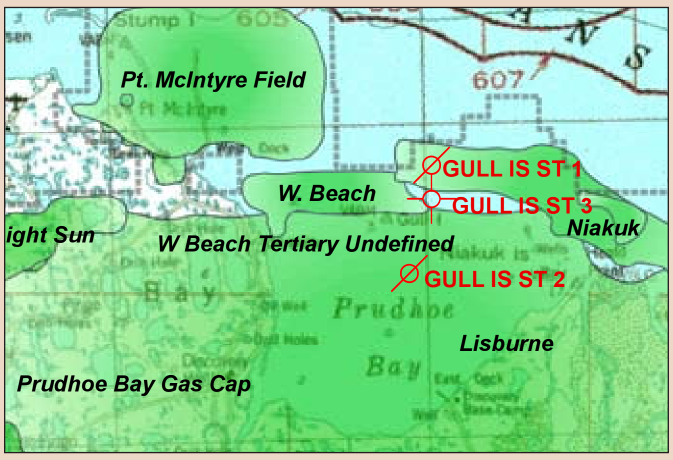
Petroleum news

Vol. 13, No. 28 • www.PetroleumNews.com

A weekly oil & gas newspaper based in Anchorage, Alaska

Week of July 13, 2008 • $1.50

page 16 BP and Savant looking to partner for Badami drilling, production restart



See Mapmakers' Gull Island map on page 22.

Gull Island buzz: 200 years of oil from Alaska's North Slope?

Along with a surging interest in fuel-efficient automobiles and biking to work, the legend of Alaska's Gull Island, a speck of land four miles or so offshore the North Slope in the middle of Prudhoe Bay, seems to have an uncanny ability to appear when the United States is facing soaring oil and gasoline prices.

Back in 1981 when crude oil prices hit unimaginable highs in excess of $30 per barrel, a letter from U.S. Rep. Bob Stump of Arizona popped into the mail bag of the Alaska Oil and Gas Conservation Commission in Anchorage, Alaska.

"I have been contacted by several constituents concerning the recent allegations of a massive oil find off the North Slope on Gull Island. Those allegations range from a business cover-up to a giant federal conspiracy to perpetuate our energy crisis," Stump said. "I would appreciate any information that you can offer me that will aid with my correspondence with these constituents."

Some of Stump's constituents had presumably been reading a book called "The Energy Non-Crisis," written by sometime Baptist missionary Lindsey Williams and published in 1980.

see **GULL ISLAND** *page 22*

Energy is Canada's ace if NAFTA reopened; political leaders warn U.S. against opening Pandora's Box

Twenty years ago, when negotiations were getting under way for the Canada-U.S. Free Trade Agreement (known as FTA and forerunner of the subsequent North American trade pact that includes Mexico), doubting Canadians were being urged by their political leaders to accept a "leap of faith" and take the plunge.

They may soon be asked to repeat the exercise, if Barack Obama wins the U.S. presidency and carries out his pledge to either opt out of NAFTA or renegotiate the agreement.

If that happens, nationalist sentiment in Canada is sure to demand a complete overhaul of the energy provisions that now see 66 percent of Canada's oil production and 54 percent of its natural gas delivered to U.S. markets, while Mexico, under a

see **NAFTA** *page 23*

BREAKING NEWS

NATURAL GAS

Gas headed north

State of Alaska, ANGDA, Enstar to build pipeline from Cook Inlet to Fairbanks

By ERIC LIDJI
Petroleum News

Worried minds contemplating the dwindling natural gas supply in the Cook Inlet have long looked north for a solution, but the answer they expected to find always involved supply. Could the answer up north actually be demand?

After years spent pursuing separate pipelines with the similar goal of increasing natural gas supplies to Alaska communities, the Alaska Natural Gas Development Authority and Enstar Natural Gas Co. announced July 7 they have formed a public-private partnership with the state to build a pipeline connecting Fairbanks to Cook

see **NORTH** *page 19*

Enstar and ANGDA: Partners after years apart

Anyone following ANGDA and Enstar even over just the past few months might have been surprised to see the companies sitting at the same table to announce a partnership.

For nearly five years, Enstar has been looking at building either a spur line or a bullet line along the Parks Highway, while ANGDA has been exploring a similar project along the Glenn and Richardson Highways.

The two projects have progressed independently, and when they did cross paths, it

see **PARTNERS** *page 21*

NATURAL GAS

Betting on exploration

Alaska officials wager gas line from Cook Inlet to Fairbanks will spur drilling

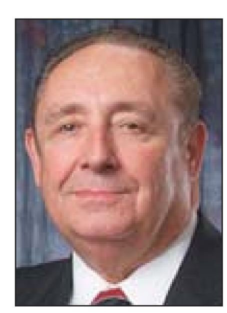
By ERIC LIDJI
Petroleum News

The newest in-state gas pipeline plan for Alaska is based on a bet.

By connecting a region with a declining supply of gas to another region desperate for affordable fuel, the state is betting it can jump-start production of untapped Cook Inlet reserves by using demand from the Interior like a battery and a pipeline like a set of jumper cables. (See related story on this page.)

What remains unclear is whether the jolt will do the trick.

The state, Enstar Natural Gas Co. and the Alaska Natural Gas Development Authority think it will. Those three parties announced a public-private partnership on July 7 to explore a pipeline running from Cook Inlet to Fairbanks.



Kenai Peninsula Borough Mayor John Williams

"We've always maintained that if you pre-build the pipeline, you would generate the market forces that would cause a lot of things to happen," said Harold Heinze, chief executive officer of the Alaska Natural Gas Development Authority. "And in this case, just the commitment of the state to do this kind of a project ought to encourage the local exploration, because it does expand their market."

see **BETTING** *page 17*

EXPLORATION & PRODUCTION

Armstrong spuds Kenai well

Alaska subsidiary of Denver independent drilling for gas on southern peninsula

By KAY CASHMAN
Petroleum News

The Alaska subsidiary of Denver-based independent Armstrong Oil and Gas Co. is drilling its first exploration well in Southcentral Alaska's Cook Inlet basin. According to Ed Teng, the Armstrong vice president in charge of the project, drilling will likely be finished around Aug. 9.

Armstrong Cook Inlet LLC spud North Fork 34-26 June 27 on a new pad it built within a lease held by the North Fork participating area, Division of Oil and Gas official Temple Davidson told Petroleum News July 10.

The well site is about six miles east of Anchor Point, just off North Fork Road in the southern Kenai Peninsula.

If Armstrong finds commercial quantities of natural gas at North

see **ARMSTRONG** *page 14*

ED TENG/ARMSTRONG

Photo taken in late June while drilling North Fork 34-26 well near Anchor Point with AWS-1 rig.

contents

Petroleum News | A weekly oil & gas newspaper based in Anchorage, Alaska

● CLIMATE CHANGE

Climate change spurs Arctic shipping

Mead Treadwell and other Alaskans were among those voicing support in a U.S. Senate committee hearing for policies that support safe, secure and reliable polar transportation

By ROSE RAGSDALE
For Petroleum News

"The Arctic Ocean is a 'patchwork quilt' of tolls and regulations by several coastal nations. Arctic shipping will grow when rules are certain and when products can be delivered competitively with other routes. This means on a time and cost basis, not just on shorter distances."
—Mead Treadwell, U.S. Arctic Research Commission

As Congress and the White House continue to grapple with the effects of climate change, researchers are identifying the effects and developing strategies for not only mitigating them but also seizing opportunities they could present.

Sen. Ted Stevens, R-Alaska, a top Republican on the U.S. Senate Commerce Committee, outlined effects of climate change on Alaska's infrastructure at a June 24 hearing.

"I think the problem we have to deal with is the impact of some of these changes on the individual Americans and on our states," said Stevens. "Our state had a report that the effects of climate change stand to increase our maintenance and replacement cost for public infrastructure by $6 billion over the next 20 years. Now, we're a small state. The impact of that on the taxpayer and on the people of our state is going to be overwhelming."

Stevens also noted that worldwide oil demand is expected to increase to 116 million barrels a day by 2030. "We need to explore ways to ease our dependence on fossil fuels in the transportation sector, but the investments required to make this transition are enormous. This is why I continue to argue that revenues from new domestic sources of oil, including the Arctic National Wildlife Refuge, should be devoted to climate change adaptation and alternative energy development to reduce our dependence on foreign oil," Senator Stevens said in his written statement.

Researcher reports effects on Arctic transportation

Longtime Alaskan Mead Treadwell, representing the U.S. Arctic Research Commission, joined others in testifying before the Senate panel.

Under the Arctic Research and Policy Act of 1984, the U.S. Arctic Research Commission has seven commissioners who are appointed by the president and report to the president and the Congress on goals and priorities for the U.S. Arctic Research Program.

Treadwell, who chairs the commission, updated the senators on preparations for increased traffic on the Arctic Ocean as global climates shift.

He said the scientific community is finding the Arctic to be suddenly, and surprisingly accessible, and the commission is finding that regular Arctic Ocean shipping, tied to specific resource development projects, tourism, or serving the needs of Arctic communities is already large and growing.

Treadwell said new Arctic-capable ships are under construction in Southeast Asia and Europe, a trend that brings with it the need for new policies — rulemaking, research, and investment — by governments of the Arctic region.

A fundamental question for residents of the Arctic, Treadwell said, is whether trans-Arctic seaways will become as important to global shipping as the Panama and Suez Canals?

"Or, will the Arctic Ocean continue more as venue for shipping in and out of the Arctic itself, for tourism, local needs, and for bringing natural resources to market?" he asked.

Treadwell said policies are being conceived, developed and implemented toward a goal of ensuring that shipping in the Arctic is safe, secure and reliable.

"The Arctic Ocean is a 'patchwork quilt' of tolls and regulations by several coastal nations. Arctic shipping will grow when rules are certain and when products can be delivered competitively with other routes," he told the committee. "This means on a time and cost basis, not just on shorter distances."

Oil spill, territorial research needed

Treadwell urged lawmakers to fund strong research into climate change issues and its implications. He said the commission has developed a set of research goals related to shipping, and those goals will be included in a report to Congress due in 2009.

Among issues to be addressed in the report are an understanding of the effects of air pollution and noise from ships on the Arctic ecosystem and the tradeoff between warming effects of ship emissions in the Arctic and potential reduced emissions from shipping worldwide, due to shorter routes.

