Petroleum news

page 8 Armstrong Cook Inlet has gas but needs buyer in Southcentral Alaska

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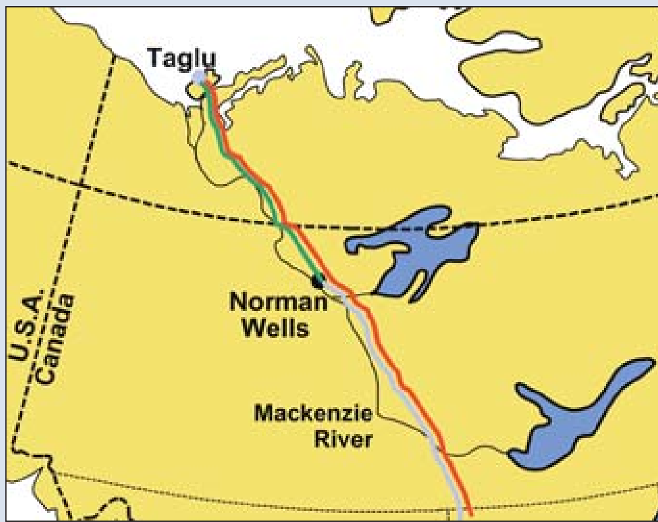


Mackenzie gets upbeat backing

BREAKING NEWS

The Canadian government believes the Mackenzie Gas Project will proceed, despite rising costs and unresolved negotiations on fiscal terms, said Jim Prentice, the federal cabinet minister assigned to the Mackenzie portfolio.

He told Reuters in an interview Dec. 3 that his optimism is based on the fact that "a lot of the work (on the regulatory front) that needed to be done has now been done."

Prentice, currently environment minister, said he now expects to receive a long-delayed final report from a Joint Review Panel, assigned to deal with the environmental and social aspects of a pipeline from the Mackenzie Delta to southern markets, between March and May of 2009, at least six months behind the most recent schedule.

Pending completion of the panel's environmental work, he

see MACKENZIE page 17

To market, to market … with success: C$1.5B for TC, Enbridge

TransCanada and Enbridge, Canada's two largest energy pipeline companies, have pulled a rabbit out of the hat.

In the thick of the worst financial turmoil in recent memory they have raised a combined C$1.5 billion from the debt and equity markets — some proof that companies are prepared to take a bullish long-term view of energy prices and that investors are willing to buy into new energy issues that offer security and income from dividends.

"It's incredibly encouraging to see them raise that kind of money in this kind of environment," said David Baskin, president of Toronto-based Baskin Financial Services.

Commenting specifically on TransCanada, he said the company offers solid dividends and is recession resistant.

That view has been reinforced by the 14 analysts who follow TransCanada shares, with 10 rating it a "buy" and four recommending a "hold."

TransCanada completed a C$1 billion equity offering in only

see BULLISH page 17

BREAKING NEWS

4 **TG World shies from drilling:** Partner in four-company JV postpones its share of drilling; managing partner BRPC files suit

5 **Sands in limbo:** Once on track for 1 million bpd, Shell slows research, expansion plans in favor of cost-cutting and higher profits

9 **Yukon Flats prospects rise:** USGS raises top of oil window to 6,000 feet; Doyon re-assesses prospects close to trans-Alaska oil pipeline

LAND & LEASING

State won't budge

Corsair, Kitchen pushed to edge; DNR denies concessions at inlet units

By ERIC LIDJI
Petroleum News

The State is refusing to budge for two independent oil companies asking for concessions as they try to arrange the final pieces of difficult drilling programs in Cook Inlet.

KEVIN BANKS

DANNY DAVIS

In a pair of letters dated Dec. 1, Kevin Banks, the acting director of the state Division of Oil and Gas, placed the Corsair unit in default for failure to meet work commitments, and rejected a two-year extension to the work commitments for the neighboring Kitchen unit.

Both units sit in the waters of Cook Inlet some 10 to 20 miles south of Tyonek.

Banks sent the letters following a long, and at times tense joint hearing before the House Judiciary and Resources committees, where lawmakers pointedly questioned why the state wouldn't compromise with oil companies claiming to be ready to drill, including Escopeta Oil, the Houston-based operator of Kitchen and its surrounding leases and California-based Pacific Energy Resources which operates Corsair and its surrounding leases. (See also Point Thomson story on page 1 of this

see UNITS page 19

NATURAL GAS

No to RCA gas price cap

Cook Inlet producers decline to put Enstar natural gas contract prices below cap

By ALAN BAILEY
Petroleum News

The game of poker over Cook Inlet natural gas prices continued Dec. 1 when Enstar Natural Gas Co. told the Regulatory Commission of Alaska that ConocoPhillips and Marathon Oil Co. have refused to amend new gas supply contracts with Enstar to set gas prices below a price cap specified by RCA in an Oct. 31 order. The commission had issued the order as a ruling in its review of Enstar's new contracts with the two Cook Inlet gas producers.

Enstar, the main Southcentral gas utility, has said that without the new contracts it will have insufficient contracted gas supplies to meet all of its customers' needs as from Jan. 1. The contracts would run from 2009 to 2013.

The upshot of all of this is that in 2009 the proposed ConocoPhillips contract would be priced a little above the trailing average Henry Hub price. The 2010 price would presumably depend on what happens to oil prices and the Henry Hub gas price in 2009, and the relative proportions of gas expected to come from Enstar's various supply contracts in 2010.

In an RCA filing Enstar told RCA that neither producer had agreed to pricing under the price cap. However, ConocoPhillips has agreed to supply gas to Enstar under its new contract with a gas price below

see PRICE CAP page 18

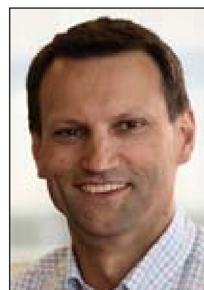
LAND & LEASING

Legislators hear PT tiff

Exxon says it is keeping to drilling schedule; DNR disputes what's permitted

By KRISTEN NELSON
Petroleum News

The State of Alaska and working interest owners in the terminated Point Thomson unit are in court-ordered settlement negotiations — which made for some interesting testimony before a Dec. 1 joint meeting of the House Judiciary and Resources committees.


JUDY PATRICK
CRAIG HAYMES

MARTY RUTHERFORD

The topic was Department of Natural Resources permitting and legislators heard from DNR officials, representatives of Escopeta Oil on Cook Inlet (see page 1 story in this issue) and ExxonMobil Production Co., which was/is the major owner and unit operator at Point Thomson, depending on whether you agree the unit has been terminated.

House Majority Leader Ralph Samuels, R-Anchorage, asked ExxonMobil's Alaska production manager, Craig Haymes, how much work has been done at Point Thomson since November 2006 — the month former DNR Commissioner Mike Menge terminated the unit, a decision which is under appeal in Alaska Superior Court.

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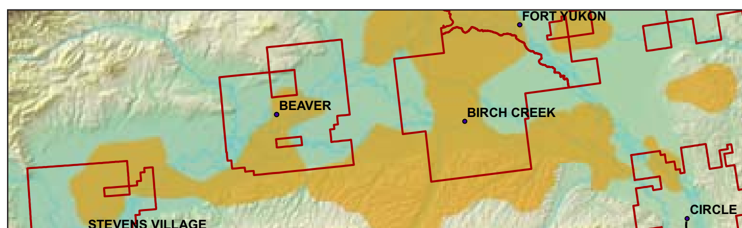

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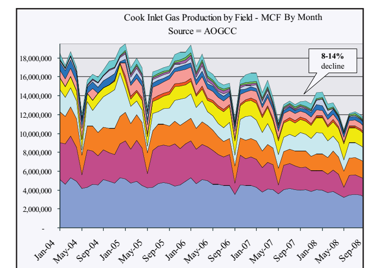

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Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of December 4, 2008. Active drilling companies only listed.

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

This rig report was prepared by Alan Bailey

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

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay MPS-41	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Kuparuk 3K-108	ConocoPhillips
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay DS 4-45	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD2-469	ConocoPhillips
OIME 2000	141 (SCR/TD)	Kuparuk annual maintenance	ConocoPhillips
TSM 7000	Arctic Fox #1	Stacked in Yard	Pioneer Natural Resources
	Arctic Wolf #2	Stacked in yard	FEX
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES	Prudhoe Bay DS 01-34A	BP
Mid-Continental U36A	3-S	Milne Point MPG-02	BP
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay R-11A	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay H-38	BP
Dreco 1000 UE	9-ES (SCR/TD)	Polaris W-218	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Being fitted out for drilling this winter	Brooks Range Petroleum
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Under modification	ExxonMobil
Academy AC electric Canrig	105-E (SCR-TD)	Stacked on ice pad at Chandler #1	Anadarko
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site C-30B	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Well Drill Site Y-25a	BP
Ideco 900	3 (SCR/TD)	Kuparuk Well 3F-18	ConocoPhillips

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
OIME 1000	19-E (SCR)	Oooguruk ODSN-41	Pioneer Natural Resources
OIME 2000	245-E	Oliktok Point OP03-P05	ENI
Oilwell 2000	33-E	Stacked	BP

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Lone Creek 4	Aurora Gas
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Maintenance	Marathon
Nabors Alaska Drilling			
Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Rigmaster 850	129	IRU 13-31	Chevron
Academy AC electric Heli-Rig	106-E (SCR/TD)	SRU 211-33	Chevron
Rowan Companies			
AC Electric	68AC (SCR/TD)	On site at Cosmopolitan	Pioneer Natural Resources

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Chevron (Nabors Alaska Drilling labor contract)			
	428	M-32 Steelhead platform	Chevron
XTO Energy			
National 1320	A	Platform A no drilling or workovers at present	XTO
National 110	C (TD)	Idle	XTO
Kuukpik	5	Tyonek platform prep. For completions	ConocoPhillips

Mackenzie Rig Status

Canadian Beaufort Sea

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

Mackenzie Delta-Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA Equtak			
Modified National 370	64 (TD)	Staged at Langley Island, NT	MGM Energy Group

Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Akita/SAHTU			
Oilwell 500	51	Racked in Norman Wells, NT	BG Canada

JUDY PATRICK

Baker Hughes North America rotary rig counts*

	November 26	November 21	Year Ago
US	1,866	1,941	1,823
Canada	406	400	381
Gulf	58	59	61

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

*Issued by Baker Hughes since 1944

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● EXPLORATION & PRODUCTION

TG World shies from winter drilling

Partner in a four-company joint venture postpones its share of drilling activities this winter, second partner starts review

By ERIC LIDJI
Petroleum News

Frightened by global financial uncertainties and low oil prices, a partner in a joint venture exploring north of Prudhoe Bay is pulling back its involvement in the program this winter.

Calgary-based TG World Energy Corp. is postponing its participation in "drilling and development programs" planned for this winter. However, TG World still intends to fund its share of two seismic efforts, the company said in a press release on Nov. 26.

The company did not return a call for comment.

Through its share of a four-company joint venture, the Calgary-based independent holds a 35 percent interest in drilling efforts, and a 25 percent interest in two seismic projects.

Brooks Range Petroleum Corp. is the operator of the joint venture, which has been among the most active on the North Slope in recent winters.

The joint venture is planning to drill up to three wells in Gwydyr Bay this coming winter to follow up on several previous exploration wells drilled in the area north of Prudhoe Bay. It also plans to shoot seismic over the Slugger prospect south of Point Thomson.

TG World still plans to fund its share of a seismic acquisition program in the "South Thomson area," also known as Slugger, and the processing of seismic collected this past winter around the Tofkat prospect east of the village of Nuiqsut.

The company said it hopes to use the information gathered through those seismic projects for "identifying possible drilling prospects" for the winter 2009-10 exploration season.

Another partner in the joint venture, Calgary-independent Bow Valley Energy Ltd, announced Nov. 28 that it hired an advisor "to examine and consider a range of strategic alternatives" available to the company in the "current global economic environment."

Nabors subsidiary Ramshorn Investments Inc. is the fourth partner in the joint venture.

Reversal from summer fortune

The announcement from TG World is a sharp reversal from the outlook this summer when record oil prices made most Alaska prospects seem economic and profitable.

Over the latter half of the year, though, oil prices have fallen from their peak at nearly $145 a barrel to their current prices hovering around $45 a barrel. On top of that, a general reluctance to lend has put pressure on smaller companies looking for credit.

But TG World seemed to have money available. At the company's annual meeting on June 18, TG World President and CEO Clifford James said the company had raised $25 million through the end of November 2007. James said the funds were mainly dedicated to the company's Alaska exploration program, and enough to cover two drilling seasons.

"We bit the bullet last year and we raised more money than we knew we needed," James said.

In addition to those funds, TG World also collected a significant amount of revenue by cashing in or selling tax credits issued by the state to exploration companies. Including outstanding claims, TG World said it applied for C$10.2 million in these reimbursements.

Despite its recent decision not to participate in drilling activities this winter TG World insists it is "well positioned, over the foreseeable future, to weather the current economic turmoil," citing an additional C$15.7 million "in its treasury." However, the company said it started a "strategic review of other opportunities that may be available to the Company, including oil and gas opportunities in Western Canada, and elsewhere."

