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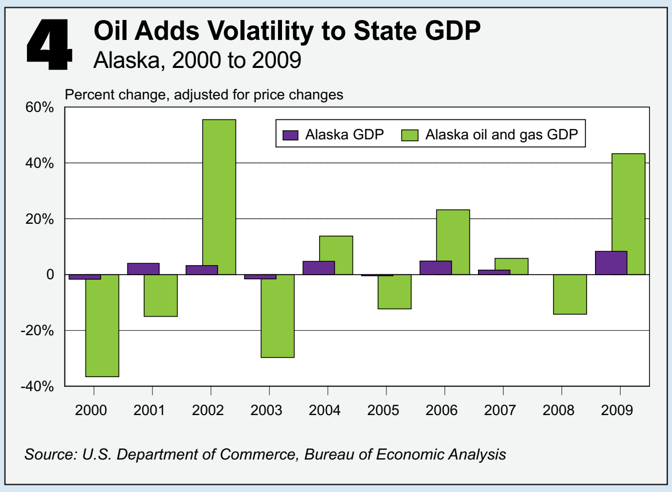
page 4 LB&A chair on megaprojects, gas, van Meurs fiscal systems report

Alaska GDP volatile



More than 25 percent of Alaska's gross domestic product in 2010 came from the mining sector — primarily oil production — down from 50 percent in mid-1980s. See story on page 13.

Conoco buys Marathon Oil's 30% share of Nikiski LNG plant

ConocoPhillips has purchased Marathon Oil's 30 percent share in the Kenai liquefied natural gas plant.

ConocoPhillips Alaska spokeswoman Natalie Lowman told Petroleum News Oct. 12 that the sale closed Sept. 26; no financial details were released.

Lowman said ConocoPhillips bought Marathon out because "We really believe that the plant has options for the future and we opted to purchase Marathon's share so that we could maintain those options ourselves."

She said there would be no immediate changes. A cargo is scheduled to leave the plant in October or early November and that cargo will probably be all the plant will export this year.

ConocoPhillips will be looking at preserving the plant's options for the future "and that could include support for an LNG import and regas facility" or resumption of LNG export options, Lowman said.

see **LNG PLANT** *page 18*

Escopeta reaches stopping point for KLU, planning future work

Escopeta Oil Co. has completed the first stage of drilling at its Kitchen Lights Unit No. 1 well and now must wait for word from the state before it can continue to total depth.

> *"We just want to make sure that we're all on the same page."* **—Escopeta Strategic Officer Steve Sutherlin**

Escopeta recently reached a depth of 4,933 feet at the offshore well in the Cook Inlet, the depth where the state asked the company to temporarily stop work. "We're at Checkpoint Charlie right now," Escopeta Strategic Officer Steve Sutherlin said on Oct. 12.

Sutherlin is a former Petroleum News reporter and a minority owner of the company.

Although Escopeta intends to drill KLU No. 1 to 16,000 feet, the Alaska Department of Natural Resources told the company to pause at 4,800 feet while it "evaluates and determines the reasonableness and prudence of moving forward with additional drilling," according to a Sept. 2 letter from

see **ESCOPETA** *page 18*

NATURAL GAS

Enough gas — just

Enstar will continue to need 'just in time' bid gas during coming winter

By ALAN BAILEY
Petroleum News

Southcentral Alaska gas utility Enstar Natural Gas Co. continues to face a tight gas supply situation but anticipates having sufficient gas to see it through the coming winter, Mark Slaughter, Enstar's manager of gas supply, told the Regulatory Commission of Alaska on Oct 12.

Estar obtains the bulk of its gas through what are termed "firm" contracts, in which gas producers guarantee to supply contracted volumes of gas. Under this type of arrangement, the producers are responsible for ensuring that gas flowing from their gas fields and available from their gas storage facilities is sufficient to meet contractual obligations.

> *During the winter of 2011-12 Enstar anticipates obtaining 97 percent of the gas that it needs through these firm contracts, with the utility obtaining the remaining 3 percent of its supply through a new gas bidding system introduced in January 2011.*

Bid gas

During the winter of 2011-12 Enstar anticipates obtaining 97 percent of the gas that it needs through these firm contracts, with the utility obtaining the remaining 3 percent of its supply

see **BID GAS** *page 20*

ALTERNATIVE ENERGY

Fire Island going ahead

RCA approves purchase of power from CIRI wind farm by Chugach Electric

By ALAN BAILEY
Petroleum News

In an Oct. 10 order the Regulatory Commission of Alaska has given the go ahead to power utility Chugach Electric Association to purchase electrical power from a wind farm that Cook Inlet Region Inc. plans to build on Fire Island, offshore Anchorage. CIRI needs the power purchase agreement to secure the funding needed for the completion of the wind farm construction, with a 2012 deadline for completion if the project is to qualify for a nearly $19 million federal grant.

"It was something a lot of people worked for a long time to get to," an elated Jim Jager, CIRI spokesman, told Petroleum News Oct. 11 in response to the RCA decision.

> *The state attorney general, intervening on behalf of the general public, and Anchorage power utility Municipal Light & Power, questioned many of the assumptions behind the finding of a net positive value to the wind power supply.*

Ethan Schutt, CIRI's senior vice president of land and energy development, said that CIRI will now close on the financing for the continuing construction of the project, with heavy construction scheduled to start in April. CIRI anticipates having

see **FIRE ISLAND WIND** *page 19*

GOVERNMENT

Yukon ready for new era

Right-of-center party wins third majority, clearing way for resource development

By GARY PARK
For Petroleum News

The governing Yukon Party, led by former pharmacist Darrell Pasloski, made political history on Oct. 11 by winning a third straight majority, clearing the way for the Yukon Territory to embark on what could be even greater history through exploitation of its resource riches.

Pasloski, who took over as head of the right-of-center party when long-time premier Dennis Fentie retired in May, will head a caucus of 11 members in the 19-member legislature.

The left-leaning New Democratic Party doubled its count to six members, while the Liberals fell to two from five.

> *The biggest challenge for the government is to handle a resurgent mining industry … that is stretching the need for skilled labor, housing and power supplies beyond the territory's limits.*

Of the Yukon's 23,500 eligible voters, 67 percent cast ballots, the lowest turnout since the territory adopted party politics in 1978.

The biggest challenge for the government is to handle a resurgent mining industry, with planned development poised to surpass anything in its Klondike past, that is stretching the need for

see **YUKON VOTE** *page 18*

contents

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Alaska - Mackenzie Rig Report

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

Alaska Rig Status

North Slope - Onshore

Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay Z-65	BP
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay S-09/OH	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD4-03	ConocoPhillips
AC Mobile	25	Prudhoe Bay 04-350	BP
OIME 2000	141 (SCR/TD)	Kuparuk 2A-11	ConocoPhillips
TSM 7000	Arctic Wolf #2	In Nisku, AB	Available
Kuukpik	5	Completing Savik #1	North Slope Borough
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
AC Coil Hybrid	CDR-2	Kuparuk 2L-307	ConocoPhillips
Dreco 1000 UE	2-ES	Prudhoe Bay Stacked out	Available
Mid-Continental U36A	3-S	Prudhoe Bay Stacked out	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay X-22A	BP
Emsco Electro-hoist	7-E (SCR-TD)	Prudhoe Bay DS12-27A	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay R14-B	BP
Dreco 1000 UE	9-ES (SCR/TD)	Has been released by Brooks Range Petroleum	Available
Oilwell 2000 Hercules	14-E (SCR)	Prudhoe Bay Stacked out	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Prudhoe Bay Stacked out	Available
Oilwell 2000	17-E (SCR/TD)	Prudhoe Bay Stacked out	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)	Stacked at Deadhorse, will go to Oooguruk for exploration drilling in January	Pioneer
Academy AC electric Heli-Rig	106-E (SCR/TD)	Stacked at Deadhorse	Available
OIME 2000	245-E	Oliktok Point OI06-05	ENI

*Nabors 27-E will be under contract at Oooguruk/Nuna for Pioneer this winter

Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site R-03B1	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Well Drill Site 14-28A	BP
Ideco 900	3 (SCR/TD)	Kuparuk Well 2A-07	ConocoPhillips
Parker Drilling Arctic Operating Inc.			
NOV ADS-10SD	272	Prudhoe Bay final construction and commission	BP
NOV ADS-10SD	273	Prudhoe Bay final construction and commissioning	BP

North Slope - Offshore

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-26I	Pioneer Natural Resources
Oilwell 2000	33-E	Prudhoe Bay Stacked out	Available
Doyon Drilling			
Sky Top Brewster NE-12	15 (SCR/TD)	Spy Island SD37-DSP1	ENI

Cook Inlet Basin – Onshore

Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Drilling Three Mile Creek	Aurora Gas
Cook Inlet Energy			
Atlas Copco RD20 34		Undergoing winterization at W. McArthur River Unit	Cook Inlet Energy
Doyon Drilling			
TSM 7000	Arctic Fox #1	Beluga, Stacked	Repsol
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Kenai Loop #3	Buccaneer Alaska
Nabors Alaska Drilling			
Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked	Available
Academy AC electric Canrig	105-E (SCR-TD)	Kenai CLU-4	CINGSA
Rigmaster 850	129	Kenai Stacked out	Available

Cook Inlet Basin – Offshore

Chevron (Nabors Alaska Drilling labor contract)			
	428	M-11 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
Spartan Drilling			
Baker Marine ILC-Skidoff, jack-up		Spartan 151 Upper Cook Inlet KLU#1	Escopeta

Mackenzie Rig Status

Canadian Beaufort Sea

SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

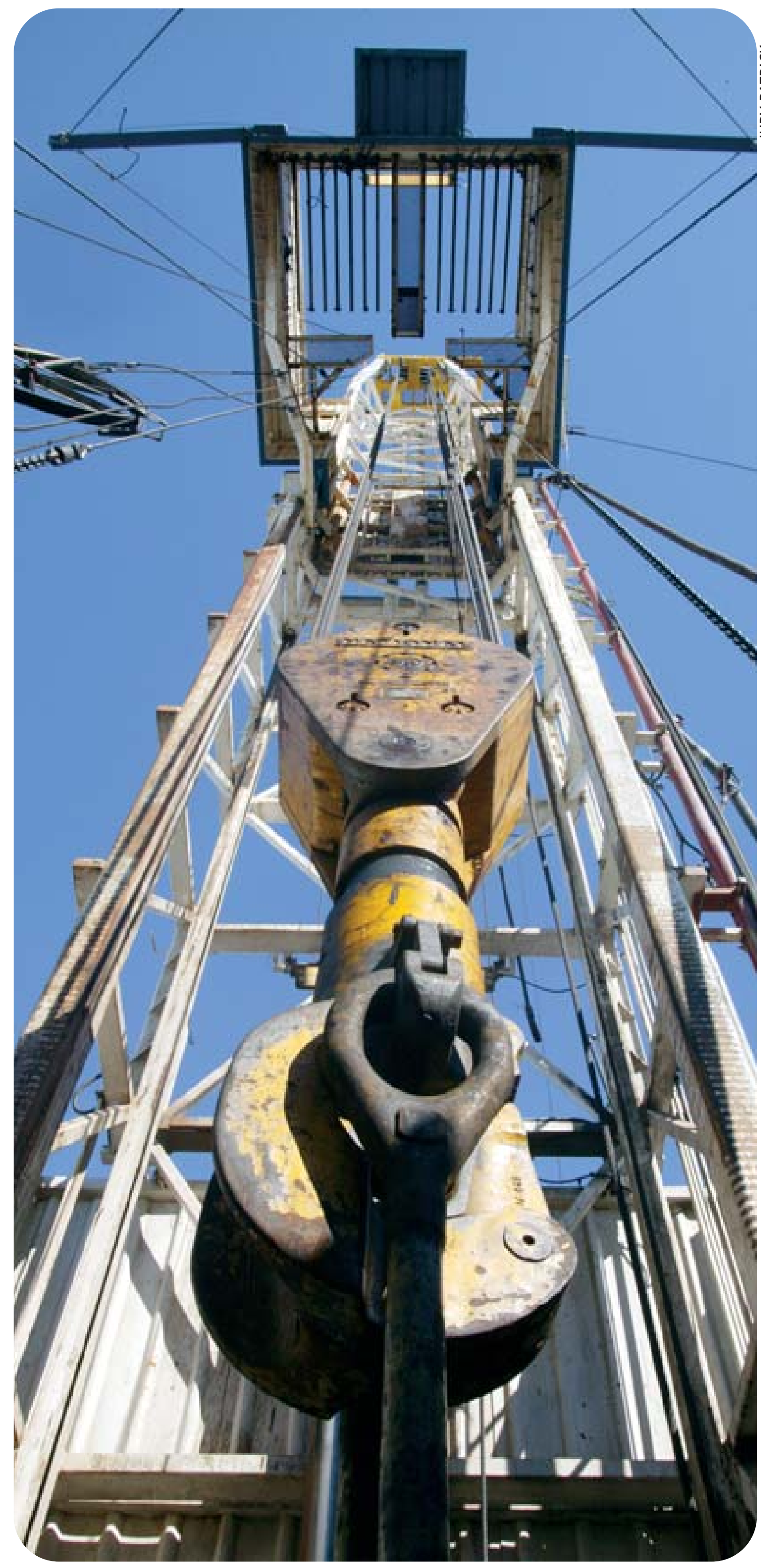
Central Mackenzie Valley

Akita/SAHTU			
Oilwell 500	51	Has left the NWT	Available

The Alaska - Mackenzie Rig Report as of October 13, 2011. Active drilling companies only listed.

