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page 3 Canada faces industry labor crunch; 105,000 could be needed this decade

Latest from Greening of Oil

Mississippi EOR test breaks a U.S. first. While debate rages on about capture and storage of CO2 from fossil fuel-fired power plants, researchers working in a worn out oil field in southwestern Mississippi have successfully sequestered more than 2 million metric tons of CO2 in 22 months, according to the latest report in Greening of Oil. This also moves the U.S. one step closer to meeting a 2010 goal that G-8 countries launch 20 large-scale CCS demonstration projects globally. Read the full article at www.greeningofoil.com

Looking for oil at North Fork

In an intriguing twist to Armstrong Cook Inlet's plans to develop the North Fork gas field in Alaska's southern Kenai Peninsula, the company has filed an oil discharge prevention and contingency plan for approval by the Alaska Department of Environmental Conservation. An approved contingency plan of this type is only required for a drilling operation that may encounter oil, rather than just natural gas, thus suggesting that Armstrong is seeking oil in the North Fork unit.

And in a plan of operations filed with the state in 2008, Armstrong said that it would apply for an oil discharge prevention and contingency plan if it decided to drill for oil at

see **NORTH FORK** page 19

Investors show lots of love for Alaska newcomer Miller Petroleum; Chappell retires from BP; Pearce moves on

OIL GIANT BP HAS SEEN ITS STOCK price plummet by more than half since the Deepwater Horizon exploded on April 20.

But the trend is markedly different for a small oil and gas company that ventured onto the Alaska scene a few months ago.

On June 9, shares of Miller Petroleum Inc. closed at $5.35, up an astounding 1,521 percent from the 33 cents seen on the same date a year earlier. At $5.35 per share, the company's market capitalization is $145 million.

Most of the surge in Miller's stock value has come since

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LAND & LEASING

More time please

Escopeta requests 180-day extension for Kitchen Lights drill-rig deadline

By ALAN BAILEY
Petroleum News

Faced with the prospect of defaulting on its first year's work commitments for the Kitchen Lights unit in the state waters of Cook Inlet, Escopeta Oil Co. has asked Alaska's Division of Oil and Gas to push back by 180 days the deadline for the company to bring a jack-up drilling rig to the inlet and spud a well in the unit.

"This will allow sufficient time to finalize negotiations and contracts with other Cook Inlet explorers, drilling rig companies and the heavy-lift vessel contractor," said Danny Davis, Escopeta president, in a May 30 letter to Kevin Banks, divi-

see **ESCOPETA** page 14

Apache makes offer for Cook Inlet leases

BREAKING NEWS

Danny Davis, president of Escopeta Oil Co., has confirmed rumors that Houston-based Apache Corp. has made an offer for some of Escopeta's Cook Inlet oil and gas leases. Escopeta is operator of the Kitchen Lights unit, a unit formed in 2009 to consolidate several oil and gas prospects along a major offshore geologic trend in the inlet.

see **APACHE OFFER** page 14

GOVERNMENT

State fights ANWR review

Alaska AG rips process, says federal agency unlawfully shuns oil and gas comment

By WESLEY LOY
For Petroleum News

Alarmed at prospects that more of the Arctic National Wildlife Refuge could be designated as wilderness, Alaska officials are lodging a raft of legal and economic objections with the Obama administration.

Alaska Attorney General Dan Sullivan called on the U.S. Fish and Wildlife Service to essentially start over with its process of taking public comments for a new "comprehensive conservation plan" for the 19 million-acre refuge.

In a June 7 letter to ANWR manager Richard Voss in Fairbanks, Sullivan said Fish and Wildlife's April 7 call for public comments on the conservation plan possibly was unlawful because the agency said it would ignore viewpoints on whether the refuge's coastal plain should be opened for oil and gas development.

And in a separate letter, Sally Gibert of the state Department of Natural Resources told Voss the state opposes more wilderness in ANWR, as well as designation of new wild and scenic rivers.

"Alaska is already home to half of the designated wilderness in the United States," Gibert wrote, adding that the refuge already includes three designated wild and scenic rivers.

ANWR's importance

Opening the coastal plain to oil and gas explo-

see **ANWR** page 19

GOVERNMENT

Budget funds road studies

Roads to Resources program gets $13 million to prepare impact statements for 2 roads, to Umiat and Nome, and to make geologic models of the Foothills

By ERIC LIDJI
For Petroleum News

After several years of activity in the foothills of the Brooks Range, the past six months have been rather quiet for exploration, but somewhat active for promoting infrastructure.

The fiscal year 2011 capital budget Gov. Sean Parnell recently signed includes $13 million for the Roads to Resources program, a long-standing effort to expand infrastructure to parts of the state with oil, natural gas, coal and other natural resources.

The money will go toward studying roads to Umiat and Nome.

The foothills is relatively underexplored, with only 61 exploration wells drilled over the past 70 years, less than one well for every 650 square miles, according to the state.

The appropriation includes $8 million allocated for environmental studies for a 75-mile road connecting the Dalton Highway to Umiat, a staging area on the Colville River. The so called Foothills West Transportation Access project would create a ground route to known fossil fuel accumulations in

see **ROAD STUDIES** page 18

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● EXPLORATION & PRODUCTION

Canada faces potential labor crunch

By GARY PARK

For Petroleum News

Shortages are expected in key engineering roles, including chemical, mechanical and petroleum, in the 2011-19 period; in key trades occupations starting n 2012; for non-steam and steam operators starting in 2012; and among geologists and geophysicists beginning in 2011.

Job hunters from skilled tradespeople to professionals could find some of their best prospects in Canada's petroleum industry this decade, with a survey by the Petroleum Human Resources Council of Canada estimating the need for additional workers at 105,000.

But the numbers will be influenced by a number of variables — above all commodity prices, along with the value of the Canadian dollar and reinvestment ratios.

Cheryl Knight, the council's chief executive officer, said that even the most pessimistic outlook suggests a tight labor market for the industry by 2014 and 15,000 additional workers by 2020.

She said the survey findings make it "abundantly clear that even if growth stalls the industry will still face a labor shortage due to a lack of supplied workers and retiring workers."

The council reported that new hires in 2009 were almost confined to replacement staff, a trend that is expected to continue this year, with only some minor hiring for expansion.

In 2011 and 2012, the survey projects demand for staff will come mainly from expansion plans, then shift in the 2013-19 period to replacement needs as workers retire or leave the industry.

The report covers operational needs only, excluding construction requirements.

Companies will be challenged

Janet Annesley, vice president of communications at the Canadian Association of Petroleum Producers, said the industry's anticipated recovery is real, now that the discussion about a giant shift change has revived after the economic downturn, but that means companies will be very challenged to find the people they need.

She suggested hiring practices will need to be changed, with Canada relying heavily on immigrants by 2011 and also turning to women and aboriginals.

"We already have immigrants in Canada who have skills and training that are needed for the oil and gas industry, yet we are not taking advantage of that supply," she said.

Knight said that although professionals are important to the industry, the greater difficulty is attracting young people into trades.

She said certain segments of the industry have declined due to natural gas supply and a shift in technology and, despite growth in the oil sands, that's a small piece of the equation compared to conventional oil and gas drilling.

The report estimates the breakdown of the current workforce is 50 percent services, drilling and geophysical contractors, 40 percent exploration and production, 7 percent oil sands and 3 percent pipelines.

Over the next decade, the industry is expected to need 3,500 oil and gas servicing and drilling laborers; more than 3,000 operators, both steam and non-steam, that are vital to the oil sands; 2,500 heavy equipment operators; 2,000 drilling coordinators and production managers; 1,500 petroleum engineers; and almost 1,500 geologists and geophysicists.

90 percent recruiting

The survey found that 90 percent of respondents from 37 core occupations are currently recruiting due to expansion and/or replacement demand; companies are continuing to increase capital spending and 72 percent of respondents indicated the need to recruit workers to support growth and expansion; and the most pressing workforce issues facing companies today are attracting workers to hard-to-recruit locations (50 percent), aging workforce (36 percent), employee turnover and retention (36 percent) and compensation and benefits expectations (36 percent).

Shortages are expected in key engineering roles, including chemical, mechanical and petroleum, in the 2011-19 period; in key trades occupations starting n 2012; for non-steam and steam operators starting in 2012; and among geologists and geophysicists beginning in 2011.

The council suggests potential solutions include working with educational institutions to ensure their programs align with the industry's projected needs and to develop and implement outreach strategies, working with women, immigrants, youth and aboriginal people.

The information will be updated annually as the industry revises its production forecasts and as the impact of future environmental regulations becomes known. ●

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● GOVERNMENT

Canada launches oil and gas review

By GARY PARK

For Petroleum News

In a rare show of unity, members of the Canadian Parliament have endorsed a motion urging the federal government to review and revise its laws governing the development of the oil sands, shale gas and offshore oil and gas.

Natural Resources Minister Christian Paradis and Environment Minister Jim Prentice were among the 274 Members of Parliament supported a motion by Linda Duncan, representing the left-wing New Democratic Party, calling for the broadest possible consultation with all interested stakeholders "to ensure Canada has the strongest environmental and safety rulers in the world."

Paradis noted the National Energy Board has already agreed to review its regulations relating to project management and offshore drilling.

"No project will be allowed to go ahead in Canada until the board is satisfied that the safety and security of workers will be ensured and that the environment will be protected," he said.

Paradis said the NEB review will be conducted in a "transparent manner" and be open to public participation.

Meanwhile, Max Ruelokke, chief executive officer of the Canada-Newfoundland and Labrador Offshore Petroleum

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● NATURAL GAS

FERC approves Denali open season plan

Some changes made in proposed plan following comments; FERC rejects state's assertion that it should have wide access to data rooms

By KRISTEN NELSON
Petroleum News

The Federal Energy Regulatory Commission approved Denali's open season plan June 7, conditioned on some modifications, setting the stage for the company's open season to begin in July.

"This approval confirms that Denali's plan is complete and consistent with FERC requirements," said Bud Fackrell, president of Denali — The Alaska Gas Pipeline LLC, in a June 7 statement.

Denali spokesman Dave MacDowell said in a June 7 e-mail that the company was not concerned about anything in the order. "We believe we can comply with the points FERC raised, and we will start our open season on July 6th."

FERC said in its June 7 order that its "approval of Denali's open season plan does not constitute a binding determination with regard to the substance of Denali's submission. We encourage Denali and potential shippers to work together to resolve any issues arising during the implementation of the open season plan, during the open season, or during negotiations after the close of the open season."

FERC said that many of the issues raised by those commenting on the proposed plan "deal with rate and tariff matters that either we will address in the future or may be resolved through negotiations between Denali and prospective shippers." The commission also said parties can raise these issues at a later stage.

What the commission discussed at some length were concerns that it said "could have a significant impact on the open season process itself rather than just the proposed terms and conditions of service and thus merit our consideration at this time."

Not all required changes

While FERC discussed a number of issues raised in comments, it did not require modifications in the plan in all cases.

For example, in response to a concern by BP Exploration that Denali's creditworthiness requirements discriminated among shippers by requiring that foundation shippers and subsidiaries carry the same credit rating as a parent, while other shippers must only carry an investment grade rating.

Denali told FERC that the provisions were designed to address a situation where a shipper created a shell company "to limit or avoid potential liability to Denali," hence the requirement that subsidiaries maintain the same credit rating as the parent.

FERC did not require Denali to modify its requirements, stating that "although Denali's creditworthiness provisions establish different criteria depending on the shipper's status as a subsidiary, this differentiation is not discriminatory as long as similarly situated shippers are treated the same."

Reductions of maximum daily quantities

ConocoPhillips was concerned that under certain circumstances Denali could reduce a bidder's maximum daily quantity but didn't provide detailed procedures for notifying bidders or provide an opportunity to decline a reduced maximum daily quantity.

