Petroleum news

page 4 DNR posts Shell Beaufort drilling plan: Torpedo, Sivulliq in '10

Vol. 14, No. 36 • www.PetroleumNews.com *A weekly oil & gas newspaper based in Anchorage, Alaska* Week of September 6, 2009 • $2

Rallying for energy

JUDY PATRICK

Participants in the Anchorage Energy Citizens Rally gather Aug. 31 at the Dena'ina Civic and Convention Center to express concern over potential impact of federal energy legislation on Alaskans.

Hope builds for natural gas; two Canadian producers see recovery

Not all natural gas producers are wearing a look of gloom and despair these days.

EOG Resources and Paramount Energy Trust are both betting that the market will stage a recovery within a few months.

MARK PAPA

EOG Chairman and Chief Executive Officer Mark Papa estimates North American supplies will drop by 4.9 billion cubic feet per day in the United States and 800 million cubic feet per day in Canada, regardless of what happens to LNG imports, and fortunes will turn in early 2010.

He told analysts that gas prices will remain "quite low" through the rest of 2009 before recovering in 2010 and 2011.

The key he said is vertical production in Texas, which he described as the "800-pound gorilla in the room," not the highly touted output from new horizontal shale plays.

Texas vertical wells the issue

Papa noted that Texas vertical wells account for the largest single chunk of U.S. production at 16.3 billion cubic feet per day at the end of 2008 from a region where the rig count has slumped this year to 145 from 450.

"Our model shows this production … will fall to 13.2 billion cubic feet per day by year-end 2009, then to 11.6 billion cubic feet per day by year-end 2010," he said.

Papa said 47 percent of EOG's July-through-December 2009 North American gas is hedged at $9.03 per thousand cubic feet and "only a small amount" of first half-2010 gas is hedged at $10.27.

see **HOPE** page 17

BREAKING NEWS

4 BP's demo GTL plant to close: Company says gas-to-liquids project at Nikiski successful; next a full-sized plant in Europe

5 Canadian budgets hit hard: Plunging natural gas forces Alberta, B.C., to make changes; Alberta blames economic turmoil

6 State vs. BP probably in 2011: Civil suit seeking potential $1 billion in back taxes, damages, penciled in for September 2011

FINANCE & ECONOMY

Pacific Energy bails

California firm abandons Trading Bay oil unit in Cook Inlet after sale crumbles

By WESLEY LOY

For Petroleum News

Pacific Energy Resources Ltd., mired in bankruptcy proceedings, has walked away from perhaps its most valuable Alaska oil and gas asset — a minority interest in the Trading Bay unit in Cook Inlet.

The company's last-ditch effort to sell its Trading Bay stake never came together and U.S. Bankruptcy Court Judge Kevin Carey in Delaware signed an order Sept. 2 granting Pacific Energy permission to abandon the property and associated contracts.

Pacific Energy had said it simply couldn't afford to hang onto Trading Bay any longer due to "significant operating losses."

Pacific Energy had said it simply couldn't afford to hang onto Trading Bay any longer due to "significant operating losses."

What now becomes of the company's share in the offshore Trading Bay unit, and the adjacent Trading Bay oil field, is unclear. It appears likely, however, that more court wrangling will be necessary to sort out who ends up with the property and the various obligations and liabilities that come with it.

"State law determines which party is responsi-

see **PACIFIC ENERGY** page 20

LAND & LEASING

Conoco bags Bear Tooth

Firm keeps some expiring NPR-A leases; one new unit, one expansion

By WESLEY LOY

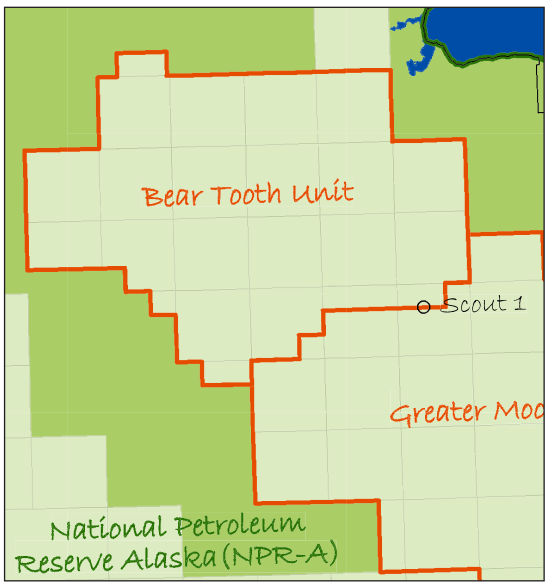
For Petroleum News

Faced with a looming expiration date on dozens of federal leases, ConocoPhillips worked out a deal with the Bureau of Land Management to form a new exploration unit called Bear Tooth and expand an existing unit in the National Petroleum Reserve-Alaska.

Rolling an individual lease into a unit has the effect of extending its original 10-year term, thus allowing ConocoPhillips to hang onto acreage it otherwise would have lost at the end of August.

In exchange for granting the company's unit requests, the BLM extracted promises from ConocoPhillips to conduct more drilling and other

see **UNITS** page 18



NATURAL GAS

Back to Glennallen well

Rutter and Wilbanks goes for a second Ahtna sidetrack to test '07 gas discovery

By ALAN BAILEY

Petroleum News

In a new drilling initiative that Texas-based Rutter and Wilbanks hopes will finally vindicate its multiyear search for natural gas near Glennallen in Alaska's Copper River basin, the company has re-entered its Ahtna No. 1-19 well, about 12 miles west of Glennallen and 180 miles northeast of Anchorage, to test a gas discovery that it made in the upper Nelchina sands when drilling the Ahtna 1-19A sidetrack in 2007.

"We've re-entered the well and we're now at our previous kickoff point," Bill Rutter Jr., the company's vice president, told Petroleum News

see **GLENNALLEN WELL** page 19

COURTESY SCHLUMBERGER

The Schlumberger coiled tubing unit in operation at Rutter and Wilbanks' Glennallen well site. The unit does not require a conventional rotary drilling derrick because a mud motor at the end of the flexible and continuous narrow-bore drill pipe being fed into the well turns the drill bit.

contents

Petroleum News | A weekly oil & gas newspaper based in Anchorage, Alaska

Alaska - Mackenzie Rig Report

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

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay 11-10	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Stacked at Deadhorse	Available
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay NK-38	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD2-78	ConocoPhillips
OIME 2000	141 (SCR/TD)	Stacked at Deadhorse	Available
TSM 7000	Arctic Wolf #2	Stacked in Deadhorse	Available
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
AC Coil Hybrid	CDR-2	Kuparuk 3C-14	ConocoPhillips
Dreco 1000 UE	2-ES	Prudhoe Bay, Stacked out	BP
Mid-Continental U36A	3-S	Stacked, Milne Point	BP
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay, Maintenance	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay DS 01-18	BP
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay D-16A	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked	Available
Oilwell 2000 Hercules	16-E (SCR/TD)		Available
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Point Thompson PTU#15	ExxonMobil
Academy AC electric Canrig	105-E (SCR-TD)	Chandler #1	Anadarko
Academy AC electric Heli-Rig	106-E (SCR/TD)	Demobilization rig shut down	Chevron
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site 15-42	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Drill Site B-14a	BP
Ideco 900	3 (SCR/TD)	Stacked out, Kuparuk	ConocoPhillips

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
OIME 1000	19-E (SCR)	Oooguruk ODSN-34i	Pioneer Natural Resources
OIME 2000	245-E	Oliktok Point OP04-P07	ENI
Oilwell 2000	33-E	Northstar, Stacked out	BP

Interior

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
TSM 7000	Arctic Wolf #2	Drilling at Nunivak #1 Nenana Basin	Rampart Energy

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Rigging up to drill NCU 11	Aurora Gas
Doyon Drilling			
TSM 7000	Arctic Fox #1	Beluga BRU 232-23	ConocoPhillips
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Stacked	Marathon
Nabors Alaska Drilling			
Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Rigmaster 850	129	Kenai SLU 41-33RD	Chevron
Rowan Companies			
AC Electric	68AC (SCR/TD)	Stacked, Kenai	Pioneer Natural Resources

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Chevron (Nabors Alaska Drilling labor contract)			
	428	Kenai M-06 Steelhead platform	Chevron
XTO Energy			
National 1320	A	Platform A no drilling or workovers at present	XTO
National 110	C (TD)	Idle	XTO
Kuukpik	5	Stacked in Kenai	Available

Mackenzie Rig Status

Canadian Beaufort Sea

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

Mackenzie Delta-Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA Equtak			
Modified National 370	64 (TD)	Racked in Inuvik	Available

Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Akita/SAHTU			
Oilwell 500	51	Racked in Norman Wells, NT	Available

The Alaska - Mackenzie Rig Report as of September 3, 2009. 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*

	August 28	August 21	Year Ago
US	999	985	2,031
Canada	184	164	436
Gulf	30	29	65

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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● NATURAL GAS

BP to close GTL demo plant by year end

By **KRISTEN NELSON**
Petroleum News

BP Exploration (Alaska) Inc. said Sept. 2 that it has successfully completed its gas-to-liquids demonstration project at Nikiski and will close the facility by the end of the year.

BP said the project has proved the company's GTL process to make diesel and jet fuel from natural gas can be scaled up from the laboratory and operated safely and reliably.

"We have learned a great deal from the Nikiski test facility," said BP Alaska President John Minge in a statement. "The technologies developed and improved there will eventually play a role in meeting the world's growing demand for cleaner fuels."

BP announced plans to build the 300-barrel-a-day test facility in 2000 and production of synthetic crude oil at the facility began in July 2003. BP said when first production began that it represented a significant milestone for BP and Davy Process Technology, partners in the new technologies being tested at the plant.

In its Sept. 2 statement on completion of work at the demonstration plant BP said its GLT development program will continue in Europe where the company is working with Davy Process Technology on the engineering design of full scale GTL units.

At startup BP thought proving up the technology would take 12 to 18 months. In January 2006 the plant's operations manager said the plant would continue to operate as long as its work added value to BP's worldwide GTL initiatives.

There are three steps in the GTL process at the Nikiski plant: reforming natural gas and steam into syngas, a mixture of hydrogen and carbon monoxide; using a Fischer-Tropsch reactor to string syngas components into long-chain hydrocarbons; and cracking those long-chain hydrocarbons into shorter-chain hydrocarbons to form syncrude.

The syncrude can be refined into products such as diesel fuel.

BP has been pioneering new technologies to improve economics of the process, a compact gas reformer and a proprietary catalytic process in the Fischer-Tropsch reactor. Because the compact reformer is smaller than traditional reformers development costs are reduced.

Some 3 million cubic feet per day of natural gas are converted into 300 barrels per day of syncrude at the Nikiski plant; the syncrude is trucked to the Tesoro refinery in Nikiski for refining.

