Petroleum news

page 11 FERC OKs pipeline lifespan review; Anadarko presents new evidence

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Mac Ackers makes news debut

Latest cover of Greening of Oil, an online magazine published by the owner of Petroleum News. MacGonagall "Mac" Ackers, pictured above and below, is Greening of Oil's social networker. Starting with this issue of Petroleum News and under Buzz at www.greeningofoil.com, she'll provide weekly updates on what goes on behind the scenes at the online magazine, and in the lives of those interviewed. What our editorial policy doesn't allow us to cover, she can.

Greening of Oil: Latest from Mac Ackers

MAC ACKERS

RUBBING SHOULDERS WITH AL GORE … In Greening of Oil's quest to determine how "clean" coal can get, our reporter's trail took her to Saskatchewan, Canada, to Dr. Malcolm Wilson, an expert in carbon capture and storage technology at the University of Regina.

Quoted in Rose Ragsdale's article, "N.D. power co-op leads CCS race," Wilson was a lead member of the United Nations' climate change group, which was a co-recipient of the 2007 Nobel Peace Prize awarded former U.S. Vice-

see **GREENING OF OIL** page 15

Statoil acquires 25% of 50 Conoco OCS Chukchi leases

In a deal involving cash and trades, Statoil is acquiring a 25 percent working interest in 50 ConocoPhillips Chukchi Sea leases while ConocoPhillips will acquire some of Statoil's acreage in the Gulf of Mexico.

The companies said Jan. 25 that the Chukchi Sea leases are those acquired by ConocoPhillips in the 2008 federal outer continental shelf lease sale. ConocoPhillips will retain operatorship and majority working interest in these leases.

"Statoil's decision to acquire interest in these leases substantiates ConocoPhillips' view that world-class hydrocarbon potential exists in the Chukchi Sea of Alaska," Larry Archibald, ConocoPhillips senior vice president for Exploration and Business Development, said in a statement. "ConocoPhillips has had a long-term business relationship with Statoil in many ventures around the world, particularly in Norway, and welcomes its expertise in this harsh operating climate," he said.

see **STATOIL** page 15

EXPLORATION & PRODUCTION

Yukon Flats a go

Doyon moving ahead with a new seismic survey on its land in the flats

By ALAN BAILEY
Petroleum News

Doyon Ltd., the Fairbanks-based Native regional corporation for Interior Alaska, has announced that it is sponsoring some new oil and gas exploration in the Yukon Flats this winter. CGGVeritas will gather about 95 miles of 2-D seismic data in a 200,000-acre block of Native land owned by Doyon and by Dinyee, the village corporation for Stevens Village, one of the Yukon Flats communities, Doyon said Jan. 21. The target area is north of Stevens Village and is within 15 to 30 miles of the trans-Alaska oil pipeline, Doyon said.

Arctic Contracting LLC, a venture jointly owned by Dinyee and Titheet' Aii Inc., the village corporation for Birch Creek, another Yukon Flats community, will provide support, while Doyon Universal Services and Taiga Ventures will provide additional services.

"We hope to get between 15 and 20 local people hired during the course of the program," James Mery, Doyon vice president lands and natural resources, told Petroleum News Jan. 25.

Exploration incentives

Mery said that exploration incentives credits available under the State of Alaska's ACES production tax had significantly influenced Doyon in its decision to move forward with the seismic survey. The corporation had already earned credits as

see **YUKON FLATS** page 16

EXPLORATION & PRODUCTION

Exxon: Gas looks good

First Point Thomson well drilled to depth, Kruger tells Alaska contractors

By WESLEY LOY
For Petroleum News

JUDY PATRICK

RICH KRUGER

A top ExxonMobil executive drew a generally upbeat picture of coming global oil and gas demand and also broke a bit of Alaska news in a Jan. 22 speech in Anchorage.

"There is consensus that oil and natural gas will continue to supply the majority of the world's energy needs in the foreseeable future. No other energy sources can match their availability, versatility, affordability and scale," said Rich Kruger, president of ExxonMobil Production Co.

Speaking to hundreds of oilfield contractors at the Alaska Support Industry Alliance's annual Meet Alaska conference in Anchorage, Kruger said ExxonMobil will risk huge dollars to meet oil and gas demand.

"Over the next five years, we are planning to invest $25 to $30 billion annually on energy projects. These are record investment levels for us," said Kruger, according to the written text of his speech.

In Alaska, ExxonMobil is one of the state's top three oil producers with a major stake in the BP-operated Prudhoe Bay field.

ExxonMobil is aiming to soon join the ranks of North Slope operators as it presses forward with development of the disputed Point Thomson field.

see **KRUGER** page 13

PIPELINES & DOWNSTREAM

Ready to block Gateway

Opposition mobilizes against oil sands export line, bolstered by court decision

By GARY PARK
For Petroleum News

The regulatory pieces are falling into place as fast as clouds are gathering over Enbridge's plans for a Northern Gateway pipeline to carry oil sands production to a tanker port at Kitimat on the British Columbia coast.

Canada's National Energy Board and Environment Minister Jim Prentice named the three members of a Joint Review Panel to conduct the environmental and regulatory review of the project, which could deliver 525,000 barrels per day of production to Asian markets and import 193,000 bpd of condensate to the Edmonton area on a parallel system.

The plan includes construction and operation of a marine terminal.

Terms of reference for the JRP process were released in December by the NEB and the Canadian Environmental Assessment Agency.

The current proposal calls for Northern Gateway startup in 2015-16, following a three-year construction period.

Mounting opposition

However, as fast as the regulatory process takes shape, the project faces mounting opposition from environmental groups and First Nations, whose leaders said in a press release that the pipeline is

see **GATEWAY** page 16

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

● EXPLORATION & PRODUCTION

BRPC spuds Sak River well

First of exploration season, company planning North Shore No. 3 for February

By ERIC LIDJI

For Petroleum News

Brooks Range Petroleum Corp. spud the Sak River No. 1A well in the Gwydyr Bay region of the Alaska North Slope on Jan. 26, the company said in a statement.

The well is a sidetrack of Sak River No. 1, a suspended well drilled in early 2007.

Now that BRPC has re-entered the well, it plans to remove a cement plug set to 4,225 feet, at the base of the surface casing, and then drill a new hole. BRPC said it intends to drill Sak River No. 1A to a total depth of some 12,500 feet, and expects to finish the well sometime in early February. Sak River No. 1A aims to test an oil prospect in the Kuparuk formation previously identified by proprietary 3-D seismic data.

Sak River No. 1A sits on state lease ADL 390431, inside the newly formed onshore-offshore Beechey Point unit. BRPC is drilling the well using Nabors Rig 16E. The company is drilling the well from an onshore ice pad to a bottom hole offshore.

Sak River No. 1A is the first in a multi-well program BPRC and its partners have planned for the North Slope this winter. After completing the well, BRPC plans to move Nabors Rig 16E a mile and a half south to drill the North Shore No. 3 well. That well will test an independent Sag River-Ivishak closure also located within the Beechey Point unit.

In late December, BRPC received drilling permits from the Alaska Oil and Gas Conservation Commission for two sidetracks, Sak River No. 1A and Sak River No. 1B.

Work commitments for unit

The BRPC Group exploration program this winter helps fulfill work commitments the joint venture made to the state under the Beechey Point unit plan of exploration.

The BRPC Group is also permitting a North Tarn No. 1 well on state lease ADL 390680 one mile west of the western boundary of the Kuparuk River unit. If the group doesn't get to North Tarn No. 1 this winter, it plans to drill it in the winter of 2011-12.

Brooks Range Petroleum Corp. is a subsidiary of Kansas-based Alaska Venture Capital Group and the operator of an ongoing exploration program on behalf of a joint venture including TG World Energy Inc., and the Nabors-subsidiary Ramshorn Investments Inc.

"The BRPC Group appreciates those who have supported our progress on this project, including the State of Alaska for approving the Beechey Point unit, the North Slope Borough for approving the BPU Rezone, and the major facility owners on the North Slope for access to existing infrastructure," Jim Winegarner, vice president of land and external affairs for BRPC, said in a prepared statement.

While development drilling continues at fields across the North Slope this winter, including projects like ExxonMobil's development of the Point Thomson unit, BRPC is the only company drilling exploration wells on the North Slope this season.

AVCG's decade of interest

The Gwydyr Bay area is an oil puzzle for oil development.

Since 1969, companies have drilled some 15 wells in the area, but previous oil discoveries never proved large enough to justify the high cost of Arctic development.

The Alaska Venture Capital Group took an interest in the region as far back as 1999, when the company formed with the express intent of pursuing overlooked oil prospects.

BRPC, the operating arm of Alaska Venture Capital Group, began drilling in Alaska in early 2007, starting with the North Shore No. 1 and Sak River No. 1 exploration wells.

North Shore No. 1, drilled to "a final true vertical depth of 10,319 feet (13,309 feet measured depth)," encountered 70 feet of oil-charged Ivishak formation. After re-entering the well in early 2008, a flow test yielded 2,092 barrels per day of oil from the Ivishak formation. (A mechanical issue compromised testing of the Sag River formation.)

But Sak River No. 1, drilled to "a final true vertical depth of 11,348 feet (13,110 feet measured depth)," did not encounter any hydrocarbons and BRPC suspended the well.

A discovery at Sak River No. 1A would bolster the case for developing Beechey Point.

When the company asked the state to form the Beechey Point unit in May 2009, it said in filings that, "Development of just one of these reservoirs would be uneconomic, however, developing more than one at the same time from the same pad and infrastructure offers synergies which allow a group of them to be developed economically."

The 52,876-acre Beechey Point unit, formed last fall, sits on the Beaufort Sea coast, nestled among several legacy units: Prudhoe Bay to the south, Kuparuk to the west and Northstar to the northeast. The 25

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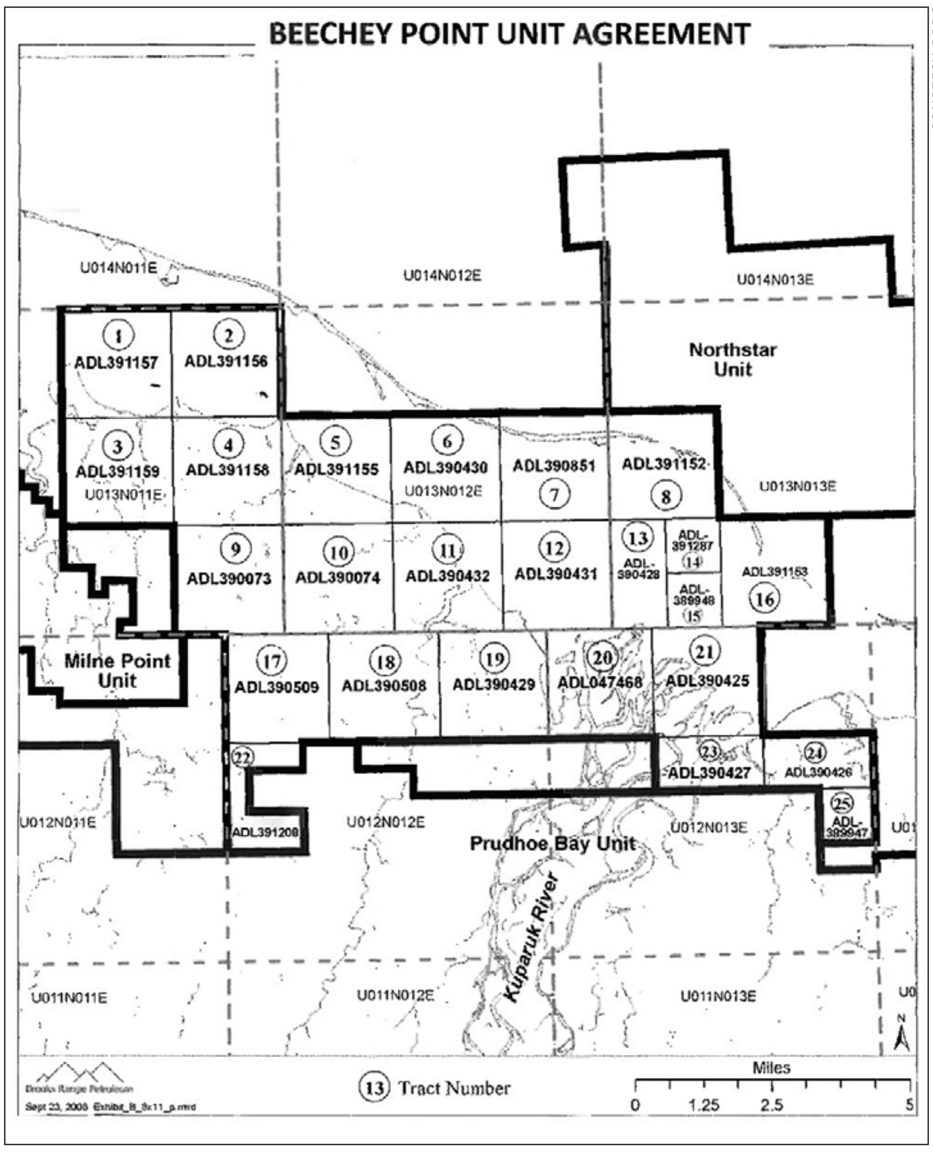

