Petroleum news

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page 3 Q&A: House Speaker Mike Chenault wants action on both AGIA and ACES

February Mining News inside

The February issue of North of 60 Mining News is enclosed

Independents: There are ways to stem declining oil flow in line

The declining flow of crude in the trans-Alaska oil pipeline could be stemmed, independent companies operating in the state said Feb. 18, and illustrated to the House Resources Committee two ways that could happen.

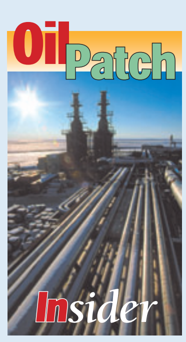
AVCG, Brooks Range Petroleum Corp. and Great Bear Petroleum LLC, testifying in favor of the governor's proposal to increase investment by reducing oil taxes, House Bill 110, discussed two ways increased volumes of oil could be increased.

AVCG LLC, formed in 2000, is the holding company for Brooks Range Petroleum Corp. BRPC was established as the

see **OIL FLOW** *page 19*

Rumors of Agrium plant to Africa; Itta sheds anti-development stance

IS THE AGRIUM FERTILIZER PLANT on the Kenai Peninsula headed for Nigeria?



That strange question began circulating around the oil patch after Dave Harbour, a former Regulatory Commission of Alaska commissioner, posted a report from Heavy Lift & Project Forwarding International on his long-running blog Northern Gas Pipelines.

According to the report, Fairstar Heavy Transport NV, a Dutch shipping company, recently "signed a Letter of Intent to provide a total land and marine logistics solution to transport 115 modules as well as related equipment

see **INSIDER** *page 19*

FINANCE & ECONOMY

CPAI 2011 capex up

ConocoPhillips budgeting $900M for Alaska this year, increase over 2010

By ERIC LIDJI
For Petroleum News

ConocoPhillips is proposing a $900 million capital budget for Alaska this year.

The Houston-based major spent $730 million in Alaska in 2010, according to annual filings released by the U.S. Securities and Exchange Commission on Feb. 24.

When it comes to the majors, capital budgets offer only a sense of what a company is planning for the year and rarely match up exactly, or even closely, with actual spending.

For instance, ConocoPhillips spent $730 million in Alaska in 2010, but budgeted $854 million for the year. For 2008, ConocoPhillips budgeted $1 billion, but spent $1.4 billion.

> *When it comes to the majors, capital budgets offer only a sense of what a company is planning for the year and rarely match up exactly, or even closely, with actual spending.*

That said, the 2011 budget is higher than any proposed for Alaska in the past five years except 2008, a time of rising oil prices and a record-breaking Chukchi Sea lease sale.

ConocoPhillips said spending in Alaska "is expected to be directed toward development of the existing Prudhoe Bay and Kuparuk Fields, as well as the Western North Slope."

see **CONOCO CAPEX** *page 12*

NATURAL GAS

MGP's outlook clouded

File assigned to new cabinet minister; project founders; interest in LNG exports

By GARY PARK
For Petroleum News

With no fanfare and no formality, Canadian Prime Minister Stephen Harper handed federal cabinet oversight of the Mackenzie Gas Project to newly appointed Indian and Northern Affairs Minister John Duncan.

Meanwhile, interested parties wait for the cabinet to decide whether to give its final stamp of approval to the National Energy Board's Dec. 16 ruling in favor of the project.

The project's lead partner Imperial Oil and the Aboriginal Pipeline Group, which has an option to acquire a one-third equity stake in the Mackenzie pipeline, were not informed of Duncan's new role.

> *While the waiting game continues for the MGP, the pace continues to pick up around the Kitimat LNG project, adding to a view that future gas production from northeastern British Columbia poses the biggest threat to the economic prospects for Arctic gas development.*

Previously the job was held by former environment ministers Jim Prentice and John Baird, but for reasons that haven't been explained, the new environment minister Peter Kent was bypassed.

see **MGP OUTLOOK** *page 17*

EXPLORATION & PRODUCTION

Looking for Susitna gas

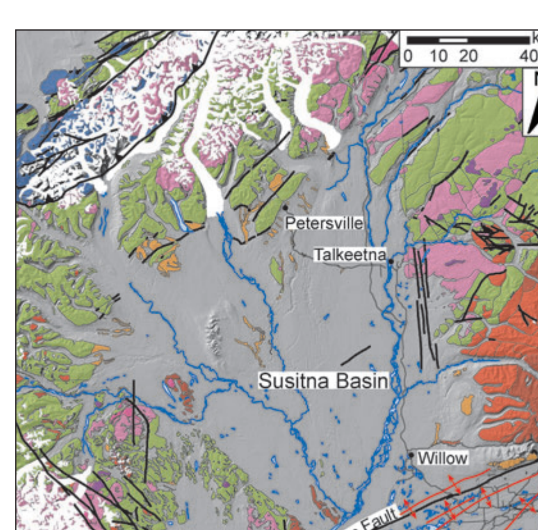
DNR turns its attention to researching the Susitna basin resource potential

By ALAN BAILEY
Petroleum News

The Susitna Valley, a huge, low-lying area of muskeg, lakes and rivers to the north of Anchorage in Southcentral Alaska, is perhaps best known as a destination for wilderness salmon fishing and as the location for the first day or so of the annual Iditarod sled dog race. But with known coal seams in the sedimentary basin that lies underneath the valley, could this region immediately to the west of the Alaska Railroad route and close to the state's highway system become a new source of much-needed natural gas for the Alaska Railbelt?

Alaska's Division of Geological and Geophysical

see **SUSITNA GAS** *page 18*



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

● GOVERNMENT

House Speaker pushes against AGIA, ACES

Chenault concerned about state wasting money on TransCanada project; wants recognition Alaska not competitive environment

By STEVEN QUINN
For Petroleum News

House Speaker Mike Chenault wants some answers.

The Nikiski Republican wants to know whether a large-diameter natural gas pipeline is economical and whether it's time to put a on the shelf.

He wants to know whether the state is wasting money backing a project by TransCanada, supported under the Alaska Gasline Inducement Act.

He's hoping House Bill 142, which sets a midsummer deadline for about the projects economic viability, will produce some guidance.

Chenault also wants to know when enough people will realize that Alaska has not provided a competitive environment for the oil industry.

He's looking to his colleagues, industry executives even former executives during a recent trip to Washington, D.C., for answers.

A few days after returning, Chenault sat down with Petroleum News to discuss concerns ranging from oil taxes, the gas pipeline and declining throughput in the trans-Alaska oil pipeline.

Q AND A

Petroleum News: What can you really learn about the project that doesn't infringe on federal laws outlined by FERC?

Chenault: We don't know. We think the DOR and the DNR commissioners should serve as a conduit for the project and give us some kind of status information update. We realize there is information that we can't get. But the governor is asking us for $160 million for this year. All the indications we are receiving from sources not only internally but all over the U.S. is that we are awash in natural gas. The price is in the $3.80 range. Certainly that could change if the Feds, the EPA or states stepped in and said we are not going to allow fracking in these big coal seams.

We don't know that. We would like to get some information where we can make a rational decision based on facts not what we think might happen.

I think it's imperative that we as a state Legislature know some information so we can decide what the future of Alaska is going to be.

According to the AGIA contract, even if they have a failed open season, TransCanada, they have to move forward toward a FERC certificate.

With the Legislature being the appropriating body, we have some concerns, is that a good expenditure of state funds?

Petroleum News: If TransCanada had not failed to meet its self-imposed deadline to release certain details from open season, would you still feel this way?

Chenault: I've looked back at some other big projects and the timelines on how long it took for them from the time they went to an open season till the time open season closed to the time they actually went into construction. Some of those timelines are relatively short.

There are a lot of moving pieces out there. One of the bigger pieces I believe is gas tax certainty. But gas tax certainty is not an issue TransCanada can negotiate for the State of Alaska. The Legislature and the governor will have to negotiate with any of the producers if and when any project is put forward.


MIKE CHENAULT

They promised a date certain, but you can't hold them to that. Six months on an open season, from my look at a couple of other projects along the U.S. is quite a bit longer. We all understand this is a big project — a mega project, whatever term they want to use this week. Take The Rockies Express (Wyoming to Ohio). It was bid in three different sections, three different bids, which is why the timeframe from open season to construction was four and a half years.

Petroleum News: So will you bring this to the table when House Finance hears your bill?

Chenault: As I said before, HB 142 is not intended to kill the AGIA process. It's intended to gather information for the Legislature to makes sure we are spending the dollars we have wisely.

Petroleum News: TransCanada told Wall Street analysts they believe there is still a market for Alaska's natural gas in addition to shale and Mackenzie gas. Do you believe there is a market outside of the state for North Slope gas?

Chenault: I don't know if it's a profitable market or not. It's going to depend on tariffs, on contracts that are signed, on cost of the gas at the wellhead. If you want to sell your gas at a breakeven point or just a little more then there is probably a market. If you want to give it away there is always a market for it. In the U.S. there are a number of areas actively looking to export their gas versus two years ago when we were building LNG receiving facilities to take natural gas from the other parts world. That's just how drastic the world changes.

Petroleum News: Have you had a chance to review a report by Roger Marks who concluded money for an in-state line could be better spent on a large-diameter line?

Chenault: It's not surprising what Roger Marks had to say. I look at that issue is that if you're not going to build the line for 20 years, what does Alaska do? What does Alaska do for energy in the state? What do you do for jobs? How do you grow the economy for the state of Alaska? You can't do it waiting 20 years on a natural gas pipeline that may or may not happen. I look at the LNG export facility that shut down and I look at the Agrium facility shut down (both in Cook Inlet). Could we have made any difference? I can't tell you that we could have. But what I can tell you is that if we continue to not make decisions while waiting on a big project to come that may never come, then we are doing a disservice to Alaskans.

Petroleum News: Did you meet with any energy officials while you were in Washington?

Chenault: We had a speaker, John Hofmeister (former Shell President). He gave a good talk, an analysis of energy issues across the U.S. and world distribution of oil and gas. He talked about how under the current administration we aren't making any investment in the U.S. We shut down the Gulf of Mexico; we shut down all offshore drilling anywhere; we are systematically depriving ourselves of oil exploration and gas in our own country. He felt in the near future we will hit $5 a gallon gas. He's trying to tell us that unless we start developing our own resources. We are going to be left behind, and not only are we not going be able to get those resources from other areas.

Petroleum News: Why is there no sense of urgency?

Chenault: I think it's the environmen-

see **CHENAULT Q&A** page 17

GOVERNMENT

BOEMRE publishes Beaufort fish survey

The Bureau of Ocean Energy Management, Regulation and Enforcement has released the results of a comprehensive study of fish populations in the western Beaufort Sea, the agency announced Feb. 18. The survey will provide baseline data for measuring future changes in the fish populations in response to factors such as climate change and industrial activity, BOEMRE said.

The study involved the measurement of water depths and water salinity, as well as the collection of samples of fish and invertebrates.

The study involved the measurement of water depths and water salinity, as well as the collection of samples of fish and invertebrates.

"Our comprehensive offshore energy strategy calls for increased environmental studies off the coast of Alaska," said BOEMRE Director Michael Bromwich. "The results of this study will contribute greatly to our knowledge of the fish populations in the Beaufort Sea. When combined with the other scientific work we are conducting in the region, this study will enable us to make better decisions regarding responsible offshore energy development in Alaska."