BP said the decision affects some 15 BP employees, who will be offered positions elsewhere within BP. In addition to the BP employees, some 10 contract employees work at the facility. ●

On the Web

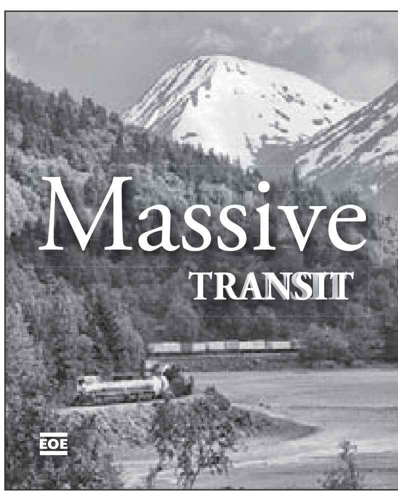
See previous Petroleum News coverage:

"Nikiski GTL plant continues to operate," in Jan. 22, 2006, issue at www.petroleumnews.com/pnads/204348211.shtml

"BP's GTL plant meets its objectives," in Dec. 28, 2003, issue at www.petroleumnews.com/pnads/928758716.shtml

"GTL trials under way," in Aug. 10, 2003, issue at www.petroleumnews.com/pnads/139937020.shtml

"BP Amoco to build test gas-to-liquids facility at Nikiski," in July 28, 2000, issue at www.petroleumnews.com/pnads/185289775.shtml



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● EXPLORATION & PRODUCTION

Out for review

DNR posts Shell Beaufort Sea exploration plan; Company says it intends to drill in Torpedo and Sivulliq prospects in 2010

By **ALAN BAILEY**
Petroleum News

The Alaska Department of Natural Resources has released Shell's new Beaufort Sea plan of exploration for public review, as part of a consistency determination for the Alaska Coastal Management Program. Shell plans to use the drillship Frontier Discoverer to drill one well in its Torpedo prospect and one well in its Sivulliq prospect during the 2010 summer drilling season, the plan says. Both prospects are on the outer continental shelf, on the west side of Camden Bay, north of the eastern end of the North Slope.

DNR has also invited comments on Shell's Beaufort Sea oil discharge prevention and contingency plan.

Comments on both plans are due by Sept. 30

Sivulliq, formerly known as Hammerhead, contains a known oil pool estimated to contain 100 million to 200 million barrels of technically recoverable oil.

Plan complete

In mid-August the U.S. Minerals Management Service, the government agency with jurisdiction over the U.S. outer continental shelf, determined that Shell's Beaufort Sea exploration plan was complete. MMS is currently carrying out an environmental assessment, prior to deciding whether or not to approve the plan.

The new plan is much reduced from Shell's earlier 2007 to 2009 Beaufort Sea plan that became the subject of lengthy and unresolved litigation in the U.S. Court of Appeals for the 9th Circuit. When in May Shell submitted its new plan to MMS for approval, the company said that it had scaled down the plan to address concerns about the cumulative impacts of offshore activities, and to demonstrate its ability to safely conduct offshore drilling.

In its new plan, Shell says that it wants to drill first at the Torpedo H drill site, at 70 degrees 27 minutes 01.6193 seconds north latitude and 145 degrees 49 minutes 32.0650 seconds west longitude. The company will then drill at the Sivulliq N site, at 70 degrees 23 minutes 29.5814 north latitude and 145 degrees 58 minutes 52.5284 seconds west longitude. This drilling sequence could be reversed in the event of "adverse surface conditions or other factors," the company says.

The wells are planned to be vertical. And a radial array of eight 7-ton anchors will hold the Frontier Discoverer in position above the seafloor.

Six support vessels

Shell says that a minimum of six support vessels will provide ice management, anchor handling, oil spill response capability, refueling and the servicing of drilling operations.

The icebreaker Vladimir Ignatjuk, or a similar vessel, will provide the ice management services, maintaining a position 3 to 15 miles upwind of the drilling oper-

see **REVIEW** page 19

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● GOVERNMENT

Energy strongholds under assault

Plunging natural gas sector forces Alberta, B.C., to make drastic budget changes; Alberta blames deep, sustained economic turmoil

By GARY PARK

For Petroleum News

The backbone of Canada's natural gas industry is starting to buckle.

In the process the once-overflowing coffers of Alberta and British Columbia are drying up as their largest single source of revenue evaporates.

The two provinces, which account for more than 90 percent of Canada's gas output, are suddenly facing dire economic circumstances after being blind-sided by the stunning setback in the gas sector.

With commodity prices close to an eight-year low and forecast to slide under C$1 per gigajoule, government-run land sales in freefall and industrial gas demand showing no sign of a recovery, Alberta and British Columbia are revealing budget upheavals that are unprecedented in Canadian history.

15 years of budget surpluses

After 15 straight years of budget surpluses, including a total C$26.9 billion in the four fiscal years up to 2007-08, Alberta is projecting a record C$6.9 billion deficit in the current fiscal year which ends March 31, 2010, resulting from a massive drop in energy royalties and income tax revenues.

The shortfall is C$2.2 billion more than was forecast when the budget was unveiled in April.

Gas is taking out the biggest chunk, falling from a projected C$3.7 billion in April to C$1.9 billion (a far cry from the record C$8.4 billion collected in fiscal 2005-06) and Finance Minister Iris Evans is not prepared to say the decline will stop there.

She said the gas sector has delivered a "real kick in the head" to a government that has been the financial envy of Canada for the past two decades.

"What we're faced with is a darkening on the clouds of resource revenue," she said. "There's nothing we did to make gas go into a cellar like this.

"Global economic turmoil is deeper and more sustained and natural gas prices remain far lower than originally forecast," Evans said.

Alberta has savings

But Alberta can offset its budget shortfall by dipping deep into a C$16.8 billion Sustainability Fund, created from surplus resource revenues to help the province survive tough economic times.

British Columbia, which started five straight years of budget surpluses in 2004-05, has been similarly blindsided, forcing the government to introduce legislation this fall allowing it to run deficits for the next four years.

In February, Finance Minister Colin Hansen forecast only two years of deficits, targeting C$495 million for 2009-10. On September 1, he drastically revised the 2009-10 budget, hiking the deficit forecast to C$2.8 billion, after saying the recessionary impact on British Columbia's revenue stream "has been far beyond what we had previously anticipated."

Alberta has scaled back its gas price forecast for the current year to C$3.75 per gigajoule at the AECO hub from C$5.50 per gigajoule in April after prices averaged C$3.17 per gigajoule in the first fiscal quarter from April to June.

British Columbia is now counting on average 2009-10 gas prices of C$3.51 per gigajoule at the plant gate compared with the C$5.87 per gigajoule contained in its original 2009-10 budget, lowering its anticipated natural gas revenues to C$522 million from C$1.3 billion.

For every C$1 per gigajoule decline in average prices, Alberta loses about C$1.3 billion in annual royalties, while the impact on British Columbia revenues ranges from C$275 million to C$325 million.

For every C$1 per gigajoule decline in average prices, Alberta loses about C$1.3 billion in annual royalties, while the impact on British Columbia revenues ranges from C$275 million to C$325 million.

Compounding the outlook in Alberta is a C$333 million downturn in forecast oil royalties to C$1.9 billion, although oil prices are forecast to average US$61 per barrel, up US$5.50 per barrel from the budget estimate, with oil sands royalties shrinking by C$356 million from the forecast C$1 billion.

Land auctions suffering

Government land auctions, the earliest sign of industry confidence and drilling intentions, are also suffering in both provinces.

Evans said bonuses and lease sales are now expected to return C$478 million in 2009-10, C$153 million lower than budgeted, due to an industry pullback from conventional oil and gas activity, which the industry attributes partly to Alberta's new royalty framework.

For the first eight months of the calendar year, Alberta generated only C$182 million in successful bids, compared with C$820 million in the same period of 2008. Sales for all of 2008 were C$1.23 billion, down for the second year in a row after hitting an all-time high in 2006 of C$3.43 billion.

Land auctions in British Columbia, which is almost exclusively a gas province, yielded C$322 million in the January-August period, off from the year-earlier C$2.08 billion, when companies engaged in a heated bidding contest for rights to the Montney and Horn River tight and shale gas plays, propelling the province to a 12-month record of C$2.66 billion.

Ample gas supplies, weak demand

Martin King, an analyst with FirstEnergy Capital, said in a research note that Alberta's C$3.75 per gigajoule prediction "certainly seems a lot more reasonable than what it was before," while Fadel Gheit, an analyst at Oppenheimer & Co., said the revised figure is a "realistic expectation," given North America's ample gas supplies and weak demand.

Todd Hirsch, economist at the government-owned ATB Financial, said the resource downturn is a trap Alberta "has found itself in again and again. Even though it's unpleasant, this is familiar territory."

Ron Kneebone, an economist at the University of Calgary, said the province's rising deficit is no surprise because the government of Premier Ed Stelmach has become far too dependent on cyclical energy revenues in its budgeting.

He told the Calgary Herald the government's plight was predictable because it did a "poor job of risk management." ●

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LAND & LEASING

Foothills, Beaufort Sea leases dropped

Chevron subsidiary Union Oil Company of California has dropped 11 leases in the state's North Slope Foothills sale area, the remnant of an acreage position acquired in 2001 and 2002 at the state's first two Foothills areawide lease sales.

The July lease administration report from the Alaska Division of Oil and Gas also showed Pioneer Natural Resources Alaska withdrawing from a minority position in four Beaufort Sea leases.

Both Chevron and Unocal acquired tracts in the 2001 Foothills sale, with Unocal taking 18 tracts for just shy of $3 million in high bids.

Chevron U.S.A. Inc. took 17 tracts on which it bid almost $508,000. A 50-50 partnership of Chevron and Phillips Petroleum took nine tracts for some $419,000.

Union Oil Company of California also took a single tract in the 2002 areawide sale for almost $36,000.

The companies have no remaining acreage in the Foothills sale area.

The dropped acreage isn't in the White Hills prospect where Chevron has been doing exploration drilling in the last two winters. Although White Hills is referred to as a Foothills prospect, it is in the North Slope areawide sale area.

There are 185 state oil and gas leases in the North Slope Foothills sale area, some 926,166 acres.

In the Beaufort Sea sale area, Pioneer Natural Resources Alaska withdrew from a 20 percent partnership position it acquired in 2007 in four Anadarko Petroleum leases that it acquired. Anadarko won the tracts in the 2006 areawide Beaufort Sea sale, taking six tracts for just over $290,000.

—KRISTEN NELSON

● PIPELINES & DOWNSTREAM

State vs. BP penciled in for 2011 trial

Civil suit seeks potential $1 billion in back taxes, damages for 2006 pipeline leaks at Prudhoe Bay; trial could last three months

By WESLEY LOY
For Petroleum News

Lawyers for the state and BP are proposing a late 2011 trial date for a lawsuit in which the state is seeking potentially $1 billion in back taxes and other collections from the oil company in connection with North Slope oil spills three years ago.

The opposing attorneys jointly specified the trial date as part of a 12-page proposed order filed Aug. 20 that lays out guidelines for managing depositions, expert witnesses, evidence and other aspects of what is expected to be a highly complex case. To take effect, the order needs the signature of state Superior Court Judge Peter Michalski of Anchorage.

The state sued BP's local subsidiary, BP Exploration (Alaska) Inc., on March 31 seeking to collect damages as well as taxes and royalties the state's lawyers contend were "lost" due to production shutins related to leaks from corroded oil transit lines within Prudhoe Bay, the nation's largest oil field.

The state's lawyers accuse BP of knowingly neglecting the pipes and skimping on maintenance such as pigging the pipelines as the company sought to cut costs.

BP's lawyers argue the tax and royalty revenue was merely "deferred" and not lost, are fighting to have at least some of the state's case — such as its claim for punitive damages — tossed out of court.

Federal case also pending

In the proposed pretrial order, state and BP lawyers are suggesting the trial begin on Sept. 12, 2011. They estimate that trying the civil case will take about 12 weeks.

