Petroleum news

page 15 Enstar asks RCA to OK new natural gas supply contract with Marathon

Vol. 15, No. 16 • www.PetroleumNews.com *A weekly oil & gas newspaper based in Anchorage, Alaska* Week of April 18, 2010 • $2

EXPLORATION & PRODUCTION

Another step for Shell

EPA issues air quality permit for Shell's Beaufort Sea drilling operations

By ALAN BAILEY

Petroleum News

Another piece of the permitting jigsaw puzzle for Shell's long-sought but much frustrated plans for drilling on Alaska's Arctic outer continental shelf slotted into place April 9, when the U.S. Environmental Protection Agency announced the issuance of an air quality permit for Shell's proposed drilling operations in the Beaufort Sea.

Shell plans to use the drillship Frontier Discoverer to drill one well in its Torpedo prospect and another well in its Sivulliq prospect during the 2010 open water season and had applied for a major air quality permit for its drilling fleet. Both prospects are in the Beaufort Sea on the west side

see **SHELL** page 18

COURTESY SHELL ALASKA

Under the terms of the permits, EPA will consider the Frontier Discoverer to be an emissions source during the period that the vessel is secured at a drilling site in a configuration that allows drilling operations to take place — at other times the vessel will be viewed as a regular ship plying the ocean.

NATURAL GAS

More time for exports

Kenai LNG owners to ask for another two-year extension to export license

By ERIC LIDJI

For Petroleum News

If you had to pick one facility that symbolized all the complexities of the Cook Inlet basin, you couldn't do much better than the liquefied natural gas export plant in Nikiski.

It keeps the lights on by tempering seasonal swings, but also sends huge amounts of gas overseas at a time of declining reserves. It's unique locally as an anchor for industrial demand, and unique nationally for being the only LNG export facility in the country.

The importance of the Kenai LNG plant is up for discussion again because its owners, ConocoPhillips and Marathon Oil, recently said they plan to ask the federal government for an extension to the license that allows them to ship gas overseas.

see **KENAI LNG** page 20

PETROLEUM NEWS FILE

The Nikiski LNG facility

FINANCE & ECONOMY

China invades oil sands

Enters thick of production after 5 years of quietly building startup stakes

By GARY PARK

For Petroleum News

China has entered the thick of Alberta's oil sands industry, paying a startling ticket price of US$4.65 billion to ConocoPhillips to become a partner in an active producing operation, five years after launching a series of investments in startup operations.

In acquiring a 9.03 percent stake in Syncrude Canada, Sinopec (officially China petroleum & Chemical Corp.), reportedly beat out other state-controlled Chinese, Indian and Middle Eastern companies, as well as existing Syncrude owners and a coalition of several large pension funds in what was a lively bidding round.

The deal puts ConocoPhillips almost halfway to its planned US$10 billion divestiture of assets over the next two years to reduce its debt-to-capital ratio to 20-25 percent from 34 percent.

The betting among analysts such as

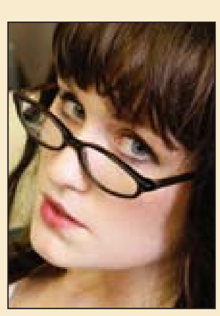
see **CHINA STAKES** page 18

Peter Harder, president of the Canada-China Business Council, expects the Canadian government will ratify the deal, given its stated position to welcome investment from China in Canada's natural resources and energy sector, provided there is a demonstrable net benefit to the Canadian economy.

Aiming to eliminate CO2 threat

One of the articles featured in Greening of Oil is about technology that captures and permanently store greenhouse gases in concrete. In March, Peabody Energy, the world's largest private-sector coal company, invested $15 million in Calera, which developed the technology. Peabody's coal products fuel 10 percent of all U.S. electricity generation. Read the story at www.greeningofoil.com. It's listed on the Web site's Home page.

Greening of Oil: Latest from Mac Ackers



MAC ACKERS

SOMETIMES READING WHAT OUR READERS SAY … Sometimes reading what Greening of Oil readers have to say about GoO's articles at www.greeningofoil.com is as interesting as the articles they comment on. We've had some well-informed, thoughtful observations over the past few months, some of which I have shared with you. But this week I am going to treat you to the humorous, emotional or simply unusual from our readers.

see **MAC ACKERS** page 19

Murkowski: Obama '11 budget won't fund CG for Arctic protection

U.S. SEN. LISA MURKOWSKI, R-Alaska, voiced concerns April 13 that the Obama administration has failed to provide enough funding in its proposed fiscal 2011 budget for the Coast Guard to fulfill its missions in Alaska, particularly in the Arctic.

Murkowski raised the issue with Coast Guard Commandant Admiral Thad W. Allen, who was testifying before the Senate Appropriations Homeland Security Subcommittee, of which she is a member.

In an April 13 press release Murkowski reported on her questions and Allen's testimony from the hearing.

"Our heavy icebreakers are reaching the end of their

see **INSIDER** page 19

contents

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

Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of April 15, 2010.
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

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

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay P2-22A	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Badami B1-38	Savant Alaska
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay 2L-304	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD3-123	ConocoPhillips
OIME 2000	141 (SCR/TD)	Alpine CD3-302A	ConocoPhillips
TSM 7000	Arctic Wolf #2	Stacked at Prudhoe Bay	FEX/Available
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
AC Coil Hybrid	CDR-2	Kuparuk 1E-15	ConocoPhillips
Dreco 1000 UE	2-ES	Prudhoe Bay, Stacked out	BP
Mid-Continental U36A	3-S	Stacked, Milne Point	BP
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay DS 17-08	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay DS 15-27	BP
Dreco 1000 UE	9-ES (SCR/TD)	Orion L-203	BP
Oilwell 2000 Hercules	14-E (SCR)	Kuparuk 2A-27	ConocoPhillips
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked at Prudhoe Bay Unit West Pad	Brooks Range Petroleum
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Point Thompson PTU-16	ExxonMobil
Academy AC electric Canrig	105-E (SCR/TD)	Stacked at Deadhorse	Available
Academy AC electric Heli-Rig	106-E (SCR/TD)	Stacked at Deadhorse	Available
OIME 2000	245-E	Oliktok Point OP23-WW02	ENI
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site G-30C	BP
Superior 700 UE	2 (SCR/CTD)	Milne Point Well Drill Site J-18A	BP
Ideco 900	3 (SCR/TD)	Kuparuk Well 2T-30	ConocoPhillips

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
BP (rig built & being assembled by Parker)			
Top drive, supersized	Liberty rig	Endicott SDI for Liberty oil field	BP
Nabors Alaska Drilling			
OIME 1000	19-E (SCR)	Oooguruk ODSN-15i	Pioneer Natural Resources
Oilwell 2000	33-E	Northstar, Stacked out	BP

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Stacked out at West Mac, waiting on weather to barge out	Available
Doyon Drilling			
TSM 7000	Arctic Fox #1	Stacked at Beluga	Available
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	On maintenance until June 1 then going to Paxton #4	Marathon Oil
Nabors Alaska Drilling			
Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Rigmaster 850	129	Kenai SLU 41-33RD	Chevron
Rowan Companies			
AC Electric	68AC (SCR/TD)	Stacked Kenai, Cosmopolitan	Pioneer Natural Resources

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Chevron (Nabors Alaska Drilling labor contract)			
	428	M-29 Steelhead platform	Chevron
XTO Energy			
National 1320	A	Coil tubing cleanout planned off Platform A in the near future	XTO
National 110	C (TD)	Idle	XTO
Kuukpik	5	Stacked in Kenai	Available

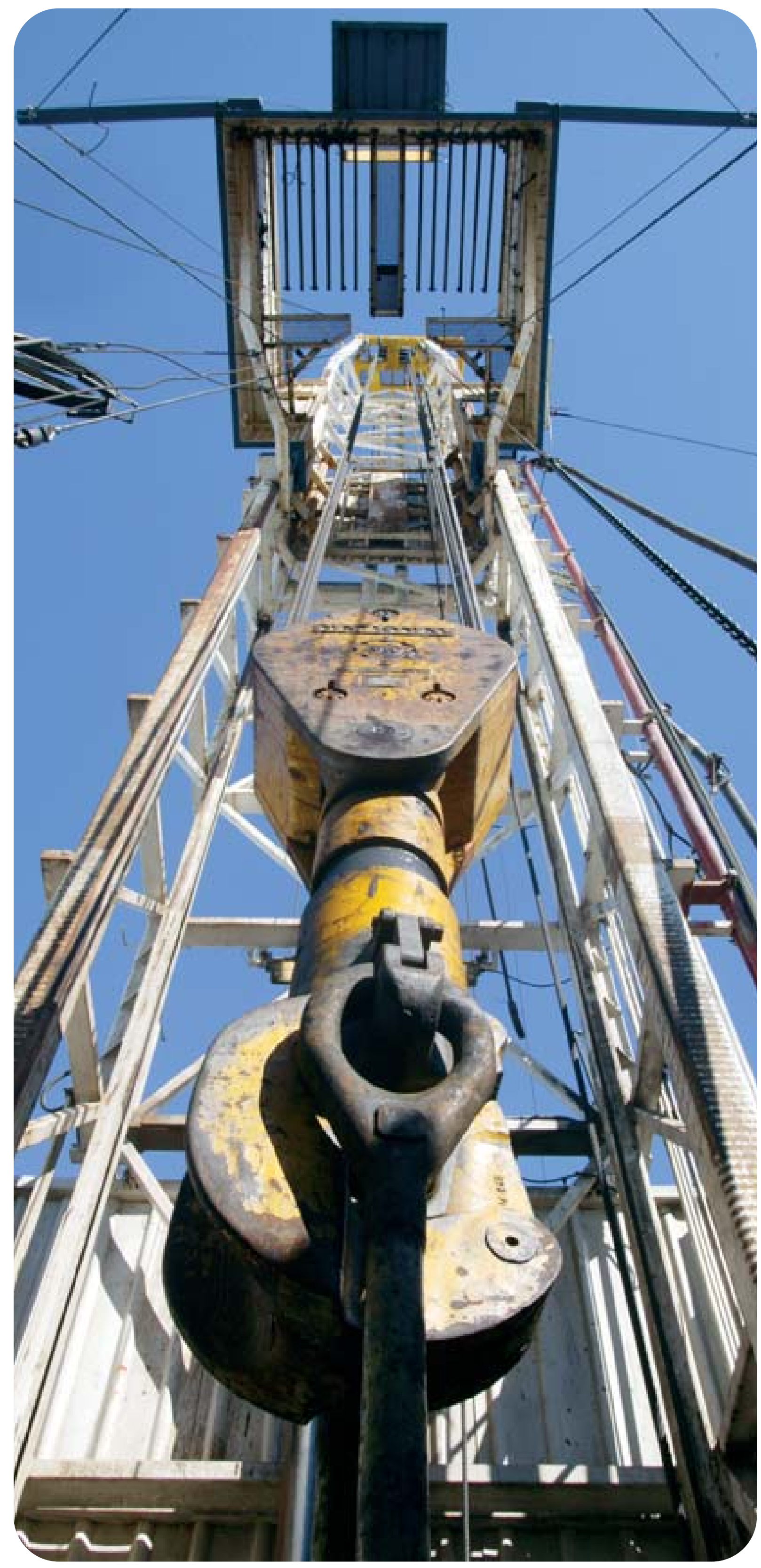
Mackenzie Rig Status

Canadian Beaufort Sea

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

Central Mackenzie Valley

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



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	April 9	April 1	Year Ago
US	1,476	1,465	1,005
Canada	126	151	83
Gulf	53	50	47

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

● EXPLORATION & PRODUCTION

ANS crude: The missing billion barrels

Alaska Department of Revenue analyzes well data, dials down oil production forecast; AOGCC well-by-well info has been added to mix

By WESLEY LOY

For Petroleum News

A curious thing happened on the way to Alaska's latest long-term oil production forecast.

We lost a billion barrels.

Sound alarming?

It's probably not as bad as it seems. Read on.

Declining projection

On April 9, the Alaska Department of Revenue released its spring 2010 revenue forecast.

The biannual revenue forecast is a vital document, used by the governor and Legislature to plan a state budget extremely reliant on taxes and other revenue from oil and gas production.

Nearly all of the state's crude oil production comes from the North Slope, in particular the large Prudhoe Bay, Kuparuk River and Alpine oil fields.

As part of developing the revenue forecast, state officials and consultants must try to forecast the level of future oil production.

The Department of Revenue's latest forecast says North Slope production will total just over 5.2 billion barrels through the year 2050.

That's a great deal of oil, to be sure, worth a staggering $430 billion at today's market price of about $82 per barrel.

But the forecast is well shy of what the department was projecting a year ago — 6.3 billion barrels through 2050.

2,000 forecasts

So what's changed in a year?

Are some Prudhoe Bay wells playing out prematurely?

Are oil companies canceling new fields and other investments?

