Petroleum news

page 4 Q&A: Costello has faith in SB 21; views O&G from House Finance

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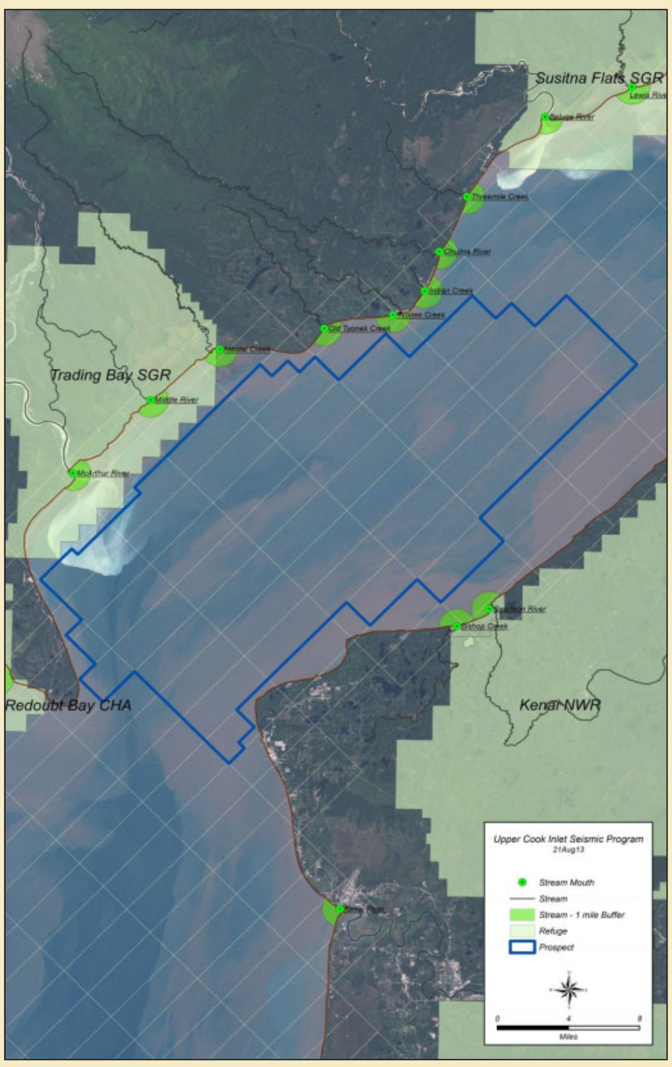
Seismic planned



SAEXPLORATION

SAExploration has applied for a Cook Inlet seismic survey which covers and extends beyond the margins of Furie Operating Alaska's Kitchen Lights unit. See story on page 9.

Buccaneer picks up Cosmo acreage; moves Endeavour to Southern Cross

Buccaneer Energy Ltd. has acquired more acreage at its Cosmopolitan prospect.

The Australian independent has picked up four Apache Alaska Corp. leases adjoining its oil and gas field off the coast of Anchor Point, according to a Sept. 2 announcement.

The leases are ADL 391899, ADL 391902, ADL 391903 and ADL 391904.

Buccaneer declined to divulge the terms of the deal, but described it as "not material."

Buccaneer operates the Cosmopolitan prospect and holds a 25 percent interest in the leases. The Fort Worth-based

see **BUCCANEER ACREAGE** *page 20*

Jewell says Interior will facilitate Arctic energy development if safe

ALAN BAILEY

SALLY JEWELL

During a Sept. 3 press conference towards the end of a visit to Alaska Interior Secretary Sally Jewell told journalists that the Department of the Interior is facilitating oil and gas development to help meet the country's energy needs, but that the agency also needs to ensure that development is carried out safely. And the particular characteristics of the Arctic region require different safety-related rules and regulations from elsewhere, she said.

"The oil industry, the Department of the Interior, the State

see **JEWELL VISIT** *page 20*

NATURAL GAS

MEA files contract

Electric utility agrees with Hilcorp on gas supply for new power plant

By ALAN BAILEY
Petroleum News

Matanuska Electric Association, or MEA, has submitted a new gas supply contract with Hilcorp Alaska to the Regulatory Commission of Alaska, or RCA, for approval. MEA says that the supply agreement is the first contract for gas supplies for the utility's new 170-megawatt gas-fired power plant at Eklutna, north of Anchorage, slated to go into operation at the beginning of 2015 — MEA's current electricity supply contract with utility Chugach Electric Association expires at the end of 2014. The new gas supply contract runs through to March 2018.

With MEA being a regulated utility, RCA must approve the new contract before it can go into effect.

The price of base gas supplied under the contract would range from $6.18 per thousand cubic feet in 2014 to $8.03 per thousand cubic feet in 2018, with higher prices applying to swing and emergency gas.

In common with other Southcentral Alaska power and gas utilities, MEA has been facing ever tightening gas supplies from the aging gas fields of

see **MEA CONTRACT** *page 15*

NATURAL GAS

Mackenzie line warning

Oliver: Canadian failure to develop Arctic gas economic loss for entire generation

By GARY PARK
For Petroleum News

JOE OLIVER

Canadian federal cabinet minister Joe Oliver is pointing to the Mackenzie Gas Project as the worst-case example of how badly things can turn out in Canada for energy megaprojects.

The natural resources minister said the failed attempt to start shipping gas from the Canadian Arctic to southern markets is a clear warning that resource projects can easily die on the shelf.

In a speech to provincial and territorial energy ministers in Yellowknife, Northwest Territories, Oliver said the proponents — operator Imperial Oil, ExxonMobil, Shell Canada and ConocoPhillips — have abandoned their plans to ship up to 1.8 billion cubic feet per day from the Mackenzie Delta, even though the consortium has yet to officially cancel the project.

But Oliver said opposition to the MGP, which was reborn in the late 1990s and submitted to regulators in 2004, is proof of what can happen.

He said the MGP represented a "tremendous opportunity for aboriginal partners, but the regulatory review took almost a decade to complete" — a period when the shale gas boom in

see **MAC LINE WARNING** *page 19*

PIPELINES & DOWNSTREAM

Flint challenges tariff

Tells RCA, FERC, results of quality bank calculations uneconomic, contradictory

By KRISTEN NELSON
Petroleum News

Flint Hills Resources Alaska LLC has filed a formal complaint with the Regulatory Commission of Alaska and the Federal Energy Regulatory Commission asking the commissions to investigate whether existing quality bank provisions of trans-Alaska oil pipeline tariffs are "just, fair and reasonable."

The Flint Hills' complaint is against TAPS owners BP, ConocoPhillips and ExxonMobil.

The owners had not yet responded to the complaint when Petroleum News went to print with this issue.

Flint Hills said the current quality bank formula in the tariff "fails to calculate accurately the relative difference in the market values of the varying qualities of crude oil transported over TAPS as well as the relative value of the Resid cut."

"New evidence demonstrates that the existing QB formula fails to calculate accurately the relative difference in the market values of the varying qualities of crude oil tendered in TAPS for transportation in a common stream."
—Flint Hills Resources Alaska

The quality bank reflects that crude oils of different qualities are shipped on the pipeline, crude

see **TARIFF CHALLENGE** *page 18*

contents

Petroleum News *North America's source for oil and gas news*

Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of September 5, 2013. 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

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 DS 01-10, workover	BP
Dreco D2000 Uebd	19 (SCR/TD)	Alpine CD4-291	ConocoPhillips
AC Mobile	25	Prudhoe Bay Y-13A	BP
OIME 2000	141 (SCR/TD)	Kuparuk 1A-03	ConocoPhillips
Kuukpik	5	Rigged up on Umiat Disp#1 to spud November 2013	Linc Energy Operations Inc.
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Prudhoe Bay	Stacked
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)	Prudhoe Bay	Available
Oilwell 2000 Hercules	14-E (SCR)	Prudhoe Bay	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Prudhoe Bay	Available
Oilwell 2000	17-E (SCR/TD)	Prudhoe Bay	Stacked
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)	Prudhoe Bay	Available
Emsco Electro-hoist	28-E (SCR)	Prudhoe Bay	Stacked
Oilwell 2000	33-E	Prudhoe Bay	Available
Academy AC Electric CANRIG	99AC (AC-TD)	Prudhoe Bay	Available
OIME 2000	245-E (SCR-ACTD)	Oliktok Point	ENI
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site C-41b	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Well Drill Site 2-38a	BP
Ideco 900	3 (SCR/TD)	Kuparuk Well 3M-23	ConocoPhillips
Parker Drilling Arctic Operating Inc.			
NOV ADS-10SD	272	Prudhoe Bay DS 18	BP
NOV ADS-10SD	273	Prudhoe Bay W-51	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 SI35-W4	ENI
Nabors Alaska Drilling			
OIME 1000	19AC (AC-TD)	Oooguruk ODSN-02	Pioneer Natural Resources

Interior Alaska

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
Academy AC electric CANRIG	105AC (AC-TD)	Nenana Basin	Doyon Ltd.

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	On the West side for NordAq Energy's Tiger Eye Central Well	NordAq Energy
Aurora Well Services			
Franks 300 Srs. Explorer III	AWS 1	Drilling surface hole on NCU 13	Aurora Gas
Doyon Drilling			
TSM 7000	Arctic Fox #1	North Kenai, stacked	Contracted to ConocoPhillips Winter of 2013/2014
Nabors Alaska Drilling			
Continental Emsco E3000	273E	Kenai	Available
Franks	26	Kenai	Stacked
IDECO 2100 E	429E (SCR)	Kenai	Available
Rigmaster 850	129	Kenai	Available
Academy AC electric Heli-Rig	106-E (AC-TD)	Kenai	Available

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)			
		Monopod A-18, workover	Hilcorp Alaska LLC