BOEMRE says that the study involved an interagency agreement between BOEMRE and the National Oceanic and Atmospheric Administration and is the first of a series of anticipated interagency studies of the diversity and distribution of Beaufort Sea fish populations. A similar study to the one now completed will be carried out in the central Beaufort Sea in the summer of 2011, through an agreement with the University of Alaska Fairbanks' School of Fisheries and Ocean Sciences, BOEMRE said.

—ALAN BAILEY

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● FINANCE & ECONOMY

BC government offering fresh batch of incentives

By GARY PARK
For Petroleum News

British Columbia is winding down its current fiscal year with barely half the forecast revenues from natural gas, one of its key revenue sources.

Instead of bemoaning its fate, the government has done what has worked in the past by offering a fresh bundle of incentives to stimulate upstream investment.

But the decline in its gas revenues, at a time of shrinking exploration and development activity and stubbornly low commodity prices in a saturated North American market, is staggering.

Finance Minister Colin Hansen disclosed that the 2010-11 budget year is expected to end on March 31 with gas royalties of C$365 million, compared with the original forecast of C$698 million.

His budget predicted only a modest recovery over the next three fiscal years to C$497 million in 2011-12, then C$597 million and C$865 million — a combined total that is still short of the C$2.3 billion raked in five years ago.

Tax breaks, royalty credit

The government responded as it has in the past by doing what has won it strong backing from the industry.

Energy Minister Steve Thomson rolled out C$120 million in tax breaks for companies who build extraction infrastructure, adding to a royalty credit program that was introduced in 2004 that offered credits worth half the value of pipelines and roads.

The objective is to open up remote areas in northeastern British Columbia's prolific, but costly-to-operate gas fields by building infrastructure now for when a recovery takes place.

Thomson told the Vancouver Sun it is "more crucial than ever" to encourage industry activity by setting the stage for long-term development and generating jobs, activity and revenue.

David Pryce, vice president of operations with the Canadian Association of Petroleum Producers, endorsed the government strategy by suggesting that without incentives the revenue streams would be have been "considerably less."

It estimated that under existing programs it has seen 76 new roads and 91 pipeline projects completed at a capital cost of C$1 billion.

"It's about the competitiveness of a jurisdiction," he said.

Gary Leach, executive director of the Small Explorers and Producers Association of Canada, said the decline in royalties sends a message to policymakers about the importance of their role in ensuring "a stable, attractive investment climate" especially during a period of low commodity prices.

However, Thomson implied that the program is not a giveaway by noting that only projects offering the "highest economic benefits" will be approved.

Goal incremental gas royalties

The government's goal is to earn C$2.50 in incremental gas royalties for every C$1 in credits.

It estimated that under existing programs it has seen 76 new roads and 91 pipeline projects completed at a capital cost of C$1 billion.

But there is no denying that Canada's second largest gas-producing province after Alberta at about 1.17 trillion cubic feet a year, or 20 percent of the national output, is facing the same tough times as its peers.

Despite the anticipated turnaround in revenues, average plant inlet gas prices are forecast to recover only gradually from C$2.71 per gigajoule in the current year to a successive C$3.02, then C$3.60 and C$4.20.

Hansen forecast B.C.'s overall budget deficit for 2010-11 will drop to C$1.3 billion, down C$400 million from the budget forecast, and continue sliding to C$925 million in the upcoming year and eventually regain a surplus in 2013-14.

While the province posted economic growth of 3.1 percent in calendar 2010, it expects only 2 percent in 2011, reflecting the Ministry of Finance's expected slowing in global activity. ●

Contact Gary Park through publisher@petroleumnews.com

● GOVERNMENT

State cites Macondo, Slope spills study

DNR commissioner finds substantial new information for Alaska Peninsula, Cook Inlet areawide sales, Susitna exploration license

By KRISTEN NELSON
Petroleum News

The State of Alaska has signaled that it expects changes in how oil and gas operations are conducted in Alaska as a result of the Deepwater Horizon disaster in the Gulf of Mexico last year and the Alaska Department of Environmental Conservation's risk assessment.

In decisions of substantial new information for the state's 2011 Alaska Peninsula and Cook Inlet areawide lease sales and for Susitna basin exploration licenses, Commissioner Dan Sullivan of the Alaska Department of Natural Resources ruled in early February that "the Deepwater Horizon incident constitutes substantial new information that justifies supplements to the most recent best interest findings" along with reports out from ADEC on the Alaska Risk Assessment.

An investigation of the Deepwater Horizon, a federal investigation by the U.S. Coast Guard and the Bureau of Ocean Energy Management, Regulation and Enforcement, and a state investigation by the Alaska Oil and Gas Conservation Commission, are ongoing. And there are reports out from the ADEC project assessing risk of oil and gas infrastructure in Alaska, the Alaska Risk Assessment. The North Slope Spills Analysis was completed late last year, compiling and analyzing causal information associated with specific North Slope pipelines and providing recommendations on mitigation measures to reduce future spills, including seven specific recommendations for reducing the risk of future loss-of-integrity spills from North Slope infrastructure. The oversight report produced as a result of the ARA Project provides the State of Alaska with practical recommendations for future oversight activities for oil transportation.

Licensee advisory

The commissioner said that while review of the risk assessment reports is ongoing, some of the recommendations are within the jurisdiction of DNR's Division of Oil and Gas and "within the scope of lease mitigation measures."

"For the NSSA Report, although it focuses on pipelines regulated by ADEC on the North Slope, the recommendations from the expert panel have some applicability to all agencies that provide oversight of the oil and gas industry in Alaska. Broadly, the recommendations suggest that the state engage industry more proactively by requiring industry to provide information on how systems integrity is being managed, reviewing that information for understanding and completeness, collecting appropriate data that can be used to determine root cause, and increasing enforcement," Sullivan said.

The commissioner said "it is very likely that additional mitigation measures or other statutory or regulatory requirements will be implemented within the next year," and an advisory has been added to the best interest findings.

The licensee advisory says that in light of the review and evaluation of information from the Deepwater Horizon investigations and the ADEC risk assessment reports and a determination of which information and recommendations are applicable to Alaska, "new or modified mitigation measures, lessee advisories, or other statutory or regulatory requirements addressing issues such as safety, environmental safeguards, risk management, and reporting standards may be forthcoming."

The Alaska Oil and Gas Conservation Commission has a public hearing scheduled for May 11 on whether changes or additions may be needed to its regulations governing drilling, rig workover and well control in offshore and ultra-extended reach wells.

The commission gave notice last June that following the issuance of the Report to the President from the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling that it would convene a public hearing to review and assess the adequacy of Alaska's relevant statutes and regulations; the National Commission issued its report Jan. 11. ●

Contact Kristen Nelson at knelson@petroleumnews.com

LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
DNR	Alaska Peninsula Areawide	May 25, 2011
DNR	Cook Inlet Areawide	May 25, 2011
DNR	Beaufort Sea Areawide	October 2011
DNR	North Slope Areawide	October 2011
DNR	North Slope Foothills Areawide	October 2011
BOEM	Sale 219 Cook Inlet	2011*

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

**The OCS Cook Inlet sales are subject to industry interest. All other remaining Alaska sales on the 2007-12 schedule were cancelled.*

● PIPELINES & DOWNSTREAM

Jan. shutdown puts TAPS close to brink

Alyeska executives describe efforts to prevent freezing in pipeline after pump station oil leak in era of low oil throughput

By ALAN BAILEY
Petroleum News

In many ways the central artery of the Alaska economy, the trans-Alaska pipeline carries about 11 percent of U.S. domestic crude oil production. But a shutdown of the pipeline in January following an oil leak at Pump Station 1 on the North Slope dramatically illustrated the growing risk of a major pipeline outage, as declining pipeline throughput allows the temperatures of the fluids flowing down the line to drop to lower and lower levels in the winter.

"I was closer to the edge of the cliff that I didn't want to go over, and I don't think Alaskans want to go over," Tom Barrett, president and CEO of Alyeska Pipeline Service Co., told the Alaska House Resources Committee on Feb. 17 when recounting how an army of Alyeska employees and contractors had swung into action, preventing water from freezing in the line following the Jan. 8 oil spill incident. Alyeska operates the pipeline on behalf of the pipeline owners.

Declining throughput


TOM BARRETT

The essential problem that Alyeska faces is that, with pipeline throughput declining from a peak of about 2.1 million barrels per day in 1988 to 630,000 barrels per day recently, it now takes 15 days for the oil to travel from the North Slope to the tanker terminal in Valdez. The oil cools as it travels down the line, with the potential for water in the oil to freeze out as ice, blocking the movement of pigs — the devices used to scrape clean the inside walls of the line — and potentially damaging valves and other pipeline equipment.

When the leak was discovered in a booster pump building at the northern end of the pipeline on Jan. 8, Alyeska promptly shut the entire pipeline down while personnel investigated what had happened and formulated a plan to deal with the situation.

But at the time of the shutdown the oil temperature was just 36 F in a section of the pipeline known as "the bowl," in the area of the Yukon River, Alyeska Oil Movements Director Betsy Haines told the committee. And with one pig in the line in the bowl section and another in the line near Glennallen, there was a real risk of one of those pigs becoming frozen in place, thus causing a huge problem in restarting the line.

Immediate response

Realizing the urgency of the situation and recognizing that unpredictable and changing weather conditions could impact the response effort, Alyeska put a major response into action as quickly as possible, Barrett said.

"You move immediately as far and as fast as you can," he said. "If you get behind on the response curve you may never be able to catch up."

Normally Alyeska carries out pipeline shutdowns in the summer, when the oil in the line remains relatively warm. And the company plans those shutdowns in detail, months in advance, rather than at a moment's notice.

On this occasion, with an almost immediate cessation of flow through the line and with oil continuing to flow into storage tanks at Pump Station 1, the company made an emergency request to the North Slope producers to cut total production back to 32,000 barrels per day, just 5 percent of the regular flow rate.

Need for restart

Alyeska has for several years been studying the impact of declining pipeline flow rates and devising ways of dealing with low-flow problems. Using data from these low-flow studies, a company engineer determined that, despite the unresolved oil leak, the pipeline needed to be restarted to prevent ice formation in the line and to enable recovery of the two pigs, Haines said.

The situation became one of balancing risks, the risk of damage from the oil spill versus the potentially catastrophic consequences of a pipeline freeze-up, Barrett explained, saying that he decided that a restart was essential, despite the fact that restarting a line with an oil leak "ran across the DNA" of every pipeline regulator.

"That was actually from my perspective … the most prudent course of action for us to take," Barrett said, commenting that he was also concerned about the possible impact of weather-related delays in moving all of the necessary equipment and materials to Prudhoe Bay, were the pipeline to remain shut in.

Following the preparation and checking of safe restart procedures, oil started flowing down the line again on Jan. 11, with vacuum trucks sucking leaking oil from the booster pump building.

By that time, with much of the North Slope field production already having been shut in, the producers could only restore total production to about 400,000 barrels per day, a volume not high enough to eliminate the risk of a freeze-up, Haines said. Alyeska put into operation one of the techniques designed from its low-flow studies, the cycling of oil at some of the pump stations to keep the oil warm, she said.

Pigs recovered

In the event, the Alyeska team, in operation around the clock along the entire length of the line, managed to recover both of the pigs from the line, as oil slowly flowed again, thus averting the possibility of a stuck pig, the biggest freeze-up concern.