In addition to its interests in Alaska, TG World also holds an interest in an exploration program in Niger, which is currently on hold pending "local security concerns."

Partner considering options

Bow Valley is also looking at its options in the face of an uncertain future.

Citing the "current global economic environment" and its "bank indebtedness maturities" at the end of the year, Bow Valley said in its Nov. 28 press release it has hired the global acquisition and divestment firm Scotia Waterous to explore a range of alternatives that include "exploring potential asset divestments, equity alternatives, strategic alliances, joint venture opportunities,

see TG WORLD *page 8*

BREAKING NEWS

BRPC sues TG World for breach of contract

Brooks Range Petroleum Corp. planned to file a complaint against TG World Energy Corp. in state superior court on Dec. 4, according to an executive with the company.

The complaint comes after Calgary-based TG World announced plans to postpone its participation in "drilling and development programs" planned for this winter. BRPC and TG World are part of a four-company joint venture exploring the North Slope.

According to a draft of the complaint, BRPC and its Kansas-based parent company Alaska Venture Capital Group claim TG World breached the joint venture contract by refusing "to participate in the costs of drilling two wells necessary to satisfy TG World's obligations."

TG World holds a 25 to 35 percent interest in operations undertaken by the joint venture.

The complaint charges that TG World notified BRPC and AVCG that it "will not participate in the costs of the wells," and also "refused to convey to AVCG the Forfeit Interest." According to the complaint, the terms of the contract requires any company not funding its share of the drilling costs to forfeit its working interest in the program.

BRPC and AVCG claim to have suffered more than $100,000 in damages.

Representatives from TG World could not be reached for comment by press time.

—ERIC LIDJI

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● EXPLORATION & PRODUCTION

Shell puts sands in limbo

Once on track for a million bpd, supermajor is slowing research and expansion plans in favor of cost cutting and higher profits

By GARY PARK
For Petroleum News

It might be time for the Alberta oil sands industry to quietly put aside forecasts of production growth from 1.4 million barrels per day to 3.5 million bpd by 2015 and 5 million bpd by 2030.

Royal Dutch Shell is the latest to join a list of companies scaling back once-ambitious goals that would have seen gross volumes from its various projects climb above 1 million bpd within two decades.

Instead, its Canadian divisions are rethinking plans in its three core areas, including the Athabasca project (with Chevron Canada and Marathon Oil each holding 20 percent), the largely unexploited Peace River region of northwestern Alberta and the highly prospective, but untapped Grosmont carbonate formation in northern Alberta.

The anchor Athabasca operation is close to adding 100,000 bpd to its existing 155,000 bpd and was moving towards another 100,000 bpd until Shell stalled progress.

Jeroen van der Veer, chief executive officer at Shell's head office, said the company would "wait for costs (in Alberta's overheated construction sector) to cool down before we make any new investment decisions."

In quick succession, Shell has taken an indefinite time out on a pilot test of the 300,000 acre Grosmont leases that were accumulated in 2006 for C$590 million.

And finally, on Nov. 26, it announced that a regulatory application for the Carmon Creek project in the Pace River area had been abandoned while it searched for ways to "reduce costs and improve profitability" by reworking plans.

Shell applies to Alberta board for 8-year confidential status

In the midst of these developments, Shell has applied to the Alberta Energy Resources Conservation Board for confidential status lasting at least eight years while it develops technology it hopes can extract billions of barrels of bitumen trapped in carbonate rock.

No known technology exists for recovering what is estimated to be one-quarter of Alberta's bitumen resource, but taking that step would open the doors to a new geological and technological frontier.

Shell has an application pending before the regulator to keep the wraps on its scheme to test electric heaters for bitumen recovery and in-situ upgrading — a process it does not expect will allow a decision on commercial development before 2015.

In the meantime, Husky Energy, Laricina Energy and Athabasca Oil Sands Corp. have taken stakes in the carbonates.

Shell wants its Grosmont pilot to be granted experimental and confidential status for a five-year project term and three more years after completion, noting it may seek a further extension as it evaluates the pilot's performance and ponders a commercial project.

"Given that there are other similar experimental schemes in progress … public disclosure of the information obtained from this research project prior to finalization and review of the test data (along with a commercial decision) may significantly jeopardize the applicant's competitive position and result in undue economic hardship," Shell said in its filing.

In response to the board's request for further justification of its application, noting its recent practice has been to grant confidentiality for the duration of a test alone, Shell said it needed to protect the "sensitive nature of this type of technology" and its intellectual property.

"It is anticipated that the results from this project will help inform the design for a potential commercial project," the company wrote.

"Having proprietary information publicly available before a successful commercial startup could jeopardize Shell's position."

Advantages of heaters

Shell's regulatory filing said electric heaters could have several advantages over existing in-situ bitumen recovery methods, including a "significantly higher" recovery of hydrocarbons and a "side benefit" of upgrading bitumen into light liquid and gas hydrocarbons.

It said the gas generated by in-situ upgrading could supply much of the energy needed for a commercial undertaking and because the upgrading process would not require steam injection, water consumption would be lower than for conventional thermal oil sands projects.

In addition, there would be benefits from improved energy efficiency and lower greenhouse gas emissions, Shell said.

The company has not so far declined to provide a cost estimate for its pilot work, nor has it set a new timetable for its pilot test since announcing it will indefinitely delay that work.

A Shell spokesman said the intention now is to proceed at a "more modest pace," with no ideas when an actual test — originally expected to last 12 to 24 months following one year for construction and one year to heat the reservoir — will occur.

He said Shell has now decided the planned Grosmont pilot test is not the best way to proceed, but would not say whether the application will be withdrawn.

For this winter, Shell has budgeted for up to 18 oil sands core holes and 28 square kilometers of seismic data on the Grosmont property, down from an early 35 appraisal wells and 120 square kilometers of 3-D seismic.

The spokesman said another two years to settle on the right approach to a pilot test is not that long, given that Shell has spent 25 years conducting lab work on carbonate formations.

Peace River setback

The other setback is in the Peace River area, where the company had indicated it planned to add two 50,000 bpd phases to a 12,000 bpd pilot project. Corporate sanctioning had previously been expected in 2010 once final costs estimates were available.

A Shell spokeswoman said the company is now turning its efforts to drilling vertical steam wells to recover bitumen rather than horizontal cyclic steam wells.

In an e-mailed statement, the company said that in the "prevailing high cost environment, Shell is also conducting a review to come up with recommendations to improve the project economics by reducing costs and increase project revenue."

For now, the company has not set a schedule to submit a new application, but the spokeswoman said that such a step will not involve making a fresh start.

Rather than being put on hold, Carmon Creek will "continue to move forward to achieve long-term efficient development of this resource and expand production in the most cost-efficient and profitable way." ●

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GOVERNMENT

Regs extend royalty relief to Alaska

Energy Policy Act final rule by Minerals Management Service for ultra-deep, deep Gulf of Mexico gas wells includes offshore Alaska

By KRISTEN NELSON
Petroleum News

A final rule amending royalty relief for ultra-deep and deep gas wells in the Gulf of Mexico also extends natural gas royalty relief provisions to leases offshore Alaska.

The provision for Alaska in the final rule "applies discretionary royalty relief procedures that have been used by deepwater leases in the Gulf of Mexico to leases offshore of Alaska," the Department of the Interior's Minerals Management Service said in a Nov.18 Federal Register notice.

(See www.mms.gov/federalregister /PDFs/AD33FinalRuleFR69490.pdf.)

The final rule becomes effective Dec. 18 with royalty suspension volumes — natural gas which is free of federal royalty payments — of varying volumes for qualifying wells, depending on the type and depth of well. For wells in federal waters offshore Alaska the royalty suspension would be "for a minimum production volume" plus any additional volume needed to make the project economic, the agency said.

The rule implements sections of the Energy Policy Act of 2005; a proposed rule was published May 18, 2007.

The Alaska provisions implement section 346 of the Energy Policy Act, using established royalty relief applications and evaluation procedures "for any lease offshore Alaska that seeks royalty relief before production on the lease begins." MMS said case-by-case procedures for royalty relief for Alaska leases are the same as those that can be used by deepwater Gulf leases issued before the Deep Water Royalty Relief Act of 1995 or after 2000. Prior to this new rule MMS said pre-production royalty relief procedures "did not apply to leases offshore of Alaska."

Price threshold flexibility

MMS said that based on comments received on the proposed rule and further review of its process for evaluating pre-production royalty relief applications it has added flexibility to the price thresholds prescribed in the regulation for leases both offshore Alaska and in the deepwater Gulf issued after 2000. The agency said it provided authority to grant exceptions to price thresholds in law "in cases where we find a project would not be economic without royalty relief subject to price thresholds above those fixed in the rule."

The agency uses "future oil and gas price paths" to determine whether pre-production projects or expansion projects need relief. "Should an applicant demonstrate that even at this price path, royalty relief is necessary to transform development of a discovery from an uneconomic to an economic proposition, we may decide that production of the resource with a higher royalty relief price threshold is preferable to stranding the resources."

Generic price thresholds in lease terms or for a general category of leases "may be set conservatively to avoid providing excessive relief" because in many cases relief to which thresholds apply may not be necessary for many that use it, the agency said. "In those cases, a more parsimonious price threshold properly limits the size of the foregone royalty from those leases that would have been explored and developed without royalty relief."

But that may not be the proper price threshold "in specific cases where the individual applicant can demonstrate convincingly that royalty relief is the difference between a prospective profit and loss situation, and thus this relief would directly affect the lessee's decision between development and abandonment of a discovery."

No relief in older leases

Older Alaska leases have no royalty relief in their lease terms and would have been subject to the Deep Water Royalty Relief Act of 1995 threshold for newly approved royalty relief.

MMS said the intent of the proposed rule in implementing section 346 "was to provide added flexibility to consider, on a case-by-case basis, additional royalty relief for projects that may otherwise prove uneconomic to develop." The final rule adds flexibility to allow for the possibility of applying a different price threshold, "consistent with the specific circumstances of the project being granted relief."

Most offshore Alaska leases already have royalty relief under lease term. "Section 346 of the Energy Policy Act of 2005 gives the owners of other offshore Alaska leases a chance to request relief but MMS will grant relief only on a demonstrated economic need basis," MMS said.

Royalty relief has been available to Alaska leases since the Energy Policy Act was enacted; the rule establishes "a standardized process for the lessee of a lease offshore Alaska to follow in submitting a complete application for relief" and explains how MMS will evaluate the application.

As of the beginning of fiscal year 2008 the rule adds some 750 currently active Alaska leases to the roughly 2,700 deepwater Gulf leases that could apply for royalty suspension volume before production or to expand production. MMS said that historically it has received less than one application a year in the Gulf under the procedures now being expanded to offshore Alaska and leases that have previously qualified for this form of royalty relief have avoided an average of $30 million annually in royalties since 1999.

The value of relief from "this added rulemaking action may not significantly ease the daunting obstacles to developing offshore Alaska," the agency said, adding that royalty relief provided in this rulemaking is "discretionary, and MMS will only approve relief in the appropriate amount or provide an exception in the established price thresholds if MMS deemed the applicable project uneconomic absent relief."

The agency said there will be "no negative effect" on revenues from the rulemaking. ●

EXPLORATION & PRODUCTION

ANS November production up 2 percent

Alaska North Slope production averaged 758,099 barrels per day in November, up 2 percent from an October average of 743,112 bpd, with most fields showing a month-to-month increase.

The BP Exploration (Alaska)-operated Northstar field had the largest percentage increase, up 4 percent, averaging 29,884 bpd in November compared to 28,732 bpd in October.

The largest average per-barrel increase was at the BP-operated Prudhoe Bay field, which averaged 372,078 bpd in November, up 12,092 bpd — an average of 3.4 percent — from an October average of 359,986 bpd. Prudhoe production includes a number of satellite fields: Aurora, Borealis, Midnight Sun, Orion and Polaris.

The ConocoPhillips Alaska-operated Kuparuk River field averaged 156,562 bpd in November, up 2.6 percent from an October average of 152,588 bpd. Kuparuk volumes include Tabasco, Tarn, Meltwater, West Sak and the Pioneer Natural Resources Alaska-operated Oooguruk field.

BP's Milne Point field averaged 31,802 bpd in November, up 1.4 percent from an October average of 31,354 bpd. Milne Point production includes Schrader Bluff.

The BP-operated Endicott field averaged 15,689 bpd in November, up 0.3 percent from an October average of 15,644 bpd.

Drop at two fields

Two fields had month-to-month declines in average production.