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

This rig report was prepared by Marti Reeve



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	October 7	September 30	Year Ago
US	2,012	1,990	1,671
Canada	522	510	403
Gulf	33	30	20

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

*Issued by Baker Hughes since 1944

The Alaska - Mackenzie Rig Report is sponsored by:

XTO ENERGY

● GOVERNMENT

Mike Hawker sees flaws in oil tax bill

Alaska Legislative Budget and Audit chair discusses megaprojects, gas pipelines, and the Pedro van Meurs report on fiscal systems

By STEFAN MILKOWSKI
For Petroleum News

Rep. Mike Hawker, a legislative point person on oil and gas issues and chair of the Legislative Budget and Audit Committee, helped push Gov. Sean Parnell's oil tax bill through the House last session.

But a recent report by the global oil and gas expert Pedro van Meurs argues the governor's bill is off track, and Hawker seems to agree. In some ways the report favors Hawker's own oil tax bill, HB 17, which reduces the tax rate on oil production but does not increase tax credits or provide lower tax rates for new fields, as the governor's HB 110 does.

"As these bills have a long way to go in the legislative process, I'm sure Pedro's concerns will be incorporated," Hawker said.

Hawker maintains his doubts about a large-scale gas pipeline and says he'll keep pushing for legislation that could give the state a way out of its deal with TransCanada under the Alaska Gasline Inducement Act.


REP. MIKE HAWKER

He's more hopeful about an in-state line.

In August, LB&A sponsored a three-day seminar for legislators on the management of megaprojects.

Petroleum News spoke with Hawker on Oct. 11.

Petroleum News: First I want to ask you about the megaprojects seminar.

Hawker: The title was "Megaprojects: Concepts, Strategies, and Practices for Success." This is a program that is offered by the IPA Institute, a division of a company called Independent Project Analysis. They are a project management think tank and consulting firm created in 1987. They evaluate case studies of very large construction projects around the world, largely in petroleum, chemicals, and mining industries, and based on their case studies analysis over time, they have developed a very definitive best-practices case. Their seminar is really talking about what they have identified over time as best practices for successful project planning and management.

They (discussed) what they call "gating" — what you need to do and the order in which you need to do it, and when you need to have things accomplished to keep your project basically on budget, on time, and at the end of the day in a manner that it works.

Petroleum News: Were there things you think should to be applied to megaprojects in Alaska?

Hawker: Every single thing in that course is applicable. I took the same course about six years ago. I found it very informative then, and I've always wanted an opportunity to bring it back to Alaska and back to Alaska legislators.

The Alaska Gasline Development Corporation (AGDC) Stand Alone Pipeline project plan that was brought forward this summer very rigidly complies with the best practices of Independent Project Analysis. It's very important for legislators to understand what those practices are and why they're being used.

It's also absolutely relevant to any considerations of other major infrastructure projects in the state, whether it be building big bridges or developing hydroelectric potential.

Petroleum News: Do you think Alaska Gasline Inducement Act (AGIA) licensee TransCanada is following these guidelines?

Hawker: Well, it's different. Among the IPA's client list are the Denali folks and TransCanada. TransCanada's used them many times internally. The difference is the approach taken by the Alaska Legislature in bringing forward the AGIA plan and in developing the "must-haves," which end up violating some of IPA's practices.

The foundational premise of a successful megaproject by IPA is that you bring together at the very onset everyone who perceives themselves to be a stakeholder and you eliminate competing objectives so that all future direction is in an aligned mode with all those stakeholders.

AGIA started out exactly the opposite. It didn't create alignment or eliminate competing objectives. It created competition and competing objectives, which is one of the reasons the Legislature's conception of AGIA is facing some pretty severe problems here.

Petroleum News: Did the seminar give you any ideas of legislation?

Hawker: No. It was much more how to understand projects as the state approaches them and looks at developing future projects.

Q AND A

Petroleum News: I know in the past you've been pretty unconvinced that AGIA will lead to the construction of a big pipeline. Has anything changed?

Hawker: No. Our window of opportunity for a big pipe I think is severely compromised. Even TransCanada themselves have said they've been unable to secure sufficient economic interest to move a project forward. So while they are complying with the letter of the AGIA law, even they are saying there's not a viable project on the plate.

Petroleum News: Do you think you'll try again with legislation by House Speaker Mike Chenault …

Hawker: You're thinking of HB 142, which is the need to look at the provisions in AGIA that are available for consideration if the project proves uneconomic.

Yes, I think that absolutely has to be looked at. As long as the state continues to pursue an uneconomic project, we've really compromised our ability to look at other in-state projects that might well be economic.

Sadly, I think the opportunity for Alaska gas to the Lower 48 is highly compromised. That's certainly the conclusion ConocoPhillips and BP reached when they terminated their Denali project. They looked at it and said there's no market there.

We may very well have a viable Asian market if we took away the volu-

see **HAWKER Q&A** page 15

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● GOVERNMENT

BP sides with AOGCC against Alyeska

Issue whether commission's inspectors must participate in Alyeska employee safety program; BP says it can't compel regulators

By KRISTEN NELSON
Petroleum News

The Alaska Oil and Gas Conservation Commission, which regulates downhole activities and typically deals with oil and gas companies, is involved in a dispute with Alyeska Pipeline Service Co. over whether the commission's inspectors must comply with Alyeska safety protocols when witnessing meter tests at Pump Station 1.

The commission does not regulate pipelines, and is only embroiled with Alyeska because commission inspectors witness tests of lease automatic custody transfer, or LACT meters, which measure oil going into pipelines — important to the state since it collects royalties based on production volumes.

One such meter is inside a metering building at Pump Station 1. Alyeska argues that Occupational Safety and Health Administration regulations require that agency inspectors comply with energy isolation safety protocols by "hanging a lock" when present for meter testing, based on OSHA requirements that companies treat all those involved in energy isolation situations as employees for safety purposes.

This is a new requirement, and not one that commission inspectors encounter when witnessing other meter tests. The commission maintains that its inspectors are not required to participate in Alyeska's safety protocols.

BP disagrees with Alyeska

At the end of an Oct. 11 hearing where Alyeska officials discussed the pipeline operator's safety culture and its reading of OSHA regulations as requiring that even an inspector observing a test must be treated as an employee and comply with company safety protocols, an attorney with BP Exploration (Alaska) told the commission that BP does not believe it is required to treat regulators as employees for safety purposes.

Randall Buckendorf told the commission that BP takes the position that it can ask regulators to comply — by asking state and federal agency personnel to drive safety at its fields, for example — but does not believe it can mandate compliance with its safety standards.

> *The meter is oversized for current needs and there is a plan to replace it, Buckendorf said, although it would be very costly to move it.*

Buckendorf said he'd discussed the issue with BP Exploration (Alaska) President John Minge, and said the issue has the attention of the pipeline owners. BP is the regulated entity and doesn't believe it is in noncompliance, he said.

BP, at 47 percent, is the largest of the owners of the trans-Alaska oil pipeline system, which is managed for the owners by Alyeska; other owners are ConocoPhillips, ExxonMobil, Unocal Pipeline and Koch Alaska Pipeline.

Alyeska: hanging a lock required

In addition to Alyeska officials, the pipeline operator was represented at the hearing by Kenneth Eggers, an attorney with Groh Eggers LLC.

Eggers told the commission that he believes the law requires a commission employee to hang a lock; and, he said, from a practical perspective, the requirement is in the interests of safety.

Eggers offered to sit down with the commission or its staff and work on the issue.

Greg Jones, senior vice president of Alyeska's technical support division, said he believes the commission's position is misguided. Alyeska is not trying to regulate a regulator, he said: This is truly about safety.

Jones said that a decade ago, Alyeska had some 30 injuries a year, but with changes in the company's safety procedures starting in about 2002, that has dropped to only four injuries a year.

Whitney Grande, Alyeska senior health and safety manager since 2008, said safety is embedded in everything Alyeska does. He said when he joined the company he focused on "life critical" programs, and one of the big three was energy isolation — the issue around hanging a lock for the meter test.

Grande said a 2008 OSHA directive put the burden on the employer for both its own employees and for the employees of others, with three options for other employers: follow the host's program, follow their own energy isolation program or combine the two.

Different procedures at different locations

Commissioner John Norman said it was problematic for the commission when there are different procedures at different locations. He told Grande he was trying to understand why, when commission inspectors witness multiple meter tests, there is an issue only at the Pump Station 1 location.

Grande said he couldn't speak for other operators' procedures; our program is compliant, he said.

In a back and forth with Commissioner Cathy Foerster, Jones said everyone who enters facilities is asked to comply; he said Alyeska's position is that if you have your own procedure, you'd do that, or you could comply with ours.

Eggers said he believes the law requires hanging a lock for energy isolation and said his legal opinion is that the commission is required to have a program.

Asked by Forester if locations where inspectors are not required to hang a lock would be in violation, Eggers said he'd have to look at the situation.

Foerster pointed out that the commission's inspectors are never without an Alyeska escort.

She was also concerned that Alyeska personnel testifying were unfamiliar with AOGCC regulations on custody transfer meters and asked if Alyeska was an operator under AOGCC regulations.

Norman questioned the location of the meter and asked if the meter needs to be at that location. Why is the meter at a location where one company is restricting access but the meter is owned by someone else, he asked.

Norman said he keeps returning to the meter test witnessing which ordinarily would be a nonevent. He said the com-

see **COMPLIANCE DISPUTE** *page 15*

LAND & LEASING

BRPC withdraws Greater Bullen application

Brooks Range Petroleum Corp. has voluntarily withdrawn its application to form a unit on the eastern North Slope and surrendered half of the acreage associated with it.

The local independent told the Division of Oil and Gas on Sept. 23 of its decision not to form the Greater Bullen unit over 68 State of Alaska leases in the area between the Badami and Point Thomson units. The division accepted the withdrawal several days later.

"We voluntarily surrendered about 100,000 acres, but some of that is to Anadarko Petroleum," BRPC executive Jim Winegarner told Petroleum News on Oct. 12.

The unit would have covered some 200,058 acres on the eastern North Slope.

"The Division will make every effort to include the surrendered state oil and gas leases in the next areawide North Slope lease sale currently scheduled for Dec. 7," division Director Bill Barron wrote to the company in a Sept. 26 letter accepting the withdrawal.

Telemark proposal

In its unit application earlier this year, BRPC proposed the Telemark Development Project to target a Brookian-age reservoir in the Flaxman sand that would justify standalone production facilities in the region and a multiyear exploration program, but that program depended on confirmation of the reservoir by a seismic program and an exploration well, and sanctioning by the working interest owners, Winegarner said.

Of the three unit applications BRPC filed this year, the Greater Bullen proposed was based on the least amount of previous exploration work. The company and its joint venture partners have not previously drilled or acquired seismic in the area.

BRPC is the local operating arm of Kansas-based Alaska Venture Capital Group.

