

## State issues 2 seismic permits; Kad River, Horseshoe both 3-D

The Alaska Division of Oil and Gas has approved two North Slope seismic programs.

Global Geophysical Services Inc. will conduct the onshore Kadleroshilik River 3-D seismic survey in the area south of Deadhorse (see map, page 15). The joint venture Kuukpiik SAE LLC will conduct the onshore Horseshoe 3-D seismic survey in an area south of Nuiqsut (see above map).

The two permits both run through the end of May 2015.

### Kad River survey

The Kadleroshilik River program will cover some 228 square miles south of Deadhorse, in a region where Great Bear Petroleum has been leasing and exploring in recent years.

Global Geophysical Services will access the region either from the east along the Kavik Camp winter trail or from the west near milepost 12.5 of the Dalton Highway. The company will likely use a popular staging area at Franklin Bluffs for its program.

The company will collect seismic data using vibroseis, which causes subsurface vibrations by creating an impact on surface

*Great Bear Petroleum commissioned 3-D seismic surveys over various portions of its large leasehold in 2012, 2013 and 2014.*

see **SEISMIC PERMITS** page 15

## Chevron cancels Beaufort plans

Chevron has shelved indefinitely plans to drill for oil in the Canadian portion of the Beaufort Sea until price-driven uncertainty in the industry is resolved.

In a letter to Canada's National Energy Board, the company said that as a result it has pulled out of scheduled technical hearings on Arctic drilling rules.

The cancellation affects Exploration License 481, 150 miles northwest of Tuktoyaktuk, Northwest Territories, where Chevron had hoped to drill a well by 2020.

Of its two exploration licenses in the Beaufort, Chevron owns and operates EL 480 and has a 60 percent operatorship stake in EL 481, with the other 40 percent farmed out to Statoil in return for the Norwegian company paying a share of a 3-D seismic program which covered almost 800 square miles.

Chevron paid C\$103.3 million in 2010 for rights to explore 509,000 acres in the Beaufort.

Chevron has also acquired a 40 percent non-operated

*The cancellation affects Exploration License 481, 150 miles northwest of Tuktoyaktuk, Northwest Territories, where Chevron had hoped to drill a well by 2020.*

see **BEAUFORT PLANS** page 15

## NATURAL GAS

# AG questions Harvest

*Richards wants regulators to suspend sale of Point MacKenzie LNG terminal*

By ERIC LIDJI

For Petroleum News

Attorney General Craig W. Richards is raising antitrust concerns over a proposed sale of the Point MacKenzie liquefied natural gas terminal to a Hilcorp Alaska LLC subsidiary.

In comments filed with the Regulatory Commission of Alaska on Dec. 12, Richards said that he would be "unlikely to consent to the sale" until after regulators conclude a rate case filed by Fairbanks Natural Gas LLC, which is the primary customer of the terminal.

State law gives the attorney general the authority to stand in the way of any deal that threatens competition. In this case, the authority might be superfluous

*After being able to adjust its rates at will for the more than a decade, Fairbanks Natural Gas is currently going through the process of becoming a rate regulated utility.*

because the two parties made the deal explicitly contingent on "the consent of the attorney general."

Since acquiring assets from Chevron and Marathon, Hilcorp has been the dominant gas producer in the Cook Inlet basin and is now the sole supplier to the terminal. If the sale went through, Hilcorp could have great influence over the small Fairbanks

see **TERMINAL SALE** page 16

## EXPLORATION & PRODUCTION

# Planning for drilling

*Apache applies for permit for Kenai Peninsula drilling pads and access roads*

By ALAN BAILEY

Petroleum News

Apache Alaska Corp. has applied to the U.S. Army Corps of Engineers for a wetlands permit for the construction of three gravel drilling pads and associated access roads in the northwestern Kenai Peninsula. The potential drilling sites are in Native owned land within the Kenai National Wildlife Refuge, close to the western coast of the peninsula, northeast of the Nikiski area.

Apache spokeswoman Lisa Parker told Petroleum News in a Dec. 19 email that, although Apache has not yet made a decision on whether to proceed with the drilling, the company is applying for permits, to

*Apache has been conducting an extensive program of seismic surveying in the Cook Inlet basin and earlier this year started an onshore survey in the Kenai National Wildlife Refuge in the northern Kenai Peninsula.*

ensure that the permitting process is completed in time for any drilling to proceed.

"Apache is applying for the necessary permits needed to allow for exploration of oil and gas," Parker wrote. "While no decisions have been made it

see **DRILLING PLANS** page 16

## GOVERNMENT

# Alberta in a fiscal fix

*Prentice says revenue shortfall could total C\$16.2B in next 3 budget years*

By GARY PARK

For Petroleum News

Alberta Premier Jim Prentice is applying a form of water torture by delivering the grim news in a steady trickle.

In preparing Albertans for a round of harsh spending cuts and possibly the unthinkable — higher taxes — he has estimated his government faces a revenue shortfall of C\$16.2 billion in the next three fiscal years unless there is a dramatic recovery in oil prices.

Some observers have issued a reminder that it was only two years ago when then-premier Alison Redford warned the so-called "bitumen bubble" — the gulf between West Texas Intermediate and



JIM PRENTICE

Alberta bitumen prices — would cost the coffers C\$6 billion.

But that dire outlook quickly evaporated as crude prices recovered and government spending resumed apace.

Although mindful of that misjudgment, Prentice is preparing for the worst by naming a seven-member cabinet committee to lay the foundation for the 2015-16 budget and recommend limits on hiring and spending.

"We'll tighten our belts before we ask Albertans to tighten theirs," he told reporters.

Prentice said the committee, including himself as chair, is a "tough, talented and experienced group that understands the scope of the challenges we're facing."

see **FISCAL FIX** page 14

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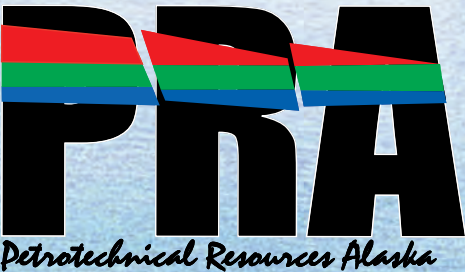
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GOVERNMENT

# MacKinnon: ASAP an accelerator for LNG

Eagle River Republican says goal to merge the projects; as Finance co-chair will look for capital projects with matching funds

By STEVE QUINN

For Petroleum News

The name may have changed, but the face will be a familiar one when the Legislature returns to Juneau in January and the Senate Finance Committee gets a new co-chair in charge of capital budgets.

It's the newly married Sen. Anna MacKinnon, an Eagle River Republican. MacKinnon started serving in the Legislature in 2007 and quickly built a reputation as someone willing to not only do some heavy lifting, but serve on as many, if not more, committees than any of her peers.

MacKinnon closed out the legislative session in April serving on three key resource committees: TAPS Throughput; Resources and Finance.

While all of the committee assignments haven't been released, MacKinnon draws an enviable assignment of overseeing the capital budget at a time when oil prices are hovering over five-year lows.

MacKinnon spoke to Petroleum News about what may or may not lie ahead for the state under current prices.

*Petroleum News: Let's start with the interim. Even as you've not been in session, steps have been taken toward advancing a gas line such as early permit applications to FERC and the Department of Energy for export permits. Is this how you envisioned the interim, as least as it relates to the gas line?*

MacKinnon: Absolutely. We are cautiously optimistic that the past administration has hit their marks for timelines to advance a project and it's our hope we will be in special session in October next year to actually have the next gate to go through so all of our partners would be committed to I think the number is \$45 million to \$100 million. It's been a long time since I've looked into those numbers. This administration has handed off a project that is still the potential to go forward.

*Petroleum News: What do you believe the Legislature can do to help the project move forward during the session or will it be too soon to really do anything? It doesn't have to be bills; it can be education the Legislature, something that was one of your focuses the last few years.*

MacKinnon: (Incoming LB&A chair) Rep. Hawker had this discussion at our last LB&A meeting and I suggested a gas symposium both on marketplace and the cost drivers for LNG projects and pipelines. Rep. Hawker is certainly aware of the knobs that will turn on this proposal. I think he's amenable to that. We have new legislators coming in.

Not a lot, but a few and we need all of the legislative body on the same page with as much facts as they can have about existing markets, export licenses, the cost drivers, the challenges for Alaska and the cold climate that can be an advantage for LNG production.

*Petroleum News: Speaking of educating the Legislature, was there a symposium with AOGA? So it's ongoing?*

MacKinnon: I think there are a variety of interests that are trying to make sure Alaskans as a whole understand the potential we have out there with this project. Many Alaskans have heard about a pipeline proposal for decades. I don't

want to speak for other people, but there may be a tendency to believe this is just another song and dance. This is not another song and dance. People have signed on the dotted line. We have money being invested by four independent parties, if not five — the state of Alaska, BP, Exxon, ConocoPhillips and TransCanada. So we have people spending money to advance a project. The ASAP line is very much an accelerator on the interest from my perspective, of the big three.



