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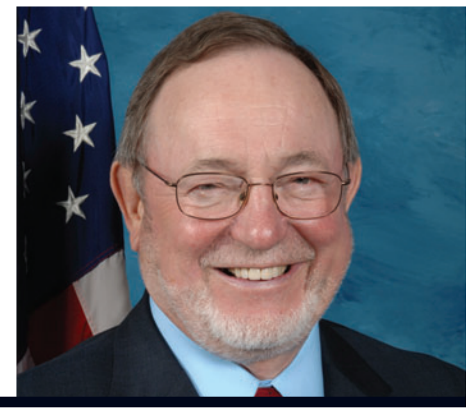
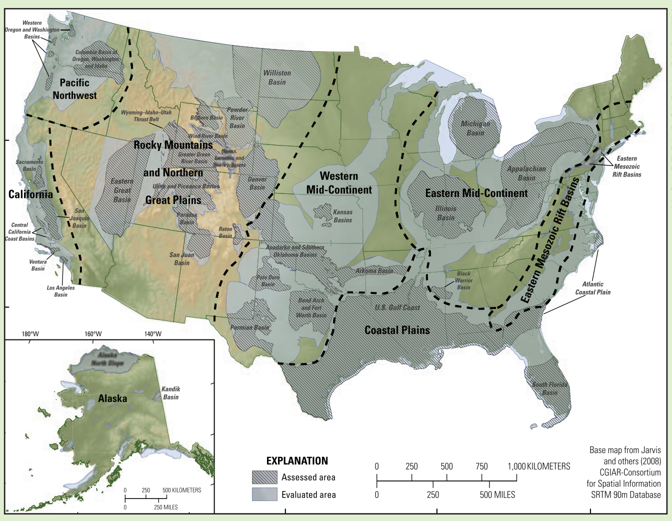


page 4 Q&A: Young pushing OCS Alaska as last U.S. source of elephants

Sequestration potential



U.S. GEOLOGICAL SURVEY

The U.S. Geological Survey has done an assessment of U.S. carbon dioxide sequestration potential. See story on page 12.

CIE appeals Otter unit denial, questions state's 'new policy'

Cook Inlet Energy LLC is appealing the state's recent rejection of its Otter unit application, arguing the decision goes against past practice and "undermines" the governor's efforts to spur oil and gas development.

The June 13 appeal was filed on the letterhead of law firm Crowell & Moring.

Otter is a natural gas prospect on the west side of Cook Inlet.

Cook Inlet Energy had applied to form a 5,855-acre unit out of portions of four state oil and gas leases.

Creating the unit holds some urgency for the company, as two of the leases could soon expire. Unitization has the effect of extending lease terms.

On May 23, however, state Oil and Gas Director Bill Barron denied the Otter unit application. He found, among other things, that unitizing the acreage wasn't necessary, and that Cook Inlet Energy had yet to prove a viable reservoir for development.

see **UNIT APPEAL** *page 20*

LNG importer waves warning flag; Tepco warns BC against export tax

Japan's largest importer of LNG has delivered a sharp jolt to the British Columbia government: Drop the idea of a tax on gas exports or put its LNG dreams in danger.

Tepco, Tokyo Electric Power Co., also prodded the government to resolve the concerns raised by First Nations about the construction of pipelines from northeastern British Columbia gas fields to coastal liquefaction terminals.

A company spokeswoman said uncertainty hanging over the LNG projects, including taxation on Greenfield operations, could slow or stop plans.

Tepco also said that First Nations issues could have a "material adverse effect on pipeline construction."

The industry has already voiced its deep opposition to any moves by the province to impose taxes and levies to raise an estimated C$30 billion over 30 years in incremental revenues.

Gas reserves a positive

However, Tepco sweetened the mix by suggesting British Columbia is poised to grab a large piece of global LNG markets because of its "substantial gas reserves and its good geographical position to export LNG to Asian countries."

Perhaps overriding those concerns is the pressure from poten-

see **TEPCO WARNING** *page 19*

FINANCE & ECONOMY

A house divided?

Buccaneer shareholders oust two directors and appoint three replacements

By ERIC LIDJI
For Petroleum News

The shareholders of Buccaneer Energy Ltd. split the difference on July 2, re-electing two of the four existing directors of the company and adding three new directors to the board.

CEO Curtis Burton retained his seat on the board of the company he founded, as did Finance Director Dean Gallegos, but shareholders voted to remove Chairman Alan Broome and Director Frank Culberson from the board of the Australian independent.

The shareholders also appointed Nicholas Davies, Clinton Adams and Shaun Scott, who had been nominated by the two Hong Kong-based shareholders who called the meeting.

> *"Regardless of who owns the company, all of Buccaneer's obligations to AIDEA, including their commitment to drill four wells in Cook Inlet, are clearly and contractually defined, and must be fulfilled. In short, even if Buccaneer ownership changes, AIDEA's interests are protected."* **—AIDEA spokesman Karsten Rodvik**

Also on July 2, Buccaneer appointed Brian Moller to be a non-executive director and Gallegos to become its new chairman of the board, both

see **DIRECTOR SHAKEUP** *page 18*

FINANCE & ECONOMY

Feds countersue Furie

Customs agency seeks to collect $15 million civil penalty for Jones Act violation

By WESLEY LOY
For Petroleum News

The federal government has filed a counterclaim against Furie Operating Alaska LLC seeking collection of a previously imposed $15 million civil penalty against the company.

The counterclaim arises in a lawsuit Furie brought in 2012 to try to defeat the penalty, which customs officials assessed for a violation of the shipping law known as the Jones Act.

The counterclaim escalates the standoff between Furie and the U.S. Department of Homeland Security. The department says Furie in 2011 unlawfully used a foreign ship to transport a jack-up drilling rig part of the way from Texas to Alaska's Cook Inlet.

> *The penalty was based on a Jones Act provision that says the CBP may recover an amount equal to the value of merchandise unlawfully transported.*

Department officials say Furie completed the transport for "commercial expediency," knowing it lacked a waiver of the Jones Act provision requiring the use of only American-owned ships for transport of merchandise between U.S. ports.

Penalty based on rig's value

The Spartan 151 rig arrived in Cook Inlet on

see **COUNTERSUIT** *page 15*

ENVIRONMENT & SAFETY

Skimmers tested in ice

Test tank simulates Arctic broken sea ice conditions for recovering spilled oil

By ALAN BAILEY
Petroleum News

With questions over the practicalities of responding to an oil spill in ice-laden waters at the forefront of a contentious debate over the merits or otherwise of Arctic offshore oil exploration and development, there is a pressing need to test equipment that might be used in the event of an Arctic marine oil spill incident. However, since the deliberate spilling of oil into the ocean for testing purposes is banned in the United States, the only U.S. option for testing spill response equipment is the use of simulated conditions in test tanks.

Between mid-February and mid-March the Bureau of Safety and Environmental Enforcement scheduled an "ice month" in its Ohmsett testing facility in New Jersey, to give the U.S. Navy, the U.S. Coast Guard and spill response organizations an opportunity to test equipment designated for the

> *"Over the past two and a half years since the Deepwater Horizon spill response, the Coast Guard has been focusing on evaluating the need for and developing an Arctic oil-spill capability for skimming oil in ice."* **—Mike Crickard, logistics management specialist, USCG National Strike Force Coordination Center**

see **SKIMMER ICE TESTING** *page 20*

contents

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

Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of July 3, 2013. Active drilling companies only listed.

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

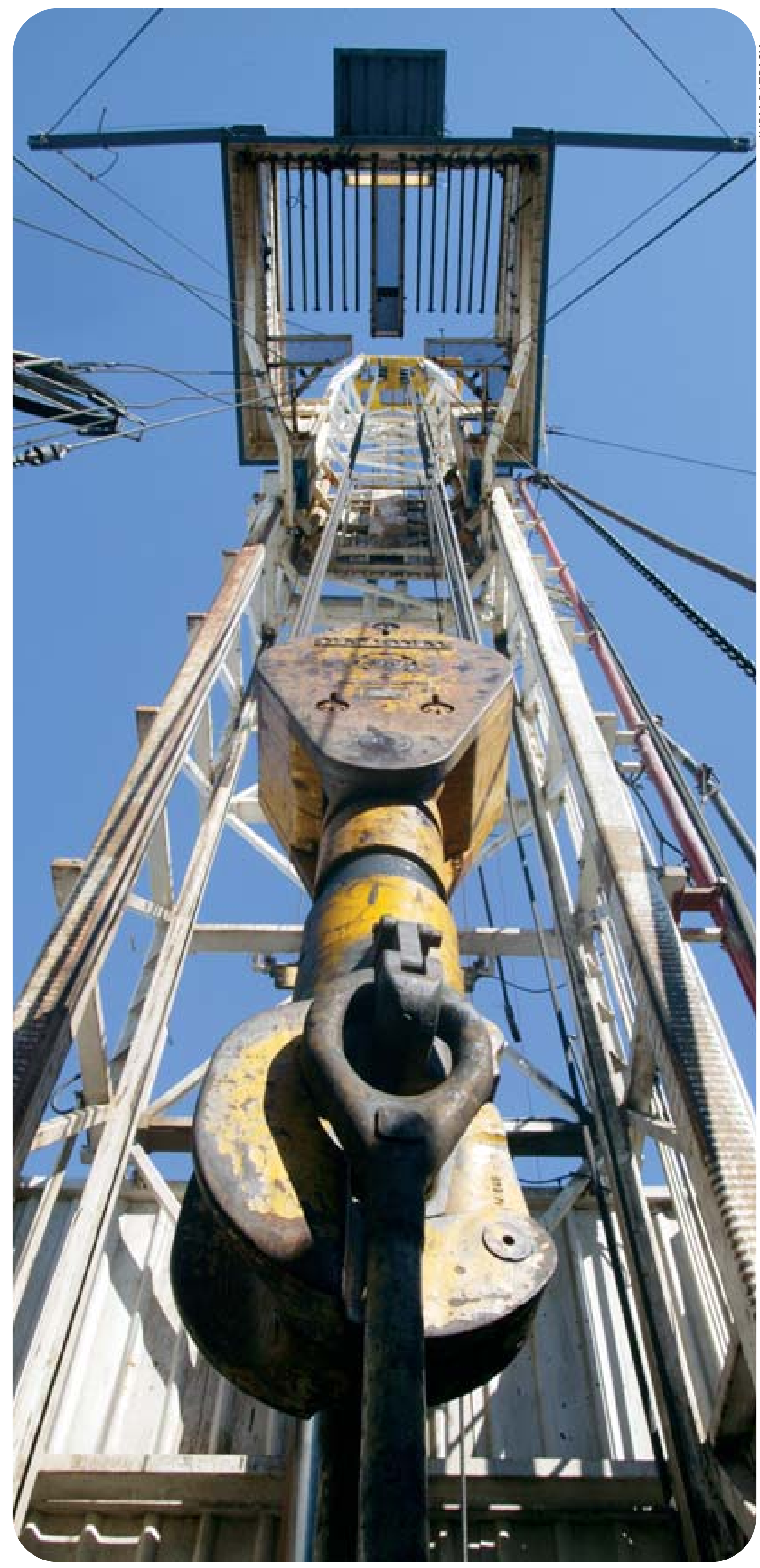
This rig report was prepared by Marti Reeve