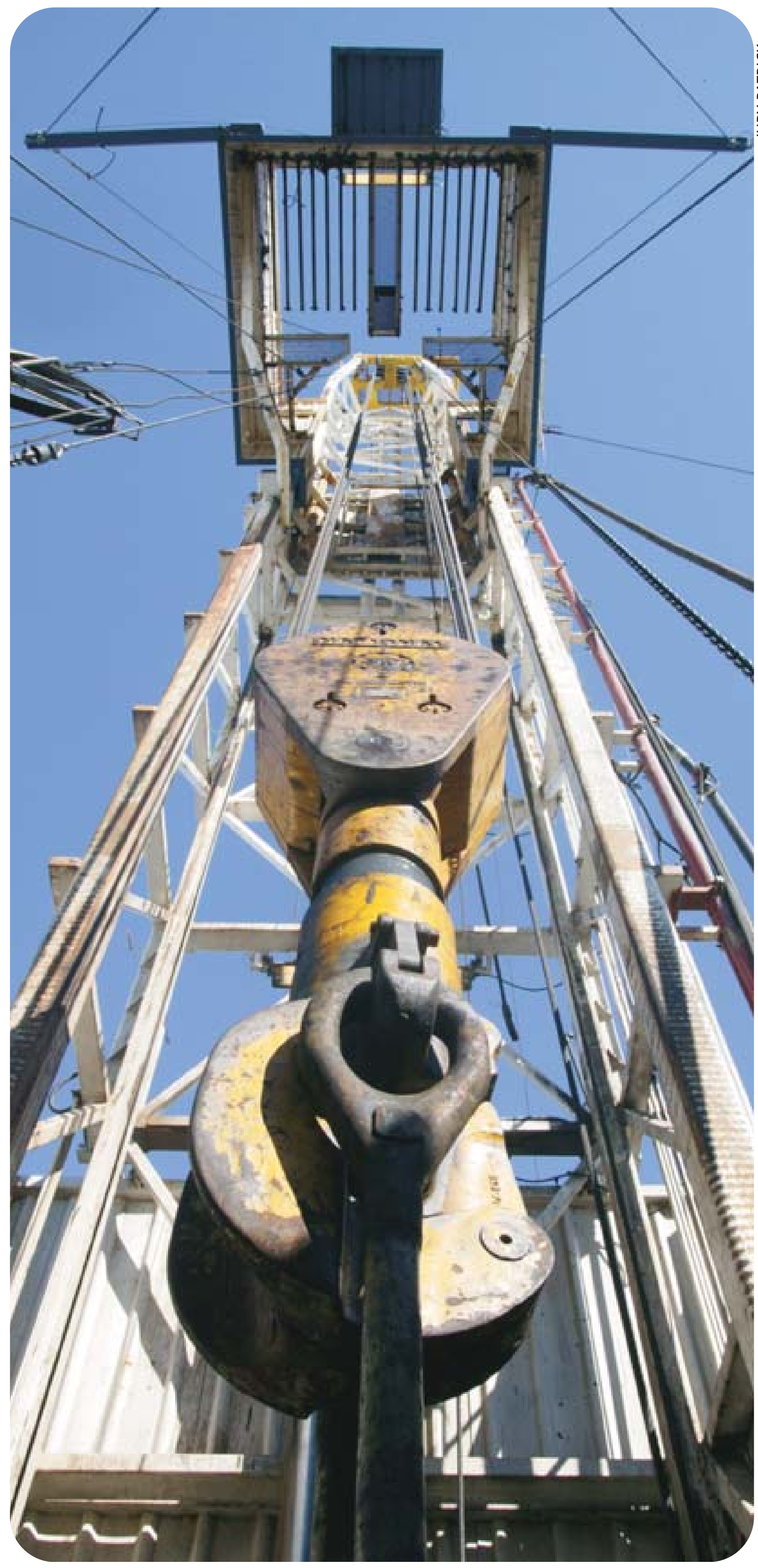
Mackenzie Rig Status

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



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	Aug. 30	Aug. 23	Year Ago
US	1,776	1,776	1,894
Canada	399	383	316
Gulf	61	59	49

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:

Cook Inlet Energy

● GOVERNMENT

Costello's faith in SB21 unwavering

Anchorage Republican keeps an eye on oil and gas development from her seat on House Finance Committee, Resources Subcommittee

By STEVE QUINN
For Petroleum News

Rep. Mia Costello has spent her entire three years with the Legislature on the House Finance Committee. Her first choice was resources, something she remains closely connected to just the same.

Costello, R-Anchorage, oversees the subcommittee on the Department of Natural Resources so she remains on the front lines of issues, many of which ultimately come before the whole committee for bill consideration.

Two of those bills were Senate Bill 21, Gov. Sean Parnell's oil tax legislation and House Bill 4, an in-state gas line bill. Both bills passed and received Parnell's signature in the spring.

The debate on SB 21 and its merits remain as fresh as if lawmakers were still in session.

Concerns over how certain regulations will be written to conform with the law have emerged; meanwhile the prospects of a referendum getting on the August 2014 statewide ballot remain strong.

REP. MIA COSTELLO

Costello sat down with Petroleum News and addressed these and other resource development issues.

Petroleum News: Let's start with SB 21. It still seems to be the topic du jour. Most recently, there are concerns over what can be counted as new oil for a tax reduction. What are your thoughts on this newest development and are you worried about these regulations getting in place by Jan. 1.

Costello: First of all it's important to put into context how complicated the oil tax issue is. It's without a doubt one of the most complicated issues that we address in the Legislature, and the Legislature has spent years, even before I got there, addressing it. The main concern I had going into this were the problems that existed with ACES (Alaska's Clear and Equitable Share). We are in deficit spending under ACES in an environment when every other oil-producing regime in the world is benefitting at the high price of oil, so the market and the high price of oil is a benefit to these other areas — but not Alaska.

That to me was a huge concern under ACES so it was obvious that ACES had problems. The other problem that was glaring with ACES, and I'm not necessarily convinced it's a general accepted awareness in the public, and that is the capital expenditure credit under ACES was already giving away a lot of the taxes we were taking in. We were turning right around giving $490 million back to the companies because of the capital expenditure credit.

We were incentivizing the wrong thing. We were incentivizing activity. What we needed to be doing was incentivizing production. That's where Alaska benefits is when we are producing. Sure there are going to be things that needed to be ironed out and that's the process of writing regulations.

Often times bills will pass and it's time for the departments to write the very specific regulations related to this. New oil and how to define new oil was something we discussed in the Legislature. It was brought up, and we recognized this was going to be tricky because how exactly do you define it? The executive branch, the Department of Revenue and the Legislature, we need to be very vigilant so that the regulations are written in such a way that they reflect the intent of the legislation. That's a process of the conversation.

The fact that we are hearing there is difficulty with it is not a surprise to me. I think that Alaskans, and the Legislature and the executive branch have a responsibility to make sure it gets worked out. But, I'm not concerned about it because it's the natural process of laws being put on the books. I do think that when regulations are crafted the departments across the board talk to those who are affected. There is a process where Alaskans can respond, the industry can respond, so I would encourage more conversation around that. The Legislature will be coming back in January and looking at how that's resolved.

Petroleum News: Do you foresee any tweaks to the law to address that if things cannot get smoothed out?

Costello: It depends. If we find that the department has its hands tied because of specific language that was written in the bill, it's incumbent on the Legislature to go back and make those changes. Often times we'll ask ourselves the question does the department have the authority to do what it is they are doing in regulation? That to me is important, that the departments are doing what they law is requiring them to do. If there is an issue with that — which I'm not sure there is yet — if there is though, I think we will come back and look at it. I'd rather not. I'd rather them work it out in the regulatory process. But if need be, certainly, because that's our job: to write laws that then regulations can be promulgated from. If the language isn't clear or too difficult to do that, then I would be willing to back and look at that specifically.

Petroleum News: Still on SB 21, the referendum efforts appear to be gaining moment. Do you have any concerns that if this gets on the ballot, it will chill future investment, as some have offered?

Costello: Alaskans can bring issues to the ballot. It's a constitutional right we all have. I recognize that it's a valid process. What concerns me is that we've taken an issue that's very complex and it's been whittled down to a bumper sticker. I really encourage a conversation and I encourage a debate and I encourage a vigorous look at this. This really is a serious issue for our future. What's lost in the conversation is that ACES was so punitive that it was driving investment away.

We have to look at the long-term future. I have two boys. One is in first grade and one is in third grade.

When we talk about revenue that the oil industry produces for funding government, schools and roads and troopers

see COSTELLO Q&A page 14

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● NATURAL GAS

Waiting game stalls LNG plans

US, Canada face grilling from environmentalists on LNG's impact on climate change; US proponents seek clarity on export permits

By GARY PARK
For Petroleum News

The United States and Canada are both waiting for verdicts that are crucial to their chances of joining the global LNG trade. And, the longer they wait the more obstacles they face, domestically and internationally.

U.S. proponents need clarity from their government over export permits and both need firm off-take contracts, while environmentalists and lawmakers are entering the debate in both countries, raising questions about whether LNG is more harmful to the climate change equation than most have been led to believe.

They are raising the unknown consequences to the environment of well-fracturing to release the gas supplies that make LNG exports possible, the use of electricity to convert gas to LNG, which requires taxpayers to subsidize the provision of hydro power in British Columbia, and the long-term dangers of draining gas reserves.

In the U.S. 19 applications for export approvals are pending before the Department of Energy, DOE — two have been approved — which has provided no timetable for decisions, while a far more costly and time-consuming approval process has LNG plans bogged down before the Federal Energy Regulatory Commission, FERC.

The backlog is setting off a tussle among LNG firms to be moved up to the front of the line — a prospect analysts rate as unlikely barring a legislative change by Congress.

US, Canada issues different

But that scramble is being accompanied with a warning from Dow Chemical that says approval by the Obama administration of the next two applications to export LNG will cross the 7 billion cubic feet per day line it believes would see domestic gas prices soar as much as $2 per million British thermal units which could see investors abandon major manufacturing projects.

Kevin Kolevar, Dow's vice president of government affairs and public policy, said that pushing LNG exports beyond that limit would "start to reintroduce volatility into U.S. natural gas prices," threatening petrochemical plants his own firm is planning for the Gulf Coast.

In Canada, the delay in locking up long-term buyers is giving activists representing the environmental movement and First Nations a chance to organize their opposition, ensuring only one thing — the end costs of project will rise and could push them beyond economic thresholds.

However, he did concede that even if the DOE approves exports, the gas market would be unlikely to react until supply contracts are in place and until projects get a green light from FERC.

The nature of the debate in Canada differs in detail, but the end result for LNG proponents is the same. Delays, of whatever sort, are harmful and could be lethal.

In Canada, the delay in locking up long-term buyers is giving activists representing the environmental movement and First Nations a chance to organize their opposition, ensuring only one thing — the end costs of projects will rise and could push them beyond economic thresholds.

Question on window

In a 17-page report she released on global trade, U.S. Sen. Lisa Murkowski, R-Alaska, said in early August that "the window for the United States to join the global gas trade will not be open indefinitely. In fact, it is narrowing and there is a real possibility that the nation will miss out on a historic opportunity."

She warned that, given the LNG projects planned in Qatar, Australia and Canada, "the world simply may not need LNG from the U.S. to meet new demand in the future. Consumers will have other options."

Bill Cooper, president of the Center for Liquefied Natural Gas, said the DOE rules and the rationale in the conditional orders are understood. "What we don't understand is the timing," he said.

DOE is required by law to quickly approve LNG exports to countries that have free-trade agreements with the U.S., but it can limit or block exports to non-FTA countries, including Japan, which is the world's largest LNG market.

However, David Goldwyn, president of the consulting group Goldwyn Global Strategies, noted that conditional approvals for non-FTA licenses require neither sales contracts in hand nor "any level of maturity" in the FERC process.

"So it's hard to imagine on what basis the DOE would deny a conditional approval," he said.

But the bar for final approval would be much higher since applications have to obtain clearance from FERC and have "credible" contracts in place, Goldwyn said.

He also said the FERC process can last up to two years, involving environmental impact statements and assessments, public hearings and approvals of new technologies, which could cost hundreds of millions of dollars.

Given these complications, he cautioned that "two approvals do not make a trend."

Environmental review tough in Canada

Although export permits are easier to obtain in Canada — three have been granted so far — the environmental review process looms larger than ever before, with environmentalists and First Nations motivated by their success in stalling Enbridge's Northern Gateway oil sands crude pipeline across British Columbia to the point where the Enbridge will have to rely heavily on whatever final decision is made by the Canadian government once it receives the National Energy Board's recommendations later this year.

Even if Northern Gateway clears the regulatory and political barriers, there is still the prospect of drawn-out legal action effectively undercutting the project by driving away the Asian shippers who have signed on with Enbridge.

As those events unfold LNG is being dragged into the debating arena in British Columbia, led by Andrew Weaver, a climate scientist at the University of Victoria and the first Green Party candidate elected to the provincial legislature.

He said Premier Christy Clark's plans to sell cheap and plentiful British Columbia natural gas at inflated prices in Asia is a dream that will end up costing taxpayers through subsidies to the gas companies.

"It makes no economic sense to go out on this path," he said. "The argument that there's going to be a market for LNG some 10 years from now that will reflect the $12 or so differential in price between Asia and British Columbia is a pipe dream."

Although First Nations in British Columbia have been more supportive of LNG projects than pipelines to carry oil sands crude to the tanker terminals on the Pacific Coast that backing is far from unconditional.