ANNA MACKINNON

*Petroleum News: Do you still believe the smaller line deserves consideration and further review?*

MacKinnon: We have divided the tasks, as I understand it from the administration, of north and south. We are trying to decrease all possible duplications of efforts. The ASAP line has advanced much further than the LNG project. They just had a joint meeting in Seattle to talk about the project. ASAP actually has permits in hand. The idea is to merge the two projects into the most beneficial project for Alaska. The reason I believe the accelerator is there, with the ASAP line, is the big three are at risk: If we put in the smaller diameter, they will have to export through that line. They want the best possible return for their shareholders with the reserves they have banked. That's what's putting pressure, from my position, on the big three to stay involved in this project. So I do not believe it is a good idea to take apart ASAP. I think they are offering a valuable acceleration point as well as providing critical information. We have two different groups working on a similar project that at one point will be fused together just like a good seam on a pipe.

*Petroleum News: Also during the interim, the oil tax debate seems to have eased with the voters upholding SB 21. Do you think that will make it easier for*

*the Legislature to focus on other things?*

MacKinnon: I would hope that the media as well as this administration on reviewing the components SB 21 would tell the public that we are under a better fiscal regime than we were under ACES. That we have more money coming into Alaska's revenue stream than we did under ACES. This is exactly then scenario those of us who voted for SB 21 were anticipating, and that's a dip in the price per barrel of oil. So we are protected better.

Could we be protected more? Yes. This is the compromise that we were able to reach with the majority in the Senate and the House. I don't anticipate any additional review right now, but that's not to say if something doesn't need to be tweaked — we want to make sure we have wildcatters able to come to Alaska and participate. But we also want to make sure those who can actually bring production on line are working under economic conditions their shareholders will invest in.

*Petroleum News: Speaking of low oil prices, obviously we are there. Do you think these prices bring a dose of reality to just how volatile our state's economy really is?*

MacKinnon: It certainly reflects reality. Yes, it is a reality that the price of oil is volatile and that we as Alaskans don't control our economy and that it's a global market.

And you know I've been saying for years how the (high) price was masking the decline of production. When I asked if people wanted more money in education, I asked them to please find ways now to start looking at ways to deliver education that might require less funding: We were trying to be anticipatory of a drop in prices. All of us want to invest in education so those teachers and those children are supported in the best way possible.

This is certainly a cold, hard look at what can happen when OPEC and Saudi Arabia can produce the same amount of

energy as the United States becomes a net exporter.

*Petroleum News: You have a new administration and there are appointments that have upset your colleagues in leadership in the House and Senate, and they speak squarely to resource development. Could this be a big hurdle to clear early on?*

MacKinnon: I think there are some old wounds out there and gentlemen need to come together — and by that I mean male and female — but we need to have a frank conversation about a variety of past comments that have been made and we need to get past that. People are elected by a variety of different interests

across our state. What I learned early on in a partisan body, you should not judge people by a letter next to their name but by the quality of conversation that they have and the people

they represent. People from the general public can throw any kind of stone that they want against an elected official. In the end, everybody I've been elected with and appointed by the governor, want to do what's best for Alaska, and they would just choose to get there a different way. So I think we need to get together as a Legislature and as an administration and try to go forward with the best interest of Alaskans in mind. I believe the Legislature will do that. I believe we need to establish trust in how we behave between the Legislature and the administration.

*Petroleum News: You folks had a meeting with the governor not too long ago. Was it a good first step?*

MacKinnon: I met with the governor and (Chief of Staff) Jim Whitaker and have seen him on occasion since then, so yes. He spoke with the Senate majority earlier in December. Gov. Walker is doing everything he can to be open and transparent. As an elected official and con-

see **MACKINNON Q&A** page 13

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## FINANCE &amp; ECONOMY

# Talisman ends grand plan

Canadian independent relinquishes global vision, turning Repsol offer over to shareholders; Repsol promises Canada will benefit

By **GARY PARK**

For Petroleum News

There was a time when, like the British Empire of old, the sun never set on Talisman Energy's global operations.

Under the leadership of Jim Buckee, who collected a Ph.D. in astrophysics from Oxford and worked for Royal Dutch Shell and BP on his way to Canada, there were no evident constraints as he planted the Talisman flag in some unlikely corners.

But his voracious appetite for takeovers and acquisition got ahead of realities when he established an outpost in Sudan which was being torn apart by a murderous civil war and immediately collided with human rights and activist shareholder groups, who eventually forced him to bail out, setting the stage for his own departure from Talisman in 2007.

It's an open question whether the Sudan move by Buckee and his refusal to make a graceful exit, while passing up repeated

chances to enter the Alberta oil sands, was the undoing of Talisman as an international player.

## Repsol

How ironic though that Talisman (which got its own start from assets cast off by BP) seems about to come under the control of Spain's Repsol — an unthinkable outcome for any blue-blooded Englishman in the four centuries since the humiliation of the Spanish Armada, which was bent on an invasion of the island nation.

After months of swirling rumors, Repsol made its decisive move on Dec. 15 by offering US\$13 billion — US\$8.3 billion for shares and the rest for assumed debt — to take Talisman out of its misery, not all its own doing.

But the oil price crash has acted as a fur-



HAL KVISLE

*The combined operations would make Repsol one of the 15 largest privately owned oil and gas companies in the world, with activity in more than 50 countries and more than 27,000 employees.*

ther drag on its debt load, spreading further panic among investors.

Assuming the deal meets Repsol's objective of an early closure, the Spanish company will boost its production by 76 percent to 680,000 barrels of oil equivalent per day and fatten its reserves by 55 percent, while acquiring an experienced exploration and production staff of 2,800.

## 353,000 boepd

Powered by strong results in the Duvernay formation of northern Alberta, Colombia and Vietnam, Talisman recorded output of 353,000 boe per day in the third quarter, 323,000 boe per day of which came from its core plays in the Americas and Asia-Pacific, with a heavy emphasis on shale plays.

The combined operations would make Repsol one of the 15 largest privately owned oil and gas companies in the world, with activity in more than 50 countries and more than 27,000 employees.

The offer amounts to US\$8 a share, after Talisman gained 83 percent in the five days before the offer was announced, but that is well short of the US\$12 value a year ago, providing ammunitions for those investors who believe Talisman has caved in during a sweeping oil price correction.

Bernstein Research analysts said there is "untapped value" in many of Talisman's assets, which could have thrived "under the right management."

Bernstein analyst Bob Brackett said the company had an upside prospect of US\$17.30 a share if it embarked on a "level of intensity of action not yet witnessed" that could have put it on a "sustainable footing."

## Kvisle stepping down

Talisman Chief Executive Officer Hal Kvisle, the former CEO of TransCanada who was hired two years ago to set the company on a different path, had made it clear he wanted to step down by the end of December.

But he conceded recently that the search for his replacement had been complicated by a lack of clarity around on-again, off-again talks with Repsol, the sale of Marcellus midstream assets and negotiations with China's Sinopec to acquire the rest of Talisman's stake in the British North Sea.

Kvisle insisted the Repsol deal is a "compelling opportunity" for a company that has considered "in detail other alternative options"

Himalaya Jain, a portfolio manager at ScotiaMcLeod, added weight to Kvisle's argument that the "time was really running out" for Talisman, whose "ability to ride out these very low oil prices was very short."

Because Repsol has pledged to maintain a corporate presence in Calgary, Kvisle said the transaction should be "universally approved" by Canadian government regulators, especially given that the company is fully privatized with no involvement from the Spanish government.

A Repsol spokesman said his company expected to be "carefully examined like any other foreigner. ... We are very conscious that we're guests in the countries where we operate."

"We will do our best ... to show we can build benefit for Canada, for Alberta, for the employees and for the company as a whole."

CIBC World Markets analyst Arthur Grayfer said there was no reason why the Canadian government would block the deal because Canada accounted for only 15 percent of the company's production. ●

Contact Gary Park through publisher@petroleumnews.com

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• FINANCE & ECONOMY

# Judge accepts settlement; Noble sentenced

\$12.2M includes \$8.2M fine and \$4M in community service payments, 4-year probation, with environmental comprehensive plan required

By **KRISTEN NELSON**  
Petroleum News

**N**oble Drilling (U.S.) LLC was sentenced Dec. 19 in federal court in Anchorage for eight felony environmental and maritime crimes.

Chief Judge Ralph R. Beistline accepted the plea agreement entered into by the parties earlier in December, sentencing Noble consistent with that agreement (see story in Dec. 14 issue of Petroleum News).

In a Dec. 19 press release the office of the U.S. Attorney for the district of Alaska said sentencing was for eight felony environmental and maritime crimes arising out of the company's operation of the drill ship Noble Discoverer and the drilling unit Kulluk in Alaska in 2012 when Noble was operating under a contract with Shell.

Sentencing included payment of \$12.2 million in fines and community service payments and a four-year probation during which time Noble must implement a comprehensive environmental compliance plan. Noble Corp. plc, Noble's London-based parent corporation, agreed to implement an environmental management system for all mobile offshore drilling units owned or operated by Noble and its direct and indirect subsidiaries worldwide.