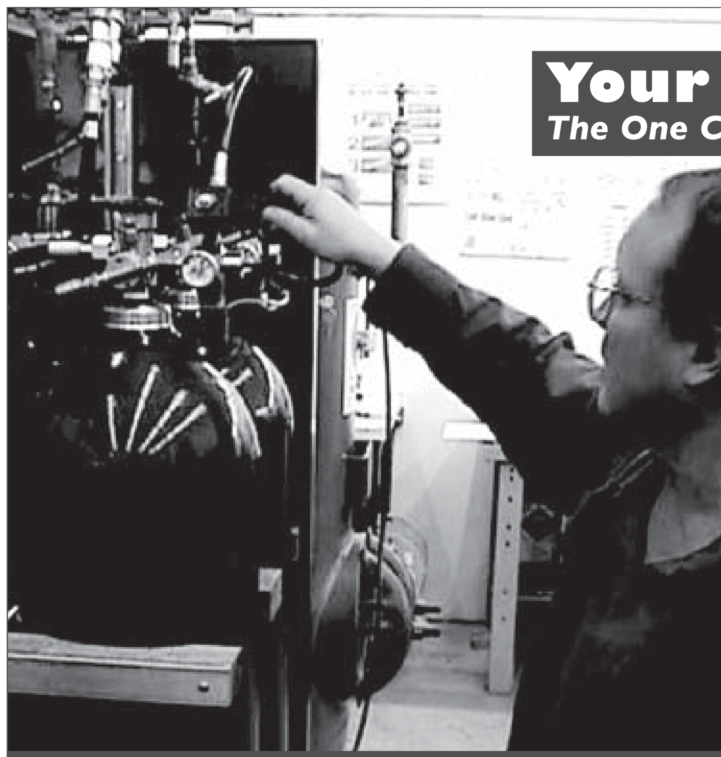
The ConocoPhillips-operated Alpine field averaged 114,255 bpd in November, down 2 percent from an October average of 116,640 bpd. Alpine includes production from Fiord, Nanuq and Qannik.

The BP-operated Lisburne field averaged 37,829 bpd in November, down 0.9 percent from an October average of 38,168 bpd.

The temperature at Pump Station No. 1 on the North Slope averaged 5 degrees Fahrenheit in November, compared to an average of 19 degrees F in October.

Cook Inlet production averaged 12,903 bpd in November, down 4 percent from an October average of 13,438 bpd.

—KRISTEN NELSON



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● INTERNATIONAL

Greenland edges toward independence

By GARY PARK
For Petroleum News

After 300 years under colonial rule by Denmark, the people of Greenland have voted 76 percent in favor of greater autonomy, setting a tentative course for eventual independence.

The Nov. 26 vote easily ratified a self-rule agreement negotiated earlier this year with Denmark giving Greenland, which was granted semi-autonomy from its long-time ruler in 1979, rights to potential Arctic resources, as well as control over justice and police affairs and, to some degree, foreign affairs.

The pact will take effect on June 21, 2009.

Hans Jakob Helms, a political advisor to Lars Emil Johnsen, one of two Greenlanders in the Danish Parliament, said the ballot provided a "very clear answer" to the question of what the island's 56,000 residents want for their future.

Of the 39,000 eligible voters, 70 percent participated in the ballot.

"The future of Greenland is being strengthened a lot with this," he said. "This allows our people to decide themselves if, at a later date, they want independence," although that could be several decades away.

Helms said the referendum was needed because "home rule has reached its limit and there's a need for more room for self-government."

The ballot also makes the Inuit language of Greenland the official language of the island, 90 percent of whose residents are Native-born Inuit.

As a result, Greenlanders will be recognized as a separate people under international law — a step that is seen as giving hope to other indigenous peoples in the Arctic region.

The hopes of eventual independence are tied to economic growth beyond Greenland's dependence on fishing and hunting, with oil holding the key.

A number of the world's largest oil companies — including Chevron, ExxonMobil, EnCana and Husky Energy — have been awarded exploration licenses to accelerate programs that started on a small scale in the 1970s, but have yet to strike oil in commercial quantities.

From 1999 to 2003, commercial geophysical companies acquired considerable new speculative seismic data offshore West Greenland in hopes of selling that information in connection with license rounds, according to the Greenland Bureau of Minerals and Petroleum.

The bureau's Web site says the data has revealed the existence of "very large" sedimentary basins in the offshore. ●

● PIPELINES & DOWNSTREAM

Atlantic Canada refinery plans stalled

Irving Oil now estimates 8 years to build C$8 billion greenfield refinery; Harvest Energy Trust defers US$2 billion expansion

By GARY PARK
For Petroleum News

Atlantic Canada hopes of becoming a larger part of the North American refinery network are crumbling and may never recover.

Privately held Irving Oil says it will now take eight years to build an C$8 billion refinery — the first greenfield facility for the continent in 25 years — rather than the previously expected four years, while Harvest Energy Trust has deferred a US$2 billion expansion of its Come by Chance refinery in Newfoundland.

Irving, blaming a labor shortage in the Saint John, New Brunswick area, said a new timeline is needed for its Eider Rock project, designed to be built in two phases of 150,000 barrels per day each.

Kevin Scott, Irving's director of refining growth, said that extending the target date will make the project "more viable at a time when many energy projects are being delayed or cancelled."

He said Irving and partner BP will decide next year whether to go ahead with their plans, adding "we still believe strongly in the merits of the project … but a lot of things have changed since we first proposed it in 2006 and our industry is facing some huge challenges."

"We see rising capital costs, a shortage of labor availability and increased global competition."

Likely in two phases

Scott said that if Eider Rock does move ahead, it would likely occur in two phases, with Phase 1 being built and operating, with a decision made on Phase 2 at some point during the development of Phase 1. Each phase would require a peak construction force of 2,500 to 3,000.

New Brunswick Energy Minister Jack Keir said he does not see the extended construction schedule as a setback.

"This is good news that they are coming up with a plan that still makes (the project) work and move forward."

Currently, the province requires workers for a C$1.4 billion refurbishment of its Point Lepreau nuclear power plant and a C$1.6 million potash mine.

"The upside to the economic (slowdown) that is going on in the world, if there is an upside, is that it may free up some trades people from jobs (at large projects) that won't go forward," Keir said.

Irving made its case for a second refinery — its existing facility is Canada's largest, with crude capacity of 280,000 bpd, turning out 300,000 bpd of refined products and exporting 175,000 bpd to the United States — based on an argument that more than half the U.S. Northeast's refined products come from the storm-plagued Gulf of Mexico, whereas Saint John has an ice-free deepwater port that offers safe, reliable and secure supplies.

Harvest expansion delayed

On Dec. 1 Harvest Energy Chief Executive Officer John Zahary said the North Atlantic refinery expansion "will proceed when we have calmer financial waters."

Coming several weeks after the first deferral was announced, it puts on the shelf a planned addition of 75,000 bpd to the existing 115,000 bpd.

Zahary, noting that the facility has not been expanded in 30 years, said refineries tend to either grow or shut down, adding that North America now has only 150 refineries, half what it had 30 years ago.

As well as tough economic times, he said Harvest Energy, with the help of Deutsche Bank, is also continuing its search for a partner, without which most analysts doubt that the Calgary-based energy trust will have to scrap its plans.

Zahary said those being approached are not companies that would "have to go out and borrow money."

If that process is not successful, he said final engineering may be completed and the hunt could be postponed for another year. Zahary said the Come by Chance plant is "one of the better ones … it creates a good mix of products and is the first clean-fuel refinery (in Canada)."

But, given the global financial situation, he said Harvest Energy decided it was better to be honest with investors, employees and the communities in the area.

"We think it's unlikely we will be able to finance this in the near term," Zahary said. "It will at least be delayed by a number of months."

Michael Ervin, president of Calgary-based petroleum consultant M.J. Ervin & Associates, is not inclined to blame tough economic times alone for the project deferrals, suggesting both face a tough challenge to survive at all.

He said the dismal profit outlook for refineries, based on low crack spreads (the price differential between the cost of crude oil and petroleum products) and changed consumer habits mean that even an 80-85 percent capacity utilization at a refinery is "not a good business case to build a brand new refinery."

Ervin said gasoline demand was in decline before the economic shocks of the last few months as consumers reacted to rising pump prices and showed personal concern about the carbon footprint they were leaving.

He said there is no chance of a return to high gasoline demand so long as consumers remember "how bad gasoline prices can get."

Other than the 2001-07 period, Ervin said the profitability of North American refineries has been dismal over 30 years. ●

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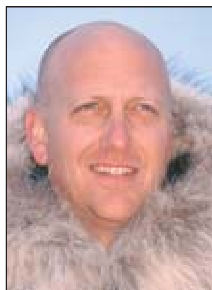
● NATURAL GAS

Armstrong Cook Inlet has gas, needs buyer

Company reports successful test of North Fork well, but a gas discovery does not guarantee an instant market in Southcentral Alaska

By KAY CASHMAN
Petroleum News

Armstrong Cook Inlet's test of a natural gas well drilled this past summer east of Anchor Point on the southern Kenai Peninsula has yielded good results, a company executive told Petroleum News Dec. 3. What the Denver independent needs now is a buyer in Southcentral Alaska that is willing to pay a fair price for the gas; one that will justify the cost of drilling and development.


JUDY PATRICK
BILL ARMSTRONG

"We have successfully tested one sand, the main one, and it bore out what we thought it would. We have other sands left to test … but our focus now is on selling the gas," said Ed Kerr, vice president of land and business development for the Denver-based Armstrong.

Kerr said the North Fork 34-26 well, which lies about 10 miles north of Homer and 15 miles east of the nearest pipeline delivering gas north to the rest of Southcentral Alaska, would be considered commercial almost anywhere in the Lower 48 states. However "the challenge in the Kenai Peninsula will be getting a pipeline to the well economically and receiving a price for the gas that allows for the costs associated with drilling wells to develop the field."

The company said in past interviews it was willing to drill additional wells to develop the North Fork field if there was a market for the gas in Southcentral Alaska.

JUDY PATRICK
ED KERR

What the company hasn't explicitly explained is that the price it gets for the gas, and its resulting profit, would have to be competitive with opportunities elsewhere in the United States.

The good news for gas buyers in Southcentral Alaska is that Armstrong has gained a reputation on the North Slope for putting together exploration and development projects that were both cost-effective and adhered to tight deadlines.

Interest, but no takers as of Dec. 3

Kerr and another Armstrong official were in Alaska the week of Nov. 9 talking to potential commercial buyers, including "utilities and other end-use gas users."

Anchorage-based Enstar Natural Gas, which supplies natural gas to much of Southcentral Alaska, was one of those utilities, Kerr acknowledged (see story in the Nov. 23 issue of Petroleum News).

Enstar officials have talked about either building a transmission line to take the gas south to Homer or building a line west to the existing Kenai Kachemak Pipeline, which would essentially take the gas north to existing commercial and residential gas buyers.

The distance south to Homer from the North Fork 34-26 well is "about 10 miles. As a crow flies it's about 15 miles west" to the KKPL, Kerr said, noting that a transmission line to the KKPL could be as long as 28 miles, depending on which route would be selected by regulators and Enstar.

When asked if he thought North Fork gas would go to Homer first as suggested by at least one Enstar official, Kerr said he didn't know.

"We'll have to wait for the proposals (from potential buyers) to come in," he said. Homer Electric, he said, was not one of the utilities Armstrong officials met with.

"Right now we have no deal with any buyers, and are not close to a deal with one," Kerr said.

Tyonek Sands tested

On Dec. 3 Kerr did not mention which sands were being tested, nor did he identify the main sand that was successfully tested, but the company had previously said the 9,100-foot North Fork 34-26 well was being drilled into the Tyonek Sands that were proven productive more than 40 years ago by Standard Oil of California at the North Fork 41-35 well, which is about 1,700 feet away

see INLET GAS page 15

continued from page 4

TG WORLD

mergers or a corporate sale transaction."

The company added that there is "no assurance that the strategic review process or the property sale process will result in any change in the company's current operations or that the company will pursue any particular transaction."

According to its Web site, Scotia Waterous "acted as exclusive financial advisor to Forest Oil Corp. on the sale of its Alaska assets to Pacific Energy Resources Ltd."

Alaska threatened, not dead

Although the new economic environment has yet to impact Alaska to the degree felt by other high-cost provinces, the TG World announcement is the second example of a company publicly reconsidering short-term plans in the face of uncertain economics.

Pioneer Natural Resources is planning to cut around 60 percent of its drilling activities companywide until costs approach 2006 levels, Ken Sheffield, president of the company's Alaska subsidiary, told the Resource Development Council on Nov. 19.

The Texas-based independent has not made a final decision about whether that reduction in drilling will include a well planned at the Cosmopolitan prospect in the Cook Inlet.

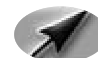
Speaking at an earnings call on Nov. 5, Tim Dove, president and chief operating officer of Pioneer Natural Resources, said the company would "most likely" defer the well, but on Nov. 11, Tadd Owens with the company's Alaska subsidiary said, "We may have some additional flexibility before the year ends" if commodity prices start to recover.

Over the short term, analysts expect the global economic downturn to hit independents and smaller oil companies harder than the major integrated companies, which tend to have larger reserves of cash on hand and don't have to rely as heavily on credit.