And about four days after the temporary startup, with all the necessary equipment, materials and personnel on site at Pump Station 1, Alyeska shut the pipeline down again, to install piping to bypass the pump building oil leak. By then, with a change in the weather causing temperatures to plummet, welders and other personnel worked around the clock, completing the repairs and allowing the pipeline to restart after two days.

"We had people working at 20 below inside buildings at Prudhoe Bay," Barrett

see TAPS SHUTDOWN page 8

NATURAL GAS

FNG to offer new interruptible service

New rate class would allow utility to expand sales without expanding capacity, would make natural gas available to more customers

By ERIC LIDJI
For Petroleum News

Looking to temper seasonal swings in demand, Fairbanks Natural Gas wants to start offering interruptible service to smaller volume customers at a discounted rate.

The lone natural gas utility in fuel oil dominated Fairbanks is asking the Regulatory Commission of Alaska to approve a new "small volume interruptible rate."

The rate would be available to customers who expect to buy at least 2 million cubic feet of gas per year and who can also switch between fuels on as little as six hours notice.

With that minimum volume, the new rate is geared toward large commercial customers, although the service could indirectly cover individuals in larger apartment complexes.

In return accepting interruptible service, customers who chose the rate would get a 10 percent discount of the large commercial rate, currently $22.66 per thousand cubic feet.

The seasonal swing in Fairbanks is among the most dramatic in the world. Because winter demand can be five times higher than summer demand, Fairbanks Natural Gas said it is often faced with unused capacity for months, but can't add more customers in the summer without further tightening supplies in the winter. "The solution is to serve additional customers when FNG has excess capacity, but not have those customers on the system at the peak when FNG's capacity is limited," the company wrote to the RCA.

Fairbanks Natural Gas said several potential customers have already approached the utility requesting interruptible service, believing that the cost benefit of buying natural gas for some of the year outweighs the inconvenience of switching fuels on short notice.

Natural gas is usually, but not always, cheaper than fuel oil in Fairbanks.

Fairbanks Natural Gas argues that adding interruptible users will lower the average cost for all customers by spreading fixed costs over more cubic feet. It would also allow Fairbanks Natural Gas to increase sales without expanding supplies or facilities.

Still eyeing North Slope

The proposal is an interesting twist on an issue long facing Fairbanks Natural Gas: captive customers. Fairbanks Natural Gas is not economically regulated, meaning it can change its rates without the approval of regulators. For years, that led to concerns that some customers would be "captive" to high prices, unable to easily switch fuels.

Fairbanks Natural Gas and the Alaska Attorney General addressed that concern in a 2009 settlement, allowing Fairbanks Natural Gas to stay economically deregulated as long as it tethered residential rates to those paid by large commercial users, a class of customers that typically can switch easily between fuels should one become prohibitively expensive.

Fairbanks Natural Gas already offers interruptible service to large volume customers, such as major industrial customers expected to buy more than 50 million cubic feet in a given year. Those customers are guaranteed only a two-hour notice before curtailments begin and the price per hundred cubic feet is worked out through a negotiated agreement.

Fairbanks Natural Gas is still working to switch its supply source to the North Slope from Cook Inlet. The utility signed a supply contract with ExxonMobil in 2008, but can't take advantage of that contract without major infrastructure investments.

In 2009, the Alaska Gasline Port Authority proposed to buy the utility and build the infrastructure needed to connect it to North Slope supplies, a project estimated to cost around $250 million. The Port Authority and its partners recently said that the plan should be ready for financing this spring and could be delivering natural gas before 2013.

Fairbanks Natural Gas has contracted Cook Inlet supplies through May 31, 2013. ●

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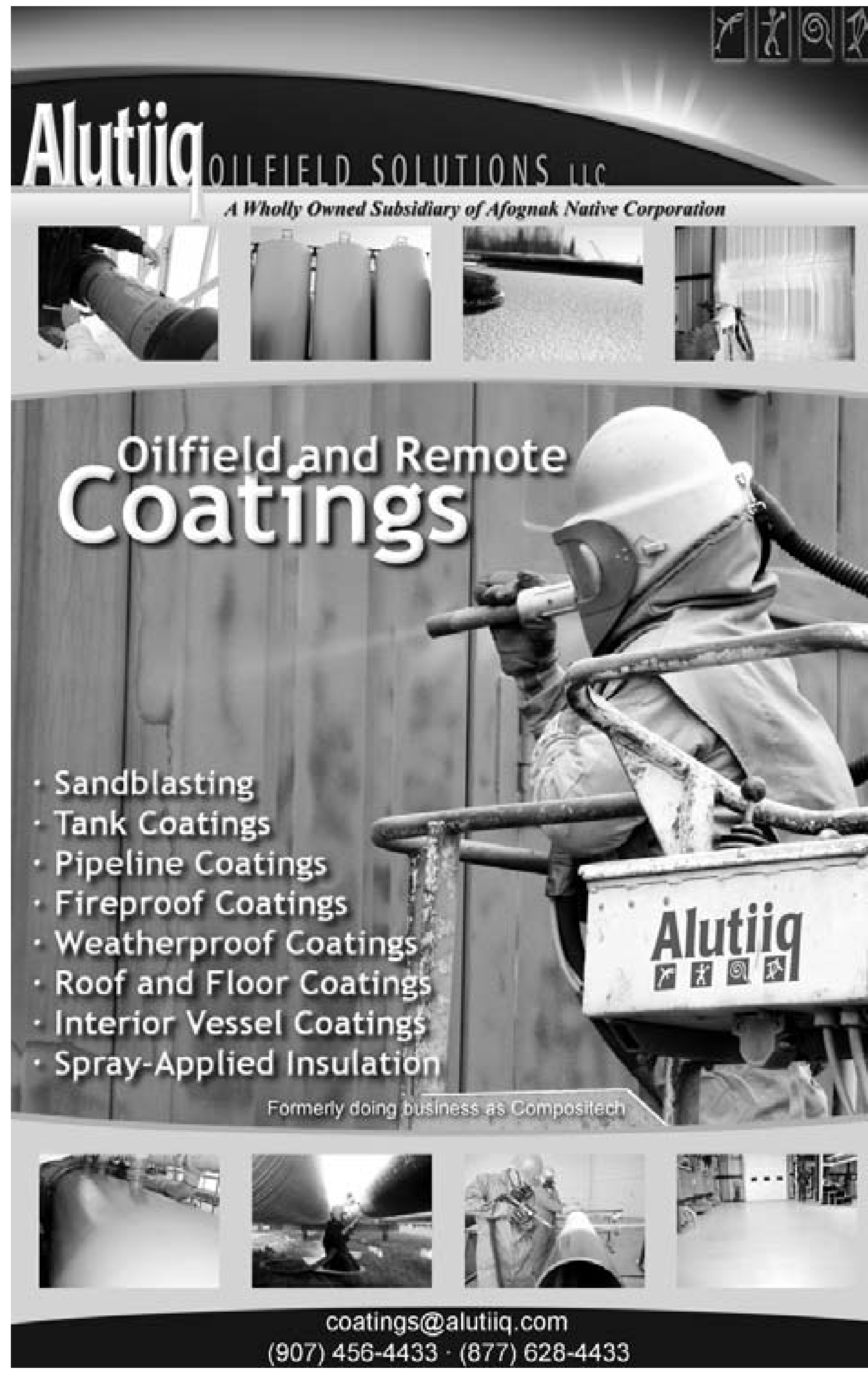

● PIPELINES & DOWNSTREAM

Alyeska answers federal pipeline critic

Barrett says operator of trans-Alaska pipeline is on top of challenges associated with declining oil flow; talks begin with PHMSA

By WESLEY LOY
For Petroleum News

Alyeska Pipeline Service Co. is challenging many of the concerns federal regulators raised in a proposed safety order.

The U.S. Pipeline and Hazardous Materials Safety Administration didn't specify any fines or other penalties. But in its Feb. 1 notice to Alyeska, the agency said corrective measures appear necessary to address "multiple conditions" on the trans-Alaska pipeline system posing a risk to public safety or the environment.

These measures include replacing potentially corroded pump station piping; adding new pig-handling equipment; expanding oil storage tank capacity; and revising the pipeline cold restart plan.

PHMSA issued the notice following an oil leak at Pump Station 1 that forced two pipeline shutdowns in January, the longest one lasting about 84 hours.

In a Feb. 15 response, Alyeska President Tom Barrett challenged much of PHMSA's proposed safety order. Barrett himself formerly headed the agency.

"We support actions in the proposed order that will enhance safe operation of TAPS," said Barrett's letter dated Feb. 15. "However, Alyeska believes that some of PHMSA's preliminary findings and proposed actions fail to reflect sound operational practice, propose out of sequence activities or address matters external to TAPS."

'To the contrary'

Alyeska is an Anchorage-based consortium that runs the pipeline for owners BP, ConocoPhillips, ExxonMobil, Chevron and Koch Industries. The pipeline has been moving North Slope crude oil since 1977.

Barrett took issue with PHMSA's suggestion that Alyeska isn't dealing adequately with integrity challenges arising from declining oil throughput and temperature, including potential freeze-ups and increased waxing inside the pipeline.

"Alyeska has been, and will continue to be proactive to address risks resulting from declining flow," Barrett wrote. Steps include more aggressive pigging of the line and "multiple changes in operations as a result of studies conducted of low flow conditions."

Barrett also pushed back against criticism that Alyeska had difficulty implementing its cold restart procedures during the January shutdown, partly due to an "inability to quickly move equipment" into position along the pipeline.

"To the contrary, Alyeska successfully executed the Cold Restart contingency plan as written," Barrett said. "Moving equipment up and down the 800 miles of pipeline was conducted in a measured manner. The pipeline was not in a circumstance that dictated the need to implement the plan, so moving equipment into place was precautionary. There was no need to hastily move heavy equipment on winter roads in limited daylight in a hurried or unsafe manner. We will not compromise personnel safety because PHMSA or anyone else thinks we should perform some operational activity more quickly."

Equipment used in a cold restart includes piping, pumps and generators to help circulate oil and warm the system, Alyeska spokeswoman Michelle Egan told Petroleum News. The pipeline never has gone through a true cold restart, and was many days away from such a scenario after the January leak, she said.

On pigs and tanks

In its proposed safety order, PHMSA suggested the pipeline might need additional pig launchers and receivers. A pig is a device that slides through a pipeline to clean its inner walls, or to test for problems such as corrosion.

The agency noted that two cleaning pigs were in the southern half of the pipeline at the time of the January shutdown, but the only permanent pig receiver to remove them was at the end of the line in Valdez.

Alyeska's "inability" to capture pigs at interim locations between Pump Station 4 and Valdez is a risk condition, as a pig could "cause a plug" in the pipeline during a shutdown and cold restart situation, PHMSA said.

Barrett, in his reply letter, said Alyeska "has a spool piece of pipe that can be, and was, successfully and safely used" to capture one pig at Pump Station 8, located 311 miles north of Valdez. "Alyeska just demonstrated that a permanent pig receiver is not the only method capable of safely recovering pigs," he wrote.

However, Alyeska agrees a permanent pig launcher and receiver "may be desirable" between pump stations 5 and 10, Barrett said.

PHMSA also suggested increased oil storage tank capacity at pump stations might be needed "to assist during prolonged outages and the implementation of a cold restart."

During a TAPS shutdown, a lack of storage, particularly just upstream of Pump

see **ALYESKA** *page 9*

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TAPS SHUTDOWN

said.

By the time that the pipeline restarted after the repairs, the oil temperature in the bowl area of the line was down to around 28 F, Haines said. And, with the producers unable to fully restore oil throughput immediately, it was 15 to 18 days before fresh oil moved fully through the system, she said.