The \$12.2 million included \$4 million in community service payments: \$2.5 million to the International Arctic Research Center at the University of Alaska Fairbanks; \$1 million to the National Fish and Wildlife Foundation, Alaskan Arctic Fund; and \$500,000 to the Arctic

*The court also ordered that \$512,500 of the \$8.2 million fine be awarded to the whistleblower in the case. The*

Research Consortium of the United States. The funds will be used for research and projects designed to study and/or benefit the Arctic and/or the natural resources or wildlife near Alaska.

## Whistleblower award

The court also ordered that \$512,500 of the \$8.2 million fine be awarded to the whistleblower in the case. The Act to Prevent Pollution from Ships provides that the court may award as much as half of a fine imposed for conviction under that statute to the person providing information leading to conviction.

The U.S. Attorney's Office had notified the court that an individual had provided information leading to Noble's conviction on Count 1 of the information, and had requested that one-half of the fine for that count go to that individual.

The U.S. Attorney's Office said the award provision in the act "serves a valuable law enforcement purpose by encouraging those most likely to know of the illegal conduct to report it and cooperate with law enforcement. Because the discharge of oily waste typically takes place in the middle of the ocean in international waters, the only persons likely to know about the conduct and the

falsification of the (ship's records) are the crew members."


The office said without crew members coming forward, violations of the act "are otherwise extremely difficult to uncover." While success in detecting illegal activity and obtaining evidence "is dependent upon the willingness of a crew member to step forward," crew members, in turn, must "assess the risks associated with coming forward," including the possibility of losing employment and being blacklisted from working in the marine shipping industry.

## Investigators

The Noble convictions were the result of a joint investigation between the U.S. Coast Guard Investigative Service and the U.S. Environmental Protection Agency Criminal Investigation Division and were prosecuted by the U.S. Attorney's Office for the District of Alaska and the Department of Justice's Environmental Crimes Section.

Noble as convicted of five counts of violating the Act to Prevent Pollution from Ships, one count of violating the Nonindigenous Aquatic Nuisance Prevention and Control Act and two counts of violating the Ports and Waterways Safety Act. Seven of the counts are for Noble's operation of the Noble Discoverer, one count for operation of the Kulluk. ●

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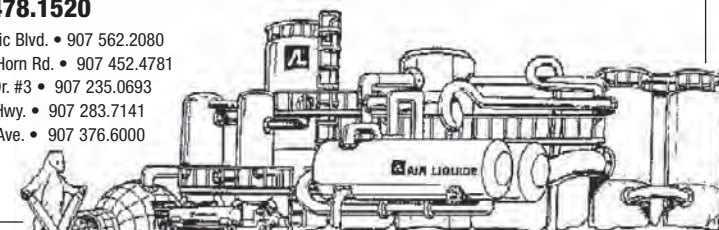
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## EXPLORATION & PRODUCTION

### Eastern North Slope conditionally open

The North Slope eastern coastal area is conditionally open for tundra travel, the Alaska Department of Natural Resources Division of Mining Land and Water's Northern Regional Office said Dec. 19.

The western coastal area was opened for tundra travel Dec. 17.

In the eastern coastal area the division said snow depth criteria, 6 inches, had been met at all monitoring stations, but soil temperatures — minus 5 degrees C at a depth of 30 centimeters — had only been met at five of six stations. As of Dec. 18 the station just south of Deadhorse was reading minus 4.4 degrees C and projected to be below minus 5 degrees C within a week.

Openings apply only to operators with valid off-road vehicle permits to operate on state-owned lands, and for the eastern coastal area which has yet to meet the soil temperature requirement the division said special conditions or summer-approved vehicles may be required if off-road travel or ice road construction was requested in that area.

The lower and upper Foothills areas remain closed.

### Some ice road construction approved

The division said ice road construction has been approved for a number of projects within the coastal areas and for one project some 30 miles south of Deadhorse in the lower Foothills area.

The ice road authorization was granted for the Lower foothills area "after verifying site-specific snow and soil temperature conditions," the division said.

The division said all operators intending to be active on the tundra should contact the DNR DMLW Northern Regional Office at 907-451-2740 for guidance and authorization prior to hitting the tundra.

For ice road or related work requests for approval need to include a map, a list of vehicles to be used, depths of snow in the area and a description of the activities to be conducted.

DNR staff will be on the North Slope the week of Jan. 5 to continue monitoring snow conditions, soil temperatures and ice road construction projects.

—PETROLEUM NEWS

## PIPELINES & DOWNSTREAM

# CIE challenging CIPL rates again

*With a 2010 settlement reaching its expiration date, the small Cook Inlet producer is question proposed rate increase*

By ERIC LIDJI

For Petroleum News

The Cook Inlet Pipe Line is once again causing consternation for a small oil producer.

Cook Inlet Energy LLC is asking state regulators to evaluate the merits of a proposed 19.3 percent increase in shipping rates along the 42-mile Cook Inlet oil pipeline.

The pipeline runs along the coast of the west side of Cook Inlet, moving oil from the Granite Point, McArthur River, Redoubt Shoal and Trading Bay fields to the Drift River Marine Terminal. Cook Inlet Pipe Line Co., which owns both the pipeline and the terminal, recently asked the Regulatory Commission of Alaska for permission to increase the shipping rate on the pipeline to \$3.76 per barrel, up from \$3.15 per barrel.

Cook Inlet Energy operates the Redoubt unit and the West McArthur River unit, both of which are entirely dependent on the Cook Inlet Pipe Line system to reach market.

The only other shipper on the pipeline is Hilcorp Alaska LLC, which also owns the pipeline and marine terminal through its transportation subsidiary Harvest Alaska LLC.

In late 2009, shortly after Cook Inlet Energy began operations, Cook Inlet Pipe Line proposed a 259 percent increase in its shipping rates to compensate for damage caused by a series of volcanic eruptions at the nearby Mount Redoubt earlier in the year. Cook Inlet Energy challenged the increase, leading to nearly a year of regulatory wrangling.

The two sides reached a settlement in late 2010. The deal created a formula for determining future rates and committed Cook Inlet Energy to ship certain volumes.

The settlement expires at the end of

this year.

At the time of the settlement, Cook Inlet Pipe Line Co. was a joint venture between Union Oil Company of California and Pacific Energy Alaska Holdings. Hilcorp acquired the Unocal interests in early 2012 and the Pacific Energy interests in early 2013.

Cook Inlet Energy is challenging four aspects of the proposed increase.

First, Cook Inlet Energy questions whether Cook Inlet Pipe Line should continue to be exempt from certain financial reporting requirements when it requests rate increases.

The exemption comes from a 2001 settlement between the pipeline and the state.

The state agreed to the exemption, in part, because the only shippers on the pipeline, at the time, were affiliates of Cook Inlet Pipe Line Co., and also because both the state and the company expected the pipeline to reach the end of its "useful life" in about 2006.

Both of those factors have since changed.

For starters, Cook Inlet Energy has become an important customer on the pipeline system and expects production growth to continue from its two west side oil properties.

Additionally, in 2009, the state and the company pushed the useful life of the pipeline out to 2014. Earlier this year, the parties pushed the useful life of the pipeline out to 2021.

For those reasons, Cook Inlet Energy wants the Regulatory Commission of Alaska to require Cook Inlet Pipe Line to end the exemption and provide the financial information.

Second, Cook Inlet Energy questions a surcharge added to shipping rates.

The 2009 agreement also allowed Cook Inlet Pipe Line to collect a 60-cent per barrel surcharge on its rates to cover the cost of DR&R, or dismantlement, removal and restoration, which funds transitions when an industrial facility reaches the end of its life.

Given the recent decision to extend the life of the pipeline, Cook Inlet Energy questions whether the surcharge remains applicable and wants specific DR&R cost projections.

Third, Cook Inlet Energy wants regulators to figure out whether large capital expenditures on the pipeline in recent years should be included in shipping rates.

Specifically, Cook Inlet Energy wants to know whether Cook Inlet Pipe Line Co. is trying to recover the cost of upgrades or maintenance related to the Mount Redoubt eruptions, and, if so, whether those costs should be included in shipping rates.

The final concern might be a technical matter.

Even though oil throughput increased this past year, Cook Inlet Pipe Line Co. is projecting a decrease in annual revenues under the proposed increase in shipping rates.

Cook Inlet Energy wants the company to explain the confusion. ●

Contact Eric Lidji  
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## GOVERNMENT

### Science Technology Panel members sought

The North Slope Science Initiative is seeking six new members for its Science Technology Panel, the organization said Dec. 18.

The 15-member panel of scientists and technical experts advises NSSI and its Oversight Group, assisting with resource inventories, monitoring and research needs for Alaska's North Slope.

Panel members are appointed by the secretary of the Interior for three-year terms and are reimbursed for official travel to participate on the panel, including airline tickets, lodging and per diem.