"We oppose speculators," said Ellis Ross, chief counselor of the Haisla Nation, which has a 50 percent stake in the BC LNG Export Cooperative, which

see **WAITING GAME** page 6

GOVERNMENT

Division schedules form change workshop

The Alaska Department of Natural Resources' Division of Oil and Gas is proposing changes to regulations for accounting and reporting of expenses and revenues for net profit share oil and gas leases, or NPSL.

Division Director Bill Barron said in an Aug. 29 notice that some of the changes are based on 2013 legislative changes and other changes are "intended to clarify NPSL accounting, address retroactive redeterminations, update requirements related to forms and instructions, and to propose charging an administrative fee for late or incomplete NPSL filings."

Proposed regulation changes and a proposed amended form are available at the division's website at: http://dog.dnr.alaska.gov/AboutUs/PublicNotices.htm#pnother.

Updates to the production tax form are related to the proposed regulation changes.

The division will hold a public workshop Sept. 13 on proposed changes to the form from 9 to 11 a.m. in room 1270 at the Atwood Building in Anchorage. The division said the workshop may be extended for up to one hour if additional time is needed to clarify information presented.

No public comments will be taken at the workshop. Public comments on the proposed regulation changes, "including the potential costs to private persons of complying with the proposed changes," must be received no later than 5 p.m. Sept. 30.

—PETROLEUM NEWS

● FINANCE & ECONOMY

Alberta gets resource lift with royalty news

By GARY PARK

For Petroleum News

Faced with a bill of "well over" C$5 billion to rebuild infrastructure damaged in devastating June floods across southern Alberta, the provincial government had a shred of good news to report in late August.

Just months after declaring it was being squeezed by shrinking prices for oil sands bitumen, the province has done a partial about face, predicting it could receive a boost of C$450 million from higher oil sands royalties.

It is now predicting Western Canada Select — a blend of heavy crude, bitumen and synthetic — will fetch C$74.51 per barrel in fiscal 2013-14, up C$6 from its March budget forecast.

For the first quarter of the year to the end of June, Alberta bitumen sold for C$8 per barrel above its original target, reflecting the narrowing gap between WCS and West Texas Intermediate.

But Finance Minister Doug Horner cautioned it is too early to assume the demise of the so-call "bitumen bubble," suggesting the price gap will likely widen again.

He said the best chance of offsetting price pressures is to find new markets for Alberta's expected rise in oil sands production.

Horner said that although crude shipments by rail have helped ease some of the price pressures, Alberta producers desperately need approvals for TransCanada's Keystone XL and Energy East pipelines.

For the April-June quarter the government collected C$1.77 billion in non-renewable resource revenue, C$63 million higher than expected, but it has made no moves to revise its anticipated revenues of C$7.25 billion for the fiscal year.

However, it gently nudged its WTI price forecast higher to US94.81 per barrel from US$92.50, while also raising the Alberta wellhead price outlook to C$84.30 from C$82.99 and WCS to C$74.51 from C$68.21.

"We need to be cognizant of that fact that, while we may see some short-term gain from high oil prices, we want strong economies worldwide so out product gets to market and we actually have a market to get it to," Horner sad.

The government also raised its 2013-14 production forecasts to 592,000 barrels per day from 550,000 bpd for conventional crude, 2.16 million bpd of raw bitumen from 2.14 million bpd and natural gas to 3.88 trillion cubic feet from 3.87 tcf. ●

Contact Gary Park through publisher@petroleumnews.com

continued from page 5

WAITING GAME

could be Canada's first LNG export venture.

"We oppose any proponent who tried to go around us. If you try to hide behind an environmental assessment or a process, we will oppose that."

Clock is running

While Canadian LNG proponents grapple with their profit-thresholds and their efforts to secure long-term buyers and the United States government procrastinates over export permits, the clock is running down on hopes of opening routes to Asia for North America's gas riches.

The latest obstacle in the U.S. — one that is resonating in Canada — comes from supporters of climate change action in the House and Senate who are now seeking a study of the climate effects of LNG exports, matched by similar stirrings of discontent among Canadian environmentalists.

In a 16-page report, the six Democrats who chair the Bicameral Task Force on Climate Change insist the Department of Energy should "understand the climate impacts of LNG exports before these facilities are constructed in order to ensure that there is a net climate benefit from such exports."

The group urged the DOE to conduct a "thorough analysis" that would delve into the effects of LNG exports on domestic and overseas greenhouse gas emissions.

It listed more than 20 steps the DOE should take to implement President Barack Obama's recently unveiled climate action plan, including finalizing energy-efficiency standards on appliances; boosting funding for low-carbon energy technologies; reforming building codes and utility rate structures; and supporting efforts to build lines for solar and wind-power transmission.

The task force argued that although LNG exports would reduce GHG emissions by lowering coal use, "there are significant uncertainties about whether this potential will be realized."

The lawmakers said the energy-intense liquefaction process could raise carbon emissions, while a potential increase in domestic natural gas prices resulting from LNG exports could see a rise in coal use. ●

Contact Gary Park through publisher@petroleumnews.com

● EXPLORATION & PRODUCTION

August ANS production down 12% from July

Cook Inlet production breaks 15,000 bpd mark in July, up 6.8 percent from June average of 14,135, up from 10,530 bpd in July 2012

By KRISTEN NELSON
Petroleum News

Alaska North Slope crude oil production averaged 439,152 barrels per day in August, down 11.7 percent from a July average of 497,342 bpd, reflecting scheduled maintenance on the trans-Alaska oil pipeline.

In Cook Inlet production topped 15,000 bpd in July, up 6.8 percent from June, and showing a steady increase from 10,530 bpd in July 2012.

The largest North Slope volume drop was at the BP Exploration (Alaska)-operated Prudhoe Bay field, which averaged 238,507 bpd in August, down 10.5 percent from a July average of 266,339 bpd, a difference of 27,832 bpd. The largest percentage drop, 17.6 percent, was at the BP-operated Lisburne field, which averaged 24,935 bpd in August, down from 30,257 bpd in July.

ANS August production was impacted by scheduled maintenance work by pipeline operator Alyeska Pipeline Service Co. There were three planned shutdowns during the month, including an 18-hour shutdown during which two fields were completely down — Lisburne for 48 hours and the ConocoPhillips Alaska-operated Alpine field for 24 hours.

Alyeska said the 18-hour shutdown, completed at 1:25 a.m. Aug. 12, included gas building work at Pump Station 4, regulatory leak testing of 27 mainline gate valves and check valves between Pump Stations 7 and 9, and the installation of an additional suction value to the suction header at Pump Station 9. Shorter shutdowns occurred Aug. 28 (for check and remote gate valve testing) and Aug. 30 (to test emergency shutdown procedures).

Alyeska said on its website that pipeline reliability for August was 98.17 percent, compared to an average for the year of 99.58 percent, with one proration during the month impacting the reliability factor.

ANS August production was impacted by scheduled maintenance work by pipeline operator Alyeska Pipeline Service Co.

All fields down

Information for the most recent month comes from the Alaska Department of Revenue's Tax Division which reports North Slope oil production consolidated by major production centers and provides daily production and monthly averages. More detailed data, including Cook Inlet and individual North Slope fields and pools, is reported by the Alaska Oil and Gas Conservation Commission on a month-delay basis.

Production volumes for Prudhoe Bay reported by the Tax Division include satellites at Aurora, Borealis, Midnight Sun, Orion and Polaris, as well as production from the BP-operated Northstar and Milne Point fields.

Reported volumes from Lisburne include Point McIntyre and Niakuk.

Production from the ConocoPhillips-operated Kuparuk River field averaged 109,784 bpd in August, down 14.9 percent from a July average of 128,979 bpd. Kuparuk production includes satellite production from Meltwater, Tabasco, Tarn and West Sak, as well as production from the Eni-operated Nikaitchuq field and the Pioneer Natural Resources-operated Oooguruk field.

AOGCC production data for July shows an average of 12,062 bpd from Nikaitchuq, down 0.5 percent from a June average of 12,117 bpd. Oooguruk averaged 7,476 bpd in July, up 5.1 percent from a June average of 7,114 bpd.

Production from the BP-operated Endicott field averaged 9,538 bpd, down 13.2 percent from a July average of 10,994 bpd. Endicott production includes the Savant Alaska-operated Badami field on the eastern side of the North Slope.

July production from Badami averaged 1,340 bpd, up 4.5 percent from a June average of 1,283 bpd.

Cook Inlet breaks 15,000 bpd barrier

AOGCC data shows July production from Cook Inlet averaged 15,099 bpd, up 6.8 percent from a June average of 14,135 bpd. That compares to 10,530 bpd in July 2012 and 10,017 bpd in July 2011.

Since Hilcorp acquired Chevron's and Marathon's Cook Inlet assets it has been growing production from existing fields; Cook Inlet Energy has also been growing production from the assets it acquired out of bankruptcy.

The largest July-over-June production increase, in both barrels and percentage, was at the Cook Inlet Energy Redoubt Shoal field, where the company has been reworking existing wells. The field averaged 1,505 bpd in July, up 167.2 percent from a June average of 563 bpd, making the field one of only six in Cook Inlet with production topping 1,000 bpd.

Hilcorp has the most productive field in the basin, McArthur River, which averaged 4,311 bpd in July, up 3.4 percent from a June average of 4,170 bpd.

XTO, an ExxonMobil subsidiary, has the next most productive Cook Inlet field, Middle Ground Shoal, which averaged 2,610 bpd in July, up 4.2 percent from a June average of 2,506 bpd.

Other large fields, all operated by Hilcorp, include: Granite Point, which averaged 2,290 bpd in July, down 1.7 percent from a June average of 2,330 bpd; Swanson River, which averaged 2,165 bpd in July, down 11.6 percent from a June average of 2,449 bpd; and Trading Bay, which averaged 1,364 bpd in July, down 4 percent from a June average of 1,420 bpd.

Two smaller fields, Cook Inlet Energy's West McArthur River (700 bpd, up 28.7 percent from a June average of 544 bpd) and Hilcorp's Beaver Creek (154 bpd, up 0.7 percent from a June average of 153 bpd) round out Cook Inlet production.

ANS crude oil production peaked in 1988 at 2.1 million bpd; Cook Inlet crude oil production peaked in 1970 at more than 227,000 bpd. ●

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LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
MHT	Northern Cook Inlet	Sept. 19, 2013
DNR	Beaufort Sea Areawide	Nov. 6, 2013
DNR	North Slope Areawide	Nov. 6, 2013
DNR	North Slope Foothills Areawide	Nov. 6, 2013
BLM	NPR-A	November 2013
BOEM	Chukchi Sea	May 2016
BOEM	Cook Inlet (special interest)	November 2016
BOEM	Beaufort Sea	May 2017

Agency key: BLM, U.S. Department of the Interior's Bureau of Land Management, manages leasing in the National Petroleum Reserve-Alaska; BOEM, U.S. Department of the Interior's Bureau of Ocean Energy Management (formerly Minerals Management Service), Alaska region outer continental shelf office, manages sales in federal waters offshore Alaska; DNR, Alaska Department of Natural Resources, Division of Oil and Gas, manages state oil and gas lease sales onshore and in state waters; MHT, Alaska Mental Health Trust Land Office, manages sales on trust lands.

● FINANCE & ECONOMY

Bullish outlook for rail cap-ex

By GARY PARK

For Petroleum News

Capital spending on new oil rail terminals in Western Canada will reach about US$1 billion over the next two years, according to a report by Calgary-based investment dealer Peters & Co.

In addition, another US$4 billion-US$5 billion is expected to be spent on new rail cars, the report said, without delving into whether changes to U.S. and Canadian safety standards for the cars following the Quebec derailment could force an extensive phasing out of old rolling stock.