—ERIC LIDJI

● ENVIRONMENT & SAFETY

An evolving scene for Alaska permitting

Lawyer points to the value of persistence in dealing with litigation over permits, particularly on the outer continental shelf

By ALAN BAILEY
Petroleum News

With Alaska resource development, particularly on the outer continental shelf, having become a prime focus of litigation by environmental organizations, companies need to be prepared to be persistent in finding paths through the various challenges, attorney Jeffrey Leppo, a partner in law firm Stoel Rives LLP, told the Alaska Oil and Gas Congress on Sept. 21.

"Denial is not a successful strategy,' Leppo said.

Key intersection

Leppo said that Alaska sits at a key intersection between natural resource development and various federal policies in areas such as climate change; ocean usage; oil and gas; and fisheries. The state holds world-class natural resources and has an economic dependence on the development of those resources. But this is an extraordinarily litigious time in the state, Leppo said.

"The thirst for litigation in connection with natural resource projects, particularly on the OCS, is essentially insatiable at this point," he said.

Groups that Leppo characterized as environmental nongovernmental organizations, or eNGOs, have been mounting a particularly sustained campaign of litigation in the state, he said. These organizations are knowledgeable and thorough.

"They are well funded and staffed, and very thoughtful," Leppo said. "Their approach is in no way random or frivolous. They're better organized, quite frankly, and have better marshaled their resources than a lot of industry, and certainly more so than the government."

And the Deepwater Horizon disaster has helped the eNGOs pursue their agenda, he said. Every critical policy, leasing or permitting decision has been litigated in a stream of continuing lawsuits in Alaska, California and Washington, D.C.

Groups that Leppo characterized as environmental nongovernmental organizations, or eNGOs, have been mounting a particularly sustained campaign of litigation in the state, he said.

Closer coalition

On the other hand, in 2011 a closer coalition between industry, Native organizations and the State of Alaska has begun to emerge in support of a responsible development agenda, although that coalition has yet to succeed in moving any permitting decisions forward, Leppo said.

And the current cycle of eNGO litigation strategies is coming to an end, as lawsuits make their way through the courts, with some new strategies likely to appear to replace strategies that have run their course. The federal permitting program should be more stable and predictable, now that the reorganization of the old Minerals Management Service has been completed, although government agencies in general will likely remain too underfunded, understaffed and underequipped to anticipate the changing set of challenges that industry faces, Leppo said.

However, companies should anticipate some permitting success in 2012, he said.

NEPA

Litigation will continue to revolve mainly around the application of the National Environmental Policy Act, the Endangered Species Act and the Marine Mammals Protection Act, Leppo said. NEPA, the statute that drives the preparation of environmental assessments and environmental impact statements for projects with federal involvement, is the single most common source of successful legal challenges to projects across the United States, he said.

"It is still a major challenge for significant progress, particularly in the OCS, and particularly for offshore oil and gas," Leppo said. The NEPA process is time-consuming, lacks schedule discipline and is expensive, but it requires thoughtful, patient and persistent efforts in its application. And businesses operating in Alaska need to realize that the U.S. 9th Circuit Court, the court that commonly ends up dealing with federal administrative appeals from Alaska, has a strong preference for the use of an environmental impact statement rather than the much simpler environmental assessment for the analysis of the environmental consequences of a project.

Litigation against the NEPA analysis for the 2008 Chukchi Sea lease sale is one high-profile lawsuit that has been proceeding through the U.S. District Court in Alaska. Although the court rejected most of the challenges to the lease sale, the court did require modifications to the lease sale EIS. On Oct. 3 the Bureau of Ocean Energy Management issued a final supplemental EIS and associated record of decision for the lease sale, and submitted those to the court. But the environmental advocacy groups will have determined that the SEIS is inadequate, and a further briefing in the court will be the next step, Leppo said. Leppo said that he anticipates a new decision in the case in the first quarter of 2012. Meantime there is uncertainty about what will happen about an injunction that the court had placed on lease related activity until the SEIS was issued, he said.

In another NEPA related case, the Native Village of Point Hope and a number of environmental organization have appealed the conditional approval of Shell's Beaufort Sea exploration plan and the environmental assessment associated with that plan.

The Endangered Species Act

The Endangered Species Act has become another

see **PERMITTING** page 7

● NATURAL GAS

Kitimat aims for 2012 decision

Encana says 6 potential Asian buyers for LNG; expects contracts to support corporate sanctioning; 2 trains would total 1.4 bcf day

BY GARY PARK
For Petroleum News

The Kitimat LNG partnership is making enough headway in its efforts to line up Asian buyers that a final investment decision is still expected in early 2012, according to an official with Encana, which has a 30 percent stake in the project.

Dave Thorn, Encana's vice president of Canadian marketing, said the discussions with prospective customers are based on Kitimat's proposed two-train facility of 700 million cubic feet per day each.

"There's been very strong interest to date," with six potential LNG buyers in the running, he said.

Apache, with a 40 percent stake, is the operator and EOG Resources claims the remaining 30 percent.

Thorn said the partners expect to have "contracts for a significant portion of Kitimat capacity in place to support the final investment decision."

He said a front-end engineering and design study is close to completion and, with final corporate sanctioning, would allow construction to ramp up in 2012, setting the stage for initial exports in 2015.

Canadian environmental assessment agency regulators are expected to deliver a ruling later in October.

Oil-linked pricing

Thorn said one of the benefits for Encana is the chance to "convert a portion of our natural gas pricing to crude oil-linked pricing," with the feedstock sourced from the company's gas resource plays in British Columbia and Alberta.

Thorn said one of the benefits for Encana is the chance to "convert a portion of our natural gas pricing to crude oil-linked pricing," with the feedstock sourced from the company's gas resource plays in British Columbia and Alberta.

The proponents, all leading gas producers in British Columbia, say Kitimat would allow them to take advantage of LNG prices that are based on higher price realizations from crude oil and assumptions that LNG demand in China, India and probably Japan will be very strong through 2020, with other Asian countries expected to join the demand line-up.

Thorn said the partners also anticipate completing work on a C$1 billion Pacific Trails pipeline, covering 290 miles and offering capacity of 1 billion cubic feet per day, linking the planned Kitimat LNG terminal to Spectra Energy's gas processing complex in British Columbia.

Encana lowering supply costs

Mike Graham, president of Encana's Canadian division, said Encana is continuing to make gains in lowering supply costs at its northeastern British Columbia operations in Horn River, which is seen as a major supply source for Kitimat.

He said a 50:50 partnership of Encana and Apache is producing about 300 million cubic feet per day gross in Horn River, utilizing multi-well pads with as many as 16 horizontal wells each and up to 28 completion stages in each well.

Graham said Encana's objective for its resource play hubs is $3 per thousand cubic feet equivalent over the next three to five years.

Encana holds about 278,000 net acres in the Horn River and averaged output of 85 million cubic feet per day in the second quarter, targeting 95 million cubic feet for 2011.

Graham said the company expects to hold inflation to 4 percent-6 percent this year, compared with its forecast 7 percent to 9 percent for the Canadian energy sector.

Encana holds about 278,000 net acres in the Horn River and averaged output of 85 million cubic feet per day in the second quarter, targeting 95 million cubic feet for 2011.

He said Encana plans to raise the liquids-rich natural gas output from its Deep basin operations in Alberta and British Columbia to 30,000 barrels per day from its current 10,000 bpd in the next two years. ●

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PERMITTING

major source of litigation. Environmental organizations are using the act as a means of driving national climate change policy, while also using listings and critical habitat designations under the act as a means of delaying and blocking resource development on the outer continental shelf and on the adjacent coast. The designation of a huge area of the U.S. Arctic as polar bear critical habitat has become a prime example of the type of issue raised by the ESA, although the U.S. Fish and Wildlife Service has acknowledged that there is no conservation benefit from the designation, Leppo said. Fish and Wildlife has also acknowledged that neither the oil and gas industry, the Native communities nor the State of Alaska are responsible for any threat to the future wellbeing of the polar bear, he said.

A consolidated court case challenging the polar bear critical habitat designation involves a coalition between industry, 12 Native organizations, the North Slope Borough and the State of Alaska, he said.

Marine Mammals Protection Act

The conservation requirements of the Marine Mammals Protection Act are in some ways more stringent than those of the ESA, and the MMPA has a long track record of success in supporting the health of Alaska marine mammals while also enabling responsible resource development to continue, Leppo said. Environmental groups have been trying, unsuccessfully so far, to block resource development through the use of a "trap" involving an overlap between the terms of the ESA and the MMPA, Leppo said. Essentially, a requirement under the MMPA to demonstrate a negligible wildlife impact when obtaining an authorization for wildlife interactions, if overlaid onto an ESA critical habitat designation, could result in a situation where no industrial project is possible, he said. ●

Contact Alan Bailey at abailey@petroleumnews.com

● NATURAL GAS

AGDC gets mixed response in Fairbanks

Residents voice support for in-state pipeline but cry foul over rates; Fauske says underlying message at meetings is 'Get it done'

By STEFAN MILKOWSKI
For Petroleum News

Fairbanks residents turned out by the dozens October 6 for the latest in a series of community meetings hosted by the Alaska Stand Alone Pipeline project, the state-sponsored "bullet line" effort overseen by the Alaska Housing Finance Corp.

While generally supportive of the project, residents complained that aspects of it — mainly the expectation that natural gas would cost more in Fairbanks than in Anchorage — unfairly favored the state's largest city.

"Anchorage has been getting a sweetheart deal for over 30 years while Fairbanks has been dying," charged Laurel Sliney after AHFC CEO Dan Fauske offered a brief introduction to the project.

Fairbanks gas prices would drop from $23 per million Btu to $10, and you're upset? Fauske asked the woman. "This is an incredible savings over what you've been paying."

Fauske explained that Anchorage residents would likely pay less for gas because the capital cost of a straddle plant needed to process gas from the pipeline — estimated at $250 to $300 million — would be spread among many more customers in Anchorage than in Fairbanks. Anchorage residents could expect to pay $9.63 per million Btu delivered, while Fairbanks residents would pay $10.45.

Delivery to Anchorage and Fairbanks

Fauske said the state could reduce shipping costs by about 50 cents per thousand cubic feet for each $1 billion it put into the project.

He added that the 2010 legislation driving the project, HB 369, clearly required that gas be delivered to Anchorage and Fairbanks. "This is a time when we as a people need to pull together," he said.

Over the last six months, officials from the Alaska Gasline Development Corp., the AHFC subsidiary created to pursue the pipeline, have presented the project and heard from residents in more than a dozen communities around the state, from Barrow to Kenai.

STEFAN MILKOWSKI

Jim Eddy, center, a retired pipefitter, was sympathetic to the idea of a state-sponsored pipeline project. "It's our oil, it's our gas. I think they should just be giving it to us," he said after the meeting.

About 85 local residents attended the Fairbanks meeting, including several state lawmakers. Project-related maps and posters were spread across the walls, including an artist's rendering of a suspension bridge over the Yukon River. Attendees were treated to door prizes and a lavish spread of food.

Fauske: Message is 'get it done'

In an interview after the Fairbanks meeting, Fauske, who is AGDC's president, said he's been to a few of the meetings, and that attendance has generally been good. Talkeetna residents were opposed at first, but became more supportive as they learned more about the project, he said.

If there was one underlying message from all the meetings, he said, it was, "Get it done."

In July, AGDC completed a required project plan covering commercial, financial, engineering and permitting aspects of the project. The plan envisions a 737-mile, 24-inch pipe following the Dalton Highway to near Livengood, passing through Minto Flats, and then following the George Parks Highway south, ending at the Beluga Pipeline near Big Lake. A spur pipeline of about 35 miles would connect Fairbanks to the main line.

The project is expected to cost $7.5 billion, with first gas in 2018. The pipe would initially carry 500 million cubic feet of gas per day, but could be expanded to carry twice that amount.

In-state gas less than LNG

Fauske said a large-scale pipeline like the one pursued by TransCanada and Exxon Mobil would be ideal, because it would also provide substantial state revenues. But he said he was aware of the strain caused by high energy prices and the need to get gas to Alaskans as soon as possible.

A smaller, in-state line would charge higher tariffs, but gas would still cost less than liquefied natural gas imported through Cook Inlet, Fauske said. "We do, in my opinion, have a solvable problem," he said. "It's just how we're going to go about it."

Fauske said initial talks with shippers suggest there will be interest for gas beyond residential and utility demand, something that would reduce per-unit tariffs.