Panel members may represent the oil and gas industry, subsistence users, traditional ecological knowledge, conservation organizations, academia and other entities and come from disciplines such as landscape ecology, petroleum engineering, civil engineering, geology, botany, hydrology, limnology, habitat biology, wildlife biology, biometrics, sociology, cultural anthropology, economics, ornithology, oceanography, fisheries biology, climatology or North Slope traditional and local knowledge.

Nominations are required by Feb. 2. Information and instructions on nominations are available at [www.northslope.org](http://www.northslope.org).

NSSI was established by the Energy Policy Act of 2005 to coordinate scientific data collections that will provide a better understanding of the terrestrial, aquatic and marine ecosystems of the North Slope.

—PETROLEUM NEWS

### Jewell appoints new director of BOEM

Secretary of the Interior Sally Jewell has named Abigail Ross Hopper as the new director of the Bureau of Ocean Energy Management, the government agency that manages offshore energy exploration, development and production on the federal outer continental shelf. Hopper, who is currently director of the Maryland Energy Administration, takes over management of BOEM director from acting director Walter Cruickshank. Cruickshank is becoming the agency's deputy director.

"Abigail Hopper's knowledge of the energy sector, experience working with a wide variety of stakeholders and her legal expertise will be valuable assets to the bureau and the department as we continue to ensure the safe and responsible development of our domestic energy and mineral resources and stand up an offshore wind program," Jewell said in a Dec. 18 statement announcing Hopper's appointment. "She is an accomplished professional who brings strategic leadership and long-term vision to the job, and I look forward to having her as a member of our senior leadership team."

Hopper has led the Maryland Energy Administration since 2012 and has acted as energy advisor to Maryland Gov. Martin O'Malley since 2010, Interior said. The Maryland Energy Administration coordinates and directs energy planning for Maryland state agencies, while also helping local governments implement energy efficiency programs and helping businesses benefit from new technologies and

see **BOEM DIRECTOR** page 10

## • EXPLORATION & PRODUCTION

# State OKs Hilcorp's Blossom pad, wells

By KRISTEN NELSON

Petroleum News

The Alaska Department of Natural Resources, Division of Oil and Gas, has approved a request by Hilcorp Alaska to construct a new gravel pad and drill up to two exploration wells in the Ninilchik unit.

If results of the exploration wells are successful, Hilcorp would pursue natural gas production from the new pad, Blossom.

"Any further development, including commercial production from the Blossom Pad is subject to further review and approval" by DNR, the division said.

Hilcorp requested approval of a unit plan of operation for the work in October (see story in Nov. 16 issue of Petroleum News).

The division said the Ninilchik unit has been in development since the mid-2000s. It is part of the oil and gas interests acquired by Hilcorp in 2011 and 2012, when it acquired the Cook Inlet assets of Union Oil Company of California and Marathon Oil.

*The division said Hilcorp is proposing to drill and test two exploration gas wells from the Blossom pad which will be built between Clam Gulch and Ninilchik.*

### Onshore pad

The division said Hilcorp is proposing to drill and test two exploration gas wells from the Blossom pad which will be built between Clam Gulch and Ninilchik. Hilcorp must secure an access and use agreement with the private landowners of the surface and subsurface under the proposed pad site.

The Ninilchik unit is primarily offshore, with pads onshore — from north to south, Abalone, Falls Creek, Bartolowits, the proposed Blossom pad, Grassim Oskolkoff, Ninilchik State, Susan Dionne and Paxton.

see **BLOSSOM PAD** page 14

## • ENVIRONMENT & SAFETY

# Annual report: Arctic continues to warm

*NOAA, partners say rate twice that of rise in global air temperatures; jet stream in early 2014 sent cold air south, warm air north*

By KRISTEN NELSON

Petroleum News

The National Oceanic and Atmospheric Administration-led report card on the Arctic released Dec. 17 shows Arctic air temperatures continuing to rise at more than twice the rate of global air temperatures. NOAA's Arctic Report Card 2014, updating a report begun in 2006, shows "Arctic warming is setting off changes that affect people and the environment in the fragile region, and has broader effects beyond the Arctic on global security, trade and climate," said Craig McLean, acting assistant administrator for the NOAA Office of Oceanic and Atmospheric Research, in a statement on the report's release.

In comments prepared for an introduction of the report, principal editor Martin Jeffries, a program officer for Arctic and global prediction at the Office of Naval Research, said the report is the work of 63 scientists from 13 countries. The report is

available online at:

[www.arctic.noaa.gov/reportcard/](http://www.arctic.noaa.gov/reportcard/).

### Continued impacts of warming

"In 2014 we continued to see the impacts of a persistent warming trend that began over 30 years ago and which overlies significant year-to-year and regional variations," said Jacqueline Richter-Menge of the Cold Regions Research and Engineering Laboratory. In early 2014, "the polar vortex weakened and the waves in the jet stream became more pronounced," she said, moving cold air southward into eastern North America and central Russia, with warm air flowing north into Alaska and northern Europe.

"Alaska recorded temperature anomalies more than 10 degrees Celsius (18 degrees Fahrenheit) higher than the January average," Richter-Menge said.

With the retreat of sea ice in the summer, surface temperatures are increasing, with the trend most apparent in the Chukchi Sea, "where sea surface temperature is increase at the rate of 0.5 degrees Celsius per decade."

She also said that with larger regions of open water there are increases in production at the base of the food web.

### Polar bears

Geoff York of Polar Bears International said between 1987 and 2011 in Canada's western Hudson Bay polar bear numbers decreased from approximately 1,200 to approximately 800, a decrease "linked to earlier sea ice break-up, later freeze-up, and thus, a shorter sea

see **WARMING ARCTIC** page 14

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• LAND & LEASING

# Western Canada loses land appetite

By GARY PARK

For Petroleum News

It may be a good thing they are not making any more land in Western Canada because what they have is no longer selling to petroleum explorers at the fierce pace set a few years ago.

The only encouragement this year occurred in British Columbia, where government auctions fetched C\$383 million, the best since the C\$844 million posted in 2010, but far short of the record C\$2.7 billion in 2008.

Alberta drilling rights tallied C\$489 million, the lowest point since C\$477 million in 2002 and the second lowest return in the past 20 years. The provincial government has forecast a C\$623 million return for the fiscal year that ends March 31, 2015.

The Saskatchewan government reported its sales this year tallied C\$198 million, tripling last year's C\$67 million. The benchmark year was 2008 when C\$1.1 billion was stuffed into the province's treasury.

Brad Hayes, president of Petrel Robertson Consulting, said the downturn in Alberta reflects a number of trends not least the fact that the biggest explorers have many years of inventory on hand, especially in the resource plays such as Montney and Duvernay, which drove prices into the stratosphere over several years.

He said both fairways have finite limits

and have largely been bought up at auctions.

Scott Land and Lease, which acts as a broker for clients who want to initially preserve their anonymity, agreed that producers have many years of exploration ahead of them after investing C\$3.54 billion to lock up more than 10 million acres of Duvernay prospects in 2011, bracketed by C\$2.2 billion in 2010 and C\$1.1 billion in 2012.

Company President Greg Scott said that rather than chasing more land companies turned their attention to deep and expensive wells to prove up their holdings, as well as building the necessary infrastructure.

Scott and Hayes concurred that the largest bids this year were for land on the established edges of popular plays.

Overall, Alberta sold about 2.47 million acres in 2014, about half the 2013 total, but made gains on the flip side with the average price per hectare (2.471 acres) climbing to C\$462 million from C\$3.17.

In addition, Alberta attracted a paltry C\$4.6 million from separate auctions of oil sands leases.

Scott suggested what is rapidly becoming evident on 2015 spending plans is that companies are resolved to preserve their capital, meaning that land sales in 2015 are likely headed over lower than the last two years. ●

Contact Gary Park through publisher@petroleumnews.com

## GOVERNMENT

### Walker names commissioners, leg director

Alaska Gov. Bill Walker has named two commissioners and his legislative director.

Larry Hartig will be retained as commissioner of the Department of Natural Resources, Heidi Drygas has been named commissioner of the Department of Labor and Darwin Peterson has been named legislative director.

Hartig has been DEC commissioner since 2007 and has also served as a trustee on the board of the Alaska Permanent Fund Corp. since 2009. Prior to joining the state, Hartig spent more than 20 years as a private practice attorney, working primarily on environmental, natural resource and commercial matters.

Drygas has a long history working on issues involving employment law and labor relations and most recently spent nearly 10 years as general counsel for the Alaska District Council of Laborers. Born in Fairbanks, she has a bachelor's degree from the University of Alaska Fairbanks and a juris doctor from the Willamette University College of Law.

Peterson has worked in the Alaska Legislature for nearly 20 years, most recently as chief of staff for Sen. Bert Stedman. He spent most of his legislative career working in the Senate Finance Committee and served as deputy legislative director for Gov. Frank Murkowski.



LARRY HARTIG



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## ● ENVIRONMENT &amp; SAFETY

# The Cook Inlet marine accident risks

*Maritime risk assessment assessed potential accident scenarios, likely outcomes and various strategies for risk mitigation*

By **ALAN BAILEY**

*Petroleum News*

With cargo vessels, oil tankers and fuel barges regularly plying the waters of Alaska's Cook Inlet, there is the ever-present danger of a marine accident and a consequent spill of oil into the waters of the inlet. But what is the real likelihood of this happening? And what would be the consequences?