Although larger than TG World and Bow Valley, Pioneer is also an independent. So far, the major companies operating in Alaska, like BP, ConocoPhillips and Chevron, have not announced any major changes in the exploration programs presented earlier in the fall. ●

Contact Eric Lidji at 907-770-3505 or elidji@petroleumnews.com

On the Web



See previous Petroleum News coverage:

"BRPC, partners prep North Shore strategy," in June 22, 2008, issue at www.petroleumnews.com/pnads/88849124.shtml

"Busy winter ahead," in Sept. 21, 2008, issue at www.petroleumnews.com/pnads/388103240.shtml

"Cash is king," in Oct. 19, 2008, issue at www.petroleumnews.com/pnads/292262301.shtml

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● EXPLORATION & PRODUCTION

Upping the ante for the Yukon Flats

USGS raises estimate of top of the oil window to 6,000 feet; Doyon re-assesses prospects on land close to trans-Alaska pipeline

By ALAN BAILEY
Petroleum News

It seems that the more that's known about the Yukon Flats basin in Alaska's Interior, the more potential the basin appears to have for substantial oil and gas resources. In the latest chapter in a series of investigations, the U.S. Geological Survey has raised the estimated level of the ceiling of the oil window in the basin from about 8,000 feet to 6,000 feet below the surface, thus substantially increasing the volume and extent of rock in which oil could have been generated.

New possibilities

And that's giving Doyon Ltd., the Alaska Native regional corporation for the region, food for thought when it comes to exploration and development possibilities in the basin, James Mery, Doyon's senior vice president, lands and natural resources, told Petroleum News Nov. 21.

"We've looked at several new suites of prospects," Mery said. "… We're in the process of assessing what all this means."

The Yukon Flats consists of an approximately 15,000-square-mile lowland area around the Yukon River between the trans-Alaska oil pipeline and the Canadian border. A sedimentary basin with petroleum potential, the Yukon Flats basin, lies under the flats.

USGS has done its new Yukon Flats evaluation by plugging inferred rock properties, likely heat flow rates from the subsurface and estimated surface temperatures into a computer model. By running the model for the likely period of formation and development of the basin, geologists have evaluated the thermal history of rocks at different current depths within the basin. And that thermal history has enabled them to estimate the current depths at which oil and gas might have been generated.

The geologists ran the model using four different plausible theories for how the basin may have formed. But, despite the fact that these theories require the basin to start to develop at two significantly different times, the estimated depths in the current basin for oil and gas generation turned out to be very similar — that consistency adds credence to the evaluation results.

2004 assessment

USGS published an oil and gas assessment for the Yukon Flats basin in 2004. That assessment determined that there might be more oil and gas in the basin than had previously been thought. However, USGS viewed the basin as likely to be more prospective for natural gas than for oil, but with the potential for some oil in the deepest sections of the basin.

The assessment estimated that technically recoverable natural gas reserves could lie somewhere in the range from zero to almost 15 trillion cubic feet, with a mean of about 5.5 tcf. The corresponding figures for oil consisted of a range of zero to almost 600 million barrels, with a mean of about 173 million barrels. The natural gas liquids estimates range from zero to 350 million barrels, with a mean of almost 127 million barrels.

The assessment involved a re-evaluation of some Yukon Flats seismic data shot in the 1970s and 1980s, and concluded that the basin attains a maximum depth of 25,000 feet, a significantly greater depth than previously thought. The assessment confirmed that the deepest section of potential oil and gas bearing strata sits close to the middle of the southern part of the basin.

On the Web

See previous Petroleum News coverage:

"Yukon Flats EIS delayed to fall of 2009," in Sept. 14, 2008, issue at www.petroleumnews.com/pnads/389524063.shtml

"Basin 30 to 70 miles from TAPS," in Feb. 10, 2008, issue at www.petroleumnews.com/pnads/926510343.shtml

"Yukon Flats draft EIS out," in Feb. 3, 2008, issue at www.petroleumnews.com/pnads/443556965.shtml

The seismic lines used by USGS in its assessment focused on that deep, south-central part of the basin. However, in 2005 researchers published an interpretation of gravity data that indicated that the deep south-central basin forms one of a series of sub-basins distributed around the complete Yukon Flats basin. Most of the sub-basins appear to have depths in excess of 8,000 feet, the depth below which USGS originally thought temperatures would have been high enough to generate oil from organic material in the rocks.

New assessment

In February 2008 Mery told Petroleum News that Petrotechnical Resources of Alaska had completed another assessment of the oil and gas potential of the Yukon Flats basin and had come up with an estimated 300 million to nearly 1 billion barrels of oil, and perhaps 15 tcf of natural gas.

"We clearly think that this area is permissive of at least a couple, maybe more, Alpine-sized fields," Mery said at the time.

PRA, as part of its analysis, also addressed the question of whether the petroleum source rocks in the basin are capable of generating oil, rather than gas — geologists have tended to consider non-marine rocks of the type found at Yukon Flats to be more gas prone than oil prone. Tom Walsh, a principal partner in PRA, told Petroleum News in February that the shale source rocks in the basin were likely to have been deposited from lakes and that lake-deposited sediments in similar geologic environments elsewhere in the world had proved to be effective oil sources.

"That's given us a fair amount of confidence that this (Yukon Flats) basin is very prospective, just compared to other lacustrine basins around the world," Walsh said. "... A lot of these Tertiary lacustrine basins

see YUKON FLATS *page 10*

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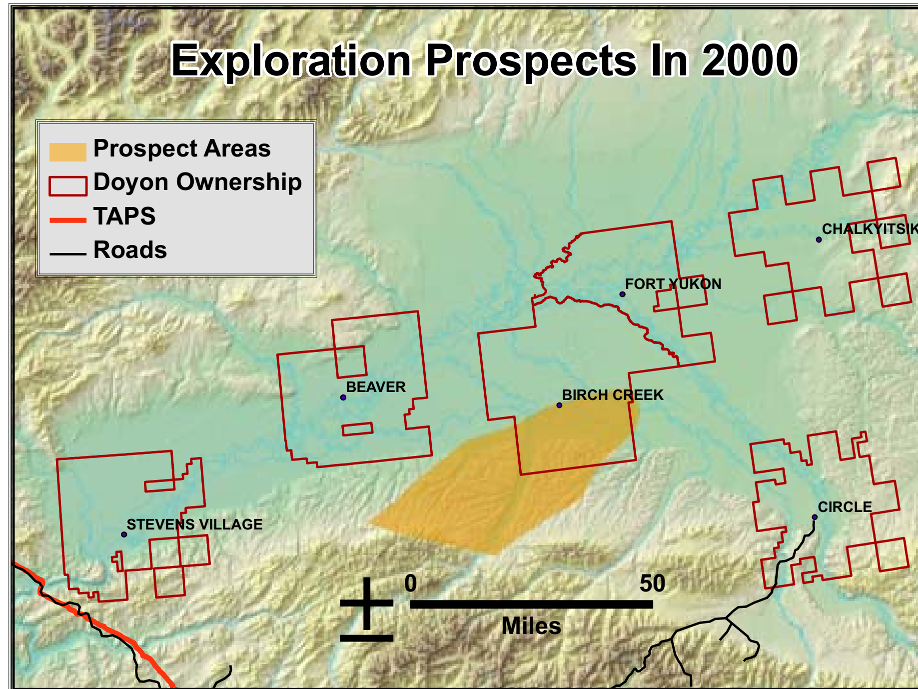

Maps showing areas of the Yukon Flats thought to be prospective in 2000 and then following the results of the latest geologic analyses. The recognition of relatively deep sub-basins within the flats coupled with a higher than originally thought oil window have greatly expanded the areas that have significant oil and gas potential.

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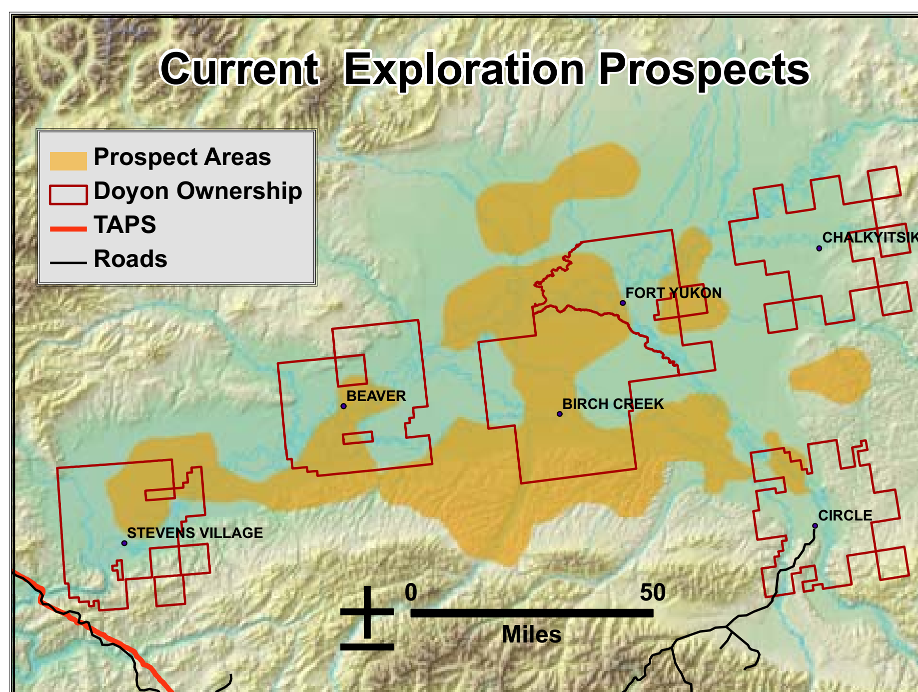

continued from page 9

YUKON FLATS

are more oil prone than gas prone."

Now, the latest USGS findings that raise the top of the oil window to 6,000 feet have upped the ante further by broadening the areas of the various sub-basins that might be oil prone — the sub-basins narrow at depth, a bit like huge, buried pudding bowls, so that the higher the level at which oil generation can occur, the wider the oil generation "kitchen" becomes.

And that now makes several of the sub-basins quite prospective, including a basin near Stevens Village that is only about 35 miles from the trans-Alaska oil pipeline.

Land swap

The evolving perspectives on oil and gas prospects in the Yukon Flats are raising some interesting questions about a land swap that Doyon has been trying to engineer with the U.S. Fish and Wildlife Service, the agency that manages the Yukon Flats Wildlife Refuge. The 8.6 million-acre refuge occupies a substantial portion of the Yukon Flats lowlands, including the land containing the deepest part of the Yukon Flats basin.

Doyon and some Native village corporations own a patchwork of surface and subsurface land amounting to about 2 million acres inside the refuge perimeter boundary.

The proposed land swap, the subject of a 2004 agreement in principle between Doyon and Fish and Wildlife, would entail a shuffling of land tract titles to bring the deepest and most prospective part of the basin into Doyon ownership. For a number of years Doyon has been looking into the possibility of oil and gas development in the Yukon Flats basin as a means of generating income for the corporation's Native Alaska shareholders and to generate economic activity and employment for the Yukon Flats communities.

Controversy

But the land swap proposal has proved controversial among the Yukon Flats communities. Some local residents see the potential for oil and gas development to bring economic benefit to a region hard hit by escalating fuel costs. Others view oil and gas development as a threat to their traditional subsistence way of life and worry about the potential for environmental damage.

Fish and Wildlife has been addressing concerns about the land swap by preparing an environmental impact statement for the swap. However, complexities in the process for valuing the land potentially involved in the swap have resulted in delays in EIS development, and the final EIS is not now expected to be completed until the fall of 2009.

Meantime, the new geologic findings have greatly expanded the area of land thought to be prospective for oil and gas. At the time of the land swap agreement in principle, Doyon was looking at 200,000 acres of prospects, 90 to 100 miles from the trans-Alaska oil pipeline. Now there is the possibility of 800,000 acres of prospects, with some quite close to the pipeline and some in land originally identified for transfer to the U.S. Fish and Wildlife Service, Mery said.

"We're re-assessing things and we'll continue to do that," Mery said. "We're still very interested in the land exchange. We think it has some real possibilities."

But while work on the land swap EIS continues, Doyon has been talking to people about exploration possibility on existing Doyon Yukon Flats land and the corporation will be promoting that land at the 2009 North American Prospect Expo, Mery said.

"We're actively promoting the property right now," Mery said. ●

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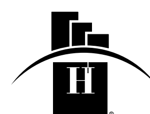

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● EXPLORATION & PRODUCTION

Chevron pursues Cook Inlet development

Dealing with declining oil and gas production from Alaska's Cook Inlet basin presents both challenges and opportunities for Chevron

By ALAN BAILEY
Petroleum News

When it comes to extracting oil and gas from Alaska's Cook Inlet basin, many of the easy pickings were found years ago. But there are still rewards to be had from working this technically and commercially demanding region, Steve Wright, Chevron's Alaska asset development manager, told the 2008 Resource Development Council annual conference in Anchorage Nov. 19.

"We at Chevron believe that there is a significant opportunity here in Cook Inlet but it's a very challenging basin in which to operate," Wright said.

Chevron has been involved in the Cook Inlet oil and gas industry for more than 50 years and now operates five gas fields, four oil fields and two gas storage facilities in and around the Inlet. The company also has working interests in two other non-operated gas fields.

Declining production

Net daily Chevron production from the Cook Inlet basin amounts to about 8,500 barrels of oil and 78 million cubic feet of gas, Wright said. But production is well below peak levels and continues to decline steadily. Total oil production from all operators in the Cook Inlet has dropped from a peak 200,000 barrels per day in the late 1970s to 11,000 bpd currently, Wright said.

