



Markers to be buried



Marker plate at abandoned Challenge Island No. 1, subsequently buried. This replaces a marker on a post, and complies with new regulations being developed by the Alaska Oil and Gas Conservation Commission. See story page 6.

Canada takes delivery of two Arctic submarines

THE CANADIAN GOVERNMENT has taken delivery of two remote-controlled submarines that will be used in mapping the Arctic seabed. The program's purpose is to document Canada's territorial claims in the Arctic beyond the 200-nautical-mile limit. The data will be used to support the country's submission to the United Nations in 2013 on the extent of Canada's sovereign rights in the Arctic.

"Canada is the first country in the world to use this type of technology" to map the Arctic, John Weston, a member of parliament, said Sept. 29.

The unmanned submarines, manufactured in British Columbia, will operate under the ice in Canada's High Arctic waters.

The submersibles "will help ensure Canada puts forward the strongest possible submission to the United Nations Commission on the Limits of the Continental Shelf in 2013, demonstrating the full extent of its continental shelf," said Lawrence Cannon, Canada's minister of foreign affairs.



—KAY CASHMAN

Cordova group wins TAPS monitoring grant

A NONPROFIT ORGANIZATION in Cordova, Alaska, has received a \$48,380 federal grant to "support citizen safety monitoring of the Trans-Alaska Pipeline System."

The Copper River Watershed Project was among 21 local communities and organization nationwide to receive grants of up to \$50,000 from the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety

see INSIDER page 14

PIPELINES & DOWNSTREAM

Tax tussle rages

Tens of millions at stake as lawyers argue trans-Alaska pipeline's value

By WESLEY LOY

For Petroleum News

The state, major oil companies and a trio of local governments are locked in an epic battle over how much the trans-Alaska oil pipeline is worth for property tax purposes.

The parties recently completed an arduous, six-week trial in Anchorage involving dozens of witnesses. The case is now on hiatus until early November, when lawyers on all sides will make closing arguments to state Superior Court Judge Sharon Gleason, who is hearing the case without a jury.

The case centers on the question of how to value the 800-mile pipeline, which has been carrying

Shortly before the trial got under way on Aug. 10, the pipeline owners took a significant new tack in their fight to tamp down the state's assessed value.

North Slope crude oil to the tanker port at Valdez since 1977.

The five companies that own the pipeline — BP, ExxonMobil, ConocoPhillips, Chevron and Koch Industries — believe state officials have valued the pipeline too high.

The three local governments — the North Slope Borough, the Fairbanks North Star Borough and

see TAX TUSSELE page 15

NATURAL GAS

AGPA changes tack

Port authority purchases Fairbanks Natural Gas, looking to develop LNG on slope

By STEFAN MILKOWSKI

For Petroleum News

It was a busy few days for the Alaska Gasline Port Authority.

On Sept. 28, AGPA's project manager and general counsel, Bill Walker, announced he is running for governor to push for an "all-Alaska" gas pipeline.

On Sept. 29, the voter-created group announced it has executed a letter of intent to buy the natural gas utility in Fairbanks and develop a North Slope liquefaction plant that would allow liquefied natural gas to be trucked to Fairbanks.

AGPA has long pushed for a publicly developed

According to a news release from AGPA, the project would be financed through revenue bonds and would not incur any financial obligation to AGPA's three member municipalities — the Fairbanks North Star Borough, the North Slope Borough, and the City of Valdez.

project involving a pipeline from the North Slope to Valdez and LNG tankers. But port authority officials earlier this year said they would pursue their LNG project within the confines of the

see AGPA page 16

EXPLORATION & PRODUCTION

TG, BRPC reach settlement

Plan to drill 1-2 exploration wells at North Slope Beechey Point unit this winter

By KRISTEN NELSON

Petroleum News

Winter exploration by BRPC is moving ahead after legal difficulties between partners in the North Slope Beechey Point unit were resolved in late September.

TG World, AVCG and Brooks Range Petroleum Corp. have reached a settlement related to TG World's participation in the Alaska joint venture involving AVCG and BRPC.

TG World Energy Corp. said Sept. 30 that its wholly owned U.S. subsidiary, TG World Energy Inc., "has settled all outstanding legal disputes" with AVCG and BRPC.

AVCG-BRPC began proceedings against TG World in December 2008, TG World said, "alleging that TG World had breached its obligations

The unit commitment at Beechey Point includes completion of a first exploration well by Dec. 1, 2012, and completion of a second exploration well by July 1, 2013.

under the agreements governing the joint venture."

TG World said it denied all allegations and the joint venture partners had been in dispute, "but have now resolved these differences with this settlement effective immediately."

Litigation between the parties "and related claims and counterclaims have been dismissed with prejudice," TG World said.

TG World executed the Beechey Point unit

see SETTLEMENT page 15

BREAKING NEWS

5 Keystone lawsuit dismissed: Judge says environmental group lacked authority to challenge TransCanada presidential permit for pipeline

8 Carbon dioxide for methane: ConocoPhillips has done laboratory exchange in hydrates; North Slope field test planned for 2011

11 Bill Walker tosses hat in ring: Alaska Gasline Port Authority project manager runs for governor, pushes 'all-Alaska' gas line and LNG

contents

Petroleum News

A weekly oil & gas newspaper based in Anchorage, Alaska

ON THE COVER

Tax tussle rages

Tens of millions at stake as lawyers argue trans-Alaska pipeline's value

AGPA changes tack

Port authority purchase of Fairbanks Natural Gas, development of LNG on slope

TG, BRPC reach settlement

Plan to drill 1-2 exploration wells at North Slope Beechey Point unit this winter

OIL PATCH INSIDER

- 1** Canada takes delivery on two Arctic submarines
- 1** Cordova group wins TAPS monitoring grant
- 14** Pearce heads to Ottawa for gas line discussions
- 14** National Post: Iran acquiring nuclear materials in Canada
- 16** DEC gets \$160K grant for environmental justice work

EXPLORATION & PRODUCTION

10 Canada's offshore oil patch skirts storm

Newfoundland, Labrador experiencing private sector growth in economic downturn, mostly due to offshore oil and gas investment

11 AOGCC requirements; DNR permits

Geothermal wells will be drilled with Department of Natural Resources permits, but drilling must meet commission requirements

GOVERNMENT

6 AOGCC proposes new well abandonment rules

Regulations would make marker plates welded onto casings new standard



7 Parnell chamber talk focuses on energy

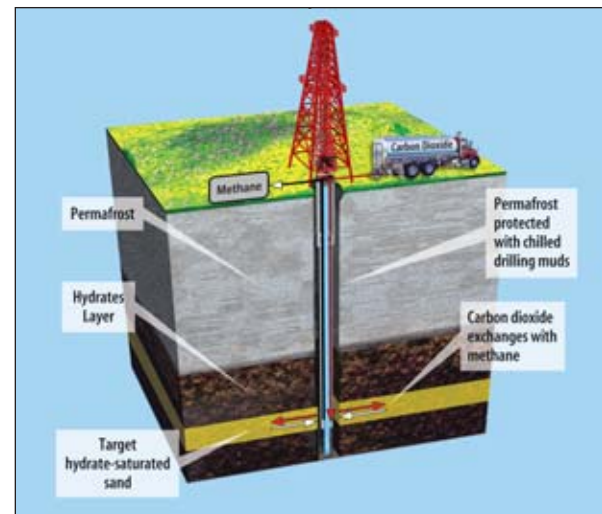
Governor tells Fairbanks audience he's optimistic about development at all scales; wants companies to combine gas line projects



11 Walker announces bid for Alaska governor

NATURAL GAS

4 TransCanada lands contract for Ontario power plant



8 Field test of CO2-CH4 exchange planned

ConocoPhillips has patented exchange technology developed in laboratory for producing methane hydrate without dissociating water

PIPELINES & DOWNSTREAM

5 Judge dismisses Keystone pipeline lawsuit

Says environmental group did not have authority to challenge TransCanada permit; base line to be complete by late November

SIDEBAR, Page 5: U.S. oil imports from Canada rise

SAFETY & ENVIRONMENT

4 State hires contractors to secure wells

Pacific Energy's abandoned assets need 'winterizing' to stave off problems, preserve value; cost could range up to \$200,000

13 Court OKs settlement on decision



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Alaska - Mackenzie Rig Report