The state lawsuit isn't the only one BP is defending in connection with the 2006 spills.

The federal government brought its own civil suit against BP on the same day as the state did.

Justice Department lawyers filed that suit in U.S. District Court in Anchorage on behalf of the Environmental Protection Agency and Department of Transportation pipeline regulators. The federal suit seeks millions of dollars in fines for alleged water and air pollution violations, as well as failure to meet deadlines in a corrective action order from pipeline regulators.

BP's lawyers have denied many of the federal claims, and say some of the deadlines in the corrective action order were impossible to meet.

As in the state case, opposing lawyers in the federal suit met recently to hammer out a management plan for the case.

The plan indicates the case would be ready for trial by the end of next year, and that only a judge would hear the case, not a jury. The lawyers estimate a trial would last 20 days.

That's if the case ever gets to trial. "Settlement negotiations are ongoing," the case management plan says. The two sides might ask for mediation, and if so, they'll do it on or before Nov. 1, the court papers say. ●

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● NATURAL GAS

Tackling a new gas equation

Canadian industry lobby groups join forces to promote the use of gas for power generation and transportation across North America

By GARY PARK
For Petroleum News

The Canadian Association of Petroleum Producers is happy when natural gas prices are high and rising, keeping its member companies profitable and busy.

The Canadian Gas Association likes to tell the world when prices are low — good news for its membership of gas utilities, major consumers and marketers.

The Canadian Energy Pipeline Association just wants the transmission systems of its affiliates operating at capacity and pipeline tolls kept in check.

These disparate organizations have something in common these days.

They've teamed up to develop a strategy for increasing the use of natural gas across North America, including power generation and transportation, at a time when supply forecasts are at breathtaking levels.

2,000 trillion cubic feet

The United States Potential Gas Committee recently put the supply estimate at 2,000 trillion cubic feet, enough to meet current U.S. needs for 95 years and up 60 percent in only four years because of rapid development of shale deposits.

The Canadian National Energy Board has forecast that shale plays and coalbed methane in British Columbia and Alberta could contribute 65 tcf to the remaining marketable resource base, while frontier gas could add another 225 tcf to that inventory by 2020 and beyond.

The trio of industry organizations is preparing a case that North America has abundant natural gas and needs to open up new markets by expanding the demand for gas.

It's a follow-up to a joint statement in June by CAPP and the U.S. Natural Gas Supply Association stressing the importance of gas as a low-carbon energy source and a means of securing North America's energy future.

NGSA President R. Skip Horvath said at the time that gas is a "sustainable fuel of the future. That's already a reality and contributing significantly to our energy mix."

CAPP President David Collyer said that despite tough economic times for gas producers the "long-term outlook and resource potential remains strong and reinforces Canada's role as the number one exporter of gas to the U.S. market," which relies on Canada for 15 percent of its needs.

He said technological advances continue to shrink the environmental and ecological footprint of gas.

Lowest prices since 2002

In the last two months, the grim near-term outlook has become even worse, with prices sliding below $2 per gigajoule, the lowest level since 2002, and predicted by FirstEnergy Capital to nudge $1 or lower.

> *Prices have been on a sharp descent over the past year, accelerated by the economic recession along with surging supplies from liquefied natural gas producers and the new resource play fields.*

"The market is trying to rationalize all of the gas that is piling up and there are fewer and fewer places to put it," said analyst Martin King. "We expect that a $1 handle on prices will start becoming more common in the next few weeks."

FirstEnergy said shut-ins — already spreading among cash-starved smaller producers — may soon range from 500 million to 800 million cubic feet per day "for a short period of time for some kind of balance to be achieved in this market."

"If this does not occur, then protracted extreme price weakness is likely in store for the middle to late part of September to prices below $1."

Prices have been on a sharp descent over the past year, accelerated by the economic recession along with surging supplies from liquefied natural gas producers and the new resource play fields.

Long shut-in may be needed

Two months ago, Bill Gwozd, vice president of Calgary-based Ziff Energy Group, said a production shut-in of several weeks might be needed to reduce chronic oversupply and stop a giveaway.

With prices at $3.85 per million British thermal units at that time, he estimated the marginal cost of bringing new gas into production was about $9.

A Ziff study in June found the cost to find and develop new gas averages $3.85 per thousand cubic feet, while full-cycle cost (taxes, finding and development, operating, interest, general and administrative costs and royalties) is $8, although a moderation in those costs is believed to have trimmed the full-cycle costs to $7.

Gwozd said a "fair" price of $7-$8 would enable cost-effective producers to maintain production, provide adequate returns for shareholders and ensure sufficient supplies for consumers.

An increasing number of producers have embarked on shut-ins in recent weeks, but Ziff Energy Chief Executive Officer Paul Ziff said many more should turn off the valves with gas selling at 5 percent of the equivalent price of oil.

He said producers are "not making any cash flow and some are actually losing cash by producing."

The Alberta Energy Resources Conservation Board's latest statistics estimated 6,437 gas wells were not producing in the first quarter of 2009, down 5.5 percent from a year earlier, while 111,192 wells were producing at March 31. But the shut-ins could be for several reasons.

The major shut-ins due to lower prices are by EnCana (up to 400 million cubic feet per day), Paramount Energy Trust (20 million cubic feet per day) and Canadian Natural Resources (10 million cubic feet per day).

Encouraging a switch

In this grim environment, the three Canadian industry associations plan to start spreading a message among Canadians and policymakers about the stunning change in gas supplies, only five years after growing concerns about the outlook.

The alliance is still assembling information to support its argument, including recommendations on how to build gas demand.

The CGA has developed a number of studies, including a recommendation that Ontario, with a population of 13 million, should turn to gas-fired generation and shut down coal-fired plants that currently produce 18 percent of the province's electricity.

It also sees an opportunity to use gas for residential and commercial space heating and for hot water. Currently gas is the fuel source for 25 percent of residential heating and 20 percent of commercial heating.

Bryan Gormley, the CGA's director of policy and economics, said making that shift could be more challenging in the U.S., where 50 percent of electricity comes from coal-fired plants and displacing coal will not be politically easy.

He said now that the supply equation has changed, the pressure is on industry organizations to show the risks and benefits of taking an aggressive approach toward increasing gas consumption, noting that "some primary research" is required to support that case.

Eric Marsh, a Denver-based vice president of EnCana, said it is not unreasonable to assume that 20 percent of coal-fired plants in the U.S. could switch to gas in the next decade, noting that gas-fired plants produce 50 percent less greenhouse gas emissions than the coal-fired facilities. ●

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● ALTERNATIVE POWER

Tidal power for all of Southcentral AK?

Anchorage company says tidal fence structures in Turnagain Arm could meet the whole of the Alaska Railbelt's electricity needs

By ALAN BAILEY

Petroleum News

Anchorage-based Little Susitna Construction Co. says that it wants to partner with Blue Energy Canada Inc. to build a tidal power system in Turnagain Arm, the sea inlet off Alaska's Cook Inlet, to generate sufficient electricity to meet the needs of the entire Alaska Railbelt.

In a preliminary permit application to the Federal Energy Regulatory Commission, dated July 28, the company described a system in which structures called tidal fences, built near the entrance to the arm, would harness the famous 30-foot tides of the region to drive what are known as Davis turbines — turbines that use vertical hydrofoils to turn shafts coupled to generators, rather like a system of slowly revolving hotel doors, without any glass.

Blue Energy Canada is a renewable energy company that specialized in the use of the Davis turbine.

There have been several successful tests of prototype Davis turbine systems and a 200-megawatt Davis turbine tidal fence under construction in the Orkney Islands, north of the mainland of Scotland, is expected to come on line in 2011, the permit application says.

Tidal power potential

For several years Cook Inlet has been viewed as a possible location for a tidal power system and since 2007 another renewable energy company, Ocean Renewable Power Co., has been investigating a modest-scaled tidal power option, involving the placement of some subsea turbines in the entrance to Knik Arm or near Fire Island, offshore Anchorage. ORPC hopes to install a single turbine in 2010, as an initial test of the concept, although the National Marine Fisheries Service has raised questions over the possible impact of the power system on marine wildlife, including the Cook Inlet Beluga whale, a listed species under the Endangered Species Act.

A service road would run along the top of the fence, a design arrangement that could be modified and expanded to form a state-funded causeway across the arm, if so desired, the permit application says.

Dominic Lee, president and CEO of Little Susitna Construction, has told Petroleum News that Asian investors are willing to fund the $2.5 billion Turnagain Arm project that Little Susitna Construction and Blue Energy Canada have proposed, and that the project would be viable at an electricity price of 6 to 8 cents per kilowatt hour. CH2M Hill would do the engineering design, and Fluor would carry out the construction, Lee said.

A tidal fence of the type envisaged in Turnagain Arm consists of a line of Davis turbines strung across the path of a tidal current. In the Turnagain Arm application, each turbine would occupy a 30-foot-diameter caisson, topped by a generator structure that would be situated above the water surface at high tide. The turbine itself would extend from the channel bottom to a height of about 9 feet below the low tide water level. A service road would run along the top of the fence, a design arrangement that could be modified and expanded to form a state-funded causeway across the arm, if so desired, the permit application says.

And, although the hydrofoil design of the Davis turbine blades causes the blades to move faster than the water current, the large, open turbines would revolve quite slowly, so that wildlife such as fish and beluga whales could easily make its way through the tidal fences, Lee said.

Two fences

And the proposed design involves two tidal fences. One of these would extend from near Fire Island 8 miles to the Kenai Peninsula near Point Possession, while the other would be 7.5 miles long and would be placed at least 5 miles away from the other fence. Both fences would connect to the electric grids on the Kenai Peninsula and in Anchorage using a transmission line that would serve the dual purpose of hooking up the tidal power system and creating a new connection between the Anchorage and Kenai grids — currently the grids are only connected by an intertie that passes north of Turnagain Arm and follows the Sterling Highway.

The two tidal fences would support a total of 220 10-megawatt turbines, resulting in a total rated output of 2,200 megawatts and an average output of 1,200 megawatts, the permit application says. According to data presented in the application, the Railbelt power grid currently has 1,046 megawatts of peak generating capacity, a figure a little lower than the 1,248 megawatts stated in a 2008 report by Black and Veatch for the Alaska Energy Authority. According to the Web site of the Golden Valley Electric Association, the Fairbanks-based electric utility, GVEA accounts for 296 megawatts of the total Railbelt capacity. The transmission intertie between Fairbanks and the Anchorage area would currently limit power transmission between Anchorage and Fairbanks to about 70 megawatts, according to information on the GVEA site.

Little Susitna Construction and Blue Energy Canada estimate that it would take up to one year to complete a preliminary engineering study, investigate project costs and obtain stakeholder commitment for the Turnagain Arm project. And the companies estimate that it would take about eight years to complete the permitting, design and construction of the tidal power system in the Arm. ●

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● FINANCE & ECONOMY

China in major Canadian oil sands deal

PetroChina puts up C$1.9 billion for 60% stake in two Athabasca Oil Sands Corp. projects, MacKay River and Christina Lake

By GARY PARK
For Petroleum News

China is back in the Alberta oil sands, in a big way. PetroChina is spending C$1.9 billion for a 60 percent stake in two projects being developed by privately held Athabasca Oil Sands Corp.