COURTESY BRPC

● EXPLORATION & PRODUCTION

Wiping out all talk of a downturn

Oil sands developers pull more than C$8 billion worth of projects off shelf, buoyed by oil prices, cost cutting, supply-demand

By GARY PARK
For Petroleum News

If the Alberta government and its new energy minister Ron Liepert have even the faintest notion — and there is disagreement over the point — of entrenching the slowdown of the last 18 months and curbing the pace of oil sands development they may already be too late.

What has happened in just the last three weeks is more than just a faint echo of a previous boom.

The forward button has been punched for a string of mega-projects by Canadian Natural Resources and joint ventures by ConocoPhillips-Total and Husky Energy-BP, coming in the slipstream of other revived projects by Imperial Oil-ExxonMobil, Suncor Energy and EnCana.

Here's the latest list of projects that are part of more than C$8 billion in capital spending unveiled this month, most of it headed for sanctioning decisions this year:

That confidence in the next generation of oil sands development is bolstered by a dramatic shift from open pit mining of shallow bitumen deposits (which has created an eyesore that is visible from space) to thermal projects (which extract bitumen by steam injection from well pads that dramatically shrink the environmental footprint).

• ConocoPhillips and France's Total have revived plans to expand their Surmont operation to 110,000 barrels per day from 27,000 bpd at an estimated cost of C$3.3 billion.

• Husky Energy, with BP as a partner, is poised to start work later this year on the first 60,000 bpd phase of the 200,000 bpd Sunrise project, having slashed estimated costs to C$2.5 billion from an original C$3.8 billion-C$4 billion. A company spokesman said the cost cutting is a result of an engineering review that delayed Sunrise by almost a year. He also said the large, capital-intensive oil sands ventures are driven by long-term strategies.

• Cenovus Energy, the oil sands spinoff from EnCana, is wasting no time hitting its stride, setting a capital budget for 2010 of US$100 million, up 50 percent from 2009, targeting a possible US$200 million a year, and has filed regulatory applications to add three 30,000 bpd stages to its Foster Creek in-situ operation and three phases of 40,000 bpd each to Christina Lake, where work is proceeding on a new 40,000 bpd stage costing US$2.5 billion and due onstream in the final quarter of 2011. The two projects have a combined capacity goal of 428,000 bpd.

• Canadian Natural Resources expects to move forward this year with two projects, concentrating on the next stage of its Horizon operation that is scheduled to reach its initial target of 110,000 bpd by mid-2010 and has a long-term goal of 250,000 bpd, along with its planned 45,000 bpd Kirby project, which is awaiting regulatory approval. The independent has yet to put a price tag on Horizon's second phase, beyond the assurance of President John Langille that costs have "come down pretty dramatically" over the past six years. The first phase bills ran to C$9.7 billion, after several overruns, despite Canadian Natural's efforts to rein in costs.

• These follow green lights towards the end of last year for the C$8 billion Imperial-ExxonMobil mine and C$2.9 billion for additions to Suncor's Firebag operation.

• Also adding to the mix at the smaller end of the spectrum is privately held Osum Oil Sands, which filed a regulatory application for its 35,000 bpd in-situ project in the Cold Lake region, coming onstream in 2014. Company Chief Executive Officer Steve Spence said, "It's good news for the whole industry when we see these projects moving forward again."

• Sunshine Oilsands obtained regulatory clearance for its Muskwa primary recovery scheme, which will have the potential to produce 1,080 bpd, based partly on positive results from adjoining lands. Intended or not, such an advance puts a For Sale tag on Sunshine, which has an estimated 14.2 billion barrels of original-oil-in-place and 677,000 acres of leases, at a time when foreign state-run companies are on the prowl for assets.

Consultant: 'out of doldrums'

"We're out of the doldrums," declared Bob Dunbar, a veteran analyst who is president of oil sands consulting firm Strategy West. "There is quite a bit of activity under way."

Chris Felton, an analyst with Macquarie Securities, said there is a general sense among operators that the timing is suitable for resuming construction.

"It's a combination of being able to access labor and lock in lower material prices," he said.

Barry Lappin, vice president of the Canadian Heavy Oil Association, said oil sands companies view stable oil prices as their signal to proceed with expansion plans.

"We're looking for cautious optimism in 2010 and the long-term future remains bright," he said.

Sounds a lot like what brought the sector to its knees last decade, as the demand for labor and materials spawned cost inflation that skewed the economics of turning bitumen into transportation fuels and prompted voices of sanity in Alberta, notably former Premier Peter Lougheed (the so-called godfather of the oil sands), to appeal for government intervention to achieve "more orderly development" of the resource.

However, what's happening today is not an exact parallel of the past.

Lingering doubts

Despite the lingering doubts over where government climate-change legislation might be heading in the United States and Canada — a much less daunting prospect as the Obama administration struggles to get anything through Congress and Canada waits to take its cue from the United States — there is a sudden renewed optimism in the future of the oil sands.

There is a growing assumption that even if oil prices don't start racing above the US$100-per-barrel level, they are unlikely to take a dive below their current US$79-$80 range.

And more producers with big stakes in the oil sands are shrugging off the critics as they make a case for the importance of the oil sands in North America's supply-and-demand and energy-security equations.

That confidence in the next generation of oil sands development is bolstered by a dramatic shift from open pit mining of shallow bitumen deposits (which has created an eyesore that is visible from space) to thermal projects (which extract bitumen by steam injection from well pads that dramatically shrink the environmental footprint).

Almost without exception, companies are touting their chances of making technological advances that will reduce destruction of the landscape, trim their consumption of natural gas or water and lower greenhouse gas emissions.

ConocoPhillips and Total said they will use less water, energy and land than they did in the first phase of Surmont.

Not that mining is a thing of the past. Suncor, which takes considerable pride in its environmental record, is still faced with a decision on whether to proceed with the Fort Hills project inherited from Petro-Canada, or look for a buyer.

The oil sands timeout, partly enforced by the economic downturn, has also allowed operators to work on suppliers and labor unions to trim costs, sometimes by hefty margins. ●

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● EXPLORATION & PRODUCTION

A world of industry fans and skeptics

Shell executive says public opinion shaping energy decisions, while U.S. needs more domestic fuel and increased energy independence

By ALAN BAILEY
Petroleum News

In a world increasingly polarized into aging oil industry fans and young industry skeptics, public opinion, as much as the availability of domestic energy sources, is shaping the future of U.S. oil and gas supplies, David Lawrence, Shell's executive vice president for exploration and commercial, told the Alaska Support Industry Alliance Meet Alaska energy conference on Jan. 22.


JUDY PATRICK
David Lawrence, Shell

The fans tend to understand the oil industry, have lived through gasoline shortages in the 1970s and perhaps have held oil company stock; skeptics have bought 89-cent-per-gallon gasoline, have lived through wars that they believed to be fought over oil, and know well the story of Exxon Valdez, Lawrence said.

But the lines are blurred in the oil and gas development debate, he said. The fans don't necessarily want oil developments in their backyards; the skeptics want new jobs, low gasoline prices and an improving economy.

"As diverse as they are, our fans and our skeptics are again today Americans, all of whom want to work, all of whom want to find a job, and they want even better opportunities for their kids," Lawrence said.

Broaden the debate

In the United States, with double-digit unemployment and an escalating bill for foreign oil, there is a need to broaden the debate about the responsible development of domestic resources, Lawrence said.

"Currently the oil and gas industry directly employs 9 million Americans," Lawrence said. "The economic contribution that the oil and gas industry makes was nearly $1 trillion last year. That's 7 percent of the U.S. domestic gross product. … We, as an industry, need to pump ourselves up about what we're doing. … We're making a meaningful contribution and no one can complain that we aren't pulling our weight."

But, as evidenced by Shell's struggle to leave the starting gate in exploring the Alaska outer continental shelf, the oil industry faces significant challenges in obtaining the space in which to grow its operations.

Shell's prospects could produce 400,000 to 500,000 barrels of oil equivalent per day, with employment of 400 to 500 people for exploration drilling and an eventual creation of perhaps 35,000 in-state jobs. But, despite strong support from Alaska politicians, Shell's plans for offshore drilling remain "high centered" by "political roadblocks and a disjointed permitting process," Lawrence said.

"Four years after Shell purchased leases in the Alaska continental shelf, Americans are still waiting for the prosperity that would surely result from offshore exploration and development in the Arctic," he said.

During those four years Shell has drilled with minimal environmental impact more than 400 exploration and appraisal wells around the world, in places as diverse as offshore Norway, the northwest gulf of Australia and the deep waters of Malaysia, Nigeria and the Gulf of Mexico, Lawrence said. Of those 400 wells, 200 proved successful, he said.

Permit delays

But in Alaska the length of time taken, for example, to obtain an air emissions permit for Shell's single drilling ship now threatens Shell's plans for drilling in 2010, thus potentially causing the loss of 500 jobs this year and delaying by another 12 months the creation of new jobs and energy sources that the United States desperately needs, Lawrence said.

"Environmental concerns about domestic resource development get plenty of headlines these days, but we don't read about the social and economic impact of not developing our resources," he said.

And the vast potential oil and gas resources of Alaska's outer continental shelf could prolong the life of the trans-Alaska oil pipeline and could contribute to the U.S. natural gas supply, a clean energy source that is emerging as a key stepping stone to America's energy future. Between conventional gas sources and new unconventional shale gas sources, and including the gas resources of Alaska, North America has a total gas resource of around 1,000 trillion cubic feet, enough to provide power for 100 years, Lawrence said.

"The combination of natural gas from Alaska and the Lower 48 states brings the U.S. … into a major resource status. … We are a major resource holder, with a resource potential that is approximately equivalent to Saudi Arabia's current oil reserves," Lawrence said. "… In fact nearly 30 years of gas supply have been discovered … in just the last three years. That's how quickly natural gas has become a centerpiece of just about any conversation about energy."

Power play

But gaining access to new oil and gas resources has become a power play over exactly who will govern industry in the Arctic, he said.

