Petroleum news

page 5 Q&A: Gara, Coghill — if SB 21 repealed, no fix until January

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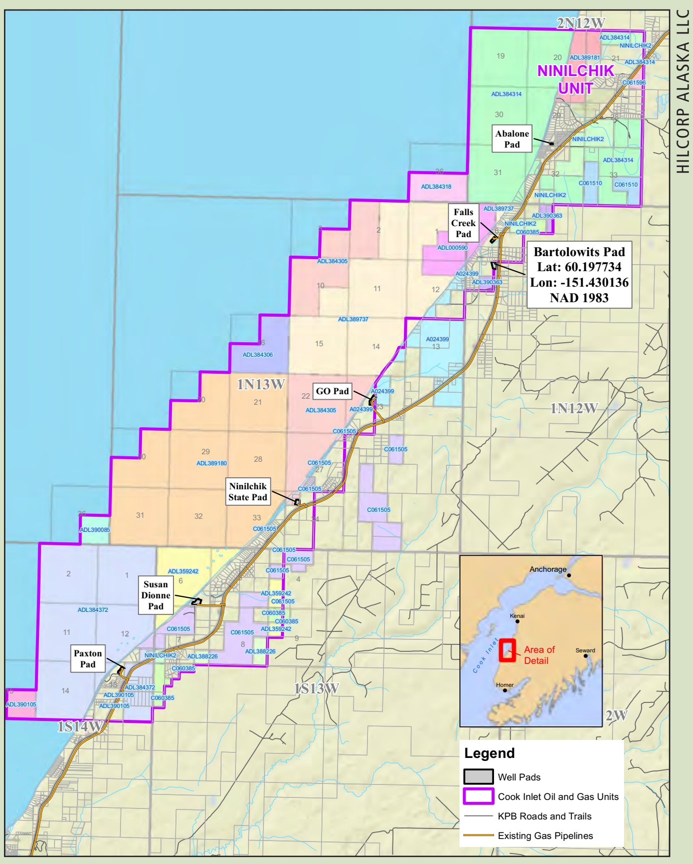
More wells planned



Hilcorp plans to drill two development wells this year from the Bartolowits pad at it Ninilchik unit. See story page 10.

ISER's Berman: PPT was better; economist compares tax systems

It's too bad Alaskans have only two choices in voting on production taxes in the primary election Aug. 19 — rejecting Senate Bill 21, the More Alaska Production Tax, MAPA, in favor of ACES, Alaska's Clear and Equitable Share — because the tax system which preceded ACES, PPT, the Petroleum Profits Tax, "arguably represents a better fit for Alaska's production tax regime than either of the two current choices."

That is the conclusion reached by Matthew Berman, professor of economics at ISER, the University of Alaska Institute of Social and Economic Research, in an August comparison of the state's historic production tax systems.

PPT had neither the high rates of ACES nor the administrative complexity and inefficient incentives of MAPA, Berman said in "Comparing Alaska's Oil Production Taxes: Incentives and Assumptions," available online at

see **TAX COMPARISON** *page 21*

Miller Energy looks to settle securities lawsuit in Tennessee

The parties expect to file full settlement documentation by Aug. 15, with a hearing on preliminary approval possibly to come in early September.

Miller Energy Resources Inc. says it has reached a settlement in a securities fraud case in Tennessee, where the company is based.

Resolving the class action would involve a payout of $2.95 million, with the money coming from the company's insurer, said a notice of settlement filed July 17 in U.S. District Court at Knoxville.

Miller is the parent company of Cook Inlet Energy LLC, an Anchorage-based oil and gas producer and explorer.

Investors hit Miller with several lawsuits after its stock price tanked in 2011. The suits were consolidated into a single case, with the Oklahoma Firefighters Pension and Retirement

see **MILLER SUIT** *page 22*

EXPLORATION & PRODUCTION

Whither BP's behemoth?

As company works up new Liberty development plan, big rig remains sidelined

By WESLEY LOY
For Petroleum News

In a July 24 reply to BP, a BOEM official said the agency would consider the 2008 development plan closed. The new Liberty plan, due by year's end, will replace the 2008 plan.

It's been five years since BP shipped a gigantic, specially designed drilling rig to Alaska's North Slope to develop the offshore Liberty oil field.

But the rig has yet to drill a well. It's just sitting there.

Exactly what BP plans to do with the behemoth, constructed by Parker Drilling Co., remains to be seen.

But one thing seems apparent — it won't be used for the Liberty project.

BP has indicated as much in correspondence this year with the federal Bureau of Ocean Energy Management.

The company faces a Dec. 31 deadline to submit a revamped development and production plan for Liberty, which sits on two outer continental shelf leases.

The new plan "will not utilize" the Parker-built rig, said a May 7 letter from BP to BOEM.

$1 billion writedown

Parker Drilling fabricated the rig for BP at

see **LIBERTY PLAN** *page 22*

EXPLORATION & PRODUCTION

A continuing plan

Apache applies to NMFS for LOA for five-year Cook Inlet seismic program

By ALAN BAILEY
Petroleum News

A letter of authorization, while having the same general purpose as an incidental harassment authorization, involves a more complex application process but can encompass a timeframe longer than a single year, thus presumably eliminating some timing uncertainty once approved.

Perhaps dispelling some doubts about its commitment to Cook Inlet exploration following some frustration with permit-related issues in its seismic surveying, Apache Alaska Corp. has applied to the National Marine Fisheries Service for a letter of authorization for a five-year program of offshore surveying in the inlet, planned for the period March 2015 to February 2020. The letter of authorization would allow some minor disturbance of marine mammals in the inlet during seismic operations.

The requested authorization would encompass a 1,863-square-mile area of upper Cook Inlet, stretching from just south of Kalgin Island, north to waters west of the northern Kenai Peninsula.

see **APACHE SEISMIC** *page 23*

EXPLORATION & PRODUCTION

Canada's Arctic mapping

Two icebreakers collecting data to bolster country's case for seafloor control

By GARY PARK
For Petroleum News

The Canadian government is planning a second mapping trip in 2015.

Canada has two icebreakers in the High Arctic collecting scientific data that is designed to bolster its case for control of the seafloor on the Continental Shelf, including the North Pole.

The Coast Guard vessels, Terry Fox and Louis S. St-Laurent, will spend six weeks on the mission "to ensure that Canada secures international recognition of the full extent" of the region, said Foreign Affairs Minister John Baird.

The Geological Survey of Canada, GSC, and the Canadian Hydrographic Service, CHS, are responsible for the work, with the Louis S. St-Laurent equipped with state-of-the-art multi-beam sonar technology to provide Canada with the latest technology capacity to "maximize our chances of success in this challenging environment," said Fisheries and Oceans Minister Gail Shea.

Natural Resources Minister Greg Rickford added that the GCS's history of advancing knowledge of "our mineral resources" underpins the goal of making certain "the natural resources of this country support the long-term prosperity of Canadians."

Partial submission in December

The survey work follows a partial submission

see **ARCTIC MAPPING** *page 23*

contents

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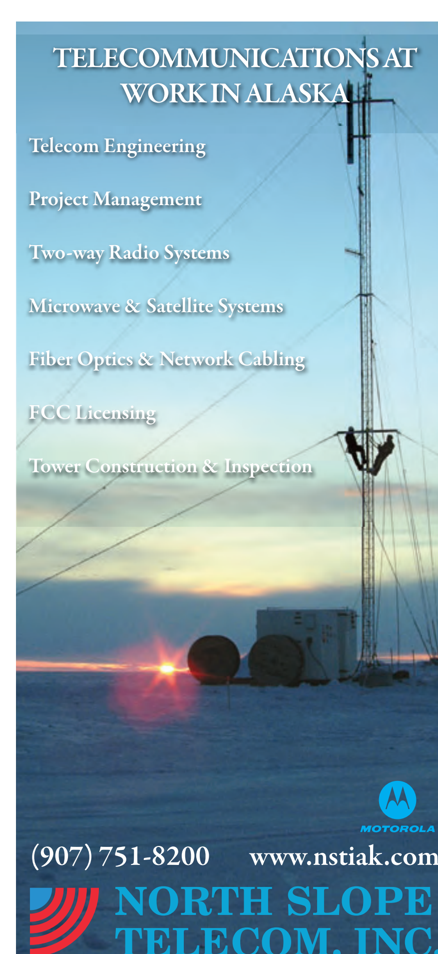


Alaska - Mackenzie Rig Report

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, Rig Maintenance	BP
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay, Rig Maintenance	BP
Dreco D2000 Uebd	19 (SCR/TD)	Alpine CD4-96	ConocoPhillips
AC Mobile	25	Prudhoe Bay Y-39	BP
OIME 2000	141 (SCR/TD)	Kuparuk 2.E-02	ConocoPhillips
Kuukpik	5	Prudhoe Bay	Available
Nabors Alaska Drilling			
AC Coil Hybrid	CDR-2	Kuparuk 2F-18	ConocoPhillips
Dreco 1000 UE	2-ES (SCR-TD)	Prudhoe Bay	Available
Mid-Continental U36A	3-S	Prudhoe Bay	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay	Available
Dreco 1000 UE	7-ES (SCR/TD)	Kuparuk	ConocoPhillips
Dreco 1000 UE	9-ES (SCR/TD)	Kuparuk	ConocoPhillips
Oilwell 2000 Hercules	14-E (SCR)	Prudhoe Bay	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Prudhoe Bay	Available
Emsco Electro-hoist-2	18-E (SCR)	Prudhoe Bay	Stacked
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Prudhoe Bay	Stacked
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Deadhorse, under contract to ExxonMobil for 2015	
Emsco Electro-hoist	28-E (SCR)	Prudhoe Bay	Stacked
Oilwell 2000	33-E	Prudhoe Bay	Available
Academy AC Electric CANRIG	99AC (AC-TD)	Deadhorse	Availablel
OIME 2000	245-E (SCR-ACTD)	Oliktok Point	ENI
Academy AC electric CANRIG	105AC (AC-TD)	Deadhorse	Available
Academy AC electric Heli-Rig	106-E (AC-TD)	Deadhorse	Available
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site D-30	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Drill Site H, conducting rig maintenance	BP
Ideco 900	3 (SCR/TD)	Kuparuk Well 1Y-10	ConocoPhillips
Parker Drilling Arctic Operating Inc.			
NOV ADS-10SD	272	Prudhoe Bay DS 18	BP
NOV ADS-10SD	273	Prudhoe Bay DS W-59	BP

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
BP			
Top Drive, supersized	Liberty rig	Inactive	BP
Doyon Drilling			
Sky top Brewster NE-12	15 (SCR/TD)	Spy Island, Rig Maintenance	ENI
Nabors Alaska Drilling			
OIME 1000	19AC (AC-TD)	Oooguruk ODSN-02	Pioneer Natural Resources

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Kenai Land Ventures LLC (All American Oilfield Associates, labor Contract)			
Taylor	Glacier 1	Kenai Loop Drilling Pad #1	Buccaneer Energy Ltd.
All American Oilfield Associates			
IDECO H-37	AAO 111	Kenai Yard	Available
Aurora Well Services			
Franks 300 Srs. Explorer III	AWS 1	on the P & A for Apache well Kaldachabuna 2	Aurora Gas
Doyon Drilling			
TSM 7000	Arctic Fox #1	Demobilizing from Beluga	ConocoPhillips
Nabors Alaska Drilling			
Continental Emsco E3000	273E	Kenai	Available
Franks	26	Kenai	Stacked
IDECO 2100 E	429E (SCR)	Kenai	Stacked
Rigmaster 850	129	Kenai	Available
Saxon			
TSM-850	147	Ninilchik Unit, Bartolowits pad drilling Frances #1	Hilcorp Alaska
TSM-850	169	Swanson River	Hilcorp Alaska

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
XTO Energy			
National 110	C (TD)	Idle	XTO
Spartan Drilling			
Baker Marine ILC-Skidoff, jack-up		Spartan 151 Upper Cook Inlet KLU#1	Furie
Cook Inlet Energy			
National 1320	35	Osprey Platform RU-1, workover	Cook Inlet Energy
Hilcorp Alaska LLC (Kuukpik Drilling, management contract)			
		Steelhead Platform	Hilcorp Alaska LLC
Patterson UTI Drilling Co LLC			
	191	West McArthur River Unit #8	Cook Inlet Energy
Kenai Offshore Ventures			
LeTourneau Class 116-C, jack-up	Endeavor	Port Graham	Buccaneer Energy Ltd.

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

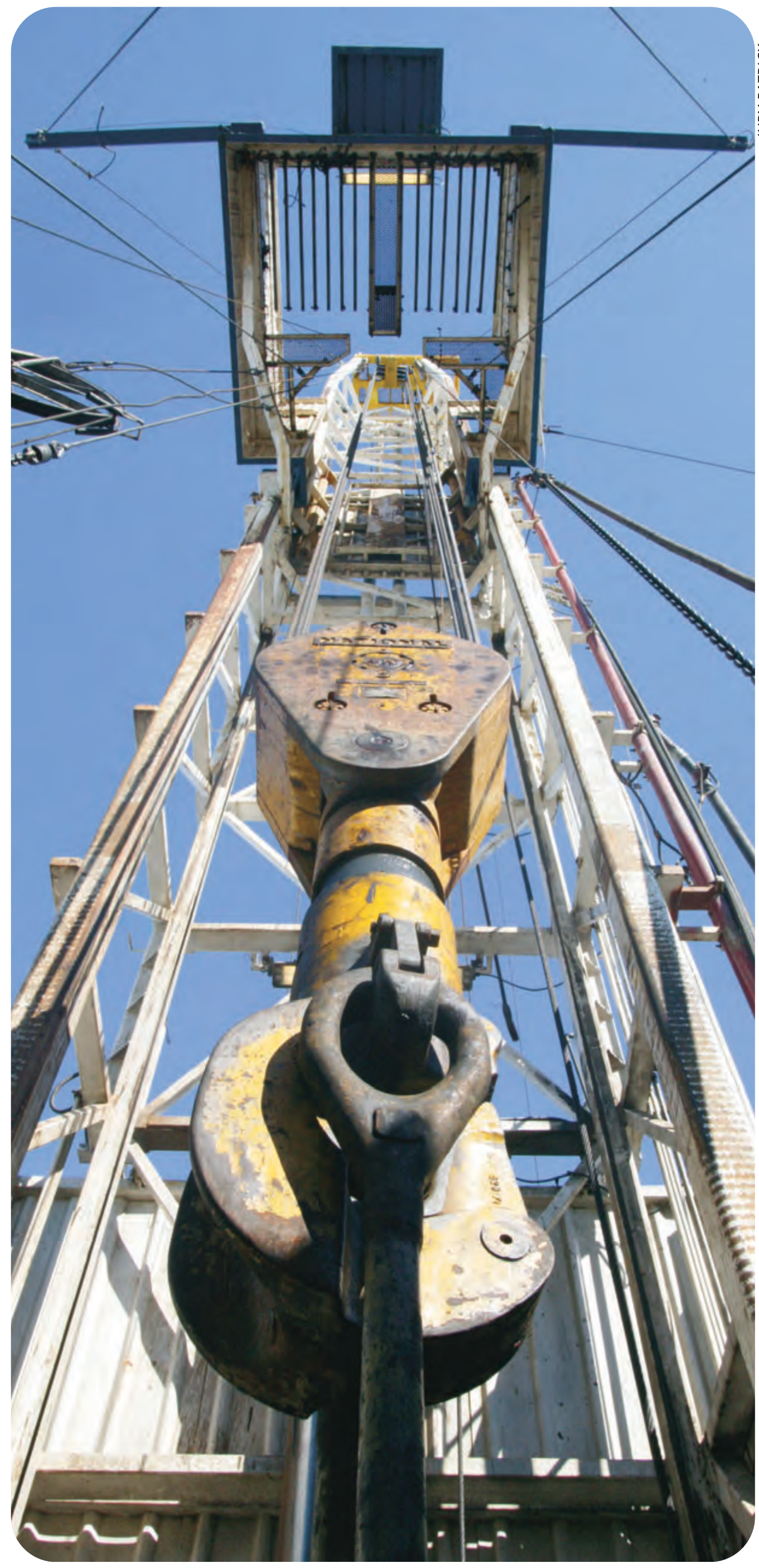
Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Akita			
TSM-7000	37	Racked in Norman Well, NT	Available

The Alaska - Mackenzie Rig Report as of August 13, 2014. Active drilling companies only listed.

