Offshore

<b>XTO Energy</b> National 110	C (TD)	Idle	XTO
<b>Spartan Drilling</b> Baker Marine ILC-Skidoff, jack-up		Spartan 151 Upper Cook Inlet KLU#1	Furie
<b>Cook Inlet Energy</b> National 1320	35	Osprey Platform RU-1, workover	Cook Inlet Energy
<b>Hilcorp Alaska LLC (Kuukpik Drilling, management contract)</b>		Monopod Platform, Drilling Trading Bay ST A-31	Hilcorp Alaska LLC
<b>Patterson UTI Drilling Co LLC</b>	191	West McArthur River Unit #8	Cook Inlet Energy
<b>Kenai Offshore Ventures</b> LeTourneau Class 116-C, jack-up	Endeavor	Port Graham	Buccaneer Energy Ltd.

## Mackenzie Rig Status

### Canadian Beaufort Sea

<b>SDC Drilling Inc.</b> SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available
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### Central Mackenzie Valley

<b>Akita</b> TSM-7000	37	Racked in Norman Well, NT	Available
--------------------------	----	---------------------------	-----------

The Alaska - Mackenzie Rig Report as of September 18, 2014.  
Active drilling companies only listed.

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

This rig report was prepared by Marti Reeve



JUDY PATRICK

### Baker Hughes North America rotary rig counts\*

	Sept. 12	Sept. 5	Year Ago
US	1,931	1, 925	1,768
Canada	405	414	380
Gulf	62	62	63

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

\*Issued by Baker Hughes since 1944

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## ● GOVERNMENT

# Prentice puts energy first

New Alberta premier adds 2 cabinet portfolios to his duties — keys to approval chances for new pipelines for oil sands development

By **GARY PARK**

For Petroleum News

**J**im Prentice has been sworn in as the 16th premier in Alberta's 110-year history making explicit to his friends and foes that his "highest priority" is to open new markets for the province's oil and natural gas.

To that end, he has taken on the ministries of Aboriginal Relations and International and Intergovernmental Relations — two key elements in tackling Alberta's uncertain economic future at a time when opposition from First Nations and environmentalists has stonewalled progress on quadrupling output from the oil sands.

But, as a former federal minister of Aboriginal Affairs, Prentice extended a hand to Alberta's First Nations to strengthen his case for building pipelines to the British Columbia coast to export oil sands bitumen.

"I can tell you that amongst the strongest allies that Alberta has at the table are the First Nations of this province who are in the energy business themselves and who are passionate about achieving West Coast access," he told his first news conference.

He said good work has already been done on connecting with and consulting aboriginals, including "excellent discussions" this summer which establish Prentice's resolve to get personally involved in seeking common-ground with First Nations.

Just as quickly he was confronted with a United Nations report that underscores the growing global resistance to the use of fossil fuels.

Prentice left no doubt that he is prepared



**JIM PRENTICE**

to wage battle with those who stand in the way of dealing with the most critical issues facing Alberta since the 1970s when the oil sands first emerged as a commercial resource.

However, he has made equally clear his determination to put Alberta in the forefront of trying to turn the tide on climate change.

He told the Calgary Herald editorial board in July that if Alberta hopes to excel in the energy business it must excel in the environment arena, even though he will not agree to the province unilaterally raising its carbon levy if that eroded its competitive position.

## Warning from UN report

Prentice moved into the premier's office at the same time the United Nations Global Commission on the Economy and Climate issued a report warning that countries and companies that rely on investments in fossil-fuel industries are running a risk as the world embarks on a low-carbon path.

The result could be that resources such as oil sands bitumen and coal (which generates 85 percent of Alberta's electricity) will be left in the lurch, the commission said.

The report sets the stage for the United Nations' Secretary-General's climate summit in New York later in September which is intended to be the forerunner of a global agreement in Paris in late 2015.

"It is possible to get economic growth and at the same time tackle climate change," commission co-Chair Felipe Calderon, a former president of Mexico, told a conference call. "But it will require

structural changes in the coming years."

The commission called for a dramatic reduction in the use of coal-fired power, an end to fossil-fuel subsidies, a strong and growing carbon price and the adoption of energy sources that do not emit greenhouse gases.

Prentice said Alberta will make progress towards those objectives "where we can," which he indicated is primarily in the coal sector by advancing electricity generated from solar and wind sources.

## Pipelines key objectives

But he is leaving no doubt that moving oil sands bitumen through such contentious pipelines as Keystone XL, Northern Gateway, Trans Mountain and Energy East will remain key objectives for his government, which presents him with a stern test to negotiate agreements with First Nations in particular.

In naming his 20-member cabinet Prentice stirred some criticism in filling the energy post with Frank Oberle, a little-known figure despite serving as Minister of Sustainable Resources Development in 2011 and 2012, then as Minister of Aboriginal Affairs.

However, during his time in sustainable resources he may have learned how the forestry industry overcame environmental opposition in the 1990s, which could translate into a positive in his new cabinet role. ●

Contact Gary Park through [publisher@petroleumnews.com](mailto:publisher@petroleumnews.com)

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## PIPELINES & DOWNSTREAM

### Refinery pays penalty for waste fires

Owners of the North Pole Refinery will pay \$80,000 to resolve accusations that they mishandled hazardous waste at the facility last year.

Flint Hills Resources Alaska will pay the penalty as part of a settlement with the Environmental Protection Agency over groundwater cleanup activity on June 19, 2013.

The Fairbanks Daily News-Miner (<http://bit.ly/1whidbd>) reports Flint Hills had processed groundwater to remove an industrial chemical, sulfolane, linked to an old refinery spill.

The EPA says Flint Hills disposed of used filters in an open trash bin and the filters "self-ignited."

The North Pole Fire Department extinguished two fires.

The company as part of the settlement agreed to change its waste disposal practices.

Flint Hills spokesman Jeff Cook says the company self-reported the incident to the EPA.

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• GOVERNMENT

# Dan Saddler sees state moving forward

Eagle River Republican positive on oil tax, gas line work; sees value for Alaska in US heading Arctic Council; LNG report Sept. 29

By STEVE QUINN

For Petroleum News

House Resources Committee co-Chair Dan Saddler says this interim hasn't been as hectic as previous session breaks, but the committee remains engaged in developments, either with the recent oil tax vote upholding the new tax regime or the developments with the state's efforts to develop a liquefied natural gas export system.

The Eagle River Republican will be at the head table Sept. 29 when the Senate and House Resources committees hold a joint hearing that Saddler believes will feature an important update on the gas line project but "away from the passions of session."

Saddler spoke to Petroleum News about his views on interim developments.

*Petroleum News: A great deal has happened since you left Juneau in April, whether it's developments with the gas line and LNG export facility or the oil tax vote. Taken as an aggregate, what does this tell you?*

Saddler: It tells me that Alaska is making realistic, rational steps forward toward achieving a dream we've had for a long time. I understand the frustration some people have had at previous efforts to aim at a Lower 48 market and how they were stymied. I think it's evidence of the market realities and nimbleness to be able to pivot, take information developed in previous projects and apply what they can to a more market realistic project to export LNG to the Asian markets.

One thing we realized over the years is that LNG is a different market and a different industry so a lot of the paradigms and information that we understand about oil pipelines and markets doesn't necessarily translate. So all of the years we had in preparation do pay dividends as we look toward the current market in Asia. So I really don't see the previous years as a loss.

*Petroleum News: What development do you see as most significant? Is it the application for the export license? Is it the FERC filing?*

Saddler: Those speak to the very fact that we have alignment among all parties, among all the producers, the state

and TransCanada. Nobody has permanent friends, but they do have permanent interests.

We've been able to — through market convergence and hard work — align all the parties' interest in this natural gas pipeline project, and pull in the same direction. So the application of the FERC permit, the seeking of the export license from the DOE, those are natural consequences. They prove we are actually working together because this stuff doesn't happen by itself. The most important development in recent years is the alignment, the willingness to work together, doing real work toward a real project. That's very, very promising for the state of Alaska.

*Petroleum News: We've heard the word "alignment" before attached to a gas line project. What makes you think this is different?*

Saddler: Well, you've heard it before: Nothing is going to happen until Exxon says it's going to happen. Well I think Exxon is on board. From the previous administration and current administration's ability to get the settlement done, and whatever calculation Exxon makes is in its best interest to bring Point Thomson gas and other North Slope gas to market. That's what's different.

The state of Alaska, we can want a gas line and its benefits all we want, but we sold the rights to develop that gas to the producers. Until it's in their best interest and they make a decision to come along and bring that gas to market, we are a little bit stymied. We can stamp our feet and shake our spear all we want, but that's why it's so important to take advantage of this alignment now.

*Petroleum News: Speaking of Point Thomson. You took a trip there last fall. What are your impressions and are they playing out?*

Saddler: I was impressed that they are building a quality development, certainly not gold plated, but they are building for the long haul. I was impressed that while the Point Thomson settlement calls for production of 10,000 barrels per day of



REP. DAN SADDLER

condensate, they are building support structure that would allow them to deliver 80,000 barrels day westward. Likewise the airfield they have there is a tremendous facility, and I think it speaks to their desire as a base of operations not only for gas developments for places like, oh I don't know — ANWR? So they are certainly going to meet their obligation and it looks like they are going to go beyond that. They made it clear they don't expect to get their money back just on Point Thomson gas. They are going to extend that over a larger gas industry and oil in the future. You don't make money as soon as you turn dirt. You make it on the long-term. They are building a facility that's going to be there for the long term and I hope facilitates all kinds of oil and gas developments for decades to come.

*Petroleum News: Getting back to an earlier point, people seem to look at Exxon as a key indicator whether a project is going to move forward, starting back in 2009 when they announced a partnership with TransCanada on the gas treatment plant.*

Saddler: I think they are a bellwether but they are also an industry leader. Exxon has sharp pencils and they are in the business of making money where

they can. They do their analysis, and they make their plans carefully with long-term in mind and pursue their interests that way. It behooves the state to not follow blindly, but to look to what Exxon is doing for direction as to where the economics of a project might point. It's not a terrible thing to say that we should watch Exxon and see where they are headed. It's a very good sign that they want to pursue this natural gas

export project and I'm pleased we are partners with them instead of working in opposition to them.

Also as co-chairs of Resources, we had the

opportunity to travel elsewhere on the Slope. We went to Kuparuk as well. We saw one of their two drilling rigs and toured the airfield facility there. Frankly, we got a better perspective as to how important technology is. It's not brute force drilling. It's a lot of finesse. I was impressed at how high tech this was.