Alaska Rig Status

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
North Slope - Onshore			
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay DS 2-38 L1, workover	BP
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay S-101i, workover	BP
Dreco D2000 Uebd	19 (SCR/TD)	Alpine CD1-49	ConocoPhillips
AC Mobile	25	Prudhoe Bay P-16	BP
OIME 2000	141 (SCR/TD)	Kuparuk 2X-06	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 F-01B	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Well Drill Site Y-33A	BP
Ideco 900	3 (SCR/TD)	Kuparuk Well 30-04	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			
BP			
Top Drive, supersized	Liberty rig	Inactive	BP
Doyon Drilling			
Sky top Brewster NE-12	15 (SCR/TD)	Spy Island SP 36-W5	ENI
Nabors Alaska Drilling			
OIME 1000	19AC (AC-TD)	Oooguruk ODSN-02	Pioneer Natural Resources
Interior Alaska			
Nabors Alaska Drilling			
Academy AC electric CANRIG	105AC (AC-TD)	Nenana Basin	Doyon Ltd.
Cook Inlet Basin – Onshore			
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	Plans to spud NCU 14 for Aurora Gas this week	Aurora Gas
Doyon Drilling			
TSM 7000	Arctic Fox #1	North Kenai, stacked	Available
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			
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-13 workover	Hilcorp Alaska LLC

Mackenzie Rig Status

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Canadian Beaufort Sea			
SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available
Central Mackenzie Valley			
Akita			
TSM-7000	37	Racked in Norman Well, NT	Available



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	June 28	June 21	Year Ago
US	1,748	1,759	1,959
Canada	206	197	261
Gulf	54	52	45

Highest/Lowest

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

*Issued by Baker Hughes since 1944

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● GOVERNMENT

Don Young continues fighting for Alaska

State's lone congressman working ANWR, NPR-A, shared federal offshore oil and gas revenue for the state, need for Arctic policy

By STEVE QUINN
For Petroleum News

Congressman Don Young enjoys a good fight. Always has.

He's been in office since 1973 — or in oil parlance about 16.7 billion barrels of North Slope oil ago.

He won't let up in his push to develop the Arctic National Wildlife Refuge 1002 Area; and he continues to stress that the "P" in NPR-A stands for Petroleum, not Parks.


Rep. Don Young, R-Alaska

He serves on the House's Committee on Natural Resources, chaired by Rep. Doc Hastings of Pasco, Wash.

The House recently passed Hastings' H.R. 2231, the Offshore Energy and Jobs Act, which requires the Obama administration to create a new five-year plan for offshore energy resources.

It also means Alaska would be entitled to 37.5 percent of revenue generated from offshore development in federal waters.

The effort in the last Congress failed, but this bill passed because of more bipartisan support, Young said.

Young spoke with Petroleum News to discuss his concerns about the country's lack of Arctic policy and strategy, and how it affects Alaska.

Q AND A

Petroleum News: What is your vision for an Arctic strategy?

Young: Arctic strategy of course is to reopen NPR-A and drill where the oil companies want to drill. The idea that the agency (Department of Interior) can decide which is best and which is not best for the development of oil is wrong. You take that with ANWR, you could probably put into the pipeline with what I call surface development of fossil fuels probably 2 million barrels of oil for the next 35 years or 40 years. That would be my arctic policy. The second part of my policy is the offshore drilling. Right now I've got Shell people here talking about what their timeframe is. We need to develop the offshore aspect of the Arctic, too, because conventional oil is huge, maybe not as large as the Gulf of Mexico, but very nearly as large. We just haven't been able to do anything because the policy of this administration is delay until the lawsuits occur.

Petroleum News: With all of these new fields emerging in the Lower 48, do you think Alaska is being put on the back-burner?

Young: Here's the challenge: There are no elephants in the Lower 48. That last elephants are going to be offshore in Alaska, offshore in California, maybe offshore in Virginia and Florida. Ours is probably the largest. The biggest onshore, of course, is definitely in Alaska. It depends on whether you want to put that much of an effort into capital expenditure. This is a longer-term period of time. If you look at the reserves where we have the abundance, primarily natural gas, in reality, it can run out pretty rapidly. The vast quantities are not there, so you're looking 20 to 25 years down the road, well that oil and that gas we're finding down there, it won't be available anymore. That's why I think the long-term, the oil companies look upon Alaska for the elephant fields, the big fields. That's what I think is going to happen with the Arctic.

Petroleum News: Let's stay on shore in the Arctic and shift to ANWR. This has been a long standing fight. Why has this been so difficult?

Young: Gas was cheaper. The first time we passed this, gas was 90 cents a gallon. The panic wasn't there. We are still at the mercy of imported fossil fuels.We probably won't lower the cost of gasoline now, but it won't rise again. It's based on the world market of Brent oil and West Texas Intermediate. You're not going to find people selling oil any cheaper or any less value. If it's $97 a barrel, it's going to stay at $97 a barrel, regardless of how much oil we find. We won't have the pressure or spikes occurring when they decide to decrease production and we're caught with our pants down again. That's the reason I want to get more independent, so we are not jolted by these peaks and valleys of fossil fuels. I think the oil companies see that. We'll see what happens.

Petroleum News: In the past you've also used workforce development or jobs as an argument for developing ANWR.

Young: I don't know all the figures, but it's a huge amount of jobs, but the total aspects of the jobs, the support facilities and the jobs that we create by lowering the costs of energy. We talk about a financial crisis in this country. We could have dropped the price of gasoline $1 a gallon. Think about the tax break that would be to every American citizen and how much more buying power. I listened to (President Obama) at the White House talking about his new policy and climate change. I think that is the greatest attack upon employment that I've ever seen. It's about leaving people out of work. He's got a war on coal. It's not new war. This has been going on for a long time. Remember the acid rains and all that. We have to look at the potential Btu that comes from coal. Don't put it off limits. They put over $100 billion in clean coal technology in the last 10 years. Think about that for a while. You say, what's that got to do with oil? It's got a great deal to do with oil. It's the same molecule as oil. I listen to these pie-in-the sky, we don't care about employment, we've got to save the world

see **YOUNG Q&A** page 17

● EXPLORATION & PRODUCTION

June ANS production down 7% from May

Cook Inlet production for May up 5.4% from April, led by 158% increase at Hilcorp's Trading Bay, 48% at Hilcorp's Beaver Creek

By KRISTEN NELSON

Petroleum News

Alaska North Slope crude oil production dropped below 500,000 barrels per day in June, averaging 497,582 bpd, down 6.95 percent, from a May average of 534,741 bpd, while much smaller Cook Inlet production volumes saw a 5.4 percent increase to 13,571 bpd in May over April.

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

The largest North Slope drop was at the BP Exploration (Alaska)-operated Prudhoe Bay field, which averaged 275,782 bpd in June, down 9.18 percent, 27,864 bpd, from a May average of 303,646 bpd. Prudhoe production includes satellite production from Aurora, Borealis, Midnight Sun, Orion and Polaris, as well as production from the Northstar and Milne Point fields.

The largest North Slope drop was at the BP Exploration (Alaska)-operated Prudhoe Bay field, which averaged 275,782 bpd in June, down 9.18 percent, 27,864 bpd, from a May average of 303,646 bpd.

Production at Prudhoe began and ended the month at production levels above 300,000 bpd, dropping to 139,916 bpd June 8, coinciding with an 18-hour scheduled shutdown of the trans-Alaska oil pipeline by Alyeska Pipeline Service Co. for testing of mainline valves at various locations along the line.

That shutdown was part of Alyeska's scheduled summer maintenance shutdowns, which began with a four-hour shutdown May 10. A six-hour shutdown originally scheduled for June 30 to install temporary bypass piping around Pump Station 10 has been rescheduled for July 18. That will be followed by a six-hour shutdown when the Pump Station 10 bypass is removed and normal flow restored at that station. There is also an 18-hour shutdown scheduled for Aug. 9 to text mainline valves at various locations along the line.

Field maintenance scheduled around Alyeska

North Slope operators typically schedule summer maintenance around Alyeska's schedule. BP has turnarounds scheduled this summer at Flow Station 2 and Gathering Center 3; ConocoPhillips Alaska, the Kuparuk River field operator, has maintenance scheduled at Central Processing Facility 3 and Central Processing Facility 1. ConocoPhillips is also the Alpine field operator; maintenance is scheduled there in August.

Production from the ConocoPhillips-operated Kuparuk River field averaged 119,645 bpd in June, down 6 percent from a May average of 127,282 bpd. Kuparuk production includes satellite production from Meltwater, Tabasco and Tarn, as well as production from the Eni-operated Nikaitchuq field and from the Pioneer Natural Resources Alaska-operated Oooguruk field. As at Prudhoe, Kuparuk production dropped sharply on June 8, from volumes above 120,000 bpd to 35,471 bpd. 0

AOGCC figures for May show Nikaitchuq averaging 11,926 bpd, up 6.9 percent from an April average of 11,153 bpd. Oooguruk averaged 8,255 bpd in May, up 37.5 percent from an April average of 6,002 bpd.