In fact, one of the biggest changes is the state's newfangled approach to estimating the amount of oil each field is expected to produce.

In the past, the state looked at each field on an aggregate level to forecast production, said Jennifer Duval, a Department of Revenue petroleum economist.

But following the spring 2009 revenue forecast, the department began to review historic production data on about 2,000 individual wells on the North Slope, Duval said. The data comes from the Alaska Oil and Gas Conservation Commission, which regulates subsurface work in the oil fields.

It took a lot of time, but the idea was to study and forecast each well's performance to better understand what sort of production could be expected from corresponding fields, Duval said.

To her knowledge, the department has never done such well-by-well analysis before.

"I don't really want to say it's more accurate. We won't know for a while," Duval said. "But each well performs differently."

The department will continue factoring in individual well data as it becomes available from the AOGCC, she said.

Already, the technique has been used twice — for the fall 2009 forecast, and for the spring 2010 forecast.

In predicting well output from one forecast to the next, Duval said: "Some wells we were higher, some wells we were lower, some we were right on. On average, we were pretty good."

Lots of other variables go into the production forecast, she said, including talks with oil companies and a review of the development plans they're required to submit annually to the Department of Natural Resources.

Changing company plans can have a significant effect on the forecast. For example, production from a planned ConocoPhillips development, Alpine West, was "pushed out a year" in the latest forecast, Duval said, because of trouble obtaining a permit from the U.S. Army Corps of Engineers.

"Each forecast is made with a different set of assumptions," she said. "You make your best guess based on all the information you have available to you at the time."

Revenue's new man

The Department of Revenue awarded a contract to Frank Molli to do the production forecasts, starting with the fall 2009 projection. That forecast, like the spring 2010 forecast, predicted about 1 billion fewer barrels through 2050.

Molli is doing the forecasts, including the individual well analysis, using software he wrote himself, Duval said.

Molli isn't an Alaskan. He lives in Colorado Springs, Colo., and is president of Molli Computer Services Inc., his resume says. He has a bachelor's degree in electrical engineering from the University of Colorado, and worked as a process engineer and a reservoir engineer during the 1970s and '80s for Phillips Petroleum Co.

He took over work previously done for the department by Dudley Platt, an Anchorage area reservoir engineer.

On Jan. 26, Molli testified before the state Senate Finance Committee about his production forecast. After Molli's introduction, the committee co-chairman, Sitka Republican Sen. Bert Stedman, threw in a playful prelude.

"Just as a note for the record," he told Molli, "I don't want to give you a benchmark to hit but your predecessor missed the forecast by just a handful of barrels and we always look for improvement, so spot on will be just right for us."

Molli went on to explain his work.

"To generate the forecast we gathered production data from each well from the Alaska Oil and Gas Conservation Commission and then applied a trend analysis on the recent history for each well and carried that trend out to generate a per-well forecast. Then this, along with discussions with the operators about their plans of development for future wells, and considering other public and private information, was then summed on a per-field basis to produce the forecast you see here."

Molli continued: "After generating the 2009 fall forecast and comparing it with previous forecasts, this forecast, I think, is a bit more conservative than prior years."

Is this anything?

So Molli and the Department of Revenue are now forecasting, long-range, some 1 billion barrels of oil less than the department predicted a year ago.

But does this really matter?

As anyone in the oil business knows, a lot can change over 40 years and nobody has a clear enough crystal ball to see all the factors that could help or hurt Alaska oil production — from drilling success and new technology to shifting politics and company priorities to price swings, weather and wars.

The spring 2009 and 2010 forecasts, near-term, really aren't very different. As an example, for 2015 the forecasts put total North Slope production at 232 mil-

see MISSING page 5

Petroleum news

www.PetroleumNews.com

Kay Cashman	PUBLISHER & EXECUTIVE EDITOR
Mary Mack	CHIEF FINANCIAL OFFICER
Kristen Nelson	EDITOR-IN-CHIEF
Clint Lasley	GM & CIRCULATION DIRECTOR
Susan Crane	ADVERTISING DIRECTOR
Bonnie Yonker	AK / NATL ADVERTISING SPECIALIST
Heather Yates	BOOKKEEPER
Shane Lasley	IT CHIEF
Marti Reeve	SPECIAL PUBLICATIONS DIRECTOR
Steven Merritt	PRODUCTION DIRECTOR
Alan Bailey	SENIOR STAFF WRITER
Wesley Loy	CONTRIBUTING WRITER
Gary Park	CONTRIBUTING WRITER (CANADA)
Rose Ragsdale	CONTRIBUTING WRITER
Ray Tyson	CONTRIBUTING WRITER
John Lasley	STAFF WRITER
Allen Baker	CONTRIBUTING WRITER
Sarah Hurst	CONTRIBUTING WRITER
Judy Patrick Photography	CONTRACT PHOTOGRAPHER
Mapmakers Alaska	CARTOGRAPHY
Forrest Crane	CONTRACT PHOTOGRAPHER
Tom Kearney	ADVERTISING DESIGN MANAGER
Amy Spittler	MARKETING CONSULTANT
Dee Cashman	CIRCULATION REPRESENTATIVE

ADDRESS
P.O. Box 231647
Anchorage, AK 99523-1647

NEWS
907.522.9469
publisher@petroleumnews.com

CIRCULATION
907.522.9469
circulation@petroleumnews.com

ADVERTISING
Susan Crane • 907.770.5592
scrane@petroleumnews.com

Bonnie Yonker • 425.483.9705
byonker@petroleumnews.com

FAX FOR ALL DEPARTMENTS
907.522.9583

Petroleum News and its supplement, Petroleum Directory, are owned by Petroleum Newspapers of Alaska LLC. The newspaper is published weekly. Several of the individuals listed above work for independent companies that contract services to Petroleum Newspapers of Alaska LLC or are freelance writers.

OWNER: Petroleum Newspapers of Alaska LLC (PNA)
Petroleum News (ISSN 1544-3612) • Vol. 15, No. 16 • Week of April 18, 2010
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518
(Please mail ALL correspondence to:
P.O. Box 231647 Anchorage, AK 99523-1647)
Subscription prices in U.S. — $98.00 1 year, $176.00 2 years, $249.00 3 years
Canada — $185.95 1 year, $334.95 2 years, $473.95 3 years
Overseas (sent air mail) — $220.00 1 year, $396.00 2 years, $561.00 3 years
"Periodicals postage paid at Anchorage, AK 99502-9986."
POSTMASTER: Send address changes to Petroleum News, P.O. Box 231647 Anchorage, AK 99523-1647.

● NATURAL GAS

Regulator urged to put sunset date on MGP

Junior explorer MGM Energy wants construction started by end of 2013, 3 years earlier than deadline requested by project partners

By GARY PARK
For Petroleum News

Canada's National Energy Board is under pressure to impose a tight deadline of Dec. 31, 2013, for proponents of the Mackenzie Gas Project to start construction — three years sooner than the partners are requesting.

The argument was made April 13 by MGM Energy, the sole Arctic gas explorer in recent years, as the federal regulator started its final round of hearings prior to making a decision by September on engineering, safety and economic issues.

Nancy Dilts, vice president of legal and regulatory affairs for MGM, said a sunset clause is essential to ensure that northern communities, businesses and individuals as well as other Arctic investors are not subordinated to the "plans and timetables of the applicants" — Imperial Oil, Shell Canada, ConocoPhillips Canada, ExxonMobil Canada and the Aboriginal Pipeline Group.

She said it is important to all Canadians that "construction proceeds as expeditiously as possible."

Setting a deadline would bring an end to discussions about whether the project would be realized, Dilts said.

She said that during the past four years of regulatory hearings by the NEB and the Joint Review Panel, charged with examining environmental and socioeconomic concerns, "pens have been put back in drawers, shovels have been put down and equipment and people in the north have been left to idle while one company after another has suspended exploration and investments in the north because of the uncertainty and timing relating to this project."

Imperial looking at 2013 sanction

Don Davies, an attorney for Imperial, said the Dec. 31, 2013, deadline would not work because the proponents have insisted they would not be in a position until late 2013 to decide whether to sanction the Mackenzie Valley pipeline.

Don Davies, an attorney for Imperial, said the Dec. 31, 2013, deadline would not work because the proponents have insisted they would not be in a position until late 2013 to decide whether to sanction the Mackenzie Valley pipeline.

Even if the stars were aligned construction would not be possible until 2014 at the earliest, he said.

Davies told the NEB that Imperial and its partners also need the necessary permits and major regulatory decisions in place and must have a reasonable assurance that their certificate would not expire before construction could start.

Dilts said MGM endorsed the MGP and has indicated its intention to process its gas on the proposed gathering system, but before it can make a shipping commitment it must "know the terms under which the pipeline company will conduct business with MGM as a producer-explorer."

MGM, since being spun off from Paramount Resources, has drilled eight wells on the Mackenzie Delta and notched two discoveries, boosting its chances of being a major gas supplier outside of the three anchor fields.

MGM has said it is prepared to become either an equity partner in the Mackenzie gas gathering and processing facility, or to contract for 200 million cubic feet per day of firm capacity.

Competition an issue

Before the final hearings started, NEB chairman Kenneth Vollman said the regulator was "looking forward to hearing the views and opinions of hearing participants on the decisions we must take."

But some analysts are not sure Arctic gas can compete with the rapid emergence of shale gas in North America.

Judith Dwarkin, chief economist with Ross Smith Energy Group, said no one was thinking about U.S. shale gas when the MGP was revived almost a decade ago or the "structural change in the continental gas supply (that shale gas) represents."

She noted that Canada also has its own early-stage shale gas industry, raising questions about the viability of the MGP.

Ralph Glass, an economist with AJM Consultants, asked why the MGP partners would be prepared to invest in bringing gas to southern markets from the Mackenzie Delta "when you can feed the markets with all the other plays, like the Marcellus shale or the Montney in Alberta." ●

Contact Gary Park through publisher@petroleumnews.com

continued from page 4

MISSING

lion barrels and 227 million barrels respectively. Twenty years farther out, in 2035, the divergence between forecasts is more pronounced: 117 million barrels versus 78 million.

Here's another consideration on the significance of a mere 1 billion barrels when forecasting over decades: The department, for the most part, doesn't even include in its estimates the tens of billions of barrels of known heavy or viscous oil in deposits such as Ugnu and West Sak. Nor does it include known oil discoveries such as Kuvlum and Sandpiper on the federal outer continental shelf, or the potentially vast volumes of oil that might one day be recovered with technologies such as low-salinity waterflood or carbon dioxide injection.

"Accordingly, we believe that our current estimates of ultimate recovery from the North Slope are conservative," says the department's fall 2009 revenue forecast. ●

Contact Wesley Loy at wloy@petroleumnews.com

LAND & LEASING

DOI announces science strategy for OCS

Salazar says USGS and MMS will gather scientific information for informed decisions on future Chukchi and Beaufort Sea lease sales

By ALAN BAILEY
Petroleum News

On April 13 Secretary of the Interior Ken Salazar announced the U.S. Department of the Interior's strategy for gathering scientific information that will inform future decisions regarding oil and gas development in the Chukchi and Beaufort Seas.

Salazar said that he has instructed the U.S. Geological Survey to complete by Oct. 1 a review of existing scientific information relating to the Arctic outer continental shelf, offshore Alaska. And concurrently with the USGS review, the U.S. Minerals Management Service will gather scientific information about offshore resources, spill response capabilities and environmental sensitivities for the scoping of a draft environmental impact statement for the upcoming 2012-17 outer continental shelf lease sale program.

New OCS strategy

On March 31 President Obama and Secretary Salazar announced a new strategy for outer continental shelf oil and gas leasing, removing the remaining Beaufort Sea and Chukchi Sea lease sales from the MMS 2007-12 lease sale program, placing the Bristol Bay region off limits for future lease sales and saying that more scientific research into environmental and oil spill response issues is needed prior to conducting more oil and gas leasing in the Arctic offshore.


ALAN BAILEY
KEN SALAZAR

The Chukchi and Beaufort seas remain within the planning scope for the 2012-17 OCS lease sale program. And Interior is honoring the rights of existing Chukchi Sea and Beaufort Sea leaseholders — Shell plans to drill two exploration wells in the Beaufort Sea and up to three wells in the Chukchi Sea during the 2010 open water season.

"If we are to responsibly develop energy resources in frontier areas of the outer continental shelf, especially in the Arctic's extreme environment, we must support exploration activities, gather the science needed and listen to affected communities," Salazar said in announcing Interior's science strategy. "The studies that USGS and MMS are undertaking and the exploration wells that could be drilled as early as this summer will help us better understand the resources and challenges in the Chukchi and Beaufort Seas, so that we can make wise decisions about potential resource exploration and extraction activities."

USGS evaluation

"Protecting our coastal and marine ecosystem is fundamental to the department strategy," said USGS Director Marcia McNutt. "By asking the USGS to make the initial independent evaluation, to inform the department, we will much better understand the environmental sensitivities in the Arctic before we consider further offshore energy development."