And natural gas deliverability has fallen especially fast in the last three years, a fact that is of great concern for local residents because of their dependence on gas for heating and power generation. The decline is particularly apparent for the four largest gas fields — Beluga River, North Cook Inlet, Grayling Gas Sands and Kenai — where the total combined production rate has fallen from about 14 billion cubic feet per month in January 2004 to less than 9 bcf per month now, Wright said.

The one bright spot in this overall picture is the Ninilchik field where an aggressive development program has succeeded in pushing the production rates up, he said.

The gas cliff

But a projection into the future of Cook Inlet gas production that Alaska's Division of Oil and Gas prepared in December 2006 shows future production sliding down a cliff as the output tails off from the various gas fields. And current production volumes suggest that those division predictions may, in fact, have been somewhat optimistic, Wright said.

The production decline has continued, despite a high level of new capital investment by all of the major Cook Inlet producers, he said.

"We do hope, however, that new drilling at … Ninilchik and Beluga River will help us stem that rate of gas decline, but there's no scenario that we foresee now that will entirely eliminate that gas decline by infill development drilling in current fields," Wright said.

Wright said that Chevron and Unocal, which Chevron acquired in 2005, had drilled six Cook Inlet exploration wells in recent years but that the exploration results had proved disappointing.

"That's coupled with the fact that … much of the prospective area around Cook Inlet now has significant surface occupancy restrictions which will impact future exploration and development activities around the Inlet," Wright said.

And faced with the sobering realities of a mature oil province, Chevron has been pursuing a redevelopment strategy in both its oil and its gas properties, Wright said.

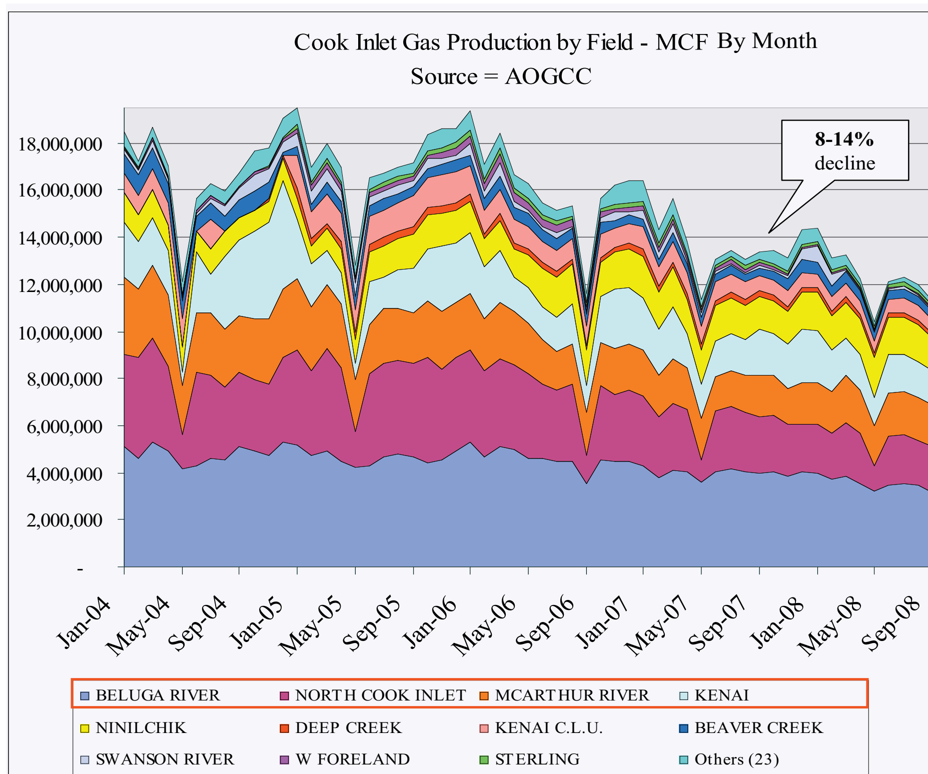
"Overall in the last 12 months Chevron has spent over $200 million on oil and gas development in the Cook Inlet," Wright said. "We are really committed to doing what we can to step up both the oil and the gas production out of the Inlet."

Oil drilling

On the oil front, the company has embarked on a new drilling program.

"We've undertaken a multi-year program to stem the oil decline rates in our three (offshore) Cook Inlet oil fields," Wright said. "We've implemented a program of infill and step-out drilling at the Granite Point field and we're working to optimize our waterflood secondary recovery programs at the McArthur River field,

see CHEVRON page 12



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CHEVRON

to try to milk the last remaining barrels out of that field."

In the summer of 2008 Chevron kicked off its new drilling program with two wells off the Granite Point Anna platform. Unfortunately these wells did not meet pre-drill expectations, thus illustrating the inherent risks associated with drilling in the unpredictable river-deposited, or fluvial, reservoir sands of the Cook Inlet, Wright said.

"Although we're drilling in an existing field, there's a lot of stratigraphic variability in these fluvial channel sands and there are fluid contact variabilities as well as formation water resistivity variabilities that still haven't been fully resolved," Wright said. "… Those risks and uncertainties have not been overcome yet, and it's a concern that factors into our overall redevelopment strategy going forward."

At the McArthur River and Trading Bay oil fields, Chevron has been using a hydraulic workover unit to perform shallow zone well recompletions. The company is also converting wells from gas lift operation, to reduce gas fuel consumption and thus make more gas available for the local gas market, Wright said.

At McArthur River Chevron has to contend with major water production.

"We're moving nine barrels of water for every barrel of oil we produce (at McArthur River) and that's one of the reasons that our operating expense on a unit (of production) basis is quite high in the Cook Inlet," Wright said.

However, Chevron does anticipate forging ahead with its Cook Inlet oil redevelopment efforts.

"Our anticipated capital investments for our Cook Inlet oil redevelopment program over the next three to five years are in the range of $100 million to $200 million, but that is dependent on our ability to establish a consistent track record of success," Wright said.

Wright added a caveat that Chevron is also re-assessing its "opportunity catalogue" in the light of the current collapse in commodity prices.

Gas development

When it comes to Cook Inlet natural gas, Chevron, along with the other Cook Inlet producers, is aggressively redeveloping the existing gas fields, to try to hold back the dramatic production decline rates, Wright said. Recently, Chevron has been active in the ongoing development of seven gas fields, he said.

Chevron's Happy Valley field on the Kenai Peninsula has seen some new development drilling.

"We have drilled two gas development wells the last 12 months and we're currently in the process of putting those on line," Wright said. "… We actually did a second pad installation to accommodate some of the newer production there and we're in the process of testing some new fracture stimulation technology on one of those wells."

At Swanson River Chevron has been using the Nabors 106E rig to accomplish workovers and to drill a new gas development well. The company has been operating this rig for winter exploration drilling in the White Hills region of the North Slope, and then moving the rig to the Kenai Peninsula for drilling at other times of the year.

Chevron sees the Ninilchik gas field on the western Kenai Peninsula as a continuing focus for bolstering Cook Inlet gas production. The field, part owned by Chevron and operated by Marathon Oil Co., has seen three new gas development wells in the past

see CHEVRON page 13

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● FINANCE & ECONOMY

Oil tumbles below $44, gas hits new low

THE ASSOCIATED PRESS

Oil tumbled below $44 a barrel Dec. 4 and the average gallon of gasoline is now less than $1.80 nationally, both four-year lows, as the number of people continuing to receive government aid reached a 26-year high, factory orders hit an eight-year low and major corporations slashed jobs.

Though the unprecedented decline in energy prices provides some relief to consumers and businesses, it has occurred as the nation dips into recession.

Part of the reason gasoline prices have fallen so low is that many people no longer have jobs to drive to and fewer people have money to spend shopping. Gasoline futures fell below a dollar a gallon.

Veteran energy analysts were stunned as they watched light sweet crude fall $2.91, more than 6 percent, to $43.88 on the New York Mercantile Exchange by early afternoon.

Just four months ago, crude rocketed close to $150 and the average gallon of gasoline went for more than $4 per gallon.

No one believed crude would lose $100 in value by December, said Tom Kloza, publisher and chief oil analyst at Oil Price Information Service.

Some analysts believe demand could evaporate even more early next year because of a severe global economic slowdown.

Lack of demand

"People are waking up to the fact that there may not be much demand," said Phil Flynn, an analyst at Alaron Trading Corp.

Prices at the pump continued to decline, falling 1.4 cents overnight to $1.789, according to auto club AAA, the Oil Price Information Service and Wright Express. That price is down 60.2 cents from just last month.

Though there are signs that Americans are able to drive more with prices plunging, Flynn does not see enough demand to justify big increases in oil and gas prices.

"We have entered a new era of lower gasoline prices and oil prices," he said.

The Energy Department's Energy Information Administration said in its weekly report that natural-gas inventories held in underground storage in the Lower 48 states fell by 64 billion cubic feet to about 3.36 trillion cubic feet for the week ended Nov. 28.

Analysts had expected a drop of between 61 billion and 66 billion cubic feet, according to a survey by Platts, the energy information arm of McGraw-Hill Cos.

In other Nymex trading, gasoline futures fell 5.2 cents to 98.86 cents a gallon. Heating oil dropped 6.26 cents to $1.52 a gallon while natural gas for January delivery fell 31 cents to $6.028 per 1,000 cubic feet.

In London, January Brent crude tumbled more than 6 percent, or $2.82, to $42.62 on the ICE Futures exchange. ●

continued from page 11

CHEVRON

12 months, Wright said. A new compressor has also been installed on one of the well pads to boost gas deliverability from the field, he said.

Chevron also is part owner of the ConocoPhillips-operated Beluga River field on the west side of the Cook Inlet. The field owners have just completed a program to drill two new wells and do a well workover, Wright said.

"This is the first development activity at the Beluga River field in over 10 years, a fact we're quite proud of," he said.

In an agreement between Chevron and ConocoPhillips, Chevron is now using the Nabors rig 129 that drilled at Beluga River to do some winter drilling in a couple of Chevron gas fields on the west side of the Inlet.

"We expect to be drilling at the Ivan River field within the next week, and then we'll move over and drill a well at Stump Lake field later this winter," Wright said. "… This is the first time that we've partnered with a company to try to keep a rig active year round on the west side of the Cook Inlet."

And, offshore, Chevron has being working on its major Grayling Gas Sands gas field, which has its reservoir in strata above the McArthur River oil field.

"In the Grayling Gas Sands at the McArthur River field we have drilled two additional gas development wells and have expanded our gas compression capabilities there," Wright said.

Chevron has also been maintaining its two gas storage facilities, at Swanson River and Pretty Creek, with some expansion at Pretty Creek, to bolster deliverability during periods of high winter demand for utility natural gas.

And the company plans to continue to invest heavily in further Cook Inlet gas development.

"Our projected investment rate over the next three to five years in the Cook Inlet will be in excess of $200 million and we feel every dollar of that is needed to help stem that (production) decline," Wright said.

However, the company elected not to bid on a new Enstar Natural Gas Co. gas supply contract opening for the years 2012 to 2016 because Chevron was unable to document the required future gas deliverability to meet the contract commitments, Wright said. Enstar is the main gas utility for Southcentral Alaska.

And Wright emphasized the challenges of exploring and developing in the Cook Inlet region. In addition to dealing with the geologic uncertainties and complexities of the Cook Inlet basin, drilling costs are exceptionally high, he said. It is possible to drill and complete a 7,000-foot oil well in West Texas for about $1 million, he said.

"A comparable well drilled off our Anna platform would cost about $10 million to $12 million to drill and complete," Wright said.

There's also a significant cost involved in the maintenance and refurbishment of the aging Cook Inlet oil and gas infrastructure, he said.

Fracture stimulation

Modern fracture stimulation technologies may prove to be a key to future Cook Inlet gas production by releasing tight gas from some reservoirs that have hitherto been viewed as uneconomic, Wright said. These technologies have been in use in the Lower 48 for a long time and have improved dramatically in the past 10 years, he said.

"I think if there's one opportunity that I could identify that may make a step change in addressing that overall Cook Inlet gas decline rate it is the application of fracture technologies efficiently and effectively around the inlet," Wright said.

Exploiting these technologies might take the concerted effort of a coalition of producers and service companies, he said, adding that the working relationships between the various Cook Inlet producers are now especially good.

However, Wright commented that the producers need the assurance of predictable and stable markets to attract the necessary investments to stem production declines. And meeting the challenges of Cook Inlet will require the support of the regulators and local utilities.