Also, the U.S. and Iceland are cooperating on development of hydrogen technologies. "The prospect of hydrogen-powered ships, under development by Iceland, is of interest to the entire Arctic community," Treadwell said.

The Interagency Arctic Research Policy Committee, acting on the commission's recommendation, has commissioned an interagency research plan on Arctic infrastructure, in light of climate change. The plan will cover many climate effects on transportation in the Arctic, including roads, maritime transport, and the need for improved oil spill research in ice-covered waters.

Treadwell said nations are mustering bathymetric and seismic expeditions to delineate the extended continental shelf of the Arctic region, for new territorial claims allowed under the United Nations Convention on the Law of the Sea. And as claims by some nations could make parts of the Arctic Ocean legally less accessible to research, the science community is pressing to ensure greater access with the diplomatic community, he said.

Treadwell said the United States last revised its Arctic policy in 1994 with environmental protection as a primary objective.

Climate change and growth in Arctic shipping were not contemplated, he said. "As the Executive Branch currently conducts a review of U.S. Arctic policy, the commission has urged consideration of policies to ensure safe, secure, and reliable shipping," including acceding to the Law of the Sea convention, he said.

Icebreakers important piece of puzzle

Treadwell also expressed support for current legislation calling for construction of two new Polar-class icebreakers for the U.S. Coast Guard and investment in maintaining the Coast Guard's existing fleet.

"These ships are needed to provide the same protections (that) the U.S. Coast Guard affords the rest of the nation: search and rescue, law enforcement, border protection, environmental protection and oil spill response," he said.

In addition to ice-breaking capability, shipping and research activities in the Arctic depend on a strong system to predict ice conditions, provided by federal agencies using satellites to provide accurate weather forecasts.

Treadwell also urged support for his predecessor, George Newton's, call for an "Arctic 911" capability, and the need for the National Geospatial Intelligence Agency to add the Arctic region to other oceans of the world that provide notices to mariners.

Lastly, he said the question of where new port facilities, such as safe harbors and transshipping points, are needed has yet to be fully addressed. ●

● FINANCE & ECONOMY

RCA OKs Aurora/Enstar lawsuit settlement

Enstar says it will use net settlement proceeds of $10 million to reduce the gas cost adjustment that it charges its customers

By ALAN BAILEY
Petroleum News

The Regulatory Commission of Alaska has issued an order approving the settlement between Aurora Gas and Enstar Natural Gas Co. over a lawsuit regarding Aurora's suspension of its supplies of Moquawkie gas to Enstar.

"We find nothing in the Agreement that is objectionable on its face, and we received no comments adverse to the Agreement," the commission said, referring to a settlement agreement that the two companies signed on April 18.

Aurora has said that it suspended gas supplies to Enstar from the Moquawkie field on the west side of Cook Inlet because those supplies had ceased to be economic under the terms of the company's contract with Enstar. The contract provided for suspension of supplies in the event of the gas delivery becoming uneconomic, Aurora said.

But Enstar vehemently disagreed with Enstar's position and sued for breach of contract. And in reaching a settlement in the subsequent lawsuit, neither company made any admission as to who was right or wrong.

On the Web

See previous Petroleum News coverage:

"Aurora and Enstar reach settlement," in May 18, 2008, edition at www.petroleumnews.com/pnads/394622417.shtml

Aurora pays $11 million

Under the terms of the settlement Aurora has agreed to pay Enstar about $11 million as compensation for the increased cost of gas that Enstar incurred up to May 2008 as a consequence of the loss of Moquawkie supplies. Enstar has said that it will use the net proceeds (approximately $10 million according to RCA) to reduce the cost adjustment that it charges to its customers. That cost adjustment reduction may amount to about 31 cents per mcf of gas in 2009, Enstar has said.

But RCA said that its order does not approve a direct refund from Enstar to Fairbanks Natural Gas for gas that Enstar has supplied to FNG's liquefied natural gas plant at Point MacKenzie. Enstar would have to file a separate tariff amendment for the FNG supplies, the commission said. ●

NATURAL GAS

Sempra rejoins port authority project

Sempra LNG, which worked with the Alaska Gasline Port Authority on its liquefied natural gas project in 2004 and 2005, is back onboard, the port authority said July 9.

Mitsubishi Corp. is also involved in the project, an 800-mile natural gas pipeline from Prudhoe Bay to Valdez and a liquefied natural gas facility at Valdez.

"Sempra LNG has worked with us in the past in providing critical natural gas and LNG market insight and we are pleased to gain their expertise," Bill Walker, the port authority's general counsel and project manager, said in a statement.

"We feel that the only certain solution to Alaska's natural gas pipeline challenges is for the state to take ownership and develop the project so its citizens can control their energy future," said Darcel Hulse president and chief executive officer of Sempra LNG.

"We think the state is better positioned to control the risks and uncertainties of this natural gas pipeline project than a private developer and would eliminate Alaska's dependency on parties outside its jurisdiction," said Bert Cottle, chairman of the port authority.

Sempra LNG develops and operates LNG receipt terminals serving North American markets. The company's Energía Costa Azul facility in Baja California, Mexico, the only LNG receiving terminal on the West Coast, went into operation in May.

—PETROLEUM NEWS

GOVERNMENT

Tibbles will manage Stevens' campaign

U.S. Sen. Ted Stevens has hired a former official in Gov. Sarah Palin's administration to manage his Senate campaign.

Mike Tibbles was named July 7 as Stevens' campaign manager.

Tibbles led Palin's transition team after winning the governor's mansion in 2006. He most recently served as her chief of staff.

Stevens says Tibbles brings a wealth of campaign experience to his team. Stevens adds his new manager "is battle-tested and his organization skills are first-rate."

Stevens is running for re-election while under a federal investigation. His likely Democratic opponent in November is Anchorage Mayor Mark Begich.

—THE ASSOCIATED PRESS

CORRECTION

Petroleum News incorrectly reported in the July 6 issue that a June 28-29 maintenance shutdown of the trans-Alaska oil pipeline by Alyeska Pipeline Service Co. was scheduled for 30 hours but was completed in 24 hours.

The shutdown was scheduled for 36 hours; work on the remote gate value replacement was completed six hours ahead of schedule; the shutdown itself was not shortened.

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Petroleum News and its supplement, Petroleum Directory, are owned by Petroleum Newspapers of Alaska LLC. The newspaper is published weekly. Several of the individuals listed above work for independent companies that contract services to Petroleum Newspapers of Alaska LLC or are freelance writers.

OWNER: Petroleum Newspapers of Alaska LLC (PNA)
Petroleum News (ISSN 1544-3612) • Vol. 13, No. 28 • Week of July 13, 2008
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518
(Please mail ALL correspondence to:
P.O. Box 231647 Anchorage, AK 99523-1647)
Subscription prices in U.S. — $78.00 for 1 year, $144.00 for 2 years, $209.00 for 3 years.
Canada / Mexico — $165.95 for 1 year, $323.95 for 2 years, $465.95 for 3 years.
Overseas (sent air mail) — $200.00 for 1 year, $380.00 for 2 years, $545.95 for 3 years.
"Periodicals postage paid at Anchorage, AK 99502-9986."
POSTMASTER: Send address changes to Petroleum News, P.O. Box 231647 Anchorage, AK 99523-1647.

● SAFETY & ENVIRONMENT

Canada striving to protect oil sands

Environmental issues from development a concern; meeting GHG standards could make oil sands uncompetitive internationally

By GARY PARK
For Petroleum News

With the environmental noose tightening, the Canadian and Alberta governments — two of the most resolute opponents of Kyoto-style limits on greenhouse gas emissions — are being forced to act in other ways to fend off a growing global campaign against the oil sands.

Still reeling from the death of about 500 ducks in a toxic tailings pond at the Syncrude Canada mine site, the case against the resource keeps building.

Even the Alberta government disclosed recently that it has 13 open investigations related to the oil sands, three linked to tailings ponds and the remaining 10 probing a variety of contraventions of project permits — exactly what Premier Ed Stelmach didn't need as his administration embarks on a C$25 million, three-year campaign to sell the resource as environmentally sustainable.

Margo Reynolds, executive director of the Pembina Institute, an Alberta-based research group, said the cumulative impact is turning the oil sands into the "black stain of Canada. … It's becoming an environmental disaster."

David Swann, environmental spokesman for the opposition Liberal party, said the confidence gap between the public and the government is widening, accusing the government of taking a hands-off approach.

Newly disclosed incident

Environment Minister Rob Renner conceded there likely have been incidents such as a newly disclosed incident last September when an estimated 2 million liters of wastewater contaminated with oil and grease leaked from a Suncor Energy facility into the Athabasca River, the main waterway in northeastern Alberta.

Suncor refuted claims that area residents were not told until May that their drinking water was potentially contaminated, insisting community leaders and the government were notified the day of the incident.

A company spokesman said the wastewater contained only two barrels of oil and grease, but admitted Suncor exceeded regulations.

Chris Sands, a senior fellow at the Washington-based Hudson Institute, said bad news is inevitable in the oil sands sector. "We need it so badly that we're going to have to make a few unsavory decisions."

But the pressure is squarely on the federal and provincial governments to show proof that they are prepared to tackle other real and perceived negatives and on the industry to polish up a tarnished image.

David Brett, a Calgary lawyer specializing in energy regulation with the firm of Gowling Lafleur Henderson, said that as the regulatory landscape changes, the "public interest" will play an increasingly larger role in decisions by regulators.

He said a series of recommendations by joint federal-provincial environmental review panels in approving oil sands mining projects raised the need for cumulative impact assessments and socioeconomic impacts to be addressed.

Brett suggested the message is clear: If "things don't get fixed, regulators will step in and propose to fix them."

Cost of meeting GHG limits could make oil sands uncompetitive

The warnings were contained in a report by investment firm Raymond James, which said the costs of complying with greenhouse gas abatement plans could make the oil sands uncompetitive with other oil projects around the world "causing producers to shift exploration and development to other jurisdictions where GHG limits are less stringent or non-existent."

CRA International, a Boston-based consulting firm, said the costs of compliance could in some cases be as high as

see OIL SANDS page 6

● GOVERNMENT

Stevens and Begich promote energy plans

Both want a similar mix of traditional, renewable and alternative fuels, plus conservation measures and consumer protection

By ERIC LIDJI
Petroleum News

As the election year entered its final half and the state embarked on a new fiscal year, Sen. Ted Stevens, R-Alaska, and Gov. Sarah Palin jointly discussed the energy issues facing Alaska on July 2.