FERC said that in response to similar concerns the project sponsors in the TransCanada project agreed to provide shippers with the opportunity to decline reduced capacity awards, and said it would "direct Denali to more clearly delineate in its open season notice the procedures it will follow for notifying bidders of any reduction in their maximum daily quantity allotment and also to explicitly provide bidders the opportunity to decline any reduced award of capacity."

ConocoPhillips was also concerned about notification of any design reconfiguration and an opportunity to withdraw bids as a result of reconfiguration or revised rate estimates.

FERC directed Denali to include a process for notifying bidders of "any design reconfiguration that results in a material change in transportation rates or capacity allotment as a result of section 4.3 of the precedent agreement and to provide bidders an opportunity to modify or withdraw their bids if there are changes in their capacity allotment or if rates are revised due to a reconfiguration of the system."

BP Exploration was concerned about a requirement that bidders resubmit bids in the event FERC requires Denali to hold a revised open season.

FERC said that could require a prospective shipper to bid on capacity at a rate or under terms it no longer considered acceptable; it directed Denali to remove that provision.

State and reading rooms

An issue consuming a lot of space in FERC's order was an issue between the State of Alaska and Denali.

The state argued that Denali's confidentiality agreement limited access to its reading rooms to potential shippers meeting certain creditworthiness requirements; the state — but only in its capacity as a potential shipper; and regulatory agencies having open season jurisdiction.

Alaska said the provisions are too restrictive, "and would unreasonably deny access of state representatives with a legitimate interest in reviewing Denali's reading room materials."

In addition to the possibility that Alaska might acquire released capacity in the line outside of the open season, the state said "that as a royalty owner and tax collector it has an interest in the reading room materials because Denali's rates for transportation and gas treatment services are directly related to wellhead prices."

Alaska also said that because of the importance of the gas pipeline project to the

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REVIEW

Board, reiterated there will be no repetition of the disastrous Gulf of Mexico blowout at Chevron Canada's Lona O-55 exploration well in Newfoundland's Orphan basin because of an increase in regulatory oversight and adherence to existing rules.

"We believe that things that were done in the Gulf of Mexico were not in compliance with the existing regulations in the Gulf and probably not even in compliance with good oil field practice," he said.

"We would never allow such a thing to happen. Our policy, procedures, training, equipment are such that it will not happen."

He said the blowout preventer for the Lona well was tested repeatedly before being deployed and that safety procedures in place would prevent a failure of the device.

Ruelokke said the regulator is also considering an increase in the current C$350 million in financial guarantees that must be posted by drillers in the Newfoundland offshore.

As well, he expects new regulations will introduce "improvements and changes" for blowout preventer systems.

"We don't believe there's any immediate need to change what we are doing now, but I expect the world is going to shift underneath our feet when it comes to control of a subsea well," he said. ●

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● PIPELINES & DOWNSTREAM

Canadian lines clash over crude exports

Kinder Morgan v Enbridge in contest to open Asian markets; Kinder says less environmental impact with expansion of current system

By GARY PARK
For Petroleum News

Enbridge is fighting on two fronts as it pushes ahead with plans to export oil sands production to Asia, with First Nations and environmentalists lined up against it on one side and now rival company Kinder Morgan Energy Canada set to do battle on the other.

In a submission to the National Energy Board, Kinder Morgan has asked consideration of the Northern Gateway application to be deferred until Enbridge can demonstrate "with a sufficient degree of certainty" that there is enough commercial support for the C$5.5 billion project.

In the process, it said Enbridge appears to be "pursuing approval in advance of demonstrated need for the project in order to create an 'option to build' and use that option as part of its marketing process."

Enbridge declined to comment on the Kinder Morgan argument, saying the matter is now in the hands of regulators.

Kinder Morgan told the NEB that Enbridge's proposal for a 525,000 barrel-per-day export system is incomplete and does not comply with the federal regulator's filing requirements because it is not backed by binding commercial contracts.

"Without at least some real and substantial evidence of need and necessity, the application appears to be intended to provide the applicant some type of competitive advantage so that it may pursue commercial support that it has not been able to achieve to date," the letter said.

Expansion slowed

Kinder Morgan owns and operates the only oil pipeline from Alberta to British Columbia and Washington state, currently shipping 300,000 bpd, including an addition of 75,000 bpd in 2008.

But it said in May it was slowing plans for a C$7.7 billion expansion of its Trans Mountain system due to a lack of demand, putting in doubt its earlier timetable to add 80,000 bpd in 2013-14 and another 320,000 bpd by 2015-16.

It has also been weighing the prospect of a competing route to Asia, shipping 400,000 bpd through the British Columbia port of Kitimat, the planned site of Enbridge's terminal.

However, Kinder Morgan President Park Shaper told a Houston energy summit in May there is no sign a "huge effort" to support his company's planned four-phase expansion of the Trans Mountain network.

He said Kinder Morgan is continuing discussions with prospective customers, making the case that it can provide incremental additions rather than adding 400,000 or 500,000 bpd "all at once."

Shaper also said the opening of a route to Asia now hinges on the pace of investment in Alberta's oil sands by China's state-owned companies.

He was not prepared to get drawn into a debate on whether there will be a battle between Kinder Morgan and Enbridge over the Asian market.

"We still believe that we offer the best option — not just from the customer perspective, but also from the environmental perspective," Shaper said, noting that Enbridge is faced with building an all-new pipeline through the Canadian Rockies, while Kinder Morgan could use the existing Trans Mountain right of way.

First Nations leaders who have already started mounting stern opposition to Northern Gateway were not swayed by Kinder Morgan's case, arguing that a pipeline by either company would carry the risks of a rupture over land or an offshore tanker accident.

Competitive concerns

In its letter to the NEB, Kinder Morgan said it is concerned with "potential negative market competitive implications" should the NEB decide to even hear the Enbridge application.

The company said it has long been committed to a competitive transportation alternative to that proposed by Enbridge.

"This alternative is one that will maximize utilization of existing facilities and transportation corridors, minimizing cost and footprint," it said.

The letter said a filing from Kinder Morgan would depend on contractual support from shippers and the "same principles ought to apply for Northern Gateway so as to ensure there is a level and competitive playing field for new Greenfield entrants as well as existing systems."

Kinder Morgan argued the Northern Gateway filing does not properly consider the alternative of an expanded Trans Mountain system.

Kinder Morgan Canada President Ian Anderson said in a news release that expansion of his company's existing pipeline would have less impact on the environment and traditional First Nations' territory, along with lower business risk and costs.

"We have a track record of meaningful and mutually beneficial First Nations and environmental organization engagement," he said. "We will ensure that our future plans are advanced with the same early honesty and openness as past efforts."

Anderson said Kinder Morgan supports the development of offshore markets for Canadian crude and has been facilitating the objective with safe movements of crude through the Port of Vancouver over recent years.

"Every barrel of oil that producers want to sell to Chinese interests today is moving and we intend to continue to grow that supply opportunity through rational, stakeholder-respectful and market-based expansions that align Canadian producers with Asian demand," he said.

First Nations leaders who have already started mounting stern opposition to Northern Gateway were not swayed by Kinder Morgan's case, arguing that a pipeline by either company would carry the risks of a rupture over land or an offshore tanker accident. ●

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● FINANCE & ECONOMY

BP Stats: 1st decline since '82 in 2009

Company's Statistical Review found energy consumption lower in '09 than in '08, reflecting 1st world economy contraction since WWII

By KRISTEN NELSON
Petroleum News

The global recession drove energy consumption lower in 2009 than in 2008, BP said in its 2010 Statistical Review of World Energy, released June 9. That is "the first such decline since 1982, as the world economy contracted for the first time since the Second World War," BP said in a summary of the review.

"Energy consumption reflected the pattern of recession and recovery," said BP chief economist Christof Ruehl.

Worldwide, primary energy consumption fell by 1.1 percent last year and consumption in the Organization for Economic Cooperation and Development, the world's industrialized countries, fell 5 percent, more than their decline in gross domestic production, Ruehl said. OECD countries consumed less energy in 2009 than 10 years ago.

In non-OECD countries energy consumption increased by 2.7 percent last year, "more than their increase in GDP and driven by growth in China. The shift toward the developing world continues," Ruehl said.

Impact of the Gulf

"Last year's decline in global energy consumption was rare; and where we have data so far in 2010 energy consumption is again on the rise," said Iain Conn, BP group managing director and chief executive of Refining and Marketing.

"The world needs to invest today to be able to deliver the energy supplies that will be needed in the future," Conn said.

"Events in the Gulf of Mexico, however, demonstrate that access to some energy resources will almost certainly require enhanced measures to ensure safe operations and capabilities to safeguard the environment," he said, referring to the explosion on the Deepwater Horizon drilling rig April 20. The Transocean rig was drilling for BP when it exploded and burned, killing 11 workers, and eventually sank. BP was still struggling June 9 to control oil from the well.

BP Group Chief Executive Tony Hayward talked about the Deepwater Horizon explosion in an introduction to the statistics.

"We are throwing everything we have at mitigating this disaster," he said. "Our thoughts are with those who have lost loved ones, and those whose livelihoods have been disrupted. We are determined to set right what has gone wrong and to learn from the tragedy. Eventually, we will succeed, and eventually, this disaster will lead to a safer and better energy world," Hayward said.

Prices drop

Prices for all forms of traded energy fell for 2009 as a whole, BP said, "with the sharpest declines seen for traded natural gas and coal in North America and Western Europe."

BP said that while global oil consumption declined by 1.2 million barrels per day, the largest decline since 1982, global oil production dropped even more rapidly than consumption, falling by 2 million bpd, again the largest drop since 1982.

OPEC production cuts begun in 2008 continued through 2009, BP said, and as a result OPEC production declined 2.5 million bpd in 2009, with every OPEC member participating in the production-cutting agreement reducing output in 2009.

Outside OPEC oil production grew by some 450,000 bpd in 2009, with U.S. production increasing by 460,000 bpd or 7 percent, "the largest increase in the world last year and the largest U.S. percentage increase in our data set," BP said.

Gas has most rapid decline

BP said that natural gas was the fuel that experienced the most rapid decline in consumption, down 2.1 percent, "the largest decline on record."

Natural gas consumption declined worldwide except in the Middle East and Asia Pacific. Russia had the largest volumetric decline, with consumption down 6.1 percent, BP said.

OECD consumption was down by 3.1 percent, the largest decline since 1982.

The U.S. decline was modest, 1.5 percent, "as weak prices improved gas's competitive standing against other fuels."

"Global gas production declined for the first time on record," with Russia down 12 percent and Turkmenistan down by 44.8 percent, driven by declining consumption in Russia and much of the rest of Europe. A factor in Europe was the availability of competitively prices liquefied natural gas.

"Continued expansion of unconventional supplies allowed the U.S. to record the world's largest increase in production for the third consecutive year, surpassing Russia as the world's largest producer," BP said. Production also increased in the Middle East and Asia Pacific.

Coal consumption flat

BP said global coal consumption was flat in 2009 and global nuclear output dropped by 1.3 percent, a third consecutive global decline for that fuel source.

Hydroelectric generation grew by 1.5 percent, a below-average rate, but "nonetheless sufficient to make hydro the world's fastest-growing major fuel in 2009," with growth led by China, Brazil and the U.S.

Other forms of renewable energy are a small part of the global energy market, but have continued to grow rapidly, BP said.