USGS will determine what information is currently available and what knowledge gaps exist regarding the resilience of coastal and marine ecosystems to potential resource extraction activities, McNutt said. Input will come from established organizations, such as professional associations and the North Slope Borough, which can represent consensus viewpoints and present major findings.

"This information will help highlight where strong science exists, where scientific uncertainty still resides and help better inform our energy and natural resource missions in the Arctic," McNutt said.

USGS efforts will focus on the impacts of exploration activities on marine mammals; identify research applicable to oil spill response in ice-covered regions; evaluate the cumulative offshore and onshore environmental impacts of development, infrastructure and maintenance activities, including impacts on subsistence hunting and fishing; and review any impacts of future climate change on future energy development, she said.

And in addition to this review, aimed at decision making for oil and gas leasing, USGS is involved in research into the effects of the loss of Arctic sea ice and terrestrial permafrost through the "Changing Arctic Ecosystems" program, under a 2010 federal appropriation, McNutt said.

Balancing needs

The revised 2007-12 lease sale program, announced on March 31, reflects the trust that the American people have placed on government agencies "to balance the sometimes competing needs of meeting our country's energy requirements while ensuring the health and well being of our natural environment and our human communities," said MMS Science Advisor Dr. Alan Thornhill.

And the environmental scoping process for the 2012-17 lease sale program will include four public meetings to be scheduled in June by the Alaska region of MMS, he said.

"This is only the first of many ways we will be working with the public, local leaders, tribal members and other stakeholders in every step of this program," Thornhill said.

And, in response to a question regarding dialogue with the Alaska administration with respect to OCS oil and gas development, Salazar said that Interior is in "constant conversation" with Alaska stakeholders, including Alaska Natives and the Alaska state government.

"We do not always agree with everything that the State of Alaska is proposing and we have different points of view, but we intend to work with State of Alaska in every way possible to make sure their voices are in fact heard," Salazar said.

Importance of research

Scientific research sits at the core of everything that MMS does and the agency enjoys a long history of involvement in Arctic research — various federal agencies have invested hundreds of millions of dollars in researching the Arctic region, Thornhill said.

"Since 1973 the Alaska region of MMS alone has funded more than $300 million in studies to assess the biological and social impacts from economic development activities," he said. "The MMS Alaska region environmental studies program currently manages about 60 ongoing studies and maintains a multidisciplinary research program."

A current multiyear MMS study is focusing on the Chukchi Sea, monitoring ocean currents and ice; studying bowhead whales, walrus, fish and seabirds; and sampling the water quality and the seafloor sediments to establish environmental baselines. Other Arctic studies are investigating polar bear populations; examining bowhead whale feeding habits; studying ocean currents and sea-ice movements; analyzing the foraging of various marine mammals; and making use of state-of-the-art technologies to track animal movements.

MMS is also providing funding for a program of research into Arctic oil spill prevention and response technologies, Thornhill said. That research includes an investigation into the behavior of oil in various sea-ice conditions or in cold water, as well as the development of tools for detecting and mapping oil in ice conditions, and for responding to oil spilled in moving, broken pack ice, he said. ●

Contact Alan Bailey at abailey@petroleumnews.com

● FINANCE & ECONOMY

Talisman sharpens shale focus

Unloads mostly conventional gas production; independent producer confident it can continue lowering finding, development costs

By GARY PARK

For Petroleum News

In what could be the largest disposals of Canadian oil and natural gas assets in 2010, Talisman Energy has negotiated five separate transactions totaling C$1.9 billion.

It is selling production of 42,500 barrels of oil equivalent per day (about 90 percent from mostly conventional gas fields) from proved plus probable reserves of 120 million boe and 1 million net acres of exploration lands.

Only one buyer's identity was disclosed. Calgary-based junior Eurogas, a 54 percent owned subsidiary of Dundee Corp., paid C$131 million for "the largest accumulation of oil and natural gas assets" in the province of Ontario, covering onshore oil production and offshore natural gas acreage.

The sale equated to about C$44,000 per boe of production and C$16 per boe of reserves, which Mark Friesen, an analyst with Versant Partners, said was "right in the range we were looking for."

Rafi Khouri, an analyst with Raymond James, said the metrics matched or topped the value his company had assigned.

UBS Securities analyst Matt Donohue said the metrics were "slightly below our expectations" based on recent transactions that yielded C$55,000-$60,000 per flowing barrel, but he conceded the rapidly changing outlook for natural gas has likely eroded average values in a market place awash with conventional assets.

A Talisman spokeswoman said the company believes it "received full market value," measured against other recent gas-weighted transactions, adding Talisman has not yet decided whether to offer more assets.

Sayer Energy Advisors said Canadian mergers and acquisitions in 2009 averaged C$37,000 per flowing boe, one of the lowest levels since almost a decade ago.

Sayer President Alan Tambosso said a month ago he did not expect average prices to rise for conventional gas assets at a time when buyers were in scarce supply.

Suncor next test

The next test for sellers involves Suncor Energy's plans to dispose of about 75,000 boe per day, with expectations high that the oil sands producer will raise about C$4 billion.

John Manzoni, Talisman CEO

To date, Suncor has sold almost 70 million cubic feet per day of gas production in Trinidad and Tobago to a subsidiary of Centrica for US$380 million and 20.5 million cubic feet per day, plus 540 bpd of liquids, in various Alberta properties for C$235 million, to unidentified buyers.

In addition to its planned divestment of non-core gas assets in Western Canada, Suncor is also looking for buyers of its U.S. Rockies and some North Sea assets.

For Talisman the latest deal follows sales of C$2.3 billion in 2009 and matches its target of unloading about 40,000 boe per day in 2010 as it moves aggressively to redeploy capital in North America to its unconventional gas plays in British Columbia's Montney and Pennsylvania's Marcellus zones.

Once the deals are completed by mid-year, Talisman's Canadian net proved reserves will be reduced by 28 percent to about 310 million boe, with the major reductions involving 93 million proved and probable reserves in the Peace River Arch which straddles the northern Alberta and British Columbia border and 70 million proved and probable reserves in the central Alberta Foothills.

The Peace River production of 18,000 boe per day included 8,800 boe per day of Montney production which Talisman did not view as an opportunity to pursue large-scale development. The Foothills production was 19,200 boe per day.

Assets couldn't compete

Chief Executive Officer John Manzoni said the assets had a "great future, but they can't compete for capital within our emerging strategic asset mix."

He said that shedding the properties will "help us focus on, finance and build our growing low-cost North America shale gas business."

That program will claim the bulk of Talisman's 2010 capital budget of C$1.6 billion for North America, dominated by 200 pilot wells in the Marcellus and Montney plays, compared with 70 wells in 2009.

The hope that Manzoni dangles before shareholders is that Talisman can reduce its operating costs by up to C$150 million "year-on-year" as the company targets continued reductions in its finding and development costs to under C$20 per boe this year from C$43 in 2008.

He said Talisman's "shale business model" should enable the company to bring its proved, developed and producing reserves replacement costs into line with total replacement costs as it ramps up shale drilling in 2010 and 2011.

FirstEnergy Capital analyst Michael Dunn said the series of asset disposals has allowed Talisman to set up its North American business "the way they want to," and allow it to rebuild its production by assigning more capital to the Marcellus and Montney plays. ●

Contact Gary Park through publisher@petroleumnews.com

NATURAL GAS

It's a Cinch in B.C. conventional play

Cinch Energy, a junior exploration company, has again stirred interest in a conventional natural gas play in northeastern British Columbia.

Updating its drilling program, Cinch reported that its operated Dawson well (65 percent working interest) was drilled to a total depth of about 12,500 feet and tested at restricted rates of 7 million to12 million cubic feet per day from 130 feet of net pay in the Wabamun zone.

An earlier test well one mile to the west flowed as high as 20 million cubic feet per day, prompting company President George Ongyerth to list the wells as an extension of the Parkland Wabamun field, which has been producing for more than a decade.

Cinch said both wells should be producing before the end of 2010 at a long-term rate of 5 million cubic feet per day each.

Ongyerth said the wells are economic, despite current gas prices, and create some upside for conventional plays at a time when all of the focus is on tight and shale gas.

Cinch has an average working interest of 57 percent in 46,700 acres of Wabamun rights and is developing plans for drilling and shooting more 3-D seismic.

—GARY PARK

● GOVERNMENT

Coastal zone, tax on gas bills on burner

Two issues firing up legislators — role of local districts in coastal management and tax impacts of open season — move toward votes

By KRISTEN NELSON
Petroleum News

Two issues in particular are firing up members as the Alaska Legislature moves into its final days: coastal zone management and the impact of North Slope gas sales on the state's production tax income.

Sen. Bert Stedman, R-Sitka, co-chair of Senate Finance, has been working the gas issue with consultants for more than a year, and Senate Bill 305 passed the Senate and was in House Finance, expected to move on to the House floor, as Petroleum News went to press April 15.

The coastal zone management bill remains controversial, with considerable support by members but seemingly implacable opposition from the administration.

House Bill 74, the coastal zone bill sponsored by Rep. Reggie Joule, D-Kotzebue, stalled out in House Resources but the Senate version, SB 4, by Sen. Donny Olson, D-Nome, has been amended and passed out of Senate Finance April 14 and was expected to be debated on the Senate floor.

Momentum on decoupling

SB 305, decoupling oil and gas for purposes of calculating the progressivity portion of the state's production tax, appeared to gain momentum as consultants relentlessly hammered the numbers. Because the difference in value between oil and gas is currently much greater than the difference in volume, when the two are combined in production tax calculation, as they are now, a relatively low dollar value of natural gas combined with a high volume at the time of major gas sales from the North Slope could cost the state billions.

The bill began with decoupling natural gas from oil before progressivity was calculated; there was initially no progressivity on gas. Calculations from the administration showed that at certain oil and gas price relationships the state could lose money by decoupling gas from progressivity, and the bill was amended to include progressivity on gas — but as decoupled from oil.

House Finance had heard the bill and was working with the administration on an amendment to SB 305; the bill was expected to pass out of House Finance and move to the House floor.

Stedman has said that decoupling can happen at any time, but because of the Alaska Gasline Inducement Act the tax on North Slope natural gas will be locked in place for the first 10 years of sales for any volumes committed in the first AGIA binding open season, which begins May 1.

Anger over coastal management

While the administration has worked with legislators on SB 305, even though the administration's position is that the legislation is not needed, it has not worked with legislators on the coastal zone management bill, which has visibly angered legislators who want more local involvement in coastal zone management.

Sponsors amended the bill in an effort to meet one objection, changing a requirement that the governor select members for a new council from a list provided by coastal districts, to a requirement that members be selected from coastal districts.

Stedman asked the administration in Senate Finance for amendments to the bill.

Department of Environmental Conservation Commissioner Larry Hartig appeared April 14 to speak for the administration and said the bill is such a strong shift from the present program that it is extremely difficult for the administration to see a way to move forward to enhance local authority without the state giving up authority.

He said the governor and the administration would like to see communications continue, but don't see the present bill as the vehicle to make changes because of strong differences between the administration and the sponsors.

On the request for administration suggestions for changes in the bill, Hartig said that until consensus is reached on where authority would lie — particularly on large resource projects that affect the state as a whole — that it is hard to move forward with specific language.

Coastal response

North Slope Borough Mayor Edward Itta has been in Juneau speaking on the coastal zone issues, and said in a press conference April 14 that while the bill sponsors have been willing to compromise, the state hasn't been willing to show any flexibility at all.

He called this "state government at its very worst," refusing to participate in a legitimate process with the people of Alaska and the Legislature.

Rep. Bob Herron, D-Bethel, called this "a huge missed opportunity" by the administration, and said that without local involvement in coastal management "the feds will run right over us."

Rep. Bryce Edgmon, D-Dillingham, said the local areas are "pro development, but we're also pro local influence." Since the old program was changed in 2003, Olson and Joule have repeatedly tried to get this on the table to find middle ground, he said.

Itta said local involvement in coastal zone management gives local people input and buy-in on a project. Itta highlighted the Pebble project as an example where there was no local input or buy-in. ●

Contact Kristen Nelson at knelson@petroleumnews.com

GOVERNMENT

Hand-in-hand on auto emissions

United States, Canada take joint approach that could reduce oil needs by 500,000 bpd by 2016, but critics doubt goals attainable

By GARY PARK

For Petroleum News

The United States and Canadian governments have delivered on a year-old pledge to set "common standards" for motor vehicle fuel consumption as they chase ambitious cuts to greenhouse gas emissions.

Their tandem approach to improving the average emission performance of new cars and trucks by 25 percent over the next six years is calculated to lower oil needs by more than 500,000 barrels per day and reduce carbon emissions by the equivalent of taking 58 million vehicles off the road.

It's a key element of the goal set by the two governments to reduce GHGs by 17 percent from 2005 levels by 2020.