During the Dec. 5 board meeting of the Cook Inlet Regional Citizens Advisory Council, Tim Robertson, general manager of Nuka Research and Planning Group, presented an overview of the results of a Cook Inlet maritime risk assessment that has delved into these questions and has proposed ways of managing the risk of environmental and economic harm from a Cook Inlet marine accident. Administered by the Cook Inlet RCAC and the Kenai

Peninsula Borough, and managed by Nuna, the study team published a draft report in September. Funding for the study comes from the U.S. Coast Guard, the state of Alaska, the National Fish and Wildlife Foundation, Tesoro Corp. and the Prince William Sound RCAC.

## Serious consequences

In reviewing the study findings, Robertson commented on the serious nature of the oil spill risk in Cook Inlet, saying that the study team has ranked various spill scenarios, based on their potential impacts to the ecosystem and to the regional economy.

"What came out of that understanding was that even moderate sized spills can have a huge, significant impact to both the environment and the socio-economic realities in the Cook Inlet," Robertson said. "A 100-gallon spill can potentially shut

down a commercial fishery and change the season for an entire group of people. It can have major impacts on tourism."

Robertson said that a key component of the process by which the study had been conducted consisted of the use of a stakeholder advisory panel, with expert representation from communities, industry and interest groups in the Cook Inlet region. The ability of the advisory panel to make recommendations and review study findings resulted in the study being stakeholder driven, he said.

## Vessel traffic

As a basis for the risk assessment, the study team used available data to analyze existing vessel traffic and assess potential future traffic movement. Considering vessels upwards of 300 gross tons in size, or with a fuel capacity of at least 10,000 gallons, the study found that in 2010 there

had been about 500 vessel port calls.

"About 80 percent of these port calls are made by a very few numbers of ships — we have a lot of frequent flyers," Robertson said, commenting that growth in that traffic appeared relatively slow over the years. However, projections for traffic growth did not include a possible significant increase in liquefied natural gas carrier traffic, should a project to export North Slope natural gas as LNG come to fruition, he said.

The study found that, as a consequence of the vessel traffic, about 450 million gallons of "persistent oil," crude oil and heavy fuel oil that are difficult to clean up, move around the inlet each month. Of that persistent oil, 60 percent consists of crude oil being shipped to the oil refinery at Nikiski on the Kenai Peninsula, with another 30 percent consisting of fuel oil on the large cargo vessels that carry Alaska-bound goods to the Port of Anchorage.

In addition, an estimated 575 million gallons per month of non-persistent oil such as heating fuel and diesel transits the inlet, mostly carried by tank barges heading for rural communities, Robertson said.

## Accident scenarios

So, what could go wrong, to cause a spill from any of this Cook Inlet traffic?

Based on historical data from Cook Inlet and on future traffic projections, an average of 3.9 oil spills per year may occur in the inlet in the future, Robertson said. But the scale of an individual spill is highly dependent on the type of operation that results in the spill — a medium sized spill for an operation such as a marine fuel transfer might be as little as 10 gallons, while a medium sized spill for a large crude oil carrier would be about 20,000 gallon. At the 95 percentile end of the probability range — spills that are possible but very unlikely — those volumes increase massively to 20,000 gallons for a fuel transfer and to the possibility of a 15-million-gallon spill for a large crude tanker.

Oil tankers present the biggest risk in the inlet, not only because they carry so much oil but also because the crude oil that they carry is persistent, Robertson said.

## Mitigating the risks

The study team solicited ideas from the  
see **ACCIDENT RISKS** page 11

*continued from page 8*

## BOEM DIRECTOR

emerging energy markets.

Hopper was pivotal in ensuring the passage of the Maryland Offshore Wind Energy Act of 2013 and oversaw programs designed to achieve Maryland's strategic energy goals, including increasing renewable energy production, reducing energy consumption and reducing greenhouse gas emissions, Interior said.

After graduating from the University of Maryland School of Law, Hopper spent nine years in private practice before entering public service as the deputy general counsel with the Maryland Public Service Commission, Interior said.

—ALAN BAILEY

Contact Alan Bailey  
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## PIPELINES & DOWNSTREAM

### RCA approves transfer of 1.4% to Hilcorp

The Regulatory Commission of Alaska has approved the transfer of a small ownership interest in Northstar Pipeline Co. from Murphy Exploration (Alaska) Inc. to Harvest Alaska LLC.

Hilcorp has acquired BP Exploration (Alaska)'s interest in Northstar; Harvest Alaska is Hilcorp's pipeline subsidiary.

Harvest and Murphy filed joint applications for transfer of Murphy's 1.4228 percent ownership interest in Northstar Pipeline Co., the sole owner and holder of the certificates of public convenience and necessity for the Northstar oil pipeline and the Northstar gas pipeline.

The Northstar oil pipeline moves crude oil from the Northstar unit at the Seal Island production facility to Pump Station No. 1 of the trans-Alaska oil pipeline. The Northstar gas pipeline transports fuel gas and injection gas from the Prudhoe Bay unit central gas production facility to the Northstar production facility.

RCA said Harvest Alaska holds a 98.5772 percent ownership interest in Northstar Pipeline Co. and is the operator of both lines. With commission approval of the joint application, Harvest Alaska will own 100 percent.

The commission said this is not a substantial change in ownership and the transfer is in the public interest because Harvest already holds the controlling interest in Northstar Pipeline and operates the pipeline.

—PETROLEUM NEWS

continued from page 10

## ACCIDENT RISKS

public on how the Cook Inlet oil spill risks might be mitigated, particularly trying to identify options that could tackle the root causes of marine accidents, heading off an accident an early stage of the chain of events that can end in disaster.

As an example of this "root-cause" approach the study recommended the construction of an oil pipeline across the Cook Inlet, to eliminate the need for oil tankers for the shipment of crude oil from oil fields on the west side of the inlet to Tesoro's Nikiski oil refinery. Elimination of this tanker traffic would reduce the expected spill frequency by 98 percent, as well as reducing the likely volume of a spill, Robertson said.

One major focus of the study was the need for and availability of emergency towing arrangements, particularly to avoid the potential for a grounding incident, should a vessel run into difficulties as a result, say, of a propulsion problem. An analysis of the likely elapsed time between propulsion loss and running aground in some possible grounding scenarios, coupled with an analysis of the time that it would take for an appropriate towing vessel to reach the stricken vessel, showed areas of vulnerability in different parts of the inlet.

### Vulnerable areas

Depending on the locations of various tugs and other vessels that might be co-opted in an emergency, it would likely be possible to mount a rescue across much of the Cook Inlet. However, some areas near Anchorage, where shipping channels are constricted, and near the East and West Forelands, would be especially vulnerable. A rescue could only be realistically mounted in the Kennedy Entrance, at the southern end of the inlet, and in Kachemak Bay, if there are tugs stationed in the southern inlet, the study found.

This analysis resulted in several recommendations, including the positioning of an emergency towing system at the port of Homer, the implementation of an electronic monitoring system for deep-draft vessels and the coordination over rescue arrangements between the inlet's "frequent flyer" vessel operators.

However, given the complexity of emergency towing in sea-ice conditions, the study team was not able to resolve the tow-vessel requirements, and hence the rescue parameters, in winter ice, Robertson said.

### Escort tugs?

One arrangement that has been much debated is the possibility of mandating dedicated escort tugs in the Cook Inlet, for accompanying large vessels crossing the inlet, rather like the tanker escort system operating in Prince William Sound. But the advisory panel discounted that option, saying that, given the low probability of an incident, the high cost of providing the escorts could not be justified, especially given the potential unintended negative impacts of having an escort system in operation. In addition to the environmental impacts of burning more fuel, the operation of a fleet of escort tugs would in itself create the potential for more marine accidents such as collisions, Robertson commented. One of the biggest spills in Prince William Sound since the implementation of an escort system there resulted from one of the escort tugs running aground, he pointed out.

Capt. Paul Mehler, U.S. Coast Guard Sector Anchorage commander, also commented that a vessel entering the Cook Inlet has to notify the Coast Guard with information about the condition of the vessel and its crew. If the information provided by the vessel crew, or its pilot, gives cause for concern, the Coast Guard can and does mandate that an appropriate escort vessel accompany the arriving vessel to port, Mehler said.

### Anchor usage

Based on a literature review, the study team also investigated the practicalities of a drifting vessel self-arresting through the use of its own anchor. Although members of the advisory panel who are mariners of deep-draft vessels in the Cook Inlet expressed opinions that the dragging of an anchor is a feasible means of saving a vessel in the inlet, the panel as a whole could not reach consensus on this issue and concluded that a more quantitative study of the problem is needed, Robertson said.

And the study team made a number of other recommendations for improving Cook Inlet shipping safety, including training programs for Cook Inlet mariners; procedures for notifying harbor masters and port directors about vessels that appear unsafe; and improved cell phone and VHF radio coverage offshore in the inlet.