| Rig Owner/Rig Type | Rig No. | Rig Location/Activity | Operator or Status |
|---|----------------|--|---------------------------|
| Alaska Rig Status | | | |
| North Slope - Onshore | | | |
| Doyon Drilling | | | |
| Dreco 1250 UE | 14 (SCR/TD) | Prudhoe Bay 02-06b | BP |
| Sky Top Brewster NE-12 | 15 (SCR/TD) | Stacked at Deadhorse | Available |
| Dreco 1000 UE | 16 (SCR/TD) | Prudhoe Bay L4-15 | BP |
| Dreco D2000 UEBD | 19 (SCR/TD) | Alpine CD2-60 | ConocoPhillips |
| OIME 2000 | 141 (SCR/TD) | Stacked at Deadhorse | ConocoPhillips |
| TSM 7000 | Arctic Wolf #2 | Stacked at Prudhoe Bay | FEX/Available |
| Nabors Alaska Drilling | | | |
| Trans-ocean rig | CDR-1 (CT) | Stacked, Prudhoe Bay | Available |
| AC Coil Hybrid | CDR-2 | Kuparuk 3C-02 | ConocoPhillips |
| Dreco 1000 UE | 2-ES | Prudhoe Bay, Stacked out | BP |
| Mid-Continental U36A | 3-S | Stacked, Milne Point | BP |
| Oilwell 700 E | 4-ES (SCR) | Milne Point MPF-65 | BP |
| Dreco 1000 UE | 7-ES (SCR/TD) | Prudhoe Bay DS 04-33 | BP |
| Dreco 1000 UE | 9-ES (SCR/TD) | Aurora S-134 | BP |
| Oilwell 2000 Hercules | 14-E (SCR) | Stacked | Available |
| Oilwell 2000 Hercules | 16-E (SCR/TD) | | Available |
| Oilwell 2000 | 17-E (SCR/TD) | Stacked, Point McIntyre | Available |
| Emsco Electro-hoist -2 | 18-E (SCR) | Stacked, Deadhorse | Available |
| Emsco Electro-hoist Varco TDS3 | 22-E (SCR/TD) | Stacked, Milne Point | Available |
| Emsco Electro-hoist | 28-E (SCR) | Stacked, Deadhorse | Available |
| Emsco Electro-hoist Canrig 1050E | 27-E (SCR-TD) | Point Thompson PTU#15 | ExxonMobil |
| Academy AC electric Canrig | 105-E (SCR/TD) | Stacked at Deadhorse | Available |
| Academy AC electric Heli-Rig | 106-E (SCR/TD) | Stacked at Deadhorse | Available |
| OIME 2000 | 245-E | Shut down, plan to recommence drilling at OPP in January | ENI |
| Nordic Calista Services | | | |
| Superior 700 UE | 1 (SCR/CTD) | Prudhoe Bay Drill Site 12 well #5AL1 | BP |
| Superior 700 UE | 2 (SCR/CTD) | Prudhoe Bay Well Drill Site D well #28 | BP |
| Ideco 900 | 3 (SCR/TD) | Stacked out, Kuparuk | ConocoPhillips |
| North Slope - Offshore | | | |
| Nabors Alaska Drilling | | | |
| OIME 1000 | 19-E (SCR) | Oooguruk ODSN-34 | Pioneer Natural Resources |
| Oilwell 2000 | 33-E | Northstar, Stacked out | BP |
| Cook Inlet Basin – Onshore | | | |
| Aurora Well Service | | | |
| Franks 300 Srs. Explorer III | AWS 1 | Stacked out West side of Cook Inlet for winter maintenance | Available |
| Doyon Drilling | | | |
| TSM 7000 | Arctic Fox #1 | Beluga BRU 232-23 | ConocoPhillips |
| Marathon Oil Co. (Inlet Drilling Alaska labor contractor) | | | |
| Taylor | Glacier 1 | Stacked | Available |
| Nabors Alaska Drilling | | | |
| Continental Emsco E3000 | 273 | Stacked, Kenai | Available |
| Franks | 26 | Stacked | Available |
| IDECO 2100 E | 429E (SCR) | Stacked, removed from Osprey platform | Available |
| Rigmaster 850 | 129 | Kenai SLU 41-33RD | Chevron |
| Rowan Companies | | | |
| AC Electric | 68AC (SCR/TD) | Stacked, Kenai | Pioneer Natural Resources |
| Cook Inlet Basin – Offshore | | | |
| Chevron (Nabors Alaska Drilling labor contract) | | | |
| | 428 | Kenai M-06 Steelhead platform | Chevron |
| XTO Energy | | | |
| National 1320 | A | Platform A no drilling or workovers at present | XTO |
| National 110 | C (TD) | Idle | XTO |
| Kuukpik | | | |
| | 5 | Stacked in Kenai | Available |

Mackenzie Rig Status

Canadian Beaufort Sea

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

Mackenzie Delta-Onshore

| | | | |
|-----------------------|---------|------------------|-----------|
| AKITA Equetak | | | |
| Modified National 370 | 64 (TD) | Racked in Inuvik | Available |

Central Mackenzie Valley

| | | | |
|-------------|----|----------------------------|-----------|
| Akita/SAHTU | | | |
| Oilwell 500 | 51 | Racked in Norman Wells, NT | Available |

The Alaska - Mackenzie Rig Report as of October 1, 2009.
Active drilling companies only listed.

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

This rig report was prepared by Marti Reeve



JUDY PATRICK

Baker Hughes North America rotary rig counts*

| | Sept. 25 | Sept. 18 | Year Ago |
|--------|----------|----------|----------|
| US | 1,017 | 1,010 | 1,995 |
| Canada | 228 | 214 | 465 |
| Gulf | 30 | 30 | 65 |

Highest/Lowest

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

*Issued by Baker Hughes since 1944

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SAFETY & ENVIRONMENT

State hires contractors to secure wells

Pacific Energy's abandoned assets need 'winterizing' to stave off problems, preserve value; cost could range up to \$200,000

By **WESLEY LOY**

For Petroleum News

Alaska officials have hired two oilfield contractors to "winterize" Cook Inlet wells a California oil and gas producer recently abandoned as part of a liquidation plan in U.S. Bankruptcy Court.

Alan Dennis, of the Alaska Division of Oil and Gas, on Sept. 29 told Petroleum News the state let a couple of emergency contracts with a starting value of \$25,000 each.

One contract went to Anchorage-based Peak Oilfield Service Co. and the other went to Chumley's Inc. on the Kenai Peninsula, Dennis said.

The contractors will drain out water and oil and perform other work to safeguard wells and other facilities formerly operated by Pacific Energy Resources Ltd., he said. The goal is to prevent spills and preserve the value of the properties through the approaching winter freeze and ensuing spring thaw.

Some former Pacific Energy employees are working with the contractors and are familiar with the facilities,

Dennis said.

Pacific Energy's operated assets included some 18 wells, he said. The company also abandoned another collection of holdings, but Chevron operates the wells in that group.

The state's total outlay under the winterizing contracts could exceed \$100,000 but probably will stay under \$200,000, Dennis said.

Pacific Energy's fall

Citing millions of dollars in mounting losses, Pacific Energy, based in Long Beach, Calif., in September walked away from nearly all its Cook Inlet assets. The company now is attempting to shed its assets in California.

Pacific Energy filed for Chapter 11 bankruptcy reorganization in Delaware on March 9, citing a "dramatic decrease in the market price of oil" in the preceding months.

Alaska-operated assets the company abandoned, all located along the west side of Cook Inlet, include state oil and gas leases, the West McArthur River field, the Redoubt Shoal field with its offshore Osprey platform and Kustatan onshore production facility, and the West Foreland field

with two producing natural gas wells.

The company earlier abandoned probably its single most valuable asset, a minority stake in the Chevron-operated offshore Trading Bay unit and field.

Pacific Energy said it was forced to dump all the properties because it couldn't work out quick deals to sell them.

Leftover assets, details

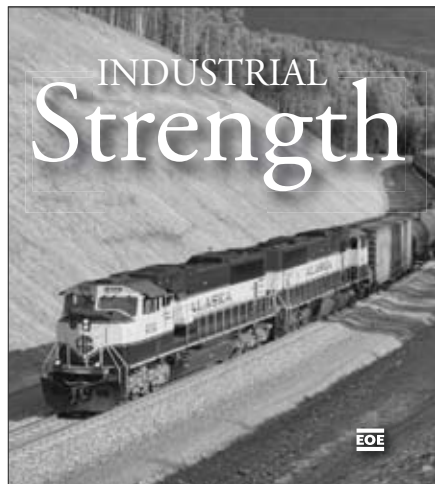
Pacific Energy still has some Cook Inlet assets to dispose of, including "a bunch of state leases over there with no facilities on them," Dennis said.

Pacific Energy intends to hold, in effect, a lease sale to spin off these holdings, he said.

The company has other lingering business in Alaska.

Digitel Data Joint Venture on Sept. 29 filed papers in the Delaware bankruptcy court saying it had entered into a licensing agreement with Pacific Energy Alaska Operating LLC in 2007 for the use of Digitel's geophysical data.

Digitel wants the data back, arguing it's a "trade secret" that Pacific Energy doesn't own and shouldn't try to sell. ●



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NATURAL GAS

TransCanada lands 20-year contract for 900-megawatt Ontario power plant

TransCanada has won a 20-year contract from the Ontario Power Authority to build, own and operate a 900-megawatt power plant in Oakville, Ontario.

Calgary-based TransCanada, which made the announcement Sept. 30, said it expects to invest C\$1.2 billion in the natural-gas-fired plant. The plant is scheduled to start producing power by the end of 2013.

According to the Ontario Power Authority, the new plant will provide the reliability required to support Ontario's growing renewable energy electricity production such as wind and solar and contribute toward replacing coal-fired generation.

The Province of Ontario has said it expects to shut down all its coal-fired power generation facilities by 2014, and needs additional power for the growing region southwest of Toronto, where peak load demand is growing twice as fast as in the rest of Ontario.

"We look forward to providing additional electricity supply and reliability within this key North American market," said Hal Kvisle, TransCanada's chief executive officer. "This facility strengthens our presence as the largest private sector power company in Ontario and Canada. The Oakville generating station is a strong fit with our strategy of developing large scale energy infrastructure projects that will produce stable, long-term returns for our shareholders."

Approximately 600 construction jobs will be created during a 28-month construction period. Another 25 permanent jobs will be created to support plant operations, TransCanada said in a press release.

The power authority and TransCanada expect to have the contract completed by mid-October. The next steps include completing an Environmental Review Report. Emissions from the plant "will meet or better all environmental regulatory standards," TransCanada said.

The company must receive approval from the Ministry of the Environment on impacts such as air quality and noise before construction of the facility can proceed. Local community input is "very important," TransCanada said, noting "extensive consultations will continue with stakeholders."

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Judge dismisses Keystone pipeline lawsuit

Says environmental group did not have authority to challenge TransCanada permit; base line to be complete by late November

PETROLEUM NEWS

A judge has dismissed a lawsuit brought by an environmental group that claimed a permit that allows the construction of an oil pipeline between the United States and Canada violated federal law.

U.S. District Court Judge Richard Leon ruled Sept. 29 that the Natural Resources Defense Council did not have the authority to challenge the permit issued for the TransCanada Keystone Pipeline by the U.S. State Department.

The council claimed the State Department violated the National Environmental Policy Act because it issued the presidential permit based on a deficient environmental impact statement. NRDC sought a court order requiring the permit to be revoked.

Calgary-based TransCanada Corp. is building the pipeline that will run 2,148 miles from Alberta through North Dakota to Illinois.

Expansion could bring price to \$12B

The company wants to expand the pipeline to Cushing, Okla., and then to the U.S. Gulf Coast by 2012. The total investment could be up to \$12 billion.