"Continued government support, including targeted fiscal stimulus in many countries, helped to boost global wind and solar generation capacity by 31 percent and 47 percent respectively," with wind power growth led by China and the U.S. ●

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PIPELINES & DOWNSTREAM

PWS exercise simulates tanker accident

The U.S. Coast Guard's Safety Unit Valdez has joined with SeaRiver Maritime, the shipping arm of ExxonMobil, to conduct the 2010 Prince William Sound spill response exercise. Held June 8-10 and hosted by SeaRiver, the exercise simulated an oil spill from a tanker, with the oil industry, federal, state and local agencies coming together in a unified response effort.

The exercise, designed to ensure that oil spill response crews and organization are prepared for an oil spill incident in Prince William Sound, concluded with a post-exercise debrief where participants discussed how the exercise went and identified any needed improvements to spill response arrangements and plans.

"These types of response events are essential for the continued safety of Prince William Sound," said Lt. Erin Christensen of Marine Safety Unit Valdez. "Coming together in a joint exercise gives us the opportunity to keep relationships strong and to better understand what capabilities our partner organizations can bring in the case of an actual incident."

—ALAN BAILEY

● EXPLORATION & PRODUCTION

Alberta boosts bitumen numbers

By GARY PARK
For Petroleum News

A fourth oil sands region and continuing advances in technology have enabled Alberta to post staggering increases in its bitumen resources, according to the provincial government's Energy Resources Conservation Board.

With the inclusion of 406 billion barrels from the undeveloped Grosmont deposit — the least known of the formations after Athabasca, Cold Lake and Peace River — Alberta now has an estimated 1.5 trillion barrels of resource, the regulator said.

However, the Grosmont bitumen is trapped in limestone rather than sand and still lacks the production methods to convert the deposit into commercial reserves.

Of the total resource numbers only about 170 billion barrels are currently viewed as exploitable using proven methods of extraction and processing.

But Carol Crowfoot, co-author of the ERCB's annual reserves report and the board's chief economist, said in-situ production using steam-assisted gravity drainage will underpin the growth rate over the next decade.

Thermal recovery now accounts for about half of the 1.49 million barrels per day extracted from the oil sands and production is forecast to reach about 3.2 million bpd by 2020, with Cenovus Energy leading the way.

In-situ production rose by 14 percent in 2009, while the pioneering mining operations also rose by 14 percent, largely due to the introduction of Canadian Natural Resources' Horizon project.

The Grosmont deposits, following unsuccessful pilot projects in the 1970s and 1980s, took their biggest step forward in 2006 when Sure Northern Energy, a unit of Royal Dutch Shell, paid more than C$500 million for rights to 185,000 acres controlled by Husky Energy.

Startups pressing ahead

While Shell is seeking a technological breakthrough to release the bitumen locked in carbonate rocks, startup companies Laricina Energy and Sunshine Oilsands are pressing ahead with pilot projects.

Laricina is targeting the launch of a 1,800 bpd operation later this year, with company President Glen Schmidt confident the better Grosmont projects will eventually be "every bit" as successful as the well-establish operations in the mining region.

He said carbonates require less steam at lower temperatures and pressures than conventional in-situ development, which Laricina hopes will result in lower operating costs.

The ERCB report said the McMurray-Wabiskaw deposit, which is dominated by open pit mining, declined by 0.4 percent in 2009 to 959 million barrels, while Cold Lake (re-evaluated for the first time in 10 years) recorded a 20 percent decline to 33.8 billion barrels.

It also noted that Alberta has produced 7 billion barrels of raw bitumen since the oil sands came onstream in 1967, or less than 0.5 percent of the available resource, compared with the 16 billion barrels of conventional crude pumped in the province since 1914.

Conventional oil production slumped 9 percent last year to 461,300 bpd, leaving about 3.5 billion barrels to be developed, although the ERCB says new technology is starting to unlock tight oil formations such as the Pembina Cardium play.

Coalbed methane accounted for 7 percent of Alberta's total gas production last year and is expected to reach 20 percent by 2019.

No reserves were assigned to shale gas, although estimates place the resource at 850 trillion cubic feet. ●

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NATURAL GAS

Kenai LNG owners request extension

ConocoPhillips has formally asked the U.S. Department of Energy for additional time to export liquefied natural gas from the facility in Nikiski it owns with Marathon Oil.

The owners made the application June 8, the company told Petroleum News.

ConocoPhillips previously told Alaska policymakers that it would not be asking for permission to ship additional volumes overseas, only for more time to ship the volumes already approved in a previous license extension. The current license allows the companies to ship some 99 billion cubic feet of natural gas through March 31, 2011. The companies expect to have 45 bcf remaining of that allowance by the deadline, and told policymakers they planned to ask for a two-year extension, through March 31, 2013.

That distinction helped win support from several critics of the previous extension request, including Chugach Electric Association, the second largest gas user in the state.

The export facility is often criticized for shipping gas overseas as production declines locally, but is also considered crucial for maintaining deliverability during peak demand because it serves as the largest de facto storage unit in the Southcentral region.

Those local diversions are evident in monthly shipping levels. According to figures from the Department of Energy, the Kenai facility shipped nearly 5.8 bcf to Japan in March and April of this year, but only 3.8 bcf in the much colder months of January and February.

The application for an extension of the export license holds broader implications in the region. The volumes in a recently approved natural gas supply contract between Marathon and Enstar Natural Gas depend on the continued operation of the facility.

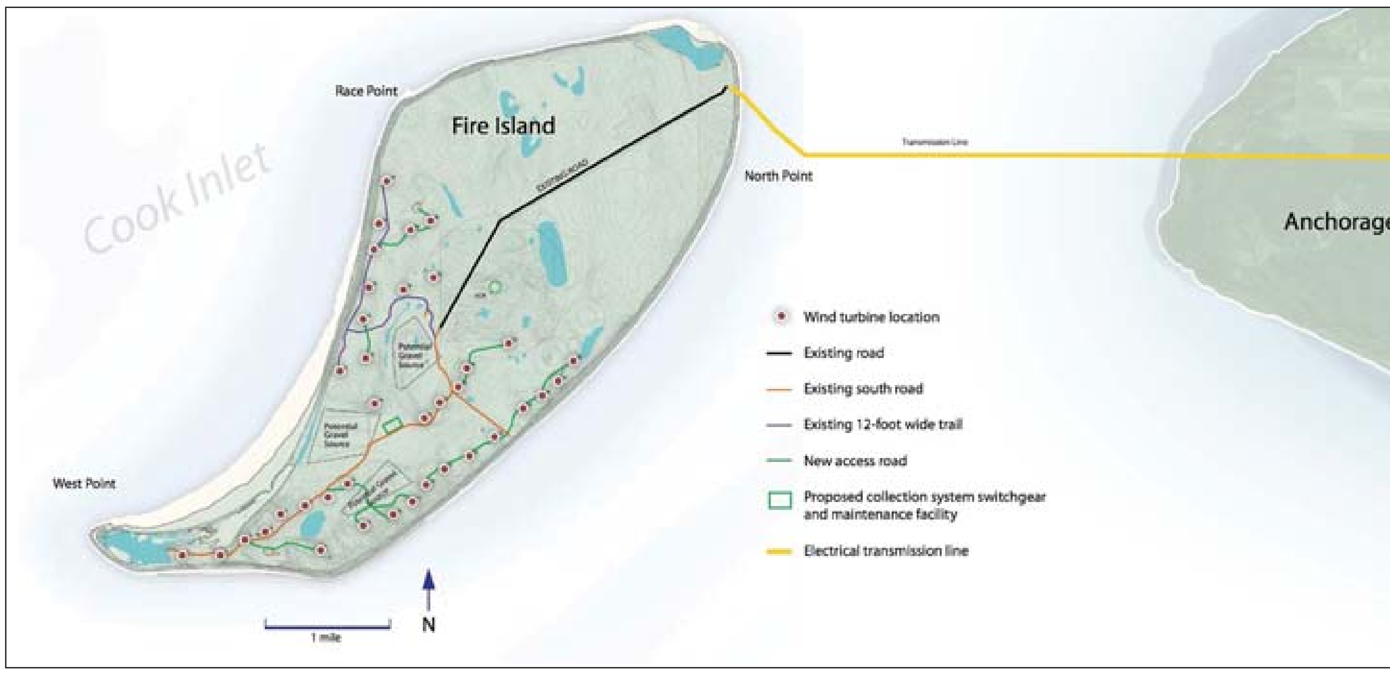
—ERIC LIDJI

ALTERNATIVE ENERGY

CIRI prepping RFP for Fire Island

Plans to build new navigation system to resolve FAA concerns, new law paves the way for negotiating contracts with area utilities

By ERIC LIDJI
For Petroleum News



COURTESY CIRI

Cook Inlet Region Inc. plans to start the formal search in the next few weeks for a firm to build the first commercial-scale wind farm in Alaska on an island in Cook Inlet.

CIRI, the Alaska Native corporation for Southcentral, plans to issue a request for proposals soon to erect 33 wind turbines on Fire Island, off the western coast of Anchorage.

The company can't do much physical work on the island until August, the end of a nesting season that creates restrictions for tree clearing. However, the hope is to use the summer to finalize geotechnical information about the project now so that as soon as the ice clears next spring the construction firm can start "horizontal construction," which includes buildings, roads and transmission lines, as well as all of the turbine pads.

CIRI originally planned to erect 36 turbines, each capable of generating 1.5 megawatts of power, but now expects to put up only 33 turbines, each capable of generating 1.6 MW.

While comparing the nameplate capacity of the two setups suggests a small drop in power output, to 52.8 MW from 54 MW, Jim Jager, director of corporation communications for CIRI, said the new turbines are more efficient, and thus produce the same amount of power.

"If you can do the same production with fewer turbines you're going to have a more cost effective project," Jager said.

CIRI still needs a contract

When proposals start coming in, CIRI will get a better sense of the price of the project, currently estimated at around $165 million. That price will also allow CIRI to get a better sense of the cost of power produced at Fire Island and sold to a regional electric utility.

> *"If you can do the same production with fewer turbines you're going to have a more profitable project."*
> **—Jim Jager, director of corporation communications for CIRI**

CIRI got a boost on that front during the recently completely legislative session. Gov. Sean Parnell recently signed a law that excludes independent producers or renewable power producers from economic regulation. The move could keep renewable power from facing the turmoil over pricing that has plagued natural gas contracts over the past decade.

"This is knocking down a hurdle for independent power producers," Jager said.

However, many independent power producers in Alaska are concerned about their status in proposed attempts to unify the major electric companies in the Railbelt.

Legislation tabled in the last regular session would have allowed the six utilities to pool their generation and transmission assets under a single corporation, but did not explicitly guarantee that independent power producers would be able to sell power into the grid.

CIRI has not commented on that proposal.

FAA navigation issue resolved

CIRI is also still trying to figure out the best way to integrate Fire Island into the existing Railbelt electricity grid. The project is the largest wind power source ever added to the grid, a change from the steady power provided by natural gas, hydropower and diesel.

Jager said the magnitude of that challenge depends on who you ask.

"The best solution is not obvious," he said, adding that the rapid growth of domestic wind energy means that ideas for stabilizing and storing power are constantly being introduced.

Locally, CIRI is working on a solution with regional utilities.

CIRI appears, though, to have resolved another major sticking point in the project, the potential that the wind turbines would interfere with a navigation system on the island used for flights into Anchorage. CIRI now plans to build a new system at the Anchorage International Airport this summer. The Federal Aviation Administration would need time to test the new system before decommissioning the existing one on Fire Island, and giving the going ahead for "vertical construction," or the actual erection of the turbines.

That timeline would allow CIRI to erect windmills in 2012, as originally planned. ●

Contact Eric Lidji at ericlidji@mac.com

● PIPELINES & DOWNSTREAM

Adjudicatory hearings set on C-plans

DEC commissioner grants hearing request by Lakosh on specific issues in tanker oil discharge prevention and contingency plans

By KRISTEN NELSON
Petroleum News

Oil discharge prevention and contingency plans for Prince William Sound and Cook Inlet have been challenged and Larry Hartig, commissioner of the Department of Environmental Conservation, has granted requests by Tom Lakosh for adjudicatory hearings. Hartig limited those hearings to specific issues set out in May 27 orders.