But not everyone believes the U.S. and Canada can even achieve their goal of an average 35.5 miles per gallon for cars and trucks by 2016.

"It is impossible to meet these new rules, pure and simple," said Dennis DesRosiers, head of a Canadian consulting firm.

He described the measures as the "most negative piece of regulation ever to hit" the automotive industry.

DesRosiers said it generally takes "at least eight years to implement any new technology in this sector and the normal implementation period is close to 16 years. So even if the technology existed, which it doesn't in any way, shape or form, the 2016 goal could not be met."

Angry industry response

The angriest response came from vehicle manufacturers faced with an admission by the two governments that electric-powered vehicles will lose the "zero-emission" status they had originally been promised.

Under the new rules for 2012 to 2016, carmakers can count the first 200,000 electric vehicles they sell as "pollution-free." Beyond that sales point, the manufacturers will have to account for the emissions from the utility that created the electricity to power the vehicles.

A spokeswoman for the Alliance of Automobile Manufacturers said the 11 automakers in the alliance have no control over "where the energy comes from. It's just another barrier."

Charles Drevna, president of the National Petrochemical and Refiners Association in the U.S., also attacked the rules as a "misguided and flawed policy that has the potential for devastating consequences to American consumers, businesses, jobs and the economy."

However, by moving in lockstep with the U.S. on auto emissions, Canada has signaled that the chances of cap-and-trade legislation to curb GHGs — an approach that has few friends within the petroleum industry, or the producing provinces — are disappearing fast.

Officials call it win-win

But EPA Administrator Lisa Jackson said the two countries have "developed a clean car program that is a win for innovators and entrepreneurs and a win for our planet."

Canada's Environment Minister Jim Prentice said Canada and the U.S. will take further steps this spring to set fuel economy standards for larger trucks, which contribute the fastest growing source of transportation emissions, followed by regulations on trains, ships and commercial airliners.

The Canadian government estimates that the transportation sector accounts for 25 percent of Canada's greenhouse gas emissions.

Prentice said the emissions cuts for larger vehicles will "take us a long way to meeting our climate-change goals."

The new fuel standards will result in higher sticker prices for cars and trucks and manufacturers' production costs will start rising with the 2011 model year.

Environment Canada estimates that 2016 model year vehicles will carry an extra cost of C$1,195, while the EPA said the price of vehicles in the U.S. will go up by an average US$1,300.

But both governments claim the increased selling price will be offset by fuel savings, which the U.S. estimates will amount to US$2,800 over the life of a vehicle.

Joint plan praised

David Mondragon, chief executive officer of Ford Motor Company of Canada, hoped the program would "avoid a patchwork of competing provincial and federal regulations that would have led to unnecessary duplication, market disruption and increased compliance costs for manufacturers."

Automobile manufacturers said they were pleased the joint approach recognized the integrated nature of the North American market and the importance of harmonizing standards for cars and light trucks.

Mark Nantais, president of the Canadian Vehicle Manufacturers' Association, which represents General Motors, Ford and Chrysler, said the standards are "aggressive, but they do give us the clarity we need for the next five years and allow is to properly put the resources where we need them to deliver the technologies needed to comply."

While that debate starts to unfold, Prentice has taken his first steps toward a "national, coherent climate change approach for all Canadians" by signing an agreement with British Columbia to avoid duplication of regulatory measures.

However, by moving in lockstep with the U.S. on auto emissions, Canada has signaled that the chances of cap-and-trade legislation to curb GHGs — an approach that has few friends within the petroleum industry, or the producing provinces — are disappearing fast. ●

Contact Gary Park through publisher@petroleumnews.com

● FINANCE & ECONOMY

State expects to collect $5.6B in fiscal year 2010

By KRISTEN NELSON

Petroleum News

The Alaska Department of Revenue is projecting the state will collect $5.6 billion in unrestricted revenue in fiscal year 2010 and $5.3 billion in FY 2011.

The spring revenue forecast, released April 9, is an increase from the fall forecast, which projected unrestricted revenues of $4.8 billion for FY 2010 and $5.2 billion for FY 2011. The February interim forecast projected $5.4 billion for FY 2010.

The state's production tax revenue was $3.112 billion for FY 2009 and is forecast to be $2.943 billion for FY 2010 and $2.492 billion for FY 2011. Based on historic and estimated production volumes, the tax per taxable barrel was $14.20 for FY 2009 and is estimated to be $14.50 for FY 2010 and $13 for FY 2011.

The department is now forecasting that Alaska North Slope crude oil prices will be $75.32 per barrel in FY 2010 and $77.65 per barrel in FY 2011, compared to $66.93 and $76.35 respectively in the fall 2009 forecast.

ANS crude is expected to trade at a differential of $2.50 below West Texas Intermediate for the remainder of FY 2010 and FY 2011, the department said.

Economies assumed to improve

Revenue from oil and gas production is expected to provide more than 88 percent of the state's unrestricted revenue through FY 2019.

ANS oil production is forecast at approximately 650,000 barrels per day in FY 2010, a 6.2 percent decline from FY 2009.

The department said its forecast assumes economies in the U.S. and other developed nations will gradually improve, strengthening demand for petroleum products and "encouraging a robust oil price economy."

Spending on the North Slope is expected to continue at or above the current levels, the department said, with a slight increase expected for FY 2011. Lease expenditures are forecast to be $4.6 billion this fiscal year and $5.1 billion in FY 2011. The department said this is a slight increase in expected spending from the fall forecast, which showed $4.5 billion for FY 2011 and $5 billion for FY 2011.

Lease expenditure data for FY 2010 and FY 2011 come from expenditure forecast estimates from companies and other data submitted to the department. ●

Contact Kristen Nelson at knelson@petroleumnews.com

SAFETY & ENVIRONMENT

Oil spill across 1/5th of wildlife refuge

A crude oil spill covered about one-fifth of a remote national wildlife refuge near the mouth of the Mississippi River on April 7, and another 120 square miles in the Gulf of Mexico, the Coast Guard said.

No affected birds or animals had been reported, and more than 50 people and 16 vessels were working April 7 to clean up the spill from a pipeline through the Delta National Wildlife Refuge, Lt. Stephen Nutting said.

Nutting said the slick covered 16 square miles of the refuge, which comprises about 76 square miles of marshland between the Mississippi River and Breton Sound and the Gulf of Mexico. A 12-mile-wide slick stretched 10 miles into the Gulf of Mexico, he said.

Crews put 5,000 feet of containment boom around the slick and were putting out another 2,000 feet of boom around the environmentally sensitive area near Breton Island, Nutting said. He said skimmer boats had sucked up 600 gallons of oil.

A Berry Brothers General Contractors barge dredging for ExxonMobil U.S. Production Co. in the area notified the Coast Guard about 1 a.m. that oil was spilling into a canal about 10 miles southeast of Venice, according to a news release.

About 18,000 gallons of oil spilled before Cypress could close the broken section.

The news release was distributed jointly by the Coast Guard, the state of Louisiana and the pipeline operator, Cypress Pipe Line Co. — a joint venture between BP PLC and Chevron Pipe Line Co.

Nutting would not comment on the cause.

ExxonMobil has offered to help deal with the spill, company spokesman David Eglinton said in an e-mail.

—THE ASSOCIATED PRESS

● FINANCE & ECONOMY

Trying to win over hearts and minds

By GARY PARK
For Petroleum News

Canada's petroleum industry is going on the offensive, tired of being pilloried and booted around in the arena of public opinion.

A "broad-based" coalition, led by the Canadian Association of Petroleum Producers, nine other industry associations and various energy groups, is mounting a PR blitz under the "Alberta is Energy" banner to promote the contribution of oil and natural gas to the province's overall economy.

The agenda includes a Web site, media campaign and town hall meetings to counter what CAPP has long argued is the distorted criticism of the industry's environmental performance while building policies that are "favorable" to the contributions of the oil and gas sector to the provincial and national economies.

The effort to raise public awareness will eventually be extended to British Columbia and Saskatchewan, which, together with Alberta, account for well over 90 percent of Canada's oil and gas output.

Wining at home

"From our perspective, 'Alberta is Energy' is really about winning at home and creating a different kind of engagement and relationship with the producing provinces," said CAPP president David Collyer.

Roger Soucy, president of the Petroleum Services Association of Canada, said the decline in employment among his member companies to 50,000 now from 70,000 in 2008 is the kind of downturn that "helps people focus on where their bread is buttered."

Alberta Energy Minister Ron Liepert welcomed the initiative and agreed the industry has to do a better job of communicating with Albertans and all Canadians.

CAPP estimates the upstream industry spent C$54 billion in Canada in 2008, including C$39 billion in Alberta, generating C$8.5 billion in federal and provincial taxes in addition to C$10.7 billion in royalties for the Alberta government.

Roger Soucy, president of the Petroleum Services Association of Canada, said the decline in employment among his member companies to 50,000 now from 70,000 in 2008 is the kind of downturn that "helps people focus on where their bread is buttered."

Alberta royalties have totaled C$55 billion over the past decade, or about 56 percent of total revenues.

But CAPP noted that the recession, which increased Alberta's unemployment level by four percentage points to 7.7 percent last August, boosted the jobless rate in the oil and gas industry to 9.7 percent — figures it calculates amounted to a C$20 billion decline in industry spending from the peak.

Rise in Canadian dollar

However, Erin Wear, an economist with the United Steelworkers Union, said a thriving all and gas sector has contributed to a sharp rise in the Canadian dollar, with a negative fallout on Eastern Canada's manufacturing sector.

But the return of the Canadian dollar to parity with the U.S. greenback in April is spreading a measure of gloom through the Alberta government and the ranks of Canadian oil and natural gas exporters.

Alberta Finance Minister Ted Morton put it bluntly. "It's a potential billion-dollar hit," he said, noting that every 1 cent annualized increase in the Canadian dollar costs the Alberta government C$215 million from export revenues, given that the province has based its 2010-11 budget on the currency trading at 95 cents U.S.

"Is that a concern? Yeah," he conceded. "But is it going to stay at parity for the next three years? Probably not."

On the flip side, with crude pushing above US$85 per barrel (compared with the Alberta budget forecast of US$78.75) that would generate an extra C$186 million in revenues for every US$1 per barrel increase that extended over the full fiscal year.

Continuing the rollercoaster ride, Morton said his government is concerned about a new National Energy Board report projecting that declining Alberta natural gas production could cost the province up to C$500 million in lost royalties.

David Swann, leader of Alberta's Opposition Liberal Party, noting Alberta's expected budget deficit of C$4.7 billion, said the "government continues to paint a very rosy picture of the fortunes and how quickly we are going to get out of this mess," when it has a bad habit of overestimating revenue and underestimating liabilities. ●

Contact Gary Park through publisher@petroleumnews.com

● NATURAL GAS

Chenault, McGuire, merge in-state bills

Team to plan small line for North Slope gas to be headed by AHFC; Alaska Railroad board chairman included; standalone team, ANGDA

By KRISTEN NELSON
Petroleum News

Competing House and Senate bills designed to focus efforts to create an in-state gas pipeline merged April 12 in the Senate Resources Committee with passage of a substitute for House Bill 369. The bill was scheduled in Senate Finance April 15 and appeared to have a chance of passing the Legislature before its April 18 adjournment.

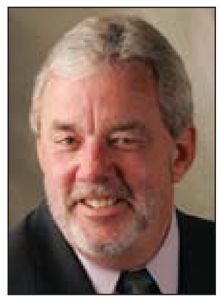
The "Joint In-State Gasline Development Team" established by the bill is tasked with developing an in-state natural gas pipeline plan and delivering that plan to the Legislature by July 1, 2011. The bill requires that the plan be for a line which would be operational by Dec. 31, 2015.

The bill which moved out of Senate Resources reflects the combined efforts of House Speaker Mike Chenault, R-Nikiski, the sponsor of HB 369, and Senate Resources Co-Chair Lesil McGuire, R-Anchorage, the sponsor of Senate Bill 287.

The committee substitute rolls in provisions of House Bill 44, also sponsored by Chenault, clarifying the authority of the Alaska Natural Gas Development Authority and allowing it to issue bonds for energy projects.

AHFC's Fauske will lead team

The in-state gas pipeline effort had been run out of the governor's office, first by Harry Noah and then by Bob Swenson. The bill changes that position from project manager to coordinator, comparable to the Alaska Gasline Inducement Act coordinator. Like the AGIA coordinator, the in-state gas coordinator is tasked with moving permitting forward.



DAN FAUSKE

The development team will be headed by Dan Fauske, executive director and CEO of the Alaska Housing Finance Corp. Fauske was the individual identified — by title — in HB 369 as the head of the development team.

McGuire's bill, SB 287, would have moved the in-state gas pipeline project to the Alaska Railroad Corp., expanded the railroad's authority to allow it to buy and sell North Slope natural gas for in-state use, and put its Chief Executive Officer Pat Gamble in charge of the effort.

Then Gamble was named to head the University of Alaska and the Alaska Railroad began the search for a new CEO.