Safety is paramount

Saying that personnel safety had been the top priority and that there had been no identifiable environmental harm from the oil leak incident, Barrett slammed any criticism of the length of time that it had taken Alyeska to bring the trans-Alaska pipeline back into operation.

"I'm not getting anyone hurt bringing this line back up," he said.

At the same time, the experience of dealing with a forced winter pipeline shutdown has re-enforced concerns about winter operation of the pipeline, as pipeline throughput continues to drop. There a number of possible scenarios that could force another winter shutdown in the future, with some of these scenarios not involving a fault in the pipeline itself, Barrett said.

And, although Alyeska continues to seek ways of dealing with low oil flow, the best solution to the low temperature problems is to pump more oil through the line, a prospect that seems improbable over the next five to 10 years, he said.

"It's declining flow and it's not looking good to me," Barrett said. ●

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● GOVERNMENT

Big picture the goal with new NPR-A plan

Some areas already deferred for 10 years as more information collected; Native, environmental, industry interests all at play

By KRISTEN NELSON

Petroleum News

There have been plans for the northeast and northwest areas of the National Petroleum Reserve-Alaska, but the Bureau of Land Management is now preparing a plan for the entire area.

"We're trying to take the whole thing and do it again, looking at it as a whole, rather than just piecemealing the planning decisions," Bud Cribley, BLM's new Alaska state director, told Petroleum News in a Feb. 2 interview.

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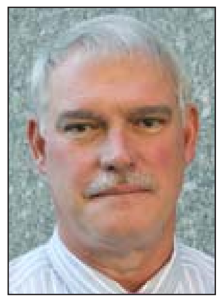
The goal, he said, is "to achieve some kind of a big picture of how the future development of that entire area could take place, at least within the next 20 years."

Decisions from previous plans include that Teshekpuk Lake will not be leased and deferral of leasing on the shorelines and adjacent country so that additional information on wildlife species can be gathered. One issue there is concerns such as subsistence hunting, Cribley said.

Companies have been able to lease in NPR-A, but not develop, and Cribley said one of his questions to staff working o the plan is, "do we need to do things differently?"

Some basic issues which have to be overcome, such as access, are not under BLM's control, he said.

That is the difficulty ConocoPhillips is having getting its CD-5 project permitted, because the Corps of Engineers denied a permit for a bridge across the Nigliq Channel and a road from the bridge to existing Alpine facilities.



BUD CRIBLEY

"BLM is not directly involved with CD-5," was not a cooperating agency on the project, because the scope of the project in NPR-A was small, Cribley said.

But the BLM's director has met with counterparts at the Corps of Engineers, and the secretary of the Interior has met with his counterpart in Washington, Cribley said. If circumstances change, BLM "is ready to engage in any way that we can to help out with that permitting process."

And if another opportunity presented itself to participate, if for example ConocoPhillips submitted a new application, then BLM would probably "take advantage of that and be a cooperating agency with any NEPA document in the future," he said.

Everyone involved

In the plan BLM is currently writing, covering the entire NPR-A, it made an effort to get everyone involved. Agencies cooperating with BLM are the U.S. Fish and Wildlife Service, the Bureau of Ocean Energy Management, Regulation and Enforcement, the North Slope Borough and the State of Alaska.

By having all those agencies involved, "we can have discussions with them looking at the impact, looking at the alternatives and making sure that we're … addressing every issue that we can anticipate so that we can try to do the best we can to preclude some of those problems down the road."

Cribley said BLM's goal is to have a decision "that creates a comfort level on the part of the industry that there are assurances that they will be able, if they were to go in and invest into and lease those lands, that they would have the ability to develop those resources while still protecting … the world-class resource values that are within the boundaries."

Ted Murphy, BLM's Alaska deputy state director for the Division of Resources, said lease sale schedules have in the past been held about every other year, and the agency will move toward that again.

"Whether it's every other year or whether it's on a recurring basis that seems to be the mantra from industry: As long as you're consistently offering whatever over whatever period it is, consistent, they can work with that."

Murphy said it would probably take six to nine months after a record of decision was issued before a lease sale was held, so

see **NPR-A PLAN** *page 10*

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ALYESKA

Station 1, means production from oil fields must be limited among companies or halted, which can damage production facilities and increase the risk of spills in cold weather, PHMSA said.

Barrett said the agency reached "questionable conclusions" about the impact of a TAPS shutdown on North Slope production facilities.

"Storage facilities upstream of PS 1 are not something that Alyeska has the ability to control operationally or legally," Barrett wrote. "This statement does not belong in any enforcement action against Alyeska. Further, the size of storage facilities along the pipeline has no causal connection to the length of prorations or increased risk of product release in cold weather."

What next?

Alyeska requested an "informal consultation" with the regulators to talk about the proposed safety order.

These talks already have begun.

On Feb. 17, Mike Joynor, operations senior vice president for Alyeska, and Joe Robertson, compliance and ethics director, met in Denver with PHMSA Western Region officials based there.

Alyeska and PHMSA could sign a "consent agreement" on a work plan to address risk conditions on the pipeline.

Barring that, Alyeska could request an administrative hearing. If the pipeline is found to pose a public, property or environmental risk, then PHMSA could issue an actual safety order. ●

Contact Wesley Loy at wloy@petroleumnews.com

● FINANCE & ECONOMY

Libya drives oil prices to almost $100

Saudi Arabia says it has spare production capacity, if needed; International Energy Agency would also step in to offset shortfalls

THE ASSOCIATED PRESS

Oil prices rose again Feb. 24 as the rebellion in Libya appeared to have shut down even more crude production than previously estimated.

Italy's Eni, the largest oil producer in Libya, said the violent uprising has taken 1.2 million barrels per day off the market, up from previous estimates of about 1 million bpd. Most of that oil is exported to Europe, but it will push prices up everywhere by increasing competition for similar varieties of higher-quality crude used to make gasoline and jet fuel.

In the U.S., benchmark West Texas Intermediate crude rose $1.67 to $99.77 per barrel on the New York Mercantile Exchange. Prices have jumped 18 percent since Feb. 18. In London, Brent crude added $2.95 at $114.20 on the ICE Futures exchange.

At the pump, gasoline prices rose more than 2 cents Feb. 24 to a new national average of $3.228 per gallon. A gallon of regular is 11.8 cents higher than it was a month ago and 55 cents more than the same time last year, according to AAA, Wright Express and Oil Price Information Service. Experts estimate that the national average could rise as high as $3.75 by spring.

Gasoline costs an average $3.60 per gallon in California and $3.44 per gallon in New York. The cheapest gas could be found in Wyoming, at an average of $2.998 per gallon.

Oil prices are climbing even though the world's largest oil consumer, the U.S., has large supplies of both oil and gasoline. The Energy Information Administration reported Feb. 24 that oil supplies in the U.S. grew the week ending Feb. 18 by 800,000 barrels. That's less than analysts expected, but supplies are still well above average for this time of year. Gasoline supplies fell by 2.8 million barrels.

America in competition for oil

"It doesn't matter what the supply is here," analyst and trader Stephen Schork said. "America is in competition with Europe and Asia and everywhere else for oil. And when there's a shortage somewhere, it pushes prices everywhere else."

With no clear outcome in sight, Schork said the violence in Libya has put a "fear premium" of about $15 to $20 per barrel on oil prices. That premium is currently flowing through energy markets, pushing gasoline prices to the highest levels ever for this time of year.

Oil and gasoline prices will likely hold at elevated levels as long as Libya's future remains uncertain, said Michael Lynch, president of Strategic Energy & Economic Research. Prices should fall again once order is re-established. Libya relies on oil revenues and it will need to keep operations running no matter who is in charge, he said.

"It doesn't look like there's any real damage to Libya's oil fields," Lynch said. "So once there's a government in place everything could get back up and running within a few weeks."

If protests subside in the region, oil prices could eventually fall to where they were earlier in February, pulling pump prices down anywhere from 30 to 40 cents per gallon, Lynch said.

In other Nymex trading in March contracts, heating oil rose 4 cents to $2.9603 per gallon and gasoline added 6 cents at $2.9305 per gallon. Natural gas lost 10 cents at $3.842 per 1,000 cubic feet.

Saudi's have spare capacity

Saudi Arabia's oil minister said Feb. 22 the oil powerhouse has ample spare capacity to offset any supply disruptions, while other OPEC ministers downplayed the need to pump new crude into the world market to temper an oil price rally fueled by unrest in Libya.

The International Energy Agency, looking to allay concerns, said it "stands ready" to step in and offset any supply disruptions.

Saudi Arabia, the de facto leader of the Organization of the Petroleum Exporting Countries, said it has enough reserves. Saudi oil minister Ali Naimi said the kingdom's

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NPR-A PLAN

with a record of decision around the end of 2012, the next lease sale would be in 2013.

He said BLM would like industry to share with the agency where they'd like to lease.

"I think that's a critical aspect of developing the National Petroleum Reserve, is getting that fix on what's of interest and when is it of interest to the industry," Murphy said.

Historically large blocks were offered because it's been tough to get a handle on what's of interest to industry, he said.

The state offers all of the acreage in specified areas every year, but Murphy said that in his view, "the state doesn't have as regulated a NEPA process as we do."

Focus on opportunities

Murphy said because this generation of the integrated activity plan for NPR-A covers the entire area, there will be consistency in the stipulations, "consistency in the required operating procedures and it will afford those assurance that industry and the environmentalists, conservation groups, often ask for and so I think will pave the way for the future of the petroleum reserve."

It is a big job, he said, and there are tight timeframes, but the federal agencies, the North Slope Borough and the state, are all seasoned.

"Everybody's been through at least one rodeo; we'll get to the end," Murphy said.

"And that's one of the reasons why … in this document that we won't go out with a preferred alternative in the draft. …

"We don't want to steer it too much. We can adjust that when we get to the end, after we get all the feedback on our range of alternatives and then come up with what is the most reasonable approach to the National Petroleum Reserve."

Cribley noted that the two recent plans create a foundation for the work that's being done now, which looks "at it on a more integrated basis," which should allow the agency to "create a better vision of the future, what the future of that land is, and where we're going to go with the development of it."

Pipeline issues

A separate issue, but one BLM can't ignore, Cribley said, is the proposed natural gas pipeline from the North Slope.

"If it happens we will be integrally involved with that because it will invariably cross public lands," and so BLM will be involved with any environmental document that's developed and with the actual permitting.

He said BLM has "staff on board that is continuing to coordinate with the different proposals within the state and making sure that if they do move them forward that we're fully engaged with that."

He said preliminary work includes looking at feasibility and some of the challenges that would have to be overcome. There are multiple projects on the table, "but we want to be prepared and be in the queue to step up and do our part when that does happen. It's one of those things that's based on economics. It could turn overnight on you — all of a sudden you've got a new huge workload."

So even though none of the projects is currently moving forward and "nothing is going on, you can't let your guard down: You have to be engaged and paying attention."

See part 1 of this story in the Feb. 20 issue. ●

Contact Kristen Nelson at knelson@petroleumnews.com

● GOVERNMENT

Judge orders Interior to move quickly

Bureau of Ocean Energy Management, Regulation and Enforcement given deadline on Gulf deepwater permits

By CAIN BURDEAU
Associated Press Writer

The federal judge who struck down the Obama administration's moratorium on deepwater drilling after the Gulf oil spill on Feb. 17 ordered the Interior Department to act quickly on five pending permits.