Plans challenged include: the 2007 Prince William Sound tanker oil discharge prevention and contingency plans of Alaska Tanker Co. LLC, Chevron Shipping Co. LLC, Polar Tankers Inc., SeaRiver Maritime Inc. and Tesoro Alaska Petroleum Co.; the 2009 BP tank vessel operations oil discharge prevention and contingency plan; and the 2009 Tesoro Alaska Co. Cook Inlet vessel oil discharge prevention and contingency plan.

After the C-plans were reviewed and approved by DEC's Division of Spill Prevention and Response, Lakosh requested informal reviews. None of the informal reviews resulted in any changes to the plans as approved by the division.

Lakosh then requested adjudicatory hearings. The division and four of the five plan holders filed responses.

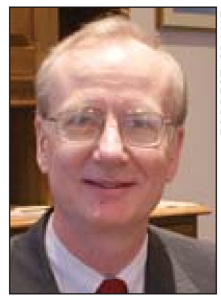
In his order the commissioner said a request for hearing must identify how a requestor's interest will be affected by the decision and must identify a disputed issue of material fact or a question of law for consideration at the hearing.

He said both the division and the shippers argued that since Lakosh has lost prior appeals on the same issues he shouldn't be granted a hearing on the same issues, but Hartig said that while prior decisions "may be grounds for summary determination, … whether a prior decision bars re-litigation of the same factual dispute or legal question will be determined only after a hearing is granted on that issue."

Hartig said a hearing is "not to evaluate or second-guess" the approval or disapproval of the C-plan, but "is held to determine whether that decision relied on any inaccurate information or faulty legal analysis," giving the commissioner an opportunity to correct any mistake that may have been made in approving a C-plan, as well as allowing for "the creation of a focused record on appeal for any reviewing court" if the commissioner's final decision is further appealed.

The appeal

"Mr. Lakosh's request is anything but clear and concise. Many of his statements are simply assertions of illegality or bad policy," the commissioner said. However, it was "possible to glean some identifiable issues of disputed fact and disputed issues of law," and hearing was granted on those specific issues.



FORREST CRANE

LARRY HARTIG

Both the division and the shippers argued that Lakosh does not have standing to request an adjudicatory hearing, something established by regulation and requiring that the requestor be directly and adversely affected by the decision.

Lakosh based his standing on being an Alaska resident who intends to use Prince William Sound resources for hunting, fishing and recreating. He said in his appeal that his use of Prince William Sound resources was harmed by the Exxon Valdez oil spill and that there would be similar harm from any future oil spill, the commissioner said.

Statutes establishing the powers and responsibilities of DEC require oil spill prevention and contingency plans and say it is state policy that natural resources and the environment are protected "to enhance the health, safety, and welfare of the people of the state and their overall economic and social well-being."

The commissioner said Lakosh's interests in using Prince William Sound for hunting, fishing and recreation are intended to be protected by state law, but because this decision is about the approval of a C-plan, Lakosh's interests are "not directly and substantively impaired" by approval of the C-plan.

> *"While Mr. Lakosh does not meet the standing requirements of this regulation, his long-standing interest in this area, and his history of litigating similar cases, demonstrates that he has the requisite adversity to fully prosecute these issues."*
> **—DEC Commissioner Larry Hartig**

Hartig said he exercised his discretion to relax the department's regulatory requirements and grant a hearing to Lakosh, based on his "long-standing involvement in oil spill prevention and contingency issues."

While many people use Prince William Sound, and are interested in protecting it from oil spills, few have been as active as Lakosh "in researching and commenting on oil spill prevention and mitigation issues, including C-Plans," Hartig said.

"One goal of a standing requirement is to ensure that the litigant has a sufficient stake in the controversy to guarantee adversity. While Mr. Lakosh does not meet the standing requirements of this regulation, his long-standing interest in this area, and his history of litigating similar cases, demonstrates that he has the requisite adversity to fully prosecute these issues."

Issues considered

Hartig evaluated 17 issues raised by Lakosh and identified nine — some disputed issues of fact, some questions of law and some mixed — on which hearing is granted.

Issues identified for hearing are:

• Whether a C-plan must include plans for responding to a spill "in all areas of the Prince William Sound region of operation" and "in other regions of operation adjacent to federal waters in which the plan holders' tank vessels operate";

• Whether a best available technology analysis is required for each escort vessel rather than for the system as a whole;

• Whether the same response vessel may be listed in two or more separate C-plans;

• Whether the division was required to apply a best available technology analysis for booming vessels at sea, and if so what type of analysis;

• Whether the helicopter is capable of fulfilling its role in the C-plan;

• Whether the C-plan includes a list of all recovery equipment relied on, along with equipment specifications;

• Whether the C-plan adequately lists possible environmental conditions throughout Prince William Sound;

• Whether there are tides or currents not accounted for in a scenario and if so whether the C-plan is required to account for those tides or currents; and

• Whether the division is required to conduct a best available technology analysis for the two lines used on escort vessels and if so

see HEARINGS page 13

● SAFETY & ENVIRONMENT

NASA icebreaker Beaufort, Chukchi bound

Agency's first dedicated oceanographic field campaign leaves June 15 to probe climate change impact on Arctic chemistry, ecosystems

PETROLEUM NEWS

NASA's first dedicated oceanographic field campaign goes to sea June 15 to take an up-close look at how changing conditions in the Arctic are affecting the ocean's chemistry and ecosystems that play a critical role in global climate change.

The "Impacts of Climate on Ecosystems and Chemistry of the Arctic Pacific Environment" mission, or Icescape, will investigate the impacts of climate change on the ecology and biogeochemistry of the Chukchi and Beaufort seas on Alaska's northern border.

A key focus, the agency said in a press release June 8, is how changes in the Arctic may be altering the ocean's ability to absorb carbon from the atmosphere.

The greenhouse gas carbon dioxide is a leading cause of global warming, NASA said.

Predictions of future climate change depend on knowing the details of how this carbon cycle works in different parts of the world. NASA's Earth science program conducts research into the global Earth system using satellite observations. Identifying how Earth's ecology and chemistry are influenced by natural processes and by humans is a key part of this research.

Ideal location for study

The Arctic Ocean, unlike other oceans, is almost completely landlocked, making it an ideal location to study ongoing climate changes in a marine ecosystem already heavily impacted by declining sea ice cover, ocean acidification, and an increase in incoming solar radiation. NASA said these changes are likely to modify the physics, biogeochemistry, and ecology of this environment in ways that are not well understood. Satellite remote sensing has provided some insight into these changes which Icescape is designed to advance.

COURTESY U.S. COAST GUARD

Icescape takes to sea onboard the U.S. Coast Guard Cutter Healy, the United States' newest and most technologically advanced polar icebreaker.

"The ocean ecosystem in the Arctic has changed dramatically in recent years, and it's changing much faster and much more than any other ocean in the world," said Icescape chief scientist Kevin Arrigo of Stanford University.

"Declining sea ice in the Arctic is certainly one reason for the change, but that's not the whole story. We need to find out, for example, where the nutrients are coming from that feed this growth if we are going to be able to predict what the future holds for this region."

> *"The ocean ecosystem in the Arctic has changed dramatically in recent years, and it's changing much faster and much more than any other ocean in the world."*
> **—Icescape chief scientist Kevin Arrigo, Stanford University**

Advanced polar icebreaker

Icescape takes to sea onboard the U.S. Coast Guard Cutter Healy, the United States' newest and most technologically advanced polar icebreaker. The Healy conducts a wide range of research activities, providing more than 4,200 square feet of scientific laboratory space. It is designed to break four-and-a-half feet of ice continuously at three knots and operate in temperatures as low as minus 50 degrees Fahrenheit.

The Healy is scheduled to leave Dutch on June 15 and head to the Bering Strait where it will begin ocean sampling. The voyage continues across the southern Chukchi Sea and into the Beaufort Sea along the ocean shelf.

In early July the Healy will head north into deeper waters to sample thick, multi-year sea ice and take samples within and beneath the ice.

More than 40 scientists will spend five weeks at sea sampling the physical, chemical and biological characteristics of the ocean and sea ice. A variety of instruments will be used onboard the Healy and deployed into the ocean and on the sea ice.

An automated microscope onboard will take continuous digital photographs of phytoplankton cells for near-real time observations of the quantity of different species. Floats with near-real time satellite communication will be placed in the ocean to measure temperature and various biological and optical properties. Scientists also will work on the sea ice several hundred yards from the ship to study the condition of the ice and sample the ocean ecosystem beneath it.

Satellite observations

NASA said satellite observations are a key part of the Icescape mission. The federal agency uses its satellite observations to monitor the microscopic plant and animal life in the world's oceans. This "ocean color" data gives scientists a global view of a critical ecosystem that regulates the flow of carbon into and out of the sea. Similar observations of the Arctic waters collected from the Healy during Icescape will be used to improve the accuracy of the satellite data over the entire region.

Icescape science teams are led by researchers from Stanford University; the U.S. Army Engineer Research and Development Center Cold Regions Research and Engineering Laboratory, Hanover, N.H.; Scripps Institution of Oceanography, La Jolla, Calif.; Woods Hole Oceanographic Institution, Woods Hole, Mass.; University of Washington, Seattle; Clark University, Worcester, Mass.; and the Bermuda Institute of Ocean Sciences, St. George's.

Icescape is funded by NASA's Science Mission Directorate, Washington. The $10 million program is a joint effort of the Earth Science Division's Cryospheric Sciences and Ocean Biology and Biogeochemistry programs. ●

● FINANCE & ECONOMY

EIA: Oil production loss from moratorium

Agency projects Interior's 6-month hold on deepwater drilling will cost 26,000 barrels in 4th quarter, up to 70,000 bpd next year

PETROLEUM NEWS

The six-month moratorium on deepwater drilling imposed by the U.S. Department of the Interior in late May will result in a 26,000 barrel-per-day loss of U.S. production in the fourth quarter of this year, rising to 70,000 bpd in 2011.

That was the preliminary estimate the U.S. Energy Information Administration included in its June short-term energy outlook, released June 8.

The estimate is part of EIA's projection of a 20,000 bpd fall in U.S. crude oil production in 2011, down about 110,000 bpd from the agency's May projection. EIA said its preliminary estimates show a cumulative 2.4 million barrel reduction of output from the deepwater Gulf of Mexico this year due to the moratorium and a 25 million barrel reduction in 2011, with the reduction averaging 9,000 bpd in September and 80,000 bpd by December 2011.

Crude oil prices fluctuated in May, the EIA said, with the West Texas Intermediate spot price hitting a high of $86 per barrel May 3 and a low of $65 May 25; WTI ended the month at $74. The agency said market analysts credit the crude price decline to uncertainty over the global economic recovery, particularly with respect to Europe's debt crisis and the tightening of credit by China, and liquidation of futures contracts.

EIA is projecting WTI spot prices to average $79 per barrel this year and $83 in 2011; both estimates are about $3 lower than the agency projected in May.

The Henry Hub natural gas spot price is expected to average $4.49 per million British thermal units this year, a 54 cent increase over the 2009 average. EIA said the spot price in 2011 is expected to average $5.08 per million Btu, down 28 cents from the agency's May forecast.

Crude oil supplies

EIA is projecting non-OPEC supply to increase by 500,000 bpd this year, 160,000 bpd lower than the agency's May forecast.

"A more pessimistic outlook for supply growth in Brazil and Central Asia is the principle source of the downward revision, though these two areas (along with the United States) still constitute the bulk of expected non-OPEC growth supply in 2010," EIA said.