The Alaska Railroad is still on the team, but its chairman, John Binkley, is now the representative, rather than the CEO, along with the CEO of the Alaska Natural Gas Development Authority, Harold Heinze, the in-state gas line project coordinator and the commissioner of the Department of Transportation and Public Facilities.

Art of compromise

Chenault said after the bill passed Senate Resource that conversations about in-state gas had been "long and strenuous at times" and said the compromise on the bills came because "two strong-willed individuals" had the same goal.

Fauske said working with legislators "has been a fun process" because of the "excitement that you see from people that are wanting to get involved and try to move something forward."

"We wanted to ensure Alaskans that we're serious about in-state gas, that we think it's a high priority of this Legislature" and want a new way to move forward to obtain the information needed so the Legislature can make a decision, he said.

McGuire said their staffs had been working together for a couple of weeks to put the compromise together and said she and the speaker think they have "merged the best of both bills into a package that we can move forward."

The Legislature's 17-member in-state gas caucus was involved, McGuire said, concerned that while AGIA may lead to a bigger line, it may fail, and "we wanted to get something going forward."

The bill's timeline calls for the development team to complete a project plan for the Legislature by July 1, 2011, a project that specifies and documents "how an in-state natural gas pipeline can be designed, financed, constructed and made operational" by the end of 2015.

In addition to monthly reports to all legislators, the team will deliver a report by Dec. 15, 2010, detailing any legislation required to advance the project.

AHFC subsidiary

Fauske said AHFC brings "a strong team on a variety of project management and finance," but said he looks forward to working with the development team named in the bill.

A subsidiary will be set up for the project, and Fauske told Senate President Gary Stevens, R-Kodiak, that AHFC has set up subsidiaries before, and that it is done so that there's a standalone legal entity handling the work under AHFC. The AHFC board, he said, will oversee the work of the subsidiary as they have other subsidiaries set up in the past.

Fauske said working with legislators "has been a fun process" because of the "excitement that you see from people that are wanting to get involved and try to move something forward."

Fauske told Senate Resources Co-Chair Bill Wielechowski, D-Anchorage, that a lot of good work has been compiled and he thinks that once the team gets into it they'll find that most of the work has been done and just needs to be organized. He said he's looking at bringing in six to seven people and maybe some additional administrative staff, and said there is office space at AHFC for those people.

Sen. Charlie Huggins, R-Wasilla, told Fauske that he liked Fauske's description of the project as short-term, saying he looked forward to a solution that the team would present, but urged Fauske to include ideas the team looked at and discarded.

Fauske said he envisioned a document that would show the things that were considered, the evaluation that was done on each, and an executive summary of what was s elected.

HB 44

ANGDA CEO Harold Heinze told Senate Resources he was "excited to be part of what I see as a very collaborative process you've set up." He said the ANGDA board was pleased to have AHFC in the "command and control position" on the project. He asked legislators to support the inclusion of HB 44 in the committee substitute and said passage is critical for ANGDA.

He said ANGDA has been trying to deal with some of the shorter-term issues facing the state, and if it can't act quickly some of those opportunities will slip away.

Heinze said he's stuck his neck out because of the need, and if the HB 44 language isn't enacted, he said he'd have to relook at what he's doing in Cook Inlet probably have to back away.

The HB 44 provisions in the bill allow ANGDA to bring natural gas from areas of the state other than the North Slope to market; add markets in the state to its charge and authorize it to bond up to $250 million "to acquire a gas supply, develop the Cook Inlet and Fairbanks markets, and plan, permit, and design gas transmission systems to mitigate gas shortfalls, the effect on consumers, and the economy of high cost energy, and ensure energy sufficiency for Alaskans." ●

Contact Kristen Nelson at knelson@petroleumnews.com

● LAND & LEASING

Savant drops Kupcake No. 1 lease acreage

Reservoir deemed 'water-wet,' True North sells CI leases at two prospects, Renaissance completes transfer, BRPC partners shuffle

By ERIC LIDJI

For Petroleum News

Savant Alaska has allowed four Beaufort Sea leases to terminate this year by choosing not to pay rental rates, according to a recently released state lease report.

The leases — ADL 390832, ADL 390833, ADL 390835 and ADL 390837 — are in the state waters of Foggy Island Bay, east of the Prudhoe Bay unit and west of the Badami unit. Savant used those leases to drill the Kupcake No. 1 exploration well in early 2008.

While Savant executed one of the quickest exploration efforts on the North Slope by an independent (at an offshore prospect no less), the well did not yield desirable results.

After drilling was completed, Bordeaux Energy Inc., a Canadian partner on the project, said Kupcake No. 1 reached the Kemik formation, but the target interval "was thinner than anticipated" and the porous Cretaceous sandstone encountered by the well was deemed to be "water wet," meaning the rocks were more likely to absorb water than oil.

Despite the Kupcake relinquishments, Savant appears to be retaining several leases adjacent to the western border of the Badami unit. Those leases have the same owners as the relinquished leases, except one — ADL 391380 — that Savant owns outright.

Savant owns a 65 percent stake in all four of the relinquished leases, while Bordeaux owns 30 percent and Texas-based independent BTA Oil Producers owns 5 percent.

Savant used that experience in the region, though, to partner with BP over the past two winters on an effort to bring the Badami field back online and into regular production.

Despite the Kupcake relinquishments, Savant appears to be retaining several leases adjacent to the western border of the Badami unit. Those leases have the same owners as the relinquished leases, except one — ADL 391380 — that Savant owns outright.

True North leaving Cook Inlet

The Houston-based independent True North Energy Corp., a former partner on Kupcake in various capacities, sold eight of its Cook Inlet leases to Samuel Cade in March 2010.

Of those, four leases sit north and south of the Beluga River unit, while the remaining leases are at the Harriet Bay prospect on the west side of Cook Inlet, south of Drift River and west of Kalgin Island. True North is retaining two Cook Inlet leases in that area.

True North picked up the acreage in 2006. Based on seismic acquisitions, the company estimated recoverable reserves between 180 million and 700 million barrels of oil at Harriet Bay. In February

While Savant executed one of the quickest exploration efforts on the North Slope by an independent (at an offshore prospect no less), the well did not yield desirable results.

2008, True North CEO John Folnovic told Petroleum News that the company was planning a summer permitting program and hoped to drill.

"Our focus has always been, in the near-term, in Cook Inlet," Folnovic said.

That drilling program never materialized.

True North originally bought some of those lease from Cade, among others.

Renaissance and BRPC shuffle

Renaissance Alaska transferred its working interest in 12 Cook Inlet leases to Stellar Oil and Gas, an independent owned by several executives of Texas-based Renaissance.

The transfer is mainly for bookkeeping purposes, as Stellar recently announced a sale of the leases to Buccaneer Energy Ltd., an independent producer out of Sydney, Australia.

On the North Slope and in the Beaufort Sea, the partners in the Brooks Range Petroleum Group shuffled working and royalty interests among themselves on 76 leases. The move comes after one partner, TG World Energy, gave up "certain working interests in the Beechey Point Unit leases in Alaska" after what it deemed to be an "unsuccessful" well. ●

Note: A copyrighted oil and gas lease map from Mapmakers Alaska (www.mapmakersalaska.com/) was used as a research tool in preparing this story.

Contact Eric Lidji at ericlidji@mac.com

GOVERNMENT

BLM seeks nominees for advisory council

The Bureau of Land Management is seeking nominations to its 15-member Alaska Resource Advisory Council for positions representing constituents in the following areas of interest: energy/minerals (two positions), conservation/environmental (one position), dispersed recreation (one position) and Alaska Native organization (one position).

The council provides advice and recommendations to BLM on land management issues for 75 million acres of public lands in Alaska.

Members serve three-year terms and may be reappointed for consecutive terms. Council members serve without salary but are reimbursed travel expenses when appropriate. Nominees should have the appropriate background and experience to give informed, objective advice on a broad array of public lands issues, and a demonstrated commitment to collaboration in seeking solutions to those issues. All nominees must be Alaska residents.

Call BLM at 907-271-5555 to request a nomination packet or visit www.blm.gov/ak (select Get Involved, then Advisory Councils/Committees). Nominations must be accompanied by letters of reference from the interests or organizations to be represented. Nominations will be accepted until May10. Final selections will be made by the Secretary of Interior.

—PETROLEUM NEWS

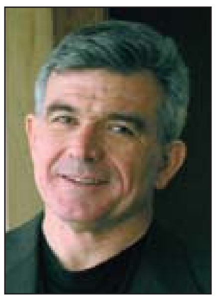
FINANCE & ECONOMY

Shell restructures Alaska organization

Shell has announced a major restructuring of its organization in Alaska as a consequence of the global restructuring of the company's exploration and production business.

"The new structure was put in place to increase company-wide accountability and to improve Shell's performance on delivering new projects and developing new technologies," Shell spokesman Curtis Smith said April 9. "The new Shell Alaska organization will further centralize decision making and streamline internal reporting relationships."

PETE SLAIBY



FORREST CRANE

RICK FOX

The company has promoted Pete Slaiby, previously general manager of Shell's Alaska venture, to become vice president of the venture, Smith said.

Brent Ross is now Alaska operations manager, responsible for managing Shell's drilling operations. And Charlie Williams is Shell's Alaska well delivery manager, while also serving as the company's chief scientist for worldwide well engineering and production technology.

Other members of the reconfigured Alaska team include Steve Phelps, Alaska exploration and appraisal manager; Gary Cameron, Shell Alaska joint venture manager; Marc Stone, senior legal counsel; Laurie Becwar, human resources manager; Gary Becker, Alaska finance manager; and Cam Toohey, government affairs manager.

Rick Fox, Shell's Alaska asset manager and a familiar face to many people in the state, will retire in September 2010.

"Fox was among the first Shell employees to be part of the leadership team when Shell re-entered Alaska in 2005," Smith said. "He and his wife, Cyndie, plan to remain in Alaska."

—ALAN BAILEY

● EXPLORATION & PRODUCTION

Corps Pacific division reviewing request

ConocoPhillips request for appeal over denial of permit for CD-5 drill site in NPR-A under review; Parnell makes second appeal

By KRISTEN NELSON
Petroleum News

The U.S. Army Corps of Engineers Pacific Ocean Division said April 12 that it is "carefully reviewing the request for appeal from ConocoPhillips Alaska Inc. for the Colville River Delta (CD-5) project in Alaska."

The corps said the request for appeal was submitted April 2, adding that the Pacific Ocean Division commander has initiated a review of the Alaska district's denial of the permit application.

"We received the request for appeal and are moving deliberately to conduct a thorough review of the information provided," Brig. Gen. Mark Yenter, the commanding general and Pacific Ocean Division engineer, said in a statement. "We are looking at the appeal in accordance with regulations covering the appeals process," he said.

Alaska Gov. Sean Parnell has twice asked the Alaska district to elevate the decision to the division engineer, based on the state's support for a compromise worked out for the project between ConocoPhillips and North Slope stakeholders, which included the North Slope Borough and entities representing Nuiqsut, the community nearest to Alpine and the CD-5 development.

The compromise plan involved a different location for the proposed bridge across the Nigliq Channel as well as ConocoPhillips' assistance in connecting Nuiqsut to the bridge by road, thus giving the community access to the Alpine field's main facilities across the channel which could open up employment possibilities for residents.

The governor's first request for elevation was rejected in mid-March; Parnell then requested reconsideration of the elevation decision in late March, citing federal regulations which direct that decisions be referred to the district engineer when it is clear the district position is contrary to the state's official position.

Corps wants HDD

The corps' Alaska district denied the ConocoPhillips' permit application to construct the CD-5 drill pad west of the Colville River Delta on Feb. 5. The district said it determined there were other practicable alternatives that would have a less adverse impact on the aquatic ecosystem and still meet the overall project purpose.

When the corps denied the permit it acknowledged local and state support for the project, which would see the first development of oil and gas resources within the National Petroleum Reserve-Alaska, but said overriding national interests drove the denial, specifically concerns about "further impacts to the aquatic resources" in the Colville River Delta, which lies just east of NPR-A. Both the Environmental Protection Agency and the Department of the Interior's Fish and Wildlife Service recommended permit denial.

The ConocoPhillips proposal is for a bridge across the Nigliq Channel of the Colville River which would carry both road traffic and a pipeline taking crude oil to Alpine for processing, combined with a road connecting Nuiqsut to existing Alpine infrastructure.

Two alternatives were identified by the corps: no bridge with a pipeline drilled under the Nigliq Channel using horizontal directional drilling and an airstrip at CD-5; and no bridge with a pipeline drilled under the Nigliq Channel with HDD and extension of an existing road from Nuiqsut to CD-5 with storage and vehicular infrastructure at the Nuiqsut airstrip.

The North Slope Borough told the corps it preferred a bridge rather than HDD and said there was local concern about contamination when the Alpine sales oil line was placed under the Colville River with horizontal directional drilling because an unknown amount of drilling mud was lost.