The BP-operated Lisburne field (part of Greater Prudhoe Bay) averaged 27,386 bpd in June, down 3.8 percent from a May average of 28,465 bpd. Lisburne includes Niakuk and Point McIntyre production.

The ConocoPhillips-operated Alpine field averaged 63,427 bpd in June, down 2.67 percent from a May average of 65,169 bpd. Alpine includes satellite production from Fiord, Nanuq and Qannik, with the main Alpine accumulation accounting for 64.2 percent of May production followed by Fiord at 31.4 percent.

The BP-operated Endicott field averaged 11,342 bpd in June, up 11.4 percent from a May average of 10,179 bpd. Endicott includes production from the Savant Alaska-operated Badami field, which AOGCC data show averaged 1,220 bpd in May, down marginally from 1,230 bpd in April.

Increases in Cook Inlet

At 13,571 bpd, Cook Inlet production was up 5.36 percent in May from an April average of 12,881 bpd.

While most Cook Inlet fields had a month-over-month decline in production, the Hilcorp Alaska-operated Trading Bay field averaged 1,579 bpd in May, a 158 percent increase over the 611 bpd the field produced in April.

In a June 5 presentation to Anchorage Mayor Dan Sullivan's Energy Task Force, Hilcorp Alaska's vice president for exploration and production, John Barnes, illustrated an overall 36 percent increase in oil production at Hilcorp-operated Cook Inlet fields, January through May, with the largest increase at Swanson River, 412 percent, followed by Trading Bay at 157 percent.

There have recently been four Cook Inlet fields producing more than 1,000 bpd — with the increase at Trading Bay that number has grown to five, four operated by Hilcorp (Granite Point (2,254 bpd in May), McArthur River (4,093 bpd), Swanson River (2,383 bpd) and Trading Bay) and one, Middle Ground Shoal, operated by ExxonMobil-subsidiary XTO (2,182 bpd).

The Hilcorp-operated Beaver Creek field had a 48.4 percent production increase, to 151 bpd in May from 101 bpd in April.

All other Cook Inlet fields saw production declines ranging from 6.1 percent (Cook Inlet Energy's Redoubt Shoal field and Hilcorp's Swanson River) to 0.4 percent at Hilcorp's McArthur River field.

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. ●

Contact Kristen Nelson at knelson@petroleumnews.com

NATURAL GAS

Enstar, Buccaneer sign new contract

Enstar Natural Gas Co. is asking the Regulatory Commission of Alaska for approval of a base gas supply contract with Buccaneer Alaska LLC with a fixed price arrangement.

Under the contract, Buccaneer would provide 2.663 billion cubic feet between Oct. 1, 2013 (or five business days after the RCA approves the contract, whichever comes first) and June 30, 2016, to be delivered at a "continuous rate." Enstar would pay Buccaneer $6.80 per thousand cubic feet through 2013, with the price increasing 4 percent annually.

The price would be 20 cents higher than what Enstar will pay Hilcorp through a consent decree approved last November, but Enstar said this premium would be offset by a 30 cents savings in transportation rates for gas purchased under the Buccaneer contract.

The savings come because of the proximity of the Buccaneer-operated Kenai Loop field to existing Enstar pipelines in the region, which cuts down on shipping costs.

The contract also allows Buccaneer to sell any excess volumes to Enstar through the daily bidding system, a provision designed to help Enstar meet its daily needs during the planned spring and fall shut-ins at the Cook Inlet Natural Gas Storage Alaska facility.

The contract would be the third between Enstar and Buccaneer, although one is a short-term contract covering only the summer months and expiring this coming October.

The RCA is taking comments on the new contract through July 29.

—ERIC LIDJI

● FINANCE & ECONOMY

Going back to the future

By GARY PARK

For Petroleum News

For veteran Canadian oilman Grant Fagerheim, it's a case of regaining control of light oil resource assets that he watched disappear five years ago.

In 2008 he was president and chief executive officer of Cadence Energy when it was sold to help create Barrack Energy, the unit of Barrick Gold, for C$400 million, to provide the mining giant with a hedge against energy costs at its gold operations.

Now president and CEO of fast-emerging Whitecap Resources, Fagerheim has reacquired one-third of those assets, which produce about 9,000 barrels of oil equivalent per day.

The sale by Barrick is part of its strategy to dispose of underperforming assets. For Whitecap, the deal helps consolidate working interests in the Valhalla Montney and Garrington Cardium areas of western Alberta.

Fagerheim said the properties offer "low-decline, high cash flow netback with good growth potential, which means we will have surplus cash flow to pay a dividend."

"Our team has demonstrated an ability to deliver on the expectations we've put out there. When shareholders get a return they're prepared to invest."

Once the transaction closes, Whitecap will have 100 percent ownership of producing assets and infrastructure in Valhalla and 91 percent in Garrington.

The addition of 2,900 boe per day (56 percent oil and liquids) is targeted to reach 3,200 boe per day in 2014.

Mid-size player

The company had first-quarter production of 17,600 boe per day, moving it into Canada's mid-size league, and Fagerheim believes 35,000 boe per day is within the company's sights without needing any further acquisitions.

Don Rawson, an analyst with AltaCorp Capital, said the deal makes sense for Whitecap as it proceeds to waterflood the Valhalla asset.

He said Whitecap is one of the few companies that can access capital, putting it in a strong position when buying assets.

Earlier this year, Whitecap paid C$110 million to take over Invicta Energy, gaining Viking a light oil waterflood asset in the Dodsland area of west-central Saskatchewan, adding 900 boe per day (95 percent light oil) to its portfolio and expecting to reaching 1,200 boe per day in 2014.

The Dodsland Viking pool is near Whitecap's Lucky Hills Vikings assets where it has gained significant horizontal drilling and multi-stage fracturing expertise.

The waterflood is seen as effective in maintaining reservoir pressure, which results in a production decline of 12 percent for vertical development of the pool.

Improved horizontal results

There have been continually improving results from the drilling of 25 horizontal wells, which represent 390 net barrels of oil per day.

With cumulative oil production of 24 million barrels (19 percent recovery factor), a current water cut of only 51 percent and offsetting pool results, Whitecap believes there is considerable incremental upside to the pool that can be realized through a combination of horizontal drilling, water injector reactivations and investor conversions.,

Whitecap said it will bring its experience of drilling more than 100 Viking horizontal wells to optimize the results.

The company said that similar to its past Viking and Cardium acquisitions, it expects to improve on initial production 30-day rates over time and with 101 (79.5 net) identified locations, there is a multi-year inventory to maintain and grow production in the pool. ●

Contact Gary Park through publisher@petroleumnews.com

● NATURAL GAS

State extends AGIA date for FERC filing

By KRISTEN NELSON
Petroleum News

The date by which TransCanada must file a Federal Energy Regulatory Commission application for its Alaska Gasline Inducement Act project has been extended, for a second time, to Oct. 31, 2015, and summer field work approved.

The decision, signed June 11 by Dan Sullivan, commissioner of the Department of Natural Resources and Bryan Butcher, commissioner of the Department of Revenue, was a response to a June 10 request by TransCanada for approval of AGIA project amendments, including summer field work and a two-year extension of the required date for the FERC filing.

In May 2012 the commissioners approved an extension of the FERC filing deadline for two years, from Oct. 31, 2012, to Oct. 31, 2014, along with amendments of the plan under TransCanada's AGIA license to include work with the Alaska North Slope producers in concept selection assessment for a liquefied natural gas project.

Two years requested

TransCanada had requested another two-year extension of the FERC filing deadline for a certificate of public convenience and necessity, to Oct. 31, 2016, but only won approval for a one-year extension.

The commissioners noted that when they approved the two-year extension last year they set conditions: conducting a solicitation of interest in the LNG alternative; consulting with the Alaska Gasline Development Corp. to avoid unnecessary duplication of spending of state funds; and completing an inventory of work related to the original overland Alaska-Alberta project.

They said the licensees "have made significant progress toward meeting these conditions," including the solicitation of interest required in the 2012 amendment approval, which the licensees told the governor last October generated "publicly reported interest from potential shippers and major players from a broad range of industry sectors and geographic locations."

The licensees also reported a draft framework for exchange of information with AGDC (the Alaska Legislature approved confidentiality statutes for AGDC this spring; lack of that confidentiality had limited information exchange).

The commissioners also said TransCanada has provided "an initial draft inventory of work product related to the project."

Limited extension requested

TransCanada was seeking a "limited extension of the two project plan amendments" approved in 2012 specifically "to explore the LNG alternative further by performing field work on the midstream component of the project in 2013" as well as the two-year deferral of the FERC filing, the commissioners said.

They granted the request to perform the 2013 summer work, finding it "consistent with important project benchmarks" established by Gov. Sean Parnell in his January 2013 State of the State address.

The governor's benchmark to select a concept for the Southcentral LNG project was met Feb. 15, the commissioners said. The governor also called for a full summer of field work in 2013, and the commissioners said they approved the 2013 field work because it would meet that benchmark.

With Alaska North Slope gas commercialization efforts in transition, and North Slope producers working with the AGIA parties "for the first time in a single effort," the commissioners said approval of amendments to the AGIA license paved the way for more intensive work in the future and kept the project's ultimate costs as low as possible by helping to avoid a delay in the project.

Based on this year's amendment approval the commissioners said TransCanada "may submit qualified expenditures incurred in connection with the 2013 Work for reimbursement under AGIA" for the period covered in the revised work plan, timeline and budget in the 2013 amendment request.

Commenting on the one-year extension of the FERC filing requirement, rather than two years as requested, the commissioners said that given the transition of the project from overland to LNG, "we agree with the objective of avoiding unnecessary expenditures on the Alaska-Alberta project, and emphasize that any such expenditures going forward should be de minimis." ●

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ENVIRONMENT & SAFETY

More lawsuits over bearded seal listing

The State of Alaska and the North Slope Borough have filed lawsuits in federal court, challenging the National Marine Fisheries Service's December decision to list the bearded seal as threatened under the terms of the Endangered Species Act. The appeals against the listing follow a similar lawsuit filed in May by the Alaska Oil and Gas Association.