The pipeline will be able to deliver 1.1 million barrels of oil a day and could be expanded to 1.5 million barrels a day, TransCanada has said.

Base line almost complete

According to an Oct. 1 article in Nebraska's Lincoln Journal Star, work on the Keystone base line in Nebraska is close to completion.

Two crews, including one of about 500 construction workers based in Lincoln, have buried "virtually all of the ... pipe from Cedar County along the South Dakota border to Jefferson County along the Kansas border," the newspaper reported.

"The work has gone very well," Keystone spokesman Jeff Rauh said Oct. 1. "We're progressing, and weather permitting, we will continue to make good

U.S. oil imports from Canada rise

Although U.S. oil imports were down 8.9 percent in July from a year earlier, to 9,227 million barrels per day, oil supplies from Canada to the United States hit new records, picking up the slack as OPEC countries have cut back exports to the U.S.

Already the largest supplier of crude oil to the U.S., imports from Canada rose 5.4 percent in July to the highest monthly level in at least 36 years, the federal Energy Information Administration said Sept. 30.

Imports from Canada in July rose 109,000 bpd from June, and 134,000 bpd, or 6.8 percent, from July 2008, averaging 2.11 million bpd, the most since the EIA began reporting import numbers by country in January 1973.

More than 62 percent of the crude was shipped via pipeline into the Midwest, including heavy, sour crude to light, sweet synthetic oil upgraded from Alberta's oil sands.

Those imports are expected to rise when two pipeline projects go online in 2010.

In August, the U.S. State Department gave the go-ahead for Enbridge's Alberta Clipper pipeline, which will start delivering 450,000 bpd of oil sands crude into the Midwest in 2010.

The first leg of TransCanada's Keystone pipeline, which also will ship oil sands bitumen to the U.S. Midwest, is under construction with completion slated for late November.

Refiners paid an average of \$62.93 a barrel for imported crude supplies in July, EIA said, down 5.2 percent from June and less than half the year-earlier record level of \$127.77 a barrel.

EIA, which is part of the Department of Energy, also reported U.S. oil demand in July was 4 percent below a year earlier, at 18.771 million bpd — a 13-year low for July, but the highest in any month since January.

—PETROLEUM NEWS

progress. And we're certainly comfortable with scheduled completion by a Thanksgiving time frame," which is the target date for 380,000 barrels of crude to start flowing southward from Alberta's oil sands to refineries in Illinois.

Economic shot-in-the-arm

The \$5.2 billion base line Keystone line "has been a shot in the arm to motels, restaurants and other fixtures of the Nebraska economy at a time when many of the state's other construction-related projects have been lagging," the Lincoln Star reported.

"It's been an engineering feat that required the pipe to be threaded under the Missouri River near Yankton, S.D., last fall and then under a 4,700-foot expanse

of the Platte River between Columbus and Schuyler this summer.

"And it's been a source of easement income and sometimes a disruption to

U.S. District Court Judge Richard Leon ruled Sept. 29 that the Natural Resources Defense Council did not have the authority to challenge the permit issued for the TransCanada Keystone Pipeline by the U.S. State Department.

hundreds of farmers and other property owners along a route that runs 110 feet wide and more than 1,000 miles long through six states," the newspaper reported.

Draft EIS likely in November

Rauh told the Lincoln Star that "the pipe system's integrity will be subjected to a final test before the oil valve is turned in Canada: Water will be pumped through it at 125 percent of its normal operating pressure."

The next step in the TransCanada project that will connect the 36-inch line to Cushing, Okla., and then to the Texas Gulf Coast, is moving forward, the newspaper reported.

"The federal regulatory review is proceeding," Rauh said of Keystone XL. "We anticipate that a draft environmental impact statement is likely in November. That's a significant milestone in the regulatory review process." ●

—The Associated Press contributed to this article



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Here are examples of abandonment markers for the Challenge Island No. 1 well along the North Slope coast in the Point Thomson area. Due to changing environmental conditions, Challenge Island physically shifted, putting the well slightly offshore beyond the tidal zone of the island and making the marker post a navigational hazard. The well had been plugged and abandoned in 1981 in accordance with Alaska Oil and Gas Conservation Commission regulations at the time. Because of the navigation hazard, the commission asked well operator BP to cut off the old marker post and replace it with this marker plate, which was subsequently buried. BP completed the work in March of this year.



USA: Help Make Pet Care More Affordable Support the HAPPY Act!

H.R. 3501—Humanity and Pets Partnered Through the Years (“HAPPY”) Act

Sponsor: Rep. Thaddeus McCotter (R-MI)

ASPCA Position: Support

Action Needed: Write to your U.S. representative today to urge him or her to support and cosponsor the HAPPY Act, H.R. 3501.



U.S. Representative Thaddeus McCotter has introduced the Humanity and Pets Partnered Through the Years (“HAPPY”) Act, legislation to allow individuals to claim tax deductions for qualified pet care expenses. The bill would allow any taxpayer who legally owns one or more domesticated animals to take an annual income tax deduction of up to \$3,500 for pet care expenses, including veterinary care costs.

Pet care can be expensive—and in these trying economic times, families all over the country have been forced to give up their pets because of financial hardship. The HAPPY Act is important because it will help Americans provide their pets with the medical attention and quality of life they deserve, while also ensuring that more pets get to remain in their loving homes and don’t wind up on the streets or in the already overburdened shelter system.

ASPCA WE ARE THEIR VOICE.

GOVERNMENT

AOGCC proposes new well abandonment rules

Regulations would make marker plates welded onto casings new standard, replacing metal posts that already are seldom used

By WESLEY LOY

For Petroleum News

What happens when an oil well plays out, or proves to be a duster, and the owner decides to abandon it?

For one thing, it’s got to be permanently marked.

For a long time that meant erecting a metal marker post bearing well information at the surface of the hole.

But that method of memorializing abandoned wells isn’t used much anymore as many operators have moved toward a new technique that soon could become de rigueur under state law.

The Alaska Oil and Gas Conservation Commission is proposing regulation changes to eliminate the use of marker posts in favor of a metal plate, at least a quarter-inch thick, welded onto the outermost casing string and buried at least three feet in the ground.

Certain information will need to be bead-welded onto the marker plate, including the name of the operator who plugged and abandoned the well, the number the commission assigned to the drilling permit, the name the operator gave the well, and the well’s API number.

Reasons for change

Jim Regg, a senior petroleum engineer with the AOGCC, said existing regulations allow operators to use either a post or plate to mark abandoned wells. These days, nearly everybody is using plate markers, he said.

With the proposed regulation changes, the agency is “just cleaning up some of the language” to make plates the standard, Regg said.

Plates have the advantage of being underground, whereas the marker posts welded onto casings stick up four to six feet and can be a hazard to travelers or workers, he said.

With today’s GPS technology, locating abandoned wells should be easy and the need for a visible, above-ground marker post isn’t nearly so great, Regg said.

The state also has a desire to see the landscape as free of industrial debris as possible, he said.

Nearly 800 wells have been abandoned to surface thus far in Alaska, Regg said.

The AOGCC sends inspectors into the field to make sure abandoned wells are marked correctly.

Process for adopting regulations

The AOGCC is taking written public comments on the proposed regulation changes until Nov. 2. For a copy of the regulations, contact Jody Colombie at 907-793-1221 or go to the agency’s Web site at www.doa.alaska.gov/ogc.

A public hearing also is scheduled for 9 a.m. to noon on Nov. 19 at the AOGCC’s downtown Anchorage office.

After the public comment period ends, the three-member commission can adopt, amend or drop the proposed regulation changes. ●



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• GOVERNMENT

Parnell chamber talk focuses on energy

Governor tells Fairbanks audience he's optimistic about development at all scales; wants companies to combine gas line projects

By STEFAN MILKOWSKI
For Petroleum News

Resource development and energy played large in a speech by Gov. Sean Parnell in Fairbanks on Sept. 29.

"I couldn't give a talk about our economy without talking about resource development," Parnell told a crowd of about 400 local officials and business people at the Greater Fairbanks Chamber of Commerce's annual meeting. The new governor described resource development as the state's past, present and future.

Parnell received a warm welcome and standing ovation from the Fairbanks crowd, many of whom are still getting to know the man who took over as governor just two months ago.



GOV. SEAN PARNELL

Parnell spoke optimistically of development happening at all scales — from the family-owned gold mining operations he saw on a recent moose hunt near Manley with Labor Commissioner Click Bishop to ExxonMobil's work at Point Thomson. "Exxon's doing good work at Point Thomson," he said.

Parnell, who recently met with Interior Secretary Ken Salazar in Washington, D.C., twice mentioned concerns about federal regulatory actions. When asked about drops in cruise ship traffic, Parnell said he had just submitted comments to the Environmental Protection Agency challenging proposed regulations for low-sulfur emissions. "They're using science, air modeling, from Long Beach to set Alaska standards," he said. "It's wrong. We have a totally different airshed here."

The governor also repeated his support for development of the outer continental shelf, but warned that federal managers could designate certain areas as critical habitat for polar bear, which would increase restrictions. "The federal government can give with one hand and take with the other, but it needs to be done well," he said. "The regulatory environment needs to work, and it needs to work well."

Pushing for alignment on gas

Parnell said he remains "upbeat" about the prospects for a natural gas pipeline from the North Slope. TransCanada and Exxon, working together under TransCanada's Alaska Gasline Inducement Act license, and ConocoPhillips and BP, working through the Denali partnership, are all spending "real money" to advance their projects, he said. "So think about it for a minute — four major, international companies all working on an Alaska gas line. To me, that's good news. Now the challenge is to get them working on the same project."

Parnell said he continues to talk with principals at all companies, and is encouraging them to work together. In a brief interview after his speech, Parnell said North Slope producers have not yet articulated to him what they need to make the project a success. "You always hear 'fiscal certainty.' You always hear those sorts of things," he said. "But until there are specifics from a group of companies together, it's difficult for the state to act on anything."

"You always hear 'fiscal certainty.' You always hear those sorts of things. But until there are specifics from a group of companies together, it's difficult for the state to act on anything."