The investment "highlights that capital is and will be deployed to take advantage of inefficiencies in the physical pricing market for crudes, which are positive developments for the longer-term view on Canadian crude pricing," the report said.

Increase in rail shipments

Peters said the oil industry is moving ahead with plans to increase rail shipments, reverse pipelines and modify refineries in the U.S. Midwest to handle heavier crudes from Alberta regardless of what happens to TransCanada's Keystone XL project.

The firm expects price differentials between Western Canada Select and West Texas Intermediate will narrow from US$24 per barrel this year to US$21 by 2015, but warns that Canadian heavy crude prices will remain sensitive to short-term delays in introducing new shipping options as 250,000 barrels per day of incremental production comes on stream over the next year alone.

"The pace of growth in the short term is being impacted by the ability to access heated rail cars (to carry heavy crudes)."

—Peters & Co. report

The report said delays in modernizing BP's Whiting refinery or expanding Enbridge's Line 62 and Line 6A in the U.S. could see a widening of the price gap between WCS and WTI.

Rail capacity out of Western Canada has been forecast to grow from its current 200,000 bpd to 900,000 bpd by the end of 2013.

However, Peters said delays and inefficiencies in ramping up volumes could reduce the year-end goal to 500,000 bpd.

"A key question is whether the pace of growth can continue as rapidly as required," the report said. "The pace of growth in the short term is being impacted by the ability to access heated rail cars (to carry heavy crudes)." ●

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NATURAL GAS

Federal gas line agency issues LNG glossary

The federal office for Alaska gas line projects has issued a glossary of terms, industry jargon, acronyms and volume conversion tables to help people better understand the international world of natural gas and liquefied natural gas production, marketing, pricing and shipping.

The glossary is available at the agency's website www.arcticgas.gov.

The glossary includes definitions of terms familiar and unfamiliar to Alaskans, including Btus, billion cubic meters of LNG, dry gas, wet gas, floating LNG, free-trade agreements, front-end engineering and design, Japan-Korea marker, spot market, LNG trains and peak-shaving plants.

Larry Persily, federal coordinator for Alaska natural gas transportation projects, said the agency "prepared the glossary as part of our ongoing effort to share information on all aspects of Alaska LNG project development."

The glossary is available at the agency's website www.arcticgas.gov.

—PETROLEUM NEWS

● EXPLORATION & PRODUCTION

What is going on at Kitchen Lights?

Following a similar application by Furie, SAE applies for 3-D seismic survey permit for the same area of the upper Cook Inlet

By ALAN BAILEY
Petroleum News

Just a few weeks after Furie Operating Alaska applied to Alaska's Division of Oil and Gas for a permit to conduct an offshore 3-D seismic survey over its Kitchen Lights Unit in the upper Cook Inlet, geophysics company SAExploration has applied to the division for a similar permit covering almost the same area. Furie's President Damon Kade has told Petroleum News that his company has not commissioned the proposed SAExploration survey and that Furie's permit application is still filed with the division. SAExploration declined to comment on why it is planning the survey or who the survey is for.

Start in October

SAExploration's application says that the company hopes to start the survey in October and that the survey could take up to a year to complete, with offshore operations only taking place when the inlet is ice free. As reported in the July 28 issue of Petroleum News, Furie has said the start date of its survey would depend on the timing of permit authorization and that the survey might take 120 days to complete, depending on factors such as the commercial fishing schedule and the timing of any other seismic surveying being conducted in the inlet.

Both Furie's and SAExploration's plans of operation anticipate the use of nodal seismic receivers tethered to the seafloor, a technique that Apache Corp. has already pioneered in the waters of the Cook Inlet. SAExploration says that its survey will encompass an area of about 406 square miles.

SAExploration's plan of operations says that seismic data recording will be carried out by placing receiver nodes in patches of six lines of receivers, with lines probably spaced 1,650 feet apart and with receivers spaced at 165-foot intervals along each line. A pattern of 32 seismic sound source lines will cross the receiver lines at right angles and will extend about 2.5 miles beyond the ends of the receiver lines.

Two vessels equipped with 1,760-cubic-inch air guns will traverse the source lines, firing seismic sound signals at 165-foot intervals.

The recording nodes will operate autonomously, with recorded data being downloaded after retrieval from the seafloor.

As seismic recording progresses in a patch, the seismic crew will retrieve the recording nodes from a previous patch, recharge the nodes, download data from the nodes and then redeploy the nodes, ready for use in the next patch, the plan of operations says.

The survey will use a differential global positioning system, involving the use of global positioning satellites and ground based stations, to accurately monitor the positions of survey vessels, with a pinging system using sound signals to determine the precise positions of seafloor recording nodes. ●

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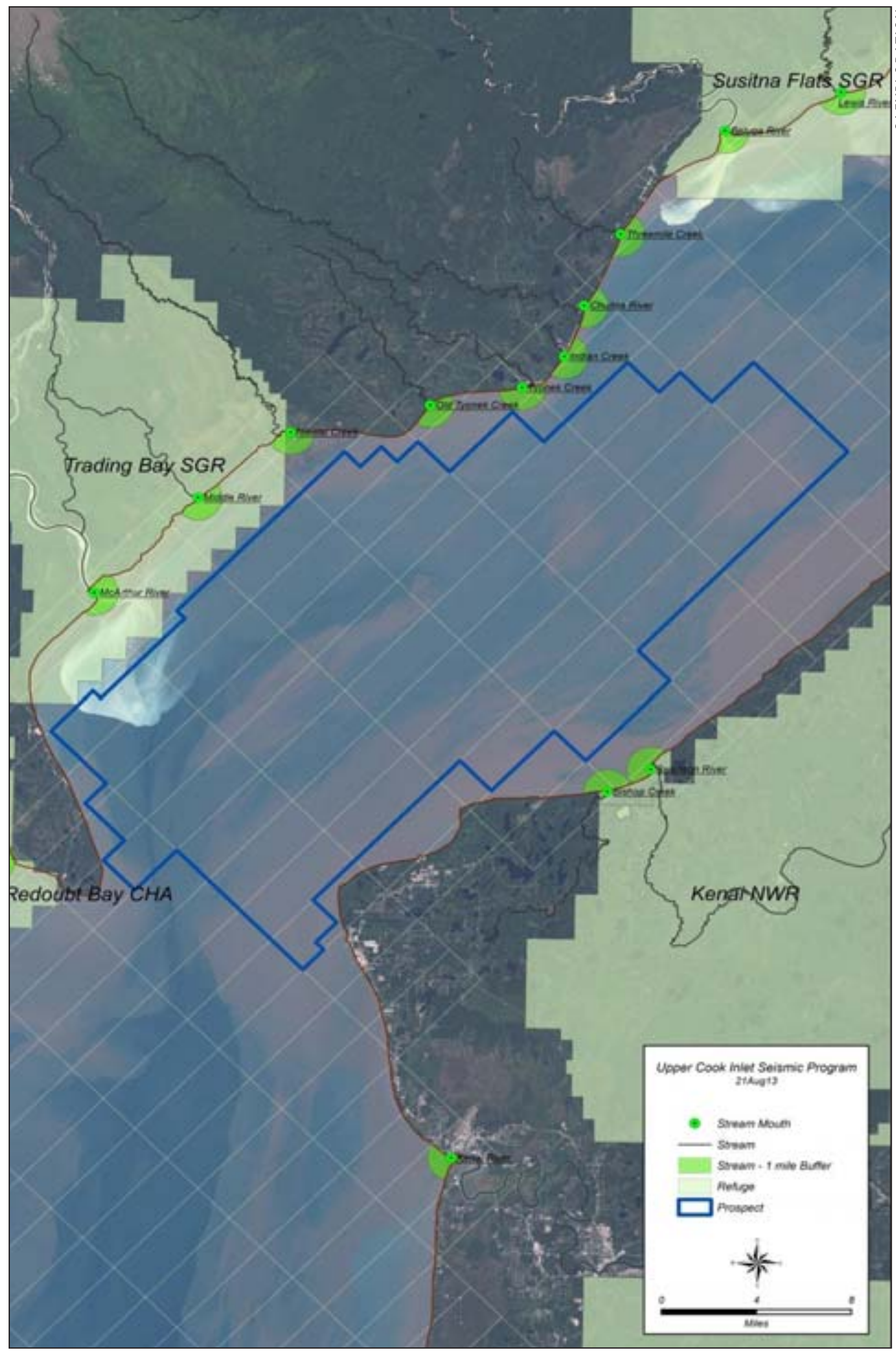

SAEXPLORATION

SAExploration's planned Cook Inlet seismic survey covers and extends beyond the margins of Furie Operating Alaska's Kitchen Lights unit.

GOVERNMENT

AOGCC sets public meeting schedule

The Alaska Oil and Gas Conservation Commission has published its upcoming public meetings schedule.

The meetings are at 9 a.m. in the commission's hearing room in Anchorage and the agenda will be posted on the agency's website by noon of the workday before each scheduled meeting.

Meetings will be held Oct. 2, Nov. 6, Dec. 4 and Jan. 8.

—PETROLEUM NEWS

● ENVIRONMENT & SAFETY

Taking a new approach to risk management

Company executive talks about how industry safety management has changed following the Gulf Deepwater Horizon disaster

By ALAN BAILEY
Petroleum News

In the aftermath of the Deepwater Horizon disaster and the ensuing worst ever oil spill in the United States many minds have focused on why the disaster occurred and what can be done to prevent another such catastrophic event in the future. And the U.S. Department of the Interior, the agency with oversight of oil and gas activities on the U.S. outer continental shelf, has issued a series of new rules and regulations addressing offshore safety, including a rule requiring the implementation of safety and environmental management systems, known as SEMS systems, by companies operating in the outer continental shelf oil and gas industry.

On Aug. 16 at the Marcus Evans Arctic Drilling Safety Preparedness and Response Conference Aaron Swanson, director of quality and reliability for the western hemisphere for Baker Hughes, talked about how the oil industry's approach to risk and competence management has changed in the post-Deepwater Horizon world.

Changing approach

During the 1990s companies generally focused on competency training programs designed for employees with less than five years of experience, on the assumption that people with more experience can perform their jobs better than less experienced personnel, Swanson said. Published papers tended to talk about the experience gap of people new to the industry, and the emphasis was on managing technical risk and the use of knowledge management systems to preserve and make available institutional knowledge.

Assessments provide opportunities for observing how work is done, discovering ways of improving work procedures and emphasizing any risks in new procedures.

But following Deepwater Horizon the focus has shifted to the training of all employees, not just new starts, with an emphasis on technical knowledge and risk awareness, and a drive towards continuous process improvement, Swanson said.

Triggered by disasters

Regulatory changes such as the introduction of SEMS regulations typically follow major disasters, Swanson said. Investigations of the 2003 Columbia space shuttle disaster, for example, highlighted the critical importance of decision making around low probability but high impact events — a key recommendation from those investigations was the need for new thinking and changes in individual values and beliefs for those working in the space program, he said.

And, in the fishing industry, some major accidents and a very high fatality rate among fishermen after an expansion of the U.S. exclusive economic zone in 1977 led in the 1990s to the U.S. Coast Guard mandating safety training. This training again focused on low probability, high impact events: It resulted in a dramatic drop in fatalities, Swanson said.

New thinking

The oil industry has traditionally done a tremendous job of reducing occupational injuries, with a better injury record than many other industries, Swanson said. But safety-related metrics have not properly driven attention toward low probability, high impact events such as loss of well control. And dealing more effectively with these types of critical risk while focusing more on process safety will require new thinking, recognizing that unique situations that may pose high risk have no learning curve; that people tend to gravitate towards positive potential outcomes while ignoring the possibility of negative outcomes; that gambling on probabilities when lives are at stake can prove fatal; and that a lucky track record of success can lead to a mindset that minimizes perceived risks.