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

This rig report was prepared by Marti Reeve



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	Aug. 8	Aug. 1	Year Ago
US	1,908	1, 889	1,778
Canada	387	392	358
Gulf	60	58	55

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

*Issued by Baker Hughes since 1944

The Alaska - Mackenzie Rig Report is sponsored by:

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● PIPELINES & DOWNSTREAM

BC resource sector under the gun

Breach at mining dam threatens drinking water, salmon-spawning rivers, spilling over to wider resource industry, pipeline plans

By GARY PARK

For Petroleum News

Opponents of natural resource development have started turning words into action across Canada.

In northwestern British Columbia, the Gitxsan First Nation blocked the movement of Canadian National Railway trains through their 13,000 square miles of "traditional" land.

In southwestern Ontario, protesters set up a blockade at a pipeline site, disrupting work on the reversal of Enbridge's Line 9 which is planned to replace oil imports into Quebec and Ontario refineries with crude from Western Canada, mostly the Alberta oil sands.

But those events were quickly overshadowed when a dam containing tailings from Imperial Metals' Mount Polley gold and copper mines in central British Columbia's Cariboo region was breached, sending 10 million cubic meters of water and 4.5 million liters of toxic silt into adjoining lakes and some of the world's largest salmon spawning rivers.

Filings with Environment Canada showed that material dumped into the tailings pond last year included 326 metric tons of nickel, 400,000 kilograms of arsenic, 177,000 metric tons of lead and 18,400 metric tons of copper.

Imperial says no mercury

Imperial President Brian Kynoch told a meeting of residents that mercury had never been detected in the pond, while arsenic levels were about one-fifth of drinking water quality.

"We regularly perform toxicity tests and we know this water is not toxic to rainbow trout," insisting that water from the pond is "very close to drinking water quality," though the silt poses a problem.

The Cariboo Regional District took no chances, declaring a state of local emergency, giving it access to additional resources that were needed to further protect private property and government infrastructure.

While water tests were being conducted, a ban was imposed on all consumption and recreational use of the Quesnel and Cariboo river systems from the spill site to the Fraser River, several hundred kilometers away.

Imperial Metals' controlling shareholder is Murray Edwards, an influential stakeholder in Canadian Natural Resources and Penn West Petroleum and a leading organizer of fundraising within the Alberta-based petroleum industry for B.C. Premier Christy Clark and her governing Liberal party.

That disclosure compounded unease among anti-industrial factions that neither the wider resource sector nor the British Columbia government can be trusted to act as responsible stewards of the public interest.

Engineering firm warnings

The Vancouver-based engineering firm of Knight Piesold, which designed the tailings dam and storage facility at Mount Polley, issued a statement Aug. 8 saying it had warned Imperial Metals and provincial government officials that the dam was "getting large" and steps should be taken to avert problems.

The firm said it ended its involvement with the tailings facility in February 2011 and that changes made to its design and engineering since then mean it could "no longer" be considered a Knight Piesold design.

However, in preparing to hand over its responsibilities as an engineer of record, the firm said it sent the cautionary advice to Kynoch and the B.C. chief inspector of mines, then opted out of bidding to retain its role as the engineer responsible for the dam's design.

> *"A spill is a spill is a spill," said Grand Chief Stewart Phillip, president of the Union of B.C. Indian Chiefs, arguing it makes no difference whether it comes from a mine or a pipeline such as Enbridge's Northern Gateway or Kinder Morgan's Trans Mountain expansion.*

Kynoch, without responding directly to the Knight Piesold statement, told a community meeting that if those who engineered the dam had said a bigger dam was needed "we would have built a bigger dam."

Environment Minister Mary Polak told a conference call with reporters that her department did not have any of the Knight Piesold complaints "on record."

She said six inspectors are now gathering concerns expressed by Imperial Metals employees, former employees and First Nations.

A spokeswoman for the Mining Association of B.C. said that although little is known about the cause of the spill — which she described as an "anomaly" — there could be consequences for the mining industry.

The Canadian Association of Petroleum Producers has not said whether it expects any collateral fallout.

Concerns from First Nations

But Bob Simpson, a former member of the provincial legislature from the Cariboo area, told reporters the government is "directly implicated" in the dam breach, saying the Ministry of Mines, in approving the mine expansion, failed to "account for the increased effluent into an already suspect tailings pond."

Grand Chief Stewart Phillip, president of the Union of B.C. Indian Chiefs, said the spill will have a major impact on the relationship between First Nations and the resource industry.

"A spill is a spill is a spill," he said, arguing it makes no difference whether it comes from a mine or a pipeline such as Enbridge's Northern Gateway or Kinder Morgan's Trans Mountain expansion.

Phillip said the issue is one of toxic chemicals such as oil and mining sludge versus water and the environment.

He said that if the government does not provide adequate answers on the spill's impact and the history of problems at Mount Polley his organization will call for a public inquiry. ●

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● GOVERNMENT

New legislature would take up oil tax

Gara, Coghill agree: If SB 21 repealed, ACES reinstated, work on oil production tax wouldn't happen until after general election

By STEVE QUINN
For Petroleum News


SEN. JOHN COGHILL

Sen. John Coghill believes it's time to lay the oil tax debate to rest. That, the North Pole Republican and Senate Majority Leader says, starts with voting no on the state's Ballot Measure 1, which seeks to repeal Senate Bill 21, Gov. Sean Parnell's rewrite of Sarah Palin's Alaska's Clear and Equitable Share.

1 2 SERIES

Coghill, who has also been in office for the Petroleum Production Tax under former Gov. Frank Murkowski, shared his thoughts on the upcoming vote with Petroleum News.

Q AND A

Petroleum News: Right now the argument against the measure is more about jobs if you look at the commercials than the original debate during session which was about production. Has the argument changed?

Coghill: I think what has changed is that you see the benefit starting to emerge. You see more activity on the North Slope. So you see people highlighting the jobs because that is one of the benefits of the tax changes. Investment has gone up. To be fair, Point Thomson, we had to settle that out, and that's one of the big jobs parts of it. But investments in the legacy fields and in some of the marginal fields have gone up. I'd say it's drawn attention to the jobs. It is certainly a benefit.

Petroleum News: Earnings reports have come out recently. Producers are earning more money while producing less. Is that an indication that there is still no incentive to produce more? Or is it too early to tell?

Coghill: That's one of the reasons why we wanted to make it valuable to them and valuable to us to actually show new barrels of oil before any new investment is credited. I don't mind an oil company making a profit. Certainly I think Alaska wants to make a profit. So I think that's great. Alaska is probably not putting the capital up that maybe the oil companies are. When you look at earnings, you need to look at their risk portfolio, too. I know Conoco, for instance, invested in things they took a beating on. I think the risk factor needs to be part of the discussion more. It's like if you are going to put money into the stock market, you can put it into funds that are very secure and pay low interest or the higher the interest the greater the risk, right? The oil industry is fairly risky stuff. In Alaska we want them to come up here and put their risk capital to work.

Petroleum News: ACES backers wanted their critics to give ACES time to work. Now that SB 21 is going on eight months old, should SB 21 supporters receive the same consideration?

Coghill: Absolutely. Now that we are here, it enters into the stability question. To me it's unfortunate we let the ACES discussion move just beyond the ability to manage it all. A lot of it came down to the progressivity and the monthly figuring. It was so complex and the credits were going to cost the state of Alaska, especially under the low price scenario, Alaska would be taking the lion's share of the risk for investment of the North Slope and not get any of the benefit. Once we began to realize that, and we realized it pretty early, we saw that we had gone a little further than we should have. Now I say, put SB 21 in place. It's clear. It's enforceable. It's stable. We raised the base tax rate, but we give credit for producing oil. There is a component that says we'll share the wealth. It's not as

see **COGHILL Q&A** *page 19*

By STEVE QUINN
For Petroleum News


REP. LES GARA

In a few days voters will decide whether to leave Gov. Sean Parnell's tax regime intact or repeal it, forcing the state to return to the old system drafted by former Gov. Sarah Palin, known as ACES.

House Rep. Les Gara knows it's unlikely the repeal that he favors will pass, but he remains resolute in his position.

1 2 SERIES

Gara, an Anchorage Democrat, discussed his positions with Petroleum News as the debate headed into the home stretch.

Q AND A

Petroleum News: As you look at these debates over the last six to eight years, what, if anything has changed?

Gara: Well, the oil companies' position keeps changing. The first time Gov. Parnell surveyed the oil companies on the North Slope, virtually every one of them said ACES was fine. Then they saw Sean Parnell was willing to give them money. Second, the oil companies said ACES was fine except at really, really high prices. They said the tax cap should be lower. We should have done that. That actually makes sense. They said forget about that. We need gobs of money you're going to give us under SB 21, and what Scott Goldsmith admits produces zero or negative income on fields after 2003 and all new fields. So their argument keeps changing.

Petroleum News: Let's say the repeal passes. What do you see happening or what would you like to see happening?

Gara: I would like to sit down and stop hiding the experts that we could have had online that Gov. Parnell refused to allow to come to Juneau and come up with our own tax law that allows incentives to oil companies so we can become equal partners with them but only if they invest in Alaska and Alaska production, and research and development for heavy oil that is sitting in the ground that is part of our future. And a law that gets us our fair share when oil companies are making windfall profits so we don't have to live in deficit mode, so we don't have to cut the Permanent Fund dividend, which I don't want to do. That's what we should do. Giving away our oil for what Scott Goldsmith concedes is negative value is an insane policy for our state.

Petroleum News: Would you like to see a new tax drafted right away or wait until the session?

Gara: Obviously you have to wait until the session begins. ACES, let's admit it, was bringing up the development and the development had already started under ACES but companies are touting now as if it were brand new. So that will continue. ACES imposes a modest tax that doesn't take effect until they make $30 a barrel in profit. That's when the surcharge kicks in. It's a fair tax. At some point at very high prices, the tax went too high. I think we need to tighten down some of the tax credits so oil companies get them for production related items instead of building airport runways.

So there are fixes that can be made under ACES. I think we need a heavy oil incentive that will help companies with research and development. We need to help small companies build the thing that's an impediment to their production. The big companies don't let them share in the processing facilities. We need to have a processing facility incentive so when they find that oil they can get that oil in the pipeline.

see **GARA Q&A** *page 19*

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● NATURAL GAS

Hilcorp gas sales to Chugach extended

Electric utility secures supply into 2019 but gas volume and price remain commercially confidential in new tariff revision

By ALAN BAILEY

Petroleum News

In an Aug. 6 filing Chugach Electric Association has requested Regulatory Commission of Alaska approval of a revised tariff that extends the electric utility's gas supply agreement with Hilcorp Alaska LLC for a year, from April 1, 2018, to March 31, 2019. The current supply agreement terminates on March 31, 2018.

But, although the proposed supply extension gives reason for optimism over continuing supplies of utility gas from the Cook Inlet basin, the extension does not account for all of Chugach Electric's gas supply needs through the first quarter of 2019. In its tariff filing, Chugach Electric said that other gas producers are not able to fully meet its gas supply requirements. And, citing a need for commercial confidentiality, Chugach has removed both the contracted gas volumes and the agreed gas pricing from the public tariff filing.

In a request to the commission for confidentiality, Chugach said that, with few sellers and buyers in the Cook Inlet gas market, public knowledge of the pricing and volumes in its revised Hilcorp agreement could compromise the utility's ability to negotiate supply agreements with other gas producers. Potential gas suppliers would have a strong incentive to seek pricing identical to that in the Hilcorp contract, thus undermining Chugach's ability to seek advantageous pricing for its customers, the utility wrote.

A need for additional gas in 2019, assuming that Hilcorp does not fully meet Chugach's needs, would presumably come as welcome news for other Cook Inlet gas producers, several of whom have expressed concern about the way in which Hilcorp has tied up the utility gas supply market through to the first quarter of 2019 after signing supply agreements with several Southcentral gas and power utilities. The producers have said that they need markets for their gas to justify the cost of gas exploration and development.

The new Hilcorp gas supply agreement includes agreed volumes and pricing for both firm gas supplies and for interruptible supplies. It also includes a new provision for "discretionary gas," gas which may be requested or sold, depending on gas demand and availability. While the agree-

see GAS SALES page 7

NATURAL GAS

Supplemental EIS for in-state gas line

The Alaska Gasline Development Corp. said Aug. 5 that the U.S. Army Corps of Engineers will prepare a draft supplemental environmental impact statement for the ASAP, Alaska Stand Alone Pipeline Project. ASAP is the in-state gas line to bring North Slope natural gas to Fairbanks and Southcentral. AGDC is pursuing ASAP as a backup to the Alaska LNG Project, the export liquefied natural gas project which is being pursued by ExxonMobil, ConocoPhillips, BP, TransCanada and the state.

The initial 75-day scoping period for the SEIS runs through Oct. 14.

The Corps prepared a final EIS for ASAP in October 2012.

"Since then," AGDC said in a statement, "the project has undergone a number of design modifications which require additional public comment and analysis, and which necessitate an SEIS."