—Alaska Gov. Sean Parnell

In case a large-scale gas pipeline doesn't move forward, the state is also evaluating the routing and costs of smaller, "bullet" pipelines to meet needs within Alaska, Parnell said. In-state gas project manager Harry Noah presented preliminary numbers to lawmakers earlier in September, giving the project an estimated \$4 billion price tag. (See In-state costs by route, Sept. 20, 2009.)

Helping communities help themselves

Chamber of Commerce members

asked Parnell his plans for reducing energy costs in rural Alaska. The governor replied that Gene Therriault, his senior policy advisor on in-state energy, is working to help rural communities take advantage of the energy inventory completed earlier this year, which offered preliminary feasibility and cost estimates for various energy options in each community.

Parnell added that he has asked officials in the Northwest Arctic Borough to evaluate whether natural gas resources in the area around Kotzebue could meet the needs of nearby villages. "They are within range of natural gas, but no company the size of companies we have here are going to explore for it because the reserves aren't that big," Parnell said. "They are big enough, however, we believe, to power those communities."

Parnell said his overall approach to reducing energy costs in the bush is to

provide tools to rural communities to help them "take their future in their own hands."

Therriault, in an interview later, said he didn't know what kind of funding the administration would seek this year for renewable energy projects. "At this point, I don't know that they've made those decisions," he said.

Saving energy starts at home

Parnell also promoted energy conservation, which he described as the "third tier" of the state's energy plan. He said he recently had energy audits done on his home in Anchorage and on the governor's mansion in Juneau, which was built in 1912.

"It took three times to inflate the house because it was such a leaky old house," Parnell said. "So we're going to have some work there to do that I'll be talking with legislators about." •



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• NATURAL GAS

Field test of CO₂-CH₄ exchange planned

ConocoPhillips has patented exchange technology developed in laboratory for producing methane hydrate without dissociating water

By KRISTEN NELSON
Petroleum News

The U.S. Department of Energy's National Energy Technology Laboratory says technically recoverable gas hydrate resources on Alaska's North Slope are some 85 trillion cubic feet of undiscovered gas resources within hydrates that can be recovered using existing technologies.

Existing technologies include producing gas from gas hydrate by "depressurization using standard drilling and completion methods," NETL said earlier this year.

But ConocoPhillips is preparing to field test a process for producing gas from gas hydrates by exchanging carbon dioxide for the methane without dissociating the methane from the water in the hydrate structure, i.e. substituting CO₂ for methane held in the lattice structure of gas hydrate, leaving the hydrate structure intact — and providing a storage option for CO₂.

The process, patented by ConocoPhillips, was developed in the laboratory, David Schoderbek told the Alaska Support Industry Alliance Sept. 24.

While the process is years from being commercial, a field test is planned for 2011 to scale the process up from desk-top scale in the laboratory to reservoir scale, said Schoderbek, the gas hydrates team leader for ConocoPhillips Alaska.

Alaska's gas hydrate endowment is "extraordinary," he said, and the laboratory technology "of exchanging methane and CO₂ in the hydrate formation without dissociating it is a game-changing technology."

The field test will be co-funded by ConocoPhillips and the U.S. Department of Energy, with planning for the trial under way by a team of engineers, geoscientists and permitters at ConocoPhillips.

The hydrate cage

In methane hydrates a "cage or lattice of water surrounds a captive molecule of methane," Schoderbek said. Hydrates form in nature in situations with high pressure and low temperature — at the bottom of the ocean and in permafrost.

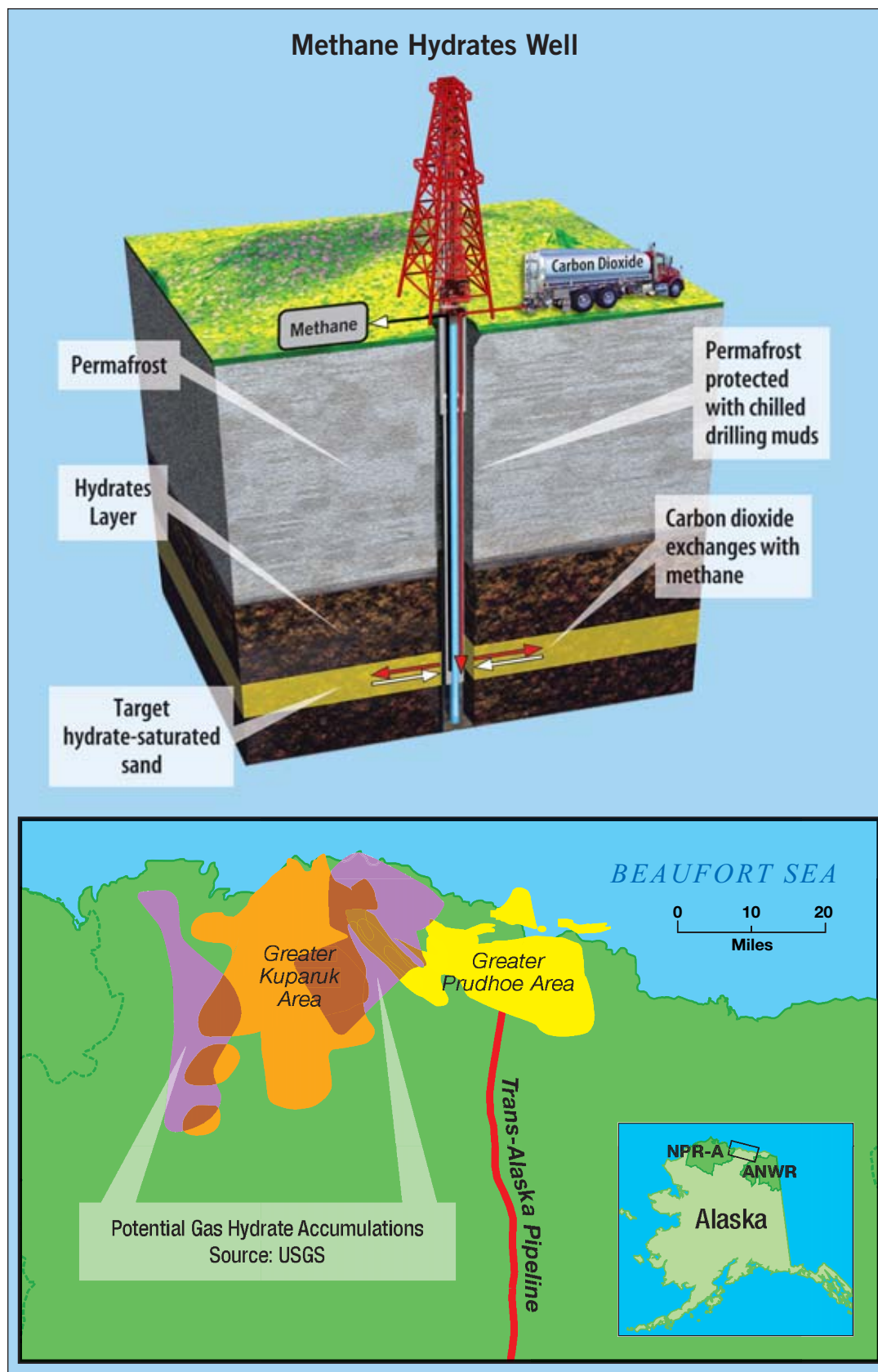
In deep marine settings the temperature at the seafloor is near zero; in the Arctic hydrates form in and below the permafrost.

There may be as much gas trapped as hydrate as is present in all fossil fuel resources, he said, but the majority of hydrates exist in deep marine settings where the reservoir quality is low and the concentration of hydrates is low.

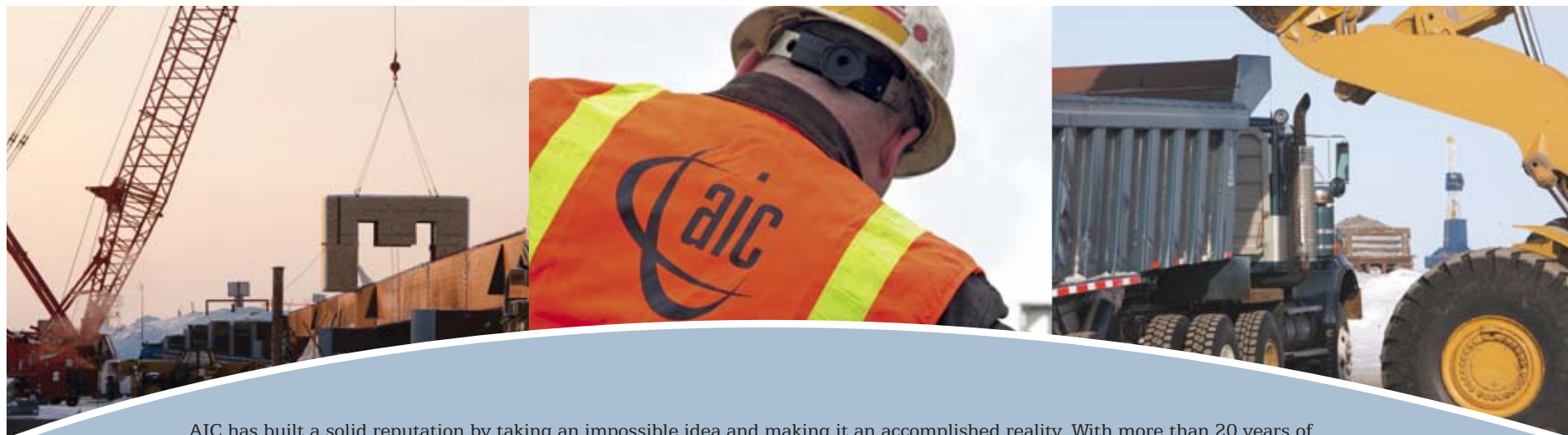
But, he said, referring to a U.S. Geological Survey pyramid of the methane hydrate resource, "the upper two tiers of that pyramid are Arctic hydrates trapped subpermafrost." And Alaska has hydrates "adjacent to or near infrastructure," he said.