"We also need the support of the regulatory industry and the local utilities in meeting both the near-term and long-term energy needs of Southcentral Alaska," Wright said. ●

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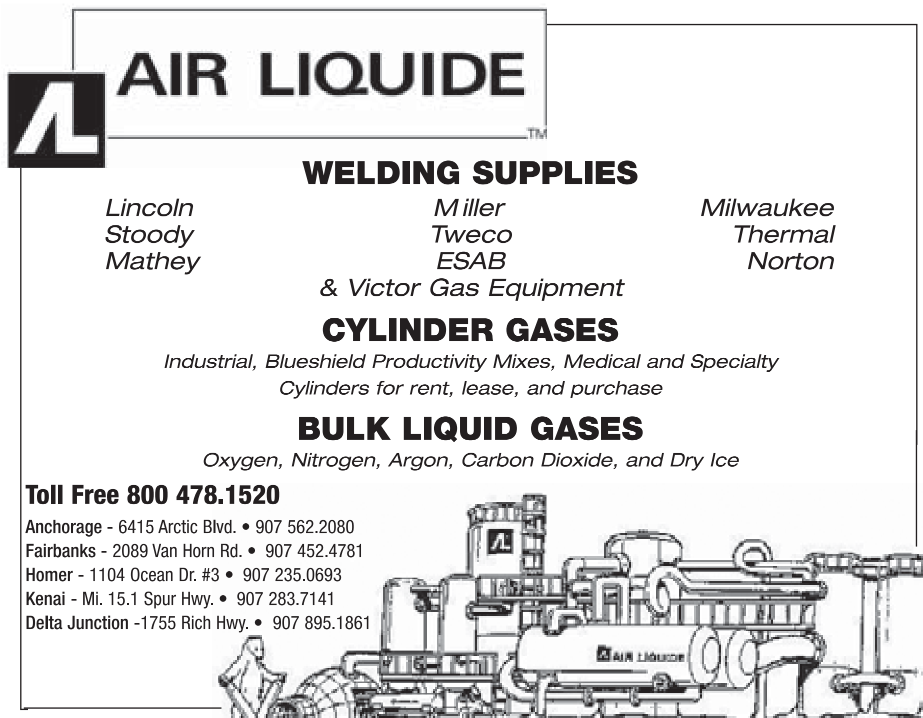

PIPELINES & DOWNSTREAM

RCA lets seven parties join rate case

State regulators have let seven parties join a case examining transportation rates on the trans-Alaska oil pipeline.

On Nov. 25, the Regulatory Commission of Alaska approved requests from three refiners, two pipeline owners and the State of Alaska to become parties to the case. On Dec. 2, the regulatory agency approved a request from a third owner of the pipeline.

The case will consider a request from ConocoPhillips to increase its rates for shipping oil through the pipeline to markets within the state. The company is arguing that declining volumes on the pipeline over the past six years no longer yield the appropriate return.

ConocoPhillips is asking to increase in-state rates by around 56 percent. At the start of November, the RCA approved the increase on an interim basis, subject to refund.

In addition to the state, the new parties to the case include Tesoro, Flint Hills Resources and PetroStar, the three companies that own refineries in Alaska, as well as ExxonMobil Pipeline Co., Unocal Pipeline Co. and BP Pipelines, three of the five owners of the pipeline. The remaining owner is Koch Alaska Pipeline Co.

—ERIC LIDJI

GOVERNMENT

Palin fills Assessment Review Board seat

Gov. Palin appointed Ronald Brown, of Anchorage, to the State Assessment Review Board on Dec. 2.

Brown has been an assistant state assessor for the division of Community and Regional Affairs within the Department of Commerce, Community and Economic Development since 2007. Between 1991 and last year, Brown worked as an appraiser for the Ketchikan Gateway Borough, the Kenai Peninsula Borough and the Municipality of Anchorage.

The five-member State Assessment Review Board conducts hearings into disputes over the state Department of Revenue's assessments of the value for tax purposes of oil and gas pipelines and related equipment in Alaska. Brown fills a seat reserved for a member of the public knowledgeable about oil and gas assessments.

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● NATURAL GAS

ANGDA contracts out spur line EIS

URS will conduct the environmental assessment under oversight of Army Corps of Engineers; scoping meetings planned for spring

By ERIC LIDJI

Petroleum News

In possibly the largest step taken by the agency, the Alaska Natural Gas Development Authority announced Dec. 3 that it hired a contractor to conduct a major environmental study of a proposed pipeline running to Fairbanks from the utilities grids in Beluga.

ANGDA hired URS Corp to conduct the environmental impact statement of the pipeline under the oversight of the U.S. Army Corps of Engineers. URS is a global engineering firm based in San Francisco with local offices in Anchorage and Fairbanks.

HAROLD HEINZE

An environmental impact statement, or EIS, examines how a proposed project could impact the lands, waters, people and animals in its path. It is a keystone of the National Environmental Policy Act and the first step for any major construction project.

The ANGDA contract, worth more than $1.5 million, will be formally announced in January. URS and the corps plan to hold scoping meetings starting next spring, and to create a Web site for posting public documents and accepting comments on the project.

"There's going to be lots of opportunities to look at information on this project," said Jon Issacs, vice president and federal lands manager for URS in Alaska.

URS hopes to finish the project by fall of 2010.

A versatile pipeline proposal

The proposed pipeline is the centerpiece of ANGDA's efforts to connect Alaskans to natural gas supplies in the state. In the long term, the pipeline is designed as a spur that would connect the Anchorage area with a much larger pipeline running from gas fields on the North Slope to the pipeline grid covering the Lower 48 and Canada.

> ***"We had three capable contractors that responded to this (request for proposals). I think if we were doing this a year from now, I might find zero or one."***
> **—Harold Heinze, president and chief executive officer of Alaska Natural Gas Development Authority**

As currently envisioned, the ANGDA line would start at the Beluga gas fields near Anchorage and run east to Glennallen, where it would head north to Delta Junction along the corridor of the trans-Alaska oil pipeline. From Delta Junction, ANGDA plans to build a plastic pipeline running to Fairbanks, the second largest city in the state.

The temporary plastic segment is designed to address the short-term need for cheaper fuel in Fairbanks. The hope is that a pipeline connecting Anchorage and Fairbanks would spur exploration and development of gas fields in the Cook Inlet basin, allowing the pipeline to run south to north for several years until construction of the main pipeline is complete.

ANGDA is a public corporation of the state created by voter mandate in 2002.

Working early to avoid rush

The early announcement of the EIS, which comes as efforts on the main line remain at preliminary field work and the project is far from being sanctioned, is part of a larger ANGDA strategy to "pre-build" the spur line before construction of the main line.

The hope is to avoid the demand on contractors and federal agencies expected for the big pipeline, according to Harold Heinze, ANGDA president and CEO. The large pipeline is believed to be the largest private sector construction project in North American history.

"We had three capable contractors that responded to this (request for proposals). I think if we were doing this a year from now, I might find zero or one," Heinze said.

In addition to finding contractors, Heinze said by working early ANGDA was able to hire contractors at a much cheaper rate than it would have even a few years from now. ●

Contact Eric Lidji at 907-770-3505 or elidji@petroleumnews.com

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● GOVERNMENT

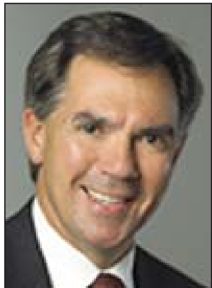
Economy trumps environment

Canadian Environment Minister Jim Prentice says 'present-day economic realities' force re-examination of environmental policy

By GARY PARK
For Petroleum News

The Canadian government will not harm an already weakening economy to pursue environmental goals, said newly appointed Environment Minister Jim Prentice in his first major speech since taking over the portfolio.

The goal is to strike an "acceptable balance between measurable environmental progress and steady economic growth and prosperity," he told a business forum at Lake Louise in the Canadian Rockies.


JIM PRENTICE

"One must not — absolutely cannot — come at the expense of the other," Prentice told the high-level gathering.

"If this means re-examining the way forward in the face of present-day economic realities, then so be it," he said.

"Our guiding principle, in challenging times as in prosperous ones, is to keep economic and environmental policy equally on a sound footing."

He did not say whether these shifting priorities will affect the timing or content of the government's long-promised greenhouse gas regulations.

Government could be toppled

That has been thrown into further confusion by a scheduled vote in Parliament on Dec. 8 that could see the three opposition parties topple the government of Prime Minister Stephen Harper, less than two months after the last election.

While moving the economy to center-stage, Prentice said the Canadian government does not intend to sidestep major policy initiatives, including a North American climate-change pact with the new U.S. administration to build a continental "low carbon economy," based on the foundation of a cap-and-trade system for greenhouse gas emissions, a market-based policy that sets an aggressive limit on emissions.

He said Canada is determined to be at the forefront of resource-based industries where it currently excels — oil, natural gas, pipelines, hydro-electricity and the orderly development of oil sands.

That same destination must also involve Canadian development of technologies and human capital to create a low-carbon world by 2050.

By then, Prentice said, prosperity will "accrue to those who have mastered carbon capture and storage and clean coal technologies … to those who have successfully deployed carbon energy alternatives like nuclear energy and wind and solar power … to those who have developed their infrastructure to harness more remote natural gas basins and hydro-electric projects."

He said the government's commitment is to provide 90 percent of Canada's electricity needs from non-emitting sources, such as hydro, nuclear, clean coal or wind power by 2020.

"This will make an important contribution to our commitment to reduce Canada's total greenhouse gas emissions by 20 percent by 2020, while ensuring that Canada's actions going forward are comparable to those of our partners in the United States, Europe and other industrialized countries," Prentice said.

Looking to new administration

Joining other government and industry leaders, he emphasized that Canada expects the incoming Obama administration to look on production from the oil sands as an "essential part of the overall North American energy market place."

"When you are speaking about environmental policy, you are speaking about energy policy. They are essentially the flip side of the same coin.

"When (Obama) speaks about American energy security, diversity of supply, you are essentially talking about other sources, like the oil sands, so it's a very important part of the equation," Prentice said.

He said Canada, while continuing its lobbying of Obama's policy advisors, as well as U.S. Congress and key stakeholders, is waiting for Obama to make key appointments before starting direct discussions.

Important issues for debate include reconciliation of the Canadian and U.S. greenhouse gas reduction targets, since Canada's mid-term goal of a 20 percent reduction in absolute emissions by 2020 is tougher than that proposed by Obama, as well as different approaches taken to date, Prentice said.

He said Canada is ready to move ahead with major policy initiatives, including a continental climate-change pact to build a "low-carbon economy in North America."

A foundation stone of those negotiations would be a continental cap-and-trade system, promised Nov. 18 in a speech to open a new session of the Canadian Parliament, although the details of such a system have yet to be agreed on by the Canadian provinces, which control the development of natural resources within their own boundaries.

Prentice promised that the provinces will have a consultative role before and during any formal negotiations with the U.S.

Gary Mar, the Alberta government's representative in Washington, D.C., told the Financial Post that Obama's policy advisors have indicated the president-elect "wants to think deeply on the subject of how best to move forward on energy and the environment."

Spokesmen for the Canadian Association of Petroleum Producers say their organization is pursuing all possible avenues to show how the oil sands can be developed in an environmentally sustainable way, including the lowering of greenhouse gas emissions.

They say aligning Canada and the U.S. on climate-change policy and energy strategies is essential, although the details of an emissions-control system are "absolutely critical." ●

continued from page 8

INLET GAS

from North Fork 34-26 and also on an Armstrong lease.

The first North Fork well, 41-35, has never been produced because there was no pipeline to take the natural gas to market. Potential buyers and state regulators wanted to see North Fork's natural gas reserves proved up with a second well, especially if the gas was going to be shipped to Homer, which has not had access to natural gas and where a complete gas delivery system would have to be built. Regulators and utilities serving the area did not like the idea of the community being dependent on one well, in case it had to be shut down for any significant period of time.

Previous owners of the North Fork leases had talked about plans to drill a second well, but never carried through on their plans.

> ***"Right now we have no deal with any buyers, and are not close to a deal with one."***
> —Ed Kerr

That all changed in 2007 when newly formed Armstrong Cook Inlet, an affiliate of Denver-based Armstrong Oil and Gas, which had a proven track record on Alaska's North Slope, told Petroleum News it had taken over as operator of the North Fork gas unit from the field's most recent owner, Gas-Pro LLC.

The top executive of all the Armstrong companies, Bill Armstrong, said the North Fork deal, which included the 640-acre unit and nearly 18,000 acres of surrounding and nearby leases, was just the first deal of possibly several more to come.

"We are looking to get active in the Cook Inlet," Armstrong said at the time. "We think it's a good time to explore for gas in the Cook Inlet. … We're looking forward to doing more deals. … Assuming we're successful, we'll be doing what was typical for us on the North Slope — a combination of wildcat and development drilling."

After it purchased the leases and took over as operator, Armstrong CI promptly amended North Fork's 42nd plan of development to pursue what it described as "aggressive" development of the nonproducing unit's natural gas. The amended plan included drilling a Tyonek delineation well in 2008.