If the deal gets foreign investment and national security clearance from the Canadian government and is concluded by Oct. 31, the world's largest oil company will be committed to fund its share of the MacKay River and Christina Lake projects that are expected to need combined investment of C$15 billion to C$20 billion.

In making the announcement Aug. 31, AOSC successfully completed a rapid-fire search for a joint venture partner that attracted several companies to its data room.

AOSC Chairman Bill Gallacher told a conference call that a strategic alliance was needed because the "very capital-intensive long-term investments" needed to develop the oil sands are "difficult to fully finance in the traditional equity market."

He said PetroChina's presence will ensure that the two projects are able to proceed in a "timely manner," with AOSC retaining its operator role for the time being.

Gallacher said PetroChina was chosen because of its technical and financial strength and because of the "great strides" it has made in developing cost-effective and environmentally friendly technologies for its various heavy oil undertakings in China.

Observers startled

The deal has startled observers because of the current oil sands lull during the economic recession and pending government environmental regulations covering greenhouse gas emissions.

It comes hard on the heels of a visit to China in early August by Canada's Finance Minister Jim Flaherty who said Canadian foreign investment rules would not stand in the way of Chinese investment in his country's energy sector.

"China has a need for resources and is looking for investments abroad," Flaherty said. "We are encouraging Chinese direct foreign investment in Canada so long as there is compliance with the governance concern and other rules that we have with Investment Canada."

AOSC executives said the Canadian and Alberta governments have been advised of the PetroChina transaction.

Sveinung Svarte, president and chief executive officer of AOSC, said he does not believe any major government obstacles will surface.

AOSC has a net working interest in 1.55 million acres in the Athabasca region of northeastern Alberta, where third-party evaluators have estimated recoverable resources at 10 billion barrels of bitumen.

The PetroChina deals involve 300,000 acres and 5 billion barrels.

Regulatory applications have been filed for two pilot projects and an application is expected to be submitted later this year for the initial 35,000-barrel-per-day phase at MacKay River. No on-stream timetable has been discussed.

China toeholds established

The emergence of PetroChina comes four years after two state-run Chinese companies established toeholds in two oil sands startups and two years after PetroChina's parent company, CNPC, blasted the Canadian government and oil sands producers for not supporting its efforts to become the anchor tenant in Enbridge's Northern Gateway pipeline.

At that time, PetroChina and Enbridge had attempted to aggregate 200,000 bpd of oil sands production to fill half the planned shipments of bitumen to Kitimat on the northern British Columbia coast for tanker shipment to unidentified Asian refineries.

CNPC accused the government and producers of blocking progress toward expanded energy trade with China and walked away from its chance to secure a 49 percent equity stake in Northern gateway.

"Canada doesn't want to open up its own markets to us, so we cannot cooperate," said CNPC Vice President Yiwu Song.

Enbridge has since revived Northern Gateway, targeting possible markets in Japan and South Korea, and may hold an open season in 2010.

No deals on shipments

But Gallacher and Svarte said AOSC had not reached any deals with PetroChina on pipeline or tanker shipments of crude from their joint projects.

China's other upstream plans for the oil sands are both stalled, with no indication when they might be restarted.

Sinopec took an initial 40 percent stake in Synenco Energy's Northern Lights project in 2005 and added another 10 percent this year after France's Total acquired Synenco.

CNOOC has a 16.69 percent share of privately held MEG Energy's Christina Lake project.

In an effort to improve the environmental image of the oil sands, AOSC and MEG have joined Petrobank Energy and Resources, Laricina Energy and OSUM Oil Sands in an alliance that is looking for ways to reduce consumption of natural gas and water at plant sites and advance carbon capture and storage technology. ●

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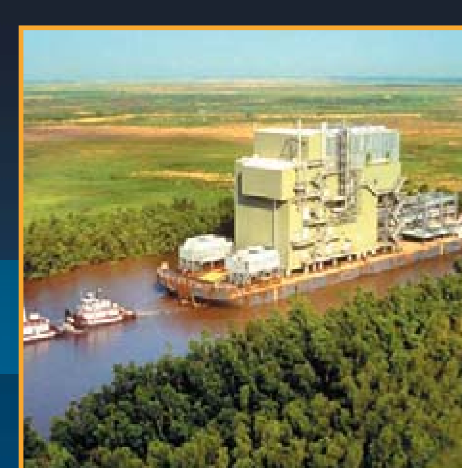

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● EXPLORATION & PRODUCTION

State approves BRPC Beechey Point unit

Development at 52,876-acre unit north of Prudhoe Bay would commercialize small discoveries between Milne Point, Northstar units

By KRISTEN NELSON

Petroleum News

Brooks Range Petroleum Corp. has received approval from the Alaska Division of Oil and Gas for formation of the Beechey Point unit. The new unit includes 25 state oil and gas leases, some 52,876 acres, onshore and offshore north of the Prudhoe Bay unit between Milne Point and Northstar.

The division said in its decision that the Beechey Point unit area has had a number of small discoveries over the years, and has been part of several former units, but has not been developed.

BRPC drilled the North Shore No. 1 and the Sak River No. 1 wells in the winter of 2006-07. The company sidetracked and tested North Shore No. 1 the following year at more than 2,000 barrels of oil per day of high quality crude oil from the Ivishak formation. BRPC has also acquired 130 square miles of seismic data covering the entire unit area.

On July 10, 2008, the division determined that the North Shore No. 1 well was capable of paying in producing quantities and BRPC has asked the state to authorize the North Shore No. 1 well as a unit well.

Ivishak, Sag River, Kuparuk

The primary targets at Beechey Point are the Ivishak sandstone of the Sadlerochit group, the Sag River formation and the Kuparuk River formation. The unit "lies north of the northwest to southeast trending, down-to-the-north, Prudhoe fault that separates the Prudhoe Bay field from deeper, more complexly faulted structures to the north," the division said.

North and west of Prudhoe Bay there are smaller structural closures at the Ivishak level, the division said, and early exploration in the area focused on "small, fault associated structural closures in the Ivishak Sandstone."

Most early exploration wells penetrated the overlying Sag River formation and the underlying Lisburne group carbonates, but potential hydrocarbon plays in those reservoirs were not fully evaluated and traps in the Kuparuk River and Brookian sequences were secondary targets. The division said the Lisburne is not an exploration target at Beechey Point.

The Ivishak in the area ranges in thickness from 320 feet at the North Prudhoe Bay State 1 well, to 370 feet at the Point Storkersen No. 1.

The Sag River formation is "a potential reservoir target" at Beechey Point, the division said. The Kuparuk River formation in the area is highly variable in thickness and reservoir quality. Fields around Beechey Point produce from the Kuparuk, the nearest such production being from Point McIntyre to the east; Kuparuk also produces south and west of Beechey Point in the western satellites of the Prudhoe Bay unit and in the Kuparuk River and Milne Point units.

Earliest well in 1969

Drilling began in the area in 1969 with the Hamilton Brothers Point Storkersen No. 1 well, drilled to 11,473 feet measured depth. The well tested oil in the Sag River; it flowed 315 barrels per day and 735 bpd from two different depths in the Ivishak Sandstone; it did not test the Kuparuk River formation.

The Hamilton Brothers drilled the 11,200-foot Kuparuk Delta 51-1 well in 1970 in what was then the Kuparuk Delta unit, finding no flowing hydrocarbons in the Kuparuk, Sag River, Shublik and Ivishak, but flowing 2,200 bpd, decreasing to 1,500 bpd, from a lower Brookian "stray sandstone" at a depth of some 7,100 feet.

Conoco drilled the 13,605-foot Kuparuk Delta 51-2 in 1970, with successful tests of oil from the Ivishak Sandstone and Kuparuk River formation, with the Ivishak flowing 695 bpd and 520 bpd from two different depths; there was also flow to the surface from the Kuparuk formation.

Conoco takes over

Conoco took over operation of the unit and it was renamed the Gwydyr Bay unit. While Conoco didn't drill until 1981, there were additional wells drilled in the area by Mobil and Cities Service.

The Conoco Gwydyr Bay 2A well, a sidetrack from the 11,365-foot Gwydyr Bay 2, flowed 3,000 bpd from the Ivishak and had a stabilized flow of 740 bpd from the Kuparuk River formation.

In 1997, BP Exploration Alaska drilled Pete's Wicked, identifying some 65 feet of oil pay in the Ivishak on logs; no well tests were conducted.

BP submitted plans for a roadless drill site and a three-well development, but the plans were dropped and the acreage reverted to the state.

BRPC drilled the North Shore No. 1 in 2006-07 and sidetracked the well in 2008, with the sidetrack testing 2,092 bpd from the Ivishak; Sag River tests were inconclusive, but in July 2008 the division determined that the North Shore No. 1 well was "economically and physically capable of producing in paying quantities" under the division's regulations.

Five exploration blocks

BRPC submitted a five-year initial plan of development that the division said "included plans to delineate all underlying oil or gas reservoirs, bring several isolated reservoirs into production through the proposed North Shore Development Project, and maintain and enhance production once established."

Five exploration blocks — North Shore, West Shore, Northwest Shore, East Shore and Offshore — are identified in the plan.

Development includes having all permits in place for the North Shore development project by the end of 2010; applying for an initial participating area (area from which production is occurring) by Oct. 1, 2012; and beginning production by Jan. 1, 2013.

Exploration includes a commitment by Dec. 1, 2010, to drill in one of the five designated exploration blocks; by July 1, 2011, BRPC shall complete the first exploration well; by Dec. 1, 2012, the company will commit to drill a second well within one of the remaining undrilled exploration blocks; and by July 1, 2013, BRPC will complete the second exploration well.