U.S. District Judge Martin Feldman told the Interior Department's Bureau of Ocean Energy Management, Regulation and Enforcement to act within 30 days. The agency rules on permit applications in the Gulf of Mexico.

The judge said the agency needed to process permits to "restore normalcy to the Gulf region." He said the inaction had hurt drilling companies and threatened them with "endless disability."

His ruling came in a lawsuit brought by Ensco Offshore Co., which claims the government has wrongfully delayed issuing permits since it lifted a moratorium on such projects in October. The administration had barred new drilling in reaction to the spill.

In June, Feldman overturned the agency's decision to halt new permits for deepwater projects and suspend drilling on 33 exploratory wells after the Deepwater Horizon blast, which killed 11 workers and triggered the massive spill.

The ruling was hailed by drilling advocates.

"It's past time we got back to work in the offshore," said Erik Milito, a director at the American Petroleum Institute. "Every day that goes by without a permit is damaging to our economy."

Melissa Schwartz, a spokeswoman for BOEMRE, said regulators were reviewing Feldman's ruling.

The Obama administration has said that it wants to make sure offshore drilling can be done safely before issuing new permits. Regulators have demanded that oil companies prove they're able to contain a blowout of an underwater well before granting permits to drill again in Gulf waters deeper than 500 feet.

System built

On Feb. 17, a group of oil companies led by Exxon said it had built such a system. It is designed to be fully assembled in two to three weeks after a blowout. It can work at depths up to 8,000 feet and capture as much as 60,000 barrels of liquid and 120 million cubic feet of gas per day.

BP's Macondo well blew out at about 5,000 feet below sea level and spilled an average of 52,400 barrels per day. At its peak, BP's well spewed 61,900 barrels per day.

Earlier in February, Michael Bromwich, director of the Bureau of Ocean Energy Management, said that companies must show they have "access to and the ability to deploy" equipment that can contain another large spill. Government engineers are still reviewing the new system.

Meanwhile, Gulf Coast politicians vowed to keep the pressure on the Interior Department.

U.S. Sen. David Vitter, R-La., said he would continue to block the nomination of a new U.S. Fish and Wildlife Service director until drilling permits are issued.

"I'll continue my hold on the president's newest Interior Department nominee until he follows the law and issues deepwater exploratory permits," Vitter said. ●

His ruling came in a lawsuit brought by Ensco Offshore Co., which claims the government has wrongfully delayed issuing permits since it lifted a moratorium on such projects in October. The administration had barred new drilling in reaction to the spill.

ENVIRONMENT & SAFETY

Thawing permafrost to accelerate warming

Carbon released from vegetation preserved in thawing permafrost will impact the rate of global warming, researchers from the National Snow and Ice Data Center and the Cooperative Institute for Research in Environmental Sciences predicted in a new report published on Feb. 14.

Plant material frozen in soil during the last ice age is being released as permafrost melts under the impact of rising Arctic temperatures, thus causing the ancient vegetation to rot and release carbon into the atmosphere.

Using climate predictions from the Intergovernmental Panel on Climate Change, the researchers calculated that 29 to 59 percent of the current permafrost will disappear by 2200, a loss in 200 years of permafrost that took tens of thousands of years to form. That loss of permafrost would release 126 to 254 gigatons of carbon, volumes corresponding to about one-fifth of the total carbon currently in the atmosphere, the researchers estimated.

"The amount of carbon released is equivalent to half the amount of carbon that has been released into the atmosphere since the dawn of the industrial age," said NSIDC scientist Kevin Schaefer. "That is a lot of carbon."

People developing strategies for addressing climate change need to consider the quantities of carbon coming from thawing permafrost in addition to carbon released into the atmosphere from the use of fossil fuels, the researchers say.

—ALAN BAILEY

Plant material frozen in soil during the last ice age is being released as permafrost melts under the impact of rising Arctic temperatures, thus causing the ancient vegetation to rot and release carbon into the atmosphere.

FINANCE & ECONOMY

Buccaneer Alaska promotes Rike to EVP

Buccaneer Energy has promoted Andy Rike to executive vice president of operations for Buccaneer Resources and Buccaneer Alaska, the company announced on Feb. 17.

Rike previously worked for Gulf Oil, Chevron and Schlumberger. For the last 31 years he has worked both onshore and offshore on assignments in Cook Inlet, France, Dubai, Saudi Arabia, the Rocky Mountains, Texas, Louisiana, South America and the eastern United States. He has a petroleum engineering degree from Louisiana Tech University.

"Andy has proven through his work history and his time with Buccaneer that he knows what needs to be done to be successful in this business. He is extremely good at bringing the right equipment to the table to create cost effective solutions to challenging problems," Curtis Burton, CEO and managing director of Buccaneer, said in a statement. Buccaneer Alaska is the local subsidiary of Australian independent Buccaneer Energy.

Since arriving in Alaska in March 2010, Buccaneer has established five Cook Inlet prospects it hopes to explore in the next few years, including two offshore projects.

Buccaneer is trying to bring a jack-up rig to the Cook Inlet as soon as this summer.

—ERIC LIDJI

ENVIRONMENT & SAFETY

NMFS to hold hearings over seal listings

The National Marine Fisheries Service has announced that it will hold public hearings in Anchorage, Barrow and Nome to gather comments on the proposed listings of ringed and bearded seals under the Endangered Species Act. The Anchorage hearing will take place on March 7, with the Barrow hearing scheduled for March 22; NMFS has not yet settled on a date for the Nome hearing.

Communities along the Beaufort Sea and Chukchi Sea coasts will be able to teleconference into the Barrow hearing.

In 2008 the Center for Biological Diversity petitioned NMFS to list the seals, saying that global warming is melting the Arctic sea ice that the seals depend on for shelter and for raising their pups. The center later sued NMFS to force a listing decision. On Dec. 3, 2010, NMFS issued a notice proposing the listing of the seals as threatened.

NMFS now says that it is responding to requests for public hearings and that it has extended the original 60-day public comment period for the listing proposals: The comment period will now end on March 25. Written comments can be submitted to NMFS up to that date.

—ALAN BAILEY

FINANCE & ECONOMY

Benefits of Alaska OCS development cited

Shell said Feb. 24 that a study by Northern Economics and the Institute for Social and Economic Research at the University of Alaska has highlighted potential economic benefits — to Alaska and to the nation — if oil and gas resources on Alaska's outer continental shelf are developed.

A 2009 study by Northern Economics and ISER found that development in the Beaufort and Chukchi seas would extend the life of the trans-Alaska oil pipeline for decades.

The new study uses the same development scenarios, and estimates that development of Alaska's offshore resources could create an annual average of 54,700 new jobs through 2057, resulting in a total of $145 billion in new payroll paid to employees through 2057 — $63 billion in Alaska and $82 billion in the rest of the United States.

Shell Alaska Vice President Pete Slaiby said it is important that Shell continue to make a business case for potential offshore development to Alaska and the rest of the U.S.

"First and foremost is putting in place a safe, responsible exploration program. But if we realize the full potential of the oil and gas resources in the Alaska offshore, generations of Americans will have the opportunity to directly benefit from industries' success," Slaiby said in a statement.

Note: See story in March 6 issue.

—PETROLEUM NEWS

continued from page 1

CONOCO CAPEX

The company did not drill any North Slope exploration wells this winter.

The budget number comes as lawmakers are considering ways to increase investment on the North Slope, including lowering taxes and promoting access to existing facilities.

"We expect ConocoPhillips Alaska's 2011 capital budget spending to be basically flat from 2010," ConocoPhillips spokeswoman Natalie Lowman told Petroleum News, noting that actual 2010 spending was the lowest since 2007. "The 2011 capital budget includes contingency funding if we are successful in getting improvements in State fiscal terms, and resolving permitting issues with Alpine satellites."

Focusing on the Lower 48

The budget suggests ConocoPhillips is focusing more on other domestic projects this year. The company is budgeting $3.3 billion for Lower 48 exploration and production projects, nearly double the $1.8 billion spent in 2010 and up from $2.6 billion in 2009.

The company is budgeting $3.3 billion for Lower 48 exploration and production projects, nearly double the $1.8 billion spent in 2010 and up from $2.6 billion in 2009.

ConocoPhillips is pursuing projects in the Eagle Ford shale in Texas, as well as liquids-rich plays in the Permian and Barnett fields in Texas and in the Bakken Shale in North Dakota. The company is also budgeting for ongoing development in the San Juan basin and for its share of the Marine Well Containment Co., an oil spill response project.

ConocoPhillips also plans to increase its spending internationally.

The company is budgeting $7.1 billion for overseas exploration and projection projects, up from $5.9 billion spent in 2010 and $5.4 billion spent in 2009.

Companywide, ConocoPhillips is proposing an $11.3 billion budget for exploration and production projects, up from $8.5 billion spent in 2010 and $8.9 billion spent in 2009. ●

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OIL PRICES

production capacity is at 12.5 million barrels per day, a level that can help "compensate for any shortage in international supplies." His comments were carried on the official Saudi Press Agency.

Mohammed bin Dhaen al-Hamli, the oil minister for the United Arab Emirates, said that OPEC "will intervene if need arises, but supplies are reaching the market so far."

Libya is the first of the OPEC member states to be hit by the wave of unrest that had led to the ouster of the leaders of Tunisia and Egypt.

The uprising against Moammar Gadhafi is the most violent in the region, so far, and has sent tremors through oil markets concerned that the demonstrations could spread and disrupt flows from other OPEC members, particularly Saudi Arabia. OPEC supplies about 35 percent of the world's crude oil. While international markets are reeling, OPEC appeared to adopt a wait-and-see approach, convinced that the price spikes were not related to the actual volume of crude oil on the market. ●


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PIPELINES & DOWNSTREAM

RCA extends CPAI '10 tariff another year

State regulators have given ConocoPhillips another year to continue collecting increased shipping rates on the trans-Alaska oil pipeline while they prepare for hearings this fall. ConocoPhillips requested the increased rates in 2010 and the Regulatory Commission of Alaska allowed the company to collect them on a refundable basis until Feb. 22, 2011.

ConocoPhillips can now collect the rates through Feb. 22, 2012.

That rate case is now one of 11 consolidated into a single docket, bringing together three years of rate increases from four companies. The RCA and the Federal Energy Regulatory Commission are planning joint hearings on the cases that begin in October.

The hearings concern whether and how the cost of Strategic Reconfiguration should be included into shipping rates on the 800-mile pipeline from Prudhoe Bay to Valdez.

If all the proposed increases are approved on a permanent basis, it would more than double the cost to ship a barrel of oil from the North Slope to markets within the state.

—ERIC LIDJI

GOVERNMENT

Clipping the EAB wings

Frustrated at the remand by the Environmental Appeals Board of Shell's air quality permits for planned drilling in the Beaufort and Chukchi seas, Rep. Don Young, R-Alaska, has introduced a bill amendment in the U.S. House of Representatives to limit the EAB's ability to do something similar in the future. The amendment, to the House bill for 2011 appropriations for federal agencies, would curtail funding for EAB review of Environmental Protection Agency permits for activities on the Arctic outer continental shelf — the House of Representatives has passed the amendment by a vote of 243 to 185, according to a release from Young's press office.

"This amendment does not circumvent the EPA's authority. Instead it continues to give permitting decisions to the professionals in the regional offices. What this amendment will do is remove the ability for lawyers to overrule EPA permit writers," Young told House members. "Over $4 billion have been invested in trying to drill exploratory wells, and to date not a single well has been drilled because of one EPA air permit."