The North Fork 34-26 well was completed at the end of July. Testing began Oct. 6. ●

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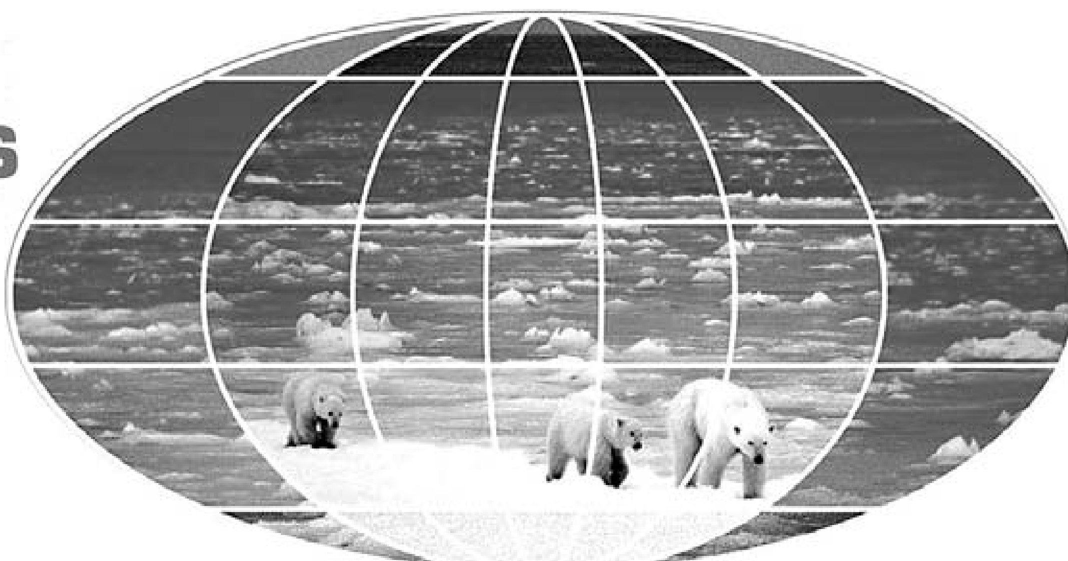

When your operations traverse more than 500 square miles of new tundra every winter, a sound environmental management system and quality people to implement it are the difference between success and failure.

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Petroleum news

Business Spotlight

GCI — Industrial Telecom Group

FORREST CRANE

Rick Hansen, Sr. Manager Engineering

GCI Industrial Telecom Group (ITG) supports large industrial customer projects and operations. ITG focuses on oil field and Arctic communications in remote environments. The ITG design/engineering team supplies customers with all transport needs end to end — satellite, fiber optics, two-way radio, IP phone systems and network infrastructure.

Rick Hansen started in oil field communications 18 years ago at Prudhoe Bay and continued working with various Arctic telecom providers before joining GCI in 2000. Formerly a slope technician, he noticed the engineers were drinking coffee and wearing tee shirts inside while he froze outside at minus 45F; a career change resulted. Rick and his wife Kristen have two children, Brianna (7) and Ryan (2). In warmer temperatures, Rick enjoys skiing, mountaineering and rock climbing.

—PAULA EASLEY

ASRC Energy Services

FORREST CRANE

David Rechenthin, Manager, Project Controls

David Rechenthin recently became "unretired" to join ASRC Energy Services (AES) as the Project Controls Manager. Before retirement number two, David worked as a project manager, engineering manager, purchasing manager and in other management positions for various Alaska companies. Retirement number one occurred after 20 years with CNG Producing in New Orleans. Besides working for AES, David teaches project controls, scope management, and communications in UAA's Master Science Project Management program. David's family includes his wife, three grown children and five grandchildren. In his off time, David is building a 50s-era hotrod — low, no fenders, no hood and scary to small children.

AES is a subsidiary of Arctic Slope Regional Corp. and is the largest Alaska-owned, Alaska-operated oil and gas services provider.

—PAULA EASLEY

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BULLISH

eight days and Enbridge raised C$500 million of debt in two tranches. Both have earmarked the bulk of the proceeds for pipeline projects from the Alberta oil sands to United States markets.

Also new bank facility

In addition to its share offering, TransCanada closed a new US$950 million committed bank facility to fund expenditures for its planned US$12 billion Keystone pipeline, destined to deliver 590,000 barrels per day of oil sands production from Alberta to Oklahoma and 500,000 bpd from Oklahoma to U.S. Gulf Coast refineries.

TransCanada sold 30.5 million common shares for C$33 each to a syndicate of investment banks led by RBC Dominion Securities, BMO Nesbitt Burns and TD Securities, C$8 per share below the analysts' average 12-month target.

The offering came six months after the utility sold C$1.27 billion of stock to cover its purchase of Ravenswood Generating Facility, a New York City power plant, and a C$1.5 billion offering last year to fund the acquisition of American Natural Resources Co.

Despite an initial 5 percent dilution of TransCanada shares accompanying the latest equity issue, TransCanada is now strongly placed to finance its current growth initiatives, said UBS Securities analyst Grant Hofer.

He forecasts the company's debt-to-capital ratios will peak at 49 percent in 2011, then ease back to 40 percent by 2013.

In addition, Hofer noted there are equity positions outstanding that would allow shippers to acquire up to 15 percent of the Keystone system, reducing TransCanada's commitments by more than C$1.5 billion.

Stephen Paget, an analyst with FirstEnergy Capital, said the attraction for TransCanada investors is the chance to find safety from a pipeline and infrastructure company that is not commodity-price based and has long-term backing.

He said TransCanada is a "safe option in tough times by being both conservative and transparent about its financing needs."

Paget said the pipeline companies are generally conservative in what they do.

"It's a way to play energy without the commodity price risk, a way to play dividends and the companies represent hard assets," he said.

Enbridge expanding

Enbridge, in the midst of a C$12 billion expansion program to boost its oil sands shipments to the U.S., also has C$3 billion in untapped credit lines, which it says will "enable us to bridge through any period of capital market disruption."

Chief Financial Officer Richard Bird said "this level of liquidity is sufficient to more than absorb the capital markets funding requirements of our commercially secured development projects over the next five years."

He said Enbridge's ability to complete its issuances "in these uncertain capital markets and the low coupons associated with the debt (C$300 million in 10-year corporate debt carrying a 6.62 percent coupon and C$200 million carrying a 5.57 percent coupon), highlight Enbridge's financial strength."

Following the lead of TransCanada and Enbridge, Keyera Facilities Income Fund, which operates gas gathering and processing facilities in Alberta and Saskatchewan, raised C$80 million in November through an issue of convertible debentures carrying a coupon of 8.25 percent.

Oilexco scuttles plans

What these companies have pulled off lends weight to a recent International Energy Agency report warning that delays in proceeding with energy-related infrastructure projects will create problems in both the developed and developing worlds.

But there's a danger in reading too much into these success stories, as Oilexco, a Calgary-based explorer operating in the British North Sea, discovered.

It announced in late November that it was scuttling plans to raise up to C$150 million in five-year convertible debentures carrying a 15 percent coupon and issuing 20 million shares.

The company, whose shares have slumped almost 90 percent in value over the past five months, said the plan was abandoned because the offering was "determined (in current market conditions) to be overly dilutive to shareholders and does not reflect the value of the company's assets."

Oliexco said it has hired Morgan Stanley to explore strategic alternatives, including "mezzanine and debt financing, industry and financial partnerships together with other financing alternatives," but was emphatic it is not up for sale.

—GARY PARK

continued from page 1

TIFF

Haymes had provided the committee an update of work including upgrades to Nabors rig 27E and work done on site at Point Thomson in preparation for an as-yet unpermitted development well. He told Samuels that the work to get the drilling pad ready was done this summer; last summer's work involved surveying to determine where the wells would be sited.

Conductors set

In describing work at the drill site Haymes said: "We've also set two conductors; we have drilled down to 120 feet (and) set these conductors" using a 75-ton crane. Conductors, he said, are large pieces of pipe, about 3 feet in diameter. "You can't start drilling until you have these in place," he said.

Samuels asked if ExxonMobil had a permit for the well conductors.

Haymes said it was part of the land-use permit. He said that permit stated that the company was going to install conductors on the site, and assured Samuels that all the work had been done according to laws and regulations.

At this point ExxonMobil is not waiting on permits, he said. Of 22 permits needed, 16 are in hand, two have been denied and the status of the other four is unclear.

"It's like Alice in Wonderland," Samuels said, referring to the disputed status of Point Thomson. "They keep issuing permits and you keep spending money and at the end of the day, why would you spend the money and why would they issue even one permit?"

Issue of trust

Haymes said he couldn't speak for DNR, but from the owners' perspective the question has been raised "can we be trusted to execute this plan of development? And we're trying to show that yes, we can be trusted to execute this plan of development."

He said from 1977 through 2005 DNR approved plans of development for Point Thomson.

It's in everyone's interest to move the development forward, Haymes said, "And we've kept the project schedule alive for the last year and a half — we've kept the schedule alive so we can start production in 2014."

He said the working interest owners have spent a lot of money to keep on schedule. "We believe we can resolve the dispute; we are currently in full-faith settlement discussions with the DNR."

But ExxonMobil also believes that its actions in advancing a winter drilling program hold the leases.

Leases don't automatically expire 90 days after expiration of the unit, Haymes told legislators, but can be held through different means such as "if you have a drilling operation under way on those leases then you can retain those leases in accordance with regulations and in accordance with the lease conditions."

Conductors an issue

Whether setting conductors was drilling and how the conductors got there were issues of some interest.

"... I don't think we permitted anybody to put conductors on that pad as far as I'm concerned," Acting Division of Oil and Gas Director Kevin Banks told the legislators. Permits that have been granted are those, such as for tundra travel, that don't require a leasehold right, he said.

Deputy DNR Commissioner Marty Rutherford said it's a distinction between general-use permits — which DNR has issued — and permits requiring a leasehold interest.

Haymes said setting conductors was

see TIFF *page 18*

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MACKENZIE

said "the fiscal framework continues to be an outstanding issue."

5-6 years ahead of Alaska

But Prentice estimates the Mackenzie project is currently about five or six years ahead of a proposed gas pipeline from Alaska's North Slope to the Lower 48, wider than the two-year gap projected in 2005.

He said the reason is that in "typical Canadian fashion we've kind of, step by step, incrementally, moved the thing ahead at a very steady pace."

While conceding everyone would be happier if the regulatory process had advanced at a faster rate, the work is "being completed … in a professional way."

Asked to speculate on when gas could be delivered from the Canadian Arctic, Prentice said that if the regulatory process is wrapped up and corporate sanctioning decisions are made in 2009 the answer then is how quickly the Mackenzie consortium, led by Imperial Oil, can move to the next stage.

The corporate partners have adopted a low profile during the attempts to resolve regulatory and fiscal matters and have declined to update cost estimates since releasing a figure of C$16.2 billion in 2007.

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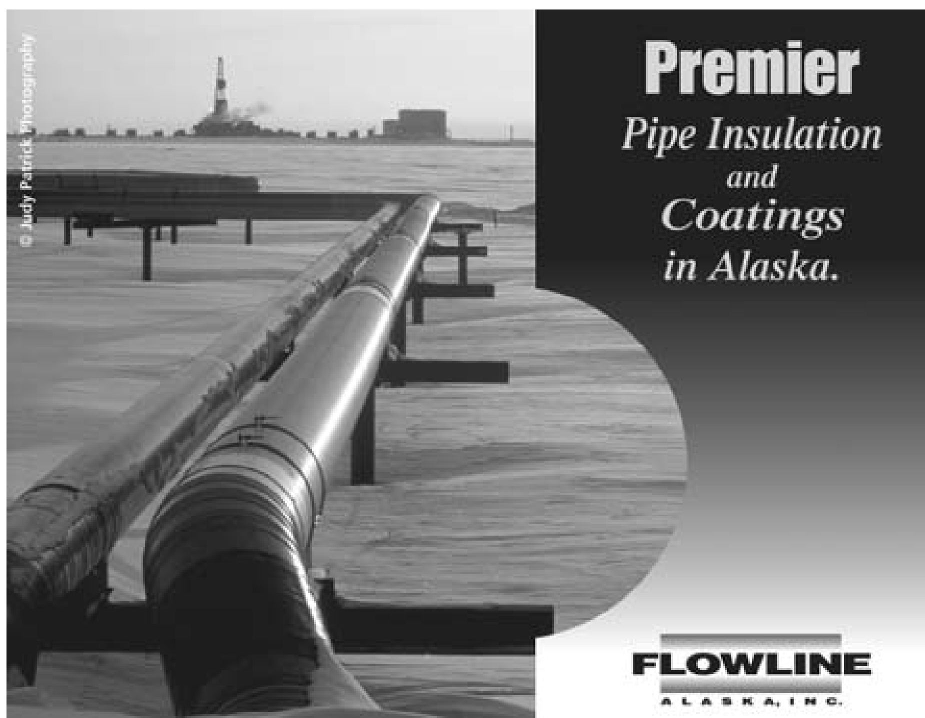

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TIFF

included in a permit from DNR's Division of Land, Mining and Water for summer work. It included maintenance and site work and installation of cellars and conductors. The cellars and conductors wording was from the Point Thomson drilling program, which was approved in a July 7 permit, he said, and described proposed work including "removal of equipment currently stored on the pad by another operator, placement of ice road construction equipment, a 30-man construction camp, fuel storage tanks and fuel associated with ice road construction, and for the use in other operations and maintenance and site preparation on the existing pad. The maintenance and site preparation work will include grading, placing gravel from the Prudhoe Bay area and installation of cellars and conductors," he read from the program approved by the permit.

Drilling or not?

Banks told Petroleum News in a Dec. 2 e-mail that setting conductor is not drilling.

"A conductor is a short string of pipe set to ensure the integrity of the drilling operation, but it is not a well." He said a conductor is different than surface casing, which is set deeper. A conductor does not require a drilling permit from the Alaska Oil and Gas Conservation Commission, Banks said, because the commission does not consider setting a conductor to be a drilling operation.