The Fisheries Service's listing decision came as part of a growing trend to list Arctic marine mammal populations that, while healthy at present, may decline as a consequence of the loss of Arctic sea ice cover, as the Earth's climate warms. But North Slope communities, the oil industry and the state, worried about the potential impact of Endangered Species Act-related restrictions on subsistence hunting and resource development, say that the listing is based on a speculative theory about future climate trends and the impacts of those trends on the seals.

The "These decisions are made with a disregard for both the law and the limits of current scientific knowledge." **—Doug Vincent-Lang, director of Alaska's Division of Wildlife Conservation**

Brower: population healthy

"We are very concerned about environmental impacts on bearded seals and other wildlife," said Charlotte Brower, North Slope Borough mayor, when the borough announced its lawsuit on June 26. "However, as our residents know, the population of bearded seals is currently healthy and abundant. This listing is improper because it is not based on good science."

"These decisions are made with a disregard for both the law and the limits of current scientific knowledge," said Doug Vincent-Lang, director of Alaska's Division of Wildlife Conservation, in a June 27 press release announcing the state's lawsuit.

The North Slope Borough's appeal claims that the listing decision was "arbitrary and capricious" because in making the decision the Fisheries Service had depended on a 100-year climate projection that is unreliable and not credible. Moreover, the agency has not provided any scientific evidence supporting the theory that a loss of sea ice poses a threat to the survival of what is currently a healthy seal population, the borough claims.

The state's appeal presents similar arguments, while also claiming that the Fisheries Service had not responded adequately to written comments submitted by the state prior to the listing decision.

—ALAN BAILEY

● PIPELINES & DOWNSTREAM

GAO proposing pipeline safety change

A proposed pilot program would create a more nuanced system for monitoring pipelines and remove current seven-year interval

By ERIC LIDJI

For Petroleum News

A federal pilot program proposed by the U.S. Government Accountability Office would give gas pipeline operators more freedom in maintaining the safety of their systems.

The program would allow operators to use individualized information they have collected about their systems to determine when a specific pipeline should be tested for integrity.

The Pipeline Safety Improvement Act of 2002 required pipeline operators to perform these integrity assessments on "high consequence" pipelines by the end of 2012, and again every seven years afterward. The seven-year requirement is successful, but somewhat inefficient, according to the GAO. While this method "resulted in critical repairs being made" — including more than 1,000 between 2004 and 2009 — it prevents operators from being able "to focus resources on areas of greatest importance."

The alternative to this unsophisticated seven-year assessment would be to allow operators to schedule testing using risk-based criteria. Those criteria include highly specific warning signs discovered while operating and maintaining the pipelines within a system.

In general, the U.S. Pipeline and Hazardous Materials Safety Administration — the federal agency responsible for most Lower 48 pipelines — wants operators to be able to use risk-based criteria to guide their maintenance programs. In 2008, the agency even drafted a process to help operators determine which pipelines could be checked less frequently than every seven years, such as pipelines carrying relatively pure methane.

In general, the U.S. Pipeline and Hazardous Materials Safety Administration — the federal agency responsible for most Lower 48 pipelines — wants operators to be able to use risk-based criteria to guide their maintenance programs.

Congressional approval

The realities of the regulatory process, though, have stalled this proposal.

Because the seven-year requirement is a federal statute, for instance, changing it would require a Congressional amendment, something the GAO recommended back in 2006.

Even with Congressional approval, the change would increase the workload on state and federal regulators. They would have to standardize the process for hundreds of operators.

"Without such guidance," the GAO wrote in its new recommendations, "operators could use a range of approaches for determining the relevant risk to gas transmission pipelines, potentially creating challenges with reviewing and justifying reassessment intervals."

To ease this transition, the GAO wants PHMSA to craft guidelines for operators use as they determine risks to their systems and decide how frequently to test specific pipelines within those systems. The GAO also wants PHMSA to prepare a report or develop a pilot program to study how a change in the rules might impact regulators and operators.

In preparing its report, the GAO spoke to federal and state regulators, industry associations, safety and environmental groups and technical experts, and 27 pipeline operators, including the Alaska Pipeline Co., an affiliate of Enstar Natural Gas Co. ●

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● EXPLORATION & PRODUCTION

Miller Energy projects 4,000 boe a day

Alaska subsidiary Cook Inlet Energy works to rehabilitate wells on Osprey offshore platform, signs new natural gas sales agreement

By WESLEY LOY
For Petroleum News

Miller Energy Resources Inc. of Tennessee says it's on track to achieve production by year's end of more than 4,000 barrels of oil equivalent per day.

Anchorage-based subsidiary Cook Inlet Energy LLC accounts for the bulk of Miller's production.

Cook Inlet Energy launched as an Alaska operator in late 2009, and has come a long way from a starting point of essentially zero production.

The company's focus has been on reviving the collection of shut-in west inlet assets it acquired out of the bankruptcy of Pacific Energy Resources Ltd.

Cook Inlet Energy has production from two main properties: the West McArthur River oil field and the Osprey platform in the offshore Redoubt unit.

The company recently boosted its crude oil production to more than 2,100 barrels per day after bringing a sidetracked Redoubt unit well onstream.

Miller has been aggressively raising cash, and on July 3 announced it had completed a public offering of preferred stock, raising gross proceeds of $7.2 million. The company had priced the stock at $21.50 per share. Miller's common stock is listed on the New York Stock Exchange and closed on July 2 at $3.92.

The company recently boosted its crude oil production to more than 2,100 barrels per day after bringing a sidetracked Redoubt unit well onstream.

Cook Inlet Energy is in the middle of an extensive well workover program on its Osprey platform, which currently has two oil wells and two natural gas wells producing.

The company is moving now to rework the RU-1 well. The job will involve abandoning the lower part of the well and drilling a sidetrack to a new bottom hole location at about 15,500 feet, similar to that of the original wellbore. The company said it expects to complete the sidetrack and have the well online by early August.

Cook Inlet Energy did extensive work on RU-1 once before, removing some 35,000 pounds of "fish" such as electric submersible pumps, packers, valves, clamps, straps and cables.

After removal of the fish, the well produced for a time, and the company now feels it's best to sidetrack the well above some obstructions still remaining in the hole. This should improve flow rates substantially, the company said in a July 2 press release.

Miller also announced recently that Cook Inlet Energy has secured a new commercial gas sales agreement. The company did not identify the other party, and said certain terms of the deal are confidential.

The agreement allows for Cook Inlet Energy to sell gas "on a discretionary basis" in volumes up to 10 million cubic feet per day.

The agreement will remain in effect until the end of March 2014, and the company is in negotiations for a long-term agreement.

The new agreement replaces an initial, smaller gas sales agreement announced in May.

Aside from its gas production on Osprey, Cook Inlet Energy is actively exploring a number of onshore gas prospects on the inlet's west side. ●

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LAND & LEASING

DNR rules no new lease sale information

The Alaska Department of Natural Resources has determined that responses to its call for new information for the state's fall oil and gas lease sales did not provide information which justified supplements to final findings for the sales.

The sales, the 2013 Beaufort Sea, North Slope and North Slope Foothills areawide oil and gas lease sales, are tentatively scheduled for October.

In the decision, posted July 2, DNR Commissioner Dan Sullivan said "no substantial new information was received" in response to the March call for information, so no supplement to existing final findings is justified.

The decision discussed comments received from the Alaska Department of Environmental Conservation, Division of Air Quality, and from ConocoPhillips Alaska Inc.

DEC said industry has been gathering air pollutant data and doing related work and that the U.S. Environmental Protection Agency Region 10 has determined appropriate background values for Chukchi and Beaufort seas outer continental shelf permits, but the decision said "DEC's comments do not contain or reference substantial new information that justifies a supplement to the current findings."

ConocoPhillips Alaska said subdividing some North Slope tracts into parcels results in greater administrative burden for lessees and lessors and suggested the state return to offering tracts rather than parcels. DNR said this relates to the state's administrative lease sale process, not substantial new information relevant to the final finding.