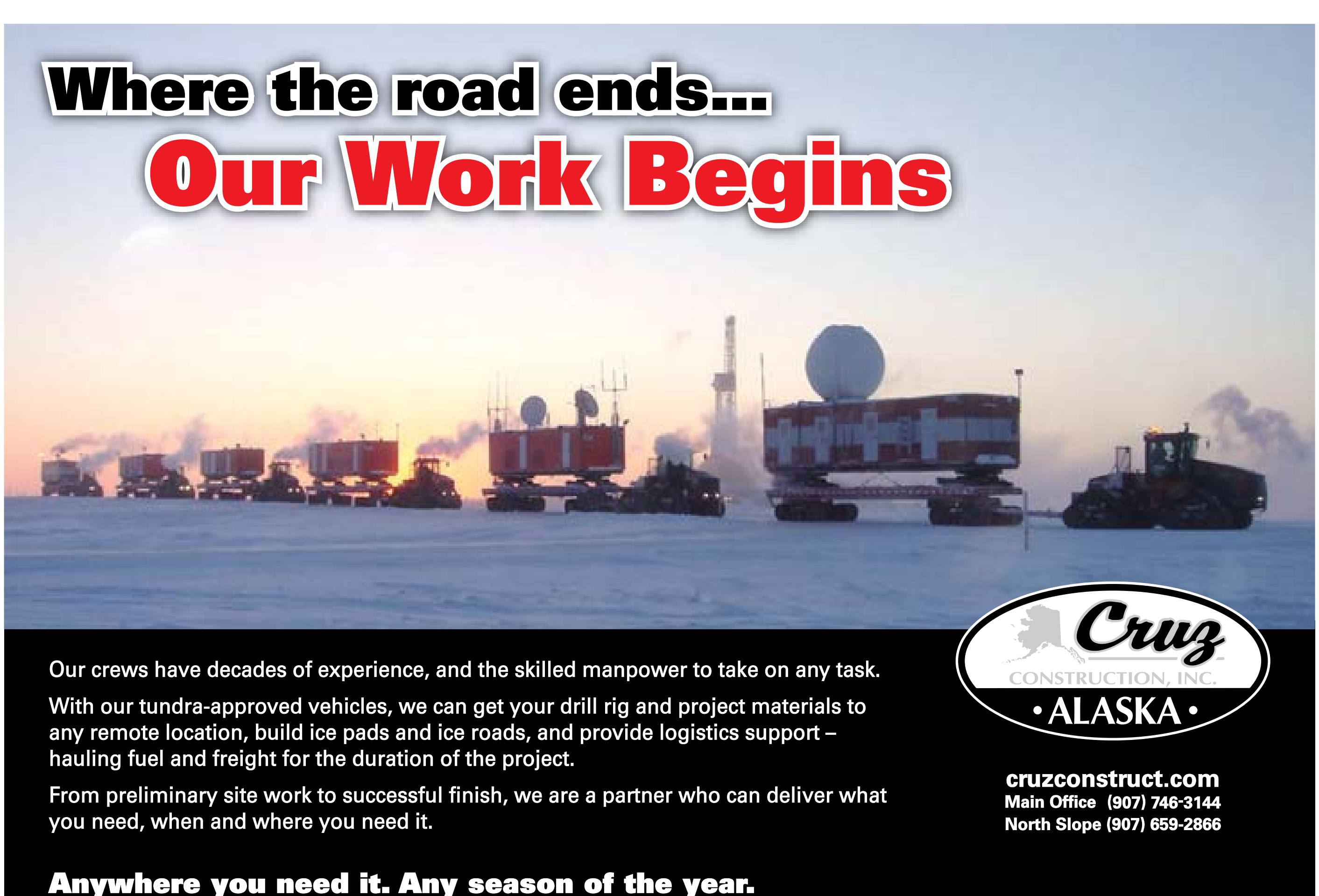
Effective control

The division said no unit will be approved unless the parties to the unit agreement hold "sufficient interest in the unit area to give reasonably effective control." The application was not signed by all the working interest owners, but the Beechey Point unit agreement was approved by 78.9 percent of the record title owners of the 25 leases, "which is effective control under the unit operating agreements."

TG World, one of the working interest owners in the leases, and BRPC have been in litigation over alleged contract breaches and TG World objected to formation of the unit.

The division said TG World was concerned that overlapping operating agreements — four operating agreements were submitted with the unit application — would prevent development. The division said it concluded the operating agreements do not prevent unit development because the operating agreements allow for development without 100 percent working interest owner commitment. Those working interest owners who signed the agreement "hold sufficient interest in the unit area to proceed with exploration and development plans," the division said. The division noted that while it was not the norm, the unit agreement does not preclude multiple operating agreements.

The division said other concerns raised by TG World "were discussed and resolved" in an Aug. 24 meeting between the working interest owners and the division. ●



● SAFETY & ENVIRONMENT

The hunt for GHG emissions in the Arctic

By ALAN BAILEY
Petroleum News

As global climate change warms the Arctic, could vast quantities of carbon dioxide and methane, both thought to be potent greenhouse gases, be released from frozen organic material, or from disassociating methane hydrates known to exist under the Arctic tundra and the Arctic Ocean?

To make a start on answering this question, scientists from the National Oceanic and Atmospheric Administration Earth System Research Laboratory have teamed with the U.S. Coast Guard to fly air-sampling devices over Alaska, using the Coast Guard C-130 aircraft that is based in Kodiak.

In March NOAA scientists replaced one of the Coast Guard's C-130's windows with a plate with air inlets leading to onboard instruments which measure the amount of methane, carbon dioxide and ozone in the air, NOAA said.

"Scientists will search for natural sources of methane and carbon dioxide — the two most important heat-trapping gases — as well as methane sources from human activities, such as oil drilling in Prudhoe Bay," NOAA said Aug. 24. "Gathered over three seasons, the data will help NOAA map out natural emissions sites, estimate their outflow and set benchmarks for future changes in a warming world."

> *"Methane is 25 times more powerful than carbon dioxide as a greenhouse gas, though its lifetime in the atmosphere is significantly shorter."*
> **—Colm Sweeney, Earth System Research Laboratory**

Clues from the south

"North of the Brooks Range, the tundra is not yet melting, but south of the range, partial melting is already occurring," said Colm Sweeney of the Earth System Research Laboratory. "The south will give us clues to what's likely to happen north of the range in the coming years.

"… It's important to locate natural sources and measure how much methane and carbon dioxide are being released now so we can watch for signs of increasing emissions. Methane is 25 times more powerful than carbon dioxide as a greenhouse gas, though its lifetime in the atmosphere is significantly shorter."

Research has documented large "bubbles" of methane near Arctic lakes. And research vessels in the Arctic Ocean have observed methane venting from the ocean floor, although no one knows whether this phenomenon is a recent development or something that has been happening for a long time, NOAA said.

"Recent observations could be isolated cases or part of a vast regional change in emissions that could accelerate climate warming to a more dangerous pace. We don't know yet. We're eager to find out," Sweeney said. "… So far profiles north of the Brooks Range indicate significant enhancements in methane emissions near the surface, but it's uncertain whether those are local emissions from human activities or outgassing from natural sources." ●

● EXPLORATION & PRODUCTION

August production holds level with July

By KRISTEN NELSON
Petroleum News

Alaska North Slope crude oil production averaged 572,967 barrels per day in August, an increase of 4,179 bpd or 0.73 percent from the July average of 568,788 bpd.

The largest increase, more than 332 percent, came at the BP Exploration (Alaska)-operated Endicott field, which averaged 13,206 bpd in August compared to 3,055 bpd in July. BP replaced the production control system at Endicott over the summer, and the field was down completely during much of July. Production began again July 31, reached 598 bpd Aug. 2, dropped to zero Aug. 3, and began ramping up again Aug. 4; production was in the 14,000-15,000 bpd range during most of August, topping out at 15,761 bpd on Aug. 25. Production in May and June, prior to work beginning at the field's facilities, was typically in the 13,000 to 15,000 bpd range.

BP's Milne Point field averaged 27,277 bpd in August, up 12.5 percent from a July average of 24,246 bpd.

Milne Point is a major viscous oil producer and data from the Alaska Oil and Gas Conservation Commission, which breaks out production by pool within fields, shows that for July — the latest detailed data available — 28.8 percent of Milne production was from the viscous Schrader Bluff formation, 70.7 from the Kuparuk River pool and 0.6 percent from Sag River.

The ConocoPhillips Alaska-operated Alpine field averaged 104,113 bpd in August, up 11.2 percent from a July average of 93,666 bpd. July AOGCC data shows that 71.4 percent of Alpine production is from the main pool, with 25.8 percent from Fiord, the northernmost of three satellites at the Colville River unit, 2.5 percent from the Qannik satellite and 0.4 percent from the Nanuq satellite.

The BP-operated Lisburne facility averaged 30,394 bpd in August, up 10.9 percent from a July average of 27,396 bpd. Lisburne includes production from Point McIntyre and Niakuk.

The BP-operated Northstar field averaged 22,675 bpd in August, up 4.2 percent from a July average of 21,757 bpd.

Kuparuk includes Oooguruk

The ConocoPhillips-operated Kuparuk River field averaged 149,353 bpd in August, up 4 percent from a July average of 143,608 bpd. Kuparuk produces primarily from the Kuparuk formation and also from satellites at Tabasco, Tarn, Meltwater and West Sak.

Crude oil from Pioneer Natural Resources Alaska's Oooguruk field is produced through Kuparuk. AOGCC records show that Oooguruk production, some 6 percent of the oil processed through the Kuparuk facilities, approached 8,500 bpd in July and was 73 percent from the Oooguruk Kuparuk formation and 27 percent from the Oooguruk Nuiqsut oil pool.

Oil produced at Kuparuk comes 72 percent from the Kuparuk formation. Next in volume is viscous West Sak oil (the formation is called Schrader Bluff at Milne Point), some 15 percent, with Tarn oil making up about 10 percent, Meltwater 2 percent and Tabasco just under 1 percent.

Prudhoe production down

Production from the BP-operated Prudhoe Bay field averaged 225,949 bpd, a drop of 11.4 percent from a July average of 255,060 bpd. Prudhoe production includes Aurora, Borealis, Midnight Sun, Orion and Polaris.

BP's summer maintenance projects were scheduled to wrap up about the end of August, and Prudhoe production increased from the low 200,000 bpd range early in the month to more than 260,000 bpd at the end of the month.

The temperature at Pump Station 1 on the North Slope averaged 45.8 degrees Fahrenheit, down from an average 48.1 F in July.

In Cook Inlet, where production has been slowed due to shutdown of the Drift River Terminal, the average of 3,041 bpd is up 6.6 percent from a July average of 2,854 bpd as biweekly loading began from storage at Granite Point and Trading Bay. With platforms back on line during August (see platform item in this issue), these numbers will likely be updated by the Department of Revenue as more information becomes available.

ANS crude oil production peaked in 1988 at some 2 million bpd; Cook Inlet crude oil production peaked in 1970 at more than 227,000 bpd. ●

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● NATURAL GAS

October target for ROW applications

State's standalone gas line project will permit two routes, one along Parks Highway, one along Richardson and Glenn highways

By KRISTEN NELSON
Petroleum News

A state-directed team working on costs and feasibility for a standalone Alaska gas pipeline aims to have a summary of alternative routes complete by early September, including a Parks Highway route which would avoid Denali National Park, Harry Noah told legislators in an Aug. 21 letter. Noah, project manager for the in-state gas program, said the team is working on a route analysis for a pipeline from the North Slope, with a possible extension into western Alaska and site selection for a natural gas liquids extraction plant.

He said the team's engineering work will allow cost estimates for gas pipeline service to Alaska's Railbelt from the North Slope Foothills, the Nenana basin or Cook Inlet.

Noah, most recently executive director of the Trust Land Office and a former Department of Natural Resources commissioner, was brought onboard by former Gov. Sarah Palin early this year to help with a plan to supply the Railbelt with natural gas within five years.

Michael Baker Engineering has the contract for engineering work for the standalone in-state project and Noah said that team "continues to analyze the capital cost differences, environmental issues and a number of potential customers for the two routes," one to Fairbanks and then along the Parks Highway to Southcentral Alaska and the other to Fairbanks and then down the Richardson Highway to Delta, then to Glennallen and following the Glenn Highway to Southcentral.

Noah told legislators that the route analysis report would not propose a route decision but would "set out the facts for policymakers to use in a future determination of the preferred route."

The Baker team is analyzing capital cost differences, environmental issues and potential customers for the two routes.

Route around Denali

Right-of-way applications to the Alaska Department of Natural Resources, the federal Bureau of Land Management and the U.S. Army Corps of Engineers are planned for October, Noah said.

The team has been working on a detailed review of "a potential pipeline route around Denali National Park to avoid the obvious problems with national park lands."

Noah said the team believes it has "identified a possible route outside the park boundary, just east of the Parks Highway," a route which appears to offer an economic alternative to the special permission required to run a line through the park.

He said that if the National Park Service preferred to have the line closer to main infrastructure in the park, the line could run along the highway in the park.