The amendment prohibits the EAB from using any funds from the 2011 appropriations to "consider, review, reject, remand or otherwise invalidate any permit issued for outer continental shelf (emissions) sources located offshore the states along the Arctic coast."

—ALAN BAILEY

● FINANCE & ECONOMY

Unocal pursues Forest for $48 million

Federal lawsuit argues Forest obligated to pay operating expenses as ex-owner in Trading Bay properties on Alaska's Cook Inlet

By WESLEY LOY
For Petroleum News

Union Oil Company of California is suing Forest Oil Corp. in an Alaska court for $48 million.

The case has to do with who's responsible for the costs of operating the Trading Bay unit, field and production facility on Alaska's Cook Inlet.

In its suit pending in U.S. District Court, Unocal contends that Forest owes the $48 million as a former stakeholder in the Trading Bay assets.

Forest, on Feb. 10, filed an answer to the suit saying it "vigorously denies" owing anything. The company asked that the case be dismissed.

Changing hands

Unocal, a subsidiary of Chevron Corp., operates Trading Bay, while Forest was among a succession of companies holding a stake in the properties.

Forest came into Trading Bay as a result of the merger in 2000 with Forcenergy Inc., which was an owner in Trading Bay.

Forest would exit Trading Bay in 2007, conveying its ownership interest to Pacific Energy Resources Ltd.

Pacific Energy filed for bankruptcy in March 2009, and as part of the bankruptcy proceedings the company abandoned its interest in Trading Bay and rejected its obligations under unit and operating agreements, including the commitment to pay its share of Trading Bay operating costs.

The lawsuit contends that Forest, when it transferred its Trading Bay ownership, did not obtain Unocal's release from these obligations.

Pacific Energy failed to make payments to Unocal for its share of operating costs, and now Forest is on the hook for what's owed, the lawsuit argues.

Forest came into Trading Bay as a result of the merger in 2000 with Forcenergy Inc., which was an owner in Trading Bay.

Forest, however, says Unocal "did not object" to the Trading Bay transfer to Pacific Energy, and the sale marked the end of any obligation Forest had to pay operating costs.

Oil sales insufficient

As Trading Bay operator, Unocal has a lien on each owner's share of oil production to secure the payment of operating expenses, the lawsuit says.

"Union has exercised and continues to exercise its lien rights at the wellhead," the suit says, with proceeds from the sale of oil applied to Pacific Energy's past due balance.

But these proceeds have been insufficient to cover what's owed, the difference being $48 million as of Jan. 1, the suit says.

The suit alleges breach of contract, saying Forest "remains obligated" to pay a proportionate share of Trading Bay costs despite having transferred its interest to Pacific Energy.

"And Union's damages continue to accrue," the suit adds.

Trading Bay is among the properties Chevron is aiming to sell in a planned exit from the Cook Inlet basin. ●

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● PIPELINES & DOWNSTREAM

Alberta government backs Edmonton area upgrader

By GARY PARK

For Petroleum News

The Alberta government is plunging ahead with its support for the high-value business of upgrading and refining oil sands bitumen by contributing some of its own royalties in kind to a C$5 billion refinery in the Edmonton area.

Under an agreement with North West Upgrading and Canadian Natural Resources, it will supply 37,500 barrels per day of bitumen to North West's planned independent merchant upgrader, which will use a gasification technology to turn feedstock into synthetic crude for refining into jet fuel and gasoline.

About half of the facility's output will be a low-sulfur diesel, initially about 5.5 million liters per day, with other products including diluents, naphtha and natural gas liquids.

In a separate, but related deal, the province agreed to provide C$495 million over the next decade to Enhance Energy to build a 145-mile pipeline from the upgrader to carry 3,000 metric tons per day of carbon dioxide generated at the plant to enhanced oil recovery projects in central Alberta.

That is projected to produce an additional 1.4 billion barrels of oil from conventional reservoirs.

"Conservatively, we believe the long-term economics of this project are positive," said Energy Minister Ron Liepert, defending the government's attempt to keep more of the value-added end of its bitumen extraction in Alberta. "We are embarking on a new era and both projects are of strategic importance for us."

The upgrader, which is scheduled for commissioning by mid-2014, is expected to involve C$15 billion of investment over three phases by 2025, said North West Chairman Ian MacGregor.

In addition to the government's 37,500 bpd, Canadian Natural will supply 12,500 bpd of bitumen from its oil sands operations.

Alberta Premier Ed Stelmach, who has spearheaded the effort, said the venture is risky "but we have never shied away from taking bold steps."

He said the expanding presence of Asian companies in the oil sands is changing Alberta's view of the oil sands, which he described as "an immense resource from both global energy security and geopolitical perspectives."

Stelmach said the U.S. population of 300 million will not sustain the "quality of life" in Alberta, so the province needs to "move into markets with a billion population."

To that end, Alberta will support Enbridge's struggle to gain approval for its Northern Gateway project, while the U.S., if it stands in the way of pipelines from Alberta, "can take our bitumen on rails." ●

Contact Gary Park through publisher@petroleumnews.com

ENVIRONMENT & SAFETY

USCG admiral warns about Arctic needs

There is an inadequate infrastructure to support a major oil spill response in Alaska's Arctic offshore, retired U.S. Coast Guard Admiral Thad Allen told the U.S. House Transportation and Infrastructure Committee on Feb. 11. Allen was the national incident commander for the response to the Gulf of Mexico Deepwater Horizon disaster.

Barrow, the only port close to Beaufort Sea and Chukchi Sea oil and gas lease areas, "has limited access and no ability to support large-scale operations," Allen wrote in testimony to the committee. The closest port with significant capacity is Nome, but that port cannot handle vessels with drafts of more than 21 feet, Allen wrote.

Two of three icebreakers inoperable

Allen also commented that two of the Coast Guard's three icebreakers are currently inoperable and have reached the ends of their service lives. Meantime, decisions over future icebreaker needs continue to be delayed and the National Science Foundation-based funding mechanism for icebreaker operations is dysfunctional, Allen wrote. The funding for icebreaking operations must be moved to the USCG and there needs to be "serious discussion" regarding the loss of capabilities resulting from the decommissioning of the two out-dated vessels.

"In the absence of forward operating bases and infrastructure, seaborne command and control capabilities will be vital in any response, including search and rescue and other activities," Allen wrote. "The only vessels in the U.S. fleet capable of operating in those environments in all ice conditions are Coast Guard icebreakers."

Allen also urged U.S. ratification of the Convention of the Law of the Sea Treaty, the United Nations convention that provides a framework for international agreements on jurisdiction over extended areas of the Arctic Ocean.

"This treaty … should underpin any domestic and international planning for spill response," Allen wrote.

—ALAN BAILEY

EXPLORATION & PRODUCTION

Escopeta ship headed for Gulf of Mexico

The heavy lift vessel set to carry a jack-up rig to Alaska is headed for the Gulf of Mexico. The M.V. Kang Sheng Kou left Lagos, Nigeria, on Feb. 21 en route to Freeport, Texas, where it will eventually pick up the Spartan 151 rig being winterized in Galveston.

Escopeta Oil contracted the ship and the rig for a Cook Inlet drilling campaign.

The Kang Sheng Kou ship is owned by the Cosco Group.

The 500-foot ship is estimated to arrive in Freeport around March 8. Once the rig is loaded, the Kang Sheng Kou will travel around South America en route to Alaska.

Under an agreement with the Alaska Division of Oil and Gas, Escopeta must have a rig bound for Alaska by March 30 and must start drilling its first well by Oct. 31.

The company expects the rig to arrive in Alaska in May

—ERIC LIDJI

Business Spotlight

Team Industrial Services

Team Industrial Services is the largest specialized industrial services company in North America through service leadership and innovation. The company's more than 3,500 trained, and experienced technicians provide mechanical, inspection and heat treating services and products for 7,000 customers worldwide. Team's integrated services include leak repair, hot tap, field machining, technical bolting, valve repair, field heat treating, NDE/NDT inspection, emissions control and much more.

Jane E. Griffel

Having moved to Alaska in 1984, Griffel has been with Team for more than 5 years. One of her most defining moments in life was shooting her first bull moose under less than desirable conditions, on the way home from work, wearing heals and a skirt: The moose was legal and she just decided to go for it! Married for 24 years, Griffel has three children that she enjoys watching and actively participating in sports across Alaska.

Jeannette Diamond

Having been an owner and operator of her own business in a male dominated industry all her life, in a well drilling company that has been very successful, Diamond is in the process of selling the business that brought her to Team and is very excited to be a part of such a good company. Happily married, she and her husband have five boys and one girl between the two of them and are avid snowmachiners.

Jane E. Griffel
Alaska Branch Manager

Jeannette Diamond
Administration Assistant

COURTESY PHOTOS

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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MGP OUTLOOK

The shuffle coincided with word that TransCanada, the deemed frontrunner to ship gas from the Mackenzie Delta to northern Alberta, has written down C$127 million of the money it contributed to cover regulatory costs incurred by the APG.

In the process, TransCanada Chief Executive Officer Russ Girling said has no further material expenses planned for the MGP.

He said "uncertainty persists" over the MGP's commercial structure, a construction timetable and the outcome of fiscal negotiations with the Canadian government.

But he insisted TransCanada remains committed to bringing Mackenzie Delta gas on-stream.

Others are taking an outright gloomy view of where the project stands.

Nathan Cullen, natural resources spokesman for the opposition New Democratic Party, told The Hill Times that it is worrisome for the industry partners and those for and against the MGP that the Harper government appears to have dropped the ball.

He doubted Duncan could be familiar with the file and said he will need weeks or months to catch up, "if he ever does," challenging the government's selection of "a low-ranking minister" to be in charge of a C$20 billion project.

Kitimat pace quickens

While the waiting game continues for the MGP, the pace continues to pick up around the Kitimat LNG project, adding to a view that future gas production from northeastern British Columbia poses the biggest threat to the economic prospects for Arctic gas development.

Among the latest developments, Nexen, a major leaseholder in the Horn River basin, has added its name to the list of companies looking for ways to hasten development of shale gas resources that are faced with two obstacles — their distance from big North American markets and their viability in a saturated, low-priced environment.

Nexen Chief Executive Officer Marvin Romanow told analysts Feb. 17 his company hopes to line up a joint-venture partner this year to advance its current British Columbia holdings of 300,000 acres and production of 45 million cubic feet per day, copying deals struck by Encana with PetroChina for C$5.4 billion and with Korea Gas; Talisman Energy with South Africa's Sasol; and Penn West Exploration's joint venture with Japan's Mitsubishi.

While the waiting game continues for the MGP, the pace continues to pick up around the Kitimat LNG project ...

He said priority will go to a partner able to focus on developing assets over the next 40 years, noting that more gas has been discovered in Horn River alone than in all of Alberta, which has dominated Canada's gas production over the past 60 years.

Case for single system

Romanow also suggested there is a case to be made for building a single pipeline system to carry oil and natural gas to the deepwater port at Kitimat for export to Asia and overcome some of the challenges to the Kitimat LNG and Enbridge's Northern Gateway projects, which face varying degrees of resistance from First Nations and environmentalists.

He said a combined outlet to Asia would enable Canadian producers to capture some of the current US$18 per barrel premium for Brent-priced crude over West Texas Intermediate crude.

John Crum, North American president of Apache — which owns 51 percent of Kitimat LNG, with EOG Resources holding the rest — said Feb. 17 that discussions are under way with several prospective Asia-Pacific buyers.