Fourteen public scoping meetings are scheduled: Aug. 18, Healy; Aug. 19, Nenana; Aug. 20, Cantwell; Aug. 21, Talkeetna; Aug. 25, Willow; Aug. 26, Anchorage; Aug. 27, Kenai; Aug. 28, Seward; Sept. 2, Fairbanks; Sept. 3, Wiseman; Sept. 4, Minto; Sept. 10, Anaktuvuk Pass; Sept. 17, Barrow; and Sept. 18, Nuiqsut.

AGDC submitted a revised application July 21; a copy is available at http://asapgas.agdc.us/ and on the Corps' SEIS website www.asapeis.com.

—KRISTEN NELSON

● FINANCE & ECONOMY

Brent, WTI crude oil prices down in July

Energy Information Administration's short-term outlook says market's perception of risk down; US production hits 8.5 million bpd

By KRISTEN NELSON
Petroleum News

July crude oil and natural gas prices were both down from June, based on market perception in the case of oil and production in the case of gas.

In its August Short-Term Energy Outlook the U.S. Energy Information Administration said the Brent crude oil spot price dropped in July to an average of $107 per barrel, down from a June average of $102. The agency credited a market "perception of reduced risk to Iraqi oil exports and news regarding increasing Libyan oil exports" as contributing factors.

July was the 13th consecutive month in which average Brent crude oil spot prices fell in the relatively narrow range of $107 to $112 per barrel.

EIA is projecting Brent to average $107 per barrel over the second half of 2014 and $105 in 2015.

WTI down in July

West Texas Intermediate prices fell from an average of $106 per barrel in June to $104 in July, "despite record levels of U.S. demand for crude oil."

EIA said the drop in WTI was due in part to "relocation of crude oil to refining centers along the Gulf Coast through new pipelines," which resulted in a drop by more than half in crude oil inventories at the Cushing, Oklahoma, storage hub since the beginning of the year, "the futures market's delivery point for WTI." The drop was from nearly 42 million barrels Jan. 24 to less than 18 million barrels July 25, the lowest level since October 2008.

The WTI discount to Brent, which averaged $11 per barrel in 2013, is expected to average $8 per barrel this year and $9 per barrel in 2015, both projections $1 lower than the agency's July forecast.

EIA said record-high refinery runs contributed to the drop in the WTI discount to Brent, which at $3 was the same this July as in July 2013, "when refinery runs were similarly at their seasonal peak for the year."

Natural gas spot prices dropped from $4.47 per million British thermal units at the beginning of July to $3.78 per million Btu at the end of the month "as natural gas stock builds continued to outpace historical norms," EIA said.

The agency expects the Henry Hub natural gas spot price, which averaged $3.73 per million Btu in 2013, to average $4.46 this year and $4 in 2015, drops of 31 cents and 51 cents, respectively, from EIA's July forecast.

Non-OPEC production up

EIA said it estimates that liquids production from non-Organization of the Petroleum Exporting Countries grew by 1.3 million barrels per day in 2013, averaging 54 million bpd for the year. The agency is estimating non-OPEC liquids production to grow by 1.8 million bpd this year and by 1.1 million bpd in 2015, with combined U.S. and Canadian production to grow by an average of 1.6 million bpd this year and 1.1 bpd in 2015.

EIA expects U.S. crude oil production to increase from an estimated 7.5 million bpd last year to 8.5 million bpd this year and 9.3 million bpd in 2015. The agency said the highest previous U.S. production level was 9.6 million bpd in 1970.

Oil production from the Gulf of Mexico is expected to increase from 1.25 million bpd last year to 1.44 million bpd this year, with 11 projects starting up this year, six of which began production in the first half of the year.

OPEC production averaged 29.8 million bpd in 2013, down 1 million bpd from 2012, "primarily reflecting increased outages in Libya, Nigeria and Iraq, along with strong non-OPEC supply growth." EIA said OPEC crude oil production is expected to fall by 300,000 bpd this year and by less than 100,000 bpd in 2015, accommodating growing non-OPEC production.

OPEC surplus crude production capacity, concentrated in Saudi Arabia, is expected to average 2.1 million bpd this year and 2.7 million bpd in 2015.

Imports down

There has been a significant decline in U.S. petroleum imports due to increases in domestic production, EIA said, with the share of U.S. liquid fuels consumption met by imports down from 60 percent in 2005 to an average of 33 percent in 2013, and expected to fall to 22 percent in 2015, the lowest level since 1970.

Total U.S. marketed natural gas production in 2014 is expected to grow by 0.8 billion cubic feet per day to 73.9 bcf per day, with a projected end-of-October working gas inventory of 3.45 trillion cubic feet.

The annual rate of U.S. marketed production is projected to grow 5.3 percent this year and 2.1 percent in 2015, with strong increases in the Lower 48 expected to offset Gulf of Mexico declines.

The latest data available is for May, which shows a year-over-year increase of 4 bcf per day from May 2013, with growing domestic production expected to put downward pressure on imports from Canada while increase exports to Mexico. ●

Contact Kristen Nelson at knelson@petroleumnews.com

continued from page 6

GAS SALES

ment spells out a minimum firm gas supply volumes, Chugach Electric says that it anticipates managing supply volume variability by using gas storage services provided by the Cook Inlet Natural Gas Storage facility on the Kenai Peninsula.

The proposed gas supply agreement extension also includes a provision allowing for the possibility that some owners of gas rights leased to Hilcorp may request gas royalties "in kind," thus making the gas unavailable for sale under the agreement with Chugach Electric. The payment of royalties in kind involves allocating an appropriate volume of gas to the rights owner in lieu of making royalty payments in cash. ●

Contact Alan Bailey at abailey@petroleumnews.com

● NATURAL GAS

Atlantic Canada full of life

Region's LNG plans taking shape: 3 projects in works, 4th with new Australian buyer, while BC bogged down in myriad of challenges

By GARY PARK

For Petroleum News

A gap in the outlook for Canada's two LNG fronts shows signs of widening, with prospects for the Pacific Coast increasingly obscured in fog, while the Atlantic Coast sees hope on the horizon.

The uncertainty in British Columbia is compounded by talk of rising construction costs, a squeeze on available labor, a failure to lock up major sales contracts, doubt surrounding the provincial government's willingness to back down from its proposed tax regime and shuffling within the ranks of owners.

The East Coast, meanwhile, is making strides in the vital area of negotiating memorandums of understanding with six potential buyers for AC LNG, wholly owned by India's H-Energy, to support three possible liquefaction trains, each with capacity of 4.5 million metric tons a year.

H-Energy managing director Darshan Hiranandani told the Halifax Chronicle-Herald his company is aiming to secure 15-year take-or-pay contracts, with customers given the option of either sourcing the LNG from the operator or having it liquefy the gas.

H-Energy is also planning to sell at a gas index price, with no linkage to oil, unlike British Columbia's plan to blend gas and crude oil indexes.

The customers lined up so far would take 6.75 million metric tons a year (equivalent to 315 billion cubic feet a year of feedstock natural gas), which would be destined for India (where H-Energy is building a $2 billion natural gas-fired power plant), the Middle East and Europe — though none of the buyers has been identified. Talks are also underway with other possible buyers in South Asia.

Construction pace picking up

The pace is also picking up on the construction side, with Foster Wheeler in the United States due to complete pre-front end engineering and design work by December, setting the stage for a FEED contract to be awarded in the first quarter of 2015.

An application for an export permit is expected to be filed with the National Energy Board in October, coinciding with the completion of a project description that will undergo an environmental impact assessment.

H-Energy is hoping it can make a final investment decision by mid-2016 and start LNG shipments from the first train in 2020.

The first phase of the Nova Scotia project is estimated to cost about $4 billion, rising to about $6 billion to double capacity.

Gas supplies could come from Central or Western Canada, the Marcellus in the northeastern United States or the Canadian Maritime region.

Resistance over fracking

But the tentative progress towards gas production in the Maritimes faces resistance from those who want to block the use of hydraulic fracturing to accelerate development of unconventional gas fields in Nova Scotia.

David Wheeler, president of Cape Breton University, speaking for an expert panel, said more research is needed into the impact of fracking "before anyone could take a view on whether this is a good or a bad idea."

The Nova Scotia government imposed a two-year moratorium on fracking in 2012 in response to public outrage that was expressed at a series of hearings over the possibility that fracking could contaminate groundwater or pollute the atmosphere and political strife in neighboring New Brunswick over the use of fracking technology.

The Halifax-based Ecology Action Center was surprised by the panel's initial findings, given that 10 discussion papers it had earlier released took a more positive view of the use of technology to develop the region's gas reserves.

Nova Scotia Energy Minister Andrew Younger said he is concerned that prolonged debate is creating a rift among communities.

He said the government, not the panel, will make a final decision on the moratorium and will show it has listened to its residents.

Sufficient demand cited

Younger also said he welcomes progress on the AC LNG project, suggesting that H-Energy's plan to seek an export permit shows it is "fairly confident it has the ability to go ahead in terms of customers and gas supplies."

He also said that plans by Pieridae Energy Canada to export up to 10 million metric tons a year, starting in 2020, from its $8.3 billion Goldboro project and the prospect that Spain's Repsol could add an expert terminal to its Canaport LNG import facility at Saint John, New Brunswick, could be the stimulus for pipeline construction to deliver increased gas shipments into Atlantic Canada.

Colleen Mitchell, president of the Atlantica Center for Energy, said there is enough global LNG demand to support multiple projects in the region, although finding sources of natural gas and the timing of projects will be key decision-making factor.

Hiranandani said there is sufficient demand for LNG and potential gas supplies to see all three projects go ahead.

Bear Head could get second wind

There has also been a hint that a stalled LNG project led by Anadarko could be getting a second wind with an announcement that Australia's Liquefied Natural Gas Ltd. has a deal to acquire Bear Head LNG for C$11 million.

The assets include rights to an LNG terminal and 225-acre site where a "majority" of site preparation is completed for two 180,000 cubic meter LNG tanks.

Bear Head was given a green light by regulators in August 2004 and construction of a C$650 million LNG import facility started in 2005, then abruptly stopped when

see ATLANTIC CANADA page 10

PUBLIC NOTICE

THE UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 10
1200 Sixth Avenue, Suite 900, OWW-130
Seattle, Washington 98101
(206) 553 0523
1-800-424-4372 (within Region 10 only)

NOTICE OF RE-PROPOSAL OF A NATIONAL POLLUTANT
DISCHARGE ELIMINATION SYSTEM (NPDES) GENERAL PERMIT FOR
OIL AND GAS GEOTECHNICAL SURVEYS AND RELATED ACTIVITIES IN FEDERAL WATERS OF THE BEAUFORT AND CHUKCHI SEAS

PUBLIC NOTICE ISSUANCE DATE: **AUGUST 15, 2014**
PUBLIC NOTICE EXPIRATION DATE: **SEPTEMBER 15, 2014**

1. SUMMARY

The U.S. Environmental Protection Agency (EPA) re-proposes the National Pollutant Discharge Elimination System (NPDES) General Permit for Oil and Gas Geotechnical Surveys and Related Activities in Federal Waters of the Beaufort and Chukchi Seas (Permit No. AKG284300).
On November 22, 2013, EPA released a draft NPDES general permit for oil and gas geotechnical surveys and related activities in federal waters of the Beaufort and Chukchi Seas for public review. The public comment period closed on February 19, 2014. Based on the comments received, EPA has made revisions to the draft Geotechnical General Permit and re-proposes a revised draft for public review, accompanied by a Fact Sheet describing the revisions and a revised Ocean Discharge Criteria Evaluation. EPA seeks public comment only on the following proposed changes: (1) Inclusion of seasonal prohibitions on wastewater discharges to the 3-25 mile lease deferral area in the Chukchi Sea; (2) Clarification of Environmental Monitoring Program requirements and inclusion of language regarding existing representative baseline data; (3) Clarification of drilling fluids and drill cuttings testing requirements (Discharge 001); (4) Revision of sampling frequencies for fecal coliform and total residual chlorine (Sanitary Wastewater, Discharge 003); and (5) Clarification of Notice of Intent submission requirements.
The NPDES Geotechnical General Permit will authorize twelve types of discharges from facilities engaged in oil and gas geotechnical surveys to evaluate the subsurface characteristics of the seafloor and related activities in federal waters of the Beaufort and Chukchi Seas. Geotechnical surveys and related activities result in a disturbance of the seafloor and may produce discharges consisting of soil, rock and cuttings materials, in addition to facility-specific waste streams authorized under the general permit.

2. PUBLIC COMMENT

EPA is requesting public comments on the re-proposed Geotechnical General Permit, Fact Sheet, and Ocean Discharge Criteria Evaluation (ODCE). EPA will only consider comments on the re-proposed permit provisions. Comments submitted previously on the initial draft Geotechnical General Permit need not be resubmitted; comments addressing permit provisions or issues beyond the scope of this re-proposal will not be considered. Submit comments by September 15, 2014 and include your name, address, telephone number. Comments should include the General Permit number (AKG-28-4300) and a concise statement of the basis and facts supporting the comment.
Submit comments by midnight, September 15, 2014, by the following methods:
Mail: U.S. EPA Region 10, Suite 900, Attn: Erin Seyfried, Office of Water/Watersheds, 1200 6th Ave, OWW-130, Seattle, WA 98101
Email: R10geotechpermit@epa.gov
Fax: Erin Seyfried, 206-553-0165.