The Organization of the Petroleum Exporting Countries is projected to keep its crude oil production levels largely unchanged for the remainder of the year. EIA said countries with the bulk of OPEC's spare capacity — Saudi Arabia, Kuwait and the United Arab Emirates — "have maintained their quota discipline at current levels for an extended period and are expected to continue doing so barring significant changes in the world market outlook."

OPEC production is expected to increase by 500,000 bpd in 2011 as new capacity is added in countries such as Angola.

EIA said OPEC data show that surplus crude oil production capacity is not expected to increase significantly in 2010-11 over first-quarter 2010 levels.

Commercial oil inventory held in the Organization for Economic Cooperation and Development, the world's industrialized nations, was 2.7 billion barrels at the end of the first quarter, about 58 days of forward cover, and roughly 102 million barrels more than the five-year average for the corresponding time of year.

"Although OECD oil inventories are still projected to maintain at the upper end of the historical range over the forecast period, they are falling as a result of a combination of higher oil consumption and OPEC production restraint," EIA said.

Natural gas

EIA said U.S. natural gas consumption is about 0.5 billion cubic feet per day higher in this forecast than in May, averaging 64.9 bcf per day this year and 64.6 bcf in 2011.

Consumption growth is projected to increase by 2.4 bcf per day in 2010 "led by strong growth in the electric power and industrial sectors."

EIA said its projection of natural gas consumption for 2011 fell slightly as growth in the industrial sector is expected to slow to 0.2 bcf per day, a growth more than offset by an expected 0.5 bcf per day decline in natural gas consumption in the electric power sector.

Total marketed natural gas production in the U.S. is projected to increase by 1.2 bcf per day in 2010 to 61.2 bcf. EIA said natural gas production grew steadily in the first quarter, as the number of working natural gas rigs reported by Baker Hughes increased from 759 to 941. The agency said it increased its production forecast based on a projected increase in working gas rigs to 970 at the end of May.

NOAA hurricane forecast

"The increase in production is partially offset by new estimates of shut-in production based on NOAA's latest hurricane forecast," with tropical storm activity and accompanying production outages expected to be "significantly higher this year than last year."

EIA is estimating a median for projected total shut-in production due to tropical storms from June through November of 166 bcf, compared to an estimate for shut-in production last year of 19 bcf.

In 2011 natural gas marketed production is expected to fall almost 0.5 bcf per day to 60.8 bcf, a forecast which includes the agency's preliminary estimates of reduction in Gulf of Mexico production due to the moratorium on deepwater drilling of 8 bcf this year and 74 bcf in 2011.

Liquefied natural gas imports are projected to increase by 0.27 bcf per day in 2010 and by 0.16 bcf next year, although high prices in Europe and Asia relative to the U.S. will continue to draw LNG cargoes, with the U.S. serving as a secondary market.

EIA said it has increased its forecast for pipeline imports by 0.29 bcf from May, and said those imports are expected to play an important role in offsetting hurricane-related production outages in the Gulf of Mexico.

Working gas in storage was 2.357 trillion cubic feet on May 28, 306 bcf above the previous five-year average and 38 bcf above the corresponding week in 2009. EIA said it expects inventories at the end of October to be 3.805 tcf, slightly below the level last October and the 3.837 tcf peak inventory in November 2009. ●

● NATURAL GAS

Partial funding for southern Kenai gas

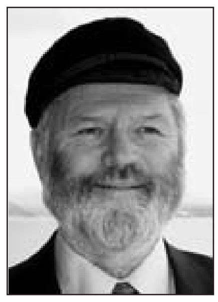
Final budget cuts $4.5 million for line to Homer, but pays for reduction units to bring gas to Anchor Point and Nikolaevsk

By ERIC LIDJI

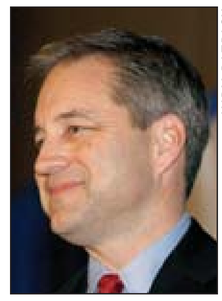
For Petroleum News

For decades, people in the southern Kenai Peninsula have filled their fuel tanks with heating oil as they enviously watched their neighbors in the northern end of the peninsula enjoying relatively cheap supplies of natural gas produced in the nearby Cook Inlet basin.

When Armstrong Alaska sanctioned development of the North Fork unit, an undeveloped oil and gas accumulation north of Homer, many in the southern Kenai saw their dreams of natural gas finally coming true. The capital budget Gov. Sean Parnell signed on June 3, though, suggests that while those dreams might come true, it won't happen overnight.



PAUL SEATON



JUDY PATRICK

SEAN PARNELL

The Parnell administration shied away from funding larger transmission projects in favor of cheaper technical facilities also required for distributing natural gas to communities.

The budget funds two pressure reduction units. That piece of equipment makes the high-pressure gas in transmission lines suitable for the lower pressure distribution lines that go directly to homes and businesses. The units will go to Nikolaevsk and Anchor Point.

The units cost $250,000 each.

Homer wanted pipe

While those units are essential for expanding the natural gas grid to the southern Kenai, they're a far cry from what Homer, the largest city in the region, wanted from the state.

Homer got a $4.8 million line item added to the budget for 14 miles of 8-inch plastic pipe to pick up 5 million cubic feet of natural gas daily from North Fork (an amount Enstar Natural Gas said would be adequate for a 30-year build out of distribution in the city) and for a pressure reduction unit in Anchor Point, a pre-requisite for bringing gas to Homer.

Parnell, though, vetoed all but $525,000 of that line item, saying the rest would be considered in a future budget cycle. The funding covers the cost of the pressure reduction unit and leaves some money left over for studies or for laying a small section of pipeline.

"The question will be — do people want to spend money getting the pipe started towards Homer or on doing studies and planning," Rep. Paul Seaton, R-Homer, wrote following the veto.

Some money OK'd

The Office of Management and Budget said Parnell liked the project, and specifically kept some money in the budget to address four issues raised by legislative intent.

The intent requires that gas from a Homer pipeline not cost less than gas in other parts of the basin; a Homer pipeline not harm other customers across the region; state funding for the pipeline help offset rates throughout the region; and the city of Homer develop a plan for a distribution system to bring as many locals as possible onto the grid.

Seaton believes those concerns have already been addressed.

He said the supply contract between Armstrong and Enstar takes care of the first two, while the third "cannot be answered by a study" and the fourth is covered by existing municipal planning documents. "Of course a detailed identification of users could be made by the City, but Enstar already does that as part of its distribution design process for each area that wants to invest in a distribution system," Seaton wrote.

The approved funding sets the stage for bringing natural gas to Anchor Point, a highway community with about 1,800 people, a health clinic, a school and many businesses.

Nikolaevsk, a community about 300 people with a school and a few local businesses, will get its pressure reduction unit through a different line item added by Sen. Tom Wagoner.

Having access to natural gas should reduce heating costs for both communities, neither of which gets to participate in the Power Cost Equalization subsidy for rural communities.

Homer seeking alternatives

While the southern Kenai has been trying to get gas for decades, this detailed planning only became practical over the past year, when Armstrong signed a supply contract with Enstar and agreed to build a pipeline from North Fork to Anchor Point (in return for Enstar building a extension of the Kenai-Kachemak Pipeline south to Anchor Point).

While that route connects North Fork to the regional natural gas transmission system, it also bypasses Homer, a city on the south tip of the peninsula with some 5,500 people.

Homer tried a different approach during the recent legislative session, with the $4.8 million line item for a pipeline system to tap into North Fork. Schools and local governments promoted it as a way to cut energy costs paid for by the public. In late April, Seaton, the longtime representative for the Homer area, sent Parnell a letter connecting the pipeline project to publicly funded energy efforts going back 30 years.

Parnell, though, reduced the line item and decided to look at the issue again in the future.

Homer is still looking for ways to get natural gas soon. Seaton's office recently began researching how Enstar expanded into the Mat-Su region in the early 1980s. ●

Contact Eric Lidji at ericlidji@mac.com

GOVERNMENT

Fish and Wildlife sets two hearings

The U.S. Fish and Wildlife Service said June 9 that it will hold two public hearings to seek comments on the proposal to designate critical habitat for the polar bear and on the draft economic analysis of that proposed designation.

An Anchorage hearing will be June 15 at the Wilda Marsten Theater at the Z.J. Loussac Library. A Barrow hearing will be June 17 at the Inupiat Heritage Center.

Both hearings will be from 7-10 p.m., with a presentation followed by a question and answer period.

Public testimony will be taken and comments are requested in writing.

Comments will be accepted through July 6.

—PETROLEUM NEWS

GOVERNMENT

Begich proposing new oil spill legislation

Sen. Mark Begich announced June 10 that he is preparing a package of new oil spill legislation for introduction to the U.S. Congress.

"As the tragedy in the Gulf continues, it's clear we need to significantly increase our nation's ability to prevent and respond to oil spills," Begich said. "From the testimony in the Commerce Committee, it's sadly apparent the industry was caught flat-footed in their ability to respond to this disaster."

The legislation would require companies, such as BP, with outstanding liabilities from an oil spill to deposit funds into an escrow account that would then be used to meet damage claims resulting from the spill. The current company liability of $75 million for a single spill would be raised to $200 million, but there would be no liability cap for deepwater wells. And there would be a requirement for substantial liability bonding prior to any exploration or development drilling.

The bill proposes up to $50 million per year in funding for Arctic oil spill prevention and response research by federal agencies in cooperation with state, local and private-sector research programs. A one-cent-per-barrel increase in the levy on domestically produced oil and a three-cent-per-barrel increase on the levy for imported oil would boost funding for the Oil Spill Liability Trust Fund, with $75 million from the fund going annually into oil spill prevention and response research, technology and infrastructure.

And the bill would authorize the creation of industry-funded regional citizens' advisory commissions in areas of offshore development to enable greater citizen involvement in oil development decisions; oil spill contingency planning; and environmental monitoring.

—ALAN BAILEY

EXPLORATION & PRODUCTION

US rig count decreases by 29 to 1,506

The number of rigs actively exploring for oil and natural gas in the U.S. decreased by 29 the week ending June 4 to 1,506.

Houston-based Baker Hughes Inc. said 947 rigs were exploring for natural gas and 545 for oil. Fourteen were listed as miscellaneous. A year ago this week, the rig count stood at 887. Of the major oil- and gas-producing states, North Dakota gained eight rigs, West Virginia gained three and California gained one. Louisiana lost 22 rigs, Texas lost 10, Wyoming lost four, Oklahoma lost three and Alaska and Colorado each lost two. Arkansas, New Mexico and Pennsylvania were unchanged.

The rig count tally peaked at 4,530 in 1981, during the height of the oil boom. The industry posted a record low of 488 in 1999.

—THE ASSOCIATED PRESS

ALTERNATIVE ENERGY

CIRI, Laurus form coal gasification JV

Cook Inlet Region Inc. and Houston-based Laurus Energy have announced the formation of a joint venture called Stone Horn Ridge LLC to build an underground coal gasification facility on CIRI land on the west side of Alaska's Cook Inlet.

When in October CIRI announced its plans to develop an underground coal gasification, or UCG, facility to generate synthetic gas to fuel a 100-megawatt power station, the Alaska regional Native corporation said that it would establish a deal to partner with Laurus Energy, a company that specializes in UCG applications in North America using proprietary UCG technology from a Canadian company, Ergo Exergy Technologies.

UCG involves the pumping of compressed air into a coal seam deep underground to enable the controlled underground combustion of some coal; the heat from the burning converts excess air and the bulk of the coal to synthetic gas for delivery to the surface through production wells. Carbon dioxide in the gas would be stripped out for enhanced oil recovery from Cook Inlet oil fields, while the remaining combustible components of the gas would provide a valuable replacement for tightening supplies of Cook Inlet natural gas, as a power generation feedstock.