He said it would take about $400 million in state funds to assess whether the project is viable and have enough information to put the project out to bid. AGDC has spent about $22 million so far.

Costs vary with route

Questions were wide-ranging.

"What kind of pipe, and where's it going to be made?" asked Jim Eddy, a retired pipefitter. Fauske replied that it was not his decision to make. The Legislature could stipulate that it be made in a certain place, but that would increase the cost, he said.

Sen. Joe Thomas said he was a "big supporter" of the in-state line, but worried that new drilling in Cook Inlet would satisfy demand there, and Anchorage residents would lose interest in a pipeline. Daryl Kleppin, the project's commercial manager, replied with skepticism about the prospects of a big find in Cook Inlet. Fauske added later that the pipeline could "absolutely" be built upside down if gas were found in Cook Inlet.

Pamela Miller, who works at the Northern Alaska Environmental Center but spoke for herself, argued the pipeline should go through North Pole, where Golden Valley Electric Association power plants could use it — not bypass Fairbanks altogether.

AGDC Project Manager Dave Haugen said the alternate route will be considered in an environmental impact statement, but he cautioned that it's considerably longer and therefore more expensive. AGDC officials explained after the hearing that the Parks Highway route would result in cheaper gas in Fairbanks — even with residents paying the cost of the spur line — because of the overall lower cost of the pipeline.

Biggest obstacle?

"What is the biggest obstacle?" asked Shawn Lowry, business agent for Operating Engineers Local 302.

"Fairbanks hates Anchorage," Fauske joked. "It's the political will to come to an agreement that we're going to do something," he said.

Someone argued that distance-sensitive rates should make gas in Fairbanks cheaper. Someone else proposed charging the same price for gas in both cities.

After the hearing, Eddy, the pipefitter, said he could no longer afford to heat his two houses. "It's our oil, it's our gas. I think they should just be giving it to us," he said.

Sliney said she doesn't want the state to subsidize the project, but she's okay with state ownership, because the state owns the resource. Regarding the effort to secure a large-scale pipeline through the Alaska Gasline Inducement Act, Sliney said, "I kind of think that was always a pipe dream."

"The all-Alaska line might be the best," she added.

Lowry said he's ready to move forward. "The state needs to develop its resources."

"I'm 1,000 percent for it," said Lisa Peger.

Fauske said he would consider the feedback, but that it probably wouldn't change AGDC's approach. "That's not to say we ignore it," he said. "(But) I got a law I'm abiding by."

"I'm going to get these two cities hugging before I'm done with this," he added. ●

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● LAND & LEASING

Court upholds Arctic Fortitude default

Supreme Court finds that DNR acted properly by placing the unit into default in 2009, despite ongoing dispute over spill plan

By ERIC LIDJI
For Petroleum News

Affirming a lower court ruling, the Alaska Supreme Court has upheld a 2008 decision by the Alaska Department of Natural Resources to place the Arctic Fortitude into default.

The ruling opens the door for the state to terminate the North Slope unit.

Arctic Fortitude-operator Alaskan Crude Corp. had claimed that a dispute with the Alaska Oil and Gas Conservation Commission constituted a force majeure event that made it impossible for the Texas-based independent to meet the work commitments in its unit agreement. The company also claimed that DNR unilaterally amended that unit agreement when it proposed new work obligations to bring the unit out of default.

After previously proposing to drill a well for both oil and natural gas, Alaskan Crude changed its plans and claimed it shouldn't be required to get an oil spill contingency plan for its exploration work at Arctic Fortitude because it planned to drill a gas-only well.

The AOGCC denied that request, but Alaskan Crude appealed and said the length of the process constituted a force majeure, or an unexpected delay outside of its control.

The court said the dispute did not constitute a force majeure event because Alaskan Crude agreed to an amended plan of exploration after the AOGCC made its final ruling.

The court also noted that if an operator could call the appeal process a force majeure event, then "development could be stalled indefinitely over routine disagreements," and added that Alaskan Crude had other options available to it, such as requesting a stay.

The court also found that DNR did not unilaterally amend the unit agreement by proposing a default cure because the agreement set out the process for curing a default.

The Arctic Fortitude unit is adjacent to the southern edge of the Prudhoe Bay unit.

Debate stems from c-plan

The case stemmed from a dispute over oil spill response planning.

When DNR approved the three-lease Arctic Fortitude unit in June 2006, the unit agreement called for Alaskan Crude to workover and test the 1980's Burglin 33-1 well, drill two additional wells and shoot a 3-D seismic campaign over the entire unit.

Although it originally intended to explore for oil and natural gas, a plan that would have required an oil spill contingency plan, Alaskan Crude first asked the state for a large reduction in its response planning standard and then asked that the well be classified as "gas only," a designation that would have exempted it from needing a spill plan.

The AOGCC denied that classification and Alaskan Crude appealed the ruling.

Meanwhile, Alaskan Crude asked DNR for a one-year extension to the deadlines requiring it to get a rig to the Burglin pad and re-drill the well by Oct. 1, 2007, saying "winter tundra travel equipment shortages and summer tundra travel restrictions" made it impossible to meet the deadline. The state denied that request and kept the deadline.

The Arctic Fortitude unit is adjacent to the Prudhoe Bay unit on Alaska's North Slope.

Alaskan Crude appealed that ruling and requested a hearing. The state held a hearing in late September 2007, but Alaskan Crude did not attend. The two sides settled the appeal in early November by agreeing to an amended plan of exploration that required Alaskan Crude to move its equipment to the pad by May 15, 2008, and re-drill by Oct. 1, 2008.

Force majeure claim rejected

In January 2008, Alaskan Crude claimed that its difficulties surrounding the oil spill contingency plan issue created a force majeure situation. The state disagreed.

Although the response did not constitute a formal ruling, Alaskan Crude appealed the decision. The state subsequently said that an appeal wasn't relevant, but offered to consider the force majeure situation if Alaska Crude explained its case within seven days.

Alaskan Crude responded 11 days later by reiterating its right to invoke force majeure. In March, the state denied that request and in April Alaskan Crude appealed that decision.

The state told Alaskan Crude that the work commitments remained in place while the appeal process played out, but the company requested another extension, asking to have until March 31, 2009, to move a rig to the pad and until Oct. 1, 2009, to re-drill the well. Because the state didn't act on those requests, Alaskan Crude defaulted on May 15.

That July, the state ruled that Alaskan Crude did not have the right to invoke force majeure over the AOGCC dispute and placed the unit in default. To cure the default, the state made Alaskan Crude pay a $60,000 security payment, move a rig to the pad by March 31, 2009, and re-drill by Oct. 1, 2009. Alaskan Crude made the $60,000 payment, but appealed the ruling to the Alaska Superior Court, saying that the state was wrong about the force majeure and that the default cure unilaterally amended the unit agreement.

The superior court affirmed the ruling in late October 2009 and Alaskan Crude appealed. ●

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FINANCE & ECONOMY

Lance to be CEO of Conoco upstream

ConocoPhillips has named Ryan Lance and Greg Garland to head the two independent energy companies that will result when the company splits into upstream and downstream companies next year.

The company said Oct. 7 that Lance will become chairman and CEO of ConocoPhillips, the upstream company. Greg Garland will become chairman and CEO of the downstream company.

Jim Mulva, the current chairman and CEO of ConocoPhillips, will retire after completion of the separation, expected to be completed in the second quarter of 2012.


RYAN LANCE

Lance is currently senior vice president, Exploration and Production, International for ConocoPhillips. A petroleum engineer, he has more than 26 years of oil and natural gas industry experience in senior management and technical positions with ConocoPhillips, predecessor Phillips Petroleum and various divisions of ARCO.

> *Lance is well known in Alaska. He was with ARCO for 17 years, becoming vice president of the company's western Alaska North Slope operations, acquired by Phillips in 2001.*

Garland is currently senior vice president, Exploration and Production, Americas for ConocoPhillips. He began his career as a project engineer with Phillips Petroleum and has been associated with ConocoPhillips, its predecessors and affiliated companies for more than 31 years.

Both appointments will become effective at the completion of ConocoPhillips' repositioning transaction next year. Lance and Garland will continue in senior management roles until that time, while also directing transition plans, including appointment of their executive management teams.

Well known in Alaska

Lance is well known in Alaska. He was with ARCO for 17 years, becoming vice president of the company's western Alaska North Slope operations, acquired by Phillips in 2001.

He joined ARCO in 1984 and held various management, engineering and operations positions in Alaska, the Lower 48 and internationally.

Lance moved to Phillips after that company acquired ARCO's Alaska properties; in 2002 Phillips merged with Conoco. Prior to assuming his present position in May 2009, he was president, Exploration and Production — Asia, Africa, Middle East and Russian/Caspian.

—PETROLEUM NEWS

● LAND & LEASING

Point Thomson's status remains unclear

Two months after Alaska official announces 'resolution in principle,' court case over disputed North Slope field plows onward

By WESLEY LOY
For Petroleum News

In mid-August, Alaska's natural resources commissioner signaled the fight over the Point Thomson field was coming to an end — that the state and unit operator ExxonMobil had reached a "resolution in principle."

But two months later, the conflict remains unsettled as lawyers for the state and the company continue to battle.

The Department of Natural Resources on Oct. 10 filed a new set of papers with the Alaska Supreme Court as part of its continuing effort to break up the Point Thomson unit and reclaim the state acreage there.

The state appears to be pressing on in court as a fallback in case the settlement effort fails.

Point Thomson is a rich but undeveloped oil and gas field along the Beaufort Sea coastline, next to the Arctic National Wildlife Refuge.

Point Thomson 'mockery'

DNR Commissioner Dan Sullivan announced the resolution in principle during an Aug. 15 legislative hearing.

Sullivan said resolving the dispute involved more players than just DNR and the oil giant.

"ExxonMobil now is discussing the provisions of the settlement with other working interest owners of the unit," he said, noting they had commercial terms to work out among themselves.

Those other owners include BP, Chevron and ConocoPhillips. The three companies, along with ExxonMobil, are fighting to preserve the Point Thomson unit and the underlying leases.

The state began its quest to take back Point Thomson six years ago, when the state's oil and gas director at the time, Mark Myers, held that decades of nondevelopment at Point Thomson had made a "mockery" of the state's rights as a landowner.

Thus far, the oil companies have thwarted the state's attempts to terminate the unit. But the state is continuing its efforts before the Alaska Supreme Court, where the matter now rests.

Hugely valuable asset

DNR appealed to the high court in early 2010, after state Superior Court Judge Sharon Gleason reversed the agency's unit termination. Gleason held, in part, that the oil companies had been denied a special hearing provided for in the Point Thomson unit agreement. DNR's lawyers argue no such hearing is warranted.

For a long while, the case remained idle as the Supreme Court allowed the two sides to concentrate on settlement talks.

In recent months, however, the court proceedings picked up.

The case has seen three major filings thus far: DNR's opening brief, a responding brief from ExxonMobil and its partners, and DNR's reply brief filed Oct. 10.

It's clear from this lumbering legal process that reaching a decision from the Supreme Court could take many months. Even then, the high court's decision might be to remand the case to the Superior Court for further proceedings.

Both sides have said they prefer settling the matter out of court.

Point Thomson is a hugely valuable asset. It holds an estimated 8 trillion cubic feet of natural gas plus hundreds of millions of barrels of petroleum liquids.

ExxonMobil discovered the field with wells drilled in the 1970s. The Point Thomson unit was formed in 1977.

While some have accused ExxonMobil of "warehousing" Point Thomson's riches, the company has cited the lack of a North Slope natural gas pipeline as a primary reason why the field has never been developed.

A more active ExxonMobil?

ExxonMobil is a huge player in Alaska's oil industry, but its role for many years primarily has been that of investor rather than explorer or field operator. Most notably, the company owns a 36.4 percent working interest in the BP-operated Prudhoe Bay oil field.

ExxonMobil's profile in Alaska could look very different depending on how the Point Thomson issue shakes out.

Responding to the state's move to reclaim the acreage, ExxonMobil between May 8, 2009, and Oct. 27, 2010, drilled a pair of wells at Point Thomson, the first wells drilled there since the early 1980s.