"Will it be the administration? Will it be regulators? Will it be the courts? I can tell you that today we've been taking directions from all of them," Lawrence said.

Emerging challenges include the Obama administration's interim U.S. ocean policy that does not consider the necessary balancing act between economic uses of the oceans and other legitimate ocean priorities, he said.

The continuing dialogue over the future of the Arctic needs to take place in town halls and assembly chambers, and not in the courts or Congress, Lawrence said. And in that respect, Lawrence acknowledged the efforts of the North Slope Borough and Mayor Edward Itta to engage in dialogue, rather than participate in the new lawsuit against approval of Shell's Chukchi Sea exploration plan. The mayor and the borough residents still have wide-ranging concerns about offshore drilling, but by maintaining a dialogue everyone can focus their energies on what can be accomplished, Lawrence said.

"Shell employees have spent weeks and weeks … month after month visiting North Slope communities to talk about our plans and engage with our fans and our skeptics, both young and old," Lawrence said.

And recent approvals of Shell's Beaufort and Chukchi Sea exploration plans have demonstrated what can be achieved when people work together, he said. ●

Contact Alan Bailey at abailey@petroleumnews.com

continued from page 3

SAK RIVER

leases in the unit include the site of the undeveloped North Shore No. 1 and Pete's Wicked oil discoveries. BRPC said any discovery at Sak River No. 1A would likely be developed together with existing discoveries in the unit.

North Tarn plans fleshed out

The newly added North Tarn exploration prospect sits on six leases west of the Kuparuk River unit, according to TG World Energy Corp., one of the partners in the group. (See "Farm-in at North Tarn," in Jan. 24, 2010, issue at www.petroleumnews.com/pnads/905719642.shtml.)

TG World said the leases are contiguous to the west side of the Kuparuk River unit.

The North Tarn exploration prospect is based on the mapping of 3-D seismic data, the company said. The prospect includes two prospective reservoir zones, both productive at the Kuparuk River unit. TG World said the joint venture plans to test the zones using a well drilled in the 2010-11 exploration season to a depth of some 6,500 feet.

TG World will earn a 20 percent interest in the farm-in.

"We are encouraged by the potential of the North Tarn prospect," Cliff James, TG World president, said in a statement. "Not only does it offer a new area of exploration for TG World on the North Slope of Alaska, but it also presents a prospect that is surrounded by large proven and producing fields."

TG World is paying 45.7 percent of the well costs at Sak River No. 1 A in return for a 35 percent working interest in the unit. ●

Contact Eric Lidji at ericlidji@mac.com

● EXPLORATION & PRODUCTION

All — well, most — aboard!

Shell switches from oil sands to conventional prospects to build reserves, shelving 515,000 bpd; Nexen also takes cautious route

By GARY PARK

For Petroleum News

Not everyone wants a seat on the oil sands bandwagon at a time when eight key players are again cranking up their spending plans.

Just when it seemed a corner had been turned for the northern Alberta resource, after 18 months in the doldrums, Royal Dutch Shell has put an indefinite hold on its once-grand dream of producing 770,000 barrels per day of bitumen and Canadian independent Nexen has deferred making a go-ahead decision to double the size of its Long Lake project.

Shell's recently installed Chief Executive Officer Peter Voser delivered the heaviest setback to the suddenly buoyant oil sands mood when he told London's Financial Times Jan. 25 that future oil sands development would be "very much slower."

That trailed by only a few days a hint by Shell's Canadian unit of the revised strategy, when the company filed a regulatory application for its existing 12,500 bpd Carmon Creek project in northwestern Alberta. In that proposal, it lowered the expansion target to 80,000 bpd from 100,000 bpd.

The company's estimated oil sands base of 20 billion barrels — about 8.4 percent of its total proven holdings — was seen as the key to halting its declining reserves, which hit a low point in 2004 when the global giant admitted it had overstated reserves by 23 percent between 1997 and 2002, resulting in a fine.

But Voser said the company will stall expansion of its Athabasca operations once its current US$14 billion expansion from 155,000 bpd to 255,000 bpd is completed in 2011.

Upgrading also slowed

Also caught in the slowdown is Shell's plan to increase bitumen upgrading at its Scotford refinery complex near Edmonton to 690,000 bpd from 290,000 bpd.

"Over the past two years and certainly over the past six to eight months, I've taken the pace out of that, because we have enough other growth opportunities," Voser said.

Shell will instead shift its focus to conventional oil and gas for future growth, he said, claiming that Shell has improved its record of discovering new oil and gas after investing heavily in exploration.

That's in sharp contrast to Shell's performance under Voser's predecessor, Jeroen van der Veer, who shifted the corporate focus to unconventional resources such as the oil sands after the reserves scandal.

What has surprised many observers is Voser's statement that rising development costs in the oil sands have made investment there less attractive — a claim that places him at odds with the majority of players who say the costs of labor and materials have dropped sharply during the recession.

But Shell, as much as any company involved in the oil sands, is feeling the heat from environmental groups.

Environmental heat

But Shell, as much as any company involved in the oil sands, is feeling the heat from environmental groups.

When Shell holds its annual meeting on May 18, a coalition of 142 shareholders known as FairPersons will make its case for a review of the risks associated with oil sands involvement, including the likely increase in carbon costs and the potential degradation of the land, water and air.

The coalition, although representing only 0.15 percent of Shell's outstanding shares, is insisting the company report back by the annual meeting in 2011.

Voser told a Calgary business audience in September that the oil sands emit only 5 to 15 percent more carbon dioxide than conventional oil projects, but has not said publicly whether environmental resistance is changing his thinking.

Nexen expects carbon tax

Nexen, already dealing with operational hiccups as it strives to reach its Long Lake Phase 1 goal of 72,000 bpd, won't make any moves on Phase 2 until it has more confidence in the economic recovery and what carbon costs it might face.

Nexen, as 65 percent operator, and its partner OPTI Canada, have budgeted C$100 million this year to advance engineering work on Phase 2, but late in 2009 they postponed sanctioning of the expansion until 2011.

Chief Executive Officer Marvin Romanow told an investors' conference he believes a carbon tax is "fundamentally necessary" and expects the United States will implement such a tax in 2011.

The shaky outlook for Long Lake only heightens speculation that the project could be in the takeover sights of several Asian energy powers that are anxious to increase their supply sources.

Korea National Oil Corp., which has two stakes in the oil sands through its takeovers of Newmont Mining Corp. and Harvest Energy Trust in the past four years, added to that speculation earlier in January when it included Canada among its leading targets when it said it would spend US$6.5 billion on mergers and acquisitions this year.

UBS Securities said assets being offered by Suncor Energy, EnCana and Talisman Energy could also be on KNOC's shopping list. But it will likely face stiff competition from PetroChina, Malaysia's Petronas and India's ONGC. ●

Contact Gary Park through publisher@petroleumnews.com

● PIPELINES & DOWNSTREAM

Enbridge in toll dispute with Suncor

By GARY PARK

For Petroleum News

Launching two major pipeline projects well ahead of schedule sounds like a clear-cut victory for Enbridge, but that isn't the view of oil sands producer Suncor Energy.

Richard Bird, chief financial officer of Canada's second-largest pipeline company, said Jan. 20 that both the Canadian and United States segments are due to be placed in service on April 1, three months ahead of the original target date.

The 450,000-barrel-per-day Alberta Clipper project covers 1,000 miles, linking the Alberta oil sands with Superior, Wis.

In addition, Enbridge's Southern Lights line, which will deliver ultralight crudes from the U.S. Midwest to the oil sands for blending with bitumen to allow the tarry substance to be carried by pipeline, is also expected to be completed "well before our end-of-the-year contractual target," he said.

Bird said tariffs filed with regulators for Alberta Clipper will be effective April 1, raising shipping costs on the company's mainline system to the United States.

Those increases are being challenged by Suncor, which has asked the U.S. Federal Energy Regulatory Commission to defer the hike.

A Suncor spokeswoman said, "We support additional capacity, but the timing of Clipper is no longer a prudent fit with supply."

"We are concerned about the potential impact of unnecessary pipeline-related costs in view of unused capacity on the competitiveness of Canadian heavy oil sands crude into the U.S."

see **ENBRIDGE** *page 7*

● ALTERNATIVE ENERGY

US Air Force considers coal-to-liquids

University of Alaska Fairbanks researchers helping military vet synthetic fuels; local officials demand overall GHG reduction

By STEFAN MILKOWSKI
For Petroleum News

Armed with a $10 million federal grant, and pushed by a mandate to use synthetic fuels, the U.S. Air Force is studying the merits of a large-scale coal-to-liquids plant in the Interior. A half-dozen researchers from the University of Alaska Fairbanks are among those helping the Air Force vet the project.

In an interview Jan. 11, Staff Sergeant James Stewart, a spokesman for the Air Force, said Jacobs Engineering, Battelle and the University of Alaska Fairbanks were chosen as prime contractors to conduct the research.

The university was tasked with reviewing a wide range of things, including carbon sequestration techniques, "ultracleaning" of coal, local air quality impacts, and the use of alternative energy at the plant, according to Gwen Holdmann, director of UAF's Alaska Center for Energy and Power.

The University of Alaska Anchorage's Institute of Social and Economic Research was charged with evaluating the economics of the multibillion-dollar project, and the Fairbanks Economic Development Corp. was enlisted to poll residents on their feelings toward the project and toward various fuel sources in general.

In an interview Jan. 11, Holdmann said UAF had already completed a first phase of research, which included literature reviews and some modeling but no new research, and had submitted final reports to the Air Force. Based on that work, she said, the Air Force asked for follow-up research in several areas, which the university is now pursuing.

Interest in a coal-to-liquids plant developed in 2007 when a Fairbanks-based task force concluded that such a plant could help reduce energy prices and meet the region's long-term energy needs. The plant would first make synthesis gas from coal, natural gas or biomass, and then use the gas to generate power, make synthetic fuels, and provide district heating. Proponents say the plant could help the Air Force meet a goal of using domestically produced synthetic fuels in its aircraft.


COURTESY FEDC
An artist's rendering of the project

A preliminary study funded by the state and the Fairbanks North Star Borough and conducted by Hatch Ltd. found the project could be economic at oil prices above $108 a barrel. The total cost of a large-scale CTL plant was estimated at somewhere between $4.1 billion and $7.4 billion, depending on the plant's capacity and feedstock. (See "Report: Coal-to-liquids costly but doable," in Nov. 16, 2008, issue at www.petroleumnews.com/pnads/23784267.shtml.)

The Air Force study is funded with a $10 million appropriation secured in a fiscal year 2009 spending bill. Stewart said the Air Force's research will be complete in time to provide recommendations to Congress in 2012.

While the Hatch study considered several different locations in the Fairbanks area for the plant, the Air Force study focuses specifically on a plant sited at Eielson Air Force Base.

Finding a place for carbon

One of the biggest hurdles for a CTL plant involves the huge amount of carbon dioxide the plant would produce. Local officials have said they will only support the project if it reduces overall emissions of greenhouse gases in the region. But capturing and sequestering carbon dioxide is likely to be expensive and technically challenging. (The cost of carbon sequestration was not included in Hatch's preliminary figures.)

Cathy Hanks, an associate professor at UAF's Geophysical Institute and in the Department of Petroleum Engineering, said she and others are studying the issue for the Air Force. Hanks said researchers considered a range of geologic storage options, including using the gas for enhanced oil recovery and injecting it into deep saline aquifers or into coal seams to increase production of coalbed methane. Researchers also created a catalog of other projects proposed around the world and considered whether CO2 emissions could be reduced through the use of biomass feedstock.