"Stone Horn Ridge ensures that the U.S. doesn't fall behind the rest of the world in developing UCG as a critical piece of the country's new energy economy," said Rebecca McDonald, CEO of Laurus Energy on June 8 in announcing the new joint venture.

"UCG is changing the way we think about coal and allows us to harness its power in a responsible, economic and environmentally sound way," said Ethan Schutt, CIRI's senior vice president of land and energy development. "By combining the abundant and otherwise unusable coal reserves on CIRI land with Laurus Energy's proprietary Exergy UCG technology, Stone Horn Ridge is creating a cost-effective energy source to meet increasing needs."

—ALAN BAILEY

continued from page 9

HEARINGS

what type of analysis is required.

Hartig said Lakosh's requests for hearings on the 2007 and 2009 C-plans involve overlapping issues, and the order on the 2007 C-plans is incorporated by reference into the orders on BP's and Tesoro's 2009 C-plans.

In requesting a hearing on BP's 2009 C-plan, Lakosh added an issue, new Coast Guard regulations which become effective in 2011. Lakosh contends that the C-plan most either terminate before the new regulations become effective or the plan holder must amend its plan prior to the effective date. Hartig said whether a C-plan must "incorporate known future changes to the federal regulations and, if so, in what way those changes should be accounted for is a disputed question of law," which will be considered at the hearing.

That issue is also included in the hearing request on Tesoro's C-plan.

The commissioner said that the discussion of best available technology and list of equipment in the Tesoro hearing request is expanded beyond what was included in the other requests for hearing, and those issues are included in the hearing.

Another issue in the Cook Inlet plan included for hearing is whether Tesoro is required to include a response scenario for winter conditions in Cook Inlet, as well as an issue of whether Tesoro's list of response equipment includes information required in state regulations. ●

Contact Kristen Nelson at knelson@petroleumnews.com

continued from page 1

ESCOPETA

sion director.

"It will also provide the necessary amount of time to modify a warm-climate jack-up rig to be suitable for the colder climates of Alaska," Davis said.

June 30 deadline

When in June 2009 the division approved the formation of the Kitchen Lights unit, it also approved a five-year work plan that required all necessary permits for drilling to be in place by June 30, 2010, and a contracted jack-up rig to be on its way to Alaska on a heavy-lift vessel by that same date. Escopeta had to spud an initial Kitchen Lights exploration well by Dec. 31, 2010, with a requirement to drill four wells in the period 2010 to 2013.

DANNY DAVIS

But, with June 30 fast approaching, Escopeta has not yet landed a contract for the use of a jack-up rig in Cook Inlet.

"Efforts were made to contract rigs from India and Asia with no success," Davis said. "Negotiations with ENSCO, Transocean and Scorpion were unsuccessful, with those companies not wanting to move a jack-up to Alaska."

Escopeta is still negotiating with offshore drilling contractor Pride International Inc. over the construction of a jack-up designed for use in the Cook Inlet, Davis said, presumably referring to rig modifications necessary for Alaska operations. The rig cannot be loaded for delivery to Alaska before early 2011, a timeframe that would result in the rig arriving in Cook Inlet in March 2011, he said.

Moreover, negotiations over rig sharing with other companies with offshore interests in the Cook Inlet are still in progress, Davis said. One of those companies would presumably be Buccaneer Resources, the Australian independent that has recently been acquiring Cook Inlet offshore leases.

On the other hand, all necessary permits for the Kitchen Lights drilling that are not rig specific have been issued or are pending issue, Davis said. Those permits include a Jones Act waiver to enable a foreign-flagged heavy-lift vessel to carry the jack-up rig to the Cook Inlet, he said.

Applications for permits that are rig specific, including the Alaska Oil and Gas Conservation Commission drilling permit, the Alaska Department of Environmental Conservation air permit and the U.S. Environmental Protection Agency storm water discharge permit, cannot be submitted until a drilling rig has been obtained, Davis said.

Spud in April

By the time that the jack-up rig is delivered to the Cook Inlet and all negotiations and permit approvals are complete, a realistic spud date for the first Kitchen Lights well would be in April 2011, just four months after the spud date envisaged in the initial Kitchen Lights plan of exploration, Davis said.

So Escopeta now wants the June 30 deadline moved to Feb. 28 and the Dec. 31 commitment changed to a commitment to drill one of a series of specified wells by Sept 30, 2011. The drilled well would extend through the Tertiary strata of the basin to penetrate pre-Tertiary rocks, thus presumably qualifying for a new $25 million tax credit passed in this year's state legislative session.

Davis said that rising oil prices, natural gas deliverability issues in the Cook Inlet basin, recently passed state legislation supporting Cook Inlet exploration and the current availability of jack-up rigs at reduced rates all favor exploration in the Kitchen Lights unit. On the other hand, the listing of the Cook Inlet beluga whale under the Endangered Species Act and the ramifications of the Gulf of Mexico oil spill have raised question marks over Cook Inlet offshore drilling, he said.

Unanswered questions

Banks told Petroleum News June 8 that the division wants to make a decision on Escopeta's request by June 30, the deadline date that Escopeta wants deferred. But the division will first send a note to Davis in response to the request, he said.

"There are several unanswered questions," Banks said.

Those questions include a need for specific accounting of leaseholder expenditure that Davis cited in his May 30 letter. The division also wants Escopeta to clarify why it is citing the listing of the Cook Inlet beluga whale as a new impediment to Cook Inlet drilling, given that the listing was already in place when the Kitchen Lights unit was formed, Banks said.

Davis in his letter had said that, with expenditure of about $32.5 million already having been sunk in lease and exploration expenses associated with the Kitchen Lights prospects, "it would be very unlikely EOC (Escopeta Oil Co.) would not appeal an adverse decision that would put a potential loss of this investment at risk." And, even without an appeal, the process involved in involuntary termination of the unit would take longer than the 180-day extension that Escopeta was requesting, Davis said.

Encourage drilling

The state originally proposed the formation of the Kitchen Lights unit in late 2008 in a concept designed to trigger new exploration drilling in some of the few remaining Cook Inlet basin exploration prospects in major geologic structures. Most other prospects in major structures have already been explored and developed, although geologists think that significant exploration opportunities remain in more subtle — and more challenging — oil and gas traps.

The Kitchen Lights unit actually encompasses three previously established offshore prospects — Kitchen, Northern Lights and Corsair — all lying along a structural trend that includes the ConocoPhillips-operated North Cook Inlet gas field and all requiring a jack-up rig for exploration drilling. Several different leaseholders separately owned interests in the prospects and the state saw unit formation as a means of aligning exploration efforts under a single operator.

In the event, the various leaseholders enabled the unit to form by selling or farming out their interests to Escopeta, which subsequently became unit operator.

Previous efforts

Escopeta has for several years been pushing for the exploration of Kitchen, a prospect that the company has viewed as offering the promise of a major new Cook Inlet gas find. The company has made previous efforts to bring a jack-up rig to Cook Inlet for drilling in the prospect, but those efforts fell through for various reasons.

In a June 3 information package to Apache Corp., a Houston-based independent that has been considering entering Cook Inlet, Escopeta characterized the Kitchen Lights unit as being about 104,000 acres in extent, with two distinct prospects (these presumably encompass the three original prospects in the unit). The first prospect, referred to as the Kitchen Lights anticline, is thought to hold 400 million barrels of oil and 2 trillion cubic feet of natural gas, while the second prospect, known as the Kitchen thrust fault trap, may hold 800 million barrels of oil and 4 trillion cubic feet of gas, Escopeta said. ●

Contact Alan Bailey at abailey@petroleumnews.com

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APACHE OFFER

"The offer was way low but I think we can work something out," Davis told Petroleum News June 10. Davis said that another company had also made an offer for some Escopeta leases.

Escopeta has asked Alaska's Division of Oil and Gas for a 180-day deferral of a commitment to secure a jack-up rig for drilling in Kitchen Lights — the current approved work plan for the unit requires Escopeta to have a jack-up on its way to Alaska by June 30 but the company has not yet contracted a rig. The Apache offer is contingent on the division granting the time extension.

The division expects to make a decision on the extension request by end June.

A Petroleum News source has said that Apache has also made other offers to buy leases in the Cook Inlet basin. The company has international offshore operations, has been seeking new acquisitions and is known to have been investigating Cook Inlet prospects.

—ALAN BAILEY

FINANCE & ECONOMY

BP board hit with third shareholder suit

Another "shareholder derivative" lawsuit has been filed in Alaska against directors and executives of troubled oil company BP.

It's the third such suit brought in state Superior Court in Anchorage.

Plaintiffs in the latest case include the Pinellas Park Retirement System (General Employees) and two individual BP shareholders. They're suing "derivatively" on behalf of BP PLC and subsidiaries BP America Inc. and BP Exploration (Alaska) Inc.

Defendants include BP's board of directors and executives including the company's chief executive, Tony Hayward, and BP Alaska President John Minge.

The 58-page lawsuit appears nearly identical to two previous shareholder derivative lawsuits filed in May in the Superior Court.

All the suits accuse BP directors and officers of mismanagement with respect to the Gulf of Mexico oil spill and environmental problems in the BP-run Prudhoe Bay oil field.

The suits seek compensatory and punitive damages; an injunction compelling the board to ensure BP managers don't violate safety and environmental laws; and appointment of an independent safety and environmental "corporate monitor" at BP.

Law firms including Ashburn & Mason of Anchorage and class-action specialist Robbins Geller Rudman & Dowd of San Diego brought all three suits.

National media reports say BP has been hit with a multitude of lawsuits in the wake of the Deepwater Horizon disaster.

—WESLEY LOY

SAFETY & ENVIRONMENT

Arctic sea ice cover declines rapidly

Thanks to warmer than average air temperatures, the Arctic sea ice extent declined rapidly in May, bringing the ice extent toward the record May low that occurred in 2006, the National Snow and Ice Data Center announced June 8. In the continuation of a trend that has persisted since the winter of 2008-09, air temperatures were 4 F to 9 F above average in May across much of the Arctic Ocean, NSIDC said.

Following a late start to the melt season, the ice extent had been close to average in April but May's rapid ice melt puts the ice extent below the extent in May 2007, the year that saw the ice cover shrink to its smallest minimum extent since satellite ice measurement began in 1979. However, 2010 will not necessarily see a new record in the minimum extent — that minimum extent, which generally occurs in September, will depend on weather and wind conditions over the next few months, NSIDC said.

NSIDC said that studies indicate that the sea-ice thickness and volume have declined along with the ice extent since 1979. A model developed by the University of Washington indicates that the decline in ice volume at the end of May has been especially rapid since 2007.

—ALAN BAILEY

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OPEN SEASON

state it "should be an interested or affected governmental authority with access to the reading room, regardless of its status as a prospective shipper, provided the state representatives with access to the reading room do not share reading room information with a competing project or its representatives."

Alaska also argued that Denali's confidentiality agreement required parties signing the agreement to indemnify Denali against third-party claims arising from unauthorized use or disclosure and required parties reviewing documents to consent in advance that a breach of the agreement causes irreparable harm.

Alaska said its constitution restricts agencies from entering into indemnification provisions, which could preclude state representatives from reviewing reading room material.

Denali said that its procedures for reading room access, including confidentiality agreements, were structured to ensure that all shippers were equally informed on matters affecting decisions on whether to bid for capacity on the line, while protecting against unauthorized disclosure. Denali said it was particularly concerned about "sharing confidential, proprietary, and competitively sensitive reading room information with Alaska representatives who are also involved in the management of the state's interests in the Alaska Pipeline Project."