SEN. TED STEVENS

In the state during a congressional break around Independence Day, Stevens laid out an energy plan based on increasing all forms of production, as well as enacting new legislation to limit market speculation and curb litigation that delays new development.

Palin mainly provided support; news of her appearance came just before the meeting began. But sitting in the Federal Building in downtown Anchorage, the two politicians refused to discuss campaign issues.

The event came just a few days after Anchorage Mayor Mark Begich, a Democrat running for Stevens' senate seat, began a statewide tour to promote his energy plan.

Open ANWR and share OCS


MARK BEGICH

Stevens four-part plan involves increased domestic production of traditional fossil fuels, increased spending toward renewable and alternative fuels, several measures to promote conservation and new protective policies designed to remove legal roadblocks to production and limit the role of speculators in oil markets.

Many of the ideas come from existing legislation Stevens has sponsored or co-sponsored recently, including several bills that have stalled this year.

Stevens wants to allow drilling in the coastal plain of the Arctic National Wildlife Refuge and use all the revenue generated from the fields to fund alternative and renewable energy projects, as well as grants for efficiency and weatherization. Stevens estimated that these revenues would hit $300 billion over 30 years.

While the federal waters around Alaska are currently open to drilling, the state doesn't share in the revenues to the extent that states around the Gulf of Mexico do. Stevens wants to give Alaska 37.5 percent of the revenues from Offshore Continental Shelf development, with a quarter of that money going directly to coastal communities.

Begich's plan would also call for opening ANWR and increasing Alaska's share of offshore drilling to 37.5 percent, but would use OCS revenues, rather than ANWR revenues, to fund renewable energy projects.

Stevens wants to further streamline the permitting process for an Alaska natural gas pipeline to the Lower 48. Begich wants to work with developers to guarantee spur lines and dedicate a portion of the revenues from the project to local communities.

Increase alternative power

To increase renewable and alternative sources of power, Stevens wants to study energy storage options and technology for capturing methane, and wants to have the U.S. Department of Energy conduct an inventory of the water resources in Alaska. He would also promote grants and tax incentives to increase nuclear power.

Begich calls for generating at least 25 percent of electricity across the state and the country from renewable sources by 2025. In Alaska, that would mean developing

see PLANS page 7

GOVERNMENT

$21 billion Alaska energy plan proposed

Bill, still in draft form, includes coal; alternative energy typically wind, solar, geothermal, hydroelectric, tidal, biomass

By WESLEY LOY

Anchorage Daily News

State lawmakers in Juneau for a special session on the natural gas pipeline are quietly considering another blockbuster energy idea — plowing nearly $21 billion into "renewable" and "alternative" energy projects.

But some legislators say a dirty word, coal, appears all through the proposed legislation that's making the rounds in the Capitol.

SARAH HURST

REP. JOHN HARRIS

The bill, which has not yet been introduced and is labeled "work draft," has language saying the intent is for lawmakers to contribute $20.75 billion to a renewable and alternative energy grant fund over the next five years.

The money, presumably, would come from the state's huge oil revenue surpluses, assuming they continue.

The draft legislation says energy projects such as a plant that "produces ultraclean fuels from coal" would be eligible for funding.

The main backers of the coal provision are local officials from the Fairbanks area, where skyrocketing energy prices have people alarmed, said House Speaker John Harris, R-Valdez.

Harris said his office worked on the draft legislation with Fairbanks North Star Borough Mayor Jim Whitaker and others. He couldn't say for sure, but Harris expects the draft bill to be formally introduced at some point during the 30-day special session that began July 9.

Coal — plus and minus

But some lawmakers criticized the legislation, saying that most people understand renewable and alternative energy to include wind, solar, geothermal, hydroelectric, tidal or biomass projects — not coal.

SARAH HURST

REP. BETH KERTTULA

"Coal is not renewable energy and by any fair definition it's not really alternative energy," said Rep. Les Gara, an Anchorage Democrat.

House Minority Leader Beth Kerttula, D-Juneau, said she was struck by the staggering dollar figure in the bill — $21 billion.

"Yeah, that's a rather large number, to put it mildly, even with our surpluses," she said.

Two Fairbanks lawmakers, Republican Reps. Mike Kelly and Jay Ramras, said July 9 they had not yet seen the draft legislation.

But Kelly, formerly chief executive of the electric power utility in Fairbanks, said he likes the idea of using known technology to convert the state's abundant coal into a liquid fuel that local consumers could use.

"We've got a hundred-year coal supply for the nation in Alaska," he said.

Ramras said a big worry is finding alternative power supplies for Eielson Air Force Base near Fairbanks. He said a recent federal law requires Air Force bases to use more alternative energy sources.

He said Eielson is at risk of landing on the military's base-closure list because of high costs in Fairbanks.

Still in draft

Lawmakers are meeting in special session to consider bills related not only to a natural gas pipeline from the North Slope to Alberta, Canada, but other energy-related legislation including a proposed $1,200 "resource rebate" for each Alaskan.

State Natural Resources Commissioner Tom Irwin said he also had not yet seen the draft legislation on renewable and alternative energy grants, though he'd heard about the $21 billion figure.

"I didn't even know it was all typed up as a bill yet," he said.

Irwin declined to comment on the bill before reading it closely. However, he said the Palin administration believes the state needs to move into more renewable and alternative forms of energy, especially now that it has billions of spare dollars to invest.

Whitaker, the Fairbanks borough mayor, could not be reached for comment.

But Harris said he's encouraged Whitaker and other Fairbanks officials to come to Juneau to lobby for the draft bill.

Gara said he's not necessarily opposed to using coal-based energy "as a last resort."

He said his main objection to the draft bill is that steering money to coal projects will detract from the focus on true and cleaner renewable and alternative energy ideas. ●

continued from page 5

OIL SANDS

C$100 per barrel.

It said that if the Canadian government's GHG plan puts future oil sands development at risk it could seriously undermine the North American economy.

CRA consultant Robert Peterson said North American could not stand the loss of 3 or 4 million barrels per day of oil sands output in return for "solving a small piece of a worldwide problem."

He said Environment Canada estimates the Canadian oil and gas industry produces about 400 million metric tons of carbon dioxide a year out of trillions of tons globally.

Raymond James analyst Justin Bouchard said that if a carbon tax of $15 per barrel is imposed, companies might turn their attention to shale oil in the U.S.

His own estimates show oil prices of $70 per barrel are needed to generate a return on investment of 8.5 percent from the oil sands and that could become even more marginal if labor costs, water issues and other problems are added to the mix.

Canadian plans a concern

Observers say the Alberta government's plan to reduce GHGs by about 200 million metric tons a year by 2050, or about 14 percent below 2005 levels, can be managed.

It's the upcoming federal plan that has the industry fretful, especially if the government sticks to its goal of cutting GHGs by 20 percent below 2006 levels by 2020 and 60 percent by 2050.

Bouchard's report said that would amount to a levy of C$15 per metric ton initially, matching Alberta's charge, rising to C$20 by 2012.

By some estimates that would take an annual bite of C$4 billion out of the industry.

The Canadian Association of Petroleum Producers has worked closely with federal officials and believes the government is now starting to understand the economic implications of any draconian measures.

CAPP is also concerned about the confusion that might stem from dueling regulations as provinces such as Alberta and British Columbia develop their own policies, which could result in a fragmented, confusing set of national policies.

Facing a rising tide of criticism and doubt over its ability to clean up the oil sands, the Stelmach government is facing scrutiny from within as the province's Energy Resources Conservation Board said it plans to take a harder enforcement line against the overall oil and gas industry.

The board's newly appointed chairman Don McFadyen said the regulator plans to hire 26 additional inspectors and double the number of inspections involving the oil sands alone.

He said the board is determined to ensure the resources are developed in a "responsible manner."

However, McFadyen said the onus is on the executive levels of government and the industry to establish the importance of the oil sands and the economic contribution they can make.

Environmentalists call restoration of land inadequate

As hard as the government moves to keep pace with the rapid growth of the sector, it seems to get outrun by environmentalists, with the Pembina Institute accusing it and the industry of doing a "woefully inadequate" job of restoring oil sands land after it is mined.

In a new report, the organization said that after 41 years of mining, only 0.2 percent of the land has officially been turned back to the government and accepted as reclaimed land, although close to 14 percent of the land has been restored without obtaining certification.

The report also estimates the toxic tailings ponds could expand rapidly if all of the publicly announced projects go ahead.

The Pembina report said that the government's abandonment liability fund — security deposits collected from companies and now standing at about C$645 million — is far too small and could leave Albertans with a multi-billion dollar bill if companies failed and reclamation work was abandoned.

The greatest hope the Alberta government has of redeeming itself lies in its push toward carbon capture and storage rather than carbon taxes or cap-and-trade programs.

Stelmach said carbon capture and storage is the fastest way to significantly reduce GHGs, claiming the "the technology can be adapted and sold to other jurisdictions around the world."

He said a carbon tax would erode Alberta's competitiveness, while cap-and-trade would merely transfer credits among jurisdictions without achieving GHG reductions.

Alberta and Saskatchewan plan to push other provinces to support carbon capture and storage by offering to take a lead role in advancing research and implementation, although they admit the technology will be expensive and could be years from large-scale commercial use.

Mary Griffiths, Pembina's senior policy analyst, said the work on carbon capture and storage is good news so long as it does not displace efforts aimed at energy conservation and energy efficiency.

She said carbon capture and storage is "just one arrow in the quiver. … It's not a silver bullet." ●

● NATURAL GAS

New Enstar contracts face opposition

Enstar blames state for rejection of earlier contract; says AG now criticizing lack of things 2005 contract would have provided

By KRISTEN NELSON
Petroleum News

Utility approval issues may sound like a yawner, but from comments filed to date Enstar Natural Gas Co.'s request for approval of its new gas supply contracts is shaping up as a doozy of a fight.

The State of Alaska — along with Chugach Electric Association — is mounting serious opposition to the natural gas distribution company's latest attempt to secure natural gas to meet its near-term supply needs in Cook Inlet.

The Regulatory Commission of Alaska is looking at whether natural gas supply contracts Enstar signed with ConocoPhillips Alaska and Marathon Oil Co. earlier this year will provide a reliable source of supply at a reasonable price. Those contracts were part of a settlement between the state and the two Cook Inlet natural gas producers in which the state agreed to support a two-year extension of the export license for the liquefied natural gas plant at Nikiski in exchange for assurance that local needs for natural gas are met and that local suppliers have access to the LNG facility, owned by ConocoPhillips and Marathon.