3. **DOCUMENT AVAILABILITY**

The draft and re-proposed Geotechnical General Permit, Fact Sheet and revised ODCE are available online and at these locations (please call for hours):

EPA Online: http://yosemite.epa.gov/r10/water.nsf/npdes+permits/DraftPermitsAK
http://yosemite.epa.gov/r10/water.nsf/npdes+permits/arctic-gp

Z. J. Loussac Public Library, 3600 Denali St, Anchorage, AK; 907-343-2975.

North Slope Borough School District Library, Pouch 169, 829 Aivak St, Barrow, AK; 907-852-5311.
For information about the Geotechnical General Permit, contact Erin Seyfried:
206-553-1448 or Seyfried.Erin@epa.gov

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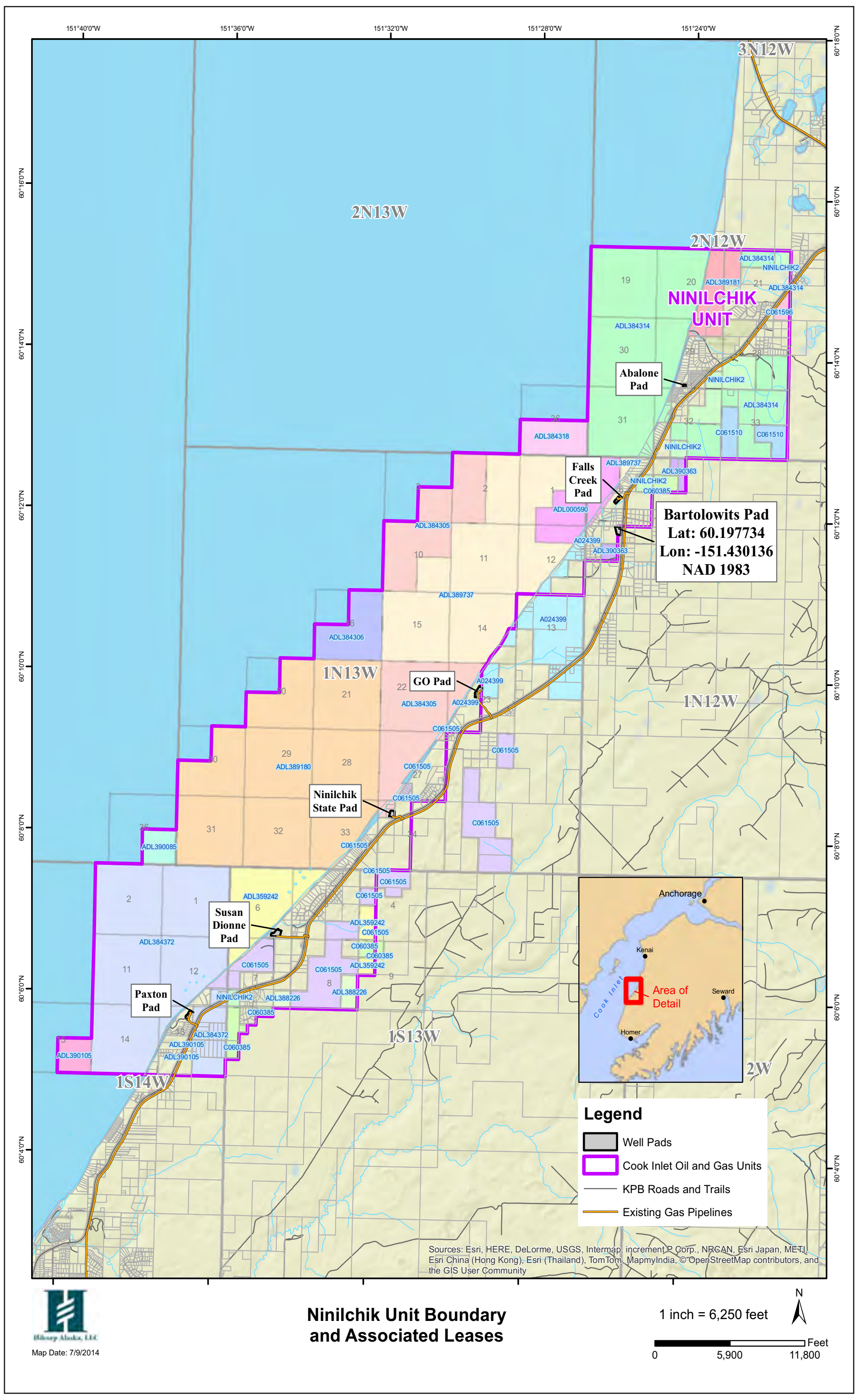

● EXPLORATION & PRODUCTION

Hilcorp planning Bartolowits program

Development program calls for drilling two wells this year and as many as three more by 2017 to develop gas at Ninilchik unit

By ERIC LIDJI

For Petroleum News

Hilcorp Alaska LLC is planning a five-well program at the Ninilchik unit.

The Houston-based independent plans to drill two development wells at the Bartolowits pad by the end of the year and as many as three additional wells through 2017.

The Bartolowits pad is in the northern portion of the Ninilchik unit, a coastal unit in the southern Kenai Peninsula between the communities of Clam Gulch and Ninilchik.

The development program builds on recent exploration work Hilcorp has conducted at the unit. The company drilled four exploration wells at Ninilchik in 2013: Susan Dionne No. 8, Paxton No. 5, Frances No. 1 and Falls Creek No. 5. The program primarily targeted gas but included some of the first oil exploration work at the field in decades.

The 12,000-foot Susan Dionne No. 8 well was non-commercial for oil, but the results led Hilcorp to build the Bartolowits pad in August 2013 and drill the Frances No. 1 exploration well later in the year. Although the second well also non-commercial for oil, it showed “strong potential” for natural gas production, which Hilcorp is now pursuing.

The current development program calls for drilling the 10,000-foot Frances No. 2 well in October and the 10,000-foot Frances No. 3 well in November, with the Frances No. 4, Frances No. 5 and Frances No. 6 wells coming in subsequent years, as necessary.

The existing Frances No. 1 and proposed Frances No. 2 wells target private oil and gas leases. The other four proposed well locations would target state oil and gas leases, although the precise bottomhole locations would depend on the results of earlier wells.

Hilcorp is requesting a waiver for the state prohibition against building onshore facilities within half a mile of the mean high water mark for the Cook Inlet region. Given the existing drilling pad and well, which the state previously permitted, and the fact that the development is targeting gas, which cannot spill like crude oil, Hilcorp believes the concern can be adequately addressed by building an 18-inch berm around the facilities.

The program would use existing Bartolowits facilities.

The Alaska Department of Natural Resources is taking comments through Sept. 5.

When Hilcorp announced plans for the Frances No. 2 and Frances No. 3 wells, it described both as being “appraisal” wells targeting the Tyonek and Beluga formations.

Those plans also called for drilling the 9,000-foot Falls Creek No. 6 well to follow up on Frances No. 2 and further appraise the Tyonek and Beluga north of the Falls Creek pad.

At that time, Hilcorp also announced plans to build independent Bartolowits facilities to support Frances No. 1 gas production. The facilities required boring a pipeline corridor underneath the Sterling Highway connecting to the existing Kenai-Nikiski Pipeline.

Hilcorp has also proposed exploration activities in the southern half of the unit. ●

Contact Eric Lidji at ericlidji@mac.com

continued from page 8

ATLANTIC CANADA

Anadarko was unable to negotiate a supply of natural gas.

The construction permit was later extended to 2015 to give Anadarko time to find potential partners.

The Australian company said it hopes to turn Bear Head into an export facility to move 4 million metric tons a year, with potential for expansion.

Discussions are taking place with various possible suppliers in onshore and offshore Canada and the Marcellus.

The company’s managing director Maurice Brand said he is confident all permits and approvals can be obtained by mid-2015 and during 2016, leading to a final investment decision. ●

Contact Gary Park through publisher@petroleumnews.com

● FINANCE & ECONOMY

China's role under cloud

Delays in Alberta oil sands project takeover coincide with corruption probe of PetroChina; unease over China's business practices

By GARY PARK
For Petroleum News

PetroChina is putting the credibility of state-owned enterprises in Canada's petroleum industry to its sternest test.

The largest oil producer in Beijing's stable of energy companies has been threatened with legal action if it fails to deliver on its commitment to complete a C$1.23 billion buyout of the final 40 percent stake in the Dover oil sands project held by Phoenix Energy Holdings, a unit of Athabasca Oil.

The tangle is fodder for those who have repeatedly warned over the past decade as Chinese companies started acquiring interests in the oil sands that Beijing, regardless of what promises it makes, does not hesitate to sidestep conventional western business practices.

How the deal with Athabasca is resolved will go partway to determining whether the Canadian government was right almost two years ago when it basically placed a barrier in the path of foreign state-owned enterprises wanting to engage in outright takeovers of Alberta oil sands operators.

Compounding the uncertainty, Athabasca set aside C$49 million earlier in August that will reduce the size of PetroChina's payment.

That amount addresses potential claims relating to future costs of abandoning oil and natural gas wells in the Dover and MacKay River project areas in northwestern Alberta.

The amount and timing of any payment under the settlement is contingent on completion of the Dover transaction has been stretched to September from June.

Corruption probe

Over-layering everything is a Chinese government led corruption probe into PetroChina, with reports circulating that four high-ranking company officials involved with the US$5 billion oil sands deal with Athabasca are under investigation, although a spokesman for PetroChina said there is "no sign" that his company will not go through with the Dover takeover.

Complicating matters, an internal review of Dover has showed the geological structure of the project is more complicated than previous estimates indicated, adding to projected development costs, which reports have suggested is prompting PetroChina to try negotiating a lower purchase price.

If Athabasca goes to court, it could sue PetroChina for failure to make the payment and seek liquidation of PetroChina's assets including a venture with Encana, as well as seeking a ruling from London arbitrators in the event of a dispute over the sales agreement, according to a contract that was filed with Canadian regulators.

While it waits, Athabasca has seen its own shares slide to their lowest level in 14 months.

Chris Cox, an analyst with Raymond James, said Athabasca is in a strong legal position and would be likely to emerge victorious from any court proceedings.

Taking longer than MacKay JV

During a second quarter conference call Aug. 6, Athabasca officials ducked questions on why the sales process, which is underpinned by final regulatory approval in April for a 250,000 barrels per day thermal recovery project, has taken so much longer than the earlier joint venture with PetroChina to proceed with the 150,000 bpd MacKay River project.

Athabasca Chief Executive Officer Sveinung Svarte said only that the schedule to reach a deal had been negotiated after April.

"We don't want to give you specific timelines because I'm basically fed up having my head to a gun for meeting a certain deadline," he said.

"Both parties are jointly working toward the closing of the transaction and we have a mutually understood path to closing, including targeted timelines," Svarte said.

But he would not discuss why the transaction is taking longer than originally expected, insisting the corruption probe is "not a concern of Athabasca. We conduct our business at the highest ethical standard and ... we have not been contacted by anybody in this respect."

Meanwhile, Athabasca needs a cash infusion to proceed with a conventional oil and gas program in the Duvernay formation of western Alberta, but it is fully funding its 100 percent owned 12,000 bpd Hangingstone oil sands project, which is 89 percent completed.

Svarte said an updated corporate strategy and capital plan promised to accompany the second-quarter report will be delayed until the Dover transaction is wrapped up. ●

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● NATURAL GAS

Cold climate could give Alaska LNG edge

Project could require less powerful liquefaction equipment, but facilities would also have to be weatherproofed because of cold

By STAN JONES

Researcher/writer for the Office of the Federal Coordinator

1 2 SERIES

Colder and colder

At Nikiski, the gas would be chilled by passing it through a chain of several coolants, each colder than the one before. The final coolant is so good at its job that the natural gas liquefies as it passes through.

And how are the coolants kept cool?

The coolant refrigeration cycle starts with each coolant in a relatively warm gaseous state. It's compressed to a fraction of its original volume, which heats it further. Next, the hot, pressurized gaseous coolant passes through a condenser — or heat exchanger — here heat is transferred away and the coolant becomes a high-pressure liquid. The coolant is then allowed to expand, which further reduces its temperature.

Now a cooler low-pressure liquid, it passes through an evaporator — another type of heat exchanger — where it absorbs heat from the natural gas and then evaporates back to its original relatively warm gaseous state, ready to start the cycle over.

It's similar to the refrigeration cycle of the coolant — Freon, usually — inside your kitchen fridge. It, too, starts out as a relatively warm gas. Then it's compressed and run through a condenser — that assembly of fins and tubing on the back of the refrigerator. There, it cools and condenses into a pressurized liquid and gives up its heat to the air within your house.

Then it's run back into the refrigerator and through an expansion valve, which cools it to a low-pressure liquid. Then it's circulated through a heat exchanger as the refrigerator's warm interior air — warmer than the Freon, at any rate — is blown through the heat exchanger. The interior air cools off to keep that lettuce crisp, the Freon heats up and evaporates back to a gaseous state inside the tubing, and the cycle beings anew.

The project has another big advantage, as well. The liquefaction site is closer to Asian markets than much of the competition.

In a multi-coolant LNG plant, all coolants may not be treated alike. In many installations, only the condenser for the first coolant transfers heat to the outside air. For subsequent coolants in the chain, the heat exchangers are inside the reservoir of that first coolant. In such cases, the first coolant is the sole medium for transfer of heat from natural gas to outside air — the essence of the liquefaction process.

After the natural gas leaves the final coolant reservoir in the desired liquid state, it is pumped into storage tanks to await shipment to market on LNG carriers.

Most of the efficiency benefit in this complex and interlooping process comes as the initial coolant passes from the compressor to its air-cooled condenser. The colder outside air means less pressure in the line to the condenser, and that means the turbine-driven compressor doesn't have to work as hard to push against it.

With ambient air at 36, rather than 80, the Alaska plant's 44-degree advantage comes into play not just on the first pass, but also during each subsequent loop the initial coolant makes through the system.

Finally, there are efficiencies connected with the huge, insulated LNG storage tanks. Because no insulation system is perfect, the liquefied gas absorbs some heat from the surrounding environment and as a result part of it evaporates. This gas is called boil-off gas.

If, as at Nikiski, the surrounding environment is colder, less of the gas boils off.

What gas does boil off must be reliquefied so that it can be returned to the tanks. And reliquefaction of boil-off gas, as with incoming gas, is more efficient at lower air temperatures.

Ultimately, the higher output of gas turbines, the higher effectiveness of the air-cooled condensers, and the fuel gas savings that all result from Alaska's colder ambient temperatures produce lower costs and improved energy efficiency.

More advantages for Alaska project

There are some savings on capital expenditures because less-powerful equipment can be used in some places in the production chain, though that is offset at least to some extent by the higher cost of building and running things in cold climates.

For example, some of the plant's equipment would need to be toughened and specially designed to work in very cold temperatures. And any space where people need to work must be enclosed, insulated and heated; in the Middle East and other warm regions, some of that same work can take place in open-air sheds.

Moreover, some aspects of an LNG plant's construction and operation don't much depend on temperature. A storage tank big enough to hold a given amount of LNG must be the same size, whether in Nikiski or the Middle East. And the sizes of pumps and pipes big enough to move a given amount of LNG per day from liquefaction to storage or from storage to tanker don't change with temperature.

Even though colder temperatures don't reduce costs for every piece of the project and its construction, it's one of the quantifiable advantages for Alaska LNG.

The project has another big advantage, as well. The liquefaction site is closer to Asian markets than much of the competition.

Nikiski is about 3,800 miles from Yokohama, a major port in central Honshu, Japan's main island, and home to Tokyo and several LNG import termi-

see LNG EDGE page 13

GOVERNMENT

BLM director responds to GMT questions

Quizzed by U.S. Sen. Lisa Murkowski, R-Alaska, about ConocoPhillips' Greater Moose's Tooth development in the National Petroleum Reserve-Alaska, during a July 29 meeting of the U.S. Senate Committee on Energy and Natural Resources Neil Kornze, director of the Bureau of Land Management, said that his agency is progressing the environmental impact statement for the project.

"We are working expeditiously through that process right now," Kornze said, adding that his agency is working with the U.S. Army Corps of Engineers, the agency that will be processing a permit for road construction, to see if the Corps can start its review.