FERC sides with Denali on access

FERC said it agreed with Denali that under its open season regulations, "the only entities entitled to access Denali's shipper reading room are potential shippers."

With the unique competitive circumstances surrounding the two Alaska gas line projects and the state's relationship to the Alaska Pipeline Project, "we do not find unreasonable Denali's concerns that the confidential, proprietary, and competitively sensitive reading room information not be shared with Alaska representatives involved in the management oversight of the state's interests in a competing pipeline project or for purposes other than acquiring capacity in Denali's open season."

FERC said the state has agreed to permitted use restrictions in a protective order issued in a Trans-Alaska Pipeline System proceeding, where representatives of Alaska were not required to sign the non-disclosure certificate but the state was required to provide a list of employees to be granted access to protected materials and those employees were required to treat the materials as confidential under Alaska's Executive Branch Ethics Act.

"Such a provision was deemed there to be sufficient to ensure that Alaska would be able to meet the permitted use requirements, and such a provision should be workable here, as well."

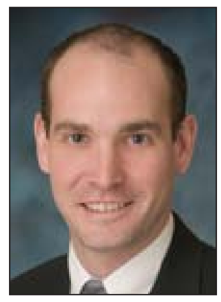
FERC also noted that in the previously cited instance, the parties did not waive any right to pursue any legal or equitable remedies in the event of a breach of the confidentiality agreement, and said that should suffice here.

The commission said that in Order No. 2005-A, it "recognized that the parties would have to address the matter of dealing with confidential or sensitive 'protected information,' and we also stated that the Commission and its staff would assist the parties in resolving any disputes in this area. We reaffirm that commitment here." ●

Contact Kristen Nelson at knelson@petroleumnews.com

Oil Patch Bits

Evans joins Anchorage office of Stoel Rives



JOHN EVANS

Stoel Rives LLP said June 2 that John R. Evans has joined its Anchorage office as an associate in the Litigation group. Evans maintains a broad-based real estate and construction practice, principally on behalf of clients in the oil and gas industry. His practice encompasses the variety of issues faced by energy producers and transporters, including permitting, contract negotiation, dispute resolution and litigation. Before joining Stoel Rives, Evans was an associate at Sonnenschein Nath & Rosenthall LLP in St. Louis, Mo. Stoel Rives is a business law firm providing corporate and litigation services to a wide range of clients throughout the U.S.

ASRC Energy Services named a 2009 top design firm

ASRC Energy Services said that its engineering group has been ranked No. 175 on the 2009 Engineering News-Record Top 500 Design Firms list, bucking an industry-wide recession in the process with revenue growth of 10 percent. AES had total 2009 engineering revenue of $62.1 million according to the list, making it one of only three Alaska companies to crack the top 200. That figure includes international revenue from AES Tri Ocean Engineering Ltd. "What we've done is matured as an organization," said Darcee Adam, engineering general manager, AES. "As we've matured we've grown and that's allowed us to build the confidence of our clients, build relationships, and that in turn lead to more work." The engineering group at AES has grown from a seven-person outfit in 2003 into a 200-plus-person operation in 2010. Acquired in 1985 by Arctic Slope Regional Corp., AES is a wholly owned subsidiary of Alaska's largest Native corporation, which is also one of the largest minority-owned businesses in the U.S.

Crowley and Gunderson Marine make $10,000 donation

Crowley Maritime Corp said that it, along with Gunderson Marine, recently made a $10,000 joint donation to the First Alaskans Institute to further advance education and cultural enrichment for Alaska Natives. Crowley Vice President Craig Tornga presented Willie Hensley, a noted author, chairman of the Board of Trustees of the First Alaskans Foundation and former manager of Federal Government Relations for Alyeska Pipeline Service Co., along with First Alaskans CEO Janie Leask, a Haida-Tsimshian and member of the Tsimshian Eagle Clan, with the check at a dinner commemorating the christening of Crowley's newest heavy-lift series barge in Portland, Ore. Gunderson, which built the barge,

see **OIL PATCH BITS** *page 17*

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

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

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INSIDER

an Oct. 20, 2009, announcement that the Tennessee company had completed an agreement to buy the assets of a fledgling Anchorage firm called Cook Inlet Energy.

Cook Inlet Energy would manage to grab, with Miller's help, a modest assortment of oil and gas properties on the west side of Alaska's Cook Inlet — assets that had been temporarily abandoned to the state following the financial collapse of their former owner, Pacific Energy Resource Ltd. of California.

In its Oct. 20 press release, Miller's chief executive, Scott Boruff, said the Alaska deal "increases our reserves by 30 fold," declaring: "We hit it out of the park on this one."

The buzz surrounding the Alaska venture evidently has excited investors, as Miller's stock price has trended up sharply, spiking as high as $6.60 on March 31.

Since then, Miller Petroleum, which also calls itself Miller Energy Resources, hasn't been shy about issuing more press releases touting the incremental successes of its Cook Inlet Energy subsidiary in rehabilitating its Alaska wells.

Most recently, Miller on May 25 announced the "successful" workover of three wells in its West McArthur River unit, with work under way on a fourth well.

"The rework of this well is intended to establish oil production from the currently producing Hemlock formation and natural gas production from the Tyonek gas sand formation," Miller said. "A gross sand interval of approximately 60 feet has been identified in the well and is considered the largest zone that has been observed field-wide."

On April 6, Cook Inlet Energy announced it had reached its goal, far ahead of schedule, of more than 1,100 barrels of oil equivalent per day. Production was almost zero when the company took over the properties.

The buzz surrounding the Alaska venture evidently has excited investors, as Miller's stock price has trended up sharply, spiking as high as $6.60 on March 31.

Miller, based in Huntsville, Tenn., near Knoxville, touts Cook Inlet and Tennessee's Appalachian basin as its focus and characterizes itself as "the largest operator of natural gas and oil wells in Tennessee."

On its polished website it features a photo of Osprey, a disappointing Cook Inlet offshore platform that nearly became an orphan of the state.

To acquire the Alaska assets, Miller rounded up financing of nearly $4.5 million, working with a New York investment firm called Vulcan Capital Management.

As Miller's stock price has soared, so has its profile.

Formerly its share price was quoted on the OTC Bulletin Board. But in May, Miller Petroleum shares began trading on the tech-heavy NASDAQ exchange under the symbol MILL.

On May 19, Miller issued yet another press release: The Tennessee Oil and Gas Association had named Boruff its 2009 Tennessee Oil Man of the Year.

The release said Boruff and Miller had completed two acquisitions in Tennessee in 2009 plus the Alaska deal, termed the largest acquisition in the 40-year history of the company.

—WESLEY LOY

Ann Womack-Kolton takes Ronnie Chappell's position at BP

BY NOW EVERYONE HAS HEARD ABOUT BP hiring former U.S. Vice President Dick Cheney's press officer to run its media relations in the United States.

But what no one seems to realize is that Ann Womack-Kolton is taking Ronnie Chappell's position.

KRISTEN NELSON

RONNIE CHAPPELL

Chappell, former BP spokesman in Alaska and, until March, vice president of media for "The Americas" at BP in Houston, recently told Petroleum News he retired in March, prior to the April 20 Transocean rig explosion on a BP exploration well in the Gulf of Mexico — and not long after he got a new boss in London, former editor of the Financial Times, Andrew Gowers.

The other information few journalists point out is that for all the criticism BP is taking over Womack-Kolton's stint with Cheney, she only spent five months as his spokeswoman in the 2004 campaign and, per the personable and intelligent Gowers, "will in no way be responsible for BP's relations with Capitol Hill."

Womack-Kolton spent most of her time in the George W. Bush administration in a much less controversial position as public affairs head for the Department of Energy.

As for Chappell, who worked for ARCO Alaska until 1999 when he went to work for BP in Anchorage, he says he's "happy as can be" in his retirement.

—KAY CASHMAN

Wondering what Drue Pearce is up to?

SINCE DRUE PEARCE WAS ASKED TO STEP DOWN as federal coordinator for Alaska natural gas pipeline projects by the newly elected U.S. President Barrack Obama in 2009, she has been keeping busy — and holding onto her Alaska citizenship.

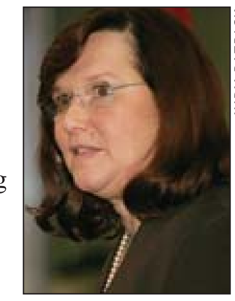
The Obama administration selected another Alaskan, Larry Persily, to succeed Pearce, who was the first person to hold the position of federal coordinator.

The coordinator's job is to expedite permitting and construction of a natural gas pipeline, working with some 20 federal agencies, the Canadian government, the State of Alaska, tribal governments and other stakeholders.

A Republican and former president of the Alaska State Senate, Pearce took the post in 2006 during President George W. Bush's second term. She quickly assembled a small staff, established a headquarters in Washington, D.C., and opened a second office in Anchorage.

In press interviews at the time of her resignation, which was effective this past January, Pearce said she didn't want to leave the position.

Indeed, the federal law that created the coordinator's office, the Alaska Natural Gas Pipeline Act of 2004 says the president shall appoint a coordinator, as head of an independent office in the executive branch, "to serve a term to last until one year following the completion of the project."



JUDY PATRICK

DRUE PEARCE

Never one to remain idle Pearce told Petroleum News June 8 that she is already "doing some contract work," some in conjunction with her husband Michael F.G. Williams, a former oil company executive, through Phoenix Systems Management and Consulting, or Phoenix SMC.

"We invested in a company called Spill Shield; that's one of the primary things we're doing at the moment," she said.

Pearce, Williams and their daughter are still living in Accokeek, Md., where she was based for her federal coordinator's position, but they are "progressively spending more and more time in Alaska."

Pearce said she can be reached on her cell phone at 907 230-8558.

—KAY CASHMAN

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OIL PATCH BITS

and Crowley, which owns the new vessel, decided that in lieu of gifts to each other for the successful completion of this project, they would instead donate the money to a deserving organization. Tornga said First Alaskans Institute was chosen because of their commitment to the Native Alaskan community. First Alaskans Institute helps Alaska Native people and their communities meet the social, economic and educational challenges of the future, while fostering positive relationships among all segments of our society through community engagement, information and research, collaboration and leadership development.