The "development wells," as ExxonMobil termed them, were part of a promised $1.3 billion project to start pro-

see POINT THOMSON page 14

FINANCE & ECONOMY

Hilcorp names Barnes as Alaska head

Hilcorp Energy Co. said Oct. 10 that it has named John Barnes senior vice president for its subsidiary, Hilcorp Alaska LLC. He will be based in Anchorage and will oversee Alaska operations for Hilcorp.

Hilcorp is buying Chevron's Cook Inlet assets, a process expected to close by the end of the year.

Barnes, formerly with Marathon in Alaska and most recently senior vice president of operations and maintenance services for CH2MHill, brings both producer and contractor experience to his new position, Hilcorp said.

JOHN BARNES

Houston-based Hilcorp, a privately held independent oil and gas exploration company, is expanding its operations into Alaska with the purchase of Chevron's interests in Cook Inlet.

Chevron and Hilcorp said when the acquisition was announced in July that it is expected to close by the end of the year subject to necessary regulatory approvals.

Barnes has worked Alaska assets both as a producer and as a contractor. He was Alaska production operations manager for Marathon Oil Co. in Cook Inlet until 2007 and, most recently, senior vice president of operations and maintenance services for CH2MHill, responsible for global operations including Alaska North Slope, Kenai and Russia.

Barnes graduated from the Colorado School of Mines with a petroleum engineering degree in 1980 and jointed Marathon, working in reservoir engineering, production operations and management in Alaska, West Texas, the North Sea and Houston. He joined CH2MHill in 2008.

Hilcorp, founded in 1989, has 700 employees and nine operating areas including the Gulf Coast region, the Gulf of Mexico and the Rockies.

—PETROLEUM NEWS

● ENVIRONMENT & SAFETY

Communities target coastal management

Ballot initiative application filed; goal to have enough signatures by session; if Legislature doesn't act, voters could in 2012

By BECKY BOHRER

Associated Press

Three coastal community leaders want to revive Alaska's coastal management program, and if the Legislature won't act, they plan to take the issue to the people.

The opt-in program allowing states to put conditions on certain activities on federal lands and waters ended June 30 after several failed attempts by lawmakers to save it. The end came as coastal communities sought a greater say in development decisions that could have an impact on their way of life, particularly with the future potential of offshore oil and gas development.

A ballot initiative application was filed with the Division of Elections Oct. 7 — borne of disappointment in the Legislature's handing of the coastal zone issue and a desire to get a vital program back in place, said Kenai Peninsula Borough Assemblyman Mako Haggerty, one of the three initiative sponsors, along with Juneau Mayor Bruce Botelho and Kodiak Island Borough Mayor Jerome Selby.

If the application is certified as having sufficient signatures, the initiative committee will need to gather 25,875 signatures. Botelho told reporters Oct. 10 that the goal is to have 27,000 signatures collected before Jan. 17, the start of the legislative session.

Goal legislative action

Botelho said that if a coastal management program "substantially similar" to that outlined by the proposed initiative isn't adopted, the goal will be to get the issue on the November ballot — and to let the voters have their say.

Without this effort, "it would basically be holding out hope that on its own initiative the Legislature and our governor would deal with this matter in the 2012 session," Botelho said, adding that he doesn't have much confidence that the issue would get "the high priority I think it should have" without the initiative effort.

Earlier this year, Joe Balash, a deputy commissioner for the Department of Natural Resources, said that without a coastal management program, Alaska would lose its ability to shape activities and development in federal waters and land. However, he said it's not the only tool the state has to ensure development occurs responsibly in Alaska.

Gov. Sean Parnell's office declined comment Oct. 10 on the proposed ballot initiative. Botelho said the proposal constitutes a new plan, not an effort to re-establish what was.

Board for local input

The 15-page proposal calls for a coastal policy board that provides local input in evaluating the effectiveness of district coastal management plans.

It also says the board must approve initial or amended district plans if, among other things, the plans address a coastal use or resource of concern as demonstrated by local knowledge or supported by scientific evidence. Questions about what role local knowledge and scientific evidence should play were major sticking points during the legislative debate.

Sen. Donny Olson, D-Nome, said he couldn't speak to the specifics of the proposal but agrees with putting the issue to the people if there isn't support within the

see COASTAL MANAGEMENT page 12

FINANCE & ECONOMY

Oil falls more than 2% on China slowdown

Oil prices fell more than 2 percent Oct. 13 as the global economic slowdown took a toll on China.

China, the world's second-largest oil consumer behind the United States, has been pushing up oil demand as its economy expanded. But a drop in its export growth in September showed that it's been affected by the sluggish U.S. and European economies. Consumers are spending less and buying fewer Chinese products. If China's exports continue to cool off, its economy will slow and its appetite for oil will diminish.

"We're interconnected," independent analyst Andrew Lipow said. "A slowdown in consumption in the U.S. and Europe is being felt over there."

Benchmark crude fell $2.16, or 2.5 percent, to $83.40 per barrel in Oct. 13 afternoon trading in New York. Brent crude, used to price many international kinds of oil, lost $1.09, or at $110.27 a barrel in London.

The most recent economic data in the U.S. showed little sign of the economy picking up steam. The number of people applying for unemployment benefits fell slightly the week ending Oct. 7, but not by enough to signal job growth.

And the Energy Department said that oil and natural gas supplies grew unexpectedly the week ending Oct. 7, while refineries slowed down and gasoline supplies dropped — all signs of soft demand.

The international Energy Agency joined the OPEC in trimming its demand forecasts for this year and 2012. The Paris-based IEA said Oct. 12 it still expects world demand to hit a record this year, but more slowly than previously expected. The IEA's outlook followed a similar one from the Organization of Petroleum Exporting Countries on Oct. 11.

—ASSOCIATED PRESS

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COASTAL MANAGEMENT

Legislature to act. Olson, who was among those who considered the old program broken and sought to revamp it, giving local communities a greater say, said coastal management remains a major issue and isn't going away.

House Democratic Leader Beth Kerttula, a former coastal zone lawyer for the state, called the initiative push a great idea, one that "might wake a few people up, to realize how important this is," and get the Legislature to focus on finding a solution. She said the proposal outlined is structured strongly.

Botelho said the ballot group has not yet raised money or filed with the Alaska Public Offices Commission but plans to in the next few weeks. ●

● EXPLORATION & PRODUCTION

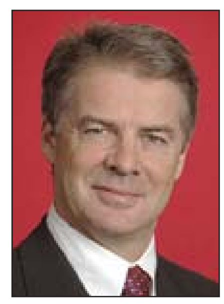
Johansen: Urgency lacking on throughput

Drop in North Slope oil production a key challenge, ConocoPhillips Alaska chief tells Anchorage Chamber; costs a lot to maintain

By KRISTEN NELSON
Petroleum News

Trond-Erik Johansen, president of ConocoPhillips Alaska, told the Anchorage Chamber of Commerce Oct. 10 that there is a lack of urgency in the state about the need to increase production through the trans-Alaska oil pipeline.

Alaska's crude oil production is down 36 percent since 2003, he said, while Texas production has held about level over that time and Gulf of Mexico production is up 9 percent.


TROND-ERIK JOHANSEN

ConocoPhillips is the state's largest oil producer, averaging more than 230,000 barrels per day.

The company has been in Alaska for 50 years and plans to be here for another 50, he said, but there are challenges.

Alaska development, he said, competes with projects elsewhere.

There is viscous oil in the West Sak formation that can be developed, and heavy oil in the Ugnu formation that requires a lot of technical effort.

At Kuparuk, Prudhoe and Alpine, the North Slope's big conventional oil fields, the easy oil has been found, Johansen said. While those fields are very mature, there is a lot of oil left, but producing it requires going into new horizons and smaller pockets, and it will take longer to produce it. The number of production drilling rigs is the same as five years ago, he said, but less and less oil is produced from each well drilled.

And today's spend, Johansen said, is 70 percent maintenance capital and 30 percent development capital: 10 years ago those numbers were reversed.

Urgency needed

He said there needs to be some urgency around getting more oil in the pipeline.

The trans-Alaska oil pipeline is moving 600,000 barrels per day and throughput continues to decline. As you drop through 500,000 bpd and 300,000 bpd, major money must be spent to keep those reduced volumes flowing, Johansen said.

There is hope for discoveries in the Chukchi Sea, where ConocoPhillips hopes to drill at Devil's Paw in 2013 or 2014, but it will take at least 10 years to get that oil in the pipeline, he said.

Challenges include geology and geography, which makes wells here much more expensive than elsewhere.

But a big part of the challenge is the investment environment, he said.

While we can't do anything with geology or geography, can we do something with the fiscal environment, Johansen asked.

"I can't," he said.

One million bpd were moving through the pipeline in 2003 — can we get back to that level?

Johansen said it would take a breakthrough in the outer continental shelf and investment, but the risk is high.

With the progressivity element in Alaska's production tax, there is less and less profit to companies taking the development risk, he said.

More opportunities

Johansen reminded the audience that when ConocoPhillips' CEO Jim Mulva was in Anchorage earlier in the year he said that passing Gov. Sean Parnell's production tax change, House Bill 110, would put Alaska on the competitive map.

In response to questions, Johansen said ConocoPhillips would commit to more investment if there was a tax change. He said he couldn't give exact numbers, but those numbers would be large. He noted that Mulva said indicated an additional spend of $5 billion over the next three to five years if HB110 passed.

"We like what we see in Alaska," Johansen said, but added that it's hard to funnel funds here with the high marginal tax rate. Asked if ConocoPhillips would commit natural gas to an in-state bullet line, Johansen said ConocoPhillips would like to monetize North Slope gas and is looking at alternative ways to do that, and talking with the state and other companies. ●

Contact Kristen Nelson at knelson@petroleumnews.com

● FINANCE & ECONOMY

Oil plays tricks with Alaska GDP

Price and production swings make the popular national metric an odd ball in Alaska but provide interesting points of comparison

By ERIC LIDJI

For Petroleum News

That oil is the keystone of the Alaska economy isn't surprising, but the details of that simple fact continue to offer insight into the role oil plays in the Alaska economy.

Of Alaska's $49.12 billion gross domestic product in 2010, more than 25 percent came from the mining sector that in Alaska primarily consists of oil development, according to a recent analysis from the Alaska Department of Labor and Workforce Development.

While the national GDP is released quarterly and commands enormous attention, the annual Alaska GDP is "a relatively crude statistic that does provide some nice comparisons," according to Neal Fried, the state economist responsible for the report.

The statistic is "crude," no pun intended, because Alaska's reliance on oil causes wild fluctuations in GDP from year to year that don't translate to changes on the ground.

"You would never guess these wild swings by just living here," he said.

For instance, while the inflation-adjusted state GDP shrunk in 2000, 2003 and 2005, employment and income in Alaska rose in those years. "That kind of year-to-year change at the national level would have spurred three near back-to-back recessions," Fried wrote, but while oil accounts for a quarter of Alaska GDP — and even more once transportation and refining are added to the mix — it accounts for only 2 percent of national GDP.

While oil dominates the state GDP, the industry itself accounts for only 4 percent of statewide employment. In 2009, when employment and income in Alaska fell for the first time in more than two decades, high oil prices helped the state GDP grow 9 percent.

"This is an example of how year-to-year changes in Alaska's GDP might say very little about what's happening on the ground level of the state's economy," Fried wrote.