They showed us the geology, the maps and data. They are able to track an oil-bearing development down to, in some cases, inches to find out where the best play is. That is the future of the North Slope. I don't think there are any more elephant fields out there, but we

see **SADDLER Q&A** page 15



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## ● ENVIRONMENT &amp; SAFETY

# Riches face raging debate

Shale, siltstone formations across Canada hold untold resources, face intense opposition; ban imposed by Nova Scotia government

By GARY PARK

For Petroleum News

The Alberta Energy Regulator has made its case for the use of horizontal drilling and hydraulic fracturing if the province is to derive the full benefit from 15 formations of “shale- and siltstone-hosted hydrocarbons.”

In a series of mind-boggling numbers, an AER appraisal group has estimated that the “immediate” prospects for only five shale deposits includes 3,424 trillion cubic feet of natural gas, 423.6 billion barrels of oil and 58.6 billion barrels of petroleum liquids.

The group then made one even larger step forward by estimating that the total volume of gas in Alberta could exceed 10,000 tcf.

But the agency stopped short of projecting how much of the resources could be economically extracted using available technology.

The AER, along with the National Energy Board, the British Columbia Oil and Gas Commission and the British Columbia Ministry of Natural Gas

Development assembled a combined assessment that the Montney formation holds 449 tcf of gas, 14.9 billion barrels of light liquids and 1.1 billion barrels of oil.

The Montney, which covers 50,000 square miles in northeastern British Columbia and northwestern Alberta, has deposits at depths of 330 feet to 1,000 feet, is flagged as the underpinning of any LNG exports from Western Canada.

## Fracking yields 1.7 bcf per day

Already fracking wells, which are still in their infancy, are yielding 1.7 billion cubic feet per day and almost 26,000 barrels per day of liquids from the Montney.

Mirror-images have been identified in Eastern and Atlantic Canada, where the provincial governments are grappling with the need to craft new regulatory regimes, notably in Quebec where the province has staked C\$70 million on an ownership position to explore Anticosti Island, while continuing to work on an acceptable program to develop shale oil and gas.

The former Quebec Premier Pauline

Marois estimated the island could be sitting on C\$45 billion of oil deposits, which could be a lifeline for a province that currently imports C\$14 billion a year of hydrocarbons, while currently producing 500 million cubic feet per day of gas.

A 2013 report by Quebec’s Department of Finance placed the total recoverable reserves in the province at 8.75 tcf, while a new policy is being developed to control oil exploration and development on Anticosti Island and other nearby regions near the Atlantic Ocean.

That pace is likely to quicken under a Liberal Party government elected earlier this year with a clear mandate to set aside Quebec’s debate over separation from Canada and concentrate on economic development.

## Ban in Nova Scotia

But the debate over the environmental impact of chasing shale resources is raging in Canada, as indicated in August when one of the least likely regions in Canada to expect a wave of high-volume hydraulic fracturing has become the first to impose an outright ban on the technology.

Nova Scotia Energy Minister Andrew Younger caved in to demands from environmentalists and some landowners by announcing legislation will be introduced in the provincial legislature to prohibit the use of fracking to unlock onshore shale gas.

That put him one step ahead of a government-commissioned report in August from a panel of experts which called for more independent research on the health, environmental and economic impacts of fracking.

But he injected a note of confusion by also insisting his decision is “neither a permanent nor a long-term ban.”

Without taking any steps to gather more data, Younger said he believes Nova Scotians are not comfortable with the technology.

In the process, he closed the door on one of Nova Scotia’s few energy resource

opportunities, which every recent Nova Scotia government except for the current Liberal party administration has said is critical to the province’s hopes of fiscal recovery.

## Two-year moratorium in 2012

A two-year moratorium on fracking was imposed by the previous New Democratic Party government in 2012 as public protests against fracking grew in Nova Scotia and neighboring New Brunswick.

Younger said his government made its decision following input from the public, including aboriginal leaders.

“Our petroleum resources belong to Nova Scotians and we must honor the trust people have put in us to understand their concerns,” he said.

A report commissioned by Environment Canada that was released in the spring found there was no conclusive research to indicate fracking causes the environmental damage that some fear.

The report said more scientific data was needed, which is partly why other provinces have been hesitant about going as far as Nova Scotia.

Quebec has a moratorium in place pending the outcome of its own research and public hearings and Newfoundland/Labrador is in a similar position.

## Some 175,000 wells fractured

Meanwhile, it is estimated that 175,000 wells have been drilled over recent decades by applying hydraulic fracturing in British Columbia, Alberta and Saskatchewan without yielding any clear-cut negative results.

Paul Barnes, Atlantic Canada manager with the Canadian Association of Petroleum Producers, said the industry’s chief lobby organization was “disappointed (with Nova Scotia’s) announcement as it largely omits the knowledge from Western Canadian regulators and industry experts.”

Barbara Pike, president of the Maritimes Energy Association, based on Nova Scotia, found some hope that the expert panel said fracking “could be conducted safely and the environmental impact is very small. It lays out how to do it.”

The panel, using a lower-medium case scenario” also estimated fracking could create 1,500 direct jobs and secure annual investments of C\$1 billion.

The Halifax-based Ecology Action Center, which has urged a 10-year moratorium to allow for a comprehensive study, said it was pleased the government has listened to the voices of concern.

But Pike countered that Nova Scotia could ill afford to turn away job- and wealth-creating opportunities in a province that is underperforming other regions of Canada, with an unemployment rate of 9 percent.

“There is an opportunity lost,” she said. “Nova Scotians will have to decide what they will do about energy, as, right now, we are not producing enough natural gas to meet our needs, which means we could soon be importing more expensive energy.”

The pro-shale Conservative government in New Brunswick is facing a provincial election on Sept. 22. Those results could either reinforce or weaken Nova Scotia’s hard line. ●



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• NATURAL GAS

# Fairbanks prepares for small LNG project

*Only one of larger projects — ASAP, Alaska LNG Project — will advance; Interior gas expected by 2016, as bridge to pipeline*

By KRISTEN NELSON  
Petroleum News

Three projects are under way to deliver North Slope natural gas to Alaskans — and on three different scales and timelines.

The 10th annual Alaska Oil & Gas Congress got an update on all three in Anchorage Sept. 16.

The smallest, and furthest along, would truck liquefied natural gas from the North Slope to Fairbanks, adding to the small amount of Cook Inlet LNG currently being trucked to Fairbanks.

The other projects, much larger, involve pipelines to take North Slope natural gas to Southcentral.

The Alaska Stand Alone Pipeline, ASAP, would move a maximum of 500 million cubic feet a day from the North Slope to the western side of Cook Inlet, with a smaller lateral line to serve Fairbanks.

The mega Alaska LNG Project would move several billion cubic feet a day of natural gas from the North Slope to Nikiski on the Kenai Peninsula, where the gas would be liquefied for shipment to Asia as LNG, and would include off-take points along the pipeline to allow for service to Alaska communities.

The state of Alaska is involved in all three projects.

## Alaska LNG Project

Earlier this year, with the passage of enabling legislation, the state took an equity position in the largest of the projects, the Alaska LNG Project, with the Alaska Gasline Development Corp. designated to head up the state's efforts.

Dan Fauske, president of AGDC, said AGDC was mandated to get energy to all residents of the state. But, he said, you need a pipe in place before you can get gas to rural residents. AGDC has responsibility for both ASAP and for the state's role in Alaska LNG. Both won't happen.

Fauske said the state doesn't have enough information to make a decision on which project to back at this time.

Larry Persily, federal coordinator for Alaska Natural Gas Transportation Projects, said the large Alaska project has a number of advantages: no exploration risk; low-cost production; liquefaction efficient in cold climate; shorter route to Asia for tankers; high Btu natural gas, which fits the Asian market.

And, he said, after 40 years, it's time to turn North Slope gas into cash.

State investment is a big step, Persily said, and reduces the risk to producers — but, he asked, can Alaskans keep politics out of it?

## ASAP

Dave Haugen, director of project management for ASAP at AGDC, said the goal for ASAP is to get North Slope natural gas to Fairbanks and Cook Inlet at the lowest possible cost, and that cost needs to beat the cost of LNG imported into Cook Inlet: If LNG can be imported for less, ASAP doesn't make sense.

The 500 million cubic feet per day

*Fairbanks Natural Gas, the company trucking LNG to Fairbanks from Cook Inlet, has a build-out under way of its distribution system, with 29 miles of new pipe installed so far of 30 planned for this year, and an additional 15 miles planned next year.*

ASAP moves would be utility grade gas, Haugen said, burner-tip ready.

ASAP is on a stage gated approach, and is looking at an open season in 2015, he said, with start of construction in mid-2017 and first gas in 2021.

ASAP is in conversations with Enbridge to come in as OBO, owner builder operator, for the project, which has a state right of way and a supplemental environmental impact statement out for approval. A record of decision is expected in 2016, he said.

A \$7.7 billion cost estimate was prepared in 2012, a 30 percent plus or minus estimate, with refinements ongoing and a more refined estimate by December.

## Interior energy

Gene Theriault, deputy director, energy and policy outreach for the Alaska Energy Authority, said the Interior Energy Project is aimed at getting North Slope natural gas to Interior Alaska using a liquefaction plant on the North Slope, transporting LNG by truck to Fairbanks and storing it there for distribution. He said the governor's goal is to get gas to as many as possible, at the lowest possible cost and as soon as possible.

The Legislature authorized funding and bonding by the Alaska Industrial Development and Export Authority,

see FAIRBANKS LNG page 9

## PIPELINES & DOWNSTREAM

### State schedules Donlin pipeline hearings

The State Pipeline Coordinator's Office has scheduled public hearings on the pipeline right-of-way lease application it received from Donlin Gold LLC in April.

The proposed 315-mile Donlin Gold Natural Gas Pipeline would transport natural gas from the west end of the Beluga gas field on the west side of Cook Inlet to the proposed Donlin Gold mine site some 10 miles north of Crooked Creek (see story in May 25 issue). SPCO said that when it invited public comment on the application it received several requests for public hearings and in response to those requests will hold several hearings:

- Bethel Cultural Center, Oct. 13, 6:30-8:30 p.m.
- McGrath Captain Snow Center, Oct. 14, 7-9 p.m.
- Anchorage Loussac Library, Oct. 15, 5:30-7:30 p.m.
- Tyonek Tribal Center, Oct. 16, 1-3 p.m.
- Skwentna Roadhouse, Jan. 21, 2015, 11 a.m.-1 p.m.

SPCO said comments from the hearings must be submitted in writing to SPCO before 5 p.m., Jan. 28, 2015.

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## EXPLORATION & PRODUCTION

### DML&W OKs Linc inlet drilling plan

The Alaska Division of Mining, Land and Water has approved a permit request from Linc Energy Operations Inc. for coal exploration northwest of Tyonek on the west side of Cook Inlet.

The evaluation is for potential underground coal gasification development (see story in Aug. 10 issue).

The division said in its Sept. 12 decision that it adjusted the bond required for the project and obtained additional information from Linc; an updated application was deemed complete Aug. 27.