The study also endorsed the need for a Cook Inlet harbor safety committee, to act as a forum for the continued discussion and follow up on marine safety issues and the development of best practices for vessel operations in the inlet. ●

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Calista Corp. welcomes Paskvan as general counsel

Calista Corp. is pleased to announce Bonnie J. Paskvan as its new general counsel. As Calista’s lead counsel, Paskvan will work closely with its subsidiaries, executive leadership team and the board of directors. She is responsible for meeting and addressing Calista’s wide breadth of legal and compliance needs for the corporation and its more than 35 subsidiaries and joint ventures.

Paskvan previously served as The Alaska Wireless Network’s vice president and senior legal counsel. Additionally, she was corporate counsel for GCI and its subsidiaries for more than two decades.

“Calista will fully utilize Paskvan’s legal and business development experience in the technology industry, and her work with state and federal regulators,” said Calista Corp. President/CEO Andrew Guy. “She also brings real estate and business acquisition knowledge, just two of the areas Calista targets for steady growth.”

Paskvan earned her Bachelor of Arts in International Relations from Stanford University and Juris Doctorate from Stanford Law School. Her community involvement includes serving as co-chair for the Alaska Bar Association’s Corporate Counsel Section and serving on the Board for the Anchorage Association of Women Lawyers.



BONNIE J. PASKVAN

Crowley awarded vessel management contract

Crowley Maritime Corp.’s global ship management group has been awarded the contract for the operation and maintenance of the T-AGOS/T-AGM fleet for the Military Sealift Command. This fleet of seven ships supports the Navy’s Surveillance Towed Array Sensor Systems operations; the U.S. Air Force’s dual-band, phased array and parabolic dish radars; and other government research missions. The contract covers the operation and maintenance of five T-AGOS and up to two T-AGM ocean surveillance ships. Crowley will provide personnel; operational and technical support, ashore and afloat; equipment; tools; provisions, and supplies to operate this fleet of seven U.S. naval ships.

“The issuance of this contract is well-matched with Crowley’s capabilities, not only in the company’s ability to manage specialized vessels, but also in providing the U.S. Government with a variety of maritime services,” said Todd Busch, senior vice president and general manager, technical services. “The very nature of the T-AGOS/T-AGM missions demand sophisticated top management solutions and talented crews that Crowley offers. We are pleased to continue services to the Military Sealift Command and look forward to future opportunities to support the government.”

As a result of this contract, job opportunities will be made available for crew members with experience on these types of vessels, as well as shore side positions, such as engineers and contracting professionals. Interested candidates should visit [www.crowley.com/Careers/Working-at-Crowley](http://www.crowley.com/Careers/Working-at-Crowley) to review open positions.

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

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# MACKINNON Q&A

stituent of Alaska, I appreciate that. What's less apparent is actual direction of what needs to be accomplished.

I know any governor would have a huge issue going from \$115 a barrel budget down to a budget that's closer to \$70 a barrel. Even a seasoned governor would have difficulty with that. The people of Alaska and the Legislature are looking for Gov. Walker to lead with specific direction. I just don't think his sea legs are there yet.

It's just because of the dive in oil prices and the immediate need to focus specifically on the finances and how we invest those finances. I don't want my comments to be considered derogatory because they are not intended that way about Gov. Walker at all. Anyone would be facing a difficult time right now.

I believe Gov. Walker will step forward and not panic. A path will emerge. It will just take a little longer because he's brand new. He doesn't know all the toggles and the points that can actually turn. I think he made some promises on the campaign trail that might not be realistic now because of the price per barrel of oil.

*Petroleum News: Speaking of finances, you're now the co-chair of finance...*

MacKinnon: I am. What a great time. I'm the capital budget chairwoman who has no money.

*Petroleum News: So how do you view things now? You've viewed bills as a member of Finance, Resources, the TAPS committee and as the LB&A chair. Now, you've got a broader look. What do you think changes having the perspective as Finance co-chair?*

MacKinnon: The way I do business will not change. But I'm in control to make recommendations to my caucus and that seems a bit different.

They have placed a great deal of confidence in me to look at all the options and bring those options strategically back to the caucus for direction. So what I'll be looking at in the capital budget as chairman is first is there matching money for any of the request being made? Why is the project in the state's best interest? Why should the state be involved in financing the project?

Those are critical issues as well as public health and public safety. Those are the biggest hurdles that I will discuss with my caucus to see if they can support me in that direction. Smaller grants for individual community projects are possible but improbable. I want people to make their requests but really what I would like

to do is lower the expectations of all Alaskans about a large capital budget. I believe that is highly unlikely, that we are in alignment with Gov. Walker's administration and former Gov. Parnell's administration.

We have two different budgets that we pass forward; the operating, which is supposed to be sustainable; the capital budget that when we have years when oil prices are high, we are able to invest more in rehabilitation of buildings and maintenance programs.

Those are long-term projects where sometimes it may be unclear to the general public that we started a project five years ago and they see construction in a year, even though finances are dipping. We are having to draw from savings to finish those projects. There is a lot of lead time on capital projects so the timing on the capital budget isn't as immediate as the operating budget.

*Petroleum News: Speaking of capital projects, the LNG export project is certainly long term. How do you stay focus on an investment when you are looking at these prices?*

MacKinnon: I think that two things come to mind. First, I don't think that we've had long-term dips because it harms the entire world, not just a particular country or state. So while OPEC does things at times to see how much control they have on price in the market with production, the dip as I understand it hasn't been in excess of years.

It has been several years, but I think back to \$9 a barrel during the Murkowski administration and the plans they put forward, trying to meet the budget shortfall. Our dilemma is akin to that in some ways. By that I mean we don't want to over react. I think that we want to have a firm hand on the steering wheel and we want to say yes, it's snowing outside, the roads are more difficult to pass on. You know what the roads are still there.

We still have oil pumping. We still have production. And we anticipate a more stable line of production because of the changes that we made to the oil taxation system. Yes, we need to watch our reserves very closely. I think Gov. Walker as well as the Legislature want to make sure we have the reserve available to advance our portion of a natural gas pipeline. We don't want, in my opinion, to watch the reserves so close that we take a \$3.5 billion cut this year.

I think that would be detrimental to the economy. It would put Alaskans on the unemployment line. That is not something that I support. I absolutely support a sustainable budget. But to take our budget down by \$3.5 billion in one year is unrealistic. Gov. Murkowski had a great deal

of difficulty in \$300 million for three years. This Legislature to step ourselves down, if we were in a three-year cycle, we would be looking at over \$1 billion per year.

As we take that first bite and take that capital budget down to bare essentials, and I'm not saying it will come out bare essentials, but that's my expectation right now. As the price per barrel goes up certainly other projects can be under consideration. Those decisions will be made after we see the spring revenue forecast.

I think that it needs to be gradual. We need to take steps that consider the best finances for the state of Alaska in the form of investment and the in form of expenditure. We absolutely have to — must have — a reduction in the operating budget. The current budget is not sustainable under future projections of both price and production.

*Petroleum News: So in other words it's not time to panic, but it's serious.*

MacKinnon: Exactly. We need to be cautious and we need to understand the reason we banked — and I've been part of that banking since 2007 — and paid off past debt from when we borrowed from the Constitutional Budget Reserve. So we paid back all of our borrowing from the past and added savings.

The reason revenue sharing is on a three-year flattening cycle if we didn't have money is because we understand the volatility of oil prices. So we need to be very careful and deliberate. The revenue sharing, there are larger cities that have the ability to tax to take care of that fluctuation. There are smaller, rural communities that don't have those same resources available to them.

It wouldn't surprise me to see the Legislature look at that formula and recognize there are rural communities where

that revenue sharing is, and you might have community health aides, or the volunteer fire departments that need help. There are different abilities in Alaska to address the revenue shortfall. If there is a withdrawal of state funds somewhere, I believe the Legislature wants to make sure individual communities aren't inappropriately or adversely affected by the withdrawal of money on particular things. There is support that if there has to be cuts, they would have to be experienced by the entire population and not by rural Alaska over urban Alaska. By pulling back, that reflects an equitable reduction thread as well as equitable investment.

*Petroleum News: Now I want to delve into an area I know is not your specialty, but at some point it will be on the plates of every Legislature. That's the Arctic and how the U.S. will serve as chair for the Arctic Council. What's your take right now on the priorities for the Arctic?*

MacKinnon: First Sens. (Lesil) McGuire and (Cathy) Giessel have been very involved from our side and Rep. (Bob) Herron, so I think it's an exciting time for Alaska to turn the continental U.S.'s head to the north and understand we are part of the Arctic discussion because of Alaska. And I hope the sitting administration will help an Alaskan be a chairman of that conversation, that an Alaskan would have insight that someone in D.C. might not have. We need some understanding at the general government level, the federal level, that Alaska is unique. Sometimes I think the challenges to that uniqueness get lost — challenges of geography, challenges of weather, the challenges of transportation. Those are all challenges the Arctic will highlight and that you need to have resources. ●

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## WARMING ARCTIC

ice season.”