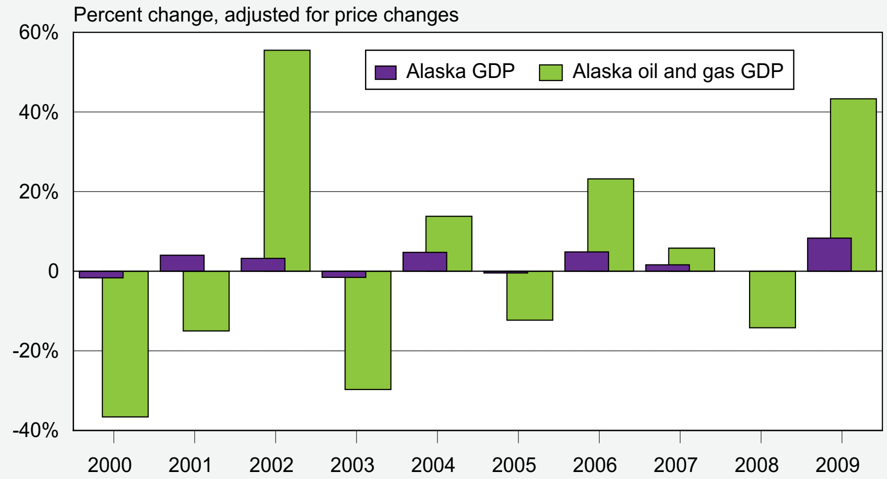
Changes over the decades

Although oil has been central to the Alaska economy for decades, its importance fluctuates. The oil industry accounted for only 14 percent of state GDP in 1970, before Prudhoe Bay, but passed 50 percent in the mid-1980s, when oil production peaked.

see **ALASKA GDP** *page 14*

4 Oil Adds Volatility to State GDP

Alaska, 2000 to 2009

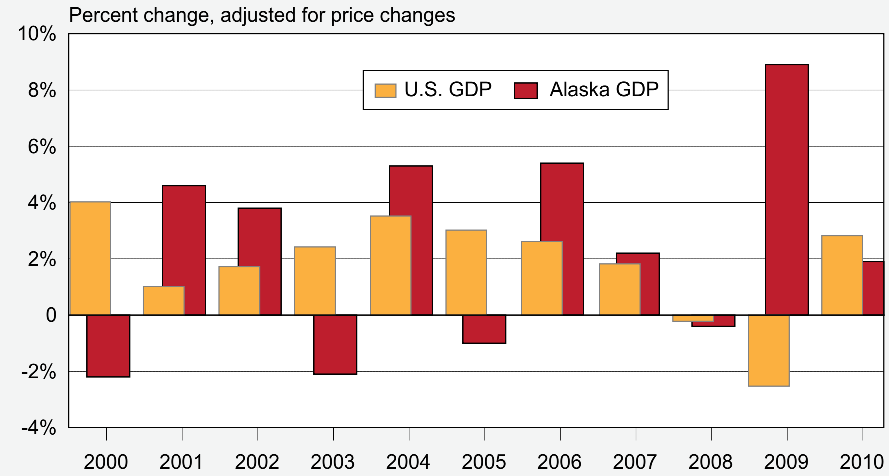


Source: U.S. Department of Commerce, Bureau of Economic Analysis

ALASKA DEPARTMENT OF LABOR & WORKFORCE DEVELOPMENT

5 Alaska GDP Fluctuates More Than National

Alaska and U.S., 2000 to 2010



Source: U.S. Department of Commerce, Bureau of Economic Analysis

ALASKA DEPARTMENT OF LABOR & WORKFORCE DEVELOPMENT

LAND & LEASING

DO&G delays contraction of Northstar unit

Alaska's Division of Oil and Gas wants to delay an enforced contraction of the BP-operated Northstar unit to give BP an opportunity to establish a new participating area in the unit. On Oct. 10 the division published a letter from DO&G to BP, stating the division's decision on the contraction but saying that the decision requires agreement by the federal Bureau of Safety and Environmental Enforcement — the Northstar unit, straddling both state and federal waters of the Beaufort Sea, falls under both state and federal jurisdiction.

In the Oct. 10 letter division Deputy Director Jonne Slemons told BP that the terms of the unit agreement did not support BP's request to retain the lease that is not part of the Northstar participating area.

Apparently in September BP, on behalf of itself and Murphy Exploration, the other Northstar owner, had applied to the division for a contraction of the unit under the terms of the unit agreement. The unit agreement, which went into effect 10 years ago, requires a unit contraction by Oct. 11. As part of the contraction BP wants to retain within the unit a lease that contains an oil reservoir that is not currently part of a Northstar participating area and that also contains an aquifer that BP says could provide pressure support for that reservoir.

Lease needs to be in PA

In the Oct. 10 letter division Deputy Director Jonne Slemons told BP that the terms of the unit agreement did not support BP's request to retain the lease that is not part of the Northstar participating area. The division wants to use its discretion to delay mandatory unit contraction and is giving BP 120 days to apply for a participating area that includes the oil reservoir in that lease, Slemons said.

State law requires that, 10 years after production in a unit starts, the unit must contract to the land included within an approved participating area and any adjacent land that supports production. The division has the discretion to delay the unit contraction "if the circumstances of a particular unit warrant."

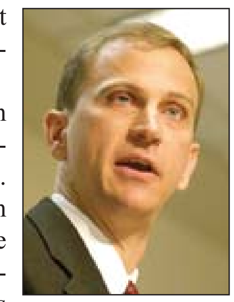
—ALAN BAILEY

FINANACE & ECONOMY

Pioneer changing leadership in Alaska

Pioneer Natural Resources said Oct. 12 that Ken Sheffield, president of the company's Alaska division, is returning to Dallas to assume leadership of Pioneer's newly established corporate engineering group. Sheffield has headed the company's Alaska operation since 2003.

TODD ABBOTT



JUDY PATRICK

KEN SHEFFIELD

Todd Abbott will take over the Alaska division. The effective date of the changes is Nov. 15.

Pioneer said it has experienced tremendous growth in 2011 and many of its more than 200 engineers are distributed across various disciplines and asset teams. The new engineering group "will be responsible for investigating new technologies and conducting research and development, assisting with special projects and new plays, supporting existing asset teams where technical or staffing gaps exist and providing overall corporate leadership and quality control for the engineering staff."

The company said Sheffield was instrumental in Pioneer's entrance into Alaska and has been critical in successfully building the company's business in the state. Pioneer said Sheffield led Pioneer's Alaska division from exploration activities to the construction and startup of the Oooguruk development in 2008. Pioneer is the first independent oil and gas company to operate a field on Alaska's North Slope. Pioneer said Oooguruk set the project cycle-time standard for offshore development projects, moving from exploration to first production in less than six year.

Sheffield also served on the boards of the Alaska Oil and Gas Association,

see **PIONEER CHANGES** *page 15*

continued from page 10

POINT THOMSON

ducing 10,000 barrels a day of natural gas condensate by year-end 2014. The U.S. Army Corps of Engineers is drafting an environmental impact statement for the project.

The state would like to see much larger volumes produced from Point Thomson. In court papers, state lawyers have said DNR officials were wary of ExxonMobil using a "minimal trickle" of production as a way to hang onto the Point Thomson leases. In years past, company executives themselves talked of a project to produce up to 75,000 barrels a day.

Political, gas line impacts

Because of the years of frustration over Point Thomson, the terms of any state settlement with ExxonMobil are sure to be closely scrutinized. Politically, the unveiling of a settlement promises to be a defining moment for Gov. Sean Parnell, who will be judged on whether his administration made a good or bad deal.

The settlement also could be important for advancing a natural gas pipeline, long an elusive economic development priority for the state. Point Thomson holds a quarter of the known gas reserves on the North Slope, and many have seen the field as an important bargaining chip in the gas line game.

ExxonMobil currently is a partner with TransCanada Corp. on a proposed gas line from the North Slope to Alberta. TransCanada, a Calgary-based pipeline company, is attempting to recruit adequate gas shippers to support the project.

Sullivan, during his Aug. 15 legislative testimony, hinted the tentative Point Thomson settlement could have a bearing on "commercializing North Slope gas." ●

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ALASKA GDP

After experiencing little growth in the 1990s, the Alaska GDP grew at 3 percent annually in the 2000s, compared to 2 percent growth nationally over the past decade. That recent rise, though, pales in comparison to the double-digit annual growth in GDP that Alaska experienced in the 1960s and 1970s, when oil, fishing and tourism all expanded at once.

While other states depend on natural resources, none depend on them as much as Alaska. That oil development gave Alaska the highest per capita GDP in the nation in 2010, $63,424. Of the other states in the top 10, only Wyoming and Colorado are major producers of natural resources. The others, aside from California, are all on the East Coast.

That dependence on oil, though, means that "a lot of this GDP value does not accrue to Alaska," Fried said, but instead goes to the shareholders of corporations that work here. ●

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HAWKER Q&A

metric constraints — the (500 million cubic feet per day) limit for other gas projects in AGIA.

Petroleum News: What do you think about the Alaska Stand Alone Pipeline (ASAP) project?

Hawker: It is absolutely being planned and executed in the most professionally responsible way. I think if we look at it as in-state gas — delivering gas for Alaskans as a function of state government — I think it's extremely viable and very important.

With the AGIA project proving uneconomic, we also need to review whether it is possible to take the sort of "public works" project that AGDC currently is and potentially having it converge with the concepts behind AGIA, which was the maximum monetization of Alaska's North Slope gas, and really look at whether there is a sufficient Asian market to monetize a significant amount of our North Slope gas — larger than the (500 mcf/d) limit that is currently constraining AGDC.

And yes, that sounds an awful lot like the Bill Walker project (the Alaska Gasline Port Authority). The biggest difference is AGDC and the state would not have to start all over going to Valdez and doing a greenfield LNG plant. It would make an awful lot of sense to bring a pipe through the major centers of Alaska and down to Nikiski, where we already have a fully permitted and operating LNG plant.

Petroleum News: Something between the size of the ASAP project and the AGIA project?

Hawker: However much we can find a market for.

Petroleum News: AGDC President Dan Fauske said it would take about $400 million to get to a sanctioning point for ASAP. Are you willing to invest that?

Hawker: That is one of the important premises of IPA, based on their empirical study of thousands of projects — successful projects require an adequate up-front investment and an adequate preparatory process.

I absolutely believe we should continue with the commitment we've got to the AGDC process.

Petroleum News: Sen. Joe Thomas expressed concern that new drilling in Cook Inlet could meet Anchorage demand, leaving Fairbanks in the lurch.

Hawker: Fairbanks has always had an anxiety over being left out of the resource pie, the consumer distribution of the resource. If somebody finds a massive amount of gas in the Cook Inlet, there is no reason we can't look at a pipe project — and it's been talked about — going from Cook Inlet north.

Petroleum News: I want to ask you about the van Meurs report. Van Meurs said the state doesn't do enough to incentivize development of heavy oil and natural gas, but also that the state gives too much for new developments. What's he really saying, and do you agree with his analysis?

Hawker: What he's saying is exactly what you just stated, that the current fiscal regime in Alaska, in its most global sense, has a very disproportionate amount of exploration incentives for light oil, but our system does not specifically target incentives for heavy oil development, and our gas fiscal system is dysfunctional. Any major producer that starts producing gas ends up paying less taxes rather than more, even though they're now selling more oil and gas.

None of this is new. We addressed the gas fiscal system two years ago in the Legislature with the "decoupling" bill. That was not acceptable to the governor. I think he thought the timing was wrong. But it's an issue we know is out there.

I think a great number of legislators concur with Pedro that our light oil system is out of balance. We're offering an extraordinary level of front-end credits with a very high level of taxation on any potential production. As Pedro says, that's not conducive to a balanced fiscal regime. And I think we agree with that.

As far as the heavy oil, I think it's a little premature to have targeted incentives because the question is still at the technology level — what's it going to take to get this oil out? Until we have the technology in place to look at it, we really don't know what economic incentives might aid in the production of that oil.

Petroleum News: Van Meurs says the governor's bill won't help with heavy oil, and that a lower tax rate on new fields might actually be counterproductive. Is there anything in the report that changes how you think about HB 110?

Hawker: I introduced HB 17 before the governor introduced HB 110. My bill was looking at one element within our fiscal system that we know is dysfunctional and needs to be addressed — the fact that under the current progressivity system, we have an extraordinarily high marginal tax rate. The bracketing and capping of the progressivity curve in HB 17 is one way of attacking that marginal tax rate.

The bill I introduced retained a single progressivity curve. Pedro doesn't like the mechanism of the governor's dual curve.

I introduced HB 17 because I thought it was the right and better thing to do. Pedro seems to be in agreement with me on that one.

As these bills have a long way to go in the legislative process, I'm sure Pedro's concerns will be incorporated.

Petroleum News: What role do you think the report will play in legislative debate?

Hawker: I think no matter what position a legislator holds, they will find something in the report to bolster their position. We have to be careful that Pedro's comments are neither taken out of context nor misinterpreted. Unfortunately, misinterpretation is a casualty of the political process.

Petroleum News: Van Meurs recommends separating oil and gas taxes because the state could end up getting no tax revenue from a gas line. Do you think we need to decouple?