The majority of Enstar's gas is supplied by Chevron, under a contract with Union Oil Company of California; Unocal is now part of Chevron. The Unocal contract, approved by the commission in 2001, uses a three-year trailing average Henry Hub price. The commission rejected a 2005 contract with Marathon that used similar pricing.

Enstar's contracts with ConocoPhillips and Marathon are for requirements not covered by Chevron, although, as Chevron pointed out to the commission in a May 21 letter, there is still the issue of "unmet requirements." Chevron has provided these unmet requirements, but effective Jan. 1, 2009, it will convert to a fixed quantity supplier, leaving open the issue of how well the new contracts will mesh with the Chevron contract, since Enstar has said that after Jan. 1 variations in its needs would be absorbed proportionately by all contracts.

The commission has received filings and has scheduled a hearing the last week of July and the first week of August.

Running argument

The Cook Inlet producers have long argued — and the regulator appeared to agree in 2001 — that Cook Inlet prices are artificially low because the gas is stranded, but that prices tied to Lower 48 gas prices are necessary if local exploration and development projects are to be competitive with investment opportunities in the Lower 48.

In 2006 RCA rejected — based on price — a contract Enstar negotiated with Marathon in 2005 that, like the 2001 Unocal contract, was tied to Lower 48 natural gas prices. The Attorney General's Regulatory Affairs and Public Advocacy Section opposed that contract and also opposes the new contracts.

Chugach Electric and other Cook Inlet natural gas purchasers also oppose the new contracts.

In a filing in mid-May Enstar told the commission that the Attorney General's comments are based on a "fundamental misunderstanding of the commercial reality" Enstar faces "after the Attorney General successfully argued for the rejection" of the 2005 contract with Marathon.

"The direct consequence of the Attorney General's advocacy was to place Enstar in a very difficult position, facing a looming supply shortfall in January 2009," Enstar said. The Attorney General's comments on the current contracts assume the commission order rejecting that contract should have

see **CONTRACTS** *page 8*

The Nikiski LNG facility

continued from page 5

PLANS

wind, geothermal, tidal, hydropower and biofuels, as well as methane extraction from the Anchorage Regional Landfill.

To increase conservation, Stevens would allow federal employees to work from home to reduce commutes, while Begich would create a revolving loan fund to retrofit government buildings with energy efficient technology.

Protection for consumers

Stevens recently co-sponsored legislation along with Sen. Dianne Feinstein, D-Calif., to decrease speculation in oil markets by restricting the role of institutional investors and limiting trading only to companies with actual energy-related assets. The Begich plan involves, "stopping Wall Street speculation of oil markets that is driving up oil prices."

Stevens also wants quicker timelines for lawsuits involving energy development. He wants to pass legislation requiring appellate courts to decide those cases in 90 days.

Begich wants to "Close tax loopholes for multinational oil companies" and use the extra revenue toward developing renewable resources. ●

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

continued from page 7

CONTRACTS

"empowered Enstar to obtain from the producers every favorable term mentioned" in the order rejecting that contract, the company said.

That did not occur, Enstar said, "because the producers are not legally obliged to accept contract terms that they view as inconsistent with current market realities." While many of the concerns raised about the Marathon contract are addressed in the new contracts, Enstar said, "The commercial reality that the Attorney General does not appear to understand is that the gas producers in Cook Inlet are not regulated by the RCA and they cannot be compelled to accept every contract term that Enstar demands or the Attorney General might desire."

Hosie testifies for Chugach

Chugach Electric brought in attorney Spencer Hosie who argued in pre-filed testimony that the issue is not whether Cook Inlet offers the best investment opportunities for companies holding oil and gas leases, but whether the gas can be sold for a price that makes production reasonably economic.

Hosie said the Enstar argument is that if the RCA does not approve the proposed contracts that the producers may not continue to invest in Cook Inlet and that they may shut-in some gas rather than sell to Enstar on other terms.

Those are "hollow threats," he said, because under their oil and gas leases the producers have "a duty to develop and market their gas."

"These obligations ensure that further development and exploration of Cook Inlet will continue even at current price levels," Hosie said.

Because of the relationship created in an oil and gas lease — "a type of 'cooperative venture,' where the landowner relies on the producers to develop the field and market the production for the benefit of both," producers aren't free to make development decisions based solely on their own interests, Hosie argued. "Instead, all decisions, including decisions to develop and invest capital, must be made with 'due regard' for the interests of the royalty owner, the landowner. In simple terms, while the producers need not treat the royalty owner any better than they treat themselves, they may not treat the royalty owner worse."

The landowner will always want the field developed "fully and promptly," he said. But the leaseholder may be short of capital or may see an opportunity to invest elsewhere and earn a better return.

In a filing in mid-May Enstar told the commission that the Attorney General's comments are based on a "fundamental misunderstanding of the commercial reality" Enstar faces "after the Attorney General successfully argued for the rejection" of the 2005 contract with Marathon.

But while these are legitimate reasons, "under the lease agreement, given the relationship of mutual benefit, the producer is no longer free to make these decisions based on what it alone wants," Hosie said.

Producers have an obligation to go forward if a project is "reasonably profitable," he said.

Hosie said the work the companies have put into earning an extension of their export license is proof that Cook Inlet natural gas is profitable.

The producers, through Enstar (neither ConocoPhillips nor Marathon are parties to the action before RCA), are not arguing that existing Cook Inlet prices are uneconomic, Hosie said. "Instead, MOC and COP simply assert, through Enstar, that they will take their development dollars elsewhere absent an increase in Cook Inlet prices." This is not a demand that the Cook Inlet gas business be made profitable, "but rather that it simply be made more profitable," Hosie said.

If the producers shut in Cook Inlet production or refused to develop fields, they "would be in breach of their lease obligations," he said.

"Contrary to the point made in Mr. Dubay's testimony, Cook Inlet producers are not free to take their development dollars elsewhere without restriction: That is exactly contrary to the fundamental bargain long-since made. Those producers have the obligation to go forward with any Cook Inlet production and development reasonably economic on its own terms," Hosie said.

Contracts cover shortfall

Dubay said in his prefiled testimony that the contracts cover expected shortfalls of 2.1 billion cubic feet in 2009 (of a total requirement of 32.3 bcf), growing to 10.7 bcf in 2013.

Enstar's first attempt to fill the shortfall, with the APL-5 contract it negotiated with Marathon, was rejected by the commission.

The new contracts provide a total of 37.8 bcf through 2013, completely satisfying Enstar's annual volume and deliverability needs in 2009 and 2010. The contracts provide volumes for 2011 through 2013, but not full deliverability. That, Dubay said, is expected to be met by new storage or peak-shaving facilities to be owned by Enstar.

The term is shorter than most of Enstar's contracts partly in response to criticism from the commission and the Department of Natural Resources that Cook Inlet utilities should have shorter gas supply contracts and also to bridge to Enstar's development of storage facilities and a small-diameter line from the Brooks Range foothills, which if it proves to be an economic project, could be delivering gas within about five years, Dubay said. (This was prior to the July 7 announcement of a line north from Cook Inlet to Fairbanks and possibly on to the Foothills; see story on page 1 of this issue.)

AG's office: Contract terms not fair, just or reasonable

Economist Cristina Klein, in pre-filed testimony for the Attorney General's Regulatory Affairs and Public Advocacy Section, said she concluded, after a review of the gas sales agreements, that: "The pricing and terms of the COP and MOC GSAs are not fair, just or reasonable."

Klein said Enstar passes its gas costs through to ratepayers, lessening "substantially" its incentive to negotiate for the lowest cost. Its bargaining power was lessened because it was "in imminent need of gas," only Marathon and ConocoPhillips responded to Enstar's request for proposals and "no other supplier would agree to be an unmet requirements provider for any year after 2008," she said. Klein also said the state's settlement on the LNG export license agreement noted that negotiations between Enstar, ConocoPhillips and Marathon were "subject to the willingness of the negotiating parties to act in a reasonable manner in light of market conditions."

There are only a few large sellers of natural gas in Cook Inlet, and in some cases Enstar's transactions have been with one seller. "I would describe such transactions as monopolistic," Klein said. "The single seller has substantial market power, particularly if it is selling a product that is necessary, rather than optional."

As for options, Klein noted that Enstar's LNG peak shaving plant plan indicates that due to Federal Energy Regulatory Commission and other regulatory requirements, "LNG importing facilities could not be in place and operational by the winter of 2011-2012."

Enstar's customers are also captive, she said, citing a 2008 estimate that it would cost a homeowner $15,000 to convert from natural gas to heating oil, which is less efficient and more costly than natural gas.

Klein said if the contracts are approved, some of the costs, such as "what seem to be particularly stringent 'take-or-pay' type fees" in the Marathon contract, should be absorbed by Enstar, rather than passed on to customers because "Enstar appears to have accepted a high level of risk that costs will be incurred under these provisions" in the contract.

Contracts are a whole

In comments Enstar said the Attorney General's comments on whether individual terms are just and reasonable is a "fundamental misconception." The company said it should not be required to prove that every individual contract term is just and reasonable, but rather that the contract as a whole is just and reasonable.

"The proper standard of review is that each contract must be judged as a whole, not picked apart term-by-term, as the Attorney General always tries to do."

Enstar said it was particularly disappointed by the Attorney General's criticism of Enstar's readiness to provide its own storage, given that the Attorney General opposed the 2005 contract and criticized Enstar at that time for not having its own storage facilities.

The 2005 contract, Enstar said, provided for its unmet requirements through 2016. "After the Attorney General succeeded in blocking APL-5 (the 2005 contract), no supplier was willing to step forward to fill the role of Enstar's Unmet Requirements supplier or to meet Enstar's peaking needs past the first quarter of 2011."

This was partly caused, Enstar asserted, by the rejection of the 2005 contract, under which Marathon would have made infrastructure requirements. Marathon did not make those investments after the contract was rejected. "Investment dollars presumably went elsewhere, valuable time was lost, and the burden of developing storage shifted to Enstar," the company said.

In response to comments by electric utilities (in addition to Chugach, Golden Valley, Homer Electric and Matanuska Electric also commented), Enstar said Chugach appears to be using Enstar's contract approval "to apply indirect pressure on the Cook Inlet producers in negotiating future gas supply contracts for electric power production. Enstar can ill-afford to have this critically important proceeding hijacked for this improper purpose."