Anadarko Petroleum Corp., ConocoPhillips' partner in the Alpine field, told the corps that while HDD is technically feasible it poses significant risks for pipeline corrosion, sedimentation, slugging and leak detection.

The line from Alpine carries sales quality oil — water and natural gas have been removed — while the line from CD-5 to Alpine would carry unprocessed crude oil for processing at the Alpine facilities.

Final expansion approval

The ConocoPhillips-Anadarko acreage position in the CD-5 area was solidified by the state in early April.

On April 8 the Alaska Division of Oil and Gas gave final approval for the fourth expansion of the Colville River unit, which adds some 16,000 acres of state, Arctic Slope Regional Corp. and federal land to the unit. The division had issued a preliminary decision approving the expansion on Dec. 23, subject to execution of documents.

The division also has approved a deferral until Aug. 1, 2014, of the date by which a block of leases contract out of the unit if not part of a participating area. Participating areas are the known producing areas of a unit, so drilling is required before participating areas are established.

Both the expansion and contraction leases are on the south and southwest border of the unit.

ConocoPhillips' planned development activities in the expansion include 13 horizontal wells for the Alpine A sandstone and two wells for the Kuparuk sandstone from the proposed CD-5 drill pad.

"In the event of success, a total of 22 Alpine A sandstone wells and up to four Kuparuk wells may be drilled," the division said in its decision.

The denial of the CD-5 permit by the corps will delay drilling of the expansion area Alpine wells until the 2013-14 drilling season, and the division said that while the timing for commencement of drilling has changed, the development plans for the expansion area have not changed. ●

Contact Kristen Nelson at knelson@petroleumnews.com

● NATURAL GAS

Enstar, Marathon agree on new contract

New agreement would alleviate gas supply shortfall in 2011 and 2012, with pricing based on three-month average of Nymex futures

By ALAN BAILEY

Petroleum News

Enstar Natural Gas Co., the main Southcentral Alaska gas utility, has asked the Regulatory Commission of Alaska to approve a new gas supply contract with Marathon to fill 90 percent of Enstar's current shortfall in contracted supplies in 2011 and 2012. The new contract provides for a supply of 6.8 billion cubic feet of gas in 2011 and 7.2 bcf in 2012, while Enstar's projected gas supply shortfall is 7.9 bcf and 8.6 bcf in those years, Enstar said in an April 9 letter to the commission.

COLLEEN STARRING

"Marathon has supplied Enstar with natural gas for more than 45 years," said Colleen Starring, Enstar's president, in announcing the new contract. "The new supply contract will help to meet our customer's projected needs during the next two years."

RCA approval

The gaining of RCA approval for new gas supply contracts has become a major problem for Enstar in recent years, as the utility tries to deal with a combination of tightening natural gas supplies from the Cook Inlet basin and the periodic demise of aging gas supply contracts. The commission, although not a regulator of Cook Inlet gas producers, has a duty to approve utility gas supply agreements and has been concerned about rising gas prices.

However, the new Marathon contract follows a very similar pricing model to a gas supply contract between Enstar and Anchor Point Energy LLC that RCA approved in 2009 for gas from the North Fork gas field in the southern Kenai Peninsula.

As in the Anchor Point Energy contract, the gas price would index to a three-month rolling average of natural gas futures on the New York Mercantile Exchange. And the new Marathon contract includes a price floor of $6.85 per thousand cubic feet and a price ceiling of $9.70 per thousand cubic feet, compared with a floor and ceiling of $6.85 and $9.90 in the Anchor Point Energy contract. The price floors and ceilings in both contracts will be adjusted for inflation.

However, unlike the Anchor Point Energy contract, the new Marathon contract includes price tiering arrangements for increased gas supply rates during periods of high gas demand in the Alaska winter. The base, index price, as determined from the Nymex futures coupled with the price floor and ceiling, would apply to gas supplied at rates of up to 9 million cubic feet per day. But at rates above 9 million cubic feet per day, the price would rise to 140 percent of the index price.

29 mmcf per day maximum

The maximum gas delivery rate under the contract is 29 million cubic feet per day, However, Marathon retains an option to reduce that maximum to 14 million cubic feet per day if wells that the company is forced to shut in during low summer demand fail to recover to previous production levels when subsequently restarted in the winter — the impact of factors such as water encroachment on wells shut-in during the summer in aging Cook Inlet gas fields has become a major concern, given the extreme swings in Southcentral Alaska utility gas demand between summer and winter.

However, there is a formula for reducing the price of gas delivered at a rate above 9 million cubic feet per day, if Marathon has to drop the maximum daily delivery rate below 29 million cubic feet.

And there is provision for Enstar to request gas in excess of daily contracted amounts, with a ceiling price corresponding to the equivalent price of heating oil.

On April 2, Chugach Electric Association, a major Southcentral Alaska electric utility, also applied for RCA approval of a new gas supply contract with Marathon, also using a Nymex futures index price coupled to a price floor and ceiling. An earlier CEA gas supply contract with ConocoPhillips, approved by RCA in 2009, has a base gas price indexed to a basket of prices in Lower 48 gas production areas, but with a different price formula for peak gas supplies. ●

Contact Alan Bailey at abailey@petroleumnews.com

● NATURAL GAS

One step closer to North Slope for FNG

GVEA agrees to buy LNG, port authority seeking $250 million through bonds, new North Slope facilities could be online by 2012

By ERIC LIDJI

For Petroleum News

In the Lower 48, natural gas is an important fuel in part because pipelines zigzagging across the continent connect populous areas with far-flung production basins.

In Alaska, proximity has always been much more crucial.

Natural gas is the dominant fuel for heating and electricity in only two places in Alaska: the Southcentral region around Anchorage where two-thirds of the state lives, and Barrow, the northernmost city in the United States and home to around 4,000 people.

Those regions have something in common, though: both are surrounded by natural gas.

Then there is Fairbanks.

Fairbanks is about 500 miles from the massive natural gas deposits on the North Slope, effectively stranded for lack of a pipeline, and 350 miles from the declining Cook Inlet reservoirs that have served Anchorage for decades. While Fairbanks is only 50 miles from a prospective gas basin in Nenana, those reserves have never been commercially proven.

Fairbanks Natural Gas is currently the lone provider of natural gas in Fairbanks. When FNG became a certified utility in 1997, some in the city expected to one day be near a natural gas source: the one coming through town in a pipeline from the North Slope.

A decade later, FNG is close to getting North Slope gas, but it's getting it the hard way.

In February 2008, FNG announced a 10-year contract to buy North Slope gas from Exxon Mobil. In September 2009, the Alaska Gasline Port Authority announced plans to buy FNG. In March, Golden Valley Electric Association, the electric utility in Fairbanks, approved a 15-year contract to buy liquefied natural gas from the port authority and FNG.

Currently, FNG trucks Cook Inlet LNG north to Fairbanks. The new project would truck North Slope LNG south. The $250 million project requires a new liquefaction plant, and storage and vaporization facilities in the city of North Pole, just east of Fairbanks.

The port authority, a voter-created entity, hopes to pay for the project through a bond package, details of which could become public in the coming months. FNG President Dan Britton said the players hope to have financing in place by the end of summer. The total project cost includes $55 million to buy FNG, plus $9 million to be earned later.

Proponents tout potential savings not only for the 1,100 natural gas customers in Fairbanks, but also for the nearly 100,000 members of GVEA scattered from Healy to Delta Junction. Those savings come not only because of the relative cost of natural gas to heating oil, but also because the port authority would price gas based on cost of service.

Some Fairbanks officials have questioned why the purchase price of FNG was based on comparable utilities and not an appraisal, The Fairbanks Daily News-Miner reported.

Britton said the goal is to bring the project online in 2012, delivering up to 3.6 billion cubic feet per year to GVEA, as well as its existing volumes to its own customers. FNG has contracted Cook Inlet gas through May 2013, the company told regulators this past November.

Latest in a string of owners

Fairbanks Natural Gas has been handed around some over the years.

It began as a division of Northern Eclipse, LLC, a company created to buy natural gas in Cook Inlet, liquefy it and truck it north to Fairbanks. In 2004, regulators let Pentex Alaska Natural Gas Co. buy a controlling interest in FNG, but to afford the purchase, Pentex needed to partner with Harrington Partners, L.P., a Minnesota investment group.

Coming into the sale to the port authority, Harrington held an 85 percent interest in the company, while Pentex held 10 percent and Britton held the remaining 5 percent.

Under the new set up, FNG would most likely become an entity within the port authority, Britton said, unless the group saw tax-related advantages from some other set-up.

Regulation, supplies, prices

Fairbanks Natural Gas began as a rate regulated utility.

As the only natural gas utility in Fairbanks, the second largest city in the state, FNG is technically a monopoly, but diesel fuel is undisputedly king in Fairbanks. With half a dozen local suppliers, customers can switch based on savings of a penny per gallon.

Those companies can raise or lower prices at will without having to get approval from the Regulatory Commission of Alaska. In 2002, with only 125 residential customers and twice as many commercial customers, FNG asked the RCA for that same privilege, looking for more agility in the fight against diesel for a share of the local heating market.

Regulators granted that request. For nearly four years, FNG proceeded untroubled. Then, a supply crisis in late 2006 brought the utility within a week of not having adequate gas on hand, and one local lawmaker, Rep. Jay Ramras, called for a return to rate regulation.

It took more than two years for FNG to dodge that bullet, eventually cutting a deal with the state Attorney General, but in that time the utility got hit by a different shot: prices.

When FNG became an Enstar customer, its rates jumped 20 percent. When regulators changed the terms of that contract, its rates jump another 24 percent, making natural gas more expensive than heating oil in Fairbanks for the first time in company history.

That undesired distinction quickly disappeared when oil prices hit record highs in mid-2008, but by then heated contract debates among Enstar Natural Gas, local producers and state regulators created enough writing on the wall for FNG to look north for supplies.

FNG took two steps forward and one step back in 2007 and 2008.

First, the state Legislature expanded a tax break on gas produced for local use to cover the entire state, and not just Cook Inlet. Then, the contract with Exxon provided for up to 17 bcf of natural gas per year for 10 years. In the wake of the financial collapse in late 2008, though, FNG couldn't get financing to build its North Slope facilities. The company even asked the state for a $250 million bond in early 2009, with no luck.

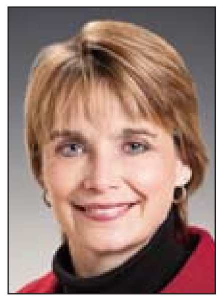
Britton said the new set-up doesn't preclude pursuing gas from a North Slope pipeline or from a closer basin, like Nenana, in the future. But, he said, from the start the company never bet on proximity. "You wouldn't take that kind of risk on a big line," he said. ●

Contact Eric Lidji at ericlidji@mac.com

Petroleum news

Oil Patch Bits

UIC announces Garbowicz as new director of quality


MONIQUE GARBOWICZ

Ukpeavik Iñupiat Corp. said April 6 that Monique Garbowicz, PE, PMP, has been named its director of quality. Garbowicz will oversee the technical quality of all work products as well as lead the development and implementation of quality management tools, controls and processes for UIC. Garbowicz is a professional civil engineer and certified project management professional who has worked in Alaska for more than 11 years. Her previous positions include principal consultant for UMIAQ, a UIC subsidiary; program manager for ASRC Energy Services; and civil engineering manager for Arctic Slope Consulting Group. UIC is the village corporation for Barrow, Alaska. With more than 1,900 employees, UIC consistently ranks among the top 10 Alaskan owned businesses in Alaska Business Monthly's annual Top 49ers. UIC provides services to clients in a range of industry sectors worldwide, including energy development, construction and engineering, marine operations, and government contracting.

ASRC Energy Services wins Governor's Safety Award

ASRC Energy Services said April 6 that its 624, 625 and 630 Operations Groups in Kuparuk received the 2010 Governor's Safety Award. The award is based on AES's performance and excellence in safety and health systems and corporate citizenship. In presenting the award, Alaska Department of Labor Commissioner Click Bishop stated that AES "has a high level of management commitment and employee involvement in the safety process." He also noted that AES has excellent hazard analysis and hazard reduction systems for managing safety in the North Slope environment. The annual Governor's Safety Health and Safety conference was held on March 23-25 at the Sheraton Hotel in Anchorage. The AES HSET management group accepted the award on behalf of the operations groups. For more information visit www.asrc.com.


COURTESY ASRC ENERGY SERVICES

PCT completes extreme lifting project for BP

Peak Civil Technologies, a division of Peak Oilfield Service Co., said April 9 that it recently

see OIL PATCH BITS page 17

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

● PIPELINES & DOWNSTREAM

New North Pole well locations sought

THE ASSOCIATED PRESS

Owners of the petroleum refinery in North Pole say they're looking for locations to drill new wells that can feed the city's water system.