He said that means corporate sanctioning of the C$3.5 billion project is possible by the end of 2011 and exports of 700 million cubic feet per day could start by late 2015 followed by significant expansion.

Gerry Goobie, managing consultant for Purvin & Gertz, said the rapid increase in Asian investment in Canada's shale gas assets means Kitimat LNG has a "pretty good shot" at going ahead.

But he doubts any other ventures would proceed until Kitimat is built and establishes itself as a successful operation.

Penn West Chief Executive Officer Bill Andrews said his company is "convinced that the sooner we get a connection to the Pacific Rim and have the ability to move some gas there, the better off we'll be." ●

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CHENAULT Q&A

talists. It takes 20 years to permit Kensington mine (in Juneau). Everywhere we turn, we are being shut down by the EPA, the Corps of Engineers or some environmental group on developing resources in the state or the U.S. Their concern is global warming or whatever their concern is for the week. What they are doing is driving business and resource development to Third World countries that don't have the constraints and controls that we put on the oil industry here or the mining industry. In my opinion they are contributing more to the problem than what they are saving. When we concern ourselves with a $14 trillion national debt, if you look at how much oil we import because we won't develop our own resources.

Petroleum News: What are your concerns with the trans-Alaska oil pipeline?

Chenault: I don't think people understand the urgency of keeping that pipeline full. Right now we are at about 630,000 barrels (a day). When we talk about when are they going to shut down that pipeline, I think there are people out there who think we don't have a problem until we get to 300,000 barrels. We need to do what we can in order to keep that pipeline full — now. If we don't, it's going to be shame on us whenever we have a problem because 85 percent of Alaska's budget is based on oil flowing through that pipeline. Yeah, we've got money in the bank and we'll but OK, but how long does that last?

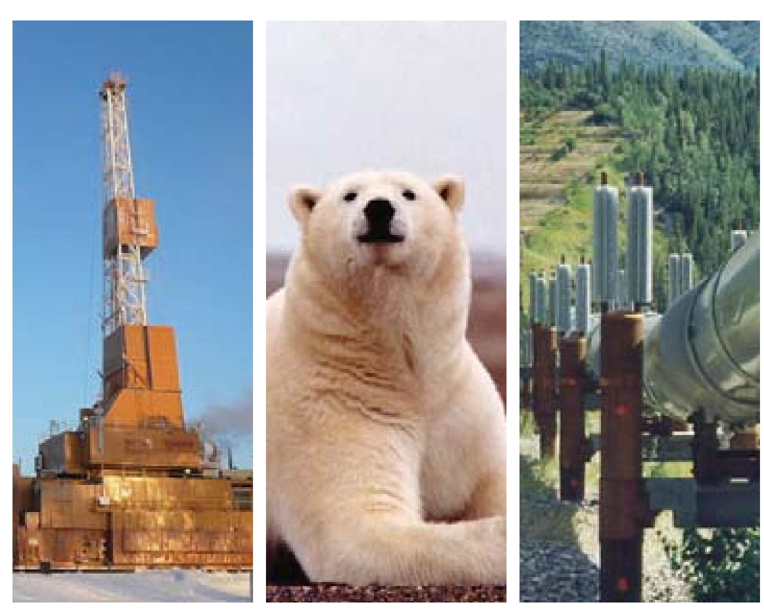
Petroleum News: Cobbling all this together — tax credits, base rate, progressivity — is that a 90-day project or is it a two-year legislative term project.

I don't think people understand the urgency of keeping that pipeline full. —House Speaker Mike Chenault

Chenault: I don't know. Whatever timeframe it takes to put a program together that moves Alaska forward, gets investment into the state of Alaska, that puts more oil into the pipeline, that's how long it will be. I want it to be done right, but I don't think we can afford to spend two, three or four years to make it perfect as some want or to wait for more information. I'm not different than anyone else. I want to see guarantees in return, but there are no guarantees in life. We tripled our tax four years ago. What I've seen is less investment and less exploration. Now some of the exploration hasn't happened because of the federal government, but when we look at projected oil production, we've seen projects that aren't coming online and they probably won't under the current tax regime that we have. We've got companies actually leaving the state for North Dakota. What does that tell me? It tells me something is wrong. If we don't fix it, we may not have any of that industry.

Petroleum News: Oil prices just hit $100 a barrel. Do you think high oil prices are ...

Chenault: They are masking the problem. They are masking the problem. If oil prices were $50 today, we would be hemorrhaging money out of the state budget, but high oil prices are masking the problem. ●



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SUSITNA GAS

Surveys and Division of Oil and Gas are embarking on a multiyear research program to investigate the resource potential of this sedimentary basin, known as the Susitna basin and separated at its southern end by a major geologic fault from the prolific oil and gas bearing Cook Inlet basin. The research program is the first of what DGGS anticipates as a series of investigations into the energy resources of several Alaska basins that could perhaps supply energy for rural communities as well as major population centers, as the cost of energy consumed in Alaska soars, DGGS geologist Dave LePain told Petroleum News Feb. 18.

"Energy is a huge challenge in the state right now," LePain said.

The U.S. Geological Survey and possibly some university geologists will help with the Susitna basin program, Le Pain said.

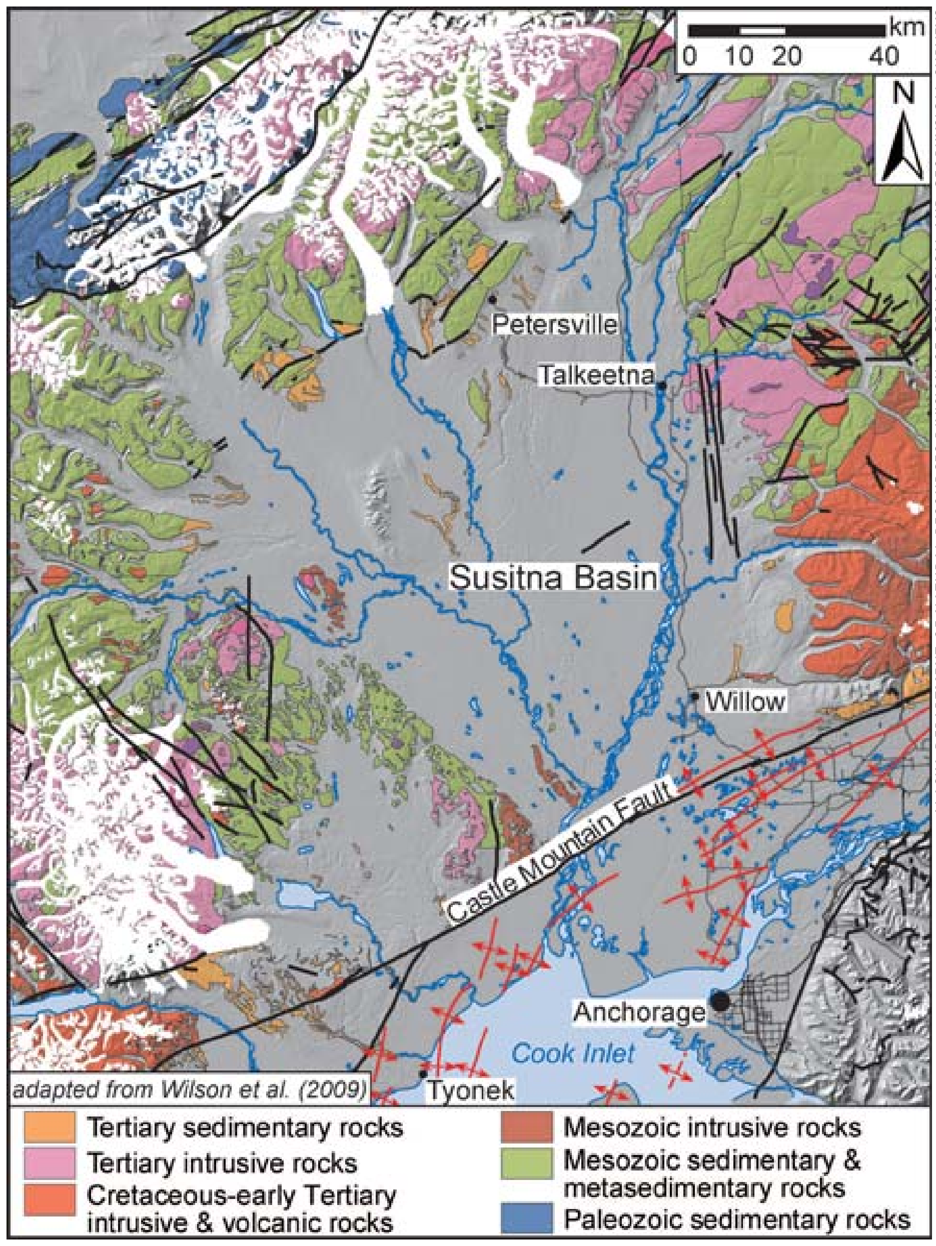
Little known

Although much is known about the geology of the Cook Inlet basin and there is a well substantiated model for how that basin has formed, very little is known about the adjoining Susitna basin.

"We really don't understand why that (Susitna) basin is there," LePain said.

But an understanding of the history of the basin is critical to evaluating the potential presence of exploitable gas resources in the basin.

In the Cook Inlet basin a sequence of Tertiary rocks, more than 25,000 feet thick in the deepest part of the basin, were laid down as sediments deposited from rivers and lakes. And periods of lush vegetation during the Tertiary period gave rise to abundant coal seams, as the sediments sank and became buried. Those coal seams, containing vast volumes of natural gas, are being lifted up by forces within the Earth's crust and this uplift, starting perhaps 5 million to 10 million years ago, has reduced the pressure on the coal, thus releasing gas from the coal, with the gas migrating into the sandstone reservoirs of the Cook Inlet gas fields, LePain said.



ALASKA DEPARTMENT OF NATURAL RESOURCES DIVISION OF GEOLOGICAL AND GEOPHYSICAL SURVEYS

The Susitna basin lies under a huge lowland area to the north of Anchorage and is separated from the Cook Inlet basin to the south by the Castle Mountain Fault.

Geologists know from surface rock outcrops and from the nine exploration wells drilled in the Susitna basin that this basin contains coal seams in a similar Tertiary rock sequence to that of the Cook Inlet basin. But how pervasive are the coals, and have the strata of the Susitna basin, like those of the Cook Inlet basin, gone through a gas-releasing uplift? If coals are extensive in the basin and if they have generated and released gas, are suitable reservoirs and seal rocks present to form gas fields? These questions remain unanswered.

In addition, almost nothing is known about the older Mesozoic rocks that lie underneath the Tertiary of the Susitna basin. The Jurassic Tuxedni group of the Cook Inlet Mesozoic sequence has sourced most of the oil in the Cook Inlet oil fields. Do similar Mesozoic source rocks exist under the Tertiary of the Susitna basin?

Few rock exposures

One of the biggest challenges for any investigation of Susitna basin geology is the general lack of exposed rock in the swamps and forests of the Susitna Valley. There are, however, some good rock exposures around the perimeter of the basin and the DGGS-led team plans to spend about 10 days in the summer of 2011 taking an initial look at those exposures, investigating the nature of the rocks and determining the quality of the coals known to exist in some outcrops, Le Pain said. Members of the team will also fly across the interior of the basin by helicopter, seeking any other locations where rock may be exposed, he said.