The other electric utilities, Enstar said, appear to have relied on Chugach to negotiate for them, and Chugach now has "looming gas supply problems." ●

● LAND & LEASING

Porter: PTU owners, state should settle

Tells legislators Point Thomson owners lost on development plan, DNR would lose on decertifying wells and on trust issue

By KRISTEN NELSON
Petroleum News

There has been a lot of discussion about Point Thomson as the Alaska Legislature debates giving TransCanada Alaska a license under the Alaska Gasline Inducement Act.

Legislative Budget and Audit Committee consultant Steve Porter reviewed the issues for legislators July 9, calling Point Thomson a dilemma, and telling legislators the state should view it as a problem to be solved, not as a war to be won.

That's because winning that war could take 10 years, Porter said.

Point Thomson matters right now because it's been expected that natural gas from Point Thomson would be available as part of the gas committed at an initial open season for a North-Slope-to-market Alaska gas pipeline. Porter said a gas line without Point Thomson gas would be more expensive to shippers, from 50 cents to $1 more in the tariff based on information the state has provided. That means the wellhead value of the gas would drop, cutting into the state's revenues.

Porter said a gas line without Point Thomson gas would be more expensive to shippers, from 50 cents to $1 more in the tariff based on information the state has provided. That means the wellhead value of the gas would drop, cutting into the state's revenues.

What happened at Point Thomson, Porter said, was that tensions between the Department of Natural Resources, which manages the state's interest in units, and Point Thomson operator ExxonMobil, accelerated to the point that the director of DNR's Division of Oil and Gas rejected a plan of development for the unit because it didn't provide for timely development and informed the unit owners that the rejection was the basis for unit termination. The director also said that individual leases with certified wells must commence production by Oct. 1, 2009.

Porter said he absolutely agreed with the decision: the state figured they had to do that or they'd sit there forever waiting for the field to be developed.

Commissioner ups ante

The decision was appealed to the DNR commissioner, and after the failure of the Stranded Gas Development Act to produce a contract between the state and the gas owners to develop a gas pipeline, the commissioner terminated the unit and revoked certification of the Point Thomson wells.

FORREST CRANE

STEVE PORTER

The Point Thomson unit owners appealed.

Porter said a decision from Alaska Superior Court in May 2007 allowed the process to move forward but put DNR on notice that it had failed to follow its own statutes and regulations when it decertified the wells.

In late 2007 the court found DNR had broad authority to accept or reject plans of developments and the authority to terminate the unit, but not without a hearing to consider an appropriate remedy for rejecting the plan of development.

With regard to decertification of the wells, the court basically said, see our earlier comments.

Porter optimistic

Porter said he is optimistic that DNR and the Point Thomson unit owners will settle, the field will be developed and Point Thomson gas will be available for commitment in an open season.

He told legislators the Point Thomson unit owners should want to settle in order to have Point Thomson gas to commit to a North-Slope-to-market gas pipeline.

DNR should want to settle because if it doesn't, it would take 10 years to get back to where the unit is now, Porter said.

The Alaska Supreme Court should take about a year and a half to come to a conclusion, said Rep. Les Gara, D-Anchorage. Why 10 years?

Because, Porter said, termination of the unit, based on an unacceptable plan of development, is only the first legal issue.

The commissioner ruled it was bad policy to certify wells, Porter said, but the court said while it may be bad policy, the commissioner couldn't ignore the department's own regulations.

The second issue, the seven decertified wells, is not likely to go in the state's favor, based on what the court said last May.

On the first issue, DNR fulfilled the court's instruction to hold a hearing on alternatives to termination, Porter said. DNR has broad authority to accept or reject a plan of development, the court said, as long as it isn't arbitrary. That gives it a lot of clout in working with the unit operator to get them to move forward, he said.

Certified wells at issue

But certified wells are another issue. Well decertification wasn't in the decision by the director of the Division of Oil and Gas rejecting the 22nd plan of development and notifying ExxonMobil that that was grounds for termination; it only appeared in the decision by the commissioner of the Department of Natural Resources terminating the unit.

Porter said that while the court sided with DNR on the plan of development, it agreed with ExxonMobil on the certified wells; in essence, he said, the state got part and ExxonMobil got part. He said the court basically told DNR it would lose on the issue of certified wells.

The commissioner ruled it was bad policy to certify wells, Porter said, but the court said while it may be bad policy, the commissioner couldn't ignore the department's own regulations.

The other reason Porter thinks DNR should settle is in its decision rejecting a proposed 23rd plan of development — the unit owners' proposed remedy in the termination hearing.

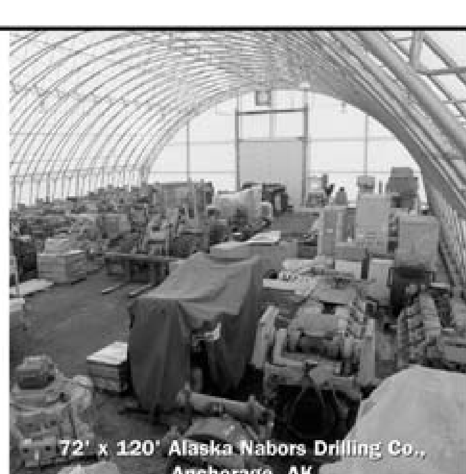
The unit owners didn't offer penalties because they have opted to accept penalties in the past rather than drill so they just said they would move to production with no options. DNR asked questions about adding penalties, and did suggest a court order that would terminate the unit for lack of performance, but that was rejected by DNR.

Porter said DNR needs to come to the table with the unit owners and solve the penalty problem. The only thing the record shows now is that DNR rejected the 23rd plan because it said it didn't trust ExxonMobil to carry through.

The courts won't let that stand because that would allow a sovereign to walk out on any contract because they don't trust the other party. He said you don't want that issue to go to court because he doesn't think DNR could win on it and the court could then hold against DNR on the unit termination issue.

Once court filings are complete DNR would have an opportunity to talk with ExxonMobil, Porter said.

Additional court battles over the decertification would be avoided, as well as a new best interest finding, a new lease sale, formation of a new unit and bringing everyone up to speed. With potential court challenges to the best interest finding, Porter said he thought 10 years to get back to where the state is today with Point Thomson is probably optimistic.●



FINANCE & ECONOMY

Oil rebounds as Iran tensions flare

Oil prices head up after quick slide; tensions in Middle East threaten to push prices higher; gas prices yet to fall with oil

By MADLEN READ
The Associated Press

Oil prices regained some ground on July 10 from their recent tumble of nearly $10 a barrel, as traders monitored escalating political tensions in the Middle East but also signs of slowing demand.

Crude, trading up $1.58 at $137.63 a barrel, appears to have reached another key level in its multi-year surge. Investors don't want to lose out on another move upward, but they are also seeing reasons — most notably, the flagging U.S. economy — to believe that oil might be peaking.

The delivered price of Alaska North Slope crude oil closed on July 9 at 135.35, one cent up from the day before.

"Here in the United States, airplanes are being grounded. Travel has definitely changed. People are looking at hybrids," said James Cordier, president of Tampa, Fla.-based trading firms Liberty Trading Group and OptionSellers.com.

> *"The contraction in demand is expected to be particularly marked in North America, given the weakness of the U.S. economy and high oil prices," the IEA said.*

"It's been about a three- or four-year bull market, and anyone who has called a peak in this market has ended up with a red face," he said. However, "it appears that demand destruction is at a level where we might have seen the high in oil prices."

The U.S. Energy Department reported July 9 that demand for gasoline over the four weeks that ended July 4 was 2.1 percent lower than a year earlier, at about 9.3 million barrels a day. The big factor behind the waning demand: U.S. roadside gasoline prices are well above $4 a gallon, on average.

Prices could head up again

Certainly, oil prices could regain momentum.

A day after Iran tested a missile capable of reaching Israel, OPEC's secretary general said July 10 that the oil producing group will not be able to replace any shortfalls if Iran is attacked and takes its crude supplies off the market. Iran has control over the Strait of Hormuz, a passageway that handles about 40 percent of the world's tanker traffic.

Meanwhile, attacks on Nigerian oil facilities could again disrupt supplies in that oil-rich region. On July 10, Nigeria's main militant group vowed to resume attacks because of Britain's recent pledge to back the government in the conflict there. Attacks by the Movement for the Emancipation of the Niger Delta over the past two years have already slashed the country's normal daily oil output by a quarter.

And there hasn't been a major hurricane yet this season to threaten oil facilities in the Gulf of Mexico. If a storm approaches in the coming months, prices could easily shoot higher — particularly for heating oil, which rose 10.24 cents to $3.954 a gallon in trading on July 10. It's one thing to cut back on driving; using less heat during the winter months is tougher.

But given the heightened tone of sabre-rattling between the Middle East and the United States and Israel, the move in oil has been fairly listless, analysts say — indicating shaky conviction, at least at this point, in the energy markets.

"If the market was really nervous about a confrontation between the U.S., Israel and Iran, we would be up substantially more," said Linda Rafield, senior oil analyst at Platts, the energy research arm of McGraw-Hill Cos. She said the modest rebound on July 10 appeared more technical in nature, and cited crude's recent pullback of nearly $10 a barrel as the main reason some traders were re-entering the market.

By early afternoon, light, sweet crude for August delivery rose $1.58 to $137.63 on the New York Mercantile Exchange. On July 9, prices had seesawed before settling a penny higher at $136.05, ending two days of sharp declines that left prices 6.4 percent below the record trading high of $145.85 a barrel on July 03.

Gas prices yet to drop

U.S. pump prices have yet to follow crude's recent retreat. The average roadside price for gasoline stands at $4.104 a gallon — just a hair below the record $4.108 hit on July 7, according to auto club AAA, the Oil Price Information Service and Wright Express.

It's very possible that oil prices will soar again to new records, but Rafield said it's more likely that they will consolidate at these levels — especially given that last week's record highs were achieved in weak, low volume conditions.

"I don't think we're going to imminently fall out of bed here. But I'm finding it difficult to justify prices at much higher levels," she said, pointing to weak U.S. economic data.

The International Energy Agency on July 10 slightly raised its forecast for global oil demand this year to 1 percent growth from 0.9 percent growth. But the Paris-based watchdog said that demand growth in developing countries is offsetting contracting demand in developed countries.