"I'm optimistic that the timelines will work out," Kornze said.

Murkowski expressed concern that a delay in the completion of the environmental document could result in the loss of the coming winter construction season, thus delaying the project by a year or more.

"I'm concerned the date for the release of the environmental impact statement for GMT-1 continues to slip," Murkowski said. "The EIS must be released in October to allow the Army Corps of Engineers to begin processing the permit to allow for road construction this winter."

The Corps of Engineers requires at least 120 days to review an application for the dredge-and-fill permit required for road construction, she said. Murkowski said that she is worried that BLM may be deferring completion of its review until after the November election.

Murkowski also expressed concern that BLM may conclude that the project will require road-less construction, an option that she said would render the project uneconomic. Kornze, while acknowledging that the regional and village Native corporations for the area of the project have supported the need for access roads for the development, confirmed that a road-less development is one of the alternatives being considered in the EIS.

"That is something we're going to have to evaluate," Kornze said.

—ALAN BAILEY

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LNG EDGE

nals. The proposed Kitimat project in British Columbia is almost 4,500 miles from Yokohama, and Russia's huge Yamal project in the Arctic is not only about 7,800 miles away from Yokohama but also ice-locked for much of the year.

On the other side of the ledger are the disadvantages of the cost and difficulty of building and running facilities in a cold, remote locale like Alaska. Another issue is the fact that the Alaska project — unlike many of its competitors around the world — would need an 800-mile pipeline to get gas from the fields to the liquefaction plant.

Calculating the financial implications of those advantages and disadvantages will go a long way toward helping the North Slope producers — ExxonMobil, BP and ConocoPhillips — determine if they have a project that can compete on price per million Btu of delivered gas.

Long road ahead

The sponsors of the $45 billion to $65 billion Alaska LNG project will take a few years for engineering, design, environmental work and all the other tasks that come with such an enormous undertaking.

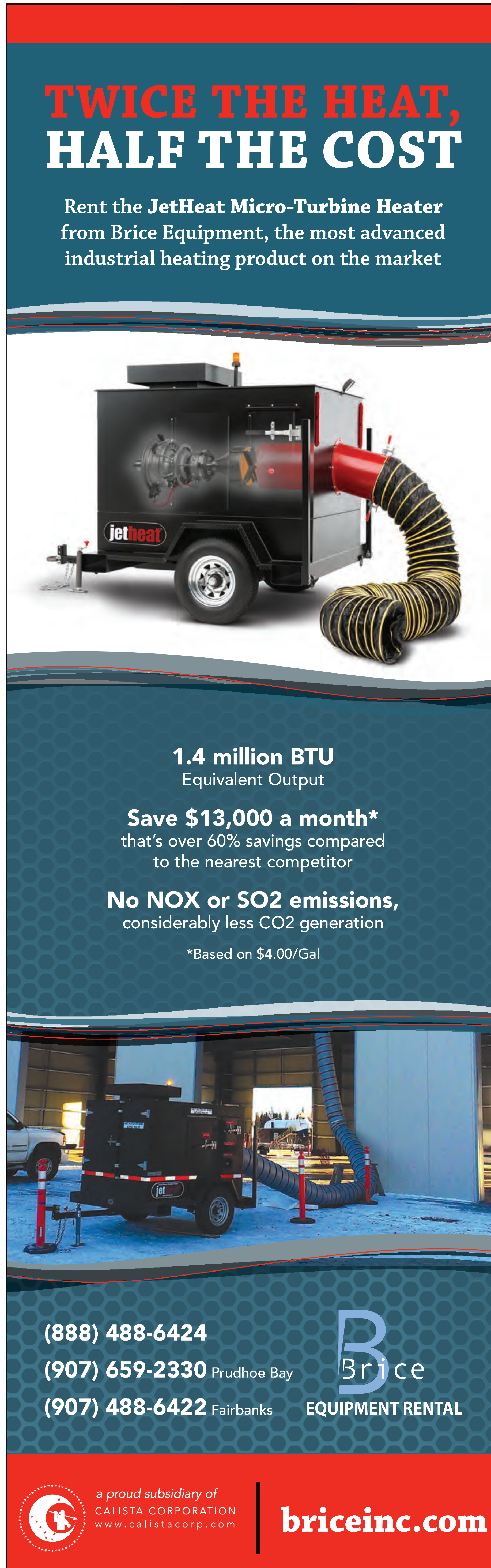
First, a lengthy process of engineering and design has to take place, as does a complicated permitting process with federal and state agencies. The project would then be ready for a final investment decision, after which, if the sponsors proceed, construction could begin. The earliest LNG deliveries could start would be 2023-2024.

But if that day does come, it could mean billions of new dollars for the state of Alaska, a longer life for the North Slope oil fields, and a major bump in oil-industry employment in the state.

And, for once, the fact that Alaska is colder than most of the rest of the world could actually help a little. ●

Part 1 of this story ran in the July 27 issue.

Editor's note: This is a reprint from the Office of the Federal Coordinator, Alaska Natural Gas Transportation Projects, online at www.arcticgas.gov/alaska-frigid-climate-could-give-state-edge-lng-market



LAND & LEASING

State considering various royalty deals

The Alaska Department of Natural Resources is considering a request from William D. Armstrong to transfer a 0.83333 percent royalty interest in some 140 North Slope and Beaufort Sea wells to GMT Exploration North Slope Royalty Co. LLC. The Armstrong Oil & Gas subsidiary 70 & 148 LLC and GMT Exploration Co. have been partnering on a broad-reaching North Slope exploration and development program for several years.

The state is also considering a request from Betty J. Hickel to transfer various small royalty interests — all less than 0.6 percent — in various segments of four Cook Inlet leases to the Betty Jean Hickel Revocable Trust. The leases — ADL 733, ADL 2095, ADL 391210 and ADL 391211 — comprise the onshore North Fork unit.

The state is considering a request from the Estate of George Kasper to transfer various small royalty interests — all less than 1.5 percent — in four Cook Inlet leases to Arlene Kasper. The leases — ADL 374002, ADL 378114, ADL 381201 and ADL 381203 — are all associated with the Redoubt unit. And the state is also considering a request from Steven Button to transfer various small royalty interests — all less than 1 percent — in the same four Redoubt unit leases to the Stephen D. Button Restated Revocable Trust.

Finally, in July, the BP Exploration (Alaska) Inc. lease ADL 391470 expired. The lease was contiguous to the northern boundary of the BP-operated Prudhoe Bay unit.

—A copyrighted oil and gas lease map from Mapmakers Alaska was a research tool used in preparing this story.

—ERIC LIDJI

● PIPELINES & DOWNSTREAM

Enstar drops controversial tariff changes

Gas producers urge Regulatory Commission of Alaska to go ahead with investigation of 'discriminatory' conduct; panel declines

By WESLEY LOY
For Petroleum News

The ruckus over controversial tariff revisions proposed by Enstar Natural Gas Co. appears to be done.

That's because Enstar has withdrawn the revisions, which were pending before the Regulatory Commission of Alaska.

Enstar is the state's top gas utility.

The company ignited a backlash after proposing, in late 2013, certain changes including a requirement for commercial customers to provide a year's advance notice when leaving or returning to Enstar for gas.

Among the objectors were gas producers including Cook Inlet Energy LLC and Aurora Gas LLC.

They argued Enstar's proposed tariff revisions were anticompetitive, serving as a barrier to companies trying to market gas directly to customers via Enstar's distribution lines.

Market stifling alleged

Attorney Robin Brena, representing Cook Inlet Energy and Aurora Gas, on July 18 filed an opposition to Enstar's motion to withdraw its proposed tariff revisions.

Brena urged the commission to continue its investigation of the important public policy and regulatory issues the revisions raised. He noted his clients had expended a lot of effort toward a scheduled Aug. 18 hearing on the matter.

Enstar has taken "multiple unilateral steps to discriminate, restrict, or eliminate the existing embryonic marketplace for Cook Inlet natural gas," Brena wrote.

As an example, he said, Enstar is blocking the entry of third-party suppliers by requiring expensive meters for their customers, at $6,000 to $8,000 per installation, while not requiring such meters for Enstar's own customers.

"Apparently, Enstar would like to continue with its domination of the Cook Inlet natural gas market and would not like its actions reviewed by this commission," Brena wrote. "While it is understandable that a monopoly would act to prevent regulatory review, this commission should not permit the monopoly to avoid this commission's investigation and determinations on the important issues pending in this docket.

Brena added: "By continuing this docket, the commission will complete a much-needed review into the ongoing and damaging efforts by Enstar to continue to stifle gas market activity."

Enstar explains withdrawal

Enstar, in its own filings with the commission, addressed what it called "hyperbolic allegations" of anticompetitive motives.

"Enstar does not profit from selling gas and its revenues are unaffected by third-party gas sales," the company wrote. "Enstar earns its returns from transporting, not selling, natural gas. … Because CIE/Aurora do not have their own distribution system, they are Enstar's customers, not its competitors."

The company, in a July 8 motion to withdraw, laid out its rationale for dropping the proposed tariff revisions.

see TARIFF CHANGES page 15

INNOVATIVE SOLUTIONS FOR COMPLEX CHALLENGES

Operations on Northstar Island – six miles offshore in Prudhoe Bay – don't stop during the shoulder seasons, when marine vessels can't operate and the ice roads aren't ready. Equipment still must be delivered and personnel still need to get to work. Complex challenges such as this demand unique solutions – like Crowley's hovercraft, which was specifically designed to perform in the harsh Alaskan Arctic, and has a proven reputation for safety and reliability. The right equipment. The right knowledge. And more than 60 years of experience. When you need solutions, count on the people who know.

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INTERNATIONAL

Mexico opens gas, oil to foreign firms

President Enrique Pena Nieto signed into law Aug. 11 new rules governing a historic opening of Mexico's state-run oil, gas and electricity industries to foreign and private companies.

Pena Nieto said the government will let potential investors know by Aug. 13 which blocks of gas and oil fields will be open for them. The state-owned oil company, Petroleos Mexicanos, or Pemex, has the right under the new rules to take first dibs and set aside some fields for itself. Pena Nieto said those set-asides will also be made public Aug. 13.

The president also promised to start putting in place regulatory and oversight agencies to implement the new rules by the end of August.

Government control of the oil industry began with the 1938 nationalization of foreign oil companies, and it has long been a touchstone of Mexican nationalism. Energy Secretary Pedro Joaquin Coldwell acknowledged the new system has changed that.

"Today marks a watershed ... a change in the energy paradigm. It is a change in the way we relate our national identity to energy, to bring it up to date with realities of the 21st century," Coldwell said at the signing ceremony at Mexico's National Palace, where beloved late President Lazaro Cardenas announced the expropriation 76 years ago.

Production decline under Pemex

The realities include a constant decline in oil and gas production in recent years as Pemex proved unable to open up significant deepwater or shale-gas production, both areas where the government hopes private firms will bring in expertise and

see HISTORIC OPENING page 17

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TARIFF CHANGES

"Enstar believes the issues raised by its tariff filings remain important, but that pursuing these changes at this time is not necessary and potentially counterproductive. While Enstar believes some form of increased notice for departing and returning customers is necessary, both administratively and to ensure costs caused by the switching customer are borne by the switching customer, the Cook Inlet gas market is currently in a state of flux. Delaying these changes now will allow the market to continue to evolve, and thus allow Enstar the opportunity to craft notice provisions that reflect the changed market conditions and that may be more agreeable to all affected parties."

As for metering, the gas utility said: "Enstar is in the process of evaluating and testing new telemetry technology and it is very possible that within one or two years, the … disagreement over technology may be moot. Put another way, it is possible that in the near future, Enstar's required telemetry technology may no longer be objectionable to alternative suppliers."

Commission's decision

The regulatory commission, with an Aug. 12 order, granted Enstar's motion to withdraw its tariff revisions, and closed the docket (U-14-010).

"The proposed tariff revisions were not implemented on an interim basis so no customers are receiving service under the revisions proposed in the filings," the order said. "We do not believe that Enstar should be required to defend as reasonable proposed tariff revisions that it no longer supports. For these reasons, we grant Enstar's motion to withdraw and terminate this proceeding."

The decision may be appealed. ●

Contact Wesley Loy at wloy@petroleumnews.com

NATURAL GAS

Nikiski property acquired for LNG plant

When the Alaska LNG Project LLC filed in July with the U.S. Department of Energy's Office of Fossil Energy for a long-term authorization to export liquefied natural gas it told the regulator that it had secured more than 200 acres, nearly half the total it required, at the LNG facility site in Nikiski.

The project noted that construction of facilities required for the project would be subject to Federal Energy Regulatory Commission approval, and said it expects to begin the FERC pre-filing process this year.

Current members of the project are ExxonMobil Alaska LNG LLC, ConocoPhillips Alaska LNG Co. and BP Alaska LNG LLC. The application said the project may seek to amend the application in the future to add a state of Alaska designee.

In specifics on the Nikiski land acquisition in the July application the project said it has acquired 120.39 acres of fee title lands in the Nikiski area for the liquefaction facility, has some 10 contract land brokers continuing to work in the area and has 97 acres of additional land under contract for purchase. In addition to the fee lands, the application said the Kenai Peninsula Borough "is progressing a conveyance of 29.94 acres of borough-owned land" to the project.

—KRISTEN NELSON

GOVERNMENT

BSEE selects tribal liaison for Alaska

The Bureau of Safety and Environmental Enforcement, or BSEE, the federal agency responsible for regulatory enforcement on the outer continental shelf, has appointed Jack Lorrigan, a tribal citizen of the Sitka tribe of Alaska, as the agency's tribal and community liaison for the Alaska region. Lorrigan, who was the Sitka tribal biologist for 10 years, will be responsible for developing a communications strategy with Alaska tribal governments affected by offshore energy development, BSEE says.

Lorrigan will maintain regular contacts with the leaders of Alaska Native organizations, tribal governments, community-based organizations and Native communities, keeping these organizations appraised of offshore activities and facilitating communications with BSEE leadership. His responsibilities will include ensuring that the BSEE regional director and staff are aware of any issues involving Native organizations and communities that may impact offshore operations.

Lorrigan will also develop opportunities in Alaska for students from the Alaska Native Science and Engineering Program, a University of Alaska Anchorage program specializing in advanced science and engineering for village youth.

BSEE says that Lorrigan has previously worked with the Alaska Department of Fish and Game, the Environmental Protection Agency, the U.S. Forest Service, private non-profit hatchery organizations and the U.S. Fish and Wildlife Service.

—ALAN BAILEY

PIPELINES & DOWNSTREAM

Unocal's TAPS exit proves difficult

Unocal Pipeline Co. first informed state utility regulators on June 28, 2012, that it planned to sell its small stake in the trans-Alaska pipeline system.