Hawker: I think we absolutely need to decouple. Pedro's exactly right, and it's what we recognized in the Legislature two years ago. The current tax formula that links the taxation on gas to the taxation on oil was put in the initial PPT legislation as an expediency. It was recognized that we would have to structure a new gas fiscal regime, but we didn't need to for probably 10, 15 years since we weren't going to see any major monetization of gas. Everyone knew it was a placeholder.

Pedro is looking at our system from a global perspective. He sees it as something that needs to be evolved into a durable and functional system we all agree with.

Petroleum News: So the bottom line, according to van Meurs, is that we need to tax gas less, even though the reason to separate gas from oil is that Alaska could get too little tax revenue?

Hawker: It's the interplay. You start to tax gas and you get a break on your oil taxes so great that it exceeds the amount you're taxing the gas. That's not functional.

But Pedro also points out that if you fix that linkage, our current tax rates as applied to gas make us uncompetitive. ●

Contact Stefan Milkowski at stefanmilkowski@gmail.com

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PIONEER CHANGES

which he chaired from 2008-11, Alaska Clean Seas and the Resource Development Council.

Abbott has been with Pioneer since 2003, most recently as vice president of corporate finance and planning in the company's Dallas headquarters. His roles at Pioneer have included senior business analyst in both the business development and acquisitions groups and staff support to President and COO Tim Dove.

—PETROLEUM NEWS

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COMPLIANCE DISPUTE

mission does not become an active participant in fulfilling its role in witnessing the meter tests and normally an escort would suffice.

And, he said, the commission doesn't want to be confronted with a variety of requirements at different locations.

BP considering ramifications

BP is the largest owner of Alyeska, and BP's Buckendorf said Alyeska's safety goals are laudable. He said he was at the hearing to testify on whether BP believes a commission inspector is required by law to hang a lock.

He said BP does not believe it is required to treat agency employees as company employees for purposes of energy isolation.

Buckendorf said BP does not believe it can mandate such actions as hanging a lock.

In response to a question from Foerster, Buckendorf said the Prudhoe Bay unit is the owner of the meters, but since the 1970s Alyeska has always done the proving and AOGCC has always witnessed.

On an issue raised by Foerster — whether Alyeska was designated as operator of the meter on behalf of the owners — Buckendorf said he did not know. The meter is original equipment and has been in place since 1974 or 1975, he said.

The meter is oversized for current needs and there is a plan to replace it, Buckendorf said, although it would be very costly to move it.

He said other LACTs operated by field operators are on Alyeska property but outside the fence.

Norman suggested the attorneys, and the commission's assistant attorney general, look at some accommodation to recognize the commission's needs while allowing Alyeska to continue its program of safety improvements. ●

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Oil Patch Bits

STEELFAB's Faulkner promoted and Mathis rehired


HEATH FAULKNER


ANNA MATHIS

STEELFAB said Oct. 11 that its President Richard Faulkner announced the promotion and rehire of two long-time STEELFAB employees, Heath Faulkner and Anna Mathis.

Heath Faulkner, former STEELFAB Paint Shop manager, has been promoted to Health, Safety and Environment officer. He has worked for the business since he was in high school. After his university years at the University of Alaska, Anchorage, and Lane Community College in Eugene, Ore., where he majored in business, Faulkner returned as part of the STEELFAB management team at the 80,000-square-foot Post Road location in Anchorage.

Anna Mathis previously worked as an accountant for STEELFAB for 18 years before briefly leaving the state. Mathis was recently rehired to work in STEELFAB's Accounts Receivables and Payroll section. She received her training in full-charge bookkeeping at Charter College.

STEELFAB is Alaska's largest locally owned fabricator and steel center.

AK Railroad participates in NRE ground breaking


COURTESY ALASKA RAILROAD

Alaska Railroad said Sept. 26 that Phase One of the Northern Rail Extension project is just under way with construction beginning on a bridge over the Tanana River at Salcha. A project ground-breaking ceremony took place Sept. 28 at the construction staging area.

The ground-breaking ceremony featured members of Alaska's congressional delegation, governor's office, local community dignitaries and railroad executives. The event celebrated the start of the long-anticipated rail extension, which is expected to boost local and state economies with millions of dollars spent on local equipment, materials, supplies and lodging. More than 200 construction jobs are projected during the summer months and

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

INTERNATIONAL

China imposes tax on energy, resources

China is imposing a nationwide tax on production of oil and other resources to raise money for poor areas and possibly ease public anger at the wealth of state energy and mining companies.

The measure announced Oct. 10 is aimed at generating revenue for poor areas that produce much of China's oil and other resources but receive little of the wealth. That imbalance has fueled ethnic tensions in Tibet and the northwestern Muslim region of Xinjiang.

The tax takes effect Nov. 1 and applies to crude oil, natural gas, rare earths, salt and metals, the Cabinet said on its website. Oil and gas will be taxed at 5 to 10 percent of sales value while other resources will be taxed at different levels.

An experimental version of the tax was imposed last year on oil production in Xinjiang and President Hu Jintao said at that time that revenues "should be focused on improving local people's lives."

Monies could help local governments

The announcement gave no indication how much money Beijing expected the new tax to raise but the official Xinhua News Agency said last year the oil tax in Xinjiang could bring in 4 to 5 billion yuan ($615 million to $770 million) a year.

That could help local governments pay for costly obligations imposed by Beijing to provide additional education, health and other services.

Beijing has invested billions of dollars in Xinjiang and other minority areas and built roads and other infrastructure. But local residents say the benefits largely go to settlers from China's Han majority.

The new tax would cut profits at state-owned energy and mining companies, possibly helping to defuse public irritation at the windfall they have enjoyed due to soaring prices and China's boom in auto sales.

Critics say energy companies and their well-paid bosses benefit from official favors and profit unfairly at the expense of China's public while ordinary people struggle with rising living costs.

China previously charged a small oil and gas tax based on production volume rather than value. That meant revenues failed to rise during the global commodities boom.

—ASSOCIATED PRESS

ASSOCIATIONS & MEETINGS

Fall, winter meetings scheduled

Dates are set for three fall-winter oil and gas related conferences in Anchorage.

The Resource Development Council will hold its 32nd annual conference, "Alaska Resources," Nov. 16-17 at the Dena'ina Civic & Convention Center in Anchorage. An agenda had not been posted when this issue of Petroleum News went to print, but will be available on RDC's website at www.akrdc.org.

Law Seminars International will present its seventh annual comprehensive conference on "Energy in Alaska: Emerging policies, new regulations, markets and resources," at the William A. Egan Civic & Convention Center in Anchorage Dec. 1-2. An agenda is available, along with registration information, at www.lawseminars.com. Program co-chairs are Mark Johnson of Chugach Electric Association Inc. and Bradford Keithley of Perkins Coie LLP.

Beginning the New Year, The Alaska Support Industry Alliance will hold "Meet Alaska 2012" at the Dena'ina Civic & Convention Center Jan. 6. The Alliance website at http://alaskaalliance.com will have specifics as they become available.

—PETROLEUM NEWS

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OIL PATCH BITS

about two dozen year-round.

The multiphased Northern Rail Extension project will eventually expand railroad track infrastructure from North Pole/Eielson 80 miles southeast to Delta Junction. Expected to be a three-year effort, NRE Phase One will construct a new bridge across the river and an associated levee. The environmental impact statement was completed in 2010.

Global ROV to be used to determine oil at 900 feet

Global Diving and Salvage Inc. said Oct. 10 that it has been contracted by the United States Coast Guard to determine if oil is present aboard the sunken ship S.S. Montebello, which sits 900 feet below the ocean surface approximately 6.5 miles off the coast of Cambria, Calif.

The S.S. Montebello sank after a Japanese submarine torpedoed the large oil tanker on Dec. 23, 1941. To date, no signs of leakage have been detected, and from previous visual inspections by submarine, the cargo section appears to be intact.

The possibility of future oil release has prompted the U.S. Coast Guard to contract Global to determine the integrity of the cargo section and its contents.

Global's Cougar XT ROV will be used as the platform which will support the inspection, both visual and sonar, thickness gauging, backscatter tooling operations, physical sampling of the tank contents, and sediment sampling from the general area. Global has teamed with T & T Bisso to provide engineering support and 3-D modeling on the vessel. Additionally, Tracerco has been subcontracted to utilize their neutron backscatter tool, a non-invasive sensing device, which will be used to determine the presence of oil and oil/water interface.

Editor's note: All of these news items — some in expanded form — will appear in the next Arctic Oil & Gas Directory, a full color magazine that serves as a marketing tool for Petroleum News' contracted advertisers. The next edition will be released in March.

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LNG PLANT

Long history in inlet

The LNG plant was built by Phillips Petroleum and Marathon and went into operation in 1969, exporting natural gas from Cook Inlet as LNG. In recent years, volumes of natural gas available in the inlet have declined.

In February ConocoPhillips and Marathon Oil said they would place the 42-year-old facility in warm storage because of declining volumes of natural gas supplies and difficulty securing contracts overseas. They have kept the plant active to send additional unexpected shipments to Japan and China.

The LNG facility has provided a stable production base for natural gas, as opposed to dramatic swings in natural gas use for heating and power between summer and winter. And, when deliverability became an issue on extremely cold days in the winter in recent years, natural gas was diverted from the LNG facility to meet local needs.

A new third-party natural gas storage facility is under construction at Kenai to provide gas to meet peak demand.

Asked about concerns that shutting in Cook Inlet gas wells during the summer following the loss of LNG production would permanently damage wells, Marathon told legislators earlier this year that it never assumed the plant would continue indefinitely, and that the company's gas storage facility in its Kenai gas field has enough capacity to handle the company's summer gas production, enabling wells to produce year-round.

Market outside Alaska

When it went into operation in 1969, the Nikiski LNG plant was the sole supplier of LNG to Japan; by early this year it was supplying one half of one percent of the Japanese market demand.

ConocoPhillips will be looking at preserving the plant's options for the future "and that could include support for an LNG import and regas facility" or resumption of LNG export options, Lowman said.

LNG shipments from Alaska were once the largest in the world; now they are among the smallest. Supply contracts between Alaska and Japan, which formerly ran for 15 years, now run for only two years.

Dan Clark, ConocoPhillips' manager of Cook Inlet assets, told Petroleum News in February that options for the plant ranged from closing it, to reconfiguring it, to selling it.

Until the new Cook Inlet Natural Gas Storage Alaska facility, CINGSA, is available in 2013, ConocoPhillips will have to shut in some of its wells during the summer, and because of the aging nature of Cook Inlet reservoirs, how those wells will perform when brought back online is unknown.

ConocoPhillips will continue to operate the Tyonek platform at its North Cook Inlet field and that natural gas will be used to fill local contracts.

The loss of an export market could also impact plans to bring Alaska North Slope natural gas to Southcentral Alaska by eliminating one possible anchor tenant which could keep tariff rates low for residential and commercial customers.

—KRISTEN NELSON

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ESCOPETA

Division of Oil and Gas Director Bill Barron.

After logging the well at its current depth, Escopeta plans to open the existing 12 and 1/4-inch wellbore to 17 and 1/2 inches and then run the 13 and 3/8 inch cement casing.

Drilling could continue this year

Escopeta could conceivable continue drilling this year, but only if the company and the state both feel comfortable with moving forward this fall, Sutherlin said. The company recently performed a successful test on its blowout preventer equipment, he added.

It remains to be seen how the state-requested delay will impact state-imposed deadlines for Escopeta to reach a total depth by this fall or lose the unit, but Sutherlin said the company is operating on the assumption that the sides will come to an agreement and noted that Escopeta officials plan to meet with state officials soon about a range of issues.

"We just want to make sure that we're all on the same page," he said.

Shallow gas would be marketed

Although KLU No. 1 is targeting oil, it will likely encounter shallow natural gas deposits first and Escopeta plans to make a push to bring those to market soon, Sutherlin said.

"The company's key strategy for 2011 is to learn as much as possible about the natural gas bearing structures in the Corsair prospect, with an eye on expediting gas production," he said. "We think that Cook Inlet exploration, in concert with efforts such as Enstar's new gas storage facility, can avert a crippling gas supply shortage in the region."

Escopeta began drilling KLU No.1 in the Corsair prospect using the Spartan 151 jack-up rig on Sept. 2, but a "malfunction on a downhole tool" soon after spudding caused several weeks of delays, Escopeta President Ed Oliver told Petroleum News in early October.