Against this background, the SEMS regulations provide a mechanism for managing risks, but individual companies need to decide on what actions they need to take to develop their risk management programs.

Risk awareness & assessment

At Baker Hughes, the company has always had a program of hazard and risk awareness training. But now the company is placing additional emphasis on critical equipment; the use of standard operating procedures; and training in health, safety and the environment, Swanson said. New hires are immediately introduced to the company's competency and change management programs. And an assessment process, designed to re-enforce the values associated with controlling risks, applies to all personnel. The company also establishes metrics that monitor the extent to which people follow procedures, using these metrics as leading indicators of a potential safety problem.

Regulatory changes such as the introduction of SEMS regulations typically follow major disasters, Swanson said.

Under the assessment program, an assessor makes an initial evaluation of an employee's knowledge and experience. Assessors then periodically evaluate what employees are doing, with the risk involved in a job step determining the assessment frequency. An assessment can involve observing someone doing a job. And assessments can ensure that old habits are not carried forward into the use of new technologies or processes, Swanson said.

Assessments provide opportunities for observing how work is done, discovering ways of improving work procedures and emphasizing any risks in new procedures. This type of observation is particularly important in Arctic operations, where it may be necessary to carry out activities in new ways, Swanson said. ●

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● FINANCE & ECONOMY

Researchers doubt oil speculator impact

Article in The Energy Journal looks at relationship between commodity trading, steep rise in crude prices from 2003 to 2008

By WESLEY LOY
For Petroleum News

Were financial speculators responsible for sending the price of crude oil soaring in recent years?

Most likely, no.

That's the thrust of an article in The Energy Journal (Vol. 34, No. 3), a quarterly publication of the International Association for Energy Economics.

The authors, Ron Alquist and Olivier Gervais, are with the Bank of Canada.

"Overall, the available evidence points to global demand and supply conditions rather than financial speculation as the explanation for the surge in the price of oil between 2003 and 2008," the journal article concludes.

Asian demand

The authors write that "macroeconomic models of the global market for crude oil show that the bulk of the increase in the price of oil during the past ten years is related to the cumulative effect of a sequence of shocks to global real activity. These increases in demand are related to increased demand for crude oil emanating from emerging Asia, especially China and India."

The article begins by noting investors in recent years have come to view commodities, including crude oil, as a new asset class.

"Since 2003 many investors have chosen to diversify their portfolios by buying commodity index funds and similar financial instruments," the authors write. "This portfolio shift has led to large financial flows into the oil futures market as well as other commodity futures markets."

At the same time, the price of oil reached unprecedented heights, increasing from $32 per barrel at the end of 2003 to $147 in July 2008, the article says.

"To many observers, the conjunction of these two trends suggests a causal connection between financial speculation and the increase in the price of oil," the authors say.

'A modest role at best'

The authors define speculation as "the holding of a net position, either long or short, by a firm that is not a commercial user of oil in the expectation of a positive return."

"By contrast, we define 'hedging' as a firm's transaction in a commodity futures market for reasons related to that firm's use of the physical commodity in its operations, including the processing, merchandising and marketing of the commodity," they write.

The volume of oil futures contracts have increased over the past 10 years, the article says.

"Between January 2003 and June 2008, open interest in West Texas Intermediate futures contracts more than doubled, rising from about 600,000 contracts to about 1.3 million," the authors note.

Oil prices also increased from 2003 onward.

However, there is "no statistical evidence" that changes in investor positions preceded oil price increases during the period when speculation was thought to be an important driver of the price changes, the article says.

The researchers examine oil inventory as part of their study.

"Another way to store oil is to leave it in the ground, so it is also important to consider the possibility that financial speculation altered the incentive to supply oil," they write.

A graph shows global oil production remained flat between 2004 and 2008.

"This could be interpreted as evidence that suppliers either withheld oil from the physical market or postponed new projects in anticipation of higher oil prices, but several arguments cast doubt on these claims," the researchers say. "First, the constraints on oil supply were not necessarily related to changes in the price of oil during that period. They are the legacy of the decline in oil investment from the mid-1980s until the late 1990s, a period during which the price of oil was relatively low. As the price of oil increased from 2003 onward, there were renewed efforts to bring new oil wells on line. The pace of drilling for new oil wells accelerated in response to the increase in the price of oil in 2007-08, and it did not abate until after the price reached its peak in July 2008. Typically, there are lags of ten years or more between the initial discovery of oil and when the oil field is ready to produce."

Another factor behind production constraints was that oil fields in several important areas, such as Russia, reached maturity, the article says.

"As the price of oil increased between 2003 and 2008, it became increasingly common in the press and among policymakers to attribute the appreciation to financial speculation, especially given the contemporaneous financialization of commodity markets," the authors write. However, they argue financial speculation "seems to have played a modest role at best." ●

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GOVERNMENT

Court ruling goes against Alaskan Crude

Alaskan Crude Corp. has lost an appeal to the Alaska Supreme Court.

The case centered on the Burglin 33-1 well, in the company's Arctic Fortitude unit on the North Slope. The well was drilled, tested and then suspended in the 1980s.

Alaskan Crude, a small operator, in 2006 applied to the Alaska Oil and Gas Conservation Commission for approval to reopen and test the well, the Supreme Court's Aug. 30 opinion said. The AOGCC regulates drilling activity.

Alaskan Crude wanted to investigate geologic strata known as the Ugnu and West Sak formations.

"Arguing that it was highly unlikely that oil from the well would rise to the surface unassisted, Alaskan Crude made a series of requests to the Commission to be exempted from oil discharge response requirements or, in the alternative, to have the requirements reduced," the opinion said. "The Commission made successive reductions to the technical flow-rate assessments and the response planning standards that it recommended to the Alaska Department of Environmental Conservation for use in setting Alaskan Crude's discharge response requirements. The Commission declined, however, to classify the Burglin 33-1 well as a gas facility, which would have exempted Alaskan Crude entirely from such requirements."

Alaskan Crude challenged the commission's decision in state Superior Court. That court upheld the commission.

The Supreme Court, with its 17-page opinion, affirmed the lower court ruling.

"We conclude that the Commission did not err," the opinion said. "The Commission knew from past experience that parts of the West Sak formation had the capability of flowing oil to the surface unassisted. The Commission's analysis of testing data from the Burglin 33-1 well from the 1980s, 'when combined with a reasonable set of rock and fluid properties from the Ugnu formation elsewhere on the North Slope,' indicated that the Ugnu had the same capability."

The high court also affirmed the Superior Court's award of $10,000 in attorney's fees to the commission.

—WESLEY LOY

● INTERNATIONAL

China fires official in oil giant probe

Former chairman of China National Petroleum Corp. dismissed from positions by Communist Party in sweeping graft investigation

By GILLIAN WONG
Associated Press

The head of the body that oversees China's major state-owned companies was fired Sept. 3 in a spreading corruption investigation that appears to be an effort by the country's new leaders to tighten control over government industries.

The Communist Party dismissed Jiang Jiemin from his positions as director and deputy party chief of the Cabinet's commission that runs state companies, the official Xinhua News Agency said Sept. 3, two days after officials announced an investigation into Jiang.

Jiang formerly was chairman of the state-run China National Petroleum Corp., which has been the target of a sweeping graft investigation that also has netted four top executives in recent days. They include three executives at CNPC's listed subsidiary PetroChina.

As a full member of the party's Central Committee, which is made up of its top 200 members, Jiang is the most senior official to fall since new leader Xi Jinping took power in November. Xi has made fighting widespread graft a key campaign of his leadership so far, with promises to target both junior and high-level officials.

Stab at industries

The probe suggests that Xi and Premier Li Keqiang are making a stab at tackling the powerful state-owned industries and their allies who reformers say have hamstrung the government.

"The state conglomerates, they are empires unto themselves. They have too much money and too much power," said Willy Lam, an expert on party politics at the Chinese University of Hong Kong. "This could be a signal that the Xi Jinping and Li Keqiang leadership is finally trying to discipline them and keep a tighter rein over the conglomerates."

A prominent Chinese newspaper, the 21st Century Business Herald, cited unidentified "insiders" Sept. 3 as saying Jiang had been close to now-disgraced politician Bo Xilai. Bo, whose downfall was triggered by a scandal involving his wife's murder of a British businessman, stood trial for corruption and abuse of power in late August.

The newspaper said when Jiang was at CNPC, he built oil refineries in places where Bo held leadership positions, including Liaoning province and the megacity of Chongqing, to enhance Bo's "political performance." Calls to CNPC's spokesman's office rang unanswered.

Unconfirmed news reports have also earlier said China's leaders have taken the unusual step of endorsing a corruption investigation into Zhou Yongkang, a former security czar and CNPC general manager with a power base in the oil industry.

Expanding probe

The probe into China's oil giant also has extended to one of the energy industry's richest self-made entrepreneurs, Hua Bangsong, chairman of Shanghai-based Wison Engineering Services Co., which is a PetroChina supplier.

Wison said that Hua, a billionaire, was "assisting the relevant authorities" in their investigations.

The company, which provides engineering and construction services to the oil industry, said that its board of directors "is convinced that factual circumstances will be clarified."

Wison tried to distance itself from PetroChina, which it counts as one of its major customers, after recent press reports on their business relationship. It said PetroChina first-half contract revenue was insignificant.

Wison "operates legally and completed the necessary compliance check" required to list its shares on the Hong Kong stock exchange, the company said in a statement to the exchange posted late Sept. 2.

Hua, who founded Wison in 1997, is worth $1.2 billion, according to Forbes. ●

—Associated Press reporter Kelvin Chan contributed to this report from Hong Kong.

OBITUARY

Longtime Valdez leader Kelsey dies at 93

Longtime Valdez leader John Kelsey, who helped rebuild the coastal community after a devastating 1964 earthquake and was instrumental in bringing the trans-Alaska oil pipeline terminus there, has died at age 93.

The former Valdez mayor and businessman died Aug. 27 in Anchorage, where he lived during his later years, family friend Suzie Koklich said Sept. 3.

Kelsey was known for bringing economic development to Valdez for decades, and was a key player in rebuilding the town after it was destroyed by the magnitude-9.2 earthquake in 1964, KCHU reported Sept. 2 (http://is.gd/7rU63a).

A fourth-generation Alaskan, Kelsey was born in Valdez on July 24, 1920. In 1938, he was among 10 students to graduate from the local high school. Today, more than 4,100 people live in the town, about 120 miles east of Anchorage.

Kelsey earned a bachelor of engineering degree at Stanford University, then attended graduate school at Columbia University. He also went to the U.S. Navy Officer Candidate School and Anti-Submarine School, earning the rank of lieutenant.

He was assigned to the Pacific Theater during World War II. He then returned to Valdez to help his father and brother run the Valdez Dock Co., owned by the family from 1940 to 1989.

Over the years, Kelsey served as the city's mayor, fire chief, city councilman and developer.

He also was a member of the Alaska Permanent Fund board, serving as chairman three times, and served on the Alaska Natural Gas Pipeline Authority.

—ASSOCIATED PRESS

E&P

US drilling rig count unchanged at 1,776

Oilfield services company Baker Hughes Inc. says the number of rigs actively drilling for oil and natural gas in the U.S. did not change the week ending Aug. 30, remaining at 1,776.

The Houston-based company said in its weekly report that 1,388 rigs were drilling for oil and 380 for gas. Eight were listed as miscellaneous. A year ago there were 1,894 active rigs.