Trace amounts of an industrial chemical used at the Flint Hills Resources refinery have been found in two wells that provide water for the city 14 miles south of Fairbanks.

Operations Vice President Mark Gregory told residents that it will take months for the company to figure out what to do for an estimated 155 private water wells that also are tainted but are outside North Pole city limits.

Flint Hills called the meeting April 6 to give residents an update on plans for public and private wells.

"We are trying to frame up the options and pick the best option," Gregory said.

Gasoline spills before 2000 are believed to have soaked into refinery soil, allowing sulfolane to seep into groundwater. The chemical was detected last year.

Flint Hills bought the refinery in 2004. The company has provided bottled water to affected residents.

The Wichita, Kan.-based refining and chemicals company is working with engineers to develop cost estimates for a permanent solution.

One possible solution involves expanding the North Pole city water system. Another option is water holding tanks.

Gregory said he was sorry officials of Williams Alaska Petroleum, the refinery's previous owner, did not attend the meeting. Discussions are continuing with the company, he said.

"We would like to get them engaged to help us with this," Gregory said. "This is a very large, costly project and we think they own some of this."

Scientists say sulfolane-tainted water is safe for bathing but Bryon and Michele Yocum are not convinced.

The couple said after the meeting they plan to install a holding tank. They live outside city limits and do not want to wait for Flint Hills to decide on a solution.

"We are going to continue bathing in it," Michelle Yocum said. "I have a problem with that. They have no real answers for us other than we've got to wait."

Homemaker Melody Pernell said she is worried about how her family will eventually pay its water bill if her home is connected to municipal water or has to have water delivered.

"I can't afford another $50 or $100 bill," she said. "I don't even have 10 percent to save anymore." ●

ASSOCIATIONS

IAEE to hear overview of O&G legislation

Dan Dickinson will give an overview of oil and gas tax issues in the 2010 session of the Alaska Legislature on April 19 at noon.

Dickinson, a consultant for the Legislature on oil and gas taxation, will give the presentation to the Anchorage Chapter of the International Association of Energy Economics at the BP Energy Center.

The 26th legislature, the 2009 and 2010 sessions, saw dozens of bills relating to oil and gas taxation. Dickinson will sort them out and discuss some of the logic and policy calls behind some of the proposed and enacted legislation.

The meeting is open to the public. Admission is free for members. There is a suggested donation of $5 for non-members. Contact Roger Marks at 250-1197 or rogmarks@gmail.com for information.

—PETROLEUM NEWS

FINANCE & ECONOMY

IEA: OPEC had 1st drop in output in a year

Recovery in the world's biggest economies could be jeopardized if crude oil prices stay over $80 per barrel, the International Energy Agency said April 13.

The IEA also reported that OPEC posted the first "significant decline" in output in March in more than a year — falling 190,000 barrels per day to 29 million barrels a day — largely due to a near 10 percent drop in Iraqi output.

The agency, the energy arm of the Organization for Economic Cooperation and Development, a grouping of the world's richest nations, said concerns remain that global oil markets are "overheated," with crude around $85 per barrel.

The IEA said that operational problems and weather-related export disruptions at its southern terminals drove down Iraqi output by 220,000 barrels per day in March. But the agency noted that Iraq's exports hit a two-decade high of 2.07 million barrels a day in February, and total exports in March were tallied at 1.79 million.

"Ultimately, things might turn messy for producers if $80-100 (per barrel) is merely seen as the new $60-80 (per barrel), stunting economic recovery while prompting resurgent non-oil and non-OPEC supply investment" the Paris-based IEA said in its monthly oil market report.

Price subsidies that benefit consumers in non-OECD countries like China and India, and tighter credit than two years ago "could stall OECD economic recovery or render it more oil-less than we currently envisage," it said.

2010 demand revised

The IEA said that operational problems and weather-related export disruptions at its southern terminals drove down Iraqi output by 220,000 barrels per day in March. But the agency noted that Iraq's exports hit a two-decade high of 2.07 million barrels a day in February, and total exports in March were tallied at 1.79 million.

The IEA estimated global demand in 2010 would rise by 30,000 barrels a day in 2010 to 86.6 million barrels a day compared to March's report. Demand for 2009 was revised down by 70,000 barrels to 84.9 million.

The agency said OPEC kept its output targets unchanged in March largely on expectations that global oil demand will pick up later this year to absorb above-target production.

Oil prices have been hovering around 18-month highs of $80-85 per barrel. The international oil cartel is not expected to meet again until Oct. 14 in Vienna.

Qatar's oil minister said the week of April 5 that crude's recent rally is driven mainly by speculation, not a shortage of supply, and dismissed the likelihood that OPEC would hold a special meeting to re-evaluate current production.

—THE ASSOCIATED PRESS

continued from page 16

OIL PATCH BITS

completed a concrete floor lift using structural polyurethane. This in itself is not news, since the process has been in use on Alaska's North Slope since 2002. However, lifting 5-foot thick concrete which has settled and bringing it back to level with this process had previously never been done. BP authorized PCT to re-level their Vibration Shop floor for work to begin in February 2010. The concrete floor to be lifted was a nominal 8 inches, yet had a crane pedestal which was designed to a thickness of 5-foot reinforced concrete. Complicating matters further, a 20-ton crane sat on the pedestal adding extreme weight to the lift. Having lifted concrete exceeding 3 feet in thickness in the past, the PCT crew was confident the lift and realignment would be successful. The hardest part was drilling through the 5-foot-thick monolith without hitting reinforcement steel. PCT provides floor and foundation re-leveling work throughout Alaska, along with other unique civil applications. For more information visit www.peakalaska.com.

continued from page 1

SHELL

of Camden Bay, east of Prudhoe Bay.

"This permit ensures that exploration and drilling will occur in a way that protects air quality," said Rick Albright, director of EPA's air, waste and toxics office in Seattle, when announcing the issuance of the permit. "We've listened closely to the Arctic communities of Kaktovik, Nuiqsut and Barrow in our effort to craft a permit that is both effective and enforceable."

Any final petitions from people who filed comments on an earlier proposed permit are required by May 12.

Follows Chukchi permit

The Beaufort Sea air quality permit comes on the heels of a similar permit for Shell's planned Chukchi Sea drilling — EPA issued that permit on March 31. The company hopes to drill up to three wells in the Chukchi Sea in 2010.

"The issuance of our final Beaufort Sea air permit means we can continue to advance our exploration program with the ultimate goal of drilling in the Chukchi and Beaufort Seas in 2010," said Shell spokesman Curtis Smith on April 9. "Although outstanding legal challenges remain, the arrival of a final Beaufort Sea air discharge permit allows us to dedicate all of our time and resources to putting blueprints in place for a safe, environmentally responsible drilling season."

Under the terms of the permits, EPA will consider the Frontier Discoverer to be an emissions source during the period that the vessel is secured at a drilling site in a configuration that allows drilling operations to take place — at other times the vessel will be viewed as a regular ship plying the ocean. And EPA is taking account of emissions from support vessels within 25 miles of a drilling operation.

Shell is making a $25 million modification to the Frontier Discoverer, to install catalytic reducers to scrub engine exhaust, and the company has committed to the use of low-sulfur fuel in the diesel engines of all of the vessels in its drilling fleet.

Working to mobilize

Shell's 2010 exploration plans call for the arrival of the company's drilling fleet in the Chukchi Sea at the beginning of July, for transit to the Beaufort Sea as the winter sea ice recedes northward. And at the end of March Peter Slaiby, Shell's Alaska vice president, told Petroleum News that his company was still working towards mobilizing its drilling fleet for the summer operations.

The company's plans gained impetus on March 31 when the U.S. Department of the Interior announced that it was upholding the contested 2008 Chukchi Sea lease sale in which Shell purchased its Chukchi Sea leases. The status of the sale had been in question since April 2009, after the United States Court of Appeals for the District of Columbia had upheld an appeal against the U.S. Minerals Management Service 2007-12 outer continental shelf lease sale program, the five-year program that includes the Chukchi Sea sale. The court required Interior to rework its Alaska environmental analysis for the sale program and Interior has now completed that rework.

The revised program is going through a 30-day public review period before a final Interior decision, at which point the agency will presumably ask the D.C. court to reconsider its 2009 ruling.

Other litigation

There is also a separate appeal in the U.S. District Court for the District of Alaska against the 2008 Chukchi Sea lease sale, and the judge in that case has yet to hear oral arguments. And in the U.S. Court of Appeals for the 9th Circuit the Native Village of Point Hope and several environmental organizations have appealed the MMS approval of Shell's Chukchi Sea exploration plan, while in the same court environmental organizations have appealed the approval of Shell's Beaufort Sea exploration plan. ●

Contact Alan Bailey at abailey@petroleumnews.com

continued from page 1

CHINA STAKES

Oppenheimer's Fadel Gheit was that the Syncrude stake would fetch in the range of US$2.5 billion-US$4 billion.

Given that "cash is trash" for the Chinese companies, he said their best option is to buy energy assets in a region that "has almost unlimited upside potential" and seize the opportunity to learn from other operators, legitimize their participation and "become part of projects that are growing."

Hefty premium

What Sinopec is paying for 5.1 billion barrels of proved and probable reserves and almost one-tenth of Syncrude's production capacity of 350,000 barrels per day is seen as a hefty premium.

It effectively boosted the market capitalization of Canadian Oil Sands Trust, which owns 36.74 percent of Syncrude to C$18.6 billion, C$1.8 billion more than COST's trading value and debt on April 12.

The other partners in Syncrude are Imperial Oil 25 percent, Suncor Energy 12 percent, Nexen 7.23 percent, Murphy Oil 5 percent and Mocal Energy 5 percent.

Marc Friesen, an analyst at Versant Partners, said the "quite strong price (being paid by Sinopec) should be taken as a very strong signal of China's interest" in the oil sands.

Peter Linder, with DeltaOne, said the top dollar paid by one of China's stable of state-run energy companies "legitimizes" the value of the oil sands and shows there is a place for the resource in the world, regardless of the criticism it has faced from environmentalists.

Vincent Lauerman, president of Geopolitics Central, welcomed the transaction as a chance for oil sands producers to seek alternative markets for their output beyond the United States, especially at a time when the U.S. oil market is stagnant and declining.

Lanny Pendil, an Edward Jones analyst, said the deal gives an added boost to Enbridge's plans for its Northern Gateway pipeline to the British Columbia coast, opening the door to Asian markets.

Expectation of greater access

Assuming the necessary approvals are obtained by the third quarter, there is a strong expectation that the Chinese will secure even greater access to the oil sands, given Beijing's hunger for assured worldwide oil supplies.

The Sinopec-Syncrude deal will be "just the tip of the iceberg," said Yuen Pau Woo, chief executive officer at the Asia Pacific Foundation of Canada, which promotes trade and investment between Canada and Asia.

He said China, which control huge foreign reserves, surplus cash and a strengthening currency, is eager to make acquisitions and invest in the resources sector.

Peter Harder, president of the Canada-China Business Council, expects the Canadian government will ratify the deal, given its stated position to welcome investment from China in Canada's natural resources and energy sector, provided there is a demonstrable net benefit to the Canadian economy.

He told an oil sands conference in February that China's investment in Canada's oil sands, energy and mining sectors "is about to take off even more significantly than it has in the last number of years," following the government's approval of PetroChina's C$1.9 billion acquisition of two 60 percent stakes in oil sands leases held by Athabasca Oil Sands Corp.

He said the "stress-free approval" of that deal "went a long way to ease fears that there would be political barriers" to an expanded Chinese presence in Canada's resource industries.

He said the Canadian government "made it quite clear that it believed unfettered Chinese investment in Canada's energy sector is good for Canada and good for global trade."

Harper promises review

Canadian Prime Minister Stephen Harper said the Sinopec bid will get the same review as any other foreign investment, including the net benefit condition and an examination of the impact on national security.

What Sinopec's entry into Syncrude represents is a clear-cut advance from the more passive Chinese stakes in early-stage oil sands companies into the world's largest producer of synthetic crude, with plans to raise production capacity to 540,000 bpd by 2020.

The earlier investments involve three separate holdings in startup projects, including the PetroChina-AOSC transaction, and one involving the independent purchase of leases.

In 2005, Sinopec was one of the first from China's stable of state-run energy companies to surface in Canada by paying C$105 million for a 40 percent stake in Synenco Energy's proposed Northern Lights project, originally designed to produce 100,000 bpd of bitumen. Sinopec increased that holding to 50 percent last year after France's Total acquired Synenco.

Total has since withdrawn a regulatory application for Northern Lights, opting to focus for now on its Joslyn project.

China National Offshore Oil Corp. paid US$122 million in 2005 for a 16.69 percent share of privately held MEG Energy, whose initial phase at Christina Lake has been producing about 2,500 bpd. A regulatory application has been filed for a 60,000 bpd expansion, although those plans have been slowed by economic and technical challenges.