The company also said some mitigation measures in the North Slope

see DNR RULING page 12

● ENVIRONMENT & SAFETY

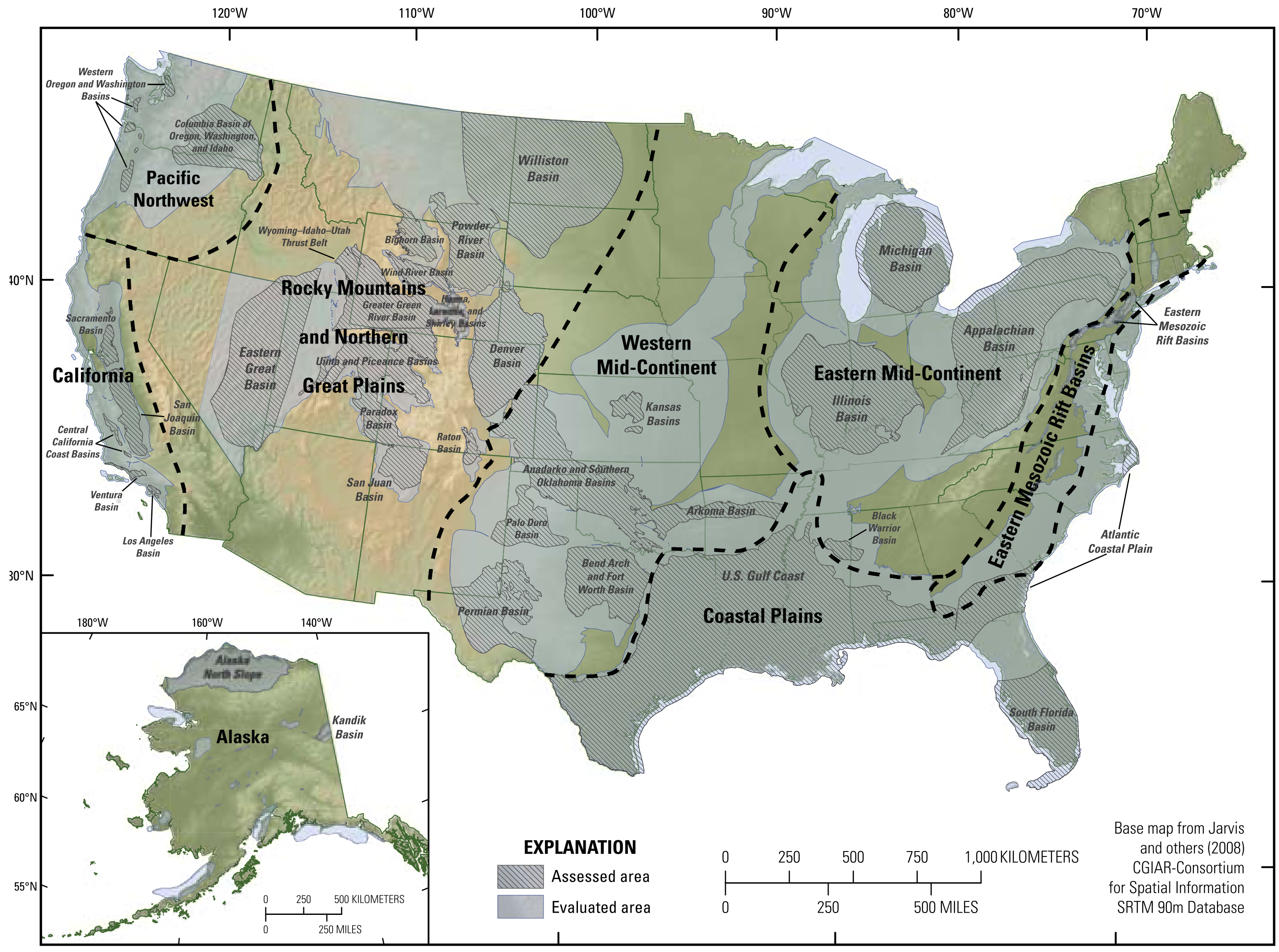
USGS assesses carbon dioxide storage

Says that U.S. underground rock formations could sequester more than 500 times the nation's annual production of the greenhouse gas

By ALAN BAILEY
Petroleum News

In a turnaround from its usual oil and gas assessments, estimating the volumes of undiscovered hydrocarbon resources in geologic basins, the U.S. Geological Survey has issued a report focusing on the exhaust gas end of fossil fuel usage, assessing the quantities of carbon dioxide that might be sequestered in underground rock formations.

According to the report the United States has the potential to sequester some 3,000 metric gigatons of carbon dioxide in 36 geologic basins around the country, an amount equivalent to more than 500 times the total U.S. carbon dioxide emissions in 2011. Geologic reservoirs under Alaska's North Slope could possibly contribute 270 gigatons to that overall U.S. total, the USGS report says.



In carrying out its assessment of U.S. carbon dioxide sequestration potential the U.S. Geological Survey divided the country into major areas and basins. The Coastal Plains region showed the highest sequestration potential, but with several other regions including Alaska also having high potential.

Addressing climate change

The USGS said that its report comes in the wake of a recent national plan announced by President Obama to address global warming. Many scientists view human generated carbon dioxide as the prime culprit in a rapid rate of warming of the earth's climate and the underground sequestration of carbon dioxide exhaust from industrial facilities presents one possible means of addressing the climate change predicament.

"The USGS research is ground breaking because it is the first realistic view of technically accessible carbon storage capacity in these basins," said Interior Secretary Sally Jewell when announcing publication of the report. "If enough of this capacity also proves to be environmentally and economically viable, then carbon sequestration could help us reduce carbon dioxide emissions that contribute to climate change."

Technically feasible

The assessment only considers reservoirs that appear technically feasible candidates for carbon dioxide storage. For example, the USGS scientists excluded the possibility of storing carbon dioxide in shales or low-permeability sandstones, rock types for which little is known about their carbon dioxide storage characteristics. Areas with the potential for contamination of underground freshwater resources were also excluded, the USGS report says.

However, the assessment did not consider the economic viability of carbon dioxide sequestration. Nor did it consider issues relating to land access or regulatory restrictions.

The economic viability of current operational carbon dioxide sequestration systems has tended to depend on countering the cost of sequestration by, in particular, using the carbon dioxide for enhanced oil recovery in producing oil fields. Also, the imposition of a cost to carbon dioxide emissions through, say, a carbon tax or a carbon cap-and-trade system can significantly impact the economics of carbon dioxide storage. Economic feasibility is also presumably related to the distance between the carbon dioxide source and a carbon dioxide storage location.

Assessment units

In carrying out their assessment, USGS scientists identified a series of "storage assessment units," volumes of porous reservoir rock bounded by impervious rocks that could trap carbon dioxide within the reservoir. And the scientists considered two types of potential carbon dioxide entrapment: buoyant trapping in which carbon dioxide "floats" towards the top of a geologic structure in a reservoir formation, with a seal rock preventing the gas from escaping; and residual trapping involving the holding of carbon dioxide by capillary action within individual rock pores.

For each assessment unit, the scientists specified possible ranges of values for various parameters that would determine the amount of carbon dioxide that the unit might store. The use of these ranges for making storage estimates led to a range of possible quantities of stored gas and a mean size for the unit. The estimates for individual assessment units were then statistically combined to derive estimated ranges and means for the possible storage

see **CO2 STORAGE** *page 14*

continued from page 10

DNR RULING

final finding duplicate other requirements and create uncertainty because of vague wording, to which DNR said ConocoPhillips did not offer any instances in which it has been found noncompliant nor did it refer to studies or data which contain substantial new information, and said the commissioner may revisit mitigation measures during the next 10-year rewrite of the North Slope best interest finding.

—KRISTEN NELSON

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FINANCE & ECONOMY

Bellatrix takes fresh route

It took less than a month for Bellatrix Exploration, a mid-size company with a multiyear drilling inventory in Western Canada, to bounce back from its failed C$300 million joint venture with a South Korean company.

By late June it has closed a joint venture with private investment company Grafton Asset Management to accelerate development on a portion of its undeveloped land holdings, concentrating on the Willesden Green and Brazeau areas of west-central Alberta.

Bellatrix said it will continue its search for joint-venture partners for its Ferrier area Cardium project to replace the unidentified Korean company along with other joint-venture partners for its interest in the Cardium resource play.

Grafton will contribute 82 percent of the costs to participate in drilling an expected 29 Notikewin/Falher and Cardium wells by contributing C$100 million towards a C$122 million capital program.

In return, Grafton will earn 54 percent of Bellatrix's working interest in each well drilled until payout (capital plus an 8 percent return) when it will revert to 33 percent.

Grafton has an option to increase its committed capital by C$100 million by September and another C$50 million within 12 months.

In search of other partners

Bellatrix said it will continue its search for joint-venture partners for its Ferrier area Cardium project to replace the unidentified Korean company along with other joint-venture partners for its interest in the Cardium resource play.

Grafton works on behalf of sovereign, institutional and private clients through its proprietary access and intelligence in the Canadian energy sector.

Bellatrix is currently hedging 1,500 barrels per day at C$96.87 per barrel for the second half of 20134; 1,500 bpd at C$94 for 2014 and 1,500 bpd at C$95.22 for 2014.

The company said it has developed an inventory of 692 net remaining Cardium locations and 401 Notikewin/Falher locations representing net remaining capital requirements of C$4.34 billion based on current costs.

As of March 31, Bellatrix had about 205,113 net developed acres and including all opportunities had about 1,700 net exploration drilling opportunities with capital requirements of C$8.22 billion representing 40 years of drilling inventory based on current annual cash flow.

—GARY PARK

● FINANCE & ECONOMY

Debt swoon hits BlackPearl

By GARY PARK

For Petroleum News

The latest round of volatility in debt capital markets has brought to an abrupt halt plans by BlackPearl Resources to proceed with thermal-recovery oil projects in Saskatchewan and Alberta.

Just three weeks after the Calgary-based start-up announced it was ready to launch a US$350 million debt issue to cover capital investments of C$300 million-C$350 million, BlackPearl pulled the plug.

Company President John Festival said the projects must be initiated on a "solid financial footing and, until the debt markets have stabilized, we have decided to defer our proposed debt financing," even though BlackPearl believes the Onion Lake (Saskatchewan) and Blackrod (Alberta) ventures could be "significant mid- to long-term value generators."

Onion Lake is designed to yield 12,000 barrels per day using steam to enhance oil recovery and was originally intended to follow the Blackrod oil sands project, whose initial phase of 20,000 bpd was expected to cost up to C$800 million.

The order was switched when BlackPearl felt it would be unable to raise the needed capital through a combination of debt, non-core asset sales, joint-venture proceeds and new equity.

BlackPearl production in the second quarter was expected to average 9,500-10,000 barrels of oil equivalent per day.

Analyst: company punished

Jared Dziuba, an analyst with BMO Capital Markets, said the market is punishing the company for circumstances beyond its control.

But he said BlackPearl's balance sheet strength will enable it to continue conventional programs.

Dziuba told the Calgary Herald that the financing needs clash with a "very volatile time in debt markets and a time when there is very little investor appetite for risk."

He said those negative views have been compounded by the "poor performance" of Southern Pacific Resource in attempting to ramp-up its McKay steam-assisted gravity drainage, SAGD, project, driving that company's stock down to a 52-week low.

BlackPearl production in the second quarter was expected to average 9,500-10,000 barrels of oil equivalent per day.

It said tighter heavy oil price differentials and higher output due to more cold flow drilling at Onion Lake and increased flow at the Blackrod SAGD pilot will generate improved second-quarter revenue and cash flow.

The first pilot well pair averaged more than 600 bpd during June and is expected to stabilize at 400-500 bpd, at which point a second well pair will be steamed and used to test a different completion technique. ●

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CO2 STORAGE

capacities for different geologic basins and regions across the country, and for the nation as a whole.

Major regions

It turned out that a region termed "the Coastal Plains," along and inland from the Gulf Coast, showed by far the biggest potential of any major U.S. region for carbon dioxide sequestration, with a mean estimated storage quantity of 2,000 gigatons. The Alaska North Slope's estimated potential of 270 gigatons shared second place in the ranking of U.S. regions with a region encompassing the Rocky Mountains and the northern Great Plains. The eastern and western mid-continental regions also showed major carbon dioxide sequestration potential.