Ultracleaning of coal

Another project involves "ultracleaning" the coal before gasification to reduce emissions and potentially bring down the cost of operating the plant.

Rajive Ganguli, a professor of mining engineering who is conducting the research, said the goal is to reduce the ash content of the coal from 10 percent to a fraction of 1 percent. The process involves leaching the coal in acid to remove impurities, leaving the coal ash inert and benign, according to Ganguli.

Ultracleaning could cut operating costs at a coal-to-liquids plant by reducing the wear and tear on gasification chambers and extending the life of liners used in the chambers, he said.

Ganguli said the research, which is funded through the Air Force's contract with Jacobs, will test various leaching acids and particle sizes of coal.

Looking to the future

In all, Hanks said six or eight UAF faculty members are

see **CTL** page 9

continued from page 6

ENBRIDGE

Enbridge: terms negotiated with shippers

Bird said Enbridge does not expect FERC to agree with Suncor, given that the terms were negotiated with shippers.

He said Enbridge understands Suncor's concerns, but the tolls on "our mainline system are going to increase as a result of the circumstances that have changed since the Alberta Clipper project was approved."

He said Enbridge will work with Suncor and the Canadian Association of Petroleum Producers "to do everything that we can to make it right."

Despite the flurry of re-started oil sands projects, production forecasts are trailing far behind the 2006 prediction of 3.5 million bpd by 2020 and now stand at about 3 million bpd.

"Additional growth that was signed for in the contract area and growth out of the oil sands has diminished, so for sure our tolls will be higher than expected," Bird said. "But that goes with the toll arrangement."

RBC Capital markets estimated that a FERC decision in support of Suncor could defer about 5 percent of Enbridge's estimated 2001 earnings, or about 15 cents per share.

However, it, too, does not expect FERC to delay the in-service date.

Bob Hastings, an analyst with Canaccord Adams, said it is unusual for Enbridge to have a toll dispute with its shippers.

TransCanada pipelines President Russ Girling told the same conference that his company's 490,000 bpd Keystone pipeline from Alberta to Wood River-Patoka, Ill., is on schedule and 83 percent contracted.

> *"We are concerned about the potential impact of unnecessary pipeline-related costs in view of unused capacity on the competitiveness of Canadian heavy oil sands crude into the U.S."*
> **—Suncor spokeswoman**

He said oil sands production will continue to grow and U.S. markets will need imported crude.

"There is some question whether or not demand for refined product will increase in the U.S. over time, but what we know is that the U.S. is going to import a lot of crude for a considerable period of time." ●

Contact Gary Park through publisher@petroleumnews.com

● FINANCE & ECONOMY

Finding the sweet spot for oil and gas

Conference speakers review Alaska's current situation in worldwide competition for oil and gas industry investment dollars

By ALAN BAILEY
Petroleum News

In the "oh yes it is, oh no it isn't" debate about the effectiveness of Alaska's ACES oil production tax, it's easy to lose sight of the many factors that go into an oil company's decision over whether to invest new capital in, say North Slope exploration, vs. drilling some wells elsewhere in the world. And in the Alaska Support Industry Alliance Meet Alaska energy conference on Jan. 22 speakers added their perspectives to the debate, supported by a bewildering array of information ranging from Alaska jobs data to industry assessments of the regulatory climate.


SCOTT GOLDSMITH

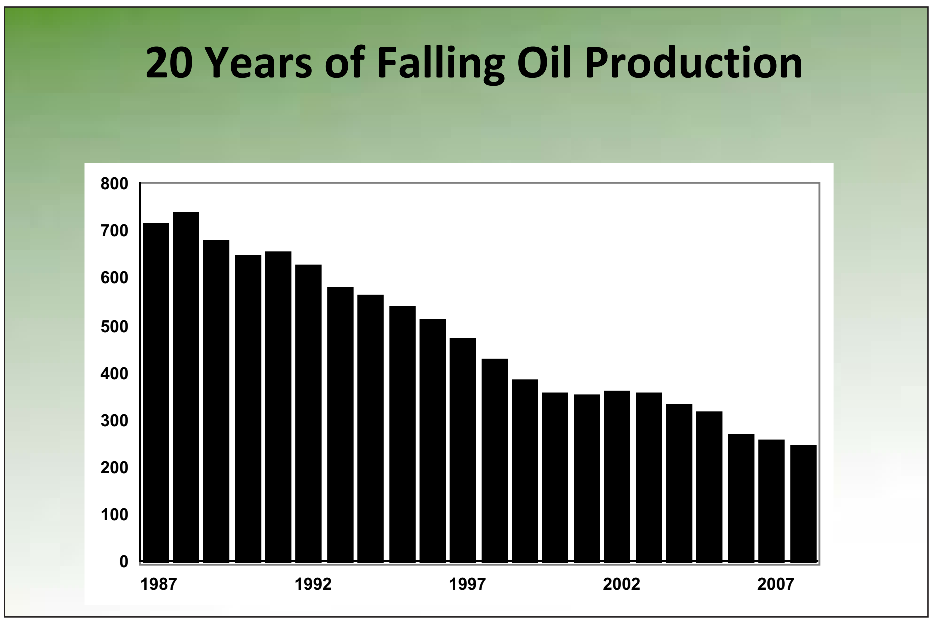

JUDY PATRICK
FRED MCMAHON

Scott Goldsmith, professor of economics with the University of Alaska Anchorage Institute of Social and Economic Research, talked about state oil and gas production tax policy in the context of the importance of the oil and gas industry to the state.

Determining a tax policy should not be a zero sum game, with both the state and the oil industry trying to secure as much as possible from a fixed production and revenue pool, Goldsmith told the conference attendees.

"There's some level of taxation and other fiscal policy that gets us to the sweet spot, that accommodation of production, employment and revenue that maximizes benefit to the state, not just today, but for the foreseeable future," Goldsmith said, adding that no one knows yet where that sweet spot lies.

The size of the total oil and gas pie is not fixed — there is some set of tax rates that will maximize the size of the benefit pie for the state, taking into account the impact of those rates on future production levels, he said.



Employment levels in Alaska have increased steadily in the past 20 years, while oil production has continuously declined. Scott Goldsmith, professor of economics with the University of Alaska Anchorage Institute of Social and Economic Research, thinks that future jobs growth will depend primarily on the petroleum industry, as factors such as growth in the service industries level off. Credit: University of Alaska Anchorage Institute of Social and Economic Research, with data from the U.S. Department of Commerce and the Alaska Department of Revenue.

Production and employment

Goldsmith presented some perplexing data showing that, while Alaska oil production has continuously declined over the past 20 years, employment in the state has continuously increased.

"Does this mean that the economy has reached a takeoff point in its development, resulting in stable development without petroleum?" Goldsmith conjectured. "Have we been successful in developing a diversified economy using revenues from oil?"

The answer to those questions is "no," he said.

But there has been some oil industry job growth in the last decade as a consequence of oil infrastructure upgrades, development of new production from known resources and exploring for new reserves, he said.

"These categories of employment growth have benefited from the value of (oil) production remaining steady, even as production has declined," Goldsmith said, presumably referring to the compensating effect of the rising price of oil. "In 2008 we enjoyed the second highest year ever for the value of production — $26 billion."

And the high value of the oil production also contributed to increased numbers of state and local government jobs, he said.

But oil industry employment levels remained fairly static in the previous decade, while the total of jobs in other industries such as transportation, forestry, mining, tourism and fishing has not changed much over the past 20 years, he said. In fact Goldsmith attributed much job growth during the last two decades, in part, to an expansion in federal spending in Alaska, especially since 1990, and in part to the infilling of support services such as health care in the state, thanks to the size and stability of the oil industry.

Alaska has been catching up with the rest of the United States in the provision of services for local businesses and households, Goldsmith said.

Future growth

However, federal spending is unlikely to continue to grow at its recent rate, while the infilling of support services "has pretty much run its course," he said. That leaves the petroleum industry as the key to future economic growth in Alaska. And although the remaining oil and gas resource base in the state is huge, perhaps sustainable for another 50 years, the easy oil has gone. With increasing production and transportation costs, and with substantial amounts of future oil and gas likely to come from the federal offshore, the state's revenue share will drop, he said.

"In order to be successful, the state will need to play the game with more intelligence and skill, and less emotion, than we have in the past," Goldsmith said. "And that game, of course, is to get the greatest long-term benefit for the state … from the petroleum resources."

The state should not put petroleum revenues into speculative projects, rather than allowing the money to be plowed back into the petroleum industry, "a proven winner with a 50-year history of success," Goldsmith said.

But maximizing benefits to the state involves finding that "sweet spot" for fiscal policy, where encouragement for additional future production is balanced with the state's revenue needs.

And the state should devote more effort to finding that spot, perhaps by maintaining an inventory of potential petroleum investments, together with their likely sensitivities to different tax rates, Goldsmith said.

Trust needed

Fred McMahon, vice president of

see SWEET SPOT page 13

● EXPLORATION & PRODUCTION

Safety, efficiency, lower costs BP goals

Minge details what company is doing, what state should do for long-term light oil business, development of gas, heavy oil resource

By KRISTEN NELSON
Petroleum News

Safety, efficiency and cost reduction are goals BP is pursuing for its Alaska business. But the company thinks the State of Alaska also needs to meet a goal if industry is to remain strong in the state — reduction of both its ACES tax rate and the progressivity built into the tax.

That was the message John Minge, president of BP Exploration (Alaska) delivered at the Alaska Support Alliance annual Meet Alaska conference Jan. 22.

"For the contractors in the room I think it's really clear that the way to earn business with BP is to demonstrate you can work safely and efficiently," he said. Contractors account for 80 percent of the hours worked, he said, and have a recordable incident rate about three times that of BP employees. But, Minge said, "We can learn from companies like Little Red Services: They worked last year without a single recordable incident."

Light oil business

The light oil business — production from existing North Slope fields — is the foundation of BP's business in Alaska, and "the light oil business has suffered over the last few years due to declining production and rising costs," he said.

"Costs have risen due to significant inflation and increased government take."

The result is that BP's cash breakeven point on the North Slope "is significantly higher today than it was five years ago and it's a threat to our future," Minge said.

When oil prices rose significantly in recent years, so did costs, but costs, he said, rose at four times the price of oil, "and at the same time North Slope production has declined 29 percent."

BP's focus

Minge said BP is focused on three things it can do to improve its business in Alaska: prioritizing its work and focusing on the most efficient projects; "tackling inflation through competition to drive down unit costs"; and improving the "efficiency and productivity of every dollar we're investing."


JUDY PATRICK
JOHN MINGE

BP is spending its dollars for "risk-reduction activities focused on the infrastructure"; on growth projects, like Liberty, that are in the execution stage; and on the base business.

Activities that have been slowed or stopped include the western region development expansion at Prudhoe Bay because it is not competitive, Minge said. Heavy oil development has been slowed by 50 percent. And the rig count has been reduced from 10 in January 2009 to seven this year.

Minge said he realized that when BP saves a dollar of cost it is a dollar of revenue to a contractor. "But to be sustainable we need to make sure that we pay market prices for goods and services," and BP is looking for the most competitive suppliers.

This is not nickels and dimes, he said. "There are examples where we have saved, for the exact same activity, more than 50 percent from what we were paying" a couple of years ago.

On the efficiency side he cited Acuren for more than doubling the number of corrosion inspections over the last year while reducing its recordable incident rate by more than 90 percent; the CH2M Hill weld shop for increasing efficiency by more than 65 percent with less than a 1 percent rejection rate on more than 11,000 welds; and Nabors Drilling and the BP drilling and wells workover team for improving efficiency in the installation of electrical submersible pumps by more than 33 percent in less than a year, saving more than a million dollars.