China National Petroleum Corp. entered the picture last year by paying an undisclosed amount for 67 square miles of leases containing an estimated 2 billion barrels of recoverable bitumen, indicating it would need several years to study the technical and regulatory aspects of oil sands development before embarking on a commercial venture.

see **CHINA STAKES** *page 19*

continued from page 1

MAC ACKERS

OIL SANDS YIELDS FRUSTRATION & ADVICE FOR ALASKA OPERATORS … Two upbeat comments on "Oil sands: Hunting for the Holy Grail," posted March 31 in the Tracking Fossil Fuels section, raised one reader's blood pressure. Troy from San Francisco wrote: "These guys (Alberta oil sands producers) need to clean up their act even more. Didn't you see what (Gary) Park wrote in this story!? THIS MEANS THE COMPANIES ARE NOT MAKING THE INVESTMENTS THEY NEED TO BE MAKING. (In the article) Tom Harding, a chemical and petroleum engineering professor at the University of Calgary … (was quoted as saying) there are "some very exciting and promising new technologies that would help us a great deal in reducing our carbon footprint and the water issues." He said these efforts have the potential to reduce fuel and water consumption as well as greenhouse gas emissions, but noted there is a "Gobi Desert" gap between research and commercialization. Hey, fellow readers, the Gobi Desert is a big place!"

Another reader, Ray, offered advice for Alaska operators: "I hope some of the North Slope producers are reading this, they should be using some of this tech to produce the heavy cold oil from the North Slopes West Sac formation, since it holds more oil than all other fields in production today on Alaska's North Slope."

WHAT ABOUT A GREEN PREMIUM FOR CLEANER PRODUCTION? … Reader Bob posted this comment following "Environmental case for expanded offshore drilling": "I agree there is a huge environmental case for using our 'greener' oil. Do you think we will ever get a 'green' premium for our clean and safe production, similar to the 'organic' premium certain foods command?"

I THINK THIS WAS A COMPLIMENT … Also following the offshore drilling story was a post from Deuce that appears to compliment Eric Smith, the California professor interviewed for the article: "Hey you all need to quit throwing facts in the way of good old fashioned alarmism. If people realize that oil and nuclear energy have significantly more upsides, even environmentally, than anything else out there, then I'm going to have to go out and get a real job. …"

BEAUTY COMES FIRST … A reader of the April 6 article "Unlikely companions: wind turbine in oil field" said the article was "interesting," but the wind turbine looked "ugly." Does anyone make turbines that look like "old-fashioned windmills?" reader angelicious asked.

Hey, I agree with her. Not in my backyard. So, does anyone make a good looking windmill, say Dutch-style? E-mail me. Pictures please.

"HILLARY CLINTON SPREADS ARCTIC CHILL" … This article, posted April 13 under "What others are saying" is from Petroleum News. Its subhead reads, "Rebukes Canada for leaving 3 countries off summit invitation when 'we need all hands on deck'" What did Canadians readers have to say about Clinton's smack-down?

• Seventhson: "Clinton should mind America's business. STAY OUT OF CANADA!!"

• Brian was a little less direct: "Sorry Hillary, but I'd like to apologize on behalf of all Canadians. The sad truth is that with the recent warm winter, we simply didn't have enough snow to build an igloo large enough to house a meeting with that number of delegates. As it was we nearly ran out of caribou meat, even with the reduced attendance."

Contact me! I am Greening of Oil's social networker. My weekly column is posted in both Petroleum News and on Greening of Oil's Buzz and Latest news pages. My e-mail address is mac@greeningofoil.com.

continued from page 1

INSIDER

service lives. Is the Coast Guard currently positioned to address the safety and security concerns the nation faces in the Arctic as we see increased maritime activity due to the melting sea ice?" Murkowski asked Allen.

Allen said the U.S. needs three operational Polar class icebreakers in order to adequately ensure the safety and security of mariners in the Arctic region. The Coast Guard has three polar class icebreakers, the Polar Sea, the Polar Star and the Healy. But the icebreaker Healy is primarily used to support scientific research. And the Polar Star is undergoing extensive repairs and won't be available for operations until 2013.

"We have some challenges after that including funding a crew for the Polar Star once it comes out of dry dock and that'll have to be dealt with in the coming years," Allen said.

He explained that what is misunderstood about icebreakers is the fact that the Arctic will not be ice free, but rather will be ice-diminished: "Even in the summer up there, there are very large pieces of ice that present a hazard to shipping and with wind from the proper direction that can come together and create ice flows that have actually trapped fishing vessels in the summer. We need icebreakers up there to provide us with command and control platforms to provide forward basing for any mission response we have to do up there."

Allen said he's raised these concerns with Interior Secretary Ken Salazar.

Another problem Allen identified was the lack of a deepwater port in the area.

"Right now the lack of infrastructure off the North Slope to respond to anything is really inhibiting our ability to be effective up there," he said.

Alaska would gain $3.3B from offshore drilling

IN THE WAKE OF THE OBAMA ADMINISTRATION'S decisions on oil and gas drilling in the Outer Continental Shelf, Americans for Tax Reform is re-circulating partial results from a February 2009 report by the American Energy Alliance, a pro-development group. Americans for Tax Reform, or ATR, indentifies itself as a non-partisan coalition of taxpayers and taxpayer groups who oppose all federal, state and local tax increases.

"With Alaska facing a predicted $1.3 billion shortfall and 8.5 percent unemployment, Americans for Tax Reform continues to urge President Obama, Congress, and state elected officials to look toward energy exploration and production to create jobs, decrease the cost of energy and increase our domestic supply," ATR said in an e-mail sent to Alaska's press corps, reminding recipients that per the Alliance's 2009 OCS economic report "full development" of Alaska's offshore resources would increase the state's economic output by $3.3 billion annually, add 11,242 long-term, "well paying jobs" to the state of Alaska over the next seven years, and bring in $292 million in additional tax revenue annually, without raising taxes.

Check out the full report here: http://bit.ly/1Otbpv.

ATR's release is not making the news splash that another, more recent, study by an international team of biologists is making. That study is about oil from the 1989 Exxon Valdez spill still being found in area ducks.

Check out CBC's news report: http://bit.ly/aM82cQ.

Contact Kay Cashman at publisher@petroleumnews.com

continued from page 18

CHINA STAKES

Majority position not expected

Harder does not expect China's oil sands strategy will involve taking a 100 percent position or "even a majority position" in oil sands ventures until it learns more about the market and reduces the level of political focus on its investments.

He said Prime Minister Stephen Harper has laid out his government's blueprint for a Canada-China relationship that involves "mutually beneficial objectives in energy."

Although withdrawing from Syncrude, ConocoPhillips is not abandoning the oil sands, said Chief Executive Officer Jim Mulva.

The U.S. independent is partnered with Total in a 50-50 joint venture at the thermal recovery Surmont project, which is producing about 20,000 bpd.

A second phase of 83,000 bpd received corporate sanctioning in January and is scheduled to come onstream in 2014. ●

Contact Gary Park through publisher@petroleumnews.com

continued from page 1

KENAI LNG

The current license expires on March 31, 2011. The companies want to extend that for another two years, and plan to submit an application to the U.S. Department of Energy before the end of May.

The DOE last extended the license in 2008, but this request is different. ConocoPhillips and Marathon don't want to ship more gas to Asian markets. They just want more time to export the gas they've already been cleared to ship. The extension through 2011 let the plant export 99 trillion British thermal units, roughly 99 billion cubic feet, to the Pacific Rim, but in the first year it only shipped 27.9 bcf, about a quarter of the allowed volume.

That distinction, and a scary winter in 2009, when an extended January cold snap led natural gas users to pull harder on the system than ever before, seems to have changed opinions of some stakeholders who questioned the prudency of the previous extension.

Systemic case for plant

Dan Clark, ConocoPhillips' manager of Cook Inlet assets, announced the plan at a Senate Resources Committee meeting on April 8 and made the economic case for the plant: $130 million per year in benefits to the state and local economies, $60 million per year in royalties and taxes to the State of Alaska and the Kenai Peninsula Borough, and more than 100 direct and indirect jobs that bring in around $17 million in personal income annually.

The bigger argument for the plant, though, is systemic. In winter, the plant diverts supplies to local markets when the system can't deliver all the gas demanded of it. In summer, it keeps wells producing at an even keel despite huge seasonal swings. With Cook Inlet deliverability declining and storage in short supply, the plant guards against a system-wide failure on the coldest days and reservoir damage during the rest of the year.

The argument against extending the license has mostly been about local supplies. Why, the question goes, would Alaska ship any natural gas overseas when existing reserves are declining in the Cook Inlet and exploration efforts to replace are slow going at best?

As recently as January, the owners wouldn't publically commit to seek an extension to the license, leading lawmakers to ponder short-term imports. With the owners on board, the challenge now is convincing the federal government to keep allowing domestic supplies to go overseas, and convincing Asian markets to continue to buy from Alaska.

Broader support this time

While the arguments for and against exports haven't changed in the past year, this round appears to have more initial support from Southcentral stakeholders than the 2008 attempt.

The two largest natural gas customers in Alaska, Chugach Electric Association and Enstar Natural Gas, as well as the Parnell administration have offered some support for continuing exports, citing the plant's ability to temper swings and improve deliverability.

Some lawmakers are on board, too, while others, including some of the Senate Democrats who have questioned exports in the recent past, are offering conditional support.

"As long as we can meet in-state needs and get affordable gas to the consumers of Cook Inlet, I'm in full support of this, but I just want to make sure that we're meeting the needs of our consumers first," Senate Resources Committee Co-chair Sen. Bill Wielechowski, D-Anchorage, said.

The situation on the ground today is not radically different than it was in 2008.

Deliverability improved slightly this winter, but mostly because of a milder season this year compared with the extended cold snaps of early 2009. As in 2008, the two largest natural gas customers in Alaska, Chugach Electric Association and Enstar Natural Gas, have recently filed new gas supply contracts with the Regulatory Commission of Alaska.

The various stakeholders now seem to agree on the importance of the plant.

In March 2010, when it still remained unclear whether the owners would try to get another extension, a cooperative of utilities even offered to buy the plant.

Still, some old claims about the plant have already re-emerged. At Senate Resources, Sen. Hollis French, D-Anchorage, asked if Japan pays less for Alaska gas than Alaskans.

"There's maybe been a handful of months in the history of exporting that that's maybe been true," Clark said, adding that the average price Enstar charges for Alaska gas in Southcentral is currently around 63 percent of what Japanese customers pay for it.

A "bridge" solution for area

Phillips Petroleum and Marathon built the plant in the late 1960s to market surplus gas from Cook Inlet, where massive deposits had been found in the search for oil. Today, the plant serves an opposite role, anchoring gas production in the region. (Local demand is generally thought to be too small to justify development, although exact production costs remain proprietary, to the consternation of regulators and some lawmakers.)

Testifying before Senate Resources, Clark presented the plant as a "bridge" between now and the day when Cook Inlet has more storage options or some group figures out how to bring the massive North Slope natural gas supplies down to the Anchorage area.

Enstar, which in recent years has looked into building a pipeline from the North Slope to Southcentral, is touting this second option, saying the export facility could theoretically anchor North Slope production, just as it currently anchors Cook Inlet production.

Asked by Co-chair Sen. Lesil McGuire, R-Anchorage, about the prerequisites for such a switch, Clark said the 40-year-old plant needed work, particularly to its compressors, to last for another 40 years. "It would require some investment. It would be less than having to build a new plant, but it would require a good bit of work to do that," he said.

Clark said the facility would only export gas beyond what is needed locally, but "there are certainly adequate reserves for the next several years. I think the questions and concerns that continue to come up are around deliverability on those coldest days."

While the supply crunch of early 2009 moderated some in the past year, mostly due to a milder winter this year, Clark noted that the system is still at risk on the coldest days.

"All of the systems will have to run well to be able to meet those demands," Clark said.

While ConocoPhillips has backup options behind the main compressor at the Beluga River field, there is a several minute lag between one failing and the other kicking on.

No additional wells planned

The general support for the export license means less leverage, in one sense.

To get support for the 2009 extension from the Palin administration, ConocoPhillips and Marathon agreed to several terms, including drilling wells and negotiating with utilities.

ConocoPhillips has drilled six Cook Inlet wells since early 2008. "The results weren't gangbusters, but we are seeing good delivery and volumes out of those wells," Clark said.

ConocoPhillips doesn't see the need to tie this extension to further drilling because it doesn't want to ship additional volumes of gas. Ultimately, future drilling in Cook Inlet may have more to do with how much gas Asian markets can handle, Clark suggested.

"When a deal is signed with a particular utility or a deal is signed with a buyer in Japan, the particular terms of that contract is what works best to drive drilling activity," he said.

The owners signed the existing contracts with Tokyo Electric Power Co. and Tokyo Gas Corp. in 2009. Those expire with the license in March 2011 and need to be revised.

"That's a major piece of work that's ahead of us to make this happen," Clark said. ●

Contact Alan Bailey at abailey@petroleumnews.com