The company plans as many as five "site characterization" holes to a maximum depth of 3,500 feet, with one drill hole planned this year.

Linc said in its application that the TYEX02 would be drilled to some 3,000 feet using a core drilling rig to obtain a core with an outside diameter of some 2.5 inches.

"The main objectives of the TYEX02 core hole are to provide confirmation of the geological structure, provide geotechnical information about the coal seams and surrounding rock, provide gas content and whole coal analysis of the two prospective target coal seams, obtain hydrological characteristics from geophysical logs and perform drill stem tests in and adjacent to the targeted coal seams," Linc said in its application.

—KRISTEN NELSON

## GOVERNMENT

### More comment time sought for GHG regs

A bipartisan group of U.S. senators has asked the Environmental Protection Agency for a 60-day extension to the 120-day public comment period for the agency's proposed regulations setting greenhouse gas emission limits for power stations in the United States.

At the beginning of June EPA issued its proposed new rule, setting each state a limit on the amount of carbon dioxide that can be emitted per unit of power generated. States must develop plans for achieving their emissions limits by 2030 through some combination of power generation efficiency, changes in generation technologies and improved efficiency of power use. There are required dates for plan submission. And, if a state does not end up with an EPA-approved plan, EPA will prepare and mandate a plan for the state.

Because of the complexity and broad scope of the proposed rule, and because the rule would impact electricity generation, use and costs throughout the country, people need more time for review and for offering comments, the senators

see **GHG REGS** page 9

## EXPLORATION & PRODUCTION

# Corps reviewing 404 application for GMT1

*Conoco plan calls for 2-season construction work beginning 4th quarter 2015, with first production in 4th quarter 2017*

By KRISTEN NELSON

Petroleum News

The U.S. Army Corps of Engineers has a ConocoPhillips application for the discharge of dredged and/or fill materials into waters of the United States at the Greater Mooses Tooth 1 project out for public comment.

Comments are due on the application, under section 404 of the Clean Water Act, by Oct. 30.

GMT1 is one of the discoveries announced in the National Petroleum Reserve-Alaska by ConocoPhillips Alaska predecessor Phillips Alaska in May 2001 from drilling the company had done in the previous two seasons. The NPR-A discoveries included: Spark No. 1 and Spark No. 1A, Moose's Tooth C, Lookout No. 1, Rendezvous A and Rendezvous No. 2.

GMT1 was originally proposed for development as Lookout/CD-6, but the name and scope were changed after the U.S. Bureau of Land Management formed the Greater Mooses Tooth unit in 2008.

The Corps said previous developments in the area, Colville Delta 1 through CD-5, are within the reservoir of the Colville River unit. GMT1 was renamed after it was determined to be within the newly established Greater Mooses Tooth unit, the Corps said.

### Two-year schedule

The Corps said the two-year construction schedule would begin with ice road construction in the fourth quarter of 2015, followed by gravel mining, construction of gravel road and pad, bridge piers substructure and superstructure in the first quarter of 2016. Ice road construction for the second season of work would begin in the fourth quarter of 2016, followed by installation of vertical support members, pipelines, power and telecom cable and facilities in the first quarter of 2017 and first production in the fourth quarter of 2017.

The GMT1 drill site will be accessed by a 7.7-mile access road from the CD-5 access road, with three vehicle pullouts. The 11.8-acre drill pad will have capacity for 33 wells. Three-phase hydrocarbons (oil, gas and water) would be taken to the Alpine Central Processing Facility for processing and sales-quality crude oil would then go by the existing Alpine

*The Corps said the GMT1 drill site would be operated and maintained by staff from the Alpine Central Processing Facility and supported using infrastructure at CD-1.*

sales oil pipeline and Kuparuk pipeline to the trans-Alaska oil pipeline for shipment to market.

Lean gas and Kuparuk-supplied seawater would be piped to the new drill site from CD-1 for injection into the reservoir. The Corps said the GMT1 drill site would be operated and maintained by staff from the Alpine Central Processing Facility and supported using infrastructure at CD-1.

### Draft SEIS out for GMT1

Production began from the Alpine CD-1 drill site in 2000 and from the CD-2 drill site in 2001.

The final environmental impact statement for the five proposed Alpine satellites (CD-3 through CD-7) was issued in 2004 and BLM's record of decision for CD-6 and CD-7, now GMT1 and GMT2, the developments on public lands managed by BLM, was issued in November 2004.

BLM issued the National Petroleum Reserve-Alaska Final Integrated Activity Plan/Environmental Impact Statement in 2012, followed by a record of decision in 2013, addressing development within the entire NPR-A including the Greater Mooses Tooth unit.



A supplemental EIS for the GMT1 development is in draft form.

ConocoPhillips Alaska President Trond-Erik Johansen told the Anchorage Chamber of Commerce in May that Greater Mooses Tooth 1 development is expected to cost some \$900 million with first oil in late 2017 and production peaking at some 30,000 bpd.

Although 33 wells are possible from the GMT1 pad, eight wells, three producers and five water/miscible gas injectors, are planned, with the potential for additional wells.

ConocoPhillips applied for development permits in July 2013 and project approval is targeted for the end of the year, based on permit approval. ●

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• EXPLORATION & PRODUCTION

# State OKs Usibelli CBM Healy Creek well

Exploration license plan of operations for single coalbed methane well; more wells could be drilled depending on this year's results

By KRISTEN NELSON  
Petroleum News

The Alaska Division of Oil and Gas has approved an exploration license plan of operations submitted by Usibelli Coal Mine Inc. for coalbed methane drilling exploration on a license the company holds in the Healy area.

Usibelli filed a plan of operations in late June (see story in July 27 issue); comments on that application were due in August.

The division said in its Sept. 5 approval that the UCM Healy Creek exploration project consists of a single vertical coalbed methane exploration well in UCM's exploration license area. UCM plans to drill to some 1,500 feet and the well will help the company "determine whether sub-surface coal seams contain sufficient quantities of methane gas to justify further exploration."

UCM may conduct additional testing in the summer of 2015, based on results from the 2014 program, and one to three additional wells may be drilled. In its approval the division noted that any exploration beyond

**PULL: The project is sited on school trust lands within the Denali Borough and will be on a former coal exploration airstrip near Healy and Cripple creeks**

this year's proposed single well will require review and approval.

The project is sited on school trust lands within the Denali Borough and will be on a former coal exploration airstrip near Healy and Cripple creeks.

### Trail maintenance in spring

Trail maintenance for coal exploration was planned for spring, with drilling to begin in late August or early September and run through October. The hole may be partially or continuously cored "to sample and test any gas bearing seams identified," the division said.

Access will be by existing roads previously permitted for coal mining.

In response to comments received, UCM submitted a

modified plan Aug. 25, addressing concerns raised in public comments, and the division's decision approves the modified plan.

The division found the plan to be in the state's best interest, with amendments to protect the state's interest, including that the commissioner of the Department of Natural Resources "may require that an authorized representative be on-side during any operations conducted under the approval," ensuring that the Division of Oil and Gas and the Division of Mining, Land and Water "meet their statutory responsibilities for monitoring activities taking place on state-owned lands." Also among the amendments: status reports are required May 1 and Nov. 1 each year until a completion report is filed with the division; a "certified As-Built survey" is required for improvements within one year of placement of the improvement; and any amendments and modifications to the plan require advance notice and must be approved in writing. ●

Contact Kristen Nelson  
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continued from page 8

## GHG REGS

said.

The senators said that many parties, including power and transmission organizations, utilities and state regulators, have expressed concern that the rule is more complex to assess than anticipated, and that some issues raised by the rule require discussions between a variety of state, regional and national officials.

In Alaska the rule would require a drop in carbon dioxide emissions to about 26 percent below 2012 levels, a requirement that presumably raises issues over the future mix of generation technologies in the state and the ability of the state's aging transmission grid to support the generation changes.

—ALAN BAILEY

Contact Alan Bailey  
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continued from page 7

## FAIRBANKS LNG

AIDEA. A private sector partner, MWH, is working with AIDEA.

Therriault said the target was to deliver natural gas at \$15 per million cubic feet, which would be about half the equivalent cost of heating fuel.

Pad and access road construction is completed on the North Slope for the liquefaction facility, he said, with construction planned for next year.

Fairbanks Natural Gas, the company trucking LNG to Fairbanks from Cook Inlet, has a build-out under way of its distribution system, with 29 miles of new pipe installed so far of 30 planned for this year, and an additional 15 miles planned next year.

Therriault said the trucking project is a bridge to a pipeline, with initial gas delivery expected in 2016. The North Slope liquefaction plant is modular, he said, and has a life beyond trucking. ●

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## PIPELINES &amp; DOWNSTREAM

# Hilcorp wants to increase CIGGS flow

*Tells RCA additional gas compression needed on east side of Cook Inlet to move more gas across inlet as west-side production drops*