And it appears that across the United States 89 percent of the storage capacity would come from the residual trapping of carbon dioxide, rather than from buoyant trapping, the report says. ●

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EXPLORATION & PRODUCTION

US drilling rig count down 11 to 1,748

Oilfield services company Baker Hughes Inc. says the number of rigs actively drilling for oil and natural gas in the U.S. decreased by 11 the week ending June 28 to 1,748.

The Houston-based company said in its weekly report that 1,390 rigs were exploring for oil and 353 for gas. Five were listed as miscellaneous. A year ago there were 1,959 active rigs.

Of the major oil- and gas-producing states, West Virginia and Wyoming each gained three, California gained two and Colorado and New Mexico gained one each.

Texas lost 11 rigs, Oklahoma lost five and Louisiana and North Dakota each lost three. Alaska, Arkansas and Pennsylvania were unchanged.

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

—ASSOCIATED PRESS

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COUNTERSUIT

Aug. 11, 2011.

Furie since has been using the rig to explore for natural gas in the inlet.

On Oct. 13, 2011, an official with Customs and Border Protection, a Homeland Security agency, hit Furie with a $15 million civil penalty.

The penalty was based on a Jones Act provision that says the CBP may recover an amount equal to the value of merchandise unlawfully transported.

The $15 million penalty was based on "an independent appraisal" of the rig's value, says the counterclaim filed on June 28 in U.S. District Court in Anchorage.

Government lawyers are asking the court to dismiss Furie's claims and enter a judgment against the company for $15 million plus interest, costs and attorney fees.

Largest ever?

The counterclaim says Furie, based in League City, Texas, hasn't paid any portion of the $15 million penalty.

But Furie has said the looming penalty nevertheless has caused hardship for the company. In a December 2012 declaration, Furie's president, Damon Kade, said the fine, and the refusal of officials to mitigate it, "has made it difficult for Furie to secure investors in its resource exploration and development venture."

Furie took an aggressive posture, suing Homeland Security Secretary Janet Napolitano and CBP on Aug. 7, 2012. The suit called the $15 million penalty "unwarranted and unprecedented," the largest ever assessed for an alleged Jones Act violation.

In its counterclaim, the government denies the penalty is the largest. At least one other penalty of an equal amount has been imposed, and it was arguably larger because of inflation, the counterclaim says.

The voyage

The arrival of the Spartan 151 culminated years of effort to bring a jack-up rig to Cook Inlet.

The $15 million penalty was based on "an independent appraisal" of the rig's value, says the counterclaim filed on June 28 in U.S. District Court in Anchorage.

The effort began with Escopeta Oil Co., which Furie acquired in mid-2011.

In 2006, the Homeland Security secretary at that time, Michael Chertoff, granted Escopeta a Jones Act waiver to use a foreign ship to transport a different jack-up rig to Alaska. The waiver was based on national security considerations, including Southcentral Alaska's need for new gas supplies and the presence of Joint Base Elmendorf-Richardson in Anchorage.

As it turned out, that rig never was brought to Alaska.

In 2011, the company lined up the Spartan 151 jack-up and asked Homeland Security to reconfirm the Chertoff waiver, or grant a new one. Homeland Security officials including Secretary Napolitano denied these requests.

Despite the lack of a waiver, the company used a foreign-flag, heavy-haul ship, the Kang Sheng Kou, to carry the jack-up rig from Texas to Vancouver, British Columbia. From there, Furie hired U.S. tugs to tow the rig the rest of the way to Alaska.

In its lawsuit, Furie said it had to use the foreign ship for part of the journey, as no U.S. ship capable of doing the job was available.

Justice Department lawyers initially asked the court to throw out Furie's lawsuit as premature. Although CBP sent Furie three bills demanding payment, Furie had no real obligation to pay the $15 million until the government sued to collect, the lawyers argued.

Federal Judge John W. Sedwick ultimately declined to dismiss Furie's suit.

Now, with its counterclaim, the government has gone to court to enforce the penalty. The question from here is, how much if anything will Furie have to pay? ●

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Petroleum news

Oil Patch Bits

Guess & Rudd's McLaughlin honored by Martindale-Hubbell


MICHAEL MCLAUGHLIN

Michael McLaughlin at Guess & Rudd PC was recently honored by Martindale-Hubbell with an AV Preeminent® rating which is "a significant rating accomplishment — a testament to the fact that a lawyer's peers rank him or her at the highest level of professional excellence." Legal ability ratings are based on performance in five key areas: legal knowledge, analytical capabilities, judgment, communication ability and legal experience and are an objective indicator of a lawyer's high ethical standards and professional ability, generated from evaluations of lawyers by other members of the bar and the judiciary in the United States and Canada. McLaughlin is a shareholder of the firm. After obtaining his BA degree at Stanford University and his JD and MBA degrees at Willamette University, he moved to Alaska in 1985 and began work with the firm. His practice areas are focused on regulated oil and gas pipelines, banking, regulated public utilities, real estate, ANCSA law and other commercial practice areas. He represents some of the largest oil and gas pipeline and commercial interests in Alaska.

Todd Fortun joins AECOM's air quality team

Todd Fortun has joined the Anchorage office of AECOM, as an air quality scientist, supporting AECOM's Alaska air quality permitting and compliance team. Fortun has an MS in Environmental Chemistry from the University of Alaska, Fairbanks, and a BS in Meteorology from St. Cloud State University. Prior to joining AECOM, he was a project chemist supporting Alaska remediation projects for Jacobs Engineering. Fortun will also support AECOM's Alaska remediation program and associated project chemistry requirements.


TODD FORTUN

AECOM is a global provider of professional technical and management support services to a broad range of markets, including transportation, facilities, environmental, energy, water and government.

Crowley's Alert Tugboat recognized for emergency tow

Crowley said June 18 that the captain and crew of its prevention and response tug Alert were personally recognized by Rep. Eric Feige from the Alaska State Legislature for courage, teamwork and professionalism during the emergency rescue tow of the drill barge Kulluk off the southern point of Kodiak Island.

During their meeting, he presented them with a letter of commendation from the mem-

see **OIL PATCH BITS** *page 18*

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

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

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YOUNG Q&A

arguments. You're not going to save the world, number one. Number two, you're challenging the economic strength of the country.

Petroleum News: Speaking of Obama, what are your thoughts on his Arctic strategy?

Young: We are an arctic nation because of Alaska. The strategy we have to be aware of is the involvement in the Arctic, of the Chinese big time and the Russians big time — to some degree Iceland and others. We're sitting here sucking our thumbs. There is no policy right now. It's paper. We had a Coast Guard hearing today and they are talking about 15 years from now they are going to have the first ice breaker that meets the capability of the Russian nuclear ice breakers. Fifteen years. In between that we have to study, put the navigation system in so we can track every ship, know where they are going to be, have the channels laid out and quite frankly we should be developing now Arctic oil recovery systems so if there is a spill from one of the Chinese companies or one of the other Arctic carriers. The currents from the ocean do come to our shores, and we have no way to protect them and they don't really care. We have to start thinking about that so if there is a spill we will be able to take control of it. Of course I have a different opinion with the Coast Guard. They want to own the ship. I say they can lease one and it would be a lot more economical because I don't think Congress is going to appropriate $1 billion for a ship to be built 15 years from now. I just don't think that's going to happen. I'm trying to convince them to put a prospectus out there to shipyards across the country and see would a shipyard be willing to build according to spec a ship and lease it for 35 years. It's not a new idea, but it's not an old one, either.

Petroleum News: Do you gain a sense of hostility toward hydrocarbon development from the federal government in Alaska?

Young: Oh, yeah. Absolutely. It's not necessarily new. We got caught in this climate change debate. It was called global warming; it's called climate change now. Hydrocarbons have caused it. It's all our fault. I've got scientists on my side of the aisle that this so called climate change is occurring, it's going to occur. There is no way to stop it regardless of what we do. It's not the result of burning fossil fuel. Read the Cold Sun (by John L. Casey). He actually believes with the science backing him up we are going into the beginning of a new cooling period. The Russian scientists say the same thing. We are being panicked by the Greenies and a guy like Obama who doesn't know anything about anything when it comes to fossil fuels being an economic base. They try to frighten people that the world's coming to the end and that is not the truth. People say how do you know? Well, do me a favor and read Both Sides of the Aisle (by Council on Foreign Relations). Unfortunately, it's not popular today. The popular way is global warming. The scientists who disagree with it provide the same factual information, but they don't get the time of day.

Petroleum News: So what is a solution in bridging this gap? You and your colleagues bring other members of Congress and the administration to Alaska to educate them. Is that working?

Young: It doesn't work to the degree because of a lack of true knowledge. This will be the 13th time I will have passed ANWR out of the House. I've won it every time — when Democrats took control of the House, when Republicans had control of the House. I can't get it past the Senate because they will tell you that it's not the popular thing to do. People in New York think we will destroy all the game and the world is going to come to an end and the area is going to be destroyed because of oil development. I'm proud of what's going on in Alaska over the development of oil 35 years ago when we had the first barrel come out of Prudhoe Bay. If you could see how they improved the technology, the footprint is about one-tenth of what it was back 35 years ago. We are not going to do the damage people say. Tell the guy in Philadelphia, New York, Miami, San Francisco, LA and the world is going to come to an end if you allow development in Alaska.

Petroleum News: Is it worth it? Is it worth this fight? Is it worth all of this effort when you keep getting shot down?

Young: I want to believe in perseverance. I've been in this business long enough that nothing happens overnight. It will be opened up. I just guarantee that. I'll put it in writing and someone can open up the time capsule and when it's open he said way back when. I'll eventually achieve it or someone else will achieve it. You can't leave that much oil in the ground. When the demand gets that great there will be an opening of that area. Just like when we built the pipeline. It just bothers me, the dishonesty about that area. It's not a virgin area. It never has been. It will not hurt the so-called wildlife. Kaktovik wants to do it. The North Slope Borough wants to do it. People say it's going to destroy the pristine area. That's not true.

Petroleum News: Are you familiar with Gov. Parnell's plan for ANWR that he and Commissioner (Dan) Sullivan offered in Washington last month?