Of the major oil- and gas-producing states, Louisiana gained two rigs and Alaska, California, Oklahoma and Utah each gained one.

Pennsylvania and Texas each lost two rigs and Colorado and Wyoming each lost one. Arkansas, Kansas, New Mexico, North Dakota, Ohio and West Virginia were unchanged.

The U.S. rig count peaked at 4,530 in 1981 and bottomed at 488 in 1999.

—ASSOCIATED PRESS

● ENVIRONMENT & SAFETY

Cook Inlet risk assessment nearly done

Project team examines ways to avoid shipping mishaps and spills; options include towing, ice monitoring upgrades, subsea pipeline

By WESLEY LOY

For Petroleum News

An ongoing project to assess and reduce shipping and spill risk in Alaska's Cook Inlet is entering its final phase.

The project is expected to wrap up in September 2014, with the project team looking to research and analyze several risk reduction options including improved towing capability, construction of a trans-inlet subsea oil pipeline, enhanced weather information delivery to ships, improved ice monitoring capability, and third-party inspection of workboats.

The Cook Inlet maritime risk assessment project involves the Kenai-based Cook Inlet Regional Citizens Advisory Council, the Alaska Department of Environmental Conservation and the U.S. Coast Guard.

The Cook Inlet RCAC, in the August issue of its Navigator newsletter, discussed the options for reducing the risk of oil spills.

The Cook Inlet maritime risk assessment project involves the Kenai-based Cook Inlet Regional Citizens Advisory Council, the Alaska Department of Environmental Conservation and the U.S. Coast Guard.

Upgraded towing, subsea pipe

"Determining whether additional towing resources are needed will require an in-depth analysis of current towing resources and whether a deep-draft vessel can self-arrest by anchoring in Lower Cook Inlet after losing propulsion or steering," the newsletter said. "The team will also research how often a tug of opportunity would be available to control a deep-draft vessel in Cook Inlet that has lost propulsion or steering."

Analysis of the subsea pipeline option will involve "determining to what extent a pipeline will reduce the risk of a spill from tank vessels now moving oil across the inlet, as well as the relative costs and benefits to build it," the newsletter said.

Cook Inlet Energy LLC, which has oil and gas properties on the inlet's west side, has said it is pursuing construction of a 29-mile subsea pipeline across the inlet. The company has cited an estimated cost of $50 million.

The benefit would be to reduce the risk of the current practice of tankering westside oil production across the inlet to the Tesoro refinery on the Kenai Peninsula.

The Cook Inlet RCAC has adopted a resolution in support of the subsea pipeline as the safest way to move oil.

Ice monitoring

The risk assessment team also is interested in understanding how well the vessel-tracking Automatic Identification System is working, and potential for using AIS to "deliver weather information directly to the bridge of a vessel."

Drifting ice is a major worry in the inlet, which also is known for its huge tidal range.

In recent years, the Cook Inlet RCAC has installed a network of cameras to help with ice forecasting.

"The risk assessment team will study how to best improve upon the ice monitoring procedures already established, including an understanding of how the current camera system is working from different perspectives," the newsletter said. "The study will also review the ice radar systems ... that may enhance how information about the nature and location of ice is developed and disseminated to mariners." ●

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FINANCE & ECONOMY

US court withdraws ruling in BP dispute

A federal appeals court reversed course Aug. 29 on its earlier ruling favoring BP in a multimillion-dollar insurance dispute, handing at least a temporary setback to the energy giant as it seeks to defray some of the enormous costs associated with the huge 2010 Gulf oil spill.

BP has argued that it is entitled to a portion of $750 million in coverage from a drilling contractor's insurance policies to help the London-based multinational help pay pollution-related costs following the explosion, fire and spill in the Gulf of Mexico.

BP leased the drilling rig that exploded from Transocean Ltd. and required by contract that the Swiss-based drilling company maintain minimum insurance coverage for BP's benefit. Transocean's policy with Ranger Insurance Ltd. provided at least $50 million in coverage, while its policies with several "excess liability" insurers added at least another $700 million in coverage.

On Aug. 29, a three-judge panel of the same New Orleans based appeals court said the outcome of the dispute isn't clear and it would seek answers from the Texas Supreme Court to two questions that could help the federal appeals court ultimately decide the case.

BP contends it is entitled to coverage under those Transocean policies as an "additional insured" party, but U.S. District Judge Carl Barbier rejected the company's interpretation of the policy language in a November 2010 ruling. Then the 5th U.S. Circuit Court of Appeals in New Orleans reversed Barbier's ruling on March 1 in a decision favoring BP.

To Texas Supreme Court

On Aug. 29, a three-judge panel of the same New Orleans based appeals court said the outcome of the dispute isn't clear and it would seek answers from the Texas Supreme Court to two questions that could help the federal appeals court ultimately decide the case. For now, Barbier's ruling against BP stands.

"We continue to believe that the 5th Circuit got it right in its previous unanimous opinion and think that result will be confirmed," BP spokesman Geoff Morrell said in a statement Aug. 29.

The explosion on the Deepwater Horizon triggered an explosion that killed 11 workers and left millions of gallons of oil spewing into the Gulf, a disaster that already has cost BP billions of dollars in cleanup expenses and other costs. The insurance dispute is one of several spill-related appeals to wind up in the 5th Circuit.

—ASSOCIATED PRESS

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COSTELLO Q&A

and capital projects, I always think to myself what we're doing with that money today we have to think about the kids who will be in school 10 years from now, 20 years from now or 50 years from now.

In the long term I do think it's better that we have a positive investment climate that's better for the long term than taking as much as we can from the industry today.

If you seriously look at what we've done with ACES, that's the giveaway. We are not incentivizing the results that we want. We are incentivizing the wrong thing; we need to be incentivizing production. With SB 21 we took away progressivity, which made it very difficult for companies to plan long term and we've tied the taxes to the price of oil. Now what we've done is say OK, we've incentivized production.

So going back to the question about the regs, sure there is going to be some difficulty there. To me that shows how complicated it is, but it's a far better challenge to face than the problem with ACES because we would have declining production at record high oil prices because everybody was benefitting except for Alaska. When you look at the constitution providing for Alaska's future, to me ACES had to go. In was not a good structure for Alaska. Another question I have is if you get rid of SB 21, what's the solution? I haven't heard a solution from the folks backing the referendum. At some point if it comes to the ballot, and it's resolved there, we have to continue the conversation and we still have to have what's in the best interest for Alaska's future.

Petroleum News: On to natural gas, you folks recently had a symposium, what were some of the takeaways for you?

Costello: I know the Legislature has had discussions about separating oil and gas tax. They are two different commodities. Oil and gas are very different in how you plan for those projects. I definitely came away with a sense of concern, which I've had for a long time, about the timing. We are sort of on the cusp of entering the market. These projects take a long time before they come to fruition.

I'm a huge believer in the market and the market helps drive some of the answers to our questions. That's why there is a lot of flexibility with the gas line Alaska will have in our future. We put into statute a lot of flexibility in terms of the size and the route and the export market. We are looking to AGDC (the Alaska Gasline Development Corp.) to do a lot of good work in terms of moving that gas line forward. We've received a lot of updates from (federal pipeline coordinator) Larry Persily about what's going on there. Work is being done, though we don't hear about it that often, but work is being done to move that project forward. Obviously the main purpose of that is to get affordable gas to Alaskans, and it would be nice to be a player in the Asian market, which is the fastest growing market in the world. It's a place where we should be marketing all of our resources. I think this is a conversation that will have many twists and turns before we come to a final pipeline project. Alaskans are hungry for a gas line. We want to do everything we can from a legislative perspective to facilitate a project moving forward.

Petroleum News: So with all that's happening, what have you learned the most about Alaska's resources in your three years in office?

Costello: Well, to sum it up, I think Alaska has tremendous opportunity and that's really great news. When we talk about our challenges, these are challenges of abundance. We have transportation issues and energy issues in getting our products to market. It's a matter of the Legislature working together and setting aside our differences. One thing that comes to mind are rare earth elements. I think that we need to make our permitting process more streamlined. I've worked on that with funding to DNR during the budget process. It's a more cumbersome, time consuming process. We need to speed that up. We need to adhere to any environmental concerns. We want to use the measures on the books to make sure things are done in a responsible manner. But it shouldn't take a decade for any project to get permitted that takes two years in the Lower 48. We're looking at transportation issues, the reliable cost of energy issues, and we're looking at permitting issues, all areas where government has a role. It's a matter of doing it in a responsible manner that helps Alaska.

Petroleum News: You speak of government having a role. There is an ongoing battle between Alaska and the federal government. Sometimes the battle is high profile with the state often accusing the feds of over reach. Do you see the federal government's role being too strong or is it the government's execution of that role too strong?

Costello: One of the questions I always ask myself is where do they derive their power, their authority to do X, Y or Z? When I see regulations put out there for public comment I ask where does the department get its authority to write these regs?

I backtrack it to does it come from the appropriate source of authority. The federal government has a role and the state has a role. Pebble is a prime example. It's on state land. Whether you like Pebble or not, you should be concerned about the role of the federal government.

The state should have the ability to run state land and manage state land, and the resources, themselves. When the federal government is stepping in without the authority to do so, we should be concerned. Sometimes the issues get lost, because if you're for a project or against a project, you will push whomever is on your side. States across the country are concerned about this. It's not a single administration.

Another example is regarding the RS2477 issues in Alaska, the historic trails. The federal government is requiring the state to litigate these issues one by one. These issues are resolved by going out and talking to people who use these trails. That generation of Alaskans is passing away. We are in this mad rush with this RS2477 issue. We have a rightful standing to have access. We will probably lose out because the federal government has dictated the terms of how we resolve that. You see this crop up over and over again. Federal overreach is something Alaska needs to be concerned about at all levels from the average Alaskan all the way to the governor's office. We have to be vigilant with this and it's costly too. When you look at all the departments and what they are spending in terms of working with the federal government, it's a huge price tag.

Petroleum News: Those are good examples of state versus the feds on state land. What about the battles on federal lands and waters that would benefit the state such as ANWR, NPR-A and offshore production? What can the state do to advance its case?

Costello: One of the things I've come to realize is that anytime an Alaskan can go Outside, go to D.C. and just talk to lawmakers there about the life that we live here, some of the challenges that we face in Alaska. A lot of it is a lack of education about Alaska — that we do want to develop our resources responsibly, but that we do rely on our natural resources to pay for government.

I know there is a federal revenue sharing bill and that both of our senators have introduced several pieces of legislation for revenue sharing of offshore production. Making an arrangement where other states benefit from Alaska's development also is a smart idea. A lot of the products that are used to develop resources in Alaska come from other

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MEA CONTRACT

the Cook Inlet basin. The utilities had been considering the import of gas in the form of liquefied natural gas as early as 2014-15 to bolster Cook Inlet supplies. However, gas producer, Hilcorp, a newcomer to the Cook Inlet and now the dominant gas producer in the region, has been re-invigorating oil and gas fields that it has purchased in the basin and has said that it can meet local utility gas needs through to the first quarter of 2018.

MEA, in particular, had been experiencing difficulty finding a source of gas for its new Eklutna plant. The plant is dual fuel, enabling the use of diesel or perhaps propane rather than gas to power its turbines. However, these alternative fuels would be expensive compared with gas.

Other Hilcorp contracts

In July Chugach Electric and Enstar Natural Gas Co., the main Southcentral gas utility, signed gas supply agreements with Hilcorp, ensuring that those utilities also have sufficient gas to meet their needs through to March 2018. Although these new gas supply contracts bring welcome relief to utilities facing something of a gas supply crisis, Petroleum News understands that the utilities, worried about the gas supply situation beyond early 2018, are still investigating the LNG import option for some gas supplies after the new Hilcorp contracts expire.