By ALAN BAILEY  
Petroleum News

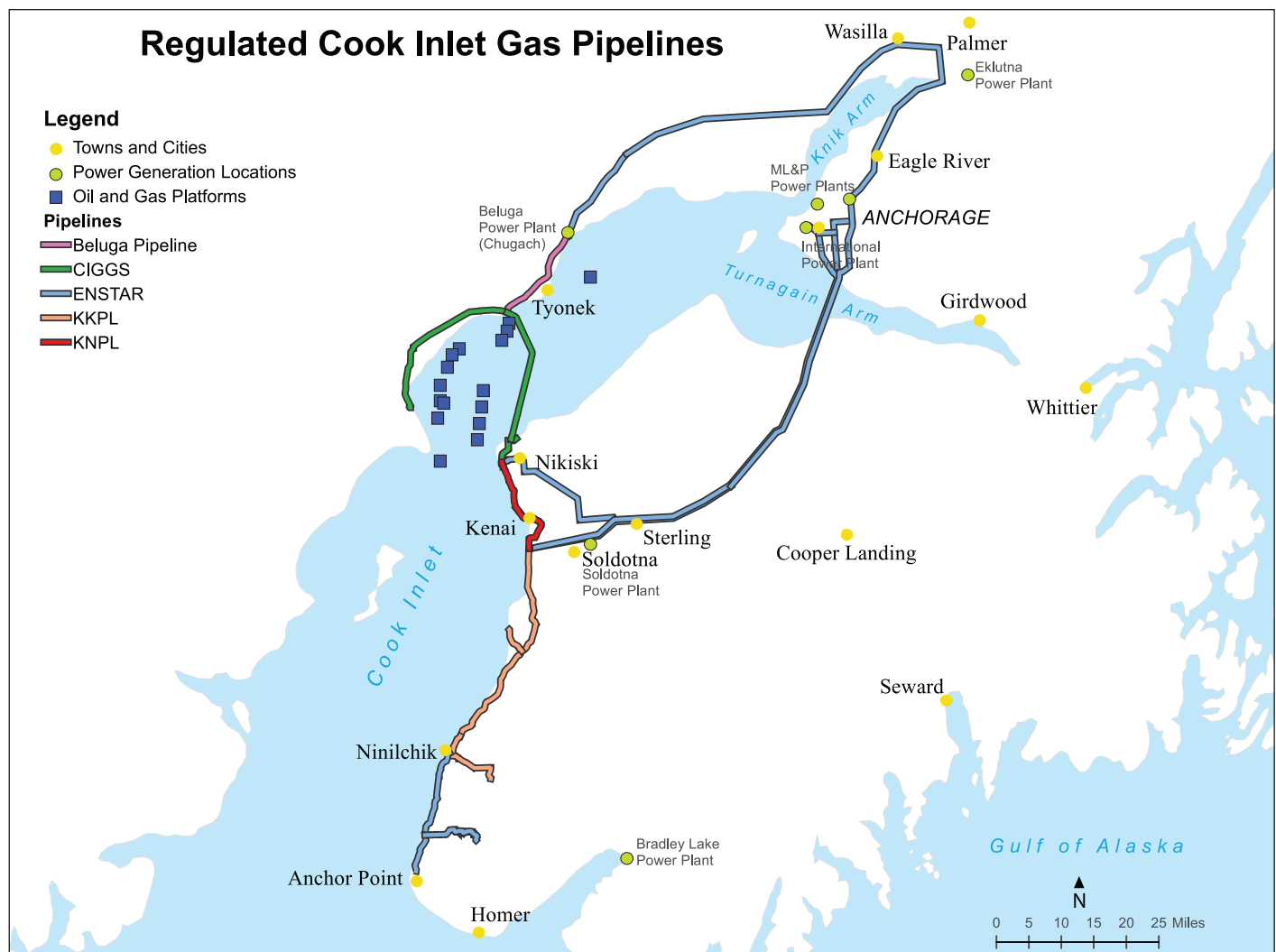
Hilcorp Alaska is proposing to install additional gas compression in the natural gas pipeline system on the east side of Cook Inlet to increase the maximum flow rate of gas east to west through the Cook Inlet Gas Gathering System, or CIGGS, the dual pipeline that runs under the inlet, Ed Jaroch, Hilcorp manager of regulated pipelines, told the Regulatory Commission of Alaska on Sept. 10.

The idea is to add two new compressors to the existing single compressor at the pipeline junction at the east end of CIGGS, to increase the east to west capacity on the line from 62 million cubic feet per day, as at present, to some 118 million cubic feet per day, Jaroch said. The upgrade would also result in a level of redundancy in the compression equipment, thus enabling continuity of gas supplies should a compressor fail, Jaroch explained.

Hilcorp anticipates the compressor upgrade to cost some \$16 million. The upgrade is necessary to ensure an adequate flow of gas through the gas transmission pipeline system on the west side of the inlet up toward the Matanuska and Susitna valleys, the company says. The project is currently in a preliminary design phase, with an anticipated startup of the additional compression in the fall of 2015.

## Changing usage

Built during the early years of the Cook Inlet gas industry, at a time when the huge gas fields of the region produced a surplus of gas, CIGGS was originally designed to deliver excess gas from fields on the west side of the inlet to liquefied natural gas and fertilizer plants at Nikiski on the west coast of the Kenai Peninsula. Chugach Electric Association's major gas-fired power station was built at Beluga on the west side of the inlet, to use gas from the nearby Beluga gas field. And in the 1980s gas utility Enstar Natural Gas Co. built a transmission line on the west side of the inlet, for shipping gas supplies



The Cook Inlet Gathering System, or CIGGS, dual pipelines under the Cook Inlet were originally built to ship gas west to east, to industrial facilities at Nikiski on the Kenai Peninsula. The pipeline system now has to move gas east to west, to bolster gas supplies on the west side of the inlet, for shipment to the Wasilla and Palmer area.

north from Beluga into the Matanuska and Susitna valleys.

But over the years, as production from the Cook Inlet gas fields declined, the Nikiski fertilizer plant closed. The liquefied natural gas plant was eventually mothballed, although it has since reopened, albeit with a relatively low throughput. And production declines from the fields on the west side of the inlet have become especially notable in comparison to production on the east side.

## Single compressor

In 2011, amid growing concerns about the continuity of gas supplies for the

Beluga power station, Marathon Oil Co., the then owner of CIGGS, installed a single compressor at the junction between the Kenai Nikiski pipeline and CIGGS, on the Kenai Peninsula. By activating the new compressor, the gas pressure at the pipeline junction could be increased, thus pushing gas into CIGGS, westward under the inlet.

The completion of the Cook Inlet Natural Gas Storage Alaska facility near Kenai provided further reason for having the ability to flow gas east to west through CIGGS — the bidirectional flow capability of the pipeline system would provide needed flexibility in directing gas

from CIGGS to support high utility gas demand during cold winter weather.

## Need for increase

As gas production from the west side gas fields continues to decline, while gas demand in the Matanuska and Susitna valleys continues to increase, there is a need to increase the CIGGS east-to-west capacity, to ensure an adequate flow of gas through the pipeline system on the west side of the inlet, Jaroch told the commission.

In the winter of 2013-14, during efforts to maintain adequate gas supplies,

see **CIGGS FLOW** page 11

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ENVIRONMENT & SAFETY

# Racing to head off concerns

Canadian government plans to map Pacific Ocean floor to prepare for spills, while British Columbians' support for project shrinks

By GARY PARK  
For Petroleum News

The Canadian government is edging towards the most pivotal decision yet on Enbridge's Northern Gateway pipeline, with no indication which way it is leaning beyond Prime Minister Stephen Harper's suggestion that the determining factor will be "expert advice" on the overriding environmental concerns.

From the outset the project has been mired in the consequences of an accident on open water and whether Canada is equipped to handle such a spill.

The latest sign of a government initiative occurred Sept. 4 when Fisheries and Oceans Canada announced a request for proposals from firms capable of mapping the ocean floor along the British Columbia coast.

The federal department said it wants to map the floor of the Pacific Ocean around the Haida Gwaii archipelago and the Queen Charlotte and Johnstone straits, viewed as some of the most treacherous waters anywhere in the world.

It also wants to update the current map for the Strait of Georgia, between the British Columbia mainland and Vancouver Island, which is also tied to vessels sailing to and from Washington state.

### Expected increase in traffic

The tender said the transportation of oil and hazardous and noxious substances is expected to increase — referring indirectly to Northern Gateway's plans to export 525,000 barrels per day of crude bitumen and import 193,000 bpd of condensates as well as the plans to triple shipments of bitumen on the Trans Mountain system to almost 900,000 bpd.

The department said the map database would be used to help responders in the event of an environmental emergency.

The call said the project must be completed by the end of March 2015 because "time is of the essence," further reinforcing the concerns of those who argue events are moving too quickly.

On a related front, the Vancouver Fire Department wants to replace its four aging fire boats with two new and more powerful vessels, but the C\$3 million plan has yet to be discussed by city council.

Port Metro Vancouver is one of the busiest ports in North America and faces a tripling of crude tanker movements if Kinder Morgan gets the go-ahead to expand Trans Mountain.

Deputy Vancouver Fire Chief Mark Engler said the

proposed heavier fire boats would be able to work safely in the Strait of Georgia, while the existing vessels have trouble even navigating around the port entrance.

He also said the Trans Mountain plans don't even factor in to his department's plans, noting that Vancouver would only respond if asked for help by the Canadian Coast Guard.

"It's not the city's responsibility to spend millions and millions of dollars on boats and barges ... to do something that is not in our mandate," said Engler.

### Support slipping

While these debates gather momentum, support for Northern Gateway shows signs of slipping in the latest Insights West poll.

The Vancouver-based pollster, which started tracking the public sentiment on the project in January 2013, when a survey found 35 percent of British Columbians supported Northern Gateway and 61 percent were opposed.

Support rose to 42 percent in November 2013, then dropped back to 38 percent.

The polls have also tracked Albertans, where 65 per-

see **SPILL PREPARATION** page 13

continued from page 10

## CIGGS FLOW

there were a couple of days when east to west flow in CIGGS reached its 62 million-cubic-feet-per-day limit, Jaroch said. And in future winters, if there were to be some unanticipated disruption to gas supplies on the west side of the inlet, there may be insufficient gas available through CIGGS to meet demand unless the east to west capacity increases, he said.

Since bidirectional flow started on CIGGS, the east to west flow through the system has gradually increased and Hilcorp anticipates the east-to-west throughput continuing to rise, Jaroch said.

### Two more compressors

After evaluating different options for increased compression at the eastern end of CIGGS, Hilcorp decided to add two compressors of the same type as the single compressor that Marathon had previously installed, Jaroch said, commenting that this arrangement would simplify maintenance arrangements for the equipment.

In routine operations, with gas flowing east to west through CIGGS, Hilcorp

would have just one of the compressors working. But should throughput needs exceed the capacity of a single machine, a second compressor would kick in, almost doubling the pipeline throughput limit. The third compressor would be for emergency use, if two compressors are needed but one of the compressors is offline.

The next step in the compression project is to do the detailed engineering and design work, with a view to finding out by the end of October whether the companies that ship gas through the pipeline network will support the project. In terms of impacts on the pipeline tariffs, \$1 mil-

lion of expenditure would generally correlate with a tariff impact of about 0.3 cents per thousand cubic feet of gas shipped, Jaroch said.

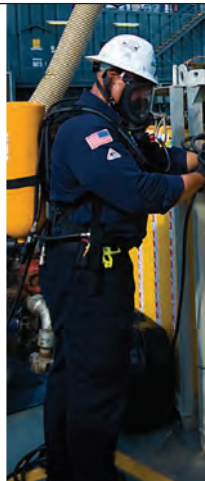
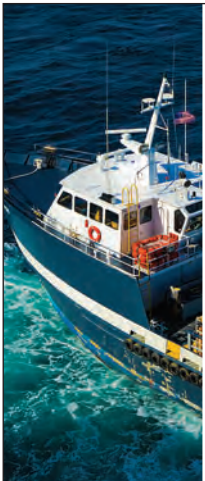
### Timeline

Critical to the project timeline is a need to order the compressors in November of this year. And Hilcorp anticipates RCA approval for the compression upgrade in April 2015, so that the new compression can be in service for the winter of 2015-16.