Young: I think it's a good idea. To me it really exposes the federal government. We are willing to be partners. But the federal government doesn't want to do that. This administration doesn't want fossil fuel development — period. But that's what drives our trucks, our planes, our trains and our automobiles. It's the commerce link. Until we find something that can move a truck, a car or an airplane other than fossil fuels, we're not going to change this system if we want to keep up with the rest of the world.

Petroleum News: OK, so let's move on to NPR-A and the government's development plan. It's received pushback from lawmakers and the industry as not being sufficient for development. What are your thoughts on it?

Young: What bothers me about NPR-A is that it was set up as a reserve for petroleum, not a park. This administration declared it as a park. Instead of going to the oil companies, which they should have done, and saying you pick the lands for oil development we'll open them up because it is a reserve. OK? Those that you don't think can be developed, we'll put them in a wilderness area. Did they do that? No. They picked lands, which they have no knowledge of, and said, this is where you have to drill. We are not getting anything near what we should be getting from the lease sales because it's not that promising. And there is a tremendous amount of oil there. Oil companies are not dumb. What they wanted were put off limits. If you want to do this, you let them pick the areas and they will say this is what we want and if you put that up, we're going to bid big bucks on it.

Petroleum News: You've just passed the H.R. 2231, the Offshore Energy and Jobs Act, which in part is another effort to bring offshore revenues to Alaska much like the Gulf of Mexico states receive. Why has this been a priority?

Young: It's important to the state and it always will be. It's modeled after the gulf states. It applies to all of the coastal states that have oil potential. I've said all along, if you want drilling offshore, give the states 50 percent of it and they will support it. But as long as it's just for the federal government what reason will a state support it? I know human nature, number one. If you take a state like California and if they got 50 percent of the revenues they would be up there asking everyone to drill because they are dead broke.

Petroleum News: What about any other provisions? I know the Senate is offering considerations for wind development offshore as a means to build a consensus?

Young: Wind by the way is the worst investment we can make for the economy, being subsidized as it is. Will it work, yes, it will work. But it is not economical. The only people making money are the people making money off the subsidy. It's not permanent as far as a supply of energy. It doesn't produce the energy when you need it. Until you can design a battery that can store it, it's just a big scam that's going on. I'm not about to let them have any revenue sharing. They are already being subsidized.

Petroleum News: You mentioned meeting with Shell. Are you confident they can regroup and resume a summer season next year after what happened with the Kulluk?

Young: Quite frankly I don't have any concerns about the Kulluk. It was a mistake on Shell's part, but the Kulluk (grounding), it didn't have anything to do with oil. I'm going to ask them why don't they use jack-up rigs like ConocoPhillips. I don't know whether they think about using a different rig or now but it had nothing to do with oil drilling.

Petroleum News: So will there be a drilling season next summer for any of the companies?

Young: It all depends on the administration. That's what it comes down to. That's why I'm confident they won't be able to do it because of the road blocks put into the process. I'm not real happy with the anti fossil fuel attitude of the administration.

There have always been enemies out there, don't kid yourself. They are not enthusiastic about offering new leases outside the Gulf of Mexico, and that bothers me. I think (Committee Chair) Doc Hastings bill is a good bill because it does cover all of the states, not just one. You have to consider that.

Petroleum News: OK, so you've got a lot on your plate: NPR-A, revenue sharing, ANWR, OCS. What would be the priority if you were putting together a list?

Young: Right now my priority would be opening up NPR-A. Open that up. It's an appropriate area and it should be drilled. It's not going to happen with this administration. I would try to get that done. But hope springs eternal. Then I would try to get Chukchi started because that's got the largest potential. Those two things and ANWR, well I could pass ANWR and it wouldn't get done in the Senate. But I'm going to still do it. The Senate is not doing a whole lot when it comes to energy. They are pretty much lock step with Obama. ●

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DIRECTOR SHAKEUP

"effective immediately."

Earlier this year, the Buccaneer shareholders Pacific Hill International Ltd. and Harbour Sun Enterprises Ltd. requested the meeting to replace the entire board of the company, accusing the existing board of having "lost is way," particularly in Alaska. The vote called for removing the four-member board and appointing the three members chosen by Pacific Hill and Harbour Sun. The existing board urged shareholders to reject all seven resolutions, saying the company was finally poised to execute on its ambitious portfolio, which includes one producing field and six exploration prospects, and two drilling rigs.

By giving a nod to each side, the shareholders created the possibility for future disputes as Buccaneer decides on how best to proceed on its operations in the Cook Inlet basin.

With the subsequent appointment of Moller, an Australian, each side would appear to now have three allies on the six-member board. To complicate matters further, Buccaneer announced several days before the vote that the venture capital firm Meridian Capital International Fund had acquired a 19.99 percent stake in the company. The deal allows Meridian to appoint a nominee to the board, a right the firm has yet to exercise.

The privately held Pacific Hill International and Harbour Sun Enterprises have no websites or listed phone numbers, and could not be reached for comment by press time.

A big push

Leading up to the vote, the previous directors made a big push for their cause. They sent letters to shareholders making the case for maintaining the current business plan. They posted video appeals on the Buccaneer website. And Burton hosted a rare conference call for investors to ask specific questions about the company. "We're at an execution phase," he told them, "and if we interrupt this now, we may lose many of these opportunities we've worked so hard to put within shareholders' and the company's reach."

The call featured harsh criticism for Pacific Hill and Harbour Sun, as well as an assessment of the challenges Buccaneer has faced and continues to face in Alaska.

The two companies have called Buccaneer unfocused, suggesting the directors were pursuing too many opportunities in Alaska without having a reliable source of funding.

At the June 27 call, Burton accused the two shareholders, which together held 8.6 percent of Buccaneer, of being unprepared to successfully take the company in a different direction. Specifically, he said the two shareholders had not provided fellow shareholders with a business plan and showed no understanding of the peculiarities of Cook Inlet.

After Pacific Hill and Harbour Sun made the request for a vote, Burton said he and his fellow directors offered "multiple times" to allow the two companies to "put someone on the board," but said the companies consistently rejected the offer, choosing instead to go for a total turnover of the existing directors. "If you want a board working on behalf of all the shareholders, it's not necessary to have total control of that board," Burton said.

Creative funding

The shareholders had questions for Buccaneer, though.

Asked how Buccaneer planned to remedy being underfunded, Burton said, "We've always worked to fund the next stage of what we're doing." The company is open to numerous options, he said, from selling its share of the Endeavour jack-up rig, to taking on a partner, to funding activities in a piecemeal fashion by using successful development drilling to pursue "reserves-based" lending at a lower cost of capital. "What I would say to shareholders is that we will continue to explore all the options and we will be open to creative funding, just like we've been open to creative funding to get this far," he said.

The jack-up rig is the keystone of Buccaneer's Alaska program, giving the company access to its four offshore ventures: the Cosmopolitan prospect, the Southern Cross and Northwest Cook Inlet units and the deep oil rights at the ConocoPhillips-operated North Cook Inlet unit. Burton said Buccaneer never claimed it needed to own the rig, only that it needs regular access to it, and is willing to sell the rig if it can control where it drills.

Asked about the value of the rig, Burton declined to offer specifics, but said a third-party valuation made within the past two weeks came up with numbers "much higher than the amount of money that's been spent on it." The partners in the project initially set aside $85 million to buy, modify and move the rig. "It could be a very attractive piece of that overall funding program for the near term," Burton said about selling Buccaneer's share.

Kenai Offshore Ventures LLC currently owns the rig. The joint venture between Buccaneer and Ezion Holdings Ltd. is funded primarily through loans from the Alaska Industrial Development and Export Authority and the Singapore-based OCBC Bank.

Commenting before the vote about the possibility of Buccaneer changing hands, AIDEA spokesman Karsten Rodvik told Petroleum News, "Regardless of who owns the company, all of Buccaneer's obligations to AIDEA, including their commitment to drill four wells in Cook Inlet, are clearly and contractually defined, and must be fulfilled. In short, even if Buccaneer ownership changes, AIDEA's interests are protected."

Responsibility?

After arriving in Alaska in August 2012, the rig spent months docked in Homer while Kenai Offshore Ventures and former rig operator Archer Drilling LLC sparred. The two companies are currently in court, each claiming millions in damages against the other.

Asked who was "responsible" for the cost overruns and permitting delays on the rig, Burton said, "Ultimately, the buck stops here. I'm the CEO and it's always my fault, no matter how you got there. So, short answer, yes, I take responsibility for that." That said, Burton claimed to have significant previous experience around shipyards, and added, "I have never in my career seen a vessel go into a shipyard and

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OIL PATCH BITS


COURTESY CROWLEY

bers of the 28th Alaska State Legislature, which stated the following: "The crew safely and methodically adapted to changing conditions, used their training to identify and manage hazards, and then performed each task to minimize the risks associated with those hazards. ... We express our admiration and respect to each man individually, and to the crew for its superb teamwork, conducting themselves at all times as professional mariners in an extreme and challenging incident."

Following the formal recognition of the crew by Rep. Feige, he along with Mayor Dave Cobb from the City of Valdez, spent two hours touring the Alert and individually congratulating each member of the crew including: Captain Rod Layton, Brad Burger, Brett Spellman, James Mueller, Craig Matthews, Leroy Edenshawn and Walt Nickerson.

"This was a fine tribute to what we value — our people, operational excellence and innovation," said Charlie Nalen, Crowley's vice president of Valdez Operations.

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 September.

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DIRECTOR SHAKEUP

not have cost overruns."

While saying this was "not an excuse," he asked his fellow shareholders to "focus on what we managed to do in the end. … Buccaneer, working with the state of Alaska, even with the cost overruns, managed to get that asset into Alaskan waters and working."

That said, from a legal standpoint, Buccaneer's "official position" is that it paid Archer appropriately, Burton said, and even covered some of the rig operator's outstanding bills to local contractors "because we were trying to take care of the little guys." That point is in dispute, and remains a major component of the legal battle between the companies.

Cosmo development options

The rig is currently drilling the Cosmopolitan prospect.