York said that in the southern Beaufort Sea where there are “now twice as many ice-free days over the continental shelf as there are immediately to the west in the Chukchi Sea,” the numbers of adult polar bears stabilized at approximately 900 by 2010 following a 40 percent decline since 2001.

“In contrast,” York said, “polar bear condition and

reproductive rates in the Chukchi Sea may be stable at present — reflecting greater productivity of that system, fewer ice free days over the continental shelf, and a possible rebound from significant harvest in the mid-90s.”

### Some mixed signals

Jeffries said there are some mixed signals in the Arctic, with “evidence of a modest increase in the age of the ice and its thickness” in March 2014 relative to March 2013.

In summing up the current state of the Arctic environment, Jeffries said: “The impacts of the persistent

warming trend of over 30 years remain clearly evident in the land and ocean environments, and these impacts are influencing the Arctic marine and terrestrial ecosystems,” with “continued widespread and sustained change throughout the Arctic environmental system” expected based on “consistent projections of continued warming temperatures.”

To see those changes, Jeffries said, it will be important to add to existing observing capabilities. ●

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## BLOSSOM PAD

Hilcorp would drill directionally from the onshore Blossom pad targeting shallow offshore gas reserves within the unit.

Alaska Oil and Gas Conservation Commission data for October, the most recent month available, shows that the Ninilchik unit has cumulatively produced some 161 million cubic feet of natural gas, and produced 1.3 million cubic feet in October.

### Construction

In addition to the pad, Hilcorp would build a short new access road from the Sterling Highway to the existing access road to avoid private residences. Road construction was scheduled to begin in December and drilling in January with

the Blossom Exploratory Well No. 1, and a second exploration well to be drilled in the first quarter of 2015 or later depending on results from the first well.

Hilcorp said in its plan that it would rehabilitate and reclaim the land to the satisfaction of the surface landowners.

The division said that is inconsistent with the Ninilchik unit agreement, under which the unit operator agreed to rehabilitate the site of all improvements at the option of the state and to the state’s satisfaction.

The division said it had determined that to protect the state’s interest Hilcorp’s rehabilitation plan needed to be amended to specify that Hilcorp would rehabilitate the surface to the satisfaction of the state. ●

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## FISCAL FIX

### Action questioned

Brian Mason, the finance spokesman for the New Democratic Party, offered a different interpretation, dubbing the committee the Bad News Bears, questioning why Prentice had not included independent experts on the committee.

A Liberal Party spokesman, Kent Hehr, said the government was already at the point of “cutting to the bone, instead of really being honest and fixing the fiscal structure rather than applying slash and burn policies that kill the capacity of this province to do the things we need to do.”

Prentice left the possibility of higher income taxes and user fees on the table, suggesting that if the revenue shortfall is C\$6.2 billion in 2015-16 the government could not possibly cut spending by that amount without throwing Alberta into a recession.

### Dec. 31 deadline scrapped

His agenda apparently does not include calling on a nervous petroleum industry for help.

Instead he has scrapped a Dec. 31 deadline to announce changes to Alberta’s climate-change framework even as President Barack Obama again hinted that carbon emissions from the oil sands will influence his decision on the Keystone XL pipeline.

The province extended the C\$15-per-metric ton levy on heavy GHG emitters that was set to expire at the end of 2014 to June 30, 2015.

Prentice, who has been a strong advocate of improving Alberta’s global image as an environmental steward, said 2015 will be a “critical year,” referring to a United Nations climate change confer-

“We’ll tighten our belts before we ask Albertans to tighten theirs.”

—Alberta Premier Jim Prentice

ence set for late 2015 in Paris.

But rather than settling for a “short-term fix” by raising the levy, he committed his government to “make sure it’s done properly” in consultations with both industry and environmental organizations to settle on a 25-year policy.

However, he is likely to have the framework in place when he visits Washington, D.C., in January to continue lobbying for Keystone XL and for a climate change summit in Quebec in the spring.

### Pembina questions progress

Chris Severson-Baker, acting regional director for the Alberta-based Pembina Institute, an environmental think tank, said Alberta isn’t “making progress on the climate front given the flaws in the current strategy and the absence of critical programs that would be needed,” including the phasing out of coal-fired power, improving energy efficiency, developing renewable energy sources and raising the price on carbon.

What Prentice does not have to worry about is a serious challenge from Alberta’s three opposition parties — Wildrose, New Democratic Party and the Liberals — having been handed an indefinite tenure in power.

Two years ago, Wildrose under leader Danielle Smith had surged ahead of the governing Progressive Conservatives in opinion polls and appeared certain to defeat a party that had held office since 1971.

Instead, a sudden shift in public trust in Wildrose saw Redford easily retain power until she faced a barrage of criticism for abusing the use of public money that forced her to resign this year.

### Government in disarray

Prentice won the Progressive Conservative leadership four months ago and inherited a government in disarray and at its lowest point on record in the polls.

He pulled off a swift and unexpected turnaround in party fortunes, winning four by-elections to fill vacancies in the provincial legislature and causing a rift in the Wildrose caucus that saw two members of the legislative assembly cross the floor to join Prentice’s government and one quit to become an independent legislator, followed a few days later by Smith and eight other Wildrose MLAs, leaving the once potent political force with only five members of the legislative assembly.

The assumption, given an exodus that has no precedent in Canadian politics, is that Prentice has neutered the only offence opposition Alberta has seen in 43 years, leaving him free to implement his own policies unchallenged. What he has no control over is when and to what extent crude prices will recover. ●

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## SEISMIC PERMITS

lands. The company intends to use 10 to 12 vibrators in fleets of two or three working simultaneously to shorten the overall length of the program. The source lines will run east to west at 550-foot intervals. The receiver lines to record information will run north to south at 880-foot or 900-foot intervals.

Global Geophysical provided a \$100,000 performance guarantee to backstop its work.

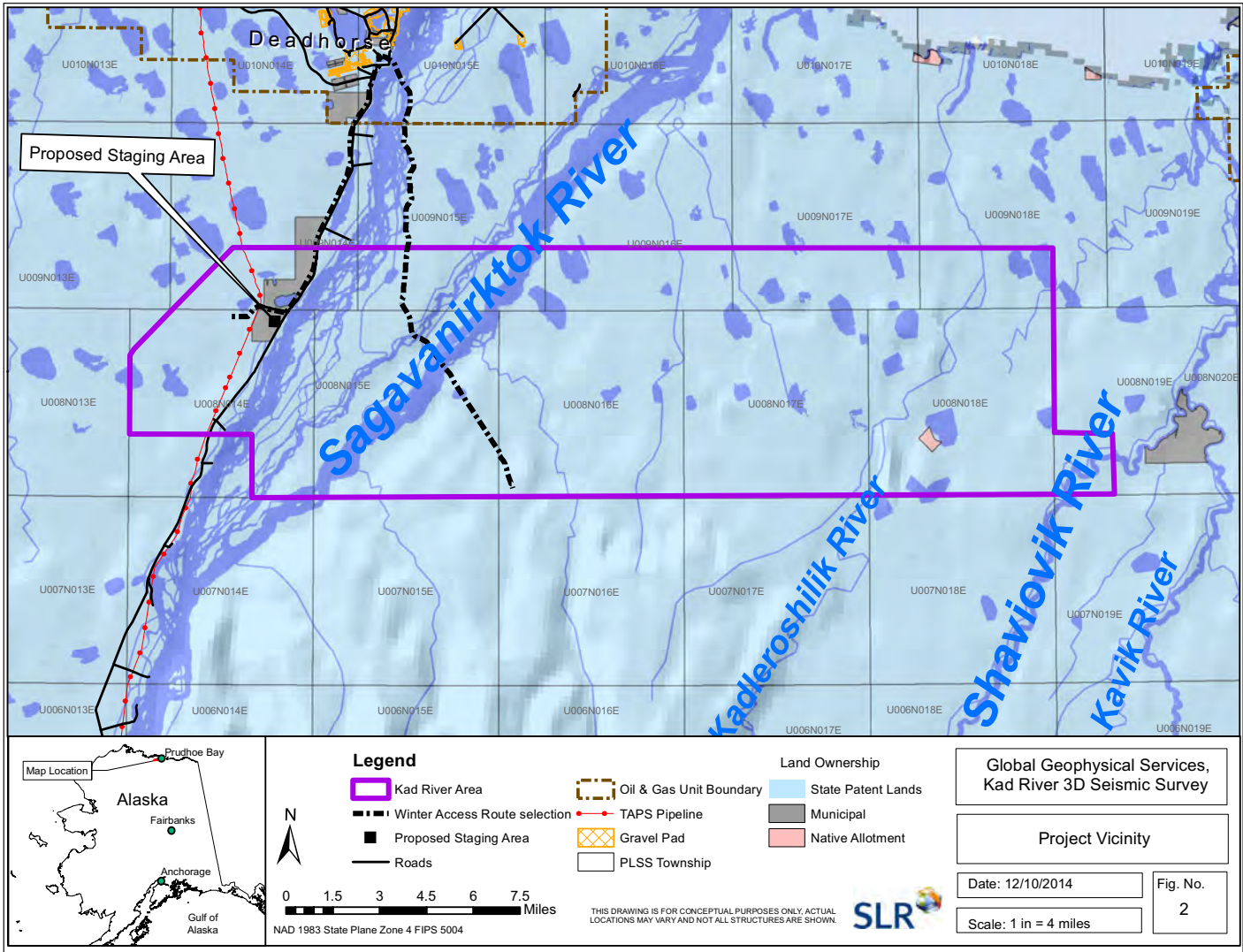
*The Horseshoe 3-D seismic survey will cover some 600 square miles south of Nuiqsut, in a region of the Colville River where Repsol USA E&P Inc. is the largest leaseholder.*

Great Bear Petroleum commissioned 3-D seismic surveys over various portions of its large leasehold in 2012, 2013 and 2014. The company believes seismic information is crucial for determining “sweet spots” best suited for unconventional oil development of known source rocks in the region, as well as for finding conventional oil accumulations.