And RCA has yet to approve any of the new contracts.

The Alaska Department of Natural Resources, or DNR, has estimated that there may be enough gas remaining in the Cook Inlet basin to supply local utilities through to the late 2020s. However, the extent to which this gas would be developed when required depends on the economic viability of gas development, the rate of drilling of gas wells and the vagaries of finding some gas which is not at this point definitively known to exist in the basin. In 2011 DNR published a report saying that, based on operational fields and known prospects at the time, it appeared economically feasible to meet the utilities' gas needs to 2018, and possibly through to 2021.

And locally produced Cook Inlet gas would presumably be cheaper than gas imported as LNG or gas delivered at some time in the future by pipeline from the North Slope.

Contracted volumes

MEA's new contract with Hilcorp allows for a modest volume of gas supplied in late 2014, for use during power plant commissioning; a total volume of 2,018 million cubic feet in the first quarter of 2015; and then annual volumes ranging from 7,331 million to 7,596 million in subsequent contract years. Based on these numbers, the contract specifies average daily supplies — routine "base load" supplies — ranging from 19.9 million cubic feet per day at the beginning of 2015 to 20.9 million cubic feet per day in the last year of the contract. The contract specifies a schedule of monthly gas deliveries, based the average daily rates but allowing for some variability in gas demand from one month to another. Volumes of gas delivered during a month in excess of the volume specified in the monthly schedule will be considered "swing gas," gas needed to meet especially high power demand, the contract says.

The contract also contains provisions for the possible supply of short-term "emergency gas," to support any extraordinary, unanticipated power demand.

Pricing

The price of base gas supplied under the contract would range from $6.18 per thousand cubic feet in 2014 to $8.03 per thousand cubic feet in 2018, with higher prices applying to swing and emergency gas. The prices through 2017 match gas price caps specified under a consent decree agreed between Hilcorp and the State of Alaska to address anti-trust concerns following Hilcorp's takeover of both Chevron's and Marathon Oil's Cook Inlet gas fields.

In a letter to RCA accompanying the new contract Joe Griffith, general manager of MEA, said that after 30 months of searching for a gas supplier for the Eklutna power plant, MEA had determined that no other Cook Inlet gas producer could offer the reliability of supply and deliverability that Hilcorp could muster.

"There are other producers of gas in Cook Inlet, but none compares to Hilcorp in terms of the number of producing wells or total reserves, and Hilcorp is making substantial investments to increase its established reserves," Griffith wrote, adding that only Hilcorp has significant gas reserves on the west side of the Cook Inlet, available for delivery to MEA through the pipeline system on that side of the inlet.

Some of the smaller Cook Inlet gas producers have raised concerns about Enstar's new gas supply agreement with Hilcorp — the producers have told RCA that they worry that Hilcorp may lock the smaller producers out of the utility gas market. ●

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COSTELLO Q&A

states.

We are not an island. We do rely on a relationship — a productive relationship — with other states. We've got to keep an eye on that, the job creation, the economy. If we develop some of these projects responsibly, it benefits them.

Petroleum News: Still on the Arctic, what would you like to see for the state and an Arctic policy?

Costello: Alaska needs a seat at the table. From what my conversations with others legislators in Alaska and our congressional delegation, we've got to have a voice at the table. The Arctic holds tremendous opportunities and challenges. I remember I was asked a question during a debate on global warming — well the warming of the Arctic is going change so much about Alaska. It's going to change shipping routes and access to those communities. It will provide opportunities but also challenges with changes to weather patterns those communities are used to. When we write an Arctic policy plan, it has to be comprehensive and inclusive of all Alaskans because certainly it will affect all of us. ●

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Petroleum news

Oil Patch Bits

URS welcomes Moss as its environmental planner

URS said Aug. 22 that Katrina Moss recently joined its team as an environmental planner with 20 years of experience in planning and impact analysis on a variety of infrastructure projects throughout Alaska. Her technical expertise includes public involvement and participation, transportation planning, and national environmental policy act environmental impact statements and assessments. Moss is experienced in environmental, aviation, capital improvement, and transportation planning; permitting; regulatory compliance; and agency coordination. She has managed transportation planning projects throughout Alaska for both the Federal Aviation Administration and Alaska Department of Transportation and Public Facilities.

KATRINA MOSS

Crowley's Artiga and Harrison presented with honor

Crowley Maritime Corp.'s Micki Harrison, director, human resources, and Miguel Artiga, vice president, logistics, Central America, were presented with 2012 Thomas Crowley awards, the company's highest honor, at a ceremony at the company's Jacksonville, Fla., headquarters.

The exclusive employee recognition program was created in 1985 and only 56 of the company's more than 5,300 employees have received the award symbolized by a limited edition bronze sculpture, which depicts company founder Thomas Crowley ferrying goods to and from ships on San Francisco Bay in the early 1890s. The trophy serves not only as a tribute to the founder of the company, but also to those honorees who have aligned themselves closely with the company's values displaying outstanding performance, dedication, leadership and initiative.

COURTESY CROWLEY

Crowley's Chairman, President and CEO Tom Crowley Jr., the grandson of the company's founder, presented the awards before more than 200 employees and senior leaders who had gathered from around the world for the event. Included in the audience were eight past recipients of the coveted award.

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TARIFF CHALLENGE

oils which are commingled for transportation. The quality bank collects monies from shippers receiving higher quality crude than they ship and uses the funds to compensate shippers receiving lower value crude oil than they ship. The quality bank formula "calculates the relative value of each crude oil stream transported over TAPS by determining the value of the various petroleum products that can be distilled and processed from the stream," the complaint said.

The Flint Hills North Pole Refinery processes crude oil from the North Slope, extracting "middle distillate products" and returns the remaining oil to the pipeline. The company said it pays in accordance with quality bank methodology "for any diminution in value between the crude oil stream" it receives at the refinery "as compared to the value of the return oil redelivered to TAPS."

Available benchmarks

Flint Hills said there are benchmarks which can be used to test whether the quality bank formula "accurately calculates the relative differences in value of the various ANS crude oils." Data published by Platts includes the market values of Alaska North Slope crude, ANS coking yields and ANS cracking yields.

"In addition," the complaint said, "the 'floor' value of Resid, a cut remaining after distillation of the lighter products, can be determined by calculating its value when blended with ANS light distillate and sold as FO-380, a type of bunker fuel oil."

Flint Hills said comparison of benchmarks with quality bank results indicates the existing formula worked from the Nov. 1, 2005, effective date of FERC Opinion No. 481 through December 2008, with the formula consistently calculating "a total value of the products derived from the ANS common stream at Valdez that exceeded the Platts assessed market value of ANS crude, as would be expected."

During that same period, the quality bank "formula consistently valued Resid higher than its value as a blended component of FO-380, a relationship consistent with a prior finding that the predominant and more valuable use of Resid is as a coker feedstock rather than as a blender," Flint Hills said.

But beginning in January 2009, the quality bank formula "started to calculate a total value of products distilled and processed from ANS crude that was below Platts assessed market price for ANS crude," the company said in the complaint.

Flint Hills said the evidence shows that the quality bank formula's "uneconomic and contradictory results are attributable to its undervaluation of Resid," which starting in 2009 was valued by the formula at below the market-based value of Resid as a blending agent for FO-380. The company told RCA that conclusion was "inconsistent with the prior finding that the value of Resid as a coker feedstock generally is higher than its value as a blender in FO-380."

Flint Hills cited Platts' data as showing that "throughout the entire 2005-2013 period, the market has generally placed a higher value on Resid as a coker feedstock than as a blended component of FO-380."

What changed?

Flint Hills said two changed circumstances are not recognized in the existing quality bank formula, causing it to understate the value of Resid.

First, consumer demand for motor gasoline has declined and lighter crude oils have been more available, which, combined with more stringent environmental laws, "reduced the demand for coking capacity and the value of West Coast refinery assets."

"Second, the liquid product yields from coking assumed in the existing QB formula are below the yields of an updated coker operating under design conditions."

Because those changed circumstances have not been incorporated into the Resid calculation, the existing formula is producing "unjust and unreasonable results as to the relative value of Resid," Flint Hills said.

The company said in its complaint that it wants to see the way the formula calculates the value of Resid changed to reflect coker yields from updated cokers "operating under design conditions" and by reducing the gross value of coker liquid yields only by variable costs, not by fixed capital and operating costs.

Quality bank dates from 1984

Flint Hills said the quality bank was approved by FERC and RCA in 1984 "after years to litigation, to compensate shippers experiencing a diminution in the value of crude oil."

The quality bank initially used a gravity-based methodology, which assumed lighter ANS crude streams are more valuable than heavier streams, but that methodology was challenged in 1989 after a facility was constructed to process substantial amounts of natural gas liquids. While NGLs had a low gravity, those objecting to the gravity measurement said NGLs did not have value comparable to crude oil with a similar low specific gravity.

A FERC presiding judge "concluded that the gravity method for valuing crude oil did not assign an accurate value for NGLs and no longer yielded just and reasonable results," but before a final decision was issued the parties settled and the 1993 settlement replaced the gravity method with a distillation method.

The distillation method separates ANS

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OIL PATCH BITS

"This award is very meaningful for me because of the gratitude and appreciation I have for my father, my grandfather and all the employees who have pulled together to make this such a special company," said an emotional Crowley. "Our two recipients this year are people who live the culture and values and do everything they can to make the company better."

CH2M HILL's announces Bailey to lead in Alaska

CH2M HILL, a global full-service consulting, design, construction and operations firm, announced that Terry Bailey has been named senior vice president of CH2M HILL Alaska, effective Sept. 1. Bailey succeeds Mark Lasswell, who will become the program executive over other business pursuits for CH2M HILL.


TERRY BAILEY

Since joining CH2M HILL in 1994, Bailey has held a variety of executive level positions in engineering, construction and operations and maintenance in Alaska and recently served as regional vice president. With over 30 years' experience, 23 years of that in Alaska, he brings a thorough understanding of the oil and gas business and the unique demands and needs of the Alaskan market.

"Our Alaska operations are critical to CH2M HILL," Berra said. "And we are proud of the rich and successful history we have in the state. Terry is the right leader to direct us on this continued path of success."

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.

Changes in the market

In its complaint to the Regulatory Commission of Alaska, Flint Hills Alaska Resources said two things have changed to make elements in the quality bank formula undervalue Resid.

Results of the existing formula are "unjust and unreasonable because the market no longer allows refineries to recover the costs found in the existing QB Resid processing cost adjustment," an adjustment based on fully allocated replacement costs. Flint Hills said refineries can now only recover marginal operating costs of coker processing, not capital costs.

Coking capacity has little value in the current market, the company said, because changes in the global refining market mean there is excess coking capacity, so refiners cannot recover the full fixed costs of coking, including return on and replacement cost of new coking facilities, "as assumed in the existing QB formula."

"The West Coast, in particular, has been subjected to similar conditions which have resulted in excess coker capacity, cancelled coker projects and depressed valuations of refining assets sold in the market," Flint Hills said.

An economist's view

In prepared testimony, Phillip Verger Jr., an economist testifying on behalf of Flint Hills, said changing economic circumstances since the quality bank formula was approved "have undermined the assumptions underlying the QB Formula's valuation of Resid."

The economic downturn which began in 2007 "caused a significant decline in the expected consumption of gasoline in the U.S. and particularly in the Pacific Region (California, Oregon, Washington, Alaska and Hawaii) where ANS crude is processed," Verger said in his testimony. He compared an estimate by the U.S. Department of Energy's Energy Information Agency in 2005 that gasoline use in 2025 in the Pacific region would be some 2 million barrels a day, up 45 percent from 2004 levels, with an actual decline from 1.35 million barrels a day in 2004 to 1.3 million bpd in 2010, "exacerbated by the almost doubling of oil prices between August 2007 and June 2008."