Jaroch said that Hilcorp is also considering, but has not yet made a decision on,

another \$10.8 million project that would involve installing another compressor in the pipeline system at East Foreland on the Kenai Peninsula. That would further increase the east to west capacity on CIGGS to 165 million cubic feet per day. By enabling more gas to be shipped up the west side of Cook Inlet, that project would mitigate the risk of a problem with one of the two Enstar gas lines under Turnagain Arm that supply gas to Anchorage, Jaroch said. ●

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## ● FINANCE &amp; ECONOMY

# Oil sands sector refuses to swoon

By GARY PARK

For Petroleum News

The International Energy Agency has cooled its forecast for oil demand over the rest of 2014 and through 2015 — an outlook that seems counterintuitive amid rising tensions in Iraq, Libya and Ukraine.

But political convulsions no longer carry the fear of supply disruptions as production outside OPEC countries keeps gathering pace, especially in the U.S. Bakken and Eagle Ford plays and Canada's oil sands, while economies start to wobble in Europe and China.

The IEA, in warning that global demand was slowing at a "remarkable" pace, has trimmed its forecast for this year and next without spreading alarm through the high-priced oil sands sector, where transportation constraints and public opposition to growing production are a greater source of worry.

The agency reduced demand growth by 56,000-900,000 bpd for 2014 and 100,000-1.2 million bpd in 2015.

"While festering conflicts in Iraq and Libya show no sign of abating, their effect on global oil market balances and prices remains muted amid weakening oil demand growth and plentiful supply," the IEA said.

"U.S. production continues to surge and OPEC output

remains above the group's official 30 million bpd supply target."

## Differing price views

Not even producers in the high-priced oil sands sector seemed fazed by U.S. Department of Energy predictions that U.S. imports will account for 21 percent of total consumption, the lowest level in 45 years.

Ivor Ruste, chief financial officer at Cenovus Energy, told the Financial Post that his company remains "generally bullish" on the price outlook, with its sights set on Brent returning to US\$110 per barrel.

In addition, producers draw hope from a narrowing differential between Canadian and U.S. crudes they believe will extend into the low-price season in December-February.

However, not everybody is sanguine, notably Patricia Mohr, a commodity market specialist at Scotiabank, who said West Texas Intermediate prices could average just US\$95 through the second half of 2015 and into 2016.

But investment bank Peters & Co. estimated about 30 oil sands projects with combined output of 1.4 million bpd are either under construction or sanctioned in the oil sands, prompting it to target record capital spending of C\$30 billion in 2014 at a time when the firm calculates the breakeven price for thermal-recovery projects is

US\$75.

Jeff Martin, managing director of research at Peters, said that compares favorably with US\$70-\$80 a barrel needed to sustain production from U.S. shale basins.

## Lid on Canadian exports

Even so, analysts note this is no time for Canadian producers to grow smug given that California cut its Canadian crude-by-rail imports by 86 percent in July, turning to domestic supplies of shale oil.

That has kept the lid on overall Canadian exports to the U.S., which have gone 18 months without topping the record 3.75 million bpd set in February 2013.

The U.S. Department of Energy has given no reason for hope by estimating U.S. oil imports will account for only 21 percent of total consumption, the lowest level since 1968.

The best Mohr and Douglas Proll, executive vice president at Canadian Natural Resources, could offer an energy outlook conference in Toronto earlier in September was optimism that more pipelines will be built out of Western Canada, ending the current regulatory logjam and political friction, while rail shipments will keep growing. ●

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## ● GOVERNMENT

# Cooperation ahead of courts

BC's Clark appeals to First Nations to repair strained relationship, allow development to proceed; leaders not ready to give support

By GARY PARK

For Petroleum News

Faced with a threat to resource development, British Columbia Premier Christy Clark has taken the unprecedented step of appealing to leaders of her province's 203 First Nations to take "a chance to shape history."

Along with her cabinet and top deputy ministers, she made the plea for cooperation and negotiation to override conflict and court fights, following a June landmark ruling by the Supreme Court of Canada ended a three-decade long battle with the Tsilhqot'in First Nation by declaring that community had title to a vast territory beyond its defined lands.

Although the verdict did not make consent between governments and First Nations absolute requirements, it put pressure on both sides to reach agreement on resource development through negotiations rather than litigation.

Clark described the ruling as a "fork in the road," and suggested the conference was a "day when our shared history can be transformed forever," offering to build a new partnership with First Nations.

However, she did not go as far as dealing with First

Nations' claims to a share of resource revenue.

## Only a polite hearing

The aboriginal leaders only gave Clark a polite hearing, but Jody Wilson-Raybould, regional chief of the Assembly of First Nations, said that more than talk and "more than mere mandate tweaking" were needed.

Grand Chief Edward John of the First Nations Summit said it was a "remarkable achievement" to have cabinet members sitting with so many First Nations leaders.

Indirectly referring to Clark's reference to a "fork in the road," he said that in the past "what we've been met with is mostly forked tongues."

Grand Chief Stewart Phillip of the Union of B.C. Indian Chiefs, said he hoped the "critically important" meeting would end an era of conflict.

## Report: 'significant turning point'

On the eve of the summit, a report by the Macdonald-Laurier Institute, an Ottawa-based think tank, said the Supreme Court decision "certainly marks a significant turning point in relations between First Nations, provincial, territorial and federal governments."

"However, contrary to the media hype surrounding the

unexpectedly decisive ruling, the victory for aboriginal people has its limits."

The co-authors Kenneth Coates and Dwight Newman said the Tsilhqot'in decision is better viewed as just the latest in a series of high court decisions over four decades that have strengthened aboriginal rights and title.

They also made a handful of recommendations on how governments could make the best of the situation if they are willing to view the decision as an opportunity to "build a stronger Canada," provided they enter treaty negotiations with stronger mandates, clarified intentions and a willingness to go to court to clarify the unresolved implications of the Supreme Court decision.

"The governments that embrace the details and direction of the Tsilhqot'in (ruling) will have the best chance of moving forward with carefully planned resource development.

"Those that resist will spend a great deal more time in court and will see resource activity stagnate in their jurisdiction."

The authors added that "regardless of what one thinks of the judgments, they are now the law of the land." ●

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• FINANCE & ECONOMY

# BP to cut 475 in North Slope downsizing

Interests in Endicott, Liberty, Milne, Northstar to Hilcorp, which has made offers to some 200, but says its headcount not final

By KRISTEN NELSON  
Petroleum News

In April BP announced the sale of some of its North Slope assets to Hilcorp. In September the impact on people became known, with BP saying Sept. 15 that it will reduce Alaska employees and contractors by 475.

"The reduction includes the 200 individuals who accepted jobs with Hilcorp and an additional 275 in early 2015," BP said in a Sept. 15 statement emailed to Petroleum News.

"Hilcorp has extended about 200 employment offers to those currently with BP on the North Slope but our final headcount is still a work in progress," Hilcorp said in an emailed statement.

When the sale was announced in April BP said some 250 employees were associated with assets included in the agreement with the majority expected to be offered positions with Hilcorp.

BP said it currently has 2,725 employees and contractors, and that the 475 represents about 17 percent of that total.

The sale includes all of BP's interests in the Endicott and Northstar fields and a 50 percent interest in Liberty and Milne Point, as well as BP's interests in

*Hilcorp said it is working to be fully staffed by the official acquisition data and is hopeful the sale will close by the end of the year.*

pipelines associated with those fields.

Hilcorp will become the operator at Endicott, Milne Point and Northstar. BP said when the sale was announced that it expected to submit a development plan for Liberty, a field in federal offshore waters, by the end of the year.

## Similar to Cook Inlet entry

Hilcorp said it is working to be fully staffed by the official acquisition data and is hopeful the sale will close by the end of the year.

The company said it anticipates that its North Slope entry will be similar to that

in Cook Inlet, where it acquired assets from Chevron and later from Marathon, with the Chevron purchase closing in 2012 and the Marathon purchase in 2013.

"Just as our work in Cook Inlet demonstrates, Hilcorp has a successful track record growing production with increased investment when given the opportunity to operate legacy assets such as these. Doing so has allowed us to extend field life and develop energy that may have otherwise been lost," the company said.

"In both Cook Inlet acquisitions we hired and continue to employ the vast majority of field personnel," Hilcorp said.

On the contractor side, Hilcorp said its "long-term objective is to increase production on the North Slope and the activities required to do so will certainly drive the amount and type of support services needed."

"While it's too early in the process to

make any final decisions on who or what will be needed, we have begun meeting with a number of contractors to better understand their capabilities and how they might support us," Hilcorp said.

## BP committed to Prudhoe

BP said it "remains committed to increasing BP's activity at Prudhoe Bay as a result of oil tax reform," including additional investment of \$1 billion over five years with two new rigs, one in 2015 and one in 2016.

Gov. Sean Parnell said he was "extremely disappointed" by the BP job reduction, but said BP Alaska President Janet Weiss had "assured me that BP remains on track for the new rigs planned for the North Slope and for new investment promised to Alaskans." ●

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## SPILL PREPARATION

cent of residents now back the project, compared with 75 percent in January 2013, a shift that adds weight to the growing sentiment that the project should simply be scrapped.

Insights West Vice President Mario Canseco said the latest poll shows that even after the Canadian government endorsed the project earlier this year, the needle did not move in favor of the project in British Columbia, despite the provincial government's acknowledgement of economic benefits.

"British Columbians remain far more concerned about oil spills, increased tanker traffic and the environmental impact of construction," he said.

Just after the Liberal party of Premier Christy Clark was re-elected in May 2013, an internal government report said Enbridge's response to government cross-examination during public hearings was "too often incomplete and lacking in commitment."


"The company needs to show British Columbians that it has practical solutions to the environmental risks and concerns that have been raised. So far, it has not done that ... the company is not giving us much reason to have confidence that it can deliver on its promises," the brief said.

More damning still, the government paper said Enbridge had not demonstrated since its massive Kalamazoo spill in Michigan in 2010 that it has learning "from its mistakes in order to avoid spills." ●

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EXPLORATION & PRODUCTION

Great Bear moving toward next steps

Great Bear Petroleum, the company that has been spearheading efforts to develop shale oil on Alaska’s North Slope, has been assembling and assessing geologic, seismic and geochemical data, to fine tune its ability to find “sweet spots” for test drilling, Ed Duncan, the company’s president and CEO, told the Alaska Oil and Gas Congress on Sept. 17.

Duncan later told Petroleum News that his company hopes to drill during the coming winter.

He told the Oil and Gas Congress that the work the company has done to date has discovered oil in both unconventional and conventional plays, but that sorting out what the company has found presents a big challenge.

“We are busy,” Duncan said. “We’ve spent a lot of time doing big science to find out how to go about prosecuting our business plan.”

The company drilled two vertical test wells, the Alcor No. 1 and the Merak No.1, at sites near the northern section of the North Slope Haul Road in 2012, as part of a program that had envisaged the drilling of up to four vertical wells along the haul road, with the possibility of side-track wells to test the production of oil from source rocks that the vertical wells would encounter.