"ExxonMobil does not have a drilling permit from the AOGCC for this work, so they must not consider it a drilling operation either," he said.

Resources Co-chair Craig Johnson, R-Anchorage, said it seemed to him that based on the description of what was permitted, "that we have permitted drilling ... basically the first step in drilling a well ... with that language."

Rutherford said she had spoken with Haymes recently and was assured "that they would not do any drilling that was not permitted by DNR. I don't think they perceive this (setting conductors) as drilling and they also clearly understand that this is a general use permit."

Another take

But a court filing by ExxonMobil in late November provides some insight into the view the companies are pushing.

Following a description of work, including modification of a drilling rig, plans to move equipment to the drilling site and to set "casing at the surface" and other operations "necessary and preparatory to drilling," and which "are intended to lead to drilling during the winter of 2008-09," ExxonMobil told the court: "Notwithstanding these drilling operations, on July 22, 2008, DNR purported to terminate the leases, on the theory that 90 days had run since the termination of the Unit. DNR simply paid no attention to the fact that the conduct of drilling operations by ExxonMobil and the WIOs had extended the leases."

ExxonMobil described DNR's denial of permits, and then told the court:

"DNR's conduct here is accordingly quite remarkable. Having terminated the Unit on the ground that DNR wanted development of the Point Thomson field, but that the WIOs could not be 'trusted' to carry out the drilling program they had submitted, DNR now emerges as the principal, indeed the sole remaining, obstacle to the drilling that it says it wants."

ExxonMobil said that whereas DNR is refusing to permit drilling because the leases "have purportedly terminated" this is "exactly contrary to the provisions of the leases. The leases say that the term is extended so long as 'drilling operations' are being conducted, and so long as drilling operations are being prevented by the acts of the State. In other words," ExxonMobil told the court, "DNR's anti-development acts give the lie to its pro-drilling words, while its insistence that the leases are terminated results in extending their term." ●

continued from page 1

PRICE CAP

Enstar's weighted average cost of gas from all of Enstar's existing contracts, rather than with a gas-cap-related price. But the amended ConocoPhillips contract would terminate at the end of 2010 rather than in 2013, Enstar said.

Enstar said that it is still trying to reach an agreement with Marathon that would be acceptable to the commission.

Wants approval

Under the terms of Enstar's gas tariff the utility can accept without RCA approval a new producer gas price, provided that price reduces Enstar's weighted average cost of gas, as is proposed in the amended ConocoPhillips contract. However, Enstar says that, because this is the first time that this particular provision of the tariff has been exercised, Enstar is seeking RCA approval of the precise terms of the price agreement.

"Such a ruling will provide the necessary assurance of cost recovery, which is an important factor affecting Enstar's financial health, especially in light of future capital expenditures for storage and pipeline projects and related financing requirements," Enstar said.

Although RCA regulates Enstar's tariff, including the price that the utility charges its customers for gas, the commission does not regulate the Cook Inlet gas producers and the prices that they charge utilities. However, to stay in business Enstar has to pass through to its customers the price that it pays the producers for gas.

But because Cook Inlet producer gas prices are set through supply contracts with a small number of producers, there is no local spot market in gas to determine gas price levels. And, as gas supplies have tightened in the maturing Cook Inlet oil and gas basin, the determination of equitable utility gas prices has become a highly contentious issue.

2006 rejection

In September 2006 RCA rejected an Enstar contract with Marathon that would have filled Enstar's 2009 shortfall. That contract involved gas pricing based on a trailing average of Henry Hub market prices in the Lower 48. A contract with Unocal (now part of Chevron) approved by RCA in 2001 used a similar Henry Hub-base pricing model, but in the 2006 decision a majority of the commissioners said that the Henry Hub pricing was unjustifiably high for the Cook Inlet gas market.

Following the 2006 contract rejection, Enstar issued a request for proposal for gas supplies. Only ConocoPhillips and Marathon responded to that request — subsequent negotiations between Enstar and these two producers resulted in the contracts that RCA adjudicated on in October.

The pricing in the new contracts used indexes based on baskets of North American gas price points. Price tiering within the contracts would increase the price paid for "swing" gas during periods of high gas demand, during the cold Alaska winters.

In its October order RCA accepted the principle of indexing Cook Inlet utility gas prices to gas prices elsewhere in North America, to enable "the producers to earn market based rates." The commission also agreed with the principle of tiering the prices to accommodate the complications of meeting peak demand.

But the commission said that price indexes involving trading hubs which are downstream of major gas transmission pipeline systems are inappropriate for determining prices in the Cook Inlet. In fact, there is a strong analogy between the Cook Inlet and production basins in North America, the commission said.

Price cap

So, the commission specified a price cap for the new contracts The price cap consists of a 12-month trailing average of daily prices from five North American production basin trading locations: El Paso, San Juan basin; Panhandle, Texas-Oklahoma; El Paso, San Juan basin; Kern River, Opal Plant; and TCPL Alberta, AECO-C. That set of price points is significantly different from the basket of price points in the new contracts and would reduce the contracted gas price — the price formulae in the contracts included downstream trading hubs such as Chicago Citygate and PG&E Citygate.

RCA required Enstar to file amendments to the ConocoPhillips and Marathon contract by Dec. 1 — hence Enstar's filing that has informed the commission of the producers' unwillingness to price their gas below the commission's price cap.

The amended ConocoPhillips contract that Enstar has now submitted specifies a contract price that would be set each year at 5 cents below Enstar's weighted average cost of gas — there is no price tiering for peak demand. The weighted average cost would derive from Enstar's determination of the gas cost adjustment that it plans to charge its customers for that year.

Enstar determines the gas cost adjustment prior to the beginning of the year by calculating a weighted average of the cost of its gas, using estimates of the volumes of gas that it expects to purchase through each of its supply contracts during the course of the year. Essentially Enstar multiplies the estimated volume to be obtained under each supply contract by the contract price, adds up the results of these calculations for all of the supply contracts and divides by the total estimated volume of gas to be purchased for the year.

Each contract has its own price formula. Depending on the contract, the price is indexed to a specific oil or gas market price over a specific time period.

$8.91 per mcf

And Enstar's has determined its weighted average cost of gas for 2009 for the purposes of the proposed ConocoPhillips contract to be $8.96 per mcf, thus resulting in a ConocoPhillips contract price of $8.91 per mcf.

Two of the contracts that contribute to the weighted average are long-standing Marathon, ConocoPhillips, Municipal Light & Power and Chevron contracts indexed to the price of light sweet crude oil futures. For the 2009 pricing, these legacy contracts use prices indexed to the average price of oil in the third quarter of 2008, a period during which oil prices varied between about $98 and $140. The oil price index resulted in contract gas prices of $9.08 per mcf for the Marathon contract and $11.20 per mcf for the other contracts.

However, Enstar expects that by far the biggest contribution to its 2009 supplies will come from the 2001 Unocal contract that is indexed to Henry Hub gas prices. The 2009 price for this contract is $8.46 per mcf, a figure that represents the weighted average Henry Hub price for the 36-month period ending on Sept. 30, 2008.

The upshot of all of this is that in 2009 the proposed ConocoPhillips contract would be priced a little above the trailing average Henry Hub price. The 2010 price would presumably depend on what happens to oil prices and the Henry Hub gas price in 2009, and the relative proportions of gas expected to come from Enstar's various supply contracts in 2010. ●

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UNITS

issue.)

The timing of those letters, which came after the hearing that both covered the matters in question and included efforts to broker a meeting between state officials and company executives, only served to intensify the discontent of both lawmakers and the companies.

Companies asking for help

The hearing came after Pacific Energy and Escopeta spent the past year separately trying to fulfill several commitments required not only for technically exploring their prospects, but also for meeting the legal terms of the oil and gas leases issued by the state.

The most recent commitment required Pacific Energy to contract for a "heavy lift vessel," a ship capable of bringing a jack-up rig to Alaska, by Oct. 31. A jack-up is a rig designed for drilling offshore prospects in relatively shallow waters, like Corsair and Kitchen.

The efforts of Pacific Energy and Escopeta converged in October when they agreed to share the jack-up rig and split the cost of bringing it to Alaska. The companies even signed a contract with Offshore Heavy Transport AS to bring the rig to Cook Inlet, but the terms of the contract required the state to extend the deadlines on 30 leases.

Escopeta asked the state to extend 16 of its 27 leases at and around the Kitchen unit for another two years. Most of those leases are currently set to expire at the end of the year.

Meanwhile, Pacific Energy asked the state to extend the deadlines on a slate of leases, including the eight leases at and around the Corsair unit, four independent leases to the west of Corsair, and two more onshore leases in the Susitna basin north of Anchorage.

The companies submitted the contract to the state on the Oct. 31 deadline. But Banks rejected the contract in his Dec. 1 letter, calling the conditions in it "unacceptable."

The state also rejected a separate request from Escopeta to push back the deadlines in its plan of exploration at Kitchen. The plan outlines the work commitments required for keeping the unit and the leases within it, setting out dates when the company must drill.

The state previously moved those deadlines from the end of 2007 to the end of 2008.

With the two decisions, Pacific Energy now has until March 1 to cure the default at Corsair, while Escopeta has until the end of the year to avoiding losing its land position.

If the leases ultimately expire at the end of the year, the state would make them available in a future lease sale. The next Cook Inlet areawide lease sale is in May.

Differing views on policy

The Dec. 1 legislative hearing highlighted a debate on how Alaska manages its land.

Several lawmakers believe state bureaucracy is keeping oil companies from exploring and developing in Cook Inlet at a time of increasing public concern over dwindling Cook Inlet gas supplies and ongoing debate over how to price supplies that remain. (See Enstar contract story on page 1 of this issue).

During the hearing, House Judiciary Chair Jay Ramras, R-Fairbanks, accused state oil and gas officials of "wrecking my state" and said government "just doesn't seem to have any answers." He said he couldn't reconcile Gov. Sarah Palin promoting "drill, baby, drill" with state officials turning away companies claiming to be ready to do just that.

"It's like two locomotives going in different directions," Ramras said.

State oil and gas officials say companies who meet commitments get to drill, and say the state can only guarantee its lands get developed by enforcing its statutes and regulations.

Banks said that by extending leases, rather than re-offering them in a competitive bidding process, the state is in essence awarding "a lottery ticket" allowing a company "to come to the state and negotiate a better deal" rather than uphold its "commitment to develop."

Although Escopeta and Pacific Energy have asked for concessions and extensions, they've also come closer than most other companies to lining up all the pieces needed for developing their prospects. There hasn't been a jack-up rig in the Cook Inlet since 1993.

House Resources Co-chair Craig Johnson, R-Anchorage, asked state officials, "Who do you have in the queue that has a better offer, that can get it done quicker?"

Deputy Resources Commissioner Marty Rutherford said, "There's no certainty that we are actually delaying (drilling)," and noted that the leasing program, as created by the Legislature, depends on companies keeping commitments in exchange for access to land.

"When people don't honor those commitments, we also have to be good land managers and recognize that sometimes it's going to be the competition that provides for a greater opportunity for that exploration and development," Rutherford said.

Caught in between are Escopeta and Pacific Energy, who face losing millions of dollars of investment because they could not meet deadlines for developing tricky prospects.

Escopeta President Danny Davis framed the debate in much larger terms, saying the decisions the state makes in Cook Inlet would "affect the future of the American oil and gas industry" and told lawmakers, "The future of this country's in your hands."

Davis believes the prospects around Corsair and Kitchen could hold a combined 1.1 billion barrels of oil and 6.5 trillion cubic feet of gas. Those estimates, which the state considers optimistic at best, are based on seismic acquisitions and a 2004 U.S. Geological Survey report suggesting the Cook Inlet contains several "missing giants."

While Alaska consumers worry about natural gas supplies, Davis believes Escopeta and Pacific Energy can have gas "flowing into the system" in "less than 18 months."

"We've got everything lined up," he said. "All the contracts are signed to move that rig up here in the spring and drill these wells. With that extension, I truly believe that we can perform and we can make a difference in the overall production of natural gas and crude oil."

Without the extension "we lose everything," Davis said, suggesting he won't fight the matter in court like ExxonMobil is doing with Point Thomson. "I won't be back," he said.

Issue not quite over yet

Even with the two Dec. 1 decisions, state oil and gas officials insist Pacific Energy and Escopeta haven't run out of options as they work to save the Corsair and Kitchen units.

"We've got a few weeks to figure out something here," Banks told Petroleum News on Dec. 2. "I'm not totally unreasonable."

Asked why he and other officials didn't mention their decisions about the companies during the hearing held earlier in the day, Banks said the letters weren't official yet.

"I don't want to be too cute with this, but frankly I probably would have signed those letters before I went on vacation, but just wanted to have more time to explore some of the problems," Banks said, saying the state had questions about the ship and the rig.

The timing of the letters could have consequences, according to Ramras.

"I feel very mislead about the candor with which (the Department of Natural Resources) went about making its presentation. … I'm really appalled at what appears to have transpired," Ramras told Petroleum News on Dec. 3.

Ramras said several committee members, including Johnson and House Judiciary Vice-Chair Nancy Dahlstrom, R-Eagle River, plan to write state officials about the matter. ●

Contact Eric Lidji at 907-770-3505 or elidji@petroleumnews.com

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