"These are just a few examples, but what we find is that the most efficient teams are also becoming the safest teams," Minge said.

Government policy

BP's investment decisions are not made entirely on tax policy — a host of market factors play into such decisions, he said, but "the tax structure plays a very significant part in the decision process."

And among tax and royalty tax regimes, "Alaska has the least competitive tax structure anywhere BP works in the world."

To compete, Alaska projects have to be more efficient, "to produce more barrels per dollar and (have) lower unit costs per barrel."

The overall tax rate and the progressivity portion of ACES, Alaska's Clear and Equitable Share, are the biggest issues BP has with Alaska's tax system, Minge said, because the state takes so much of the upside potential.

The result has been a 15 percent reduction in BP's capital spending this year, but,

see BP GOALS page 11

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CTL

involved in the research for the Air Force. "There's a whole suite of things that we did to provide the Air Force with some sort of means of evaluating whether they want to proceed down this road of putting a CTL plant on Eielson," she said.

In December, U.S. Rep. Don Young helped secure an additional $2.4 million for the Air Force for project-related research. In a statement on the funding, Young suggested carbon dioxide from the plant could be used to increase oil production on the North Slope.

FEDC President Jim Dodson described that as a tantalizing prospect. Establishing a value to the carbon dioxide could significantly improve the economics of the project, he said in an interview Jan. 19. Increasing North Slope oil production with the use of CO2 — something a 2005 study commissioned by the U.S. Department of Energy suggested is possible — could also provide a huge economic benefit, Dodson added. ●

LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
DNR	Beaufort Sea Areawide	Feb. 24, 2010
DNR	Alaska Peninsula Areawide	May 19, 2010
DNR	Cook Inlet Areawide	May 19, 2010
BLM	NPR-A	Aug. 11, 2010
DNR	Beaufort Sea Areawide	October 2010
DNR	North Slope Areawide	October 2010
DNR	North Slope Foothills Areawide	October 2010
MMS	Sale 209 Beaufort Sea	2010*
MMS	Sale 211 Cook Inlet	2010*
MMS	Sale 212 Chukchi Sea	2010*
MMS	Sale 217 Beaufort Sea	2011*
MMS	Sale 214 North Aleutian basin	2011*
MMS	Sale 219 Cook Inlet	2011*
MMS	Sale 221 Chukchi Sea	2012*

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

**On April 17, 2009, the U.S. Court of Appeals for the District of Columbia issued an opinion requiring Interior to withdraw and reconsider the MMS 2007-12 oil and gas lease sale program for the outer continental shelf.*

● EXPLORATION & PRODUCTION

Conoco: Alaska exploration not competitive

For first time since 1965 company will not explore in the state; Archibald says state's access, permitting OK, not fiscal system

By KRISTEN NELSON

Petroleum News

ConocoPhillips said in November that it planned no exploration drilling in Alaska this year.

Larry Archibald, the company's senior vice president for exploration and business development, told the Alaska Support Industry Alliance Meet Alaska conference Jan. 22 that, "it's the first time since '65 that ConocoPhillips or one of its predecessor companies hasn't actively explored in Alaska."

JUDY PATRICK

LARRY ARCHIBALD

That's saying a lot because those companies have been the state's most active explorers for many years.

Investment on state lands in Alaska isn't competitive with investment opportunities the company has elsewhere, Archibald said, comparing Alaska's competitiveness rank under the tax system initiated when ACES, Alaska's Clear and Equitable Share, was passed in 2007 with Alaska's rank prior to the passage of ACES.

Prior to ACES, he said, the Alaska fiscal regime was about "in the middle of the pack" as consultancy Wood Mackenzie ranked the profitability of fiscal regimes for investors.

But after ACES, Alaska moved to the right on the chart, where regimes "take so much of royalty, taxes and other fees there isn't really much left for the investor in the success case," excluding the capital the companies put at risk in exploration and appraisal before any production occurs, Archibald said.

Areas attracting investment

Australia and the Gulf of Mexico federal outer continental shelf are areas that attract ConocoPhillips' investment, he said, with Australia offering "adequate fiscal terms and giant potential."

While ConocoPhillips is investing a lot of money in the Gulf of Mexico, "we consider the fiscal terms in the OCS going in the wrong direction but still adequate," he said. Threats to the situation there include shorter lease terms. And royalty rates have already increased from 12.5 percent to 19 percent, and rental rates from $7.50 an acre to $11 an acre, with an additional increase in the second half of the lease term.

"So while the terms have been adequate and we're still exploring … in terms of the direction it's going you can't drill some of the world's most technically challenging and expensive wells into challenged reservoirs without adequate fiscal terms," Archibald said.

Hurdles at existing fields

And it isn't just Alaska exploration that is challenged, he said.

While there is adequate access around existing giant fields on the North Slope — Prudhoe Bay and Kuparuk — and an adequate regulatory regime, the fiscal regime is a challenge.

"There's a lot of near-term jobs, cash flow (and) production we could be getting out of existing giant fields," Archibald said, with a lot of "running room with new technologies." But that work has a cost disadvantage because expensive waterflood and miscible injection is needed, he said.

"We need incentives for investment in well work and other activities and we could really be upping the game in the near term" at those existing fields.

NPR-A challenges

Looking at undeveloped onshore areas of the North Slope, "NPR-A is particularly challenged," Archibald said.

The company has been exploring in the National Petroleum Reserve-Alaska for a long time, and has drilled 22 wells since 2000. Unfortunately, he said, "we've found no standalone fields; we've got nothing in NPR-A that is currently producing."

ConocoPhillips has made discoveries in the eastern part of NPR-A, but has "faced repeated permitting and regulatory delays in hooking those up" to Alpine. The company would like to get CD-5, the Alpine West discovery in NPR-A, permitted, because "that's the gateway to tying in more discoveries in NPR-A."

Archibald said there are more things in the area the company would like to explore for, "but we're going to slow the pace since we can't hook up our existing discoveries."

Not for the faint of heart

And then there is the Chukchi, where ConocoPhillips spent more than half a bil-

see **EXPLORATION** *page 11*

● PIPELINES & DOWNSTREAM

FERC agrees to review pipeline lifespan

Anadarko presents new evidence that conduit likely will transport oil until 2042, gets agency to clarify meaning of 'uniform rate'

By ROSE RAGSDALE
For Petroleum News

After several unsuccessful appeals, shippers on the 800-mile trans-Alaska oil pipeline have succeeded in getting the Federal Energy Regulatory Commission to reconsider an earlier decision that accepted a 30-year useful life estimate for the line.

In an order issued Dec. 10, the federal regulator of interstate shipping rates for pipelines said Anadarko Petroleum Corp. presented sufficient new evidence in a recent request for rehearing to merit additional review of the 700,000-barrel-per-day conduit's life expectancy.

The State of Alaska and Anadarko protested the commission's April 16 ruling that the pipeline's useful life will end in 2034. In subsequent requests for rehearing, the shippers argued that the commission must base the depreciable life of the pipeline on the economic life of reserves left in Alaska's Arctic oil fields, which it was built to transport. They both argued that a reserve study is needed in order to accurately determine the pipeline's useful life expectancy.

The commission rejected the requests, stating that Alaska and Anadarko did not show any new evidence why a reserve study is needed.

State board sees longer life

But Anadarko then brought to the commission's attention an Alaska State Assessment Review Board Certificate of Determination in June in which the state Tax Division "properly" estimated the economic life of the pipeline extending to 2042.

"In addition, the Assessment Board recommended that the tax division 'thoroughly review the economic end life of TAPS every year,' because: (i)t will likely be proper to extend the estimated economic end life of the TAPS past 2042 in future assessments as additional oil reserves on the North Slope become economically extractable or the estimated minimum mechanical throughput of the TAPS is reduced below 200,000 barrels per day," the commission noted in its order.

The commission also took note of Anadarko's observation that the pipeline's owners, BP Pipelines (Alaska) Inc., ConocoPhillips Transportation Alaska Inc., ExxonMobil Pipeline Co., Unocal Pipeline Co. and Koch Alaska Pipeline Co. L.L.C., did not object to the state review board's conclusions.

JUDY PATRICK

The trans-Alaska oil pipeline

According to FERC, Anadarko cited the testimony of a "Witness Greeley" at the review board's proceeding, who said the pipeline's owners "were willing to live with the (review board's) determination last year regarding two layers of the forecast and the 2042 end of life."

The shipper asserted that the analysis coincidently ended up at 2042 in both 2008 and 2009, according to the witness.

Anadarko also argued that the review board's findings were significant because the pipeline's owners recently proposed much higher interstate tariffs, citing the review board's ruling as a major factor because it increased state property taxes on the pipeline system. The carriers also attributed the rate increases to higher costs associated with an extended series of multimillion-dollar upgrades known as the strategic reconfiguration program.

BP, ConocoPhillips and ExxonMobil filed rate proposals in 2009 that averaged about $1.12 billion, or nearly double the $577 million rate underlying the 2006 rate that the commission accepted as "just and reasonable" in a June 2008 opinion that currently guides the setting of annual interstate tariffs for use of the pipeline. The 2007 compliance rate accepted by the commission in an April 16 order reflects an average rate base of $719.022 million. The 2008 compliance rate, which is set for hearing before an administrative law judge at the commission, includes an average rate base of $889.945 million.

FERC to review Unocal incentive

The commission also agreed to take another look at its rejection in the June 30 order of the State of Alaska's protest of Unocal's base rate compliance filing May 29 that brought forward an already effective volume incentive rate.

The state argued that the commission should have accepted the protest since it was timely filed and that the agency should have imposed conditions on its order No. 304 since an earlier order, No. 298, had been canceled by the compliance filing.

FERC said it would review the Unocal volume incentive rate because of Alaska's concern that the cancellation of FERC No. 298 might extinguish conditions imposed on it. The commission also subjected the rate to refund and the outcome of final commission action in the TAPS 2008 compliance rate proceeding.

Uniform rate also maximum rate

The regulatory body also responded to Anadarko's request for clarification of the meaning of the term, "uniform rate," that it said should apply for transportation service on the pipeline in its two major compliance orders in 2009 and 2008, which provide guidance for establishing future interstate tariffs on the pipeline.

"Since the rate increases filed by BP, ConocoPhillips, and Exxon were not uniform, the June 30 (2009) Order consolidated these proceedings, as well as Exxon's filing in Docket No. IS09-177-000, and the volume incentive rate filing under Docket No. IS09-176-000, to establish 'one proceeding to determine a just and reasonable uniform rate for TAPS,'" the commission wrote.

Anadarko contended that the commission's June 30 order stated that "(t)he uniform rate and pooling mechanism established in the case will apply to all of the carriers, so any carrier that has not yet intervened or filed its own rate, may want to do so to ensure its interests are represented."

Anadarko asked the commission whether the uniform rate that it ordered constitutes a maximum rate for TAPS but does not obligate all of the carriers to file for and charge the maximum rate.

FERC agreed, noting that "the uniform rates will establish the maximum rate, but carriers may charge a lesser rate." ●

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BP GOALS

he said, "This 15 percent top-line reduction actually masks the real impact that ACES has had on our base business."

A third of the money goes into infrastructure, investment which is not adding to production.

A third goes into growth projects — in this case Liberty and Denali, the BP-ConocoPhillips gas line project, and Liberty, in federal waters, is not subject to ACES.

The base business, "focused on offsetting decline and delivering increased production from in-field drilling," accounts for the remaining third, but that activity has been reduced since ACES passed at the end of 2007, Minge said.

The footage drilled has dropped from more than a million feet prior to ACES passage to about 410,000 feet, more than 50 percent.