But after reporting the successful penetration of the expected source rock horizons and the sampling of rocks from the two wells drilled, the company suspended its drilling program, later reporting that it was engaged in an analysis of its drilling results and the results of seismic surveying that it was conducting. The company has now completed three 3-D seismic surveys covering more than 400 square miles in its leases, in addition to detailed airborne radar surveys of surface features.

Duncan said that recent research into shale oil development has shown that the optimum locations for development occur where relatively volatile oil is generated and retained. Great Bear, working with a team of scientists including prominent geologists, has been reviewing the North Slope regional geology, assembling geochemical data and using that data and the data from its seismic surveys to identify optimum drilling locations, where those volatile hydrocarbon liquids may be found, still in place in the source rocks, Duncan said.

“That’s what the big science is about in Great Bear,” Duncan said. “How we go about assessing unconventional resources in the subsurface without just drilling ... looking ahead of the drill bit.”

—ALAN BAILEY

*The company has now completed three 3-D seismic surveys covering more than 400 square miles in its leases, in addition to detailed airborne radar surveys of surface features.*

NATURAL GAS

One LNG cargo in first half of year

The liquefied natural gas facility at Nikiski on Alaska’s Kenai Peninsula shipped one cargo of LNG during the first six months of 2014, according to a report submitted to the Federal Energy Regulatory Commission by ConocoPhillips, owner of the facility. The facility also delivered 55 tanker-truck loads of LNG to Fairbanks Natural Gas, the utility that supplies natural gas to Fairbanks, the report said.

After being mothballed since early 2013, the Nikiski facility re-opened on April 14, having been issued with a new LNG export license by the U.S. Department of Energy. The report says that ConocoPhillips anticipates shipping up to seven cargoes of LNG from Nikiski to Pacific Rim customers in 2014.

—ALAN BAILEY

GOVERNMENT

Comment extended for offshore permit

The Environmental Protection Agency has extended the public comment period for its proposed new general permit for wastewater discharges from geotechnical survey operations in federal waters of the Beaufort and Chukchi seas. The agency says that, in response to a request from the Alaska Eskimo Whaling Commission, it has moved the deadline for comments from Sept. 15 to Sept. 30.

EPA originally released a draft general permit for geotechnical operations in November 2013. But in response to comments received on that draft, the agency decided to rework the permit and on Aug. 15, 2014, re-proposed the permit, based on a new draft. At that time the agency announced a 30-day period for public comments on changes that it had made to the original draft document.

In parallel with what EPA is doing, the Alaska Department of Environmental Conservation has proposed to issue a similar general permit for the discharge of pollutants from geotechnical survey operations in state waters of the Beaufort and Chukchi seas. Petroleum News understands that the public comment period for this permit has already ended and that the department is modifying the permit, based on comments received.

—ALAN BAILEY

*The agency says that, in response to a request from the Alaska Eskimo Whaling Commission, it has moved the deadline for comments from Sept. 15 to Sept. 30.*

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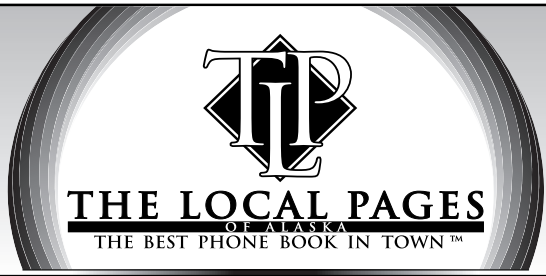


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## SADDLER Q&A

are going to keep probing the ones we have very carefully.

*Petroleum News: So do you believe then that the industry is doing all that it can to maintain production?*

Saddler: Absolutely. They have a tremendous capital investment into the North Slope, an important part of all three companies' portfolios. It serves their shareholders interest to make sure they get the most of what they can. Not coincidentally, it benefits the state of Alaska as well.

*Petroleum News: Now that the oil tax issue seems to be off the table for a while, do you get a sense of relief that the state can move on to other resource development issues?*

Saddler: I think so. There is a truism in the Legislature that if you have the votes, you vote. If you don't you talk. There is a little bit of a sense that we took our votes and we passed the legislation, but the other side didn't like it and continued talking. They were able to secure a do over with the initiative process. I'm hoping that gives us time for the new oil tax regime to operate to see where it's succeeding and see where it can be doing better. I have some concerns that people are going to be trying to tweak it before they've had much of a record. I have a concern they are going to keep fighting that fight one more time. We have other issues that we need to deal with. Frankly, we need to let this tax system operate for a while and see what the strengths and weaknesses are before we try to change it.

*Petroleum News: What would be a while? Three years? Four years? Five years?*

Saddler: I think one year is too fast. Two or three years might be the first window. We have to wait to see how the companies themselves respond to our new oil tax regime when it comes to investing in Alaska. If in three years we are not seeing the numbers we would like to see, then that's time we might want to ask ourselves questions, but to put an arbitrary timetable right now might not be appropriate.

I think one of the benefits of the oil tax debate in the Legislature and the public has been a much-increased public awareness of and attention to the issue of how oil taxes affect the industry and Alaska's fiscal health. I'm sure a lot of people are going to be watching very carefully how successful SB 21 is. I hope the same attention goes to the natural gas pipeline. LNG and gas lines are a different critter from oil taxes and oil pipelines. I think it would behoove Alaskans to inform themselves about the differences, the parameters and the dynamics of LNG markets and technology so when it comes time for the public to understand it and it comes time for the Legislature to vote on it, we all understand what we are dealing with. It's a steep learning curve. Oil has been Alaska's business and I think we are looking forward to a future when gas is Alaska's business.

*Petroleum News: So what realistically can the Legislature do between now and the end of next year when you're looking at a special session to discuss a contract?*

Saddler: I'm gratified that we are meeting our milestones in the process, so we are knocking off the things called for in the legislation. DOR will have to do its financing plan recommendations. The governor created a municipal tax review board to review how the municipalities will be affected by this gas line. It's going to be important for us to keep asking ques-

tions about TransCanada and what it's doing.

As you recall, the legislation did have provisions for three times a year, a briefing for the legislators on the project's progress, including what expenses the state might be exposed to for TransCanada's work. That first such briefing is the 29th (of September) so that will be an opportunity for the Legislature and members of the public to get some reassurance that the project is advancing the way we said it would or find out if not, then why not.

*Petroleum News: So you may not be as busy this interim but will remain engaged as the next legislative session approaches in five months?*

Saddler: The last few years we've done some heavy lifting, so yeah we aren't as busy. But I know that I and other members of the Legislature have met with some new leadership with TransCanada and given our thoughts on what we would like to see. So yes, we're staying engaged.

*Petroleum News: Now the Legislature advanced SB 138 pretty overwhelmingly, but many did so with cautious optimism and even some skepticism. Do you see any of that changing now?*

Saddler: I think in reviewing some of the news stories and recalling some of the floor comments, it's important to remember that this is not a done deal, it's not a guarantee of a gas line. It's an authorization to proceed, to negotiate, to investigate more and make more information available. Yeah, it's incumbent on us as legislators to stay up to date on information that is available so that when it's time to push the red or green button, on the contracts themselves, we can make informed choices. I think most of the folks on the Legislature now, and certainly those coming in, understand that this is the biggest issue facing the state and they will take the responsibility to stay informed.

*Petroleum News: So what can the Legislature do next session, and not necessarily new laws, to stay involved and abreast on LNG development?*

Saddler: It's incumbent on the Resources committees to take the lead on that. We did the lion's share of the work, along with the Finance committees, on the gas line legislation. I think other members of the Legislature will look to us to kind of give them information. I hope those

who are really interested will attend these briefings. There's a tremendous amount of information, almost too much information, about the project, the timeline and the legal structure for it on the (Legislative Budget & Audit) website.

*Petroleum News: Let's switch to the Arctic. There's a sense that Alaska will be on the forefront on Arctic issues soon because the U.S. will take over as chair for the Arctic Council. What is your take on Arctic policy and development as this approaches?*

Saddler: I'm rather impressed the Legislature had the foresight to set up the Arctic Policy Commission. I know that Sen. McGuire and Rep. Herron have done a good job of getting information out about that. One of the benefits to going back to Washington, D.C., for Energy Council is the other stuff that happens while we are there. I was able to take part in some briefings with the Arctic Council watching how Canada addressed its opportunity as chair these last two years and what Americans should be doing next year. I think Alaska is going to get its props — finally.

From a resource standpoint there is a tremendous amount of oil and gas, and other resources, in the Arctic. Those are American waters, Alaskan waters.

It's important for our country to pay attention to it. I think it's going to be essential to have the indigenous people involved: Alaskans who are U.S. citizens and are also Arctic residents. That will be news to a lot of people in the Lower 48. I'm hoping America does take advantage of this opportunity to be a leader in Arctic policy. I will say this. I know the military would very much like to have additional port resources in the Arctic. I'm hoping the Coast Guard's work into investigating a port at Port Clarence by Nome bears real fruit and gets real investment by our government.

*Petroleum News: So do you see a stronger military presence speaking to bolstering resource development?*

Saddler: You have to have a place for response ships to come to port. You have to have a place for the support vessels to dock. From an open navigation of waters, you have to have a place for the cutters to base so they can patrol and respond to search and rescue calls. All of the things you need on the frontier are also necessary on the new frontier of the increasingly

exposed Arctic Ocean. If you're on Port Clarence, you are a heck of a lot closer than Kodiak or Adak. I think it makes good sense strategically, politically and economically for our nation to invest in Alaska's Arctic infrastructure.

*Petroleum News: Speaking of Alaska getting its props the next few years, there has been a big push to educate the Lower 48 about Alaska. Do you think that is bearing fruit? Are you sensing any success?*

Saddler: I hope so. I think the more we work at it, the more success we will have. As we see what Vladimir Putin is doing in Russia, his saber rattling both militarily and economically, might bring a message a little closer to home that what's important for Alaska is important for our country. And they had better pay attention and they had better invest in us.

You have to remember Congress — the House of Representatives — turns over fairly frequently and you have to keep carrying the same message over and over about Alaska. So it's like pushing a rock up a hill like Sisyphus.


*Petroleum News: You mentioned Canada and its role at Arctic Council chair. What do you think we can glean from their role as we look to have it handed over to us next year?*

Saddler: The most important thing is that people live in the Arctic. The theme of their chairmanship is we live here. I think that's an important thing for America to focus on as well. It makes it more real. It's peoples' homes and that makes it more accessible and more understandable.