### Horseshoe survey

The Horseshoe 3-D seismic survey will cover some 600 square miles south of Nuiqsut, in a region of the Colville River where Repsol USA E&P Inc. is the largest leaseholder.

Kuukpik SAE will access the region from Deadhorse using existing roads within the Prudhoe Bay and Kuparuk River units and a new ice pad near Kuparuk Drill Site 2P.



Kuukpik SAE is a joint venture between SAEExploration Inc. and the Kuukpik Corp.

The company will use fleets of three or four vibrators working simultaneously. The source lines will run east to west at 550-foot intervals. The receiver lines will run north to south at 660-foot intervals.

The region in questions includes state lands east of the Colville River and federal lands in the National Petroleum Reserve-

Alaska west of the Colville River. The region included in the survey also includes several small pockets of Native allotments along the river.

Kuukpik SAE provided a \$100,000 performance guarantee to backstop its work.

The region is to the south and the west of previous Repsol exploration work, including a three-well program planned for this coming winter. The region covered in the

seismic program includes leases held by Royale Energy Inc., ConocoPhillips and Great Bear.

—ERIC LIDJI

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

Contact Eric Lidji at erichidji@mac.com

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## BEAUFORT PLANS

working interest in the Beaufort’s Amauligak oil discovery made by Gulf Canada in the 1980s. The company also has an Arctic Center in Calgary.

### Imperial still working plans

Imperial Oil, which leads a joint venture with its parent company ExxonMobil and BP to explore licenses close to the Chevron holdings, said it is still working on early-stage plans to drill, but gave no indication when a final decision will be made.

Both Chevron and Imperial had asked the NEB to consider granting drilling applications in two stages — one in advance of a ruling on whether proposed well-control systems were equivalent to the regulator’s insistence on single-season relief wells, followed by detailed applications for drilling authorizations.

Chevron has made it clear that unless the NEB approved that request it would be unable to make significant spending commitments to enter contracts to either lease or build a drillship and support equipment.

It said a new-generation blowout preventer would make relief wells unnecessary, but the NEB has yet to determine the process it will use for its technical proceedings.

—GARY PARK

Contact Gary Park through publisher@petroleumnews.com

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## DRILLING PLANS

is critical to have all the permits in place.”

Tyonek Native Corp. owns the surface land and Cook Inlet Region Inc. owns the subsurface at the potential drilling sites, she said.

According to the permit application, if the drilling program moves ahead, Apache would construct a 7.45-mile, single-lane northern extension to the existing Kenai spur road, the road that runs northward from the city of Kenai along the coast and through Nikiski. A turnaround site at the end of the proposed road would allow for vehi-

cle parking and equipment staging during exploratory operations.

The road design would include access to existing platted subdivision roads, the application says.

Road construction would probably take place during the winter, with construction access from an existing pipeline corridor or from a winter ice and snow road, the application says.

### Three pads

Apache anticipates three gravel pads, each accessed by short roads built out from the end of the spur road extension. While the Kenai spur road extension would cross wetlands, the pads themselves would be in

uplands, away from wetlands — they could be built without a Corps of Engineers permit, the application says. However, the application says that the drilling project would require several other permits, including a U.S. Fish and Wildlife Service compatibility determination for the Kenai National Wildlife Refuge; an Alaska Department of Environmental Conservation oil spill prevention and contingency plan; and a Kenai Peninsula Borough road construction permit.

The fact that federal agencies are involved in some of the permitting will presumably trigger the need for a review of the proposed project under the National Environmental Policy Act, with the possible

need to develop an environmental impact statement.

Apache has been conducting an extensive program of seismic surveying in the Cook Inlet basin and earlier this year started an onshore survey in the Kenai National Wildlife Refuge in the northern Kenai Peninsula. In 2012 and 2013 the company drilled an oil exploration well onshore the west side of the inlet, but met with disappointing results in that venture. Apache has said that it wants to use new, modern seismic data to identify new exploration targets in the basin. ●

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## TERMINAL SALE

gas market.

Similar concerns over market dominance led the state to impose a consent decree on Hilcorp, regulating the conditions under which it could operate in the region.

Titan Alaska LNG LLC owns the 50,000-gallon per day terminal, which liquefies Cook Inlet gas to be trucked to regasification facilities in the city of Fairbanks. Fairbanks Natural Gas and Titan are both subsidiaries of Pentex Alaska Natural Gas Co. LLC.

In November, Titan announced plans to sell the terminal to the Hilcorp subsidiary Harvest Alaska LLC. The companies have yet to seek regulatory approval for the deal.

Fairbanks Natural Gas subsequently sought regulatory approval for a 10-year supply contract with Harvest Alaska, which would replace its current contract with Titan.

Richards wants the commission to delay any decision about the supply contract until after it reaches a conclusion in a Fairbanks Natural Gas rate case launched back in August.

After being able to adjust its rates at will for the more than a decade, Fairbanks

Natural Gas is currently going through the process of becoming a rate regulated utility. Through the process, regulators will set natural gas rates based on costs and a fixed rate of return.

Chief among those costs is the cost to acquire its product. Because the terminal is unregulated, it is currently impossible to know how closely its prices are tied to its costs.

Richards also expressed concerns about the proposed contract.

The terms of Fairbanks Natural Gas' proposed contract with Harvest is based on its current supply with Titan, which is one of the matters being considered in the rate case.

The proposed Harvest contract would start at a delivered price of \$15 per thousand cubic feet. The price would increase annually by 2 percent starting in the third year and would be adjusted to the lowest price available in the Fairbanks market starting in the sixth year.

The current Titan contract starts at a base rate of \$15.06 per mcf, which increases by 4 percent each year under the terms of Hilcorp's consent decree to operate in the region.

By comparing those two contracts directly, Fairbanks Natural Gas concluded

that the proposed Harvest contract would cost less, year by year, than the current Titan contract.

“This justification is circular,” Richards wrote.

Specifically, he explained, Fairbanks Natural Gas cannot use the Titan contract as a benchmark while the Titan contract is being evaluated as part of the larger rate case.

Additionally, any contract between affiliated companies such as Fairbanks Natural Gas and Titan requires the commission to apply extra scrutiny to its evaluations.

Fairbanks Natural Gas also justified the proposed contract by comparing it other contracts, including its current interruptible contract with ConocoPhillips and proposed terms offered by WesPac Midstream LLC, which aims to start an LNG operation.

Given that regulators were never required to consider the ConocoPhillips contract and that WesPac offered only an estimate, Richards called those comparisons “inapt.”

One issue Richard wants the commission to specifically consider before it approves the contract is factors contributing to the proposed price. The \$15 base price is a combination of commodity and service costs — the cost to buy the gas, the cost to

liquefy it and the cost to truck it to Fairbanks. Richards wants specific costs for each of those components.

The Fairbanks North Star Borough is also worried about commodity costs.

In separate comments, the borough asked the commission to consider how the changing ownership of the terminal and other assets has impacted natural gas prices in Fairbanks.

Initially, Fairbanks Natural Gas owned the LNG terminal. It subsequently transferred ownership to its affiliate Titan Alaska. Titan now wants to sell the terminal to Harvest.

The borough also wants the commission to investigate whether ratepayers should have been compensated when Fairbanks Natural Gas transferred the terminal to Titan and transferred other assets to other affiliates. For example, the Pentex subsidiary Arctic Energy Transportation LLC owns the equipment used to truck LNG from Point MacKenzie to Fairbanks. The subsidiary Cassini LNG Storage owns storage facilities.

According to the borough, such an investigation is legally required and “long overdue.”

The Fairbanks North Star Borough is one of the three Interior governments that formed the Interior Gas Utility, which has a certificate to provide gas distribution service throughout less densely populated parts of the borough, including the city of North Pole.

In recent years, Fairbanks Natural Gas sought to expand its certificate to include those areas. The Regulatory Commissions of Alaska chose the Interior Gas Utility instead.

The Fairbanks North Star Borough is also a customer of Fairbanks Natural Gas.

Interior Gas Utility hopes to get its supply from a proposed North Slope LNG facility. ●

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