"The contraction in demand is expected to be particularly marked in North America, given the weakness of the U.S. economy and high oil prices," the IEA said.

In other Nymex trading, gasoline futures added 3.33 cents to $3.4141 a gallon. Natural gas futures rose by 19.1 cents to $12.197 per 1,000 cubic feet.

On the ICE Futures exchange in London, August Brent crude rose $1.37 to $137.95 a barrel. ●

● LAND & LEASING

MMS gauging interest in Cook Inlet sale

Federal OCS lease sales scheduled for 2009, 2011; agency will proceed if industry interested in Cook Inlet, Shelikof Strait areas

By KRISTEN NELSON
Petroleum News

Will the Minerals Management Service hold a Cook Inlet lease sale next year? It depends on responses MMS, a U.S. Department of the Interior agency, receives from a request for expressions of interest in an oil and gas lease sale in the Cook Inlet planning area.

"The Cook Inlet area is a proven oil and gas province, but past industry interest in the federal offshore area has been limited," MMS said in a July 8 Federal Register notice.

With declining Cook Inlet production, there is renewed interest in finding additional hydrocarbon resources for Southcentral Alaska, the agency said.

The request for information will determine whether there is industry interest focused on a few blocks, or if there is broader interest.

Comments are also sought from tribal, local, state and federal agencies and the general public to determine whether MMS should proceed with further evaluations under the Outer Continental Shelf Lands Act, the National Environmental Policy Act, the Endangered Species Act, the Coastal Zone Management Act and other applicable laws and regulations.

The agency said it would consider the level of industry interest as well as "other issues and concerns reflected in comments" as it determines how it will proceed.

Responses are due Oct. 6 and companies are asked to rank their areas of interest. "Company comments about specific levels of interest and/or specific areas of interest will be considered proprietary and confidential information, although the identities of those submitting nominations become a matter of public record," MMS said.

Companies interested in specific blocks should identify those; interest in a larger area should be explained "including a summary of the geologic and economic information about the larger area." The agency is also asking respondents to provide contact information and to be prepared to meet with the agency to discuss the company's level of interest.

If there is not sufficient industry interest this year, MMS said it would issue another request for information in 2009, and continue to do so yearly through the end of the 2012 lease sale program, or until a sale is held.

If there is sufficient industry interest the agency would proceed with the appropriate NEPA analysis.

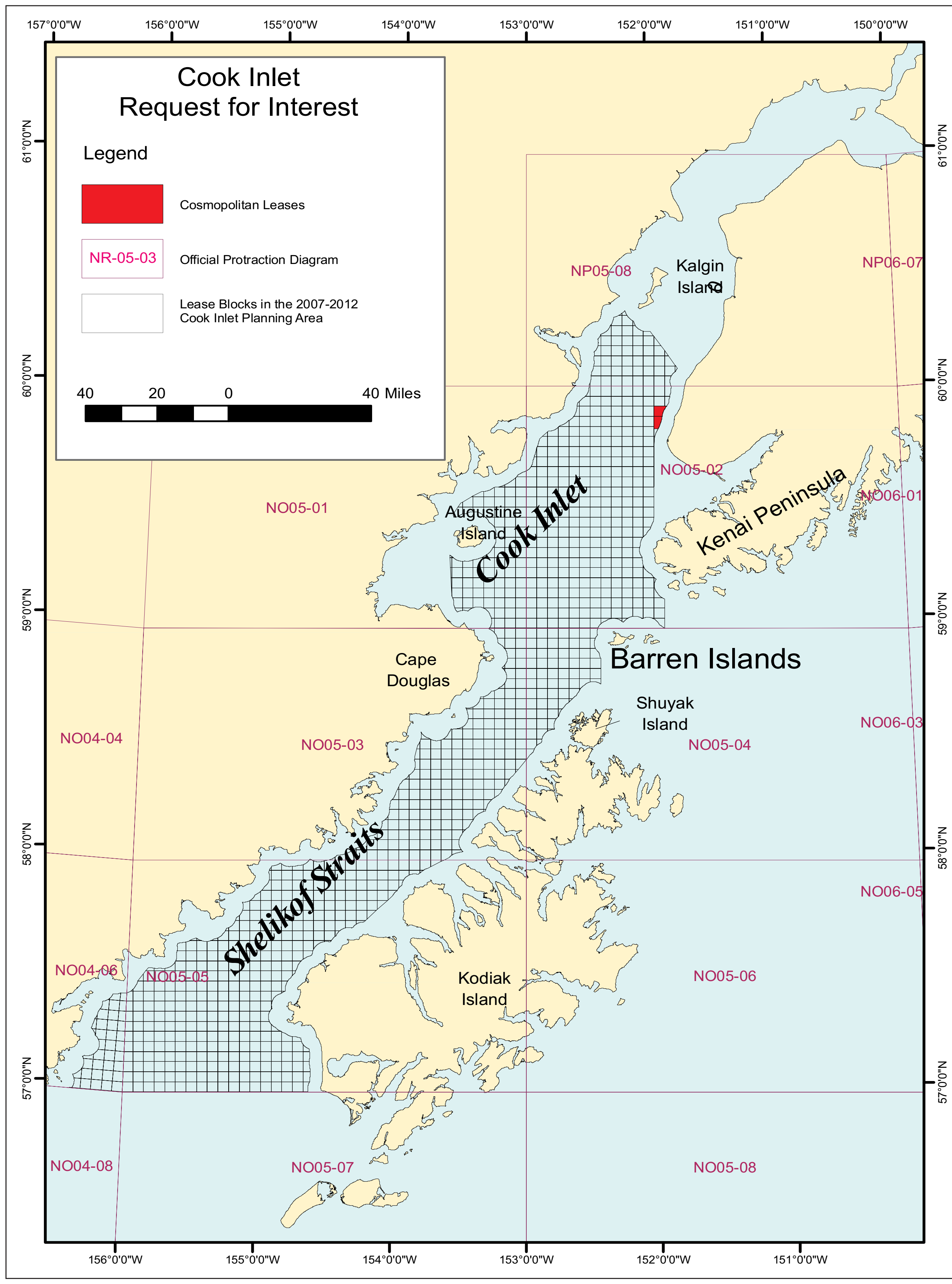
Federal sales held

Four federal lease sales have been held in the Cook Inlet planning area, beginning in 1977. The most recent scheduled sale, in 2004, drew no bids.

Thirteen exploration wells have been drilled on federal leases in Cook Inlet; all have been permanently plugged and abandoned. Two leases from a 1997 sale, part of the Cosmopolitan unit, are under suspension of operations; that unit is being developed from onshore.

In a 2006 update of an Alaska OCS Region report on undiscovered resources in the Alaska federal offshore, MMS estimated the mean undiscovered technically recoverable resources from the Cook Inlet planning area at 1.01 billion barrels of oil and 1.2 trillion cubic feet of gas.

The Cook Inlet federal area is offshore just south of Kalgin Island and the Barren Islands and continues south through Shelikof Strait to just above the southern tip of Kodiak Island. There are 1,093 whole and partial blocks covering some 2.1 million hectares (about 5.3 million acres). The area is offshore from three to approximately 60 nautical miles in water depths of about 30 feet to some 650 feet. ●



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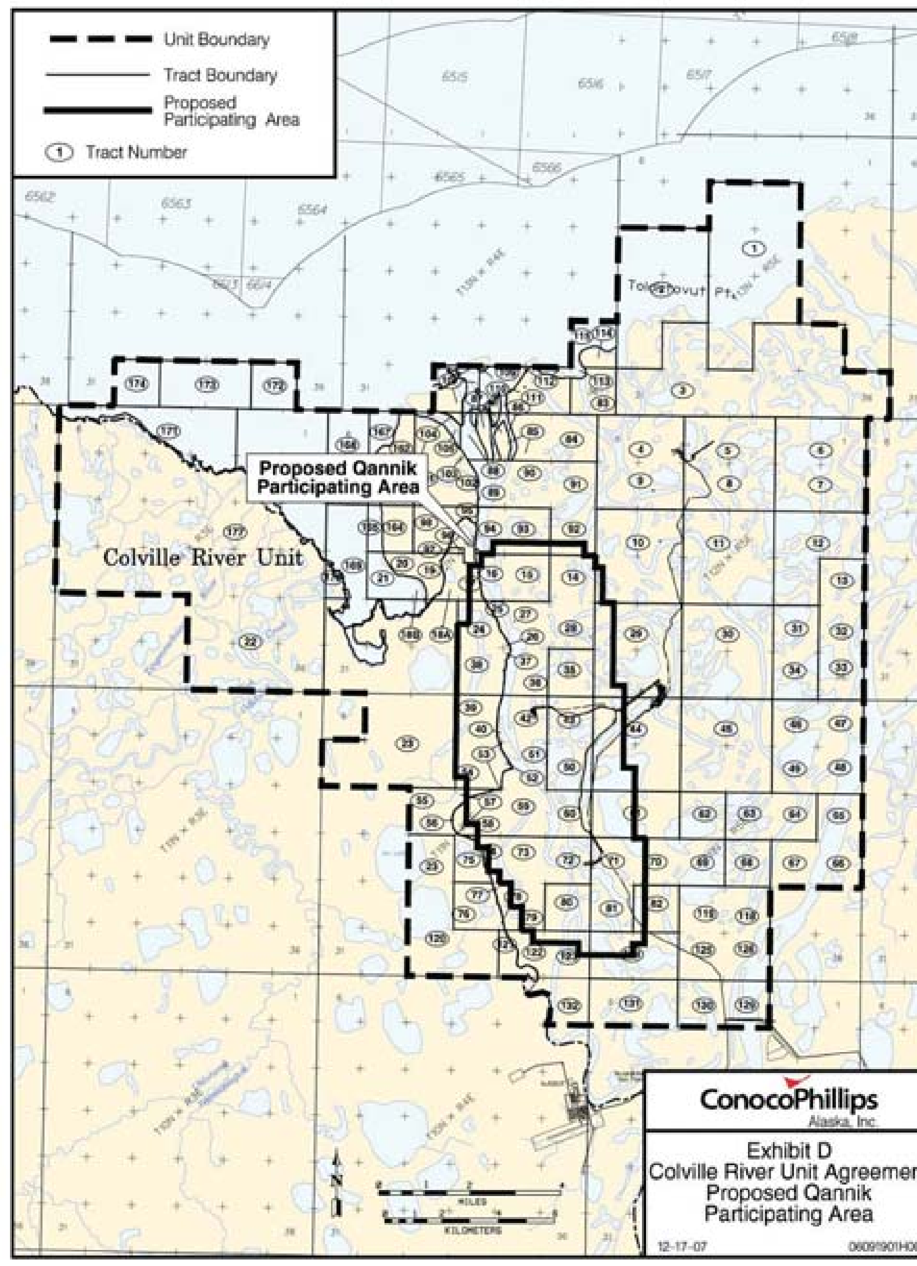


ALASKA DNR, DIVISION OF OIL & GAS

● EXPLORATION & PRODUCTION

All systems go for Qannik field

Alpine satellite operated by ConocoPhillips on Alaska's North Slope goes into production with one well two months before planned; development drilling program continues at CD2

By ALAN BAILEY
Petroleum News

Qannik, the newest Alpine satellite oil field in the Colville River unit on the western North Slope of Alaska, has started production, Natalie Knox Lowman, spokeswoman for unit operator ConocoPhillips, told Petroleum News July 9.