The reduction in investment in the base, 2007 compared to 2010, is 30 percent, he said. ●

Contact Kristen Nelson at knelson@petroleumnews.com

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EXPLORATION

lion dollars on 98 leases in a 2008 federal OCS lease sale.

There are many offshore Arctic basins that are "grossly underexplored and the Chukchi in particular is underexplored," Archibald said.

He called the Chukchi a "world-class petroleum system" and said ConocoPhillips would really "like to get out there and do an exploration program."

The company is pleased with the leases it won, which include control of a prospect called Devil's Paw and some acreage on a prospect Shell calls Burger.

But the Chukchi is "not for the faint of heart."

ConocoPhillips has a lot of money tied up in leases "and we're burning a lot of capital doing environmental and stakeholder engagement in the next several years," he said, and the company is still waiting for clarification of its lease status from the courts and the Department of the Interior.

"I think we're confident we'll get there eventually, but there's a lot of money tied up that we'd like to be moving forward with," Archibald said.

What's needed?

Federal policies, he said, are poor when it comes to access to acreage and poor when it comes to permitting, but OK — although tending down — on fiscal terms.

It's the reverse with the state, which is OK on access to acreage and permitting, but poor on fiscal terms.

"It's within the control of the federal and state government to change a lot of those" conditions, he said.

"We need improved legal and regulatory environment for exploration on federal land; we need better fiscal terms and less onerous regulation for exploration on state land.

"And frankly after we get that we need stability" on both fiscal and regulatory issues.

"We see more stability in many of the third-world countries we explore in than we've seen lately in this state," Archibald said. ●

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Petroleum news

Oil Patch Bits

TA Structures manufactures guard shacks for NMS


COURTESY TA STRUCTURES

TA Structures said Jan. 19 that it has created six units to be used as guard shacks for Nana Management Services on Alaska's North Slope. A division of Twin Anchors Houseboat Manufacturers, TA Structures has helped the company stay afloat during tough economic times by broadening its manufacturing opportunities. "The units are 20 feet long and 10 feet wide. They have a work area, a dry kitchen including microwave, small fridge and counter space, a bathroom with an incinerator toilet, lockers, and fold-down bed," said Buddy Rich, sales manager for TA Structures. "There isn't any like this on the North Slope," said Joe Liska, representative from Nana Management Services. TA Structures provides clients throughout North and South America with the finest quality modular worksite accommodations; these modular building units are built with superior materials and superb craftsmanship. For more information visit www.tastructures.com.

Crowley lightering operation successful in Haiti


COURTESY TA CROWLEY

Crowley Maritime Corp. said Jan. 22 that, working under contract with the U.S. Transportation Command, it successfully discharged 12 20-foot containers of relief supplies across a beach in Port-au-Prince, Haiti, in an experimental lightering operation. The success of this operation, which involved lifting the containers from a Crowley container ship anchored in the harbor to a smaller, shallow-draft landing vessel for transport and discharge over the beach, paves the way for container shipments directly into Port-au-Prince later in the month. "Today's operation was an important milestone in re-establishing direct container shipments into the heavily damaged port," said John Hourihan, Crowley's senior vice president and general manager of Latin America services. "The port survey conducted Monday by a team from our TITAN Salvage subsidiary was spot-on in terms of identifying a suitable location in the port where we could safely discharge the cargo." For more information visit www.crowley.com.

see **OIL PATCH BITS** *page 13*

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

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

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SWEET SPOT

research, international, in the Fraser Institute, told the conference that Alaska's first priority in attracting new oil industry investment should be to build certainty and trust within the oil industry, particularly with respect to regulation and the tax code.

"The first thing Alaska has to do to regain its competitiveness and become globally competitive is build certainty," McMahon said. "What Alaska has to do is regain the trust of business."

This doesn't mean having regulation that is inappropriately light; it means having regulation that is predictable and sensible, he said.

McMahon presented the results of the Fraser Institute's latest survey of oil industry views of various jurisdictions around the world. The survey, conducted annually, involves asking oil company executives to rate each jurisdiction on a series of 14 policy factors such as the commercial environment and the regulatory climate, asking each executive to comment on the extent to which each policy factor encourages industry investment.

Jurisdiction league

The institute then draws up a series of jurisdiction league tables for the individual factors and for a composite of all factors, enabling the jurisdictions to be ranked and then grouped into quintiles, or fifths, with the first quintile containing those jurisdictions that are the most appealing for investment and the fifth quintile containing the least attractive jurisdictions.

The league tables separately rank onshore and offshore Alaska, recognizing the differences in jurisdiction between these two regions — state taxation applies to onshore Alaska, while federal jurisdiction and tax codes apply to the outer continental shelf.

"In 2009 the survey was answered by 577 executives worldwide representing more than 275 companies," McMahon said. "One hundred and forty-three jurisdictions were ranked vs. 81 in the previous year."

The league table for the composite of all factors places both Alaska regions in the second quintile — globally, a pretty good rating, but a rating well behind most other U.S. states, most of these being in the top quintile. Only California and Colorado rank below Alaska in the United States.

"Your competition, frankly, here is not bad-news drilling in the Democratic Republic of the Congo. Your competition is from the United States," McMahon told the conference attendees.

And McMahon cautioned about Alberta's ranking, which has declined significantly in the recent past, causing the Canadian province to drop into the third quintile.

"To some extent this shows you what can happen if a jurisdiction comes to rely on oil and gas and thinks that it basically inherited the family mansion and doesn't have to worry about being competitive anymore," McMahon said. "And I think to some extent that's what's been going on here in Alaska."

Europe ahead

Much of Europe ranks in the second quintile, along with Alaska, but most European nations come ahead of Alaska within the quintile. And British Columbia ranks ahead of Alaska, despite issues in that province around Native land claims, "eco-extremism" and disputes between the provincial and national governments.

The league tables for individual policy factors indicate that oil industry executives view Alaska has having relatively low levels of geopolitical risk. But the state comes in at around the middle of the pack when it comes to fiscal terms for the oil industry. And Alaska drops well below the middle of the table when it comes to environmental regulation. In fact, onshore Alaska rates third from bottom of this particular table, even some way below environmentally conscious Norway.

"This isn't because Norway's regulations are weak. They aren't. This is because Alaska's are uncertain and difficult," McMahon said. "This means that while they may not protect the environment as well as Norway's do, they will discourage investment more, because when somebody goes to Norway they know what's going on."

Alaska investments

But oil and gas companies will come to the places where the resources are located and, so, they will come to Alaska, McMahon said. The question is whether Alaska is reaping the full benefit from its resources.

"What our research shows is that global perception … will drive away investment," McMahon said.

It is possible to make the regulatory environment more conducive to oil and gas development without sacrificing environmental protection — countries like Norway have demonstrated that view, he said.

"One of the things that the most gung-ho oil executive and sincere environmentalist should agree on is a certain, clear, predictable regulatory environment," McMahon said. "… While the industry prefers free-market economies, the most important things are clarity, certainty and efficiency, and according to our survey Alaska can improve all of these." ●

● EXPLORATION & PRODUCTION

Exxon Q&A: 'We don't really have any bounds'

Rich Kruger, president of ExxonMobil Production Co., talks global investing, Point Thomson, the gas line and even a little hunting

By WESLEY LOY
For Petroleum News

Following his speech at the Alaska Support Industry Alliance's annual Meet Alaska conference Jan. 22 in Anchorage, ExxonMobil Production Co. President Rich Kruger sat down with Petroleum News to field a few questions.


JUDY PATRICK
RICH KRUGER

Topics included ExxonMobil's global investment and management style; its Arctic experience and outlook; the lingering court fight between the company and the state over control of the undeveloped Point Thomson field; and prospects for an epic pipeline to develop North Slope natural gas.

Here are excerpts from the interview.

PN: I hear you're a big hunter. What do you hunt?

Kruger: I'm in Texas, so a lot of birds — ducks, grouse, pheasants, quail, doves. But my passion's probably white-tailed deer.

PN: Well, you're from Minnesota, right? Don't the kids in Minnesota miss school to go hunt when it's deer season?

Kruger: Absolutely. It's part of the deal, sure (smiling).

PN: I have a few quick questions and I'll just rifle them at you if it's OK.

Kruger: Sure.

PN: Would you tell me, from your standpoint, what ExxonMobil Production Co. is?

Kruger: About 10 years ago, ExxonMobil looked at its view of the future of our industry and concluded that technical excellence and the ability to take on ever more difficult challenges in the energy world — new technologies, harsh environments, larger scale projects — was going to be a premium. So we reconfigured the entire corporation into a series of functional companies.

We have an exploration company with a set of geologists who explore the globe. We have a development company that specializes in planning and executing large-scale capital projects. The production company manages all of ExxonMobil's oil and gas production worldwide, including our involvement here in Alaska.

PN: You know, the perception some people seem to have here locally is that Exxon doesn't operate many projects, many pipelines, many facilities. Is that a myth?

Kruger: It is a myth. It's certainly the local view because in Alaska, that is our history. Point Thomson will be our first real opportunity to show what we can do — to bring the best of ExxonMobil's skills and capabilities to this state. If you go into the Lower 48 and many, many

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KRUGER

Kruger announced that the first Point Thomson well has now been drilled "to total depth."

'Decades and generations'

ExxonMobil Production Co. manages all of ExxonMobil's oil and gas production globally, including in Alaska. ExxonMobil has comparable units to handle exploration, and to plan and build big capital projects.

Since 2005, Kruger has had such assignments as leading ExxonMobil's recovery from hurricanes Katrina and Rita, and overseeing a large-scale tight gas development in northwest Colorado's Piceance basin.

He also has history with Alaska, having managed ExxonMobil's negotiations with former Gov. Frank Murkowski's administration for tax terms in an unsuccessful effort to spur construction of a natural gas pipeline.

In his speech, Kruger laid out a compelling case for optimism in the oil and gas industry, despite the present global recession.

Citing an International Energy Agency estimate, Kruger said industry will need to invest more than $25 trillion for the period 2008 through 2030 to meet energy demand.

"Consider that the world currently uses the equivalent of about 240 million barrels of oil per day to fuel transportation, generate electricity, run farms and factories, heat and cool homes, and much more," he said. "It is an enormous challenge to simply sustain this output, let alone grow it."

To meet demand will take enormous commitment and focus, Kruger said.

"Time in our industry is not measured in business cycles, and it is not measured in election cycles," he said. "It is measured in decades and in generations."

Natural gas is expected to be the fastest growing major fuel source, Kruger said, with demand in 2030 projected to be 55 percent higher than it was in 2005.

"Alaska is in an enviable position to step up and supply natural gas needed here, in Canada and in the Lower 48," he said. "And now is the time to step up."

On the Alaska gas line

ExxonMobil is partnering with TransCanada Corp. on a proposed natural gas pipeline project from the North Slope to Alberta. The partnership expects to hold an open season later this year to attract customers. It's competing against a rival project called Denali, involving partners BP and ConocoPhillips.

ExxonMobil invests in major projects based on basics such as resource quality and available technology, not the news of the day, Kruger said.

"While gas prices have fallen consid-

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OIL PATCH BITS

ACS offers new unlimited voice and data plans

Alaska Communications Systems said Jan. 19 that it was offering new unlimited nationwide, monthly service plans to pair with unlimited text and data plans on Alaska's largest and most dependable 3G network. The company aims to keep pace with voice plan streamlining recently established by the national carrier that competes in the Alaska market, while providing best value for wireless data services. Beginning Jan. 20, customers may sign up for a new Nationwide Unlimited voice plan that allows customers to call anyone in the United States and Canada for $69.99 per month. Nationwide family plans will also have new unlimited options. ACS has also revamped its wireless data offerings to firmly position itself as a value leader in the rapidly expanding market for wireless data services. For more information visit www.acsalaska.com.