Technologies used to produce gas from hydrates include depressurization, thermal stimulation and inhibitor injection and were developed when gas hydrates were first found in pipes "when pressure-temperature conditions were such that gas and water would form a plug in pipes."

see FIELD TEST page 9



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continued from page 8

FIELD TEST

Depressurization, thermal stimulation and inhibitor injection were used on the surface in piping and also applied in the sub-surface to produce methane hydrates.

"All three of those techniques, however, dissociate or melt the hydrate so you're left with water and gas," Schoderbek said.

The North Slope hydrate reservoirs are poorly consolidated, which "can result in sand production as well as water production," which could lead to subsidence.

Exchange technology

ConocoPhillips has been working on an exchange technology — CO₂ for methane — in the laboratory for about six years, in conjunction with the University of Bergen in Norway, Schoderbek said.

The original hydrate work took place at the phase boundaries of carbon dioxide and methane, an extension of hydrate plugs that form in pipes. But that process is slow and is associated with the release of water and re-formation of hydrates, he said.

"We predicted — and have proven in the laboratory — that at slightly higher pressures and slightly lower temperatures this exchange can be much more efficient and faster as well," Schoderbek said.

Most of the laboratory work has been done closer to 40 degrees Fahrenheit and 1,000 pounds per square inch, the conditions present in North Slope hydrate reservoirs.

Under laboratory conditions carbon dioxide displaces methane in the hydrate structure.

"And what excites us the most about this is we don't see any evidence of dissociation or melting of the hydrate; no water is produced with this methane," he said.

All of the methane in the large cage structure, 70 percent of the methane in the hydrate, is displaced by CO₂. The 30 percent of methane not displaced is in an area of the cage structure that is too small for CO₂ to enter, Schoderbek said.

Because the exchange takes place without dissociation there's no melting and refreezing and, he said, the mechanical strength of the hydrate is not expected to be affected.

Goal of field trial

The goal of the field trial is to "take this laboratory experiment — that has been a desktop scale — and expand it to reservoir scale."

"The main goals are to confirm that we can inject CO₂ into these naturally occurring hydrates and confirm that exchange takes place without dissociation and pro-

On the Web



See previous Petroleum News coverage:

"North Slope Borough plans hydrate wells at gas fields near Barrow in 2010-11," in May 3, 2009, issue at www.petroleumnews.com/pnads/561595517.shtml

"One step at a time for gas hydrates," in Jan. 18, 2009, issue at www.petroleumnews.com/pnads/672064283.shtml

duction of water and sand," Schoderbek said.

He emphasized that this test will not demonstrate whether the process is commercial.

ConocoPhillips will use an ice pad or existing gravel pad so there will be no new disturbance on the North Slope. Chilled drilling mud will be used to protect the permafrost and low-pressure cement will be used.

A coiled tubing drilling rig will be used to minimize the impact on North Slope development drilling.

Once drilling is complete CO₂ will be injected and the well will be shut-in and then the volumes will be tested.

The well will then be plugged and abandoned.

The project is expected to take about two months.

To select a well for testing they began

with some 5,700 wells drilled in areas identified by USGS as being in hydrate-prone areas. From that group some 1,000 wells with the right logs to identify methane hydrates were selected.

Those candidates were then ranked by thickness, number of sands saturated with hydrates, percentage of pores estimated to be filled with hydrates, strength of shows encountered when the wells were drilled and expected pressure and temperature.

Steps to commerciality

A number of steps will be required to demonstrate commerciality.

The first is drilling the field trial.

"Providing that is successful, we'll move to a longer-term injectivity study," and will also need a longer-term supply of CO₂.

If that test is successful, a two-well displacement study will follow, then a multi-well displacement test with a CO₂ flood.

It is expected to take more than 10 years to move through these steps, Schoderbek said.

The initial test will be small volume, he said.

"How fast that comes out is going to be a function of the pressure and permeability," but the rate for the test will probably be 100,000 cubic feet a day, with the initial test affecting perhaps only 20 feet into the reservoir.

DOE wants synergy between the ConocoPhillips project and the ongoing

"And what excites us the most about this is we don't see any evidence of dissociation or melting of the hydrate; no water is produced with this methane."

—David Schoderbek, ConocoPhillips Alaska gas hydrates team leader

BP pressurization project, "so we're right now in the process of bringing those two projects into alignment."

"Our current estimate is that this test will take place winter 2011," he said.

BP and DOE ran a successful gas hydrate stratigraphic test well, Mount Elbert, in 2007, and are working on plans for a first-of-its-kind long-term gas hydrate production test. ASRC Energy Services, Ryder Scott Co., USGS, DOE, the University of Alaska Fairbanks and the University of Arizona have all been collaborating on the project.

DOE and the North Slope Borough are investigating the possibility that gas hydrates are contributing to production from gas fields near Barrow on the west side of the North Slope, as production from a couple of wells near Barrow has remained near constant for decades, leading to a theory that gas hydrate dissociation is maintaining gas pressure in at least one of the Barrow gas fields. ●

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EXPLORATION & PRODUCTION

Canada's offshore oil patch skirts storm

Newfoundland, Labrador experiencing private sector growth in economic downturn, mostly due to offshore oil and gas investment

By WES REID

For Petroleum News

As a perfect economic storm batters global markets one hatch of the Canadian ship of state remains wide open to boom times. Newfoundland and Labrador — known across Canada as The Rock — is experiencing accelerated private sector growth, most of it the result of offshore hydrocarbon industry investment.

"That particular part of our country seems to be a little bit insular right now with some of the pre-finance loading work that's going on with Hebron and other things that are keeping things fairly buoyant in St. John's, unlike some of the other regions of the country," Ian Way, vice president of strategic planning and business development for ConocoPhillips Canada, said from his office in Calgary.

Oil production, exploration and several major development projects can be credited with buffering Newfoundland and Labrador, and to some extent Nova Scotia's Halifax region, against the recession.

The Rock's fields pumping

By last January, The Rock announced that its three oil fields, Hibernia, Terra Nova and White Rose, combined, had pumped 1 billion barrels of crude since 1997 when Hibernia produced first oil for the province. The three discoveries provided its treasury with royalties exceeding \$5

billion. In 2008 royalties and taxes accounted for 33 percent of provincial revenues.

Pointing out that Newfoundland and Labrador produces 50 percent of Canada's light, sweet crude, Premier Danny Williams, in a news release, stated, "Since first oil from Hibernia we have established



ourselves as a major player on the international energy scene." The premier never mentioned Ottawa's \$288.2 million take from Hibernia last year as a result of

soaring oil prices. The federal government owns 8.5 percent of Hibernia. Since 2002, that stake, managed by the Canada Hibernia Holding Co., has churned out \$1.12 billion for Ottawa.

The corporation's annual report states, "The near-term production outlook is for an increase as early as late 2009 compared to 2007-08 levels if the field extension (Hibernia South) is approved this year." Having about another 30 years of life, Hibernia's average daily production was 138,000 barrels in 2008. "The higher production levels will be maintained for several years before beginning a long-term decline in production," states the report.

Gravity base structure to be built

Once developed, the 700 million-barrel Hebron-Ben Nevis discovery should tighten the slack. By late 2013, more than 3,500 workers will begin at the Bull Arm offshore oil and gas fabrication facility building for the oil field a gravity base structure similar to yet smaller than

Hibernia's.

Situated 350 kilometers east of St. John's and in the Jeanne d'Arc Basin, Hebron is scheduled to produce first oil before the end of 2017. Within two years of that date production should peak at 150,000 barrels daily. The field has a 20- to 25-year lifespan.

Hebron's operator, ExxonMobil, has opened a project management office in St. John's. Pre-front-end engineering and design (pre-FEED) is being orchestrated while a 20-member team coordinates and manages all procurement and contracting activities.

"We issued an expression of interest for our gravity base structure and front end engineering designs last week and in addition to that we've got our development plan," Hebron business manager Lynn Ann Nicholosi said last summer. If Newfoundland and Labrador Natural Resources Minister Kathy Dunderdale is correct, most of the work — white collar and blue — will be done in the province.

"As a result of the world-class expertise developed at Hibernia, Terra Nova and White Rose, we are well positioned for the majority of the required fabrication and engineering work," she said.

Modules for White Rose

Another big project fending off the economic downturn recently clued up at Bull Arm, on the western side of Newfoundland and Labrador's Trinity Bay. White Rose oil field partners Husky Energy and Petro-Canada had huge yellow (the easiest color to spot underwater) modules assembled there primarily by a local Newfoundland and Labrador contractor called North Eastern Constructors Ltd. Some 300 of its hires during the past 12 months fabricated the modules for North Amethyst, a White Rose satellite field.

From his St. John's office, Husky's Atlantic Canada operations manager, Trevor Pritchard, in a distinctive Scottish accent said, "It's a great milestone. We've had all those modules assembled at Bull Arm for our site integration testing, so it's important for us to ensure the equipment is functional." In sea depths approximating 120 meters, the WellServicer, a construction and diving support ship, using a humongous hydraulic hammer, will drive 10-tonne piles (hollow carbon steel pipes) 13 meters through the bottom of a 10-meter-deep glory hole designed to protect the project from seafloor-scoring icebergs.

"It just drives the pile right down," said Gordon Phillips, North Amethyst project manager for Husky. Piles hold the modules in place. A subsea flowline system is being connected to the modules and wells. It will send North Amethyst oil to the White Rose floating production, storage and offloading (FPSO) vessel. Pritchard said, "We have

two drill centres for production, the southern drill centre and the central drill centre. Any production that comes from North Amethyst will come on the current flowlines of the southern drill centre."

The project, absorbing \$1.8 billion and destined to pump crude by year-end or early 2010, is the first of three such oil fields to be developed for the overall expansion of White Rose. They contain about 214 million barrels of crude. North Amethyst has 71 million. Like Hibernia, Hebron and Terra Nova, White Rose resides in the Jeanne d'Arc basin and is reaching maturity.