"I can confirm that Qannik came on line July 1, two months ahead of schedule," Lowman said.

Just one Qannik production well is flowing at this point, Lowman said. Initial production rates were unavailable for publication, but ConocoPhillips expects production to peak at 4,000 barrels per day in 2009, she said. Drilling of additional Qannik wells will continue to bring field production up to full speed, but there is no specific timeframe for which wells will be drilled when, Lowman said.

"The (Qannik) design, fabrication and construction involved about 200 people over the past two years and represents about $200 million in capital investment," Lowman said.

ConocoPhillips owns a 78 percent working interest in the field, with Anadarko Petroleum owning the other 22 percent working interest.

Nine wells

ConocoPhillips' initial plan for the field envisages a total of nine horizontal wells, including an exploration well drilled in 2006. Six wells will be producers and three will be water injectors: Horizontal well lengths will range from 6,000 to 9,000 feet. Drilling is taking place from the CD2 drill site, which ConocoPhillips has expanded by 7.5 acres as part of the Qannik field development.

According to Alaska Oil and Gas Conservation Commission records, ConocoPhillips has permitted three Qannik wells since the beginning of 2008. An initial development oil well was permitted in May and a water injection well was permitted in June. An additional development oil well was permitted on July 1.

Production from Qannik will be processed through the central processing facilities for the Alpine field, with the Qannik oil comingling with that from other producing Colville River unit oil pools for export to the trans-Alaska oil pipeline.

Sandstone reservoir

The Qannik oil pool overlies the Alpine, Nanuq and Fiord pools within the Colville River unit and occupies a 25-foot sandstone unit situated at 4,000 feet below sea level. Reservoir simulation has projected an ultimate recovery of 17 million barrels, with a range of 11 million to 25 million barrels. Qannik oil from a production test in the 2006 exploration well had an API gravity of 29.4 degrees, making the oil

see QANNIK page 13

ALTERNATIVE ENERGY

Alaska geothermal test going to Florida

Chena Power would use produced water to generate electricity in oil fields, similar process used on turbine outside Fairbanks

By ERIC LIDJI
Petroleum News

A geothermal project originally planned for Alaska's North Slope is heading to Florida.

The demonstration project will use heat from near-boiling water brought to the surface during regular oil production to power a generator and make electricity.

If ultimately proven feasible, the project could have implications across the oil patch by providing a cheap, available and sustainable source of power currently going to waste.

Chena Power, the innovative energy arm of the Chena Hot Springs Resort outside Fairbanks, is partnering on the project with the United Technologies Research Center and Quantum Resources Management. The $1.45 million project is being funded by the companies with a matching grant from the U.S. Department of Energy.

Originally planned for Alaska

Chena Power announced the project last year as a way to power oil production in Alaska, but couldn't get any North Slope producers to sign on to the project.

So instead, Chena Power will set up the project at the Jay oil field, a 13-square mile field in northwestern Florida and southern Alabama.

The field was discovered in 1970 and operated by ExxonMobil and ConocoPhillips until April 2007, when the companies sold the field to Quantum Resources. The field currently produces around 4,500 barrels of oil, 5 million to 7 million cubic feet of natural gas and around 120,000 barrels of extremely hot water, around 200 degrees, every day.

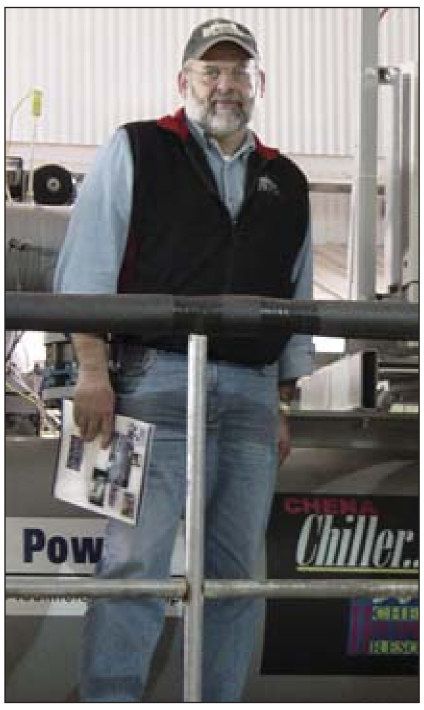
The demonstration project will use a binary process similar to the one powering the "Chena Chiller," the generator facility the company created to power its sub-Arctic resort.

Instead of heating the water to steam and using that to power a turbine, this binary process uses hot water to evaporate a second liquid with a lower boiling point than water. This second liquid, now a vapor, will in turn power a turbine used to generate electricity.

Chena Power hopes to generate around 200 kilowatts of electricity from the small demonstration project in Florida, but the company believes a full project taking advantage of all the hot water produced at the oil field could generate around 1 megawatt of power, or about 5 percent of the total electrical demand at the field.

Brought back to Alaska, the technology could dramatically offset the cost of making electricity from diesel fuel and natural gas.

Prudhoe Bay alone generates 1.2 million barrels of water every day, Bernie Karl, owner of the Chena Hot Springs Report, told Petroleum News in October 2007. ●



PETROLEUM NEWS FILE

Bernie Karl and the Chena Chiller

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QANNIK

somewhat heavier than that from the Alpine pool.

ConocoPhillips plans to use water injection supplemented by expansion of the field gas cap to maintain pressure support in the Qannik reservoir during production. The company has discounted the possibility of using miscible injectant for enhanced oil recovery, because of the potential for the injectant to migrate through the open annuli of CD2 Alpine wells that pass through the reservoir.

AOGCC and DOG approval

The Qannik startup came on the heels of two essential regulatory documents: the approval of Qannik pool rules by the Alaska Oil and Gas Conservation Commission (issued June 30) and approval of the Qannik participating area by Alaska's Division of Oil and Gas (issued July 1).

AOGCC agreed to a definition of the Qannik oil pool as the accumulation of hydrocarbons in the interval between the measured depths of 6,086 feet and 6,249 feet in the Colville River unit CD2-11 well. And according to the commission's order the oil occurs in a stratigraphic trap in fine-grained Cretaceous sandstone on an ancient marine shelf, age-equivalent to the Nanushuk Group of the central North Slope. Shales and siltstones of the Torok formation above and below the Qannik sandstone confine the oil within the pool.

The Qannik sandstone extends at least 12 miles north to south and about six miles east to west, AOGCC said.

And as part of the approved pool rules AOGCC has relaxed the conventional well spacing rules, to maximize production from the planned horizontal well configuration.

In its approval document the division said that both oil and gas occur in the Qannik reservoir, but no oil-water contact has been observed.

The Qannik participating area amounts to 18,114 acres and includes all or portions of four state leases and 16 leases held jointly by the state and the Arctic Slope Regional Corp., the Native regional corporation for the North Slope, the division said. Approximately 5,000 acres of the Qannik reservoir would be developed from drill site CD2, the division said. ●

LAND & LEASING

Congressional candidates to tour ANWR

As high oil and gasoline prices draw attention to domestic oil prospects, seven Republican congressional candidates will come to Alaska this week to tour North Slope oil resources, including the Arctic National Wildlife Refuge,

The candidates are all challenging incumbents from the U.S. House of Representatives, and come from Indiana, Pennsylvania, Wisconsin, South Dakota and Utah.

The tour is being arranged by Arctic Power, the lobbying group charged with promoting development of the coastal plain of ANWR, but is being paid for by the seven individual candidates.

From July 14 through July 17, the group will spend two days in Anchorage and two days in the Arctic meeting with Native leaders, oil field workers, political leaders and energy experts.

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The trip includes stops in Kaktovik, Prudhoe Bay, Barrow, Deadhorse and the 1002 area, as well as a teleconference with Anchorage Mayor and U.S. Senate candidate Mark Begich and meetings with other Alaska leaders.

The candidates are Jason Chaffetz, running against Bennion Spence in Utah's 3rd district; Luke Puckett, running against Jow Donnelly in Indiana's 2nd district; Craig Williams, running against Joe Sestak in Pennsylvania's 7th district; Paul Stark, running against Ron Kind in Wisconsin's 3rd district; Mike Sodrel, running against Baron Hill in Indiana's 9th district; Greg Goode, running against Brad Ellsworth in Indiana's 8th district and Chris Lien, running against Stephanie Herseth Sandlin for the South Dakota at large seat.

—PETROLEUM NEWS

NATURAL GAS

Former Alaska governor asks state to delay AGIA vote for three months-plus

Former Alaska Gov. Tony Knowles called on the current state administration and legislature to put gas pipeline discussions on hold in order to facilitate negotiations among the various parties looking to build the multibillion dollar construction project.

TONY KNOWLES

Speaking before a joint meeting of the Alaska Resource Development Council and the Alaska Support Industry Alliance, Knowles asked the executive branch and lawmakers to consider delaying a vote on the Alaska Gasline Inducement Act for three months or more in order to get the state, the producers and TransCanada to work out a deal.

"We don't have to restart anything. Let's start the negotiation now with all the parties. ... Nobody has to give up anything. Put it on hold, and let's see how serious the parties are. And I think that we will be pleasantly surprised with the output," Knowles said.

The state legislature recently completed a special session devoted to deciding whether or not to give TransCanada a license under AGIA. According to the law, those lawmakers must vote on the matter by Aug. 2.

In addition to failing to negotiate with the producers, Knowles criticized AGIA for offering a $500 million matching grant to its licensee, for preventing the state from helping another company and for requiring high rolled in rates.