More than two years later, the sale is still pending. And it could be a long time yet before it's done, Unocal's latest update to the Regulatory Commission of Alaska indicates.

Unocal in 2012 said it would sell its TAPS stake to a third party, or to one or all of the remaining owners including BP, ConocoPhillips and ExxonMobil.

In a July 24 filing with the commission, Unocal repeated language from previous updates, namely that the company and the other TAPS carriers "have a dispute over several transfer-related matters," and that they have engaged in arbitration and litigation.

In a July 24 filing with the commission, Unocal repeated language from previous updates, namely that the company and the other TAPS carriers "have a dispute over several transfer-related matters," and that they have engaged in arbitration and litigation.

This filing goes a bit further, however, saying: "The litigation has been time-consuming and is likely to continue for a significant period of time. Unocal is evaluating all its options regarding how best to proceed with these matters."

The company proposed filing another update by Oct. 25.

Unocal, part of Chevron Corp., holds a 1.36 percent interest in the pipeline system.

The commission in July 2012 gave Unocal permission to temporarily suspend service on its share of capacity on the pipeline pending a sale.

A subsidiary of Koch Industries also informed the commission in June 2012 that it wanted to exit as a TAPS owner. Koch wrapped up a deal by year's end to transfer its small interest to BP, ConocoPhillips and ExxonMobil.

—WESLEY LOY

● UTILITIES

Enstar proposes annual gas accounting

Tells RCA it wants to reduce volatility of gas cost adjustment following recent controversy over 'price hike' in consumer gas bills

By ALAN BAILEY
Petroleum News

During an Aug. 13 public meeting of the Regulatory Commission of Alaska, Enstar Natural Gas Co. executives told the commissioners that the utility proposes reverting to an annual process for determining the gas cost adjustment, or GCA, that it charges its customers. The utility has been adjusting the gas cost on a quarterly basis but this has resulted in high levels of gas price volatility, leading recently to anguish among consumers at an increase in the price of gas from $4.45 to $7.67 per thousand cubic feet.

Annual adjustment

Daniel Dieckgraeff, Enstar's manager of rates and regulatory affairs, told the commissioners that Enstar is going to request approval for a GCA change each July. Enstar has in the past used annual adjustment that applied in January but the pricing change in the middle of winter had never been popular, Dieckgraeff said. And an adjustment on July 1 would enable the actual gas usage and cost for the entire winter to be taken into account in the adjustment calculations, he explained.

Apparently Enstar had changed from an annual to a quarterly process for the adjustment, to accommodate the fact that in some supply contracts with gas producers the gas prices were revised quarterly.

The prices that Enstar pays its suppliers for its gas depend on the terms of a series of commission-approved contracts that use a variety of pricing formulae, indexed to oil prices or North American gas prices. John Sims, Enstar's director of business development, explained to Petroleum News that Enstar pays its gas suppliers monthly, based on the actual amount of gas that the utility has had to purchase during the previous month. Enstar passes the cost of the gas directly to its customers. The utility does not make money out of gas sales — it makes money from the services it provides in delivering gas from the producers to the customers.

Uses estimated demand

But, to bill its customers, Enstar must set a gas price that it can use in its customer invoices. And, because that price is dependent on some combination of total gas usage and the gas supply contract pricing, the utility has to use estimated future gas demand to calculate a gas price for future billings. But, with gas demand depending primarily on the weather and the state of the economy, factors that are both notoriously difficult to predict, the estimated gas demand used to set the price never matches the actual gas usage that determines what Enstar has to pay its gas suppliers. Consequently the utility

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HISTORIC OPENING

tens of billions in investment.

The overhaul opens up production- and profit-sharing contracts for private companies that had been restricted to operating just as subcontractors for Pemex, without the ability to book reserves or gain a significant share in profits.

With drilling companies busy around the world, the first partial openings in the late 2000s proved unattractive. It's unclear how much interest there will be in the new round of bidding, which is expected to open in early 2015.

The revamping passed by ample margins in Congress, due to support from Pena Nieto's Institutional revolutionary Party, the PRI, and the conservative National Action Party, but many Mexicans still seem wary of the changes.

Seeking to reach average Mexicans, Pena Nieto promised they would feel the effects of the reforms in their pocketbooks, through lower power prices and more jobs.

Pena Nieto said that by passing the overhaul "we have overcome decades of immobility, and overturned barriers that prevented Mexico from growing." One of those barriers has been the high price of natural gas, much of it imported, and electricity rates that are higher than in many parts of the United States.

"With this reform we can extract oil from deep waters and take better advantage of our vast deposits of shale gas, to generate electricity at lower prices," Pena Nieto said.

It remains to be seen whether Mexico can assign complex contracts to private companies without the kind of kickbacks, favoritism and insider deals seen in the past. The law creates a national oil commission to take such decisions out of the hands of Pemex.

Mexico's oil and gas production peaked in 2004 at 3.4 million barrels a day, declining steadily to 2.5 million barrels. With the reform, the government hopes to increase output to 3 million barrels by 2018 and 3.5 million by 2025, by attracting private companies with the expertise and technology to exploit the country's vast shale and deep-water reserves.

—ASSOCIATED PRESS

PIPELINES & DOWNSTREAM

RCA OKs Anchor Point Energy transfer

The Regulatory Commission of Alaska has approved the transfer of Anchor Point Energy LLC to a new owner, Cook Inlet Energy LLC.

APE's primary asset is the nine-mile pipeline system serving the North Fork natural gas field on the southern Kenai Peninsula.

The APE transfer was part of Cook Inlet Energy's February acquisition of the North Fork field.

The same partnership that formerly owned the North Fork field also owned APE. The partnership included Armstrong Cook Inlet LLC, GMT Exploration Co., Dale Resources Alaska LLC, Jonah Gas Co. and Nerd Gas Co.

Cook Inlet Energy is an Anchorage-based subsidiary of Miller Energy Resources Inc., a publicly traded company based in Tennessee.

The North Fork pipeline consists of two parallel nine-mile lines, each 4 inches in diameter, extending to an interconnection with an Enstar pipeline near Anchor Point.

Under Cook Inlet Energy ownership, APE will continue operating the North Fork line as "a regulated common carrier pipeline, accessible to all shippers on nondiscriminatory terms and conditions," said a joint transfer application filed in February with the regulatory commission.

The transfer of APE to Cook Inlet Energy required regulatory approval, as APE holds an operating certificate from the commission.

In an Aug. 8 order, the commission found the transfer was in the public interest. As part of its review, the commission considered Cook Inlet Energy's management ability and financial fitness.

The order said Cook Inlet Energy had stated the change of ownership "will have no adverse effect on Anchor Point Energy's rates or terms and conditions of service."

—WESLEY LOY

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GAS ACCOUNTING

must periodically true up the payments it has received from its customers for the gas they have used with the amount Enstar has had to pay to the gas producers for the gas supplied. This true up is achieved by making an adjustment to the future price, with a price increase applied if customers have underpaid for the gas previously used, or a price decrease if the customers have paid too much.

Price volatility

This truing up of actual gas costs against actual customer payments leads to volatility in the GCA. And a short truing up period tends to lead to higher volatility than a longer period.

This year's July GCA increase was especially high because abnormally warm spells of weather in the first two quarters of this year resulted in a major under collection of gas payments from customers — the recovery of this underpayment through the GCA started in July, at a time at which consumers use relatively little gas, thus resulting in a relatively large adjustment in the price per unit volume of gas.

Dieckgraeff said that following the recent price controversy Enstar had assessed several different potential ways to reduce GCA volatility, including the possibility of spreading cost adjustments across multiple truing-up periods. However, reverting to an annual rather than a quarterly truing up period appeared the most satisfactory approach, he said.

Better communications needed

Some commissioners, expressing sympathy with consumer concerns about gas prices, criticized Enstar for not communicating effectively with its customers, to explain that the truing-up mechanism can lead to price decreases as well as price increases. Commissioner Paul Lisankie commented that he did not understand why no one talks about the around $3 decrease in the gas price that occurred in the quarter prior to the July 1 increase. Looking at the change in pricing between January and July, the gas price appeared to have increased by 1.32 percent, Commissioner Norman Rokeberg commented.

Dieckgraeff said that Enstar estimates that the GCA will drop to $7.15 in the fourth quarter of this year. ●

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COGHILL Q&A

much as some people would like and that's why SB 21 is being challenged. I want a long term investment strategy on the North Slope. I don't want to take all the cash now and have little investment later. That's a principle I live by. Some people just don't agree.

Petroleum News: Are you surprised this debate is still as high profile volatile as it was eight years ago when PPT was first being debated?

Coghill: No I'm not surprised. I was born and raised in Alaska. From the day they found that oil on the North Slope, they've been talking about what's the fair share. It's slid up and down throughout the years. It's been hugely valuable to Alaska. No doubt about it. No income tax. We are willing to let our resources carry our weight. That's what we agreed to when we became a state that our resources would carry us. This was just so big and so dominating that it's not surprising.

Petroleum News: So let's say three or four years from, you don't see much difference in production, what then? I know this is hypothetical, but no tax regime seems to have stemmed the decline.

Coghill: From mature fields it is always going to be harder and harder to get the oil. I take some encouragement from places in Texas where they had given up on fields but now through some technology, they now are pumping more oil out of fields they gave up on years ago. I'm not willing to give up on a hydrocarbon basin like the North Slope that we know has everything from bitumen to light sweet crude to condensate to natural gas. We know it hasn't been monetized to the best of its ability. I want to see the next generation get the benefit of whatever the next generation of technology brings.

Petroleum News: So if there is no change, do you go back and revisit this regime or leave it place?

Coghill: I think in Alaska and at a maturing field, we will continually be watching what's the best benefit for Alaska. I can't think of a legislative session that won't ask the question are we doing the right thing, the right way for the benefit of Alaskans. That is our duty. I believe it will be continually watched, monitored and even modified.

Petroleum News: If this does pass, what do you see happening moving forward?

Coghill: There will be a couple of sad things. One of the sad things, the credits we have for quote-unquote middle earth, where Doyon is looking to drill in the Nenana Basin or up in the Yukon Flats area, or Kotzebue looking in the Sound or Glennallen looking in that area. It would be a shame to lose that.

The other part would be we would have to go look at the progressivity, the very thing we said we need to work on. Progressivity needs to be brought in. The recording mechanism has to be streamlined. The credits in ACES are not sustainable the way we put them in. We would have to look at price per barrel. When we put ACES in, it was almost unthinkable that we would reach $100 a barrel oil. It was made for $80 to $90 a barrel oil. Is that the world we are going to live in? Are we going to have to make it more flexible?

You are going to have to look at that whole structural thing meanwhile you are losing that attractiveness of investment worldwide.

Petroleum News: So do you come back for a special session and fix it quickly or do you wait for session to resume in January?

Coghill: I think you wait for the legislative session. You have every House seat up. You have a governor's race. You have two-thirds of the Senate up. To hold a session right before election day, the criticism for doing it fast and without a lot of study, I just think it would be unlikely.

Petroleum News: Has your majority caucus talked about any contingency plans?

Coghill: I think everybody has got to think about it. You look at what are the places you can get some agreement on and what are the places you can go to work on. I've got to tell you, it would probably come in as a hybrid between SB 21 and ACES. The structure of ACES is very, very clear and that the complexity of figuring the production tax value is so huge and uncertain that both the taxer and tax payer have a hard time figuring it out. That has to be answered.

Petroleum News: I don't think anyone has denied that ACES has needed some reworking. So don't you think you can get to those answers?

Coghill: We tried to do that under HB 110 by modifying it. The Legislature ground to a dead halt .We just couldn't get there. That's probably what would happen again if you tried to take that existing structure. Taking some of the fundamental existing problems and fixing them, but how do you fix the price value in a market like this? Look at what's going on in the Middle East and South America. It's even more volatile than when we put this structure in. We can figure a little better what the price of oil produced is, but that doesn't change the complex monthly assumptions. I think that would be where we settle the biggest argument right there. But SB 21 solved that. ●

Editor's note: Part 1 of this Q&A ran in the Aug. 10 issue.

Contact Steve Quinn at squinnwrite@gmail.com

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GARA Q&A

Petroleum News: So what happens if four or five years down the road we don't see a bump in production?

Gara: Well, first of all BP has admitted SB 21 will not get a bump in production. BP has admitted their big fields will keep declining under SB 21. And Parnell has admitted under SB 21 you're facing a 40 to 45 percent production decline in just the next 10 years. What we need to do instead of just giving away money and hoping companies don't spend them in counties with bigger oil pools like Russia and Azerbaijan. Just giving away money and hoping companies don't take it out of state. It's not smart policy. It's not what a private business would do when it enters into a contract. Parnell says "here is a gob of money and you can spend it anywhere you want. We just hope you spend it here."

Petroleum News: What is your interpretation of the decline during the most recent fiscal year as being about 1 percent from year to year?

Gara: The oil companies played two games. One, the annual shutdown for maintenance has been about 35 percent shorter this year than it has been in prior years in order to maximize production for PR purposes, but what BP admitted is they are producing the same oil now that they would have produced a few years later, but they are producing it now with investments they are making, but it's not getting us new oil. It's getting us the same oil we would have gotten a few years later.

So with BP producing the oil they would have produced a few years later — now — and now creating this very short pipeline maintenance period during this past fiscal year in order to play election games in a way that frankly jeopardizes the safety of the pipeline. They do no better than still get what the state admits is going to be a 40 to 45 percent production decline over the next 10 years. So even with the one year with a gain or flat decline, the state admits we are going to have a steeper production decline because of it.

Petroleum News: So what are your concerns for the next 10 years since that's the timeframe you've noted?

Gara: The Parnell has administration has laid off over 600 teachers and staff the last three years. The Parnell administration and GOP has just passed a bill that lays off just in Anchorage over 400 staff the next three years. In 10 years who knows what families are going to want to raise their kids here if this keeps happening. They want to go places with good schools. When you lose kids, you not only lose a future workforce, but you lose the families who are our engineers, our nurses, our doctors, our economic future.

Petroleum News: This debate last year was about production. Now we are hearing it's about jobs. Which is it?

Gara: The oil companies have hired the best advertising people they can. Of course, they shift the debate based on the poll numbers. Jobs went up and investment went up under ACES. Their ads saying they have reversed the decline in investment are false. We are talking about oil fields that started under ACES. They all testified it takes five to seven years to get to production. They move forward but they all started under ACES. I can't keep them from shifting their arguments, but their arguments all tend to be false.

Petroleum News: How can you reach something that you believe is stable, predictable and gets more oil in the pipeline? ACES didn't do it and you folks don't believe SB 21 will do it. So what's going to work?