*Petroleum News: Closing with the Arctic, Shell just announced hopes to return in coming years. It's kind of a do over for Shell. Are you confident they have learned from their mistakes?*


Saddler: I don't know if it's a matter of learning. I think any complicated, remote exploration program is going to have its challenges. They have expressed tremendous willingness to work with the government and regulators to do it right. I think it's important for our nation and important for our state to responsibly develop offshore fields. It's important for our pipeline. It's important for the livelihood of our state. ●

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Chapman joins URS Corp. as a Civil Engineer

John Chapman has recently joined URS Corp. as a Civil Engineer with more than 45 years of diversified engineering experience. He has performed duties as design engineer, project engineer, project manager and principal-in-charge of a wide variety of civil engineering projects. Chapman has been involved in planning, design and construction administration of water supply and distribution, waste water collection and treatment, and municipal solid waste management projects. Other areas of expertise include street, highway and drainage design, construction administration and comprehensive planning.



JOHN CHAPMAN

CGG nets quartet of BroadSeis-BroadSource contracts

CGG announced that it has been awarded contracts for the 3-D seismic acquisition of four major surveys using its BroadSeis™ with BroadSource™, marine broadband technology. The four surveys represent a total contract value of more than US\$80 million. Three of the surveys have been awarded in the Asia-Pacific region, with two offshore Malaysia and one offshore Northwest Australia, while the fourth is to be acquired offshore West Africa.

Jean-Georges Malcor, CEO, CGG, said: "Only CGG's BroadSeis-BroadSource technology delivers full-bandwidth broadband data. These recent awards clearly underline how critical true broadband data is becoming for reducing risk in frontier exploration and optimizing field development." CGG is a fully integrated geoscience company providing leading geological, geophysical and reservoir capabilities to its broad base of customers primarily from the global oil and gas industry. Through its three complementary business divisions of equipment, acquisition and geology, geophysics and reservoir, CGG brings value across all aspects of natural resource exploration and exploitation.

Crowley first to receive small scale export license

Crowley Maritime Corp.'s subsidiary, Carib Energy LLC, has been granted a 20-year, small-scale U.S. Department of Energy export license for the supply, transportation and distribution of U.S.-sourced liquefied natural gas into Non-Free Trade Agreement countries in the Caribbean, Central and South America. As a result, both commercial and industrial customers within NAFTA countries can now benefit from cost-efficient, environmentally friendly LNG exported from the U.S. The licensing permits Crowley to export 14.6 billion cubic feet, 0.04 bcf per day, of LNG — roughly the equivalent of 480,000 gallons — per day via

see OIL PATCH BITS page 19

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

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## BUSY TIMES

Exchange. Miller reported 84 employees as of April 30.

The little independent is showing out-sized ambition as it looks to divest its legacy Tennessee assets to focus on bigger plays in Alaska.

Miller came onto the Alaska scene in late 2009, buying a collection of Cook Inlet properties at a bankruptcy sale. These included the offshore Redoubt unit, and the onshore West McArthur River oil field.

These properties were shut-in when Miller acquired them. Its subsidiary, Cook Inlet Energy LLC, has since worked to restore and grow production.

Miller has steadily sought to add to its holdings. The company early this year acquired the North Fork natural gas field on the southern Kenai Peninsula. And it's working to complete a takeover of the Badami oil field on the North Slope.

Now Miller is looking to buy Buccaneer's Alaska assets in a deal worth up to \$50 million, the company said in its Sept. 15 press release.

### Executive shuffle

Deloy Miller will retire as board chairman and will resign as a director, but will remain involved with the firm as a consultant and adviser, the company said.

He is the father-in-law of Scott Boruff, who until very recently was Miller Energy's chief executive officer. Boruff is now executive chairman of the company, and Carl F. Giesler Jr. has come aboard as

the new CEO, Miller said.

"While Carl will assume primary leadership responsibility, I'll remain active in Miller's strategic activity and help grow the value of my family's substantial investment in the company," Boruff said.

Giesler, a Harvard Law School graduate, previously was responsible for oil and gas investments as a managing director for Harbinger Group Inc., Miller said.

His experience with master limited partnerships could help Miller maximize the value of, and potentially "monetize," its substantial midstream assets, the company said.

### Mixed financials

In filings with the U.S. Securities and Exchange Commission, Miller reported average net production of 3,313 barrels of oil equivalent per day for the quarter ended July 31. That compares to 1,360 boepd for the same three-month period in 2013.

Total revenue for the quarter was up sharply to \$25.4 million, but so was the company's operating loss at \$9.6 million.

Nearly all of Miller's oil and gas production comes from Cook Inlet.

Company headquarters are in Knoxville, Tennessee, with its Cook Inlet Energy subsidiary based in Anchorage. Miller recently established an administrative office in Houston.

Debt has figured prominently in the company's aggressive growth strategy.

In June, Miller secured a \$250 million "revolving credit facility" with a banking syndicate led by KeyBank.

For the Buccaneer assets, Miller said it

would "fund the potential purchase with its existing facilities or other borrowings."

### 'Encouraging' well

Miller has focused much of its efforts on well workovers and drilling on its Osprey offshore platform, which stands in the Redoubt unit.

The company said tests on its latest well, RU-9, have confirmed oil.

"While flow rates have varied preliminary results are encouraging," Miller said in its Sept. 15 press release.

Elsewhere, drilling was under way on the Olson Creek gas prospect on the inlet's west side, Miller said in a Sept. 9 operations update.

Miller also is preparing to drill the Sabre No. 1 well near the West McArthur River field. The company is "evaluating joint venture offers for participation in the project."

In August, the Alaska Division of Oil and Gas named Miller's local subsidiary the successful bidder for an exploration license encompassing 168,581 acres of state land in the Iniskin Peninsula area of southwest Cook Inlet. In its bid, Cook Inlet Energy committed to spending \$1.5 million on exploration over four years.

Miller expects to close its acquisition of the Badami field in December, and the company said it is evaluating a drilling program at Badami for the upcoming winter.

"All told, we believe we are on target to meaningfully expand our footprint in Alaska and establish Miller Energy as one of the state's preeminent" exploration and

production companies, Boruff said.

### Making peace

Since 2011, Miller has wrestled with an investor class action in federal court in Tennessee. The plaintiffs alleged company executives misled investors by overstating the value of the Cook Inlet assets acquired in 2009.

Miller executives have stood by their valuation.

A judge in February denied the company's motion to dismiss the case.

Now Miller and the lead plaintiff, the Oklahoma Firefighters Pension and Retirement System, say they have reached a \$2.95 million settlement.

The proposed settlement is subject to court approval and class notice. The court has scheduled an Oct. 8 hearing for preliminary approval.

In a separate matter, Miller said it has resolved a dispute with Voorhees Equipment and Consulting Inc., which built the drilling rig atop the Osprey platform.

Miller claimed Voorhees was in breach of its obligations under a construction and sale agreement. Voorhees contended it was owed money.

The settlement took effect in May, Miller said in a Sept. 9 filing with the SEC. As part of the pact, Miller agreed to return certain equipment to Voorhees, such as a blowout preventer stack originally included on the rig but later removed for "a better functioning replacement." ●

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## BLUECREST

onshore drilling rig, Johnson said.

"We do plan to start drilling onshore next year," Johnson said. "Facilities should be in

place by early 2016 and it should be in production in the first half of 2016."

### Gas development?

Johnson said that BlueCrest has also been developing a plan for natural gas production at Cosmopolitan, using two offshore monopod platforms of similar design to what Furie Operating Alaska has built for its Kitchen Lights gas development. The platforms would be connected by pipeline to BlueCrest's onshore facilities. But a decision to proceed with the gas development is contingent on BlueCrest finding a market outlet for the gas, Johnson said.

The company needs to make sure that there is somewhere for the gas to go before spending \$500 million on the project, he

said.

If the gas development does proceed, the offshore platforms would be small and inconspicuous, with minimal scenic impact — the platforms would be for gas production only, and would be automated, with triple redundancy systems, Johnson said.

Johnson commented on his company's emphasis on environmental protection, with the company planning many steps to protect both the environment and the company's neighbors.

### Discovered in 1967


Pennzoil first discovered oil at Cosmopolitan when drilling the Starichkof State no. 1 well in 1967 using an offshore jack-up rig. But that well did not penetrate

the core of the structure and the results of the drilling were dismissed as uneconomic. In 2001 Phillips Inc., later to become part of ConocoPhillips, directionally drilled the Hansen No. 1 well from onshore into the prospect, confirming the original oil discovery and also finding other productive sands in a deeper formation.

In 2003 ConocoPhillips drilled a side-track to the Hansen well, flow testing oil at 1,000 barrels per day and eventually producing 14,851 barrels of oil from the well.

In 2005 ConocoPhillips and Pioneer Natural Resources partnered to conduct a 3-D seismic survey over the prospect. Pioneer subsequently acquired a 100 percent interest in the prospect. In 2007 Pioneer plugged

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## MILLER INTEREST

Alaska properties.

### A diverse portfolio

The assets under consideration are varied. They include onshore properties on both sides of Cook Inlet and at both ends of the Kenai Peninsula, as well as an offshore prospect.

The most valuable, at least at the moment, is the onshore Kenai Loop gas field, which is the only producing property of the bunch. But the field is currently at the center of a correlative rights dispute between Buccaneer and Cook Inlet Region Inc. The case before the Alaska Oil and Gas Conservation Commission has been delayed by the bankruptcy.

The remaining properties are non-producing.

While Buccaneer relinquished many leases at its West Eagle unit after drilling

a dry hole, it still owns a handful of leases at the southern Kenai Peninsula prospect. Those leases are in the area east of the producing North Fork unit, which Miller recently acquired. And Buccaneer owns leases at the onshore West Nicolai prospect, on the west side of Cook Inlet, where Miller began its operations in Alaska and continues to invest heavily.

Buccaneer also holds the rights to a deep oil prospect at the offshore Nook Cook Inlet unit, operated by ConocoPhillips. Exploring the prospect would require a jack-up rig.

According to Miller, Buccaneer has approximately 1.9 million barrels of oil equivalent of proved reserves and produces approximately 1,700 barrels of oil equivalent per day.

The proposed acquisition would continue Miller's expansion efforts in Alaska.

After several years focused on rejuvenating and expanding its core properties on the west side of Cook Inlet through its

subsidiary Cook Inlet Energy LLC, Miller has spent the past year selling off existing assets in Tennessee and going after opportunities in Alaska. The company recently acquired the gas producing North Fork unit in Cook Inlet and under contract on acquiring the oil producing Badami unit on the eastern North Slope.

### Auction?

A sale would represent a shift in strategy for Buccaneer.

Until now, the company had been proceeding toward an auction for its assets. The U.S. Bankruptcy Court for the Southern District of Texas recently accepted a settlement between Buccaneer and its largest unsecured creditors that cleared the path to an auction.

In an earlier iteration of the auction, AIX Energy LLC, Buccaneer's largest secured creditor, had agreed to be the stalking-horse bidder, committing to bid some \$58 million for "substantially all"

of Buccaneer's assets. A staking horse bidder guarantees a minimum bid, which is meant to protect the auctioning company from being underbid.