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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Q&A

countries around the world, we operate more than we non-operate. Alaska just hasn't seen that from us.

PN: You've worked in a lot of places, the former Soviet Union, Africa, Malaysia ...

Kruger: Middle East, Gulf of Mexico.

PN: OK. Do people everywhere have the same expectations and desires of ExxonMobil? In particular, I'm thinking about speed. Is everybody in a hurry, wants their project done right now?

Kruger: It varies. But if I step back and talk ExxonMobil for a minute.

PN: Sure.

Kruger: Our standards are global standards. We don't operate to a different safety standard in one country where, culturally, they might accept that. We have the highest standards wherever we operate. From an internal standpoint, it makes it easier because as we move people around the world, they don't have to recalibrate.

When it comes to dealing with our hosts, we hope they want and encourage investment and all the benefits that go with it — the economic benefits, the job growth.

Generally, folks want emphasis on training and education of a local or national workforce.

The pace, that can vary. It depends on government or our host's priorities.

What's important for us is when we look at where we invest, we line it up on the fundamentals. We look at the quality of the resource. And that can be oil or gas, it can be conventional or unconventional. We look at the technology that we'll apply and our confidence in that technology. It may be Arctic, it may be deepwater, it may be liquefied natural gas.

"Point Thomson will be our first real opportunity to show what we can do — to bring the best of ExxonMobil's skills and capabilities to this state. If you go into the Lower 48 and many, many countries around the world, we operate more than we non-operate. Alaska just hasn't seen that from us." **—ExxonMobil Production Co. President Rich Kruger**

We look at the capital efficiency of the investment. How does it compare with other, comparable projects elsewhere? Will it be profitable over its life?

And last but certainly not least, we look long and hard at the commitment and support of the host — the government, the state, the country. Do we share the same vision and objectives? Are they providing the right incentives to attract the capital? Are they providing the tax and royalty terms that we have confidence will endure over time?

The commitment to stick to a deal is very important to us because we invest shareholders' money upfront.

PN: People in Alaska are impatient and in a big hurry for certain things. I should say, they've waited a while. You could take Point Thomson as an example. But I imagine you feel this kind of pressure other places.

Kruger: Mankind generally looks for progress.

When you take Alaska, you look at the history here and the wealth that oil has brought, and Alaska's in a transition.

It's still a very hydrocarbon-rich environment for oil. There's a lot of existing operations.

But increasingly you can see the value and the contribution that natural gas will provide in Alaska. And it's like anything — when you can see that prize, we all want to work on it and get it earlier.

The key is working together so that the capital can be attracted, that the investors can be satisfied with it, the government satisfied, and the citizens. I like that there's a natural impatience to get on with it, because that's what will bring us all to the table to get that outcome that we all seek.

There's some added challenges in Alaska. The cost environment here, the Arctic environment, bring along an added complexity. Technology is critical in Alaska. The other thing that's unique in Alaska is the scale of the projects. There's no such thing as a small project here. Point Thomson is a massive project. The natural gas pipeline will be one of the world's greatest undertakings ever for an energy project.

So Alaska needs strong partners, partners you know are going to be there 30 years from now and have the wherewithal to execute these projects.

PN: Does ExxonMobil have other designs on Alaska, such as the Arctic outer continental shelf?

Kruger: I mentioned earlier that we have a global exploration company. We have a lot of experience in the Arctic. Although we're the non-operator here in Alaska, much of the technology that's been applied on the North Slope was developed by ExxonMobil scientists and engineers over the past decades. Our partners would acknowledge that. We have a large-scale Arctic operation in Russia off of Sakhalin Island. We're a big operator in Canada. So we're comfortable in the Arctic.

As we look for expanding our presence on the exploration side, whether it's OCS or wherever access is available to us, we're big enough and ambitious enough, we don't really have any bounds.

PN: Last question, and I hope you'll be specific. What projects anywhere in the world occupy the most time on your desk lately?

Kruger: I personally spend as much time planning and thinking about Alaska as I do anywhere else in the world.

Our priorities here are continuing to extract value out of the existing assets. Prudhoe Bay still has tremendous life and value to the state and to the partners. We work very closely with the operator (BP) to help improve Prudhoe's performance.

We also want to resolve Point Thomson. It'll be our first official ExxonMobil operation. We want to resolve it for three primary reasons: One, to keep the investment and the momentum going — the jobs and the contractors who are doing an outstanding job for us.

Two, when it's resolved, it allows the working interest owners to commit or nominate their gas in the upcoming open seasons. The gas pipeline project needs that additional gas to give it the best chance of a successful open season.

And third, as we gather data and information from Point Thomson it will help us plan the right off-take of North Slope gas from Point Thomson, from Prudhoe, to feed that pipeline over the long term so we can get the maximum recovery.

So I spend a lot of time focused on the existing operation in Alaska and the future operation. These are world-scale projects and they're critically important to ExxonMobil.

PN: Follow-up question: Were you encouraged by Gov. Sean Parnell's comment that he feels it's time to settle or resolve the Point Thomson litigation?

Kruger: I think the governor is spot on.

PN: Thanks a lot for your time.

Kruger: Hey, it was nice to meet you. Enjoyed it. ●

Contact Wesley Loy at wloy@petroleumnews.com

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KRUGER

erably from the highs we saw as recent as 2008, ExxonMobil has the confidence and ability to invest when we find opportunities with the right fundamentals," he said.

The partnership with TransCanada makes sense, Kruger said.

"We joined this team after assessing the fundamentals and concluding that this approach provides the best avenue to commercialize Alaska's North Slope natural gas," he said. "We believe combining the experience of ExxonMobil and TransCanada will ensure excellence in project planning and execution."

"This well reaches out horizontally from the shore-based rig to a subsurface target nearly two miles offshore." **—Rich Kruger, president of ExxonMobil Production Co.**

Repeating a common refrain among major oil companies in Alaska, Kruger said the state needs to establish "predictable and durable" tax and other fiscal terms to support a pipeline.

"Now is the time to demonstrate leadership and take action in Alaska in support of the pipeline project," he said.

He cited the example of Qatar in the Middle East. ExxonMobil is partnering on a giant liquefied natural gas project there based on "Qatar's investment policies and durable fiscal terms," Kruger said.

On Point Thomson

In recent years, ExxonMobil and the state of Alaska have been locked in a court battle for control of Point Thomson, a large gas field on state land along the Beaufort Sea coast east of Prudhoe Bay. Other leaseholders there include BP, Chevron and ConocoPhillips.

The court fight began after the state, tired of waiting for development of the field, terminated the Point Thomson unit and declared the underlying leases expired.

Amid the litigation, state officials gave ExxonMobil permission to drill on two leases, and a drilling contractor has reached total depth on the first well, Kruger told the Alliance audience.

"This well reaches out horizontally from the shore-based rig to a subsurface target nearly two miles offshore," he said.

ExxonMobil has said it intends to produce 10,000 barrels a day of gas condensate from Point Thomson by year-end 2014, an output lawyers for the state have characterized as "a minimal trickle of production."

Kruger said the company is serious about pushing ahead on Point Thomson.

"ExxonMobil wants to see Point Thomson developed," he said. "We believe it underpins the success of the Alaska pipeline project. Our commitment to achieving progress at Point Thomson is demonstrated by investments which have now topped $1 billion, including more than $300 million in the last two years."

He added: "It is important that we resolve the outstanding issues with the Department of Natural Resources now."

Alaska Gov. Sean Parnell, speaking just before Kruger at the Alliance conference, said he too believes it's time to resolve the Point Thomson litigation. ●

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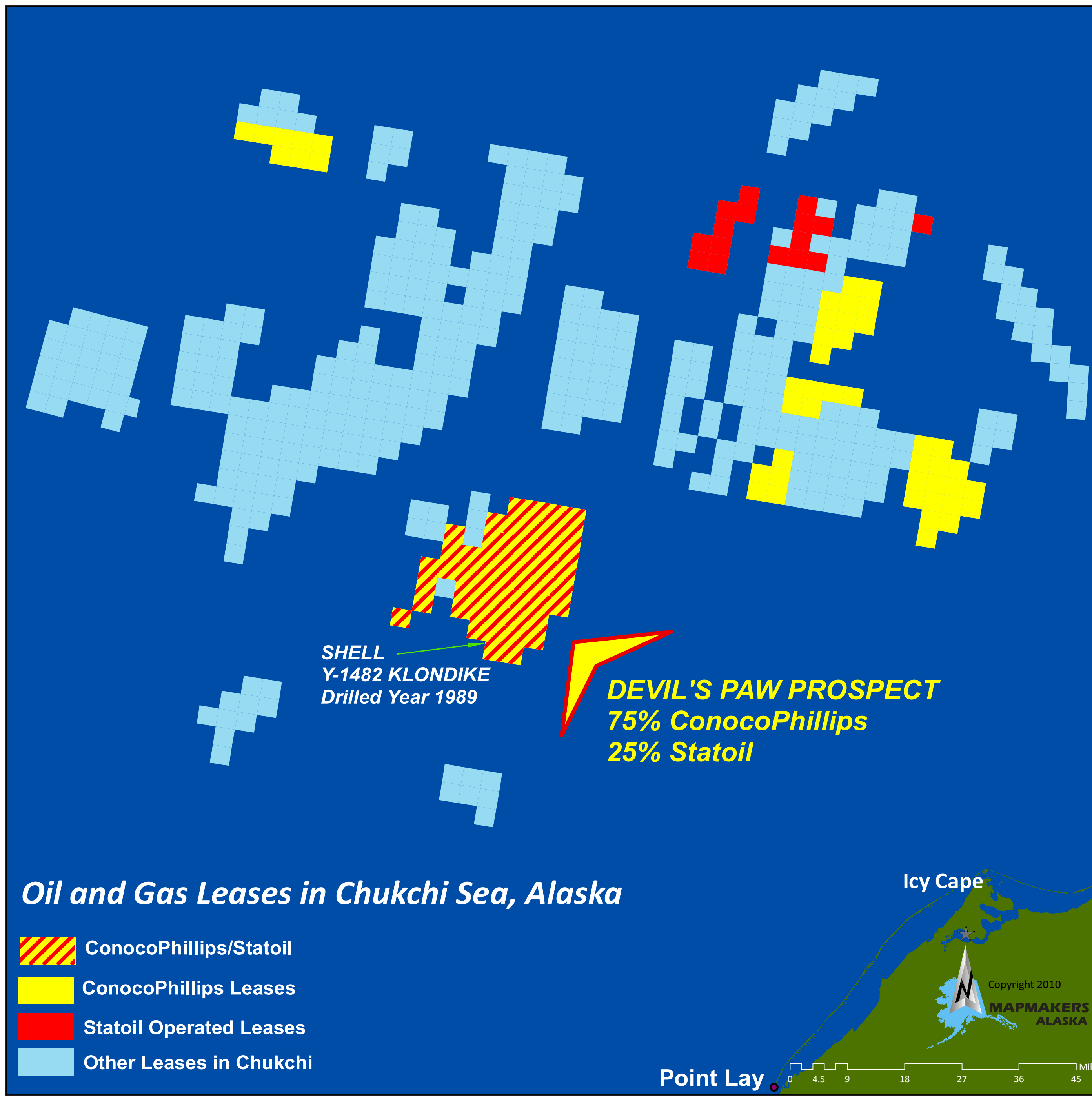
STATOIL

The companies have conducted joint operations for more than 30 years on the Norwegian continental shelf, and said that operating experience has allowed both companies to gain expertise in tackling harsh environments and to develop new technology to enhance recovery from existing fields.