The team hopes to be able to use these surface investigations to start to clarify the Tertiary stratigraphy of the basin and the way in which the structure of the basin has evolved, eventually enabling a geologic comparison with the way in which gas has formed and accumulated in the Cook Inlet basin. The DGGS led team also expects to glean information about the Mesozoic rocks that underlie the Tertiary, especially from surface outcrops of the Mesozoic in the Yenlo Hills to the northeast of the tiny hamlet of Skwentna, in the northern part of the basin.

The team will also use publicly available data from the few wells that have been drilled in the Susitna basin. In addition, publicly available gravity data for the basin will provide insights into the thicknesses of the Tertiary rocks across the basin, while publicly available aeromagnetic data will provide clues about the nature of the underlying Mesozoic rocks and about major geologic structures such as faults, LePain said.

Proprietary seismic

There is some 2-D seismic data for the basin, but all of this data is proprietary and is held confidential within DNR. The agency cannot publish the data without permission from the data owners but does use it to inform surface geologic mapping in poorly exposed areas, LePain said.

One well in the Susitna basin penetrated through the Tertiary strata into the underlying Mesozoic rocks and demonstrated the existence of a 3,000- to 4,000-foot thickness of Tertiary strata, although the Tertiary is known to be thicker than that in some parts of the basin, LePain said.

"In deeper parts of the basin we think we have a thick enough section to where we could have an appreciable amount of coal," he said.

The summer 2011 reconnaissance fieldwork, coupled with the analysis of existing publicly available subsurface data, will enable the team to put together a plan for completing its Susitna basin program. That program will take at least two years to complete, after which the team will shift its attention to other Alaska basins. For now, the Susitna basin seems the "low hanging fruit" of the underexplored basins with energy potential.

"It's right next to the road system and close to the population centers," Le Pain said. "It's a good place to start." ●

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INSIDER

from the Agrium Kenai Nitrogen Operations, comprising Plants 4, 5, and 6, from Kenai, Alaska to Ossiomo, Nigeria."

The report from the trade publication said the $25 million shipping contract was set to be finalized in March and would require two heavy lift vessels — the Fjord and the Fjell — to mobilize to Alaska in early July and complete the trip to Nigeria by December.

Agrium acknowledged the report, but wouldn't say whether or not it's true.

"Agrium continues to look at all our options for the Kenai facility, but nothing is finalized yet," Paul Poister, manager of U.S. government relations, told Petroleum News.

After posting his original report, Harbour followed up with an e-mail from Robert J. Roest of Mammoet USA, South Inc., one of the reported contractors on the shipping project.

Roest said his company would be bringing a "large crawler crane into the area," but would only be using the piece of equipment for Agrium for about one month, adding that he had a prospect for another job "very close by" that would take up another week.

"My idea is to present the opportunity of a large machine against a very competitive rate to other heavy industries in the area," he wrote, suggesting "petrochemical plants and refineries, power generation, mining operations, shipbuilding and fabrication yards."

The equipment could "manipulate 300-350 ton loads with relative ease," Roest wrote.

"The way I see it is that this opportunity presents a significant cost saving for plant operators as opposed to bringing a machine just for one project," he wrote. "And yes, I get more business out of it; it is a cliché, but it would be a sure win-win for everybody."

For now, though, Alaska will have to wait and see what happens.

—ERIC LIDJI

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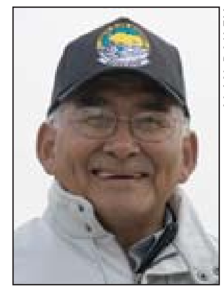
Itta largely sheds anti-development stance for offshore drilling in Arctic

THE FEB. 16 EDITION of Barrow's Arctic Sounder carried a headline that would have shocked Alaskans seven years ago at the beginning of Edward Itta's first term as mayor of the North Slope Borough.

The headline read, "Mayor Itta: Dwindling oil opportunities force rethinking of anti-development stance."



ALAN BAILEY

EDWARD S. ITTA

And re-thinking is obviously what he is doing, having repeated what he told the newspaper at a Feb. 17 House Finance Committee in Juneau.

Itta was there with others, including Rex Rock Sr., president and CEO of ASRC, to participate in a discussion on federal regulatory issues affecting economic development in Alaska.

Although Itta's reason for being more open to offshore oil development was attributed to his constituents being under attack by the Obama administration, he said it was also because of the work Shell has done with his people and their representatives.

"Shell has come a long ways to addressing the critical concerns of our communities — and sometimes above and beyond the federal requirements," he told committee members.

Itta said he was "disappointed" when Pete Slaiby, Shell vice president for Alaska operations, called him Feb. 2 to tell him Shell was once again postponing its Beaufort Sea drilling because of continuing permitting uncertainty with the U.S. Environmental Protection Agency.

"I think Shell has earned the right to start their exploration program," Itta said.

He said he has come to the realization that for the Inupiat people of the North Slope "resource development and economic development are one and the same. The economy in our region … is all driven by oil. … In a sense we're more dependent on oil than the state. We need economic development to sustain our subsistence way of life; that's our reality now."

—KAY CASHMAN

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OIL FLOW

operating company for AVCG and has been drilling on the North Slope since 2007. Great Bear Petroleum is a company newly formed to target unconventional oil and gas from source rocks beneath the North Slope; it acquired more than 500,000 acres in the state's October North Slope areawide lease sale.

BRPC and AVCG talked about an incremental plan involving the state, majors and independents, while Great Bear focused on its plan to produce oil from source rocks in an area south of existing development.

New developments

Bart Armfield, vice president of operations for BRPC, talked about "plan 2050," and said it takes an incremental look at what would be required to keep the trans-Alaska oil pipeline flowing at 600,000 barrels per day.

It's a phased approach, he said, and requires the State of Alaska, the major company players and all of the independents.

If 10 new fields averaging 12,000 bpd are brought on in the next 12 years, that would increase recoverable reserves by half a billion barrels, and require in excess of $6.3 billion.

"History demonstrates that we can" do this, Armfield said, based on what has occurred over the last 12 years with Alpine, Northstar, Oooguruk and Nikaitchuq coming online and Badami restarted.

That isn't 10 fields, he said, "but collectively they represent the equivalent of 10, 12,000-barrel-of-oil-per-day field projects."

To get to the next level, 20 years out, requires that 22 more fields be brought online.

Armfield said unconventional resource plays and technology developments in the Lower 48 demonstrate what can happen, and said that in the very near future that may be applicable to the North Slope of Alaska.

By the end of the day, in "plan 2050," 44 new developments have occurred, requiring more than $18 billion in new investment.

Armfield said the new fields are a combination of developments within existing units and grassroots developments. In the first 12-year phase, if existing units supported four new developments "then new players would support six grassroots developments."

But the $18 billion to bring on that

see **OIL FLOW** *page 20*

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OIL FLOW

much new development really requires $36 billion in investment, Armfield said, because "not every project is going to be successful on the North Slope." He said he used the 50-50 rule, with half failures and half successes, "which is probably very aggressive."

To get $36 billion of new investment capital coming into the state requires "the positive adjustment through HB 110," Armfield said.

Taxation an issue with investors

Ken Thompson, managing director of AVCG, called in to testify from the NAPE Expo in Houston, where companies show oil and gas prospects.

Thompson said AVCG was looking for a partner to bring additional capital so that projects could be accelerated but also to look at "substantial upside on some of our acreage in the shale oil that you hear so much about in the Lower 48." He said AVCG is looking for a partner with expertise and said this is the same play concept Great Bear has on its acreage.

Thompson said Alaska's fiscal system makes it tough to attract partners and related that AVCG lost a former partner, Bow Valley, when Dana Petroleum acquired Bow Valley, concluded the fiscal regime in Alaska was tougher than in the United Kingdom, and decided to focus solely on the UK.

AVCG attended NAPE last summer and had 12 companies express strong interest, but over time all but one dropped out.

"If I were to rank the number one reason they said no, it's the Alaska fiscal regime and the taxation is simply high and complicated. Several have elected to put their money into North Dakota in what's called the Bakken oil shale where there's a much more favorable severance tax rate. And also they do not face some of the same risks that Alaska does, so that's certainly a factor," Thompson said.

The board of the remaining company needs to approve and Thompson said senior management told him that "the board members just want to hear one thing and that's about Alaska's taxes." He said he'd prepared a presentation and will have to update it based on how HB 110 progresses, but he said the taxation issue is the only issue remaining with that prospective partner, and "I hope we can overcome that."

AVCG has a goal of achieving two of the oil fields needed in the first phase of the 2050 plan, he said, "so if we can just find a few other companies or attract some additional investors I think that can add up to the 10 fields we need. … Then the pie is larger and … everybody's happy," he said.

Nonconventional play

Ed Duncan, president and chief operating officer of Great Bear Petroleum, told the committee that competition for capital is on a global scale, and said while Alaska presents an opportunity for oil and gas investment, "we also see a great opportunity for Alaska to improve its position globally" by making the tax changes proposed in HB 110.

Alaska is prospective for development because "it has some of the best rocks in one of the best petroleum provinces in the world." But, Duncan said, "it also has some fiscal terms that are suppressing development." Great Bear was high bidder on 537,500 acres in the 2010 North Slope areawide lease sale, an area the company picked for its source rock.

"This is an opportunity to deliver a play that has long-lived production; manageable risk; allows the state to forecast forward revenue; (and) has tremendous job growth associated with it — if we can make it happen," he said.

The risk is not technical but "commercial viability in competition for capital (because it) requires capital to make this play really happen," Duncan said, describing the play as both capital intensive and labor intensive.

Proof of concept

Development will require long-length lateral wells and fracturing and the first step is to prove up the concept.

This year, Duncan said, Great Bear will build a rock mechanics model.

"Our rock mechanics studies will be drill holes with whole rock extracted" and then do technical analysis of rock strength to give the company "a better picture of how wells will drill and what kind of fracture stimulation technology will be deployed."

Two full production tests will be drilled next January through April.

"The full-length laterals will be full exploration style wells."

Duncan said that in unconventional resource plays once the boundaries of the play are known, "industry tends to move toward a factory type drilling," increasing the rate at which wells can be drilled and stimulated and put on production.

"We have a very aggressive annual drilling schedule in a full development mode — 200 to 250 wells a year would be our target," he said, with development drilling beginning in 2013, and up to 250 wells a year for 20 years, a total of 3,000.

Steady-state production would be 150,000 bpd, but would peak at some 300,000 bpd before dropping back to the 150,000 bpd plateau.

Capital intensive

"House Bill 110 will aid Great Bear in attracting critical capital," Duncan said. At 250 wells a year the capex required for drilling alone is in excess of $2 billion a year, he said.

And that doesn't include facilities — roads, pipelines, pump stations and processing facilities.

Duncan said initial-stage investment capital for the company came from friends and family.

"The additional stages of investment capital that's come forward to fund us through our proven concept stage has been very broad and significant," he said, and will get them through the proof of concept stage, but changes in HB 110 would enable the company to go after the capital needed for full development.

The company has taken office space in Anchorage, but Duncan said "our mission is not to build a glass tower in Anchorage; our mission is to build technical alliances with key service providers that actually have cumulatively far greater experience than we could ever assemble if we went out and hired."

Duncan said his greatest fear going into the October lease sale was that he would "have to really twist arms with the really big service providers to get the technology, drilling and well completion technology, and people" needed for the project.

But when Great Bear met with companies they found what they needed was already in the state, although not used very often, because Great Bear is "the first company to do that unconventional play."

—KRISTEN NELSON

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