A possible pipeline extension to western Alaska to serve the proposed Donlin Creek mine could run from the west side of Cook Inlet to Donlin Creek, or connect to the standalone pipeline south of Nenana and run west from there, Noah said. Donlin Creek is north of the Middle Kuskokwim River village of Crooked Creek, some 280 miles northwest of Anchorage.

The team is also reviewing possible sites in the Cook Inlet area for a natural gas liquids plant to extract heavier gas liquids.

Noah said the project spent $321,040 during July and $470,943 year-to-date.

Action plan

State and industry representatives held a value-added interactive planning session in Anchorage June 18-19. A summary report on that session said it was attended by representatives of ExxonMobil, BP, ConocoPhillips, Anadarko, Enstar, Fairbanks Natural Gas, Golden Valley Electric, Chugach Electric, Agrium and Barrick Gold, with technical support from Michael Baker Engineering and facilitation and documentation by Orion Facilitated Planning.

The state's objective for the standalone project is a commercially viable in-state natural gas system, a meeting report said, with producers making a net profit equal to or greater than they would make exporting gas, industrial users served at a cost which allows them to be competitive in the world market and the state turning the project over to a private developer which would recoup costs and make a profit on operation of the pipeline.

The goal of those involved is execution of a prefeasibility study for an in-state standalone gas pipeline project.

Cost of service was defined as including three parts: production cost; treatment and pipeline cost; and distribution cost — including storage.

The report noted two assumptions, primarily that a standalone in-state gas pipeline project would only be built if a 48-inch pipeline to the Lower 48 is delayed from the planned 2019 startup date or will not be constructed. The second assumption is a focus on defining cost of service for an in-state gas pipeline project, with other aspects of the in-state gas pipeline not part of the report.

Different goals

The meeting report listed project drivers from the perspective of different participants.

The state wants energy supply for economic growth; a financial opportunity for the state; and provision of affordable natural gas to homeowners.

Producers want to sell natural gas at the highest possible netback and sell the largest possible volume of gas.

What potential instate gas users want varies, the report said.

Agrium could restart its Kenai operations and operate at full capacity with long-term gas service.

Residents of western Alaska, including the Donlin Creek mine, could be served by a pipeline.

And utilities require long-term, secure and reliable supply for an existing and growing customer base. The report said "there is a sense of urgency for secure supply and the pipeline option appears to be superior to current options."

Project success could be improved if opportunities for increased gas volume requirements are developed and if the state adopts a proactive permitting approach, thus avoiding project delays.

The report said six potentially significant threats, risks or issues were discussed: ramp up might be slow, impacting the project economics; industrial users might not commit if the schedule is deferred; possible users might not materialize; if the 48-inch line to the Lower 48 materializes, the standalone line "would not be viable in the current configuration"; if there was a major gas discovery in Cook Inlet the standalone line would not be necessary; and high pricing would threaten the project's economics. ●

EXPLORATION & PRODUCTION

All Chevron platforms back in operation

All eight Chevron oil platforms on the west side of Alaska's Cook Inlet have resumed production following the reopening of the Drift River terminal, Chevron spokeswoman Roxanne Sinz told Petroleum News Aug. 31. In early April the terminal, and with it all of Chevron's oil platforms, were shut in as a consequence of the threat to the terminal posed by the eruption of the neighboring Redoubt Volcano.

The terminal restarted operations in early August after the volcanic eruption subsided. However, in the interests of eliminating the future risk of an oil spill from the terminal tanks, were the volcano to burst back into action, most of the ballast water and remaining oil in the tanks was removed, and the tanks were bypassed, so that oil is now delivered from the Cook Inlet pipeline, the oil export line on the west side of the Inlet, directly to tankers moored at the terminal's Christy Lee offshore platform.

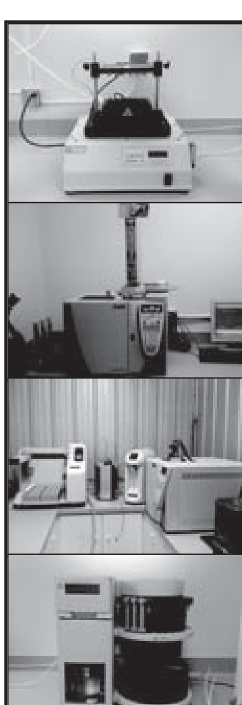
Storage tanks at Chevron's oil production facilities at Granite Point and Trading Bay now serve the purpose of the disconnected Drift River tanks, with a tanker having to off-load oil at Drift River every two weeks.

Apparently the new arrangement can result in some interruption to oil production.

"We are currently loading a ship and, while we are loading, a couple of platforms are not shipping oil," Sinz said. Sinz also commented that after seven days of operation, following the Drift River restart, the Granite Point platform had to cease operations again because of a gas-lift engine failure, but that the platform should come back on line within a few days.

At present, Chevron is not releasing any production data for its Cook Inlet platforms, Sinz said.

—ALAN BAILEY



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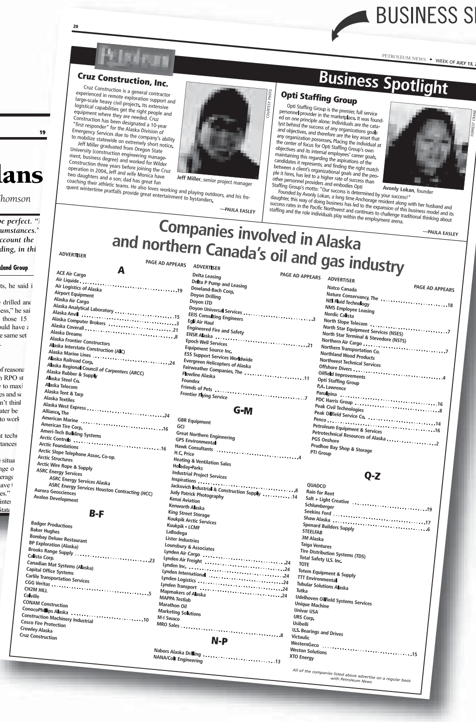

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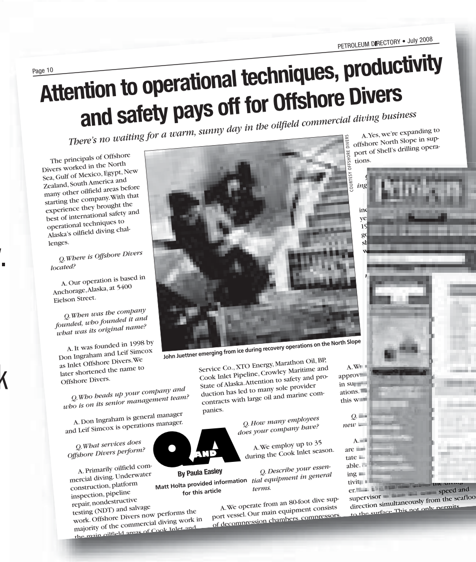

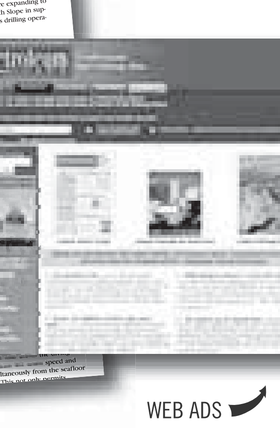

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Petroleum news

Business Spotlight

Lounsbury & Associates

COURTESY PHOTO

A.J. Rookus, Resident Project Manager

Lounsbury & Associates has been providing professional surveying and engineering services for 60 years, working with its many clients to establish trust and faith in its professional surveying skills and abilities. Today Lounsbury enjoys an excellent reputation, feeling good about the work it does in the oil industry, as the state of Alaska continues to grow economically.

A.J. Rookus' career with Lounsbury started in August of 1981, but he has really been surveying since the age of 8, learning the trade from his father Harvey, also a surveyor. Starting that young has made Rookus one of the best machete sharpeners he knows. When he is not in the field at Kuparuk, Rookus enjoys riding motorcycle around the country, sailing, and home repair.

—MARTI REEVE

Unique Machine

FORREST CRANE

Mike Eppler, Inside Sales Manager

Unique Machine, a Sumitomo Corporation of America subsidiary, is Alaska's largest machine shop and has served the fishing, mining, construction and oilfield industries and government for more than 30 years. It was the first manufacturing facility to be ISO certified and is licensed to thread all major API and proprietary oilfield threads.

Mike Eppler joined Unique Machine in 1982. His past jobs include: electronics technician in the U.S Army; observer on the North Slope; and machinist working in Prudhoe Bay. Eppler likes anything involving technology, and holds an amateur extra class license in radio; his call sign is KL7ILA. Married to Rosana for 40 years this November, he has two grown sons and four grandchildren.

—MARTI REEVE

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

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

Petroleum News Oil Patch Bits

ABB wins $60 million order from Saudi Electricity

ABB said Aug. 10 that it has won orders worth $60 million from Saudi Electricity Co., Saudi Arabia's national power transmission and distribution utility, to improve the power efficiency of 28 distribution substations. ABB is responsible for the design, engineering, supply, installation and commissioning of the projects, which are expected to be completed by 2010. ABB technologies will improve the power factor, which is a measure of how efficiently power is being used. "These solutions will enable the substations to operate more efficiently thereby increasing the availability of electricity and improving power quality," said Peter Leupp, head of ABB's Power System division. ABB is a leader in power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact.

Michel and Weist awarded Crowley's highest honor


SUZ MICHEL


BOB WEIST

Crowley said Aug. 27 that Suz Michel, director of people development and learning for Crowley in Seattle, and Bob Weist, vice president of sales and marketing for the logistics group, were awarded 2008 Thomas Crowley trophies, the company's highest honor. Created in 1985, only 50 of the company's 4,300-plus employees have been recognized with the limited edition, bronze sculpture depicting young Thomas Crowley as he ferried goods to and from ships on San Francisco Bay in the early 1890s. The trophy serves not only as a tribute to the founder of the company, but also to those honorees who have aligned themselves closely with the company's values and displayed outstanding performance along with dedication, leadership, initiative and productivity. For more information visit www.crowley.com.

CH2M Hill program receives 'outstanding' rating

CH2M Hill said Aug. 25 that it recently received an "outstanding" rating for its supplier diversity and small business program, after successfully completing a July 22 audit by the Defense Contract Management Agency and the U.S. Small Business Administration. CH2M Hill, a global full-service engineering, procurement, construction and operations firm, has held its "outstanding" ranking, the highest of the five ratings bestowed on a company, since 1998. For the past five years, CH2M Hill has subcontracted more than $1.3 billion in support of federal contracts, with 71.8 percent going to small businesses, 18 percent going to firms socially and economically disadvantaged, 1.39 percent to woman-owned small businesses and 8.6 percent to veteran-owned small businesses.

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

continued from page 1

HOPE

"Based on our macro view, we'll likely remain primarily unhedged for 2010," he said, offering one of the most bullish industry views yet about the near to medium term.

Without getting into specifics, Papa said EOG has been involved in discussions with the British Columbia government about royalty "allowances" to make the Horn River shale play competitive with similar horizontal plays in North America.

"The B.C. government has recognized the Horn River gas is competing with the Haynesville, or the Barnett, or the Fayetteville gas and they have taken very proactive steps," he said.

"We're very pleased with the situation as it's turned out in relationship to the government royalties and EOG's position (in Horn River)."