Buccaneer must approve its bankruptcy plan by Oct. 14.

### Outstanding taxes

Those bankruptcy proceedings have become complicated by delinquent taxes.

Buccaneer recently asked the court for permission to pay back taxes to the state of Alaska for gas production from Kenai Loop that were due at the end of June 2014.

Unless Buccaneer pays the back taxes, it cannot collect some \$20 million in pending State of Alaska tax credits for previous exploration work, according to the company.

Those tax credits feature prominently in plans to repay creditors. ●

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## BLUECREST

the original well completions in the Hansen sidetrack and drilled another sidetrack that undulated through some of the oil bearing sands and tested at 300 barrels of oil per day.

Following a hiatus during the financial crisis of 2008, Pioneer returned to Cosmopolitan in 2010 to fracture stimulate that second sidetrack well, flow testing 250 barrels per day of oil and ultimately producing more than 33,000 barrels. The company proposed a development program for the prospect, but, following a change of heart in 2011, relinquished all but two of the leases in what had been the Cosmopolitan unit.

### Offshore well

Buccaneer Energy Ltd. acquired the two remaining leases from Pioneer, but with BlueCrest taking a 75 percent interest in the leases. Apache Corp. acquired the other Cosmopolitan leases in a state lease sale but sold these leases to Buccaneer and BlueCrest in 2013. Buccaneer and BlueCrest subsequently drilled the Cosmopolitan State No. 1 well offshore, using the Endeavour jack-up rig that Buccaneer had brought to Alaska with financial assistance from the Alaska Industrial Development and Export Authority.

In 2014, as part of a sequence of events leading to Buccaneer's bankruptcy, Buccaneer sold its interests in Cosmopolitan to BlueCrest, thus making

BlueCrest the 100 percent owner of the Cosmopolitan leases.

Buccaneer's access to a jack-up rig, for drilling vertically into the Cosmopolitan structure, had been a major motivation for BlueCrest's interest in Cosmopolitan, Johnson said. And the well that the two companies had drilled in 2013 had encountered high-permeability sands, charged with natural gas, at vertical depths from 800 feet to 5,400 feet he said. The 3-D seismic that ConocoPhillips and Pioneer had shot in 2005 found clear definition in images of the outside of the Cosmopolitan structure, but gas had caused clouding of the images from the structure's top and middle, Johnson said, adding that the well drilled in 2013 had enabled some fine tuning of the seismic images.

### Another well?

In an application for an authorization for minor disturbance of marine mammals, filed with the National Marine Fisheries Service in July, BlueCrest said that it plans to drill another offshore Cosmopolitan oil exploration well, the Cosmopolitan State B-1 well, during September and October 2014, probably using the Endeavour jack-up rig, but possibly using Furie's Spartan 151 jack-up rig, should that rig be available. If a full 60-day drilling period cannot be completed in the fall, the drilling would be deferred to the spring of 2015, the application said.

—ALAN BAILEY

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## SHELL DRILLING

well. But Shell's plan makes clear that the company expects to make simultaneous use of both vessels for exploration drilling operations.

Under Shell's previous Chukchi Sea plan, the Polar Pioneer would have been stationed in Dutch Harbor as a backup rig.

Shell's plan also says that the company is going to beef up its oil spill response capabilities to include additional support vessels and more oil spill response equipment.

The plan adjustments have been made in direct response to Shell's experiences during the 2012 season, the planned use of a second drilling unit and the discharge monitoring requirements mandated under a new Environmental Protection Agency waste discharge general permit, Shell's plan says.

The plan also confirms that Shell antic-

ipates continuing to target the Chukchi Sea Burger prospect, a major geologic structure about 80 miles offshore the western end of the North Slope. Burger contains a known major natural gas pool, but Shell thinks that the structure is also likely to hold oil.

Although Shell has filed its revised plan with BOEM, the agency cannot approve the plan until it has completed a revision of the environmental impact statement for the 2008 Chukchi Sea lease sale in which Shell purchased its leases, and until BOEM has re-affirmed the sale. The rework of the environmental document has been mandated by a court decision in an appeal against the lease sale's legality.

Shell has indicated that it hopes to continue its Chukchi Sea drilling program in the summer of 2015.

—ALAN BAILEY

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## OIL PATCH BITS

10,700 gallon ISO tanks to these regions.

In addition to supplying NFTA countries, Crowley will also continue to supply Free Trade Agreement countries with the clean, economical fuel source. Crowley's Carib Energy was also the first to have been granted a 25-year, small-scale license for the transportation into these FTA countries, a clearance that permits Crowley to transport 11.53 bcf, 0.03 bcf per day or 360,000 gallons — per day of U.S.-sourced LNG into FTA markets in the Caribbean and Central and South America — locations where LNG is an attractive commodity thanks to its low price point in the face of growing power supply costs.



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## KITIMAT PROJECT

adding that 50 percent to its stake, with Watson underscoring that position.

“Obviously, we need to get the ownership sorted out before we can move the project forward in a significant way,” he said, without disclosing whether any candidates have surfaced beyond commenting that “there is interest, although what form that interest takes in terms of the type of partner remains to be seen.”

“There’s a great deal of effort that’s required and you have to have good alignment amongst partners as well,” he said. “We’ll move the project forward when we have those things in place.”

### Kitimat most advanced

Of the 17 LNG projects on the table for British Columbia, Kitimat is the most advanced, but competing proposals by Shell, Malaysia’s Petronas and the ExxonMobil/Imperial Oil partnership are

*Of the 17 LNG projects on the table for British Columbia, Kitimat is the most advanced, but competing proposals by Shell, Malaysia’s Petronas and the ExxonMobil/Imperial Oil partnership are strongly placed to line up Asian buyers.*

strongly placed to line up Asian buyers.

Watson did say agreements have been reached with 15 of 16 First Nations along the pipeline right of way from northeastern British Columbia’s gas fields to the liquefaction and tanker terminal at Kitimat, while work continues on site plans and clearing a path for the pipeline.

The pipeline connections include a 280-mile section by Pacific Trails to carry 1 billion cubic feet per day of gas feedstock from the Horn River and Liard basins.

But that has suddenly developed a sinister element, with security cameras cap-

turing two disguised men wrapping gas pumps at Chevron stations in Vancouver with chains and bike locks.

A computerized voice on a video posted in August warns that the action to shut down four stations will be followed by more “if Chevron continues to push through” the pipeline without the consent of the Unist’ot’en, a branch of the Wet’suwet’en First Nation, which evicted surveyors from their territory near Kitimat in 2012.

Chevron said it would not speculate on the reasons why the actions have been taken, but has previously emphasized that most of the work so far on the C\$1 billion pipeline has been awarded to First Nations businesses.

### Global pressure, demand

Looking at the larger LNG outlook, Watson said there is global pressure on LNG projects, noting that those making headway in North America are on the U.S. Gulf Coast where the infrastructure

is in place.

But he said it is also clear that there is a worldwide demand for energy which could grow by 2 percent annually over the next 20 years, much of which will involve natural gas as an alternative fuel to coal and nuclear power.

“The purchasers are anxious to have supplies from reliable locations such as Western Canada,” because of its relatively close proximity to Asia, Watson said, while adding “there does need to be a meeting of the minds when it comes to (the price for LNG) to underpin the economics in a world where costs have risen.”

Although British Columbia’s LNG terminal locations are remote, and the cost of transporting natural gas from British Columbia and Alberta are significant, he said LNG projects in Australia and Africa face considerable cost pressures as well.

—GARY PARK

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## FURIE PLATFORM

form in place early this September, with first gas coming from the Kitchen Lights field by the end of 2014. However, it now appears that the platform has arrived in the inlet too late for installation this year.

It also appears that, although the piping for the gas gathering pipeline has been staged at Port Mackenzie, near Anchorage, since July, no pipeline installation has been carried out. Work did, however, start in May on the construction of the onshore processing facility.

Petroleum News has also heard that, for personal reasons, Damon Kade has

resigned as president of Furie Operating Alaska and that the chief operating officer of Deutsche Oil and Gas, the German company that owns Furie, has become Furie’s interim president.

### Winter storage?

On Sept. 16 Marc Van Dongen, port director for Port Mackenzie, told the Alaska-Japan LNG Opportunity Summit in Anchorage that Furie’s concrete-coated piping is stacked at the port. Van Dongen said that people are now figuring out how to offload the massive platform structures from the barge carrying them, so that the structures can be stored for the winter. One of the structures weighs more than 2 million pounds, he said. If the structures cannot be offloaded, Furie will have to transport them back to Seattle, Van Dongen said.

Presumably the barge with the platform cannot remain in Kachemak Bay over the winter.

### Drilling no. 5 well

On Sept. 11 Deutsche Oil and Gas announced the start of drilling of the Kitchen Lights unit no. 5 exploration well, with a target depth of 3,600 meters (11,800 feet) to be reached by the end of the year. The press release also indicated that the company has completed the drilling of the Kitchen Lights unit no. 4 well, a well that

*On Sept. 11 Deutsche Oil and Gas announced the start of drilling of the Kitchen Lights unit no. 5 exploration well, with a target depth of 3,600 meters (11,800 feet) to be reached by the end of the year.*

the company started drilling in the latter part of the 2013 drilling season.

The offshore Kitchen Lights unit is divided into four exploration blocks. The southwest and central blocks lie in the southern part of the unit, immediately north of the East Foreland region of the Kenai Peninsula. The Corsair block lies in the middle of the unit, while the northern block occupies the unit’s northeastern sector. The Kitchen Lights nos. 1, 2 and 3 wells, drilled between 2011 and 2013, are located in the Corsair block, the no. 4 well is in the northern block, and the new no. 5 well is in the central block.

Furie is using its Spartan 151 jack-up drilling rig for the drilling. The sequence of wells drilled appears to be consistent with Furie’s approved Kitchen Lights exploration plan, which says that Furie must drill wells in several exploration blocks within the Kitchen Lights unit.

### Substantial find?

The Kitchen Lights gas field development is centered on the no. 3 well. Although the scale of Furie’s development project suggests the existence of a substantial gas resource at the well location, the company has been tight lipped about the scale of its find. According to Furie’s plan of operations for the development, the company anticipates producing up to 30 billion cubic feet of gas per year — each of the twin pipelines that Furie plans to install to deliver gas from the platform has a capacity of 200 million cubic feet per day.

Furie has also kept quiet about who might purchase the Kitchen Lights gas. In August Colleen Starring, president of gas utility Enstar Natural Gas Co., told the Regulatory Commission of Alaska that Enstar had signed a contract with Furie for non-firm, interruptible gas supplies, contingent on Furie having gas available and Enstar needing the gas to add to its other supplies. However, any gas supplies for Enstar, at least in the next few years, would presumably account for only a modest proportion of the potential Kitchen Lights production. ●

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