"The Chukchi Sea in Alaska is a new frontier area for all operators and we believe that companies like Statoil and ConocoPhillips are among the best companies to take on this exciting journey together. By adding on these leases to the 16 we already have in Chukchi, we have now acquired a sizable acreage portfolio to explore in the coming years," said Tony Dore, heading up Statoil's exploration group in North America.

Although the Chukchi Sea is largely unexplored, more than 100,000 line-miles of seismic data have been collected, revealing subsurface geology that the U.S. Minerals Management Service has estimated could hold 15 billion barrels of oil and 76 trillion cubic feet of natural gas.



Both acquired tracts at sale

Both companies acquired tracts in the 2008 Chukchi sale.

ConocoPhillips spent more than $506 million for 98 tracts. Statoil, then known as StatoilHydro, had $14 million in high bids on 16 tracts, partnering with Eni Petroleum on 14 of the bids (StatoilHydro 60 percent and Eni 40 percent).

Shell was the dominant bidder at the sale, with $2.4 billion in high bids for 275 blocks and has permitting under way for a 2012 drilling program (see story in this issue).

After the 2008 Chukchi Sea sale, StatoilHydro told Petroleum News that the company saw the Chukchi as the next step after its Arctic projects off Norway, and said the Chukchi shared many traits with projects it has done, including harsh conditions, isolated areas and the possible need to find partners.

"With more than 30 years of offshore experience from the Norwegian continental shelf we believe we can build on this and develop our capabilities further by involving us in the future oil and gas development in the Chukchi Sea," a company official said in an e-mail after the 2008 sale.

The North Slope Borough mayor's office told Petroleum News in November that Statoil has already taken borough Mayor Edward Itta and key borough staff members for a tour of its offshore Norway oil and gas facilities. That trip included meetings with fishing groups and government agencies, entities that occasionally clash with the oil and gas industry. The meetings included discussions about how such disputes are resolved in Norway.

First drilling in 2012

ConocoPhillips is targeting its first well in the Chukchi in 2012 and Archibald talked briefly about the Chukchi at the Alaska Support Industry Alliance annual Meet Alaska conference in Anchorage Jan. 22.

"We control the prospect we refer to as Devil's Paw and have some acreage on a prospect Shell refers to as Burger as well. We really are pleased that there's a giant potential here and we'd like to test it," he said.

ConocoPhillips Alaska spokeswoman Natalie Lowman told Petroleum News that the leases in which Statoil acquired an interest "are those covering the Devil's Paw prospect."

Although the Chukchi Sea is largely unexplored, more than 100,000 line-miles of seismic data have been collected, revealing subsurface geology that the U.S. Minerals Management Service has estimated could hold 15 billion barrels of oil and 76 trillion cubic feet of natural gas. Only five wells have been drilled in the Chukchi, in the late 1980s and early 1990s, but those confirmed the presence under the Chukchi of some North Slope-equivalent stratigraphy.

In addition to financial considerations from Statoil, ConocoPhillips will also acquire 50 percent working interest in 16 Statoil-operated Gulf of Mexico leases and will acquire all of Statoil's 25 percent working interest in five additional GOM leases operated by ConocoPhillips.

—KRISTEN NELSON

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GREENING OF OIL

President Al Gore.

JOURNALISM NOT DEAD … Kudos to the University of Northern Colorado's student newspaper, The Mirror, which takes a realistic look at the survival of print news in the article, "Reports of news writing's death largely exaggerated." (It graciously mentions Greening of Oil.)

BEAT US TO THE PUNCH … The Calgary Herald beat us to the punch with a Jan. 23 story about Canadian Mat Systems FiberCon rig mats being used deep in Brazil's Amazon region. It's a good read: "Edmonton mat system welcome in fragile terrain." Who knew rig mats could be so exotic?

NORTH SLOPE JOB HUNTERS … If you are looking for a high paying job in the oil industry on Alaska's North Slope, check out Mary Whitehurst's comment (and Web site) on Greening of Oil's Buzz page at http://www.greeningofoil.com/buzz.aspx.

—MAC ACKERS

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YUKON FLATS

a consequence of its participation in the drilling of an exploration well in the Nenana basin in 2009, and the exploration in the Yukon Flats will generate additional credits, he said.

Crews will arrive in the survey area on Feb. 1 to begin preparations for the survey, with the actual seismic recording starting around March 1 and continuing through March, possibly into early April, Mery said.

Working on flat ground, mostly covered by brush, the survey team will set up shot points and lay seismic recorders by helicopter and snow machine, thus avoiding the need to cut lines through the vegetation and making it possible to circumvent any stands of trees, Mery explained.

"It's a system that's used extensively in Canada," he said.

Substantial basin

The Yukon Flats, a 15,000-square-mile lowland area around the Yukon River between the trans-Alaska oil pipeline and the Canadian border, lies over a substantial geologic basin with oil and gas potential. For several years Doyon has been interested in the possibility of oil and gas exploration in the area, to provide work and income for Yukon Flats residents, as well as new income for Doyon.

A large part of the area lies within the boundary of the Yukon Flats National Wildlife Refuge and until last year Doyon had been trying to negotiate a land swap with the U.S. Fish and Wildlife Service, the administrator of the refuge, to consolidate some of the more prospective parts of the Yukon Flats basin into Doyon ownership. That deal eventually came to naught, amid controversy among local communities regarding the desirability of oil and gas development in the region and objections by environmental groups.

However, recent geologic research has encouraged Doyon to view some of its existing lands in the Yukon Flats as more prospective than was earlier thought, and in 2008 the corporation indicated its intention to proceed with exploration, whether or not the land swap took place.

Deep subbasins

In particular the U.S. Geological Survey has used gravity and aeromagnetic data to infer the existence of some subbasins within the overall area of the Yukon Flats basin, with most of these subbasins having depths in excess of 8,000 feet. A subsequent oil and gas assessment by Petrotechnical Resources of Alaska estimated the possible existence of 300 million to 1 billion barrels of oil in the entire basin, and perhaps 1 trillion cubic feet of natural gas.

"We clearly think that this area is permissive of at least a couple, maybe more, Alpine-sized fields," Mery told Petroleum News in 2008.

Doyon wants to conduct its new seismic survey to test the USGS theory about the existence of those subbasins: One of the likely subbasins lies immediately north of Stevens Village. And, if the seismic near Stevens Village confirms the existence of a deep subbasin there, the result would place a high probability on the existence of the other subbasins. There are, for example, two subbasins near the village of Beaver, to the east of Stevens Village, Mery said.

And Doyon hopes to attract interest in industry oil and gas exploration near Stevens Village or in other Doyon land situated on Yukon Flats subbasins.

"Our efforts in the Yukon Flats this winter are part of a multiyear plan to conduct additional exploration on a variety of natural resource projects on Doyon lands, add significant value and thereby attract other companies to conduct follow-on exploration," said Norman Phillips, Doyon president and CEO. "An important part of this plan is to work closely with local communities to assure a meaningful economic stake in any project."

Local support

Maureen Mayo, operations manager of Dinyee, said that her board of directors "recognizes that well-managed oil and gas development on a small portion of our traditional lands, coupled with appropriate oversight by Doyon and Dinyee working together, is compatible with our mission and values."

"By applying the best practices we believe both development and traditional use can work in harmony," Mayo said.

"My community has long supported careful oil and gas development because of the economic opportunities it could provide for long term village sustainability," said Jackie Balaam, a resident of Birch Creek and president of Titheet' Aii. ●

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GATEWAY

"seen by critics as bad press for Enbridge and a potential legal quagmire for the company and the Canadian government."

Enbridge's Chief Financial Officer Richard Bird told an investors' conference in Whistler, British Columbia, on Jan. 21 that a formal application is still expected to be filed later this year.

He said Northern Gateway will "provide an outlet for bitumen and synthetic crude to access both Asian and California markets and opens up a completely new market to Alberta producers and ensures they receive world pricing for their commodity."

"The need for an alternative to Canada's sole dependence on the U.S. market for crude oil is now greater than ever," he said.

At the same time, environmental and aboriginal opposition is building and a Supreme Court of Canada decision on Jan. 21 is seen as raising the bar for federal agencies which determine the scope of environmental review for large industrial projects.

The court ruling was based on the Red Chris mining project in northern British Columbia, which is not expected to be suspended or halted by the court.

But Alan Harvie, an environmental lawyer with the Calgary firm of Macleod Dixon, said he expects the decision will cause delays for other projects, especially involving the Department of Fisheries and Oceans.

That could lend support to various environmental groups and activists who are building their case against Northern Gateway.

Pembina Institute opposed

A new report by the Alberta-based Pembina Institute took a formal stand against the project Jan. 18, arguing that the pipeline hides environmental impacts associated with increasing oil sands production.

Simon Dyer, the oil sands program director for the think tank, said it's the first time Pembina has estimated the "upstream impacts of filling the pipeline."

The report calculated that production associated with Northern Gateway would produce 25 million barrels of toxic tailings, disturb about three square miles of forest, consume the same volume of natural gas as 1.3 million households do in a year and consume the same amount of water annually as a city of 250,000.

Pembina said there should be a moratorium on the transportation of oil sands production across British Columbia until a public inquiry can examine the impacts.

Dyer said it is "amazing that very significant projects like (Northern Gateway) are proceeding in a piecemeal fashion. Despite the negative attention the oil sands are receiving in the media there is still virtually no substantive policy debate on development."

The Pembina report said the terms of reference for the JRP ignore the impacts and the increased greenhouse gas emissions, but an Enbridge spokesman said the Pembina report fails to direct any specific information at the pipeline.

He said Enbridge hopes to ease public concerns through an intensive dialogue and "meet a high test as to whether this project will be in the Canadian public interest."

Other challenges

There has also been a flurry of other actions challenging the project, backed by public opinion polls that show considerable resistance to the use of coastal waters by tankers as well as resistance by aboriginal communities to allow access to lands that are subject to claims.

Aboriginal resistance to Northern Gateway is reflected in a new online presentation that shows the impact of the pipeline on more than 50 First nations and 1,000 streams and rivers.

"Our territory represents a large portion of the proposed pipeline route and there's no way we are going to allow it," said David Luggi, chief of the Carrier Sekani Tribal Council. "The only thing Enbridge investors can bank on with this project is strong opposition."

Dolores Pollard, chief councilor of the Haisla Nation, whose territory embraces the Kitimat super tanker port, said her community will "not allow any project to proceed that infringes the constitutionally protected rights of our people. Sooner or later, that's a lesson Enbridge and the federal government are going to learn, either in the court of public opinion or a court of law."

David de Wit, natural resources manager for the Wet'suwet'en First Nation, has sent letters to potential Northern Gateway shippers warning them that the pipeline would be a direct infringement of First Nation rights, given that about 10 percent of the line would cross Wet'suwet'en land.

He said the Canadian government has failed to properly address aboriginal title and rights issues and, thus, commitments by oil sands producers would be a "direct infringement of our constitutionally protected rights."

Eric Swanson, speaking for the British Columbia-based Dogwood Initiative, told the Calgary Herald that Gateway "looks like 525,000 barrels a day of trouble," telling Enbridge it faces a tougher battle in British Columbia than it does in Alberta.

Two activist journalists, Andrew Nikiforuk and Ian MacAllister, told public meetings late last year in British Columbia that opponents are mobilizing against Gateway, taking issue with Enbridge claims that Gateway would create 4,000 construction jobs and "hundreds of millions of dollars in tax revenues over the life of the project." ●

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