Gara: SB 21 is not doing it according to Parnell's production forecast which shows a 40 to 45 percent oil production decline under SB 21. The three most unstable things you can do is threaten to nationalize companies even though Conoco and BP invest in countries where that happens. The other unstable things you can do is have too low a tax because companies know it's going to change and they will be hesitant in coming to Alaska if the tax is way too low because they know it's going to change. And having too high a tax. All three of those things are bad. We should know what the oil companies' original claim was before they got SB 21 was that at very high prices the tax was too high. At very high prices we should make sure there is a cap. The old cap was 75 percent and that was far too high. The new cap should be

see **GARA Q&A** *page 21*

Petroleum news

Oil Patch Bits

Alaska Clean Seas breaks ground on Deadhorse facility


ALASKA CLEAN SEAS

After a comprehensive design and bid process Alaska Clean Seas, ACS, commenced an $11 million construction project in Prudhoe Bay to replace its existing office facility. Employing the services of EXP U.S. Services as project manager, Anchorage construction contractor F&W was selected to erect the new building. Demolition of the old camp section occurred in May. With the construction season in full swing, foundation work began June 5. Occupancy is expected in the fall of 2015. When complete, the new facility will provide 20 offices along with training and conference rooms, fiber optic communications and improved safety and environmental working conditions. ACS, a not-for-profit oil spill response cooperative serving exploration, production and pipeline members on the North Slope, was established in 1979 and is recognized nationally and internationally as the leader in Arctic oil spill prevention and response services.

URS hires Ivy Shultz


IVY SCHULTZ

Ivy Schultz recently joined URS as a geographic information systems analyst with four years of experience in GIS including collecting, managing, processing, and presenting data for a variety of successful projects. In her role as a GIS Analyst, Schultz is responsible for data management, analysis, and cartography to support business processes. This includes post processing field data, quality assurance and control, geo-processing, and creating maps. Schultz attended Alaska Pacific University and graduated with a Bachelor's Degree in Environmental Science.

Calista Corp. welcomes shareholder hires

Calista Corp. proudly welcomes shareholders George Owletuck and Kirsten Kinegak-Friday to its team of employees. Both have impressive resumes and bring several years of experience to the corporation.

Owletuck is the government relations liaison and is responsible for coordinating, developing and conducting activities relating to federal, state and local government relations. He

see OIL PATCH BITS page 21

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

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TAX COMPARISON

www.iser.uaa.alaska.edu/news/?p=861.

He compares revenues that would be generated under the different systems, how the taxes share risk between industry and the state and administrative issues affecting relationships between the state and the oil industry.

Latest political round

Berman said Ballot Measure One (the vote on MAPA) is the first opportunity for Alaskans to have a direct say in the state's oil revenues, but "represents only the latest round of political conversation" on oil taxes which has been going on since Prudhoe Bay oil started to flow through the trans-Alaska oil pipeline in 1977.

Since North Slope oil production began the state has "generally collected between 30 and 40 cents of every dollar of gross wellhead production value," Berman said, with the state take exceeding 45 percent for "two of the six years under ACES when oil prices were high." MAPA falls within the 30-40 percent range, but could fall below 30 percent, he said, because of its reduced tax on new oil, which over time will become a larger share of production.

Price, cost assumptions

Berman said that an earlier comparison of MAPA and ACES by Scott Goldsmith, professor emeritus of economics at ISER, used figures similar to those which the Alaska Department of Revenue projected for fiscal year 2015. But, Berman said, costs are "much higher for that year than for previous years," primarily due to capital expenditures for Point Thomson development.

His analysis uses cost assumptions "based on Department of Revenue assumptions for the next five years — which better reflect likely future conditions," he said. With those assumptions, "ACES would collect $1.3 billion more than MAPA over the next five years — a difference of about 12 percent," Berman said.

That difference would be greater, he said, but under ACES much of the large capital expenditures for Point Thomson would be eligible for a tax credit, while because of the small production which will come from Point Thomson "the per-barrel production credit under MAPA would be much smaller."

Capex v. production credits

Under ACES there was a tax credit for capital expenditures while under MAPA there is a per-barrel credit for production, which Berman characterizes as eliminating "a risk-sharing mechanism while offering producers an inefficient incentive to increase production." The incentive is inefficient, he said, since the production credit under MAPA "gives an oil company a less valuable benefit, because the firm doesn't get the production credit until many years after it incurs the investment expenses."

While the state shared some of the exploration risk under ACES through credits, that sharing is less valuable to large international companies than to small independents, he said, because larger firms have more diversified portfolios than independents, "leading them to place much less value on sharing risk with the government."

All the recent tax systems — from PPT through MAPA — are progressive, rather than regressive, so the state gets more revenue when profits are higher, as they have been with high oil prices since PPT was enacted.

With more regressive systems, such as the ELF system which preceded PPT, Berman said, larger companies benefit. "More regressive instruments allow them not only to pay less expected revenue to the state, but also help them compete more aggressively against smaller independent firms," he said.

Administrative distance

Since North Slope production began there has been "a steady decline in administrative distance," which Berman defines as "the degree to which governments act unilaterally to determine the fiscal regime, versus negotiate terms jointly with industry."

He attributes this to "significant expertise" which the state has built up over the years in the departments of Revenue, Natural Resources and Law, and the fact that as the state has become more dependent on the industry for public revenues, industry has become dependent on the state for access to resources, a "mutual dependence" which has provided an incentive for cooperation.

Berman also credits establishment by the major North Slope operators of regional headquarters in Anchorage in the 1980s, the thousands of employees they moved to Alaska and their relationships with local contractors, embedding the industry as an integral part of the state economy.

Determination of "new oil" under MAPA places a "significant new administration burden on the Department of Revenue," Berman said, and how that determination is made, through litigation or negotiation, "could change the nature of the administrative relationship toward either greater or lesser distance."

—KRISTEN NELSON

Contact Kristen Nelson at knelson@petroleumnews.com

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GARA Q&A

at around 50 percent at very high prices. If oil ever hit $180 a barrel, oil companies were making record profits, the state got to share on the high side. We need to get heavy oil into the pipeline and we need to help small producers built processing facilities and do the things so they can get oil into the pipeline. Those require investment incentives that that say if you invest in Alaska we'll give you a tax break. SB 21 gives you is what Scott Goldsmith admits is a zero value tax rate and that's in his chart in his own report, and a zero value tax rate will bankrupt this state until only the oil companies have jobs. ●

Editor's note: Part 1 of this Q&A ran in the Aug. 10 issue.

Contact Steve Quinn at squinnwrite@gmail.com

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OIL PATCH BITS

GEORGE OWLETUCK

KIRSTEN KINEGAK-FRIDAY

brings leadership experience and several years of working in government relations. Owletuck served in the U.S. Air Force and previously worked for the late U.S. Sen. Ted Stevens. He is a former University of Alaska Fairbanks professor and has held numerous leadership positions in the areas of fisheries, the environment and natural resources.

Kinegak-Friday is associate general counsel at Calista. She is a graduate of Stanford University and University of California, Los Angeles School of Law. Her main legal focus has been on Alaska Native corporations and Alaska Native issues. She is a former Calista intern and Calista Heritage Foundation scholarship recipient.

As part of its mission as an Alaska Native corporation, Calista is committed to increasing shareholder benefits and economic opportunities. One of the ways Calista does this is by providing jobs for shareholders and descendants. The corporation currently has a shareholder hire rate of 55 percent at its corporate headquarters in Anchorage; an additional 3 percent of the employees are Alaska Natives who are shareholders and descendants of other Alaska Native corporations.

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.

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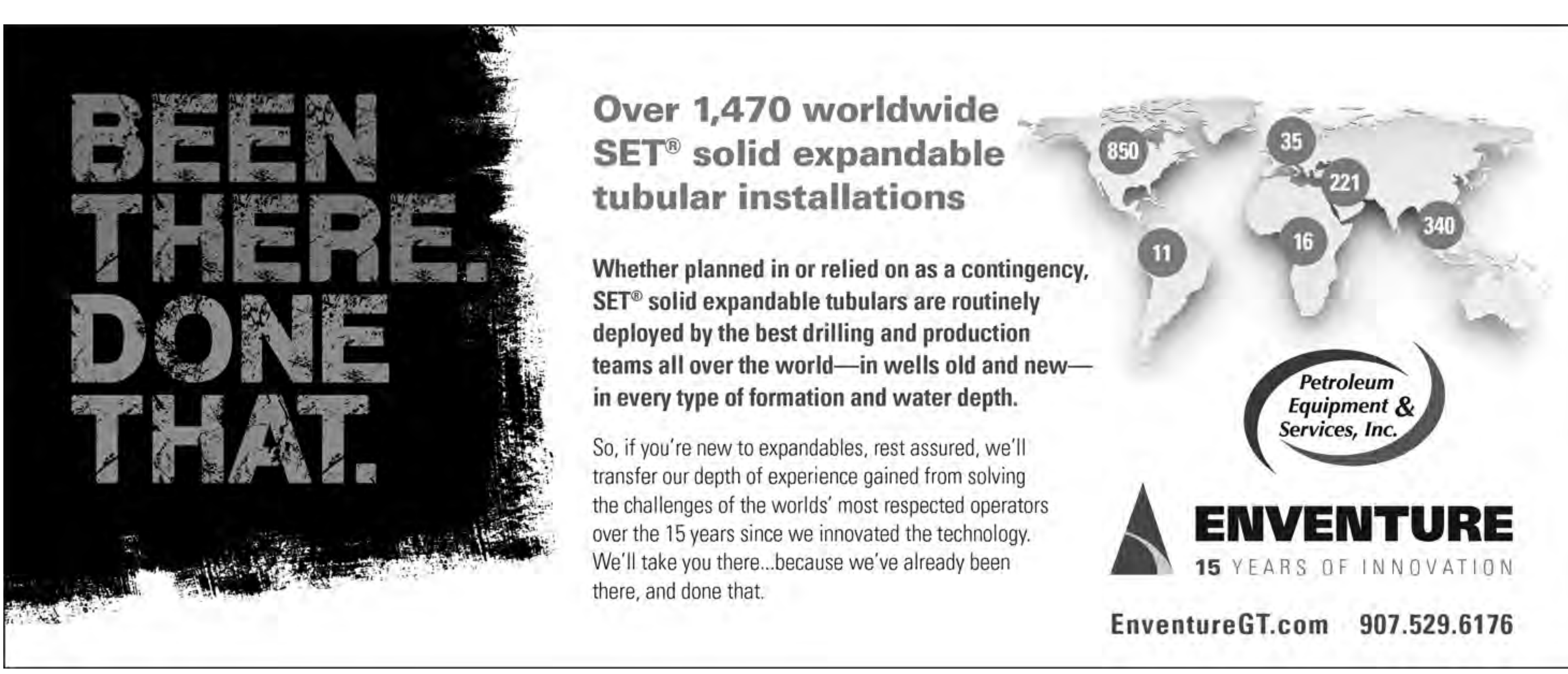

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MILLER SUIT

System designated as lead plaintiff.

The investors alleged Miller executives overstated the value of Cook Inlet oil and gas assets acquired in 2009, and violated accounting principles. This had the effect of artificially inflating the price of Miller's stock, the plaintiffs contended.

Investors who bought the stock suffered losses after the fraud was exposed and Miller's stock price crashed, the lawsuit alleged.

Miller denied misleading investors, defended its asset valuation, and moved to dismiss the case. The presiding judge, however, in February denied the motion.

The settlement notice said the lead plaintiff and Miller took part in two mediation sessions, the most recent on June 5.

Subsequently, the two sides continued to negotiate a settlement and "have now agreed upon all material terms."

They've asked the court to call off pending case deadlines and the trial scheduled for Feb. 9, 2015, so they can finalize the settlement.

The parties expect to file full settlement documentation by Aug. 15, with a hearing on preliminary approval possibly to come in early September.

Cash bonuses

Miller entered the Alaska oil and gas arena in December 2009 when its subsidiary, Cook Inlet Energy, acquired a collection of assets out of the bankruptcy of California-based Pacific Energy Resources Ltd.

The assets, arrayed along the inlet's west side, included the West McArthur River oil field, the offshore Redoubt unit and Osprey platform, and an assortment of other properties and leases.

Since then, the company has worked aggressively to rehabilitate the assets, and to acquire new properties including the North Fork gas field on the Kenai Peninsula. The company also is in the process of taking over the Badami oil field and pipeline on the North Slope.

Meantime, Miller is looking to sell off its Tennessee assets to focus on Alaska.

The company is listed on the New York Stock Exchange.

In recent filings with the U.S. Securities and Exchange Commission, Miller reported average production in excess of 3,000 barrels of oil equivalent per day.

On July 31, Miller filed a report regarding executive compensation.

The report said the company's board of directors had approved cash bonuses for top executives for fiscal year 2014, which ended April 30.

Scott Boruff, chief executive officer, was awarded a $150,000 bonus, the report said.

Other executives receiving bonuses include Deloy Miller, executive chairman, $125,000; David Voyticky, president, $75,000; John Brawley, chief financial officer, $75,000; David Hall, chief operating officer and the company's point man in Alaska, $125,000; and Conrad Perry, vice president and drilling manager for Cook Inlet Energy, $50,000.

For fiscal 2015, base salaries were listed as follows: Boruff, $795,000; Miller, $375,000; Voyticky, $500,000; Brawley, $350,000; Hall, $375,000; and Perry, $350,000.

President departs

On Aug. 12, Miller announced Voyticky, the company's president, had resigned "to pursue other opportunities."

Other Miller executives will assume Voyticky's responsibilities, the company said.

"I would like to personally thank David for his tremendous contributions to Miller over the past four years," CEO Boruff said.

Boruff credited Voyticky with helping cut interest rates on company borrowing, and helping raise "hundreds of millions of dollars to fund our successful drilling program and acquisition strategy."

—WESLEY LOY

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LIBERTY PLAN

Vancouver, Washington, at a cost of hundreds of millions of dollars. The rig components arrived by barge on the North Slope in July 2009.

The rig stands on a drilling pad near the Endicott field. Liberty is to the east, about six miles offshore in the Beaufort Sea.

The plan was to use the rig to drill superwells from shore to tap the Liberty reservoir. BP said these would be some of the longest extended-reach wells ever attempted, going down two miles and then bending out horizontally for six to eight miles.

But the drilling never commenced.

In November 2010, BP made the decision to pause on-site assembly of the Liberty rig to conduct an engineering review of the rig design, materials and key systems.

It was determined, according to BP's 2012 annual report filed with the U.S. Securities and Exchange Commission, that the rig "would require significant changes and investment in order to meet BP standards, and that these were not viable."

In June 2012, BP suspended the Liberty project. It was a costly decision, resulting in a nearly $1 billion impairment loss.

Old plan scrapped

BP drilled and tested the Liberty No. 1 well in early 1997. The company subsequently announced a commercial discovery estimated at more than 100 million barrels of recoverable oil.