Asked how long it might take to bring Cosmopolitan online, Burton said any plans would depend upon whether Buccaneer finds a commercial discovery at the offshore field near Anchor Point. Buccaneer could likely begin production in nine-to-18 months using "surface piercing," he estimated, but would need longer than 18 months if it decided to build a "full-scale platform." Buccaneer is also considering a subsea completion strategy to reduce costs, speed up construction time and preserve the coastal view, Burton said.

"That could be a very attractive solution," he said.

Asked whether Buccaneer could meet its initial plans to drill seven wells in Alaska this year, Burton said, "What we drill is going to be directly related to the amount of capital that we have." So far, Buccaneer is on its second well of the year. It brought the onshore Kenai Loop No. 4 online in February and is currently drilling the Cosmopolitan No. 1.

Several of the wells Buccaneer planned for this year are offshore, which will require the company to work against the inevitable arrival of winter conditions to meet its goal.

Even onshore, though, Burton admitted Buccaneer is running behind schedule, but he called the delays prudent. "I insisted that we slow down and we go look at all that data, and indeed do a regional survey to see how the data that we saw in (Kenai Loop No.) 4 squared up," he said. "That's cost us a couple of months in the drilling program."

On June 28, Buccaneer announced a deal where the China-based venture capital group Meridian Capital International Fund had acquired 19.99 percent in the company. The $15.452 million raised through the transaction will allow Buccaneer to fund eight wells across its portfolio over the coming year, according to the company. The same day, Buccaneer also announced a second stock issuance designed to raise another $7.9 million.

If Burton is right, the money could allow Buccaneer to drill at all its prospects this year.

In addition to its four offshore prospects, Buccaneer also operates three onshore prospects: the producing Kenai Loop field near Kenai, the West Eagle prospect in the southern Kenai Peninsula and the West Nicolai Creek prospect across the Inlet.

Unfocused, or super-focused?

Asked whether Buccaneer was stretched too thin, which was the primary complaint of the two Hong Kong shareholders, Burton said, "The short answer there in my mind is no."

"We've painted a big vision from the day we (made our Initial Public Offering), and we've said we can achieve big results, but we've tried to do that systemically," he said.

The only thing Buccaneer misjudged, Burton said, was the market. Buccaneer thought its successes in Alaska would increase its stock value. The opposite occurred, which is why the company recently hired Canaccord Genuity (Australia) to evaluate its portfolio.

Pacific Hill and Harbour Sun want Buccaneer to focus its resources on the lowest risk assets in its portfolio, but Burton said Alaska requires boldness, not downsizing.

"If you don't drill some of these offshore properties that constitute the lion's share of your very substantial portfolio up there, you're going to lose those leases. It's just that simple. If you don't drill some of the land things, you'll lose those leases," he said.

ACES inner-workings

Asked about the exploration tax credits in the ACES program, Burton said Buccaneer has received $16 million in rebates to date, with another $21 million in rebates pending.

Claiming there is "a bit of an art" to applying for the credits, Burton said the company has received "99.96 percent" of all the credits it has claimed, and has typically received its rebates within six to 12 months of filing. The wait can be as long as 16 months, Burton said, but the additional length usually comes from filing at the wrong time of the year. ●

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TEPCO WARNING

tial Asian LNG buyers to sign contracts indexed to oil prices.

Tepco has led the way by signing a contract five months ago to base its prices on the Henry Hub delivery point in the United States. It signed a preliminary deal to secure 400,000 metric tons a year of LNG from the Cameron LNG project, starting in 2017 and is in discussions to double those volumes.

The spokesman said Tepco understands that a "Greenfield project has to achieve a certain return (but) we do not agree with the argument that only the oil-indexed price can achieve that return."

Global energy consultant Wood Mackenzie said in a new report that although Canada can rightly claim political stability as an advantage over some of its LNG rivals, that edge could be offset by high construction costs and possible court challenges from First Nations.

Global energy consultant Wood Mackenzie said in a new report that although Canada can rightly claim political stability as an advantage over some of its LNG rivals, that edge could be offset by high construction costs and possible court challenges from First Nations.

—GARY PARK

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SKIMMER ICE TESTING

mechanical removal of oil from Arctic waters. Ohmsett consists essentially of a 600-foot long rectangular tank, holding saltwater and designed for the simulation of oil spills and the testing of spill response techniques.

Skimmers

According to the most recent Ohmsett newsletter, the organizations participating in the ice-month testing brought seven different types of oil skimmers for evaluation. Oil skimmers use a variety of techniques to gather oil from a surface oil slick, enabling the oil to be pumped into a barge or other oil storage vessel. Participants in the Ohmsett testing anticipate using the test results to improve mechanical response technologies and to initiate the development of standards for oil spill response equipment used in broken ice, the Ohmsett newsletter said.

"The Navy-owned skimmers selected for testing at Ohmsett are currently used in the Alaska response region," said Stephanie Brown, pollution equipment lifecycle manager for the Navy's salvage and diving organization, one of the organizations participating in the Ohmsett testing. "Demonstrations of the new Arctic-specific equipment brought in by vendors also proved to be a valuable tool for selection of future capabilities for the U.S. Navy."

"Over the past two and a half years since the Deepwater Horizon spill response, the Coast Guard has been focusing on evaluating the need for and developing an Arctic oil-spill capability for skimming oil in ice," said Mike Crickard, logistics management specialist for the U.S. Coast Guard National Strike Force Coordination Center.

Although some types of skimmers have been tested successfully in simulated oil spills in the Norwegian Arctic offshore, where the controlled spilling of oil is allowed for the testing of oil recovery techniques, questions have been raised in the past over the effectiveness of skimmers in broken sea ice, given the potential for the ice to clog the skimming mechanisms.

Test procedure

To conduct the Ohmsett tests, facility personnel installed a chiller in the Ohmsett tank, to cool the water to 35 F. They then placed eight-inch-thick sheets of sea ice of various sizes into the tank, to simulate sea-ice coverages of 30 percent and 70 percent. Previous tests have found that 30 percent coverage is a threshold above which ice starts to inhibit skimmer performance, while 70 percent coverage represents the maximum coverage in which a skimmer could operate, the Ohmsett newsletter said.

To conduct a test, skimming equipment was placed within a boomed area of the tank that had been pre-loaded with ice and a layer of refined oil. The skimmer was run until one-third of the oil had been removed, with a total of three tests of this type being conducted. The skimmer was then run for an extended period, to determine changes in the skimmer's performance as the oil slick thinned.

Valuable experience

Brown said that the testing had provided the Navy with valuable experience in operating its skimmers in oil and ice, and had provided opportunities for optimizing techniques for the efficient recovery of oil in ice-infested waters.

Crickard said that the U.S. Coast Guard had found from the tests that a particular type of skimmer fitted with a specific brush adapter had proved promising.

"Some additional tests and adjustments to system components will be completed over the next few months in order to harden up the current system design, making it ready to distribute a system to each National Strike Force Strike Team as a 'ready load' system for operational deployment," Crickard said. ●

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UNIT APPEAL

Otter in jeopardy?

Cook Inlet Energy is the young subsidiary of Miller Energy Resources Inc., a publicly traded company based in Tennessee.

The Otter unit appeal is addressed to Dan Sullivan, the commissioner of the state Department of Natural Resources.

Unless Barron's decision is reversed, the appeal says, further drilling "will most likely not occur" on the Otter prospect.

While Barron said the company could proceed lease by lease, Cook Inlet Energy argues no prudent company would move forward with drilling if part of the lease hold overlying the Otter structure is about to expire.

"Investors simply are not going to commit capital for a project unless the acreage position is secure," the appeal says.

The appeal further says Cook Inlet Energy already has spent, to date, more than $10 million on exploration activity at Otter, and plans to spend $2 million more to prove up the gas reservoir — if the Barron decision is reversed.

'Rolling the dice'

The Otter prospect is about nine miles north of the ConocoPhillips-operated Beluga River gas field.

Cook Inlet Energy already has drilled one exploratory well at Otter, on lease ADL 390579, and plans to re-enter the well to deepen it. The lease's primary term already has elapsed, but the company is able to hold it with the drilling operations.

An adjacent lease is due to expire on Sept. 30, while the other two leases are good through February 2018.

The company has spoken positively of what it has found at Otter so far, and says it already has received state approval of a gas pipeline right of way.

In its appeal, Cook Inlet Energy touted its vigor since forming in 2009, describing itself as "nimble, diligent, and willing to explore and develop prospects long neglected."

The company noted how it took over and revived a collection of shut-in assets from Pacific Energy Resources Ltd., a company that went bust.

Since 2009, Cook Inlet Energy has invested some $41.5 million on the offshore Redoubt unit, and $13.3 million on the West McArthur River unit. What's more, the company says it has bid millions of dollars in Cook Inlet lease sales, and is pursuing multiple drilling projects in the Cook Inlet and Susitna basins.

The appeal says Barron's decision goes against the stated goal of Gov. Sean Parnell, as well as the Alaska Legislature, to see more investment in Cook Inlet where gas deliverability has become strained and where an "oligopoly" exists in the gas supply market.

Barron is "rolling the dice" that the Otter acreage will be developed lease by lease, and his decision "will have a chilling effect on attracting new companies and investors to Cook Inlet," the appeal says.

Change of policy suspected

In his denial, Barron noted that while Otter shows clear potential for a hydrocarbon accumulation, Cook Inlet Energy "has been unable to provide evidence of a reservoir at the Otter structure."

A major argument in the company's appeal is that Barron and the Division of Oil and Gas appear to have unlawfully adopted a new policy against "exploration units."

"This new policy runs counter to DNR's statutes, regulations and DNR's past practice," the appeal says.

The company also argues that, in denying the unit, the state denies Cook Inlet Energy the ability to explore and develop the leases in the most rational manner, with the least surface impact.

Cook Inlet Energy is asking the DNR commissioner to vacate Barron's decision, and to direct Barron to form the Otter unit and work with the company to "address any perceived deficiencies."

The company also is asking that the commissioner clarify DNR's unit policy, as Barron "disregarded DNR's unitization regulations and DNR's past practice."

Finally, Cook Inlet Energy wants the commissioner to convene a hearing on its appeal.

—WESLEY LOY

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