Hibernia expansion expected

Complementing that development, Hibernia, a discovery containing more than 1.9 billion barrels of recoverable crude and also located in the Jeanne d'Arc, is expected to be expanded within the next two years by developing Hibernia South. The satellite field holds more than 223 million barrels of light, sweet crude and can pump for a period of 10 to 15 years.

"This development again builds on existing infrastructure of another mature field," said Dunderdale. Project cost estimate is \$2 billion. "Negotiations are continuing between the province and the Hibernia proponents, led by ExxonMobil, to reach an agreement on this development," she said.

Her government, meanwhile, has transformed Newfoundland and Labrador Hydro into a multifaceted energy firm, dubbing it Nalcor Energy. The company, about a year ago, took control of Bull Arm and its business activities. Nalcor is involved in developing wind energy in the province too. It has 4.9 percent equity in Hebron, a 5 percent share of White Rose's satellite fields and aspirations of turning one of North America's biggest watersheds, the Lower Churchill River system in western Labrador, into a mega-hydroelectric project possibly supplying Ontario and New England. The venture's construction budget could reach \$10 billion.

Deep Panuke sanctioned

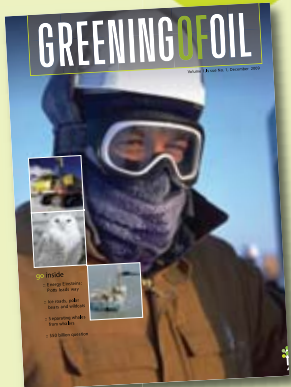
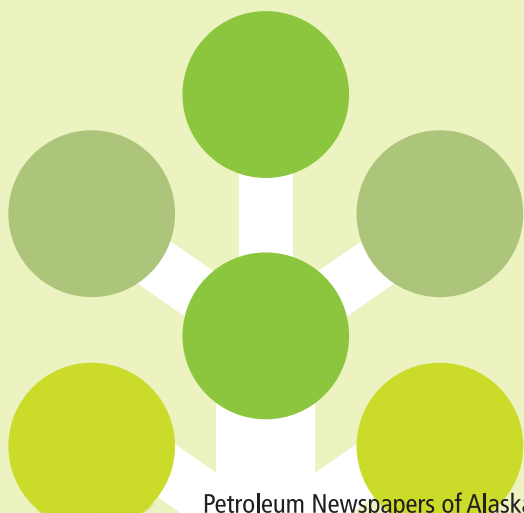
After a roller coaster ride full of on-again and off-again development deals the \$700 million Deep Panuke offshore natural gas project, 175 kilometers from the shores of Goldboro, Nova Scotia has finally been sanctioned for construction. Major contracts are being awarded and Canada's National Energy Board approved Deep Panuke's pipeline route.

An offshore pipeline is being installed this year so the venture can in 2010 commence supplying markets from its store of 900 billion cubic feet of gas. The project includes the drilling of an acid gas injection

see OFFSHORE page 13

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• EXPLORATION & PRODUCTION

AOGCC requirements; DNR permits

Geothermal wells will be drilled with Department of Natural Resources permits, but drilling must meet commission requirements

By KRISTEN NELSON
Petroleum News

The Alaska Oil and Gas Conservation Commission held a hearing Sept. 23 on a commission motion to require an AOGCC drilling permit for any well with a total vertical depth greater than 1,000 feet in specified townships and ranges within the Bristol Bay Borough, an area where Naknek Electric Association is proposing to drill geothermal wells.

The commission regulates oil and gas drilling, but geothermal drilling is regulated by the Department of Natural Resources. DNR has been reviewing Naknek Electric's proposed program and the commission has been reviewing, at DNR's request, the geothermal drilling permit applications for that project.

Under state statutes, a well is subject to commission regulations if there is likelihood of "an unexpected encounter of oil, gas, or other hazardous substance as a result of well drilling."

Art Saltmarsh, a senior petroleum geologist with the

commission said in an overview at the hearing that statutes allow the commission to designate in its regulations an area and depth of wells subject to those regulations.

The commission aired its concerns about regulation of geothermal drilling at its August public meeting.

Commissioner Cathy Forester said at the August meeting that DNR's drilling regulations are based on 1986 commission regulations and in a number of areas the commission currently has stricter standards than DNR.

Closest wells 70 miles away

Saltmarsh provided an overview of several wells drilled on the Alaska Peninsula south of Naknek. More than 25 wells have been drilled on the peninsula, he said. He reviewed some 15 wells for which the commission has data and well logs.

The closest wells to the proposed Naknek G-1 geothermal well are some 70 miles to the south and slightly to the west, Saltmarsh said. Wells within 70 miles of the

proposed Naknek G-1 have encountered oil and gas, he said.

Commission reservoir engineer Winton Aubert said there was the potential for significant environmental and physical damage from unexpected encounters with hydrocarbons where drillers were not prepared for pressure containment. He told Foerster that the area where the geothermal drilling is proposed is an area where it would be appropriate for the commission to step in with stricter requirements than DNR has in its regulations.

Tab Ballantine, the assistant attorney general who works with the commission, told the commission in August that its authority would arguably be circumscribed by whether there was a likelihood of an unexpected encounter with oil or gas during the drilling of a geothermal well.

Ballantine said at the September hearing that the commission could require compliance with its regulations even though DNR was issuing a drilling permit.

That appeared to be the direction in which the commission was leaning; a formal decision will be issued within 30 days. ●

• GOVERNMENT

Walker announces bid for Alaska governor

By DAN JOLING
The Associated Press

Anchorage attorney Bill Walker jumped into the race for governor Sept. 28 and declared that construction of a natural gas pipeline from the North Slope to Valdez will be the focus of his campaign.

"This pipeline under our administration would be built by Alaskans, operated by Alaskans and owned by Alaskans," he said: "All Alaska, all the time."

Walker is project manager and general counsel for the Alaska Gasline Port Authority, the municipal port authority established in 1999 by the North Slope Borough, the Fairbanks North Star Borough, and the city of Valdez to construct an "all-Alaska" gas pipeline.

Walker is the fourth Republican to declare his gubernatorial intentions, along with Gov. Sean Parnell, who replaced Sarah Palin after her surprise resignation in July, former state House Speaker John Harris of Valdez, and Gerald L. Heikes of Palmer.

Walker was introduced by Fairbanks North Star Borough Mayor Jim Whitaker and immediately endorsed by former Gov. Walter J. Hickel.

Focus on pipeline

At an announcement ceremony and press conference, Walker focused his prepared remarks almost entirely on the proposal for a pipeline.

A pipeline tapping the North Slope's vast resources has been a dream of Alaskans for more than three decades. The issue was a hallmark of the Palin administration. She pushed through a plan that awarded a state contract to TransCanada, a Canadian gas pipeline company, a license to develop the North Slope pipeline. ExxonMobil, the single biggest holder of gas reserves on the Slope, joined that project this year. They have a target of an initial open season, when producers commit to reserving space in the line, to be completed by the end of July 2010.

A competing project, Denali, was launched by the other two major gas leaseholders on the Slope, BP and Conoco Phillips.

Both envision a pipeline that runs south to interior Alaska and then east to a



BILL WALKER

hub in Canada where gas could be supplied to Lower 48 states.

Awash in gas

Walker said the Lower 48 is awash in gas. His plan proposes an export market out of Valdez.

He said it could be funded with tax-exempt revenue bonds and he compared it to other types of government-owned infrastructure that helps development projects.

"If that was a gold mine, which it is, and it required a road, we would build a road," he said. "We build roads all the time. We build airports all the time."

Alaska re-injects more gas into the North Slope every day than is used in California, Washington and Oregon com-

bined, he said.

"The only thing that keeps us from using our resource is the infrastructure to bring it to the people," he said. "It's not unusual for government to be involved with infrastructure."

The project would provide jobs and bring affordable energy to all Alaskans, he said.

Walker is a former Valdez city councilman and was elected mayor when he was 28, he said.

After 58 years in Alaska, he said, he's aware of other issues the state faces — health care, education, the environment.

"The issues are certainly numerous but they become bigger issues if we don't have an economy to provide the education system that we have." ●

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Oil Patch Bits

SLB and NOV form IntelliServ joint venture

Slumberger said Sept. 28 that it, along with National Oilwell Varco, has created a joint venture to provide high-speed drill string telemetry systems to improve the efficiency and safety of oil and gas operations.

The IntelliServ joint venture is expected to accelerate development and delivery of intelligent drilling solutions through the expanded use of the IntelliServ Broadband Network, a patented technology that provides high resolution data in real time to and from the bottom of oil and gas wells as they are being drilled. IntelliServ also will provide along-string evaluation services that will enable real-time monitoring of drill string conditions, and an unlimited ability to actuate downhole tools on-demand. The current speed of 57,600 bits per second is up to 20,000 times faster than the transmission speed that is available using conventional mud pulse technology. For more information visit www.slb.com.

Crowley's Busch elected president of the ISU

Crowley Maritime Corp. said Sept. 28 that Todd Busch, the com-

pany's senior vice president and general manager of technical services, which includes Crowley subsidiary Titan Salvage, has been elected president of the International Salvage Union. Busch also serves as a director, representing Crowley and Titan on the board of the Marine Response Alliance LLC, and holds two licenses: Master, 100 Gross Tons Inspected Vessel; and Mate, 200 Gross Tons Inspected Vessels.

Elected during the ISU's 55th general meeting in Boston this week, Busch succeeds Arnold Witte, who will continue to be a member of the ISU's executive committee. "It is an honor to serve this fine organization in the capacity of president," said Busch. "Titan has been a proud member for many years and is looking forward to our continued relationship." For more information visit www.crowley.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.



Todd Busch

COURTESY CROWLEY

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

[illegible]

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

continued from page 11

OFFSHORE

tion well this summer plus re-entry and completion of four existing exploration wells.

Repsol will buy all of Deep Panuke's gas output. EnCana has agreed to sell it 300 million cubic feet per day until product is exhausted. Repsol owns 75 percent of the Canaport LNG import and re-gasification terminal, which has almost been constructed in St. John, New Brunswick. The plant will export into the U.S. Northeast.