On April 22, BP announced a deal to sell a number of its North Slope properties to Hilcorp, including a 50 percent stake in Liberty.

BP is retaining responsibility for submitting the new Liberty development plan to federal officials.

The plan no longer involves drilling extended-reach wells from the Endicott area. Rather, BP is expected to propose a more conventional development that will involve building an artificial island in the Liberty field, with a subsea pipeline to carry the oil ashore.

The main purpose of BP's May 7 letter to BOEM was to request withdrawal of the original Liberty development plan, which the old Minerals Management Service approved in 2008. The plan carried certain ongoing compliance obligations for BP.

In a July 24 reply to BP, a BOEM official said the agency would consider the 2008 development plan closed.

The new Liberty plan, due by year's end, will replace the 2008 plan.

BP Alaska spokeswoman Dawn Patience told Petroleum News the fate of the extended-reach drilling rig, which belongs to BP and not Parker, remains undetermined. ●

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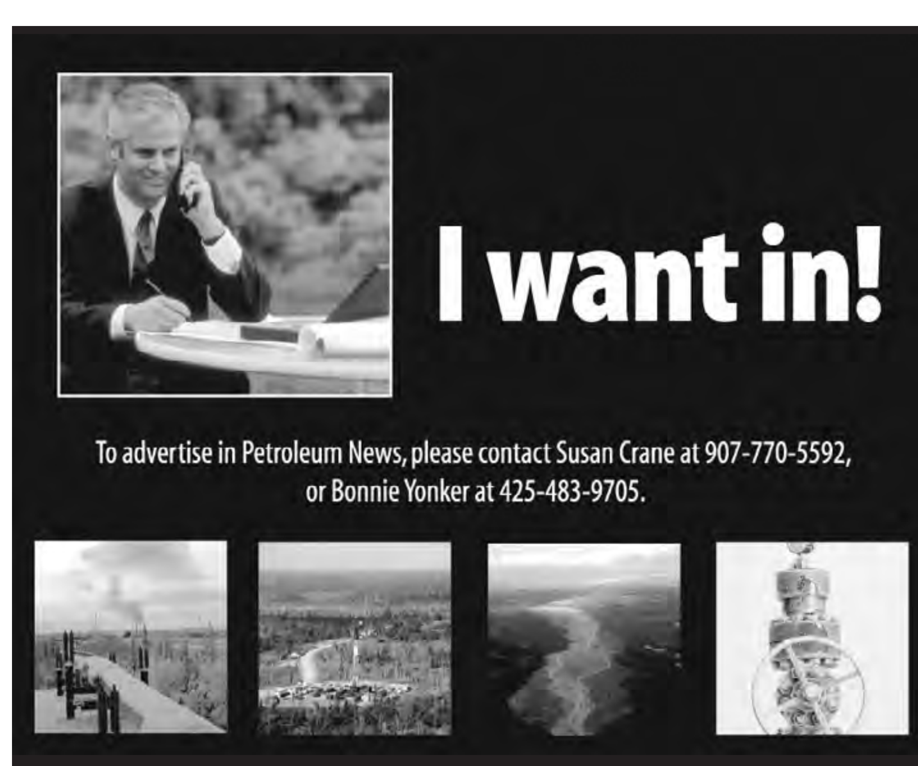

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ARCTIC MAPPING

made by Canada last December to the United Nations body that is considering claims from various countries to sections of the Arctic seafloor.

That submission laid claim to 1.2 million square kilometers, but Prime Minister Stephen Harper intervened to extend the claim which will result in a final submission at an unspecified date.

Scientists say early indications show the Lomonosov Ridge, which runs northward from near Ellesmere Island over the North Pole, is connected to the Canadian land mass, although Canada has so far conducted only aerial surveys of the ridge beyond the pole.

If ice conditions permit, the two vessels will include areas of the Eurasian basin in the vicinity of the North Pole.

Russia and Denmark have shown they are ready to do battle with Canada over the ridge, arguing it extends from their own shores, but the pole actually lies on the Danish side of a line that runs equidistant between Ellesmere Island and Greenland.

Environment Minister Leona Aglukkaq, who also has responsibility for northern economic development, said the bid to define Canada's "last frontier" is aimed at expanding "our economic and scientific opportunities."

Negotiations required

Rob Huebert, a professor at the University of Calgary's Center for Strategic Studies, told the Canadian Press that completing claims will have to be settled by negotiations.

However, he said there is no reason why Canada shouldn't secure jurisdiction over as large an area as possible.

Huebert said "nobody really knows what type of resources are up there."

He noted that as international tensions have ratcheted up Russian President Vladimir Putin may view Canadian mapping of the seabed as a provocation and part of western efforts to encircle Russia, prompting him to "push back."

In addition, Denmark is likely to take a tough stance, not wanting to easily surrender its claims to Arctic regions.

The Canadian government is planning a second mapping trip in 2015. ●

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APACHE SEISMIC

Apache's application does not spell out which specific parts of the authorized area would be surveyed at any particular time within the five-year window, merely stating that the company intends to survey a portion of the total area in any given year.

After entering the Cook Inlet oil and gas industry in 2010, Apache made it clear that it viewed the acquisition of modern high-resolution seismic data as a key to successful exploration drilling in the Cook Inlet basin.

Seismic needed

After entering the Cook Inlet oil and gas industry in 2010, Apache made it clear that it viewed the acquisition of modern high-resolution seismic data as a key to successful exploration drilling in the Cook Inlet basin. The company embarked on an ambitious three-year program of seismic surveying, with the intent of covering a broad region of onshore and offshore territory. Using a state-of-the-art technique involving the deployment of wireless recording nodes, in late 2011 the company initiated its survey program with an onshore 3-D survey up the west side of the inlet. That survey was followed by an offshore survey along a 15-mile-wide fairway across the northern part of the inlet, designed to tie in with a planned onshore survey in the northern Kenai Peninsula.

But conducting an offshore survey requires authorizations from federal authorities for the potential disturbance to the marine mammals of Cook Inlet. In particular, the inlet is home to the Cook Inlet beluga whale, a mammal population protected as endangered, under the terms of the Endangered Species Act.

Incidental harassment authorizations

Starting in 2012, Apache went through the process of applying to the Fisheries Service for annual incidental harassment authorizations for its offshore surveys. And, given the listed status of the beluga whale, these applications triggered consultations and biological assessments for the potential impacts of the surveys on the whales and their habitat. Ultimately, the Fisheries Service did grant the authorizations, albeit requiring separate authorizations for different sectors of the inlet. Apache expressed frustration at the unpredictable timeframe both for the authorization process, and for the processing of other federal permits such as U.S. Army Corps of Engineers permits for the laying of offshore seismic recording nodes.

Meantime, delays in the issuing of a land use permit for surveying in the Kenai National Wildlife Refuge caused Apache to defer the start of the onshore component of its survey program in the northern Kenai Peninsula. Apache did not shoot any seismic in the Cook Inlet basin in 2013.

In February 2014 the company, having obtained the necessary permits, finally embarked on its planned onshore Kenai Peninsula survey, while also restarting some offshore surveying in the northern inlet, under the terms of an incidental harassment authorization issued for 2014.

Letter of authorization

As the initial three-year period of Apache's seismic program draws to a close, it appears that the surveyed area has fallen well short of what the company had originally hoped. And, rather than continuing the process of making annual applications for incidental harassment authorizations for offshore work, the company is seeking a letter of authorization for a complete five-year program. A letter of authorization, while having the same general purpose as an incidental harassment authorization, involves a more complex application process but can encompass a timeframe longer than a single year, thus presumably eliminating some timing uncertainty once approved.

Apache spokeswoman Lisa Parker told Petroleum News Aug. 11 that the letter of authorization application process involves two public comment periods but that, once the authorization has been issued, no further public comment process is involved. Although the process takes a bit longer initially, ultimately the process becomes simpler both for the company and the permit administrator, Parker said.

Apache's letter of authorization application says that biological assessments and biological opinions issued under previous incidental harassment authorizations expire in December. The proposed seismic surveying activities potentially impact six marine mammal species: the beluga whale, the killer whale, the harbor porpoise, the gray whale, the harbor seal and the Steller sea lion. Apache is not applying for the authorization of activities that would result in animal injury or death, the company's application says.

Two source vessels

According to the application, surveying would involve the use of two seismic source vessels, each towing an array of air guns. Recording nodes, used to detect subsurface echoes of sounds from the sources, would be placed on the seafloor along a series of lines, in what is referred to as a "patch." Upon completion of recording in a patch, the lines of recording nodes would be moved to form the next patch, with a series of patches ultimately providing continuous coverage of an area.

One well

So far, as part of its Cook Inlet exploration program, Apache has drilled just one well, the Kaldachabuna No. 2, onshore the west side of the inlet. Although the results from that well proved disappointing, Apache has said that it remains positive about the potential of the Cook Inlet basin. ●

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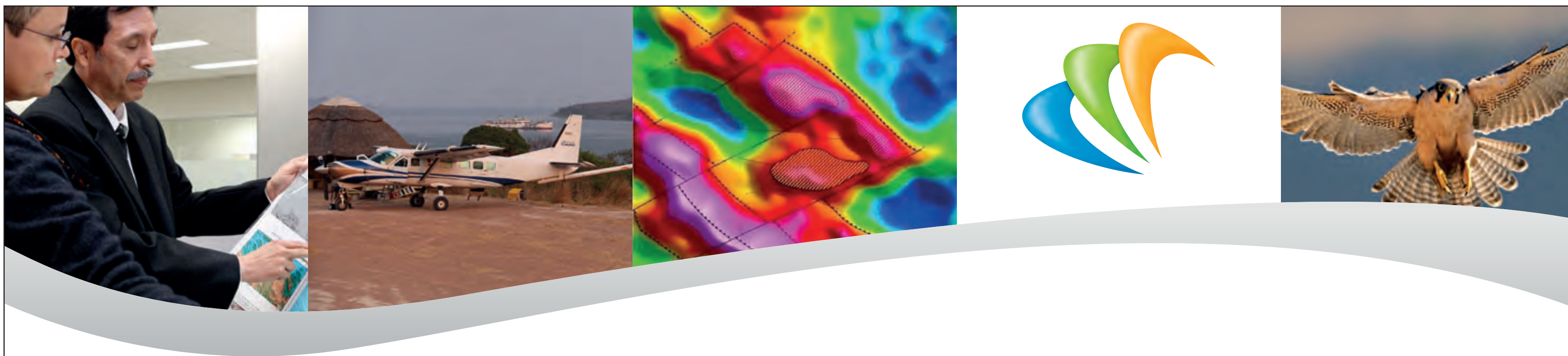

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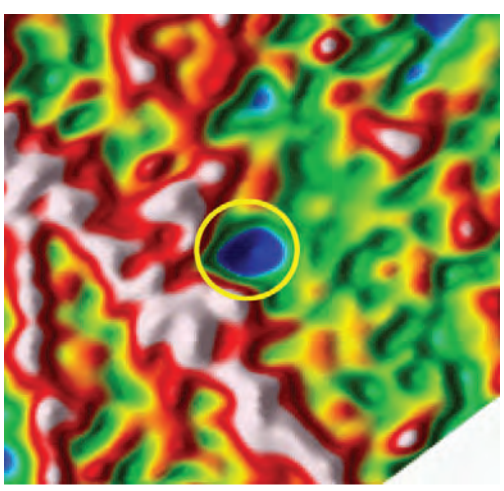
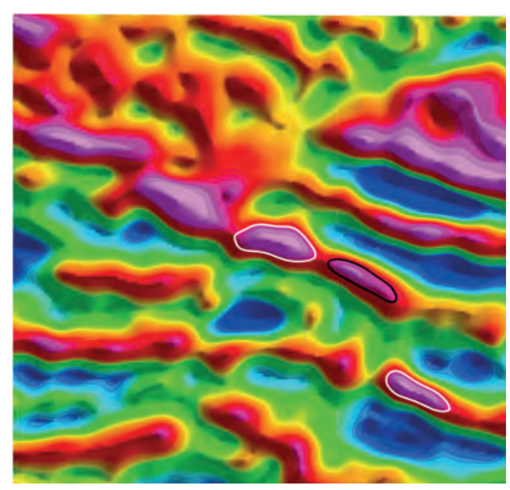
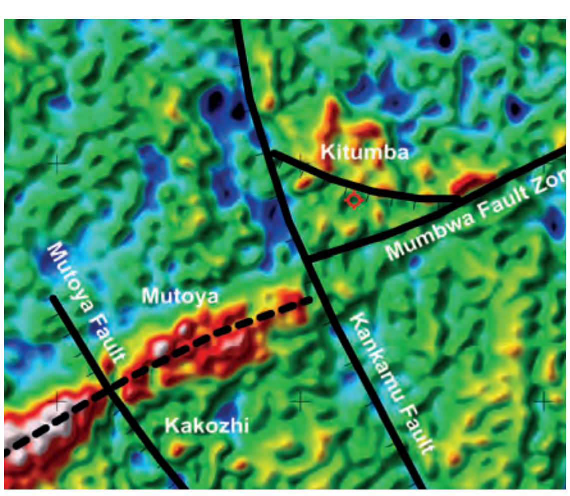


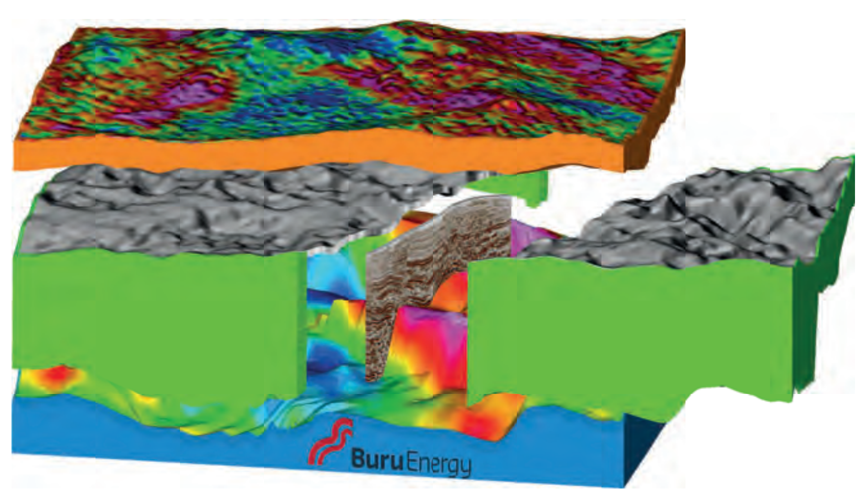
Kimberlite exploration; Ekati



Iron ore exploration; Hamersley



Iron Oxide Copper Gold exploration (IOCG); Mumbwa



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