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

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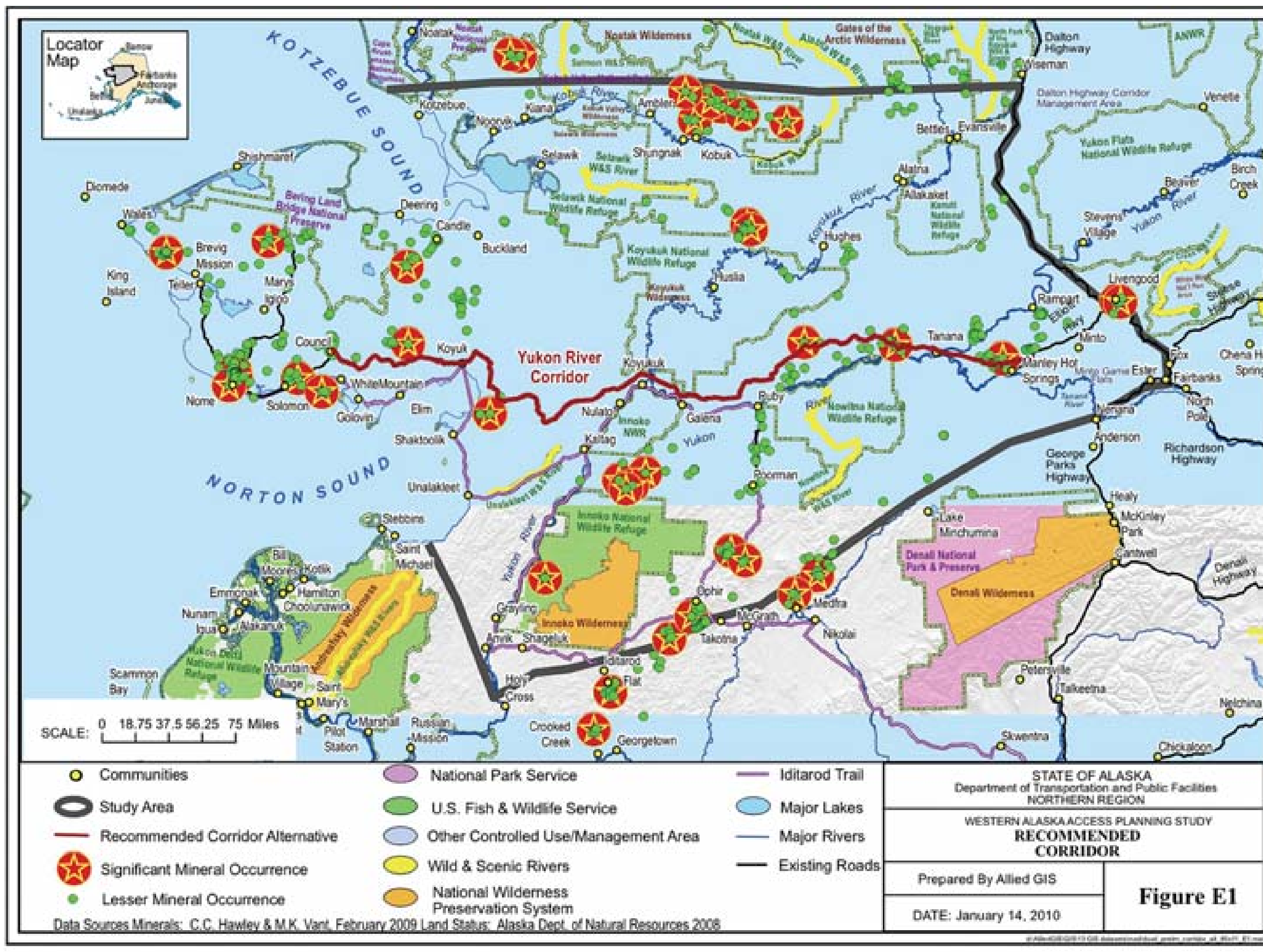
ROAD STUDIES



ALASKA DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

the region, like the Gubik natural gas field being explored by Anadarko and the Umiat oil field leased by Renaissance, as well as bridging the transportation gap to remote corners of the National Petroleum Reserve-Alaska.

The work planned this year would most likely go toward creating an environmental impact statement for the project and preparing for permit application. During a 2009 field season, the state established survey points throughout the region that will become fixed markers for future work, but still needs to conduct many additional studies related to wetlands, wildlife and fisheries, subsistence resources and other environmental issues.

State to model foothills

As a resource province, the foothills covers more than 40,000 square miles from the southern edge of the Arctic National Wildlife Refuge 1002 Area, also called the coastal plain, through state and Native lands, to the southern half of the federally managed NPR-A. This broad area is relatively underexplored, with only 61 exploration wells drilled over the past 70 years, less than one well for every 650 square miles, according to the state. Much of that drilling dates to post-World War II exploration conducted by the U.S. Geologic Survey and the U.S. Navy. Only seven wells have been drilled in the past 25 years.

That minimal drilling, though, uncovered nine natural gas fields and one oil field. The state blames the limited delineation and complete lack of commercial production in the region on limited infrastructure, which drives up the cost of development, meaning fields either need to be very big or commodity prices need to be very high to justify a project.

The capital budget also includes $370,000 for the Department of Natural Resources to create better geologic models of the foothills area to promote development of known reserves, prompt exploration of prospective areas and guide infrastructure decisions.

DNR plans to combine subsurface information from old well logs and seismic shoots with surface information gleaned from geologic mapping in the region. The models would shed more light on underexplored and unexplored areas, looking not only at reservoir characteristics and the reserves potential, but also potential geologic hazards.

The project is designed to help state and federal policymakers decide where and how to allocate public money on infrastructure projects in the region, but DNR plans to make its findings public as well in the hopes of spurring industry interest in the region.

The state sees the project as important not only for a potential "bullet" line from northern Alaska to population centers in Fairbanks and Anchorage, but also for proving up additional resources to prolong the life of a natural gas pipeline from the North Slope to markets in Canada and the Lower 48, should it eventually be built.

Route chosen for road to Nome

Being farther north, a road to Umiat wouldn't bridge the gap on a road to Nome.

The capital budget also includes a $1 million allocation to finalize environmental studies needed to conduct an environmental impact statement on a proposed 500-mile route from the Elliot Highway in Manley Hot Springs to the Nome Council Road generally following the Yukon River. That project would cost some $2.5 billion to build and nearly $40 million would be needed annually for road maintenance and resurfacing.

A report released in January shows alternate routes that would provide access to more mineral wealth or cost less to build, but the state is leaning toward the Yukon River route because it serves more people, avoids federal conservation areas and uses existing highways. As the most direct route from Fairbanks to Nome, it also allows for future expansion to the mining districts to the north and south like Ambler and Donlin Creek.

This most recent push by Parnell picks up legacy projects to build western roads.

Former Gov. Frank Murkowski created Roads to Resources in 2005, and former Gov. Wally Hickel also proposed major road projects to spur economic development. ●

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ANWR

ration long has been a top goal for Alaska politicians and economic development boosters. The area is considered among the nation's top prospects for multibillion-barrel oil discoveries.

But ANWR over the years has become a cause célèbre as environmental groups campaign to keep the coastal plain shut.

The Fish and Wildlife Service said it needs to update ANWR's comprehensive conservation plan because the existing plan is 22 years and such plans normally should be revised every 15 years.

Since the existing plan was done, the agency said, "much has changed."

"New laws and policies have been enacted, climate change has emerged as a concern, the Dalton Highway has opened to the public, and visitor use patterns have changed," a Fish and Wildlife press release said.

In a notice published April 7 in the Federal Register, the service set a June 7 deadline for receiving "meaningful comments that will help determine the desired future conditions of the Refuge and address the full range of Refuge purposes."

But the notice added that comments on potential oil and gas activity in ANWR wouldn't be considered. The agency said that under ANILCA, the Alaska National Interest Lands Conservation Act of 1980, which enlarged the refuge and designed much of it as wilderness, Congress reserved for itself the decision on whether to allow oil and gas development on the coastal plain, specifically in what's known as the 1002 area.

"Therefore, the Service does not have the authority to decide this issue, and we will not consider or respond to comments that support or oppose such development," Fish and Wildlife's Federal Register notice said.

Attorney general objects

"There are at least three significant problems with the Service's position," Sullivan's letter said.

First, the service is obliged to consider oil and gas development as an alternative use for the 1002 area under NEPA, the National Environmental Policy Act, he said.

Second, even though Congress alone has the power to lift the drilling ban, the courts have rejected the requirement for legislative implementation as a rationale for limiting public comment on an alternative, Sullivan argued.

Third, he said, the Fish and Wildlife Service has "unreasonably restricted the scope of the public comment period to exclude discussion of oil and gas development because ANILCA expressly requires the Service to consider how oil and gas development will impact wildlife and the environment."

Sullivan called on the agency to issue a "corrected" notice of intent to revise the comprehensive conservation plan and to prepare an environmental impact statement.

In updating the ANWR plan, Fish and Wildlife indicated it might propose new areas suitable for wilderness, possibly including the key 1002 area.

The service would forward its recommendations to the Interior secretary, and any new wilderness designation would be subject to congressional approval.

The agency also said it would review the idea of additional wild and scenic rivers in ANWR.

Gibert, who is the state's ANILCA program coordinator, opposed both ideas in her letter to the refuge manager.

Like Sullivan, Gibert suggested the process shouldn't exclude talk of oil and gas development.

"Consideration of wilderness designation is inextricably linked to the potential for oil and gas development," she wrote. "Maintaining the option for oil and gas exploration and development, especially in the Section 1002 area of the coastal plain, remains of paramount importance to the State of Alaska. A wilderness designation precludes such on-shore development, which should be a concern at the national level as well, since the coastal plain represents the most promising unexplored petroleum region in North America."

Gibert noted the U.S. Geological Survey in 1999 estimated potential for discovery of between 5.7 billion and 16 billion barrels of technically recoverable oil within ANWR.

With respect to wild and scenic rivers, Gibert wrote:

"We understand the Refuge intends to evaluate numerous rivers within Refuge boundaries to determine eligibility for designation into the Wild and Scenic River System. The State remains strongly opposed to new recommendations for wild and scenic rivers. The Refuge already includes three designated wild and scenic rivers. Similar to our concerns regarding wilderness, we consider additional designations excessive and unnecessary as Refuge management already provides adequate resource protection to the river corridors."

Looking ahead

Attorney General Sullivan's letter made further arguments against more wilderness, saying that so designating the 1002 area would "impact the environment because it will undermine the nation's movement towards energy independence." It also would result in job losses and loss of revenue for the state and federal treasuries, and would shorten the life of the trans-Alaska oil pipeline, Sullivan said.

But a coalition including some of the nation's top environmental groups said in a June 8 press release that, on behalf of the more than 10 million Americans they represent, some 30 organizations had submitted comments on ANWR's future, urging Fish and Wildlife to recommend wilderness designation for all 19 million acres of "this unique, wild place."

Fish and Wildlife said it aims to release a draft conservation plan for public review and comment in February 2011. A final plan and record of decision is scheduled for April 2012. ●

Contact Wesley Loy at wloy@petroleumnews.com

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NORTH FORK


COURTESY MARATHON

Marathon Oil Co.'s Glacier No. 1 drilling rig. Will it be heading to the North Fork unit in the southern Kenai Peninsula to drill for oil for Armstrong Cook Inlet?

North Fork.

Armstrong has declined to make any public comment on any intentions to carry out oil exploration at North Fork, but the opening sentences of the contingency plan's description of the company's North Fork operations clearly indicate that the company is seeking more than natural gas.

"Armstrong Cook Inlet LLC … will be conducting oil and/or gas drilling and production operations onshore in the eastern side of Cook Inlet in Southcentral Alaska within and adjacent to the North Fork unit," the plan says. "This plan is primarily intended to cover the oil drilling operations and it may be modified at a later date to include oil production operations."

Armstrong would probably use Marathon's Glacier No. 1 rig to drill the oil well, the plan says.

Gas wells and pipeline

Under the terms of a gas supply agreement with gas utility Enstar Natural Gas Co., Armstrong has agreed to drill two new North Fork gas wells, as well as build a gas pipeline from North Fork to connect with a new Enstar gas line at Anchor Point on the Kenai Peninsula coast. And the North Fork plan of development, filed with Alaska's Division of Oil and Gas in December, confirms a plan to drill those wells and to build the pipeline, as well as to shoot some 3-D seismic in the unit and possibly re-enter the two existing North Fork gas wells.

Pipeline construction and as much as possible of the other work would occur in 2010, the plan says.

The plan of development says that the new wells will penetrate the Tertiary Tyonek formation, the formation known to contain the sands that reservoir the North Fork gas resources.

But there's no mention in the plan of any intention to look for oil — oil does occur in the Tyonek of the Cook Inlet basin, although it is commonly found in one of the formations that is lower down in the Tertiary rock sequence.

Not surprising

Temple Davidson, the Division of Oil and Gas unit manager for the North Fork unit, told Petroleum News June 9 that Armstrong has not filed an amendment to its North Fork unit plan of development to specify an intent to drill for oil. But that is not surprising — Armstrong would likely seek assurance of an approved oil discharge prevention and contingency plan before filing a plan of development amendment, Davidson said.

—ALAN BAILEY