"Our target is to get a 20-percent share of the Northeast market," Repsol spokesman Kristian Rix said.

Harvest upgrading complex

In other Eastern Canadian downstream happenings, Calgary-based Harvest Energy continues upgrading its petrochemical complex near Come by Chance, a fishing community at the mouth of Placentia Bay in Newfoundland and Labrador. Its president and CEO, John Zahary, said, "As we go forward we've got about \$300 million worth of projects that we can do over the course of time." Harvest Energy plans to inject \$2 billion into expanding the facility when the economy picks up.

"Further out, we've got another project, which is a very large project, about \$2 billion," he said. "It will get done. For the time being that project is on hold until the global economy is such that it's something we can proceed with."

No more than 100 kilometers from that downstream venture, there is a downside to Newfoundland and Labrador's oil and gas business and Mark Turner refuses to downplay it. Until last summer, Newfoundland LNG Ltd. seemed sure about erecting a liquefied natural gas terminal. Turner, who is company president, said the recession crippled the \$1.5 billion project. In preparation mode since 2001, Newfoundland LNG received federal environmental approval last fall for the three marine jetties and eight storage tanks it proposes to build at Grassy Point, Placentia Bay. The province had already come onboard, environmentally. Development was expected, but financing fell through. Instead of dead, the venture is being delayed, according to Turner. "We're after investing \$10 million; we're not just going to throw it away," he said. "We've been talking to our clients and they want us to hold on until they come back." Newfoundland LNG needs \$500 million to stay afloat and may apply for federal bridge financing.

The second of this two-part series will deal with the diversification and growth of the petroleum industry's service and supply sector in Atlantic Canada while examining the region's rapidly increasing exploration play. ●



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SAFETY & ENVIRONMENT

Court OKs settlement on decision

By DAN JOLING
The Associated Press

A federal agency must decide within three weeks whether spotted seals, which depend on sea ice off Alaska's coast, should be listed as a threatened or endangered species.

In addition, the National Oceanic and Atmospheric Administration agreed to decide by Nov. 1, 2010, whether two other ice-dependent seals — ringed seals and bearded seals — should be listed.

A federal judge Sept. 25 approved the settlement between NOAA and the Center for Biological Diversity, which had sued to force a decision.

Center spokeswoman Rebecca Noblin said Sept. 28 the group was happy the agency had set the dates, since the summer sea ice minimum this year was the third lowest since satellite measurements began in 1979.

"The quicker we can get protection for

these seals, the better," she said.

Last December, NOAA officials denied listing a different seal species, ribbon seals, as threatened or endangered. They said climate models project annual ice for the seals will continue to form each winter during the critical birthing and molting period. The Center for Biological Diversity has sued to reverse the decision.

John Kurland, acting deputy regional administrator of NOAA, said the agency has been studying spotted, ringed and bearded seals. Spotted seals had a similar distribution and an information overlap with ribbon seals, he said.

Information on the other two types of seals is more complicated, and the extra time will let the agency incorporate information compiled by the State of Alaska, Kurland said.

Ringed, bearded and spotted seals use sea ice in different ways for giving birth, rearing pups and resting. All three live in the Bering, Chukchi or Beaufort seas off

Alaska's western and northern coasts.

The Center for Biological Diversity petitioned to list the seals in May 2008, the same month former Interior Secretary Dirk Kempthorne declared polar bears threatened because of sea ice loss.

The agency missed the one-year deadline for a decision, and the environmental group sued.

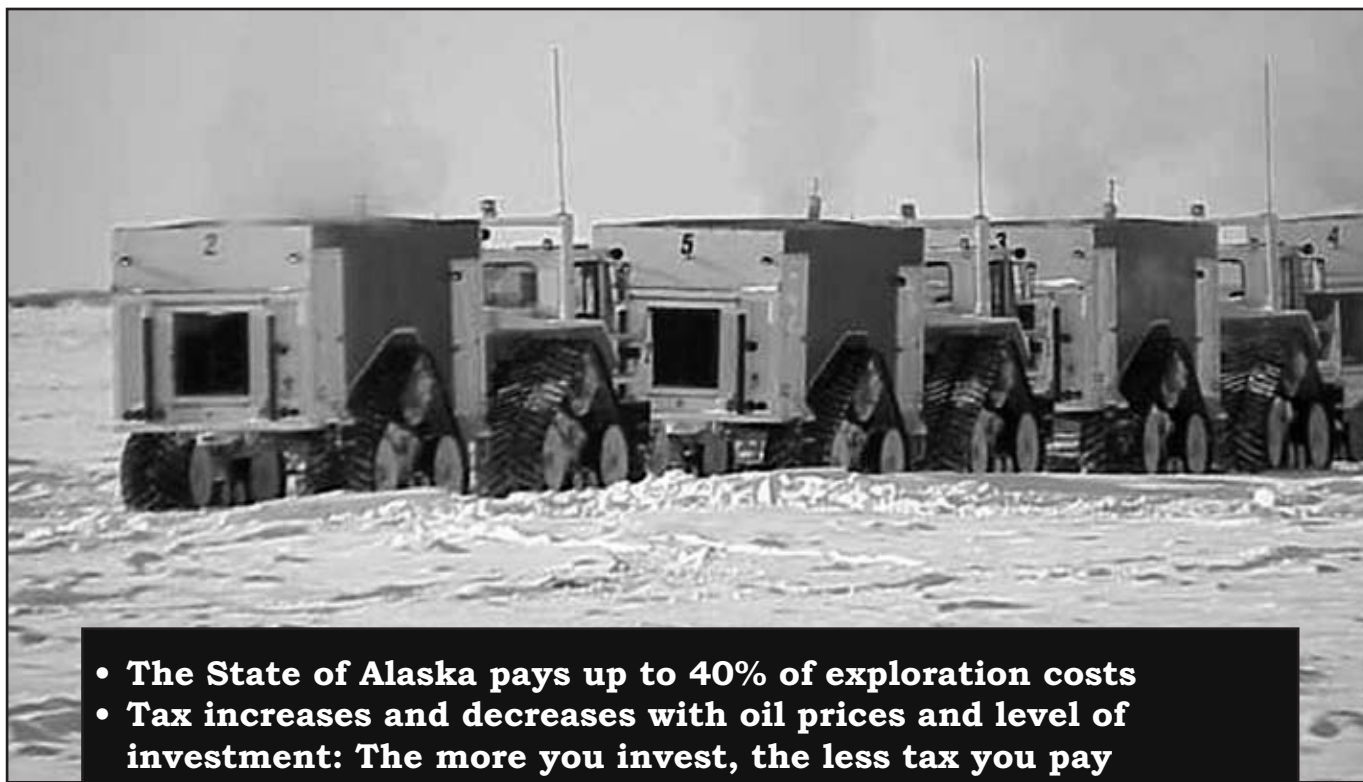
Spotted seals use the edge of sea ice far from predators to give birth and nurse pups. Loss of sea ice and early ice breakup threaten their ability to rear young, according to the listing petition.

Ringed seals are the primary prey of polar bears. They are the only seals that can live in completely ice-covered waters, using stout claws to dig and maintain breathing holes. They excavate snow caves on sea ice to provide insulated shelters for themselves and their pups.

Federal agencies are required to consider how their regulatory decisions affect listed and threatened species. ●

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Craig Haymes, Production Manager, Alaska, ExxonMobil Inc., 2007



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The incentives in the ACES tax legislation are encouraging investment from companies that are new to the state, with the number of petroleum companies doing business in the state almost doubling between 2006 and 2008.

"For a company our size, I believe the ACES tax structure is balanced enough... [T]he state has been a good partner for new explorers."

(Brooks Range Petroleum Corporation, 2008)

"For someone new to the state or for a company that does not already have a large production base... credits for capital investment and the credits for net operating losses are very advantageous."

(Savant Resources, 2009)

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continued from page 1

TAX TUSSLE

the city of Valdez — believe the state valuation isn't high enough.

In the middle is a state panel that set the pipeline's value at \$4.3 billion for 2006, the tax year at issue in the trial.

At stake is potentially tens of millions of dollars in property taxes — the difference between what the pipeline owners believe they owe and what the state and the local governments aim to collect and divide among themselves.

The judge has indicated she'll likely render a verdict sometime after the first of the year.

Regardless of her ruling, the court fight probably won't end there without a settlement of some sort. The case is expected to advance to the Alaska Supreme Court.

What's more, additional lawsuits are piling up like pancakes, in the words of one attorney, as the pipeline owners file new challenges to the state's escalating assessments for each tax year since 2006.

How pipeline was valued

The trans-Alaska pipeline system is an indispensable working asset not only for the companies that produce oil from Prudhoe Bay and other fields on the North Slope, but for the state economy.

Today it carries about 700,000 barrels of oil per day, well under half the peak throughput of more than 2.1 million barrels in early 1988.

Property taxes on the oil industry are a major source of revenue for the state, though not as large as three other oil revenue streams — production taxes, royalties and corporate petroleum income taxes.

The state Department of Revenue annually assesses the value of the pipeline and sends the owners a bill.

The owners didn't like the department's assessment of \$3.3 billion for 2006, so they filed an appeal, arguing the correct value was \$1 billion.

The local governments also appealed, claiming a value of \$5.6 billion. Because the state has responsibility for assessing oil and gas property statewide, its pipeline valuation is critical for the local governments, as a higher assessment means greater property tax collections on the pipeline segments running through their respective regions.

A state official, the petroleum property tax assessor, weighed the company and local government appeals and, on April 3, 2006, adjusted the pipeline value up a bit to \$3.6 billion.

The pipeline owners and local governments appealed again, this time to the state Assessment Review Board, a five-member, governor-appointed panel that hears oil and gas property assessment appeals.

The board convened for four days in

May 2006 and on the last day of the month issued a 30-page decision pegging the pipeline assessed value at \$4.3 billion.

From there, the pipeline owners and two of the local governments, the Fairbanks North Star Borough and the city of Valdez, appealed to the Superior Court.

Dueling appraisal methods

A key complaint of the owner companies is that state officials didn't use the right method to determine the value of the pipeline.