> *"The B.C. government has recognized the Horn River gas is competing with the Haynesville, or the Barnett, or the Fayetteville gas and they have taken very proactive steps."* **—EOG Resources Chairman and CEO Mark Papa**

Prices below replacement value

Paramount Chief Executive Officer Sue Riddell-Rose based her forecast on a market turnaround in the medium term on a number of factors, notably the fact that current prices are below the replacement value to find, develop and produce.

"We will see a recovery and we will see a recovery that will be very strong," she told a conference call.

In the meantime, Paramount's average second-quarter production was down 23 million cubic feet per day from 188.4 million cubic feet per day a year earlier.

Because of the nosedive in gas prices, Paramount is making a detailed analysis of all of its properties to preserve value through voluntary production cutbacks, believing there will be a gain in present value through the deferral of production until prices stabilize.

It said production deferral has the added benefit of preserving reserves and the related lending value under the trust's bank credit facility.

As a result, in addition to its second-quarter shut-in, Paramount shut in a further 15 million cubic feet per day in early August.

—GARY PARK

continued from page 1

UNITS

exploratory work within the unit areas.

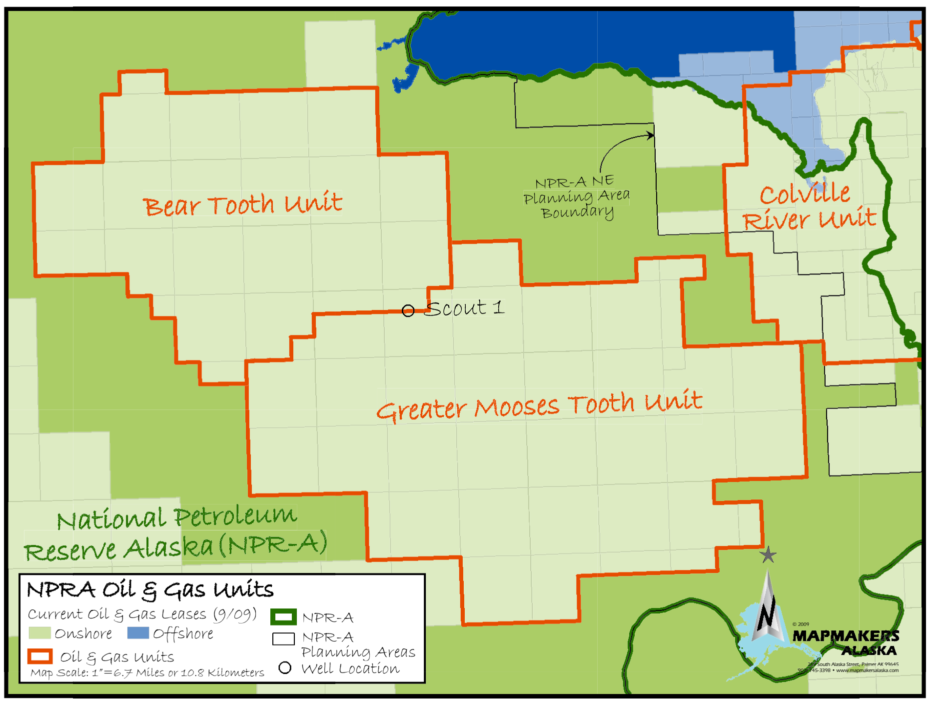
It's a good deal all around, said Greg Noble, acting chief of BLM Alaska's energy and minerals branch.

"Units are supposed to be beneficial to both parties," he said. "The lessees get more time to explore their leases and the government gets a commitment that further exploration will occur."

While many leases were unitized, ConocoPhillips and partners Anadarko and Pioneer Natural Resources let go 43 other leases covering about 500,000 gross acres, company spokeswoman Natalie Lowman told Petroleum News on Sept. 2.

The surrendered leases didn't fit the company's strategic plans based on their potential for development, she said. What's more, many were in the very remote northwest section of the NPR-A, far to the west of existing production infrastructure at the Alpine field.

"We're really focused on Chukchi exploration right now," Lowman added. ConocoPhillips had more than $506 million in winning bids in a Chukchi Sea offshore lease sale in February 2008.



"Units are supposed to be beneficial to both parties. The lessees get more time to explore their leases and the government gets a commitment that further exploration will occur."
—Greg Noble, acting chief of BLM Alaska's energy and minerals branch

New Bear Tooth unit

The BLM's Noble signed two Aug. 25 letters creating a new Bear Tooth unit and expanding the existing Greater Mooses Tooth unit. Both are in the northeast corner of the NPR-A, west of the Colville River and the Inupiat Eskimo village of Nuiqsut.

ConocoPhillips applied for the Bear Tooth unit on Aug. 19. It takes in all or part of 23 leases covering 105,655 acres, all federal land.

Noble's letter says natural gas has been discovered in the unit area, but no oil. It identifies the Cretaceous sandstone as the primary target and the upper Jurassic sandstone as the secondary target.

The surrendered leases didn't fit the company's strategic plans based on their potential for development, she said. What's more, many were in the very remote northwest section of the NPR-A, far to the west of existing production infrastructure at the Alpine field.

Under the unit agreement, ConocoPhillips must drill a well to the primary target in what's designated as Unit Area A. The company also must test the Scout 1 well to the secondary target in lieu of drilling a well for Unit Area B. The suspended Scout 1 well, which sits on the northern boundary of the Greater Mooses Tooth unit, was spud in March 2004.

The agreement gives ConocoPhillips a June 1, 2012, deadline to carry out the drilling and testing.

Greater Mooses Tooth expanded

Noble also granted an expansion of the Greater Mooses Tooth unit, originally formed in January 2008.

ConocoPhillips asked for the expansion on July 29, Noble's approval letter says.

The expansion adds four more leases to the unit, increasing its size from 147,456 acres to 164,014 acres. All the acreage is federal land, but 40,238 acres or about a quarter of the unit has been selected for future subsurface conveyance to Arctic Slope Regional Corp., the letter says.

In exchange for the expansion, ConocoPhillips must spud an exploration well by the third quarter of 2015. The well will target the upper Jurassic sandstone and "will be located at the Unit Operator's choice within the expansion area," Noble's letter says.

Failure to spud the well by the deadline will invalidate the unit expansion, the letter says.

NPR-A production coming

ConocoPhillips has been the most active driller in the NPR-A, an Indiana-sized tract of North Slope land former President Warren G. Harding set aside in 1923 for its oil and gas potential.

Most of the exploration, and discoveries, have been confined to the reserve's northeast corner, closest to the existing pipelines, roads and processing plants of the central North Slope oil fields.

Still, NPR-A is considered a frontier where development dictates an accumulation be either very large or reasonably close to infrastructure.

The NPR-A's latest wave of leasing began in 1999. Since then, ConocoPhillips has surrendered leases on at least two occasions. The company gave up 43 leases in 2007 and 41 leases last year, Lowman said.

But the company is marching toward first production from the NPR-A in late 2012 with its CD-5 Alpine West satellite development, which is in the permitting phase. The production pad would sit roughly midway between the Alpine field to the east and the Greater Mooses Tooth unit to the west. ●

continued from page 4

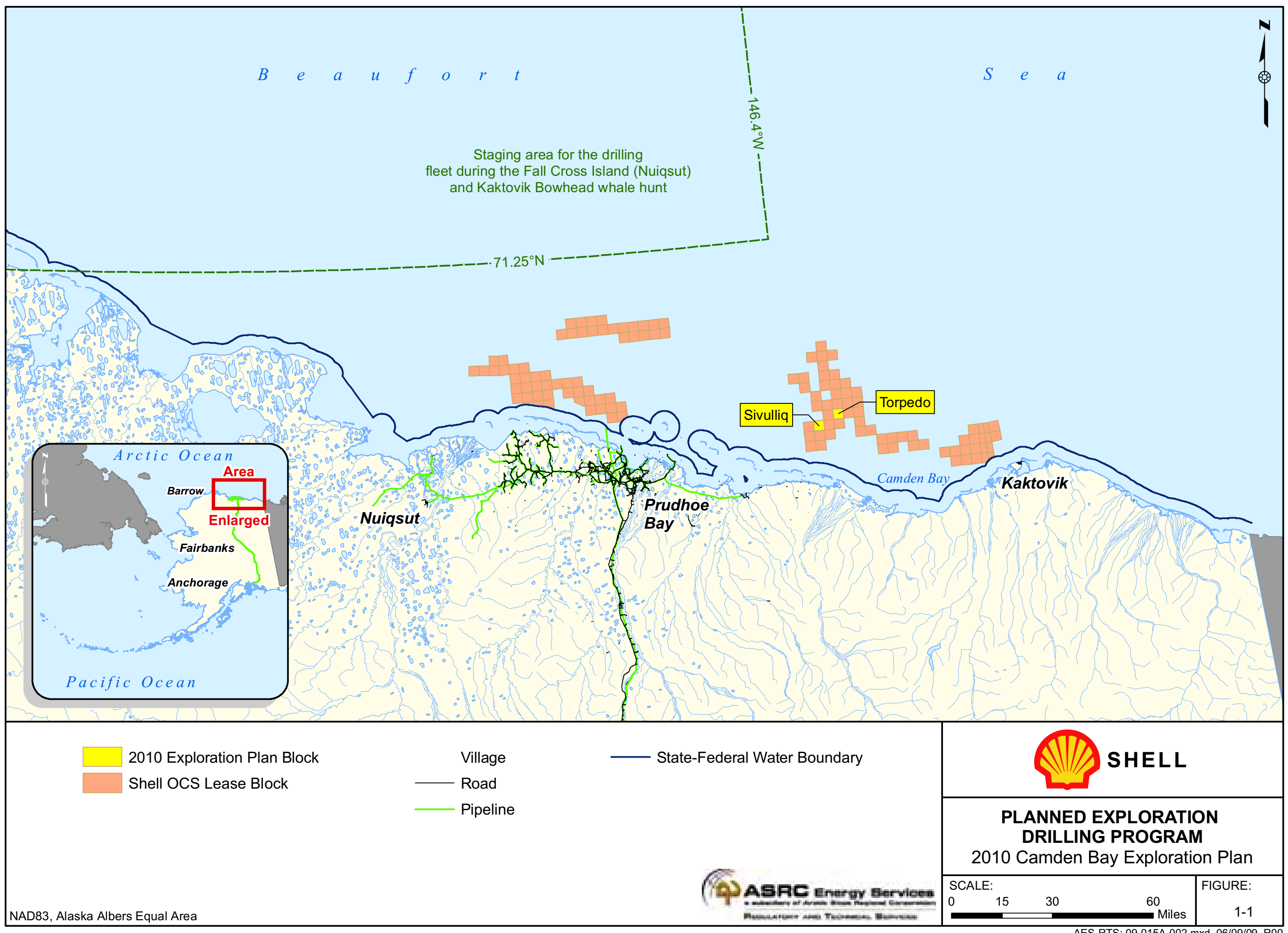
REVIEW

ation to anticipate sea-ice movement, deflect large ice floes and, if necessary, break the ice. A smaller icebreaker will serve as an auxiliary ice management vessel, in addition to doing the anchor handling for the drillship.

A four-vessel oil spill response fleet will include the Endeavor oil spill response barge and a 500,000-barrel-capacity oil spill response tanker — the tanker will be stationed at a location within a 24-hour sailing time of the drilling operations, with the on-site response vessels having sufficient storage capacity to support an oil spill cleanup until the tanker arrives.

A suitable vessel will resupply the offshore operation from the West Dock at Prudhoe Bay, while helicopters, principally based at Deadhorse, will support crew changes, resupply of provisions and search-and-rescue operations.