In addition to the Corsair prospect, the 83,394-acre offshore Kitchen Lights unit also includes the East Kitchen, Kitchen and Northern Lights oil and gas prospects.

The Spartan 151 is the first jack-up rig in Cook Inlet since 1994.

—ERIC LIDJI

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YUKON VOTE

skilled labor, housing and power supplies beyond the territory's limits.

Vancouver-based Western Copper Corp., which aims to produce more than 400,000 ounces of gold and 200 million pounds of copper annually from its Casino mine, 230 miles northwest of Whitehorse, highlights the pressures.

Its open-pit mine would consume almost as much power as the Yukon Energy Corp., which owns all of the territory's generation and transmission assets, is currently able to produce.

Western Copper has said it plans to truck liquid natural gas to the mine site, which bolsters interest in the June announcement that CNOOC International, a subsidiary of one of China's energy giants, had invested in privately owned Northern Cross (Yukon), to assess the oil and natural gas potential of Eagle Plain in the northern Yukon.

Resource update under way

Meanwhile, the Geological Survey of Canada is midway through a four-year project to update the Yukon's energy and mineral resources.

Past assessments have estimated Eagle Plain contains about 6 trillion cubic feet of gas and 436 million barrels of oil, while the Yukon portion of the Beaufort Sea is believed to hold 4 tcf of gas and 4.5 billion barrels of oil.

The Yukon government's Energy, Mines and Resources Department is currently studying the economic feasibility of either converting any gas produced at Eagle Plain into liquefied natural gas for shipment by truck, or building pipelines to power generation plants or directly to mine sites.

Northern Cross said it needs to drill deeper than ever before on its 1.3 million acres of Yukon leases and discover about 500 billion cubic feet of gas to make development profitable.

Although not prepared to disclose the details of CNOOC's investment, Northern Cross said the Chinese company's equity stake is sufficient to help cover anticipated spending of C$18 million over the next six years. The current plan involves drilling four to six wells and announcing results within three years. ●

Contact Gary Park through publisher@petroleumnews.com

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FIRE ISLAND WIND

the wind farm completed in good time to meet the federal deadline.

"We should have first power some time next September," Schutt said.

"On behalf of the board, I'm pleased with the order and proud of the work done by staff to achieve it," said Chugach Electric board chair Janet Reiser on Oct. 12. "Chugach appreciates that the commission was responsive to the request for expedited review."

Controversy

The wind farm has caused controversy among the Southcentral Alaska power utilities, primarily because of the fluctuating nature of wind power generation and the potential cost and stability impacts of those power fluctuations on the Alaska Railbelt power grid. Questions have also been raised about the cost of the power from the wind farm, with that cost causing an initial increase in consumer's electricity bills, but with the subsequent cost of wind power remaining stable for many years to come.

In its order the RCA commissioners said that, with an immediate decision on the power purchase agreement needed to meet the required wind farm construction schedule, the commission will allow Chugach Electric to recover the cost of the Fire Island wind power from its customers.

Initial price increase

According to information provided to RCA, the Chugach Electric power purchase agreement involves the power utility paying $107.85 per megawatt hour of Fire Island wind power for the entire 25-year lifetime of the agreement. The wind farm will, however, pay Chugach Electric a fixed fee of $10.85 per megawatt hour, to compensate the utility for the cost of integrating the fluctuating power into other power supply arrangements — that fee will result in a net cost of $97 per megawatt hour for the wind power. At that cost, a typical electricity consumer will see an increase of some 2 percent in their electricity bill, Chugach Electric said.

But, unlike the cost of power from natural gas generation, which is likely to increase as gas prices rise, the cost of wind power will remain constant, leading to an overall cost benefit from wind power use, the utility said.

Diversification

Chugach Electric also said that the Fire Island wind power will provide a first opportunity for the utility to diversify into a renewable form of energy other than hydropower, and that the wind power will reduce the utility's carbon emissions.

The utility said it expects its cost of accommodating wind power fluctuations to be less than the $10.85 fee that the wind farm will pay as compensation for those fluctuations. Moreover, the utility anticipates the integration cost dropping progressively over a five year period, as the utility gains experience in dealing with the wind power usage.

RCA said that it does not have the authority to regulate the operation of the wind farm itself, but that it does have the authority and obligation to review Chugach Electric power supply agreements, to ensure that these agreements are "just and reasonable." The commission said that it reviewed the Fire Island supply agreement using a cost-benefit analysis presented by Chugach Electric. That cost benefit analysis indicated a positive value for the use of wind farm power over the 25-year lifespan of the supply agreement.

The wind farm has caused controversy among the Southcentral Alaska power utilities, primarily because of the fluctuating nature of wind power generation and the potential cost and stability impacts of those power fluctuations on the Alaska Railbelt power grid.

Assumption questions

The state attorney general, intervening on behalf of the general public, and Anchorage power utility Municipal Light & Power, questioned many of the assumptions behind the finding of a net positive value to the wind power supply. The intervenors presented evidence for what they claimed to be more realistic assumptions that raise serious questions over the supposed benefits of the wind farm. However, the commissioners, while accepting that there are major uncertainties in many of the assumptions behind Chugach Electric's economic analysis, said most of the utility's assumptions are fairly reasonable.

And, also mindful of a state law, passed in 2010, requiring that the state move towards obtaining 50 percent of its electricity from renewable sources by 2025, the commission agreed to authorize Chugach Electric to purchase Fire Island power.

However, given serious concerns and some uncertainty about the cost and reliability issues associated with integrating wind power into the Southcentral grid, the commission declined to approve the tariff that Chugach Electric had submitted in association with the Fire Island supply agreement. Instead, the commission required the submission of a revised tariff incorporating a plan for power rate recovery from power consumers.

New docket

The commission is opening a new docket to track the progress of the Fire Island project and requires Chugach Electric to reimburse other utilities for any costs those utilities incur as a consequence of integrating fluctuating power from Fire Island into the grid. Chugach Electric must "to the extent possible" protect other utilities from grid reliability problems and costs resulting from Fire Island power integration, the commission said.

But CIRI is skeptical that fluctuations in the Fire Island power supply will have any major impact on the power grid.

"Given the scale of the project that we're building right now — this is not high penetration wind. … This is entirely manageable within Chugach's control area," Schutt said. "This will have no detectable impact on anybody else in the grid."

Difficult case

In a statement concurring with the RCA Fire Island decision, Commissioner Robert Pickett said that this particular case had proved particularly difficult to deal with.

"This is one of the most challenging and frustrating dockets I've been involved with during my tenure as an RCA commissioner," Pickett wrote. "The power purchase agreement … has been shaped by a number of powerful and conflicting forces. The circumstances surrounding this PPA are unique. The use of the commission's decision in this proceeding as a precedent in future cases should be done with extreme caution and trepidation." ●

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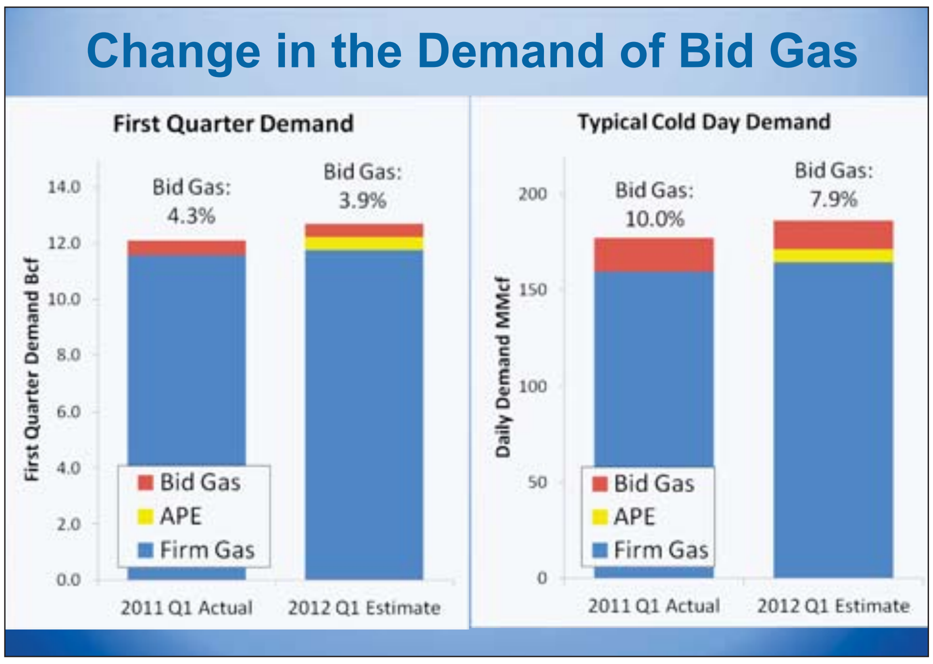

Thanks to a new gas supply from the Anchor Point Energy (APE) North Fork gas field on the Kenai Peninsula, Enstar anticipates needing a slightly lower proportion of daily bid gas in the first quarter of 2012, compared with the same time period in 2012. In a typical cold winter day in 2012 the utility anticipates obtaining about 10 percent of its gas through a bidding process, rather than from firm contracts.

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BID GAS

through a new gas bidding system introduced in January 2011. Under this system, on a day-to-day basis the utility requests bids from qualified gas producers to supply additional gas, with the utility normally accepting the lowest price bid. The bid system operates, in effect, as a small scale spot market for Cook Inlet gas, allowing producers to compete for gas sales and set market-based gas prices.

A producer participating in the bid system requires an RCA approved contract with Enstar for that participation. Last winter three producers participated and the system worked quite well, with bid gas accounting for 4.3 percent of Enstar's gas demand in the first quarter of the year and accounting for 10 percent of the demand on a typical cold winter day, Slaughter said.

Although the gas supply contracts assumed a bid gas price of $12 per thousand cubic feet, competitive bidding resulted in an average price around $9, he said.

Declining production

Gas production from gas fields in the Cook Inlet basin continues to decline, but a new source of supply from Anchor Point Energy's North Fork gas field on the Kenai Peninsula, coupled with the availability of gas put into storage by gas producers during the summer, will offset that decline. However, there is uncertainty about the situation regarding the closure of the Nikiski LNG plant on the Kenai Peninsula — closure of that plant could make available more gas for utility use, Slaughter said.

Chevron subsidiary Unocal is bringing a new gas storage facility on line in the Ivan River field. Cook Inlet Natural Gas Storage Alaska is building a new gas storage facility near Kenai, but that facility will not be available to support winter supplies until the winter of 2012-13.

Enstar also has agreements with power utilities Chugach Electric Association and Municipal Light & Power to curtail sales of gas-generated power to Fairbanks utility Golden Valley Electric Association during days of high winter demand. And in October there will be a test of the Energy Watch system, in which Southcentral gas consumers are encouraged to reduce demand as much as possible during severe winter cold.

Demand and supply

In the coming winter, the new supply contract with Anchor Point Energy will add up to about 7 million cubic feet per day of gas to Enstar's firm supplies. However, that increase will be somewhat offset by a natural increase in gas demand from Enstar's customers and an increase in demand resulting from the return to Enstar on Oct. 1 of some commercial gas supply contracts with the military. The upshot of all of this is that Enstar expects its overall usage of bid gas on a typical winter day to drop from 10 percent to about 7.9 percent of its overall demand in the first quarter of 2012.

However, because Enstar's annual gas demand is increasing, the utility anticipates purchasing an overall slightly higher total volume of bid gas in 1012 relative to 2011.

At the same time, the number of producers participating in the bidding system has increased to seven, thus presumably reducing the risk of a shortfall in gas supplies.

Available gas

New participants in the system all potentially have gas supplies available for bid at some point in the winter, Slaughter said. Buccaneer Energy, for example, is in the process of hooking up its new Kenai Loop gas field, with production from there expected to start in December. Cook Inlet Energy plans to drill several new gas wells in the basin during the fall and has interests in fields operated by Aurora Gas. Anchor Point Energy already has an Enstar contract that includes provision for the supply of bid gas, and Aurora Gas operates several gas fields.

As part of its winter planning Enstar has to model a possible but very unlikely worst-case winter day, in which severe cold would drive absolute peak utility gas demand. Under this type of scenario, Enstar anticipates the possibility of needing somewhat more bid gas in 2012 than the utility had planned on for a similar scenario in 2011. ●

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