In court filings, lawyers for the companies say they favor an "income approach to value," where the revenue from tariffs charged for shipping oil through the pipeline is considered.

"The well-accepted principle is that a property is worth what it will earn," says one company filing from February 2007.

Department of Revenue officials favor a different approach known as "replacement cost new less depreciation," which they say more accurately estimates the full and true value for property tax purposes.

Randall Hoffbeck, who was then the state petroleum property tax assessor, said in his April 3, 2006, decision that the department's valuation approach was appropriate.

Pipeline rates are regulated to ensure investors receive an adequate return on their investment in the property. Valuing the pipeline for that purpose won't capture its full value for property tax purposes, Hoffbeck said.

"The relevant question to ask," he wrote, is how much would the shippers for whom the pipeline was designed and built pay to replace the property.

Oil company lawyers insist, however, that their income approach is the correct way to value the pipeline.

The taxing authorities oppose that method "because tariff revenues are declining," thus resulting in lower assessed values, company lawyers wrote in their February 2007 filing.

The preemption play

Shortly before the trial got under way on Aug. 10, the pipeline owners took a significant new tack in their fight to tamp down the state's assessed value.

They filed a motion on July 17 asking the judge to declare them the winners in the case based on the argument that the ruling from the state Assessment Review

Board is improper and "preempted by federal law."

In rejecting tariff income as inadequate for valuing the pipeline, state officials in effect "second-guess" the Federal Energy Regulatory Commission, which has exclusive authority for approving interstate oil transportation rates, lawyers for the pipeline owners argue.

That's a problem under the supremacy clause of the U.S. Constitution, the lawyers say, as a state law or agency decision can't conflict with a federal law or agency decision.

"Federal law trumps state law," attorney Mark Horning said during a Sept. 30 court hearing on the motion.

Ken Diemer, the assistant attorney general leading the state's defense of its pipeline valuation, said the federal preemption argument "is completely inappli-

cable to this proceeding."

Diemer, in court filings, has argued the state's sovereign power to levy property taxes shouldn't be confused with the FERC's oversight of pipeline tariffs.

He said after the hearing he suspects the pipeline owners raised the preemption issue merely as "a feint" to steer the case into federal court, where they might feel their chances are better.

At the hearing, Robin Brena, an attorney for the Fairbanks North Star Borough, was blunt in his assessment of the preemption argument.

"I think it's ridiculous," he told the judge.

Gleason said she'd take the motion under advisement and possibly rule on it the week ending Oct. 2.

The trial's closing arguments are scheduled for Nov. 2-3. ●

continued from page 1

SETTLEMENT

agreement as part of the settlement agreement.

The state approved the 52,876-acre Beechey Point unit in late August without TG World's signature, saying that the signing owners controlled 78.9 percent of title to the 25 leases, "which is effective control under the unit operating agreements."

Wells dependent on settlement

BRPC Vice President of Land Jim Winegarner told Petroleum News Sept. 30 that the plan is to drill one to two exploration wells this winter in the Beechey Point unit.

"Our focus will be to fulfill work commitments described in the Beechey Point unit plan of exploration," he said.

The Beechey Point unit plan of exploration requires the drilling of the first exploration well in the unit during the winter of 2011 and the drilling of a second exploration well by the winter of 2013.

Joint venture formed in 2006

The companies formed a joint venture and signed a joint operating agreement in 2006, requiring completion of a follow-up operating agreement within 10 days. The operating agreement

"Our focus will be to fulfill work commitments described in the Beechey Point unit plan of exploration."

—Jim Winegarner, BRPC vice president of land

was not signed until 2008.

AVCG argued in court filings that the 2008 agreement was binding because Clifford James, president and CEO of TG World Energy, signed the document on Oct. 21, 2008.

TG World argued that the 2006 contract was still valid, saying James' signature on the 2008 contract was "affirmatively withdrawn" when AVCG failed to meet certain conditions.

After running disputes on the agreements between the parties, TG World Energy said in a November 2008 statement that it was postponing its participation in "drilling and development programs" planned for the winter of 2008-09.

BRPC filed suit against TG World for breach of contract in early December 2008; TG World Energy filed a counterclaim in January 2009, refuting the claims in the BRPC suit.

A mediation attempt ordered by Superior Court Judge Craig Stowers in February 2009 failed to produce a settlement; a trial date had been set for early January 2010. ●

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continued from page 14

INSIDER

everything from centrifuge parts to programmable logic controllers that were being illicitly shipped to Iran through third countries. ... We have anything to do with a nuclear program going to Iran." The latest seizure in Canada, the newspaper said, occurred the week of Sept. 20, which was when Iran was in the spotlight for building a secret uranium enrichment facility that some experts say could be used to produce nuclear weapons.

Customs officers found a shipment of microchips that federal analysts identified as possible navigational chips.

Tests are continuing but Webb told the Post that the microchips, which had been purchased in the United States, Denmark and Japan and shipped from Canada to the United Arab Emirates, were "probably some type of guidance system." Officials believe the end destination was Iran.

—KAY CASHMAN

DEC gets \$160K grant for environmental justice work

THE ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION said Sept. 29 that it has received a three-

The grant will also help to create an approach for integrating traditional knowledge into agency decisions, DEC said.

year, \$160,000 grant from the U.S. Environmental Protection Agency, which is funded through EPA's State Environmental Justice Cooperative Agreement Program.

Environmental justice is broadly defined as the fair treatment and meaningful involvement of all people regardless of race, color, national origin, culture, education or income with respect to the development, implementation, and enforcement of environmental laws, regulations and policies.

"With this grant, we are focusing on enhancing communications with rural areas on environmental topics," said DEC Commissioner Larry Hartig.

The grant will also help to create an approach for integrating traditional knowledge into agency decisions, DEC said.

"The project will engage rural residents in shaping a community involvement process to ensure that local knowledge and concerns are addressed early in the department's environmental permitting process," said Sandy Harbanuk, DEC project manager.

—KAY CASHMAN

continued from page 1

AGPA

Alaska Gasline Inducement Act and in collaboration with TransCanada, the AGIA licensee. TransCanada has promised to build a pipeline to Valdez if there is sufficient demand from customers.

Walker said in an interview Sept. 30 that he and AGPA's board have since lost some faith in TransCanada's ability to attract customers at an open season. "I think there's a concern (over) how viable that process is going to be," he said.

Walker added that he is promoting an all-Alaska gas line as a candidate and that AGPA's board has not taken any official steps recently to renew its push for such a project.

Walker said it is still possible that AGPA will bid for space in a TransCanada open season, but said the group is now focused on the deal with the Fairbanks utility, Fairbanks Natural Gas.

North Slope LNG plant

Under the terms of the agreement, AGPA would buy Fairbanks Natural Gas and all its assets and would develop the North Slope liquefaction plant, relying on an existing gas supply contract between FNG and ExxonMobil.

The project would cost about \$250 million and would provide roughly 21 million cubic feet of gas per day and 20,000 gallons of propane, which proponents say could be distributed throughout the state.

The liquefaction project and the local distribution of natural gas through would be done on a cost-of-service basis rather than a for-profit basis, as it is now.

Walker said AGPA's nonprofit model, its tax-exempt status, and the lower cost of gas on the North Slope will lead to "pretty significant" savings for Fairbanks customers. FNG, which has about 1,100 residential and commercial customers, currently liquefies natural gas from Cook Inlet at a plant in Wasilla and trucks the gas to Fairbanks.

Walker said he hopes to complete economic modeling on the North Slope project within 30 days. According to a news release from AGPA, the project would be financed through revenue bonds and would not incur any financial obligation to AGPA's three member municipalities — the Fairbanks North Star Borough, the North Slope Borough,

and the City of Valdez.

In talks for about 6 months

FNG President Dan Britton said the project would reduce costs, ensure a stable supply of gas, and encourage development of the limited Fairbanks natural gas grid.

Britton said in an interview Sept. 30 that discussions with AGPA started about six months ago and grew naturally from other efforts to bring public support to the project. FNG asked lawmakers this year for a grant to develop the project, but the request was unsuccessful.

Britton did not disclose any anticipated sale price and said the letter of intent remained confidential. He added that the sale of FNG to AGPA is contingent on the development of the North Slope project and that existing management, including himself, would remain in place should the deal go through.

MOU with Golden Valley

AGPA is looking to Golden Valley Electric Association as an anchor customer and has signed a memorandum of understanding with the utility related to the use of North Slope gas in its plants.

GVEA President Brian Newton said preliminary cost estimates for the project are promising, thanks to the port authority's ability to use tax-exempt revenue bonds. "We're hoping that it's going to be comparable to 50, 55 dollar a barrel oil," he said, adding that one of GVEA's power plants could be converted to burn gas within six months.

Newton said the MOU with AGPA simply states that the parties will meet and work toward developing a term sheet and final agreements.

Britton said the next steps will be to firm up agreements between the port authority and GVEA, develop a bond package for the project, and create a final purchase agreement between AGPA and FNG.

No interference with main line

Proponents say the project would not interfere with the development of a large-scale pipeline from the North Slope into Canada. Financing of the project would be based on a 10-year period, and customers would not be required to enter long-term contracts that would prohibit them from taking advantage of gas delivered more economically through a pipeline.

"We see this as a bridge project and an insurance policy for the big line," Britton said.

Britton added that it's unclear whether a smaller "bullet" line will get built, and he warned that even the smaller line would take years to build. The LNG project from the North Slope could begin shipping gas within two years, according to FNG and AGPA.

Britton said the North Slope facility would not necessarily become obsolete with the development of a gas pipeline. Among other things, the LNG could be used as a diesel substitute for transportation, he said.

Fairbanks North Star Borough Mayor Jim Whitaker commended the port authority board for focusing on the North Slope project. "It will deliver gas soon from a reliable source at a reasonable price," he said.

Whitaker added that an all-Alaska line remains an option.

"AGPA thinks that the best long-term solution is a project that sells gas into multiple markets and that is an LNG project," he said. "Long-term, we're in full support of that effort." ●



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