Verger said EIA's April 2013 annual forecast projects a continuing decline in consumption, from 1.26 million bpd of gasoline in 2012 to 1.1 million bpd in 2025 in the Pacific region, some 45 percent lower than the forecast from 2005.

He said the decline in projected gasoline consumption "means that some of the refinery capacity that existed in 2004, including coking capacity, will increasingly become superfluous."

Coking "adds value by converting Resid into higher-value products," Verger said, and "the fundamental change in the economic outlook has undercut the assumptions relief upon in the QB Formula's valuation of Resid," which assumed that it would be profitable for refiners to build new coking capacity.

He also said the formula "should reflect product yields that can be achieved by updated coking capacity operated under design conditions."

—KRISTEN NELSON

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TARIFF CHALLENGE

crude for valuation purposes into a number of components, or cuts, with proxy market values assigned to each cut and each shipper's oil "valued in accordance with the volume-weighted values of its component cuts," the complaint said.

Flint Hills said market values can relatively easily be determined for the five lightest cuts — propane, isobutene, normal butane, natural and gasoline. Valuation for distillate and Resid has been contested and litigated.

Flint Hills' complaint

Flint Hills said the quality bank uses proxies for market values of each cut in the crude streams carried by the trans-Alaska oil pipeline, and argues: "New evidence demonstrates that the existing QB formula fails to calculate accurately the relative difference in the market values of the varying qualities of crude oil tendered in TAPS for transportation in a common stream."

While there are benchmarks which can be used to evaluate the accuracy of the quality bank formula, Flint Hills said none of the available benchmarks "is perfectly comparable with the valuation by the QB formula."

From 2005 through 2008 the formula calculated a total value of product from ANS crude oil exceeding the Platts assessed value for ANS crude, but from January 2009 through May 2013, the quality bank formula showed an average of $1 negative difference between the products and ANS crude — the value of the crude was greater than the sum of the products.

Flint Hills said that result "suggests the QB formula no longer reflects actual market conditions."

The company said the quality bank formula could be undervaluing each product, but said "results since 2009 demonstrate that not all cuts are being equally undervalued. Rather, the undervaluation of ANS crude is attributable to the QB formula's undervaluation of Resid," a value which must be inferred because Resid has to be blended to produce residual fuel oil. ●

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MAC LINE WARNING

North America overpowered a C$16 billion project that was already faced with shaky economics.

"By the time (the regulatory phase was completed), the opportunity had passed, (resulting in) an irretrievable loss for an entire generation," he said.

Pivotal moment

Oliver warned that Canada is now faced with a "pivotal moment when we decide whether to take advantage of an enormous opportunity to supply burgeoning (oil and LNG) markets in the Asia-Pacific region and elsewhere, or let it pass us by."

At stake are C$650 billion in resource projects over the next decade that could create 1.8 million jobs and boost the Canadian economy by 18 percent, while exports of oil, gas and minerals could feed C$30 billion a year into government coffers, he said.

"It is a strategic imperative to diversify our export markets, since virtually all of Canada's oil and gas exports go to the United States, whose recent discoveries mean it will need Canadian resources less in the future," Oliver said.

"A pre-condition of diversification is the construction of infrastructure to bring those resources to tidewater."

He said Canada is well positioned to play a role in meeting the expected 35 percent increase in global energy demand from 2010 to 2035.

Oliver said the Canadian government is also putting in place building blocks to meet the legitimate concerns of Canadians over the environmental impact and the safety risks of advancing export projects and ensure that projects go ahead with a "social license."

Pipelines in holding pattern

The worry for governments and industry is that a host of oil sands and conventional crude pipelines out of Western Canada are in a holding pattern.

He made special mention of the push by Enbridge (through its Line 9 reversal) and TransCanada (through its Energy East project) to deliver crude from Western Canada to refineries in Ontario, Quebec and Atlantic Canada.

"These are important initiatives that, subject to regulatory approval, would enhance Canadian energy independence, create jobs and reach international markets," Oliver said.

Oliver warned that Canada is now faced with a "pivotal moment when we decide whether to take advantage of an enormous opportunity to supply burgeoning (oil and LNG) markets in the Asia-Pacific region and elsewhere, or let it pass us by."

"At the same time, we are hearing objections from those who see resource development and responsible environmental stewardship as an either/or zero-sum game," he said.

"Let me be clear, I am not talking about the many Canadians, including our aboriginal peoples, who have legitimate concerns about environmental safety and are open to fact- and science-based discussions.

"My objection is to those who oppose virtually every form of resource development, whose opinions are not based on facts and whose vision is simply too limited."

He said Canada has a chance to turn its opportunities into "decades of prosperity."

Glimmer of hope

A glimmer of hope for his position came from an unlikely source, when Quebec Premier Pauline Marois defended Enbridge's Line 9 plan which would serve refineries in her province.

For the first time, she echoed one of the strongest arguments in support of Line 9 and Energy East, saying the Enbridge project "would supply our refineries at a better price that what we pay for oil from Algeria, northern Europe and other places."

Marois said Quebec is about to start a formal examination of Line 9, which currently delivers imported Middle Eastern and African crude from Montreal to a refinery at Sarnia, Ontario, and determine whether the project is in the interest of Quebecers or too big of a risk.

She insisted her government caucus is solidly behind the proposal despite intense opposition from environmentalists, who are determined to block shipments of crude from the Alberta oil sands.

Marois has also agreed to weigh the benefits and environmental risks of piping Alberta crude by the Energy East pipeline across Quebec to Atlantic Canada. ●

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BUCCANEER ACREAGE

BlueCrest Energy LP holds the remaining 75 percent.

When Pioneer Natural Resources Alaska Inc. terminated the former Cosmopolitan unit in early 2011, it kept ADL 384403 and ADL 18790 — two leases with wells certified as capable of producing in paying quantities — but relinquished all its remaining acreage.

With the relinquished acreage containing a known an oil resource, the state placed special terms on those three tracts in a June 2011 lease sale. The terms required the operator to submit a plan of exploration for the tracts within six months of getting the leases, and also to commit to drill and complete at least one well by the fourth year of the leases.

Only Apache bid, putting down $70 an acre for the block, or a total of $613,690. The state issued the leases effective September 2011, but Apache never drilled any wells.

Buccaneer and BlueCrest acquired the two un-relinquished Cosmopolitan leases from Pioneer in 2012 and earlier this year drilled the Cosmopolitan No. 1 well at the prospect.

BUCCANEER ENERGY

The Endeavour jack-up rig

Announcing the acquisition, Buccaneer said it "believes that the leases have the potential to contain new reserves associated with the Cosmopolitan geological structure."

Endeavour to Southern Cross

The Endeavour jack-up rig that Buccaneer used to drill Cosmopolitan No. 1 recently arrived at the Buccaneer-operated Southern Cross unit, the company announced Sept. 3.

The rig operator has jacked-down Endeavour's legs and completed preloading operations, including driving conductor pipe, according to Buccaneer. The company must now finish installing its well control equipment and successfully test the equipment before Alaska Oil and Gas Conservation Commission personnel before it can start drilling the well.

Buccaneer is a 100 percent working owner in Southern Cross, but recently executed a farm-out agreement with Los Angeles-based EOS-Petro Inc. The deal allows EOS to earn a 50 percent working interest in the unit by paying for the first two wells there.

—ERIC LIDJI

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JEWELL VISIT

of Alaska and the people of Alaska want to ensure that any development of offshore or onshore resources is done in a safe and responsible way," Jewell said.

New regulations

The Bureau of Safety and Environment Enforcement, a division of the Interior Department, has previously said that it is in the process of developing new regulations for offshore oil and gas development on the Arctic outer continental shelf, with a draft version of these regulations likely to be published for public review towards the end of this year.

Jewell said that this release of these "baseline standards" would give companies an opportunity to determine if they want to conduct any offshore operations in the summer of 2014. It will be up to the companies to determine whether they are ready to move ahead and whether they can meet those standards, she said.

"I have not heard from any companies an urgency to go forward until they're ready and they're confident they can do it in a safe and responsible way," Jewell said. Jewell also commented that Interior encourages companies involved in Arctic oil and gas exploration and development to work collaboratively, to reduce the cost of required safety measures and to achieve a higher level of safety for all companies.

Results from oil and gas lease sales have demonstrated a tremendous interest in the Arctic by oil companies, with that interest driven by the region's tremendous oil and gas potential, Jewell said. But it is up to the companies to determine what development make best sense for them — the companies will prioritize their investments according to where they can achieve their highest returns, she said.

Understanding of Alaska

Jewell said that during a previous career as a banker she had conducted business in Alaska over many years and that she understands many of the issues impacting the state.

"From small villages like I was in yesterday, in Kaktovik, to Anchorage and Juneau, this is a state of extremes in many, many dimensions," she said.

Jewell said that during her current visit to Alaska she had met with oil and gas industry leaders and with people from Native communities. People in Barrow, the town at the extreme northwestern end of the North Slope, had commented to her about issues that they are facing relating to oil and gas development and about their concerns about subsistence hunting. Barrow residents also commented on the importance of oil and gas development to their community she said.

ANWR

Asked about the environmental impact statement, or EIS, that the U.S. Fish and Wildlife Service is preparing for a new management plan for the Arctic National Wildlife Refuge, Jewell said that Fish and Wildlife is still assessing the hundreds of thousands of comments that the agency received on the draft version of the EIS. One alternative documented in that draft would involve the designation of the coastal plain of the refuge as a wilderness area. Jewell commented that any change of land designation in the refuge would require approval by the U.S. Congress. With the existing plan being 20 years old, a new plan will provide a path forward for managing the refuge in the future, Jewell said.

USGS projects

During the press conference Jewell particularly emphasized two U.S. Geological Survey projects: the publication by the survey of a new series of topographic maps of Alaska; and the Alaska Climate Science Center, a collaboration between the survey and the University of Alaska Fairbanks.

The new topographic maps supersede the existing 50-year-old maps of the state, significantly increasing the map scale and using new technology to dramatically increase the amount of detail on the maps, Jewell said. This is a great illustration of how federal agencies can work alongside the state in a "very, very important initiative for Alaska," she said.

According to a news release from the U.S. Geological Survey more than 400 new Alaska maps are now available from the survey's website at nationalmap.gov. Eventually the survey will publish more than 11,000 new maps covering the entire state, the survey says. The on-line maps incorporate multiple layers, including satellite imagery, roads, important buildings and significant boundaries, with the ability to turn individual layers on and off, the survey says.

Climate Science Center

The Alaska Climate Science Center, the first of eight such centers being established across the country as part of President Obama's climate action plan, involves collaborative work by scientists from a variety of federal, state and academic institutions to understand what is really happening on the ground in terms of climate change, Jewell said. In Alaska, climate change is impacting Native subsistence activities, transportation and resource development. She said that she had observed at first hand the climate-change-induced coastal erosion near Teshekpuk Lake on the North Slope and that residents of Kaktovik, the village on the coast of the Arctic National Wildlife Refuge, told her about their concerns about changes in the caribou herd and in the polar bear population.

Jewell also commented that the U.S. Geological Survey has been using some legacy oil wells on the North Slope to monitor temperature changes in the permafrost.

"The more I get on the ground in Department of Interior lands, the more I see the impact of climate change on our resources and the more I understand the role that we play in mitigating those impacts, (and) the importance of the president's climate action plan," Jewell said.

—ALAN BAILEY

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