And Shell has prepared a plan for curtailing drilling operations, if necessary suspending the well and moving the drillship offsite, in the event of circumstances such as severe weather conditions or a threat to the drillship from sea ice.



SHELL OFFSHORE INC.

Plan of cooperation

Shell says that it has developed a plan of cooperation with North Slope communities, to identify measures that the company will take to minimize the impact of the offshore operations on the availability of marine mammals for subsistence hunting. These measures include the suspension of all operations and removal of the drillship and support vessels from the Camden Bay area, beginning Aug. 25 and lasting until the completion of the Cross Island bowhead whale hunt by the Nuiqsut villagers, and the completion of the Kaktovik bowhead whale hunt.

A communications plan involving the use of communications centers in coastal villages will swing into action prior to the start of Shell's offshore operations and will enable the coordination of exploration and subsistence hunting activities, Shell says. And the company says it will consult with local subsistence advisors for guidance on whale migration and the subsistence hunt. A series of protocols will specify restrictions on aircraft and vessel operations, to minimize impacts on wildlife.

Shell also says that it will try to provide employment opportunities for local residents, and that these opportunities will include work as marine mammal observers, subsistence advisors and communication center staff.

And Shell says that as far as possible it will re-use drilling mud, eventually disposing of water-based fluids at sea after diluting them with sea water. Rock cuttings from drilling operations will be disposed at sea. However, any hazardous waste material from the drilling operations will be transferred onshore to appropriate disposal sites.

Transit July 1

The Frontier Discoverer and the various support vessels will transit the Bering Strait into the Chukchi Sea around July 1 and arrive near Camden Bay around July 10. Depending on sea-ice conditions, drilling activities will likely last from around July 10 to Oct. 31, except when suspended because of subsistence hunting activities. At the end of the drilling season, all of the vessels will transit back through the Chukchi Sea.

The expense and work involved in ramping up and deploying the equipment and personnel involved in even this scaled-down Beaufort Sea exploration plan will require a go-or-no-go decision at the beginning of 2010, Pete Slaiby, Shell's Alaska general manager, told Petroleum News Aug. 18.

"All of our energies, right now, in this office are really centering around the decisions we're going to take to mobe or not mobe the drilling spread in 2010," Slaiby said. "…That's a difficult decision, with hundreds of millions of dollars at stake in getting it wrong."

Shell has applied to the Environmental Protection Agency for a major air quality permit for the emissions from its drilling operations, but the company is concerned about the length of time that EPA is taking to process the permit, perhaps placing that go-or-no-go decision in jeopardy. EPA has told Petroleum News that it has given Shell's air quality permit applications for planned drilling in both the Chukchi and Beaufort seas top priority, but that there have been many changes in environmental management since the agency last had to process major air quality permits for the outer continental shelf more than 20 years ago. ●

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GLENNALLEN WELL

Aug. 31. Rutter said that drilling at Glennallen had started around Aug. 22 and that, if the drilling works out as planned, the drill bit should enter the gas reservoir in a few days time.

"By the end of the week or over the weekend we should be testing it," Rutter said.

Using the same Schlumberger coiled tubing unit that Rutter and Wilbanks had used to drill the Ahtna 1-19A sidetrack, the company has augured down through the cement used to plug the well in 2007, clearing the cement out of the well casing and restoring the full diameter of the well bore in preparation for drilling a second sidetrack into the gas reservoir, to test the size and nature of the gas pool.

Perhaps 150 bcf

Rutter said that he is fairly sure that there is 50 billion to 150 billion cubic feet of gas in the Ahtna prospect.

"We'll probably have deliverability of 20 million to 30 million (cubic feet) per day," he said.

And although there is a local market in Glennallen for the gas as a fuel for electricity generation, Rutter thinks that a find of this size would need a larger market, such as the sale of gas in Fairbanks.

However, success with the well is contingent on demonstrating that gas production would not be accompanied by excessive water production — high-pressure water that has in the past entered the well above the gas reservoir has plagued previous attempts at drilling. So, to stem the flow of water into the well drillers have used cement to "squeeze" the subterranean channel from which the water originates, and on Aug. 31 the drilling team was waiting to see whether the cement had successfully set, hoping that the setting would not be disrupted by water continuing to flow into the well.

"We believe we got a good squeeze. … The pressure kept going up, so we think we've gotten some resistance and that the cement will set," Rutter said.

Once the cement has set, the drillers will perforate the well casing about 50 feet above the previous sidetrack point to determine whether the flow of high-pressure water into the well has ceased. And if the flow has stopped, the next step will be to cut open a new sidetrack window in the casing, and drill the new sidetrack, Ahtna 1-19B, into the gas reservoir, Rutter said.

Started 2004-05

The Rutter and Wilbanks Glennallen well venture originally started in the winter of 2004-05 when the company shot some seismic over a structure near an Amoco well drilled about 25 years earlier. And in 2005 the company drilled what should have been a straightforward exploration well, the Ahtna 1-19. The well was drilled to its target depth of 7,500 feet without apparently finding any gas. But because of a high pressure zone at a depth of 1,200 feet, the company had to use heavy drilling mud that damaged a potential gas reservoir partway down the well.

"We got 1,000 pound pressure at 1,100 feet," Rutter later told Petroleum News. "In the annals of the oil business this is a very rare occurrence, almost impossible to comprehend."

The reason for the high pressure seems to be recent uplift of deeply buried rocks along a fault — the rocks had been subjected to high pressure at depth and the pressure is still slowly bleeding off, Rutter said.

In the fall of 2006 the company made an unsuccessful attempt to penetrate the damaged section of the reservoir rock adjacent to the well bore, using a Cad Pressure Central snubbing unit.

"They got stuck again. … They couldn't make the Perf Drill work; they couldn't get more than 3 or 4 feet out into the formation," Bill Rutter III told Petroleum News in October 2006. "It was an expensive experiment and it didn't work. We're coming back in the spring with a drill rig."

Returned in 2007

The company duly returned in 2007 to drill the Ahtna 1-19A sidetrack well into the reservoir using the Schlumberger coiled tubing unit and in June 2007 announced the gas find in the upper Nelchina at a depth of 4,300 feet.

But the well was producing excessive amounts of water along with the gas, even though resistivity logs suggested that relatively little of this water originated in the reservoir. To determine whether gas could be produced viably and to better understand how much gas the reservoir contains, Rutter and Wilbanks decided that it would need to drill a second sidetrack. And so, after a two-year hiatus while the company tried to secure the use of a suitable drilling rig, drilling of that sidetrack is now under way.

"If I can get a rig that can re-complete the well I think we'll have a gas discovery," Rutter said in 2008. "We know how big the structure is. What we don't know is how much of the structure has gas in it. Is it filled to the brim, or is it just up there in the very peak, because we drilled right on the top of the structure?"

So is this new drilling project the final, successful installment of a saga in which the initial estimated cost of $2 million had already ratcheted up to $20 million prior to bringing the coiled tubing unit back to the well site this summer? Rutter hopes so.

"It's been one delay after another," Rutter said. "I've made my reservations to go up there four times." ●

Editor's note: The Copper River Record contributed to this story

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PACIFIC ENERGY

ble for property once it is abandoned," say papers the State of Alaska filed Aug. 26 in the Delaware bankruptcy court. The papers note a lawsuit already has been filed in state Superior Court to determine who is liable for dismantlement of Trading Bay offshore platforms.

The majority owner and operator, Chevron, pledged to continue oil production and maintenance at Trading Bay and to "work with all interested parties to determine an appropriate path forward."

It wasn't known whether Chevron itself made a bid to take over Pacific Energy's share of the property.

Failed sale

In the days leading up to the judge's abandonment order, Pacific Energy had attempted to spin off its 46.8 percent stake in Trading Bay to Ocar Energy, a Delaware limited liability company with a business address in Toronto, Canada. Little more is known about Ocar.

According to a 77-page purchase and sale agreement filed with the court on Aug. 12, Pacific Energy aimed to sell the property to Ocar for $100.

The tiny purchase price, however, masked the true size of the deal, which would have required the buyer to shoulder major obligations, including the $43.6 million owed to Chevron for Pacific Energy's unpaid share of production and maintenance expenses at Trading Bay.

The judge had approved the sale contingent on the buyer meeting an Aug. 31 deadline for showing "satisfactory evidence of financial ability" to meet the obligations. When lawyers said at a Sept. 1 hearing that a financing deal was close, the judge granted Ocar and Pacific Energy a couple of extra hours to try to close it.

But according to the order the judge signed the next day, "no sale transaction … could be consummated."

Forced into bankruptcy

Pacific Energy, based in Long Beach, Calif., filed for Chapter 11 bankruptcy reorganization on March 9 citing the steep drop in oil prices toward the end of 2008. The Mount Redoubt volcano also hurt the company, with eruptions halting oil production earlier this year on the west side of Cook Inlet.

Facing millions of dollars in losses on its Alaska holdings, Pacific Energy sought to sell its Alaska assets as well as its oil and gas properties in California.

The company packaged its Alaska properties into two groups, one centered on Trading Bay and the other holding oil and gas assets that Pacific Energy itself operates.

Pacific Energy has said New Alaska Energy, an Alaska limited liability company, has offered to pay $7 million for the second group of assets. But so far no sale has been completed.

The group includes the Pacific Energy-operated West McArthur River field, the West Foreland field, and the Redoubt Shoal field with its Osprey offshore platform and Kustatan onshore production facility. Also included are interests in the Three Mile Creek field, which Aurora Gas operates; some exploration properties; and a 50 percent stake in Cook Inlet Pipe Line Co.

State worries

Pacific Energy has told the court it might abandon these assets, too, if it can't work a sale.

Lawyers for the State of Alaska on Aug. 27 filed an objection to that plan, arguing the environment might be at risk and the state might have to spend tens of millions of dollars to safeguard or decommission abandoned wells. Pacific Energy's lawyers responded Aug. 28 by saying the company is proceeding with a sound shut-in plan for its operated assets.

"The State of Alaska argues that the Debtors must 'winterize' their wells, pipelines and other facilities prior to abandonment, but that is precisely what the Debtors are doing (and quite a bit more) as part of the Abandonment Protocol," Pacific Energy lawyers wrote.

Pacific Energy entered the Alaska scene in 2007, buying the assets of Forest Oil Corp. for $464 million.

In a May 15 financial report, Pacific Energy said its total production for the first quarter of this year was 6,514 barrels of oil equivalent per day, with 3,415 barrels produced in California and 3,099 barrels in Alaska.

Surrendered assets

Trading Bay produced a high this decade of 666,000 barrels of oil in 2002, but production has declined sharply since then, state Division of Oil and Gas records show.

A court exhibit lists the assets Pacific Energy has abandoned, including its working interests in 11 state leases in the Trading Bay unit, most of them dating back to 1962. Pacific Energy also held an interest in the single lease comprising the Trading Bay field.

In terms of Trading Bay unit equipment, Pacific Energy surrendered interests in four offshore platforms with five drilling rigs plus the onshore production facility, the exhibit shows.

The assets include the Dolly Varden platform with associated infrastructure, pipelines and nine wells; the Grayling platform with 12 wells; the King Salmon platform with four wells; and the Steelhead platform with three wells.

In the Trading Bay field, Pacific Energy abandoned interests in the Monopod platform with a drilling rig and 27 wells. ●