Knowles served as governor of Alaska from 1994 to 2002. He ran again in 2006, but lost to current Gov. Sarah Palin, who has made the natural gas pipeline the centerpiece of her first term in office.

—ERIC LIDJI

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ARMSTRONG

Fork, the company told area landowners in February it expects the gas to be moved through Enstar Natural Gas Co. pipeline extensions from either Anchor Point or Happy Valley, the current end of the Kenai Kachemak Pipeline, which is about 10 miles from the North Fork 34-26 well. Enstar is considering building a spur line to take North Fork gas south to the community of Homer.

Armstrong is using Aurora Well Services AWS-1 workover rig, which was modified to handle the 9,100-foot target depth of the well and to make the rig run quieter, Teng told Petroleum News July 10.

"Quite a bit of engineering went into this rig. … It's the quietest drilling location I've ever worked at," he said.

In addition to modifying the rig, Armstrong did "a lot of berming" around the pad it built "to shield light and noise from residential dwellings in the area."

A good relationship with its neighbors is important to the company, Teng said.

"Our neighbors wanted as little disturbance as possible … so we went out of our way to make sure we didn't" disturb them, he said, noting that Armstrong is using local contractors.

"Drilling is going very smoothly," he said when asked how long it would take to complete drilling. "The crew is very proud of what they're doing. … I'd say it will take, plus or minus, another 30 days or so."

He was not willing to speculate how long it will take to test the well, which is being drilled into the Tyonek Sands that were proven productive more than 40 years ago by Standard Oil of California at the nearby North Fork Unit No. 41-35 well.

Testing will follow drilling, and how long it takes will depend on "a lot of factors, some unknowns," Teng said. "We won't be testing just one pay zone. We'll be testing a whole lot of pay zones so it will take longer."

What about oil?

According to a Petroleum News source, Armstrong has secured funding from its owners and investors to drill two wells at North Fork, taking both down past the 9,100-foot level into deeper zones with oil targets.

In documents filed with the State of Alaska the company did say drilling for oil might be part of its plans for the future.

Teng would not comment on whether Armstrong was looking at drilling a second well or whether the company would eventually drill deeper for oil.

"Right now our plans are to drill this one well to 9,100 feet. Depending on the results we'll decide what to do next. Tyonek is a gas target, we're not going down to where the oil might be at this point. But depending on how everything looks … anything's possible," he said.

Teng said the company has not submitted an oil spill contingency plan for approval with the Alaska Department of Environmental Conservation, which it would need to do to drill for oil.

"We need to see what we have first," he said.

Previously, the company was a successful explorer and developer on Alaska's North Slope, until it sold its assets to Eni Petroleum, (Armstrong bought leases in Cook Inlet in 2007, taking over as operator of the North Fork gas unit and nearby leases.) ●

OUR ARCTIC NEIGHBORS

COURTESY ROLLS-ROYCE

An artist's impression of a Moss CS50 MK II ice-class drilling rig for which Rolls-Royce will supply mooring equipment.

● OUR ARCTIC NEIGHBORS

Rolls-Royce expands Russian Arctic reach

Renowned multinational will supply mooring equipment for drilling rigs, construction of which has just begun at Vyborg shipyard

By SARAH HURST

For Petroleum News

Rolls-Royce has won a contract to supply mooring equipment for two ice-class drilling rigs to be operated in Russia's Shtokman natural gas field in the Barents Sea, the company said June 20. The contract value is about $19.8 million. The equipment is for Moss CS50 MK II drilling rigs and has been designed for operation down to minus 22 degrees Fahrenheit. The rigs will be operated by Gazflot, a wholly owned subsidiary of Russian state energy major Gazprom.

The mooring system has been designed to work safely through a redundant dynamic braking and control system, with an intuitive and interactive interface. The Rolls-Royce deck machinery facility in Brattvaag, Norway, will manufacture and deliver the equipment to Vyborg shipyard in Russia and Samsung Heavy Industry in Korea, which are jointly constructing the rigs.

"This is a breakthrough for Rolls-Royce and is in line with our strategy for developing deck machinery for Arctic areas," said Arne Tande, the company's vice president for offshore deck machinery.

Vyborg shipyard started construction of the first of the two drilling rigs in early July, heralding the occasion with a ceremony attended by high-ranking officials from Gazflot. "We have today made another important step towards the conquering of the Russian Arctic shelf and the subsequent development of it into a new oil and gas region," Gazflot head Yuri Shamalov said. Only the most modern, environmentally safe equipment will be used in the Shtokman project, he added. ●

Russia cuts taxes for Arctic exploration

Russia's State Duma approved tax cuts in early July for oil producers to encourage exploration and development, particularly for those working in Arctic regions. The new legislation creates exemptions from the mineral extraction tax for oil fields that are no more than 0.05 percent depleted. In the offshore Arctic, tax holidays would last 10 to 15 years or until total output reaches 35 million tons of oil (255.5 million barrels). Tax holidays for onshore fields in the Timan Pechora and Yamal Peninsula regions would last seven to 12 years or until total output reaches 15 million tons (109.5 million barrels).

Russian oil production has been falling this year, in contrast to previous years, when it rose steeply.

—SARAH HURST

StatoilHydro makes Barents gas discovery

Norway's StatoilHydro has found gas in the Ververis prospect in the Barents Sea, the company said July 4. The drilling in 1,138 feet of water was undertaken by the Polar Pioneer drilling rig. The well confirmed the existence of gas in mid-Jurassic sandstones. No gas-water contact was established and no formation leak-off test has been conducted, but extensive data acquisition and sampling have taken place, the company said.

"It is of course promising that we have discovered gas, but the drilling was performed in a relatively complex formation," said Bente Fotland from Statoil Hydro's Harstad office. "We therefore need to perform more analyses and evaluations in order to determine the resource potential of the discovery," he added.

Ververis is the first well in production license 395, which was awarded in the 19th licensing round in 2006. The licensees in production license 395 are StatoilHydro (operator, 50 percent), BG Norge AS (30 percent) and Petoro AS (20 percent).

—SARAH HURST

Russian shipyard lagging on drill rig

The Sevmash shipyard in Severodvinsk, a northwestern Russian city 22 miles from Arkhangelsk, needs to speed up work on the Prirazlomnaya drilling rig it is building for use in the Pechora Sea, the head of Gazprom subsidiary Sevmorneftegaz said in late June. Construction of the rig is seriously behind schedule, according to Alexander Mandel.

One of the main problems at the shipyard is a shortage of workers, Sevmash

see ARCTIC NEIGHBORS page 16

● EXPLORATION & PRODUCTION

BP and Savant looking at Badami restart

Major and independent would drill two wells over the next two years to avoid losing lands at the unit, hopefully restart field

By ERIC LIDJI & KAY CASHMAN
Petroleum News

Looking to possibly restart the long shut-in oil field, operator BP Exploration and an independent oil company are proposing to drill two wells in the Badami unit to avoid losing leases at the problematic North Slope field.

Pending state approval of the development plan, BP and Savant Alaska LLC will drill an exploration well at the unit due east of Prudhoe Bay by Sept. 30, 2009, or give up Badami leases outside the Badami Sands Participating Area and waive the right to appeal.

The companies also agreed to drill a development well at Badami by Sept. 30, 2010.

Savant Alaska is the local subsidiary of the Denver-based Savant Resources LLC. The company drilled an unsuccessful exploration well this winter at the offshore Kupcake prospect, located between Prudhoe Bay and Badami near BP's proposed Liberty project.

The drilling commitment is part of a revised seventh plan of development for Badami.

According to its proposed revised plan of development, Savant will fulfill the work commitments contained in the new development plan on behalf of BP.

Those commitments require Savant to complete drilling and seismic work by firm deadlines or risk giving parts of the Badami unit back to the state.

Following state approval of the revised plan of development, Savant will have 90 days to secure a drilling rig for the exploration program. Then, the company will have until the end of the year to take another look at seismic surveys from certain areas at Badami, Northwest Badami and Mikkelsen Bay to finalize a target for the exploration well.

Finally, Savant will have to drill the exploration well. Depending on the time of year Savant drills the wells, it will either use an ice island or an existing gravel pad at Badami.

BP originally submitted the plan of development on April 1, but the state rejected the filing, saying it lacked key pieces of information. BP continued working on the Badami development under an interim plan.

During April and May of this year, BP brought Savant on board and the two companies began "engineering studies, permitting and inspection activities" needed to restart the Badami plant. BP filed its revised plan of development on June 20.

In the revised plan, BP and Savant commit to showing the state a strategy for developing the Brookian reservoir at Badami by the end of the year. They also agreed to finish all engineering, permitting and inspection work related to restarting the Badami plant by the end of the year.

According to BP, restarting production through the plant could be expensive, as permitting the power plants at Badami will require a slate of new regulatory requirements from the Alaska Department of Environmental Conservation.

Pending approval from the state Department of Natural Resources, the revised plan of development would run from Aug. 15, 2008 to Nov. 15, 2010.

Hoping to hold on to prospective acreage around the proposed exploration well, BP is offering to give back 30 percent of the current Badami unit on Aug. 15, 2008, just two weeks past the tenth anniversary of first production at the unit.

Giving back the acreage by late summer would allow the state to include it in the next North Slope areawide lease sale, BP said in its proposed development plan.

Although Badami has been plagued by production problems from the beginning, the field helped clear a path for the development of other North Slope fields like Alpine and Tarn.

By drilling wells from a relatively small central pad rather than being dispersed across a large surface area, Badami pioneered a "small footprint" approach to North Slope development.

The unique structure of the Badami reservoir ultimately led to complications during development. Badami was the first producing oil field on the Slope that involved a purely stratigraphic trap, but because the reservoir consists of large numbers of relatively small sandstone compartments, oil production from the field dropped precipitously after initial startup.

BP expected the field to produce 30,000 to 35,000 barrels of oil per day.

But the first wells proved a disappointment.

Facing a low total production rate of 2,500 bpd, BP suspended production at Badami from February to May 1999.

BP suspended production again in 2003 after daily production dropped to 1,350 bpd and kept the field offline until 2005, when it planned to use horizontal drilling techniques to tap oil from the many reservoir compartments.

In September 2007 the field was taken off line once again due to low production rates. ●

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ARCTIC NEIGHBORS

head Nikolai Kalistratov responded. This is despite the fact that salaries for those working on the rig are among the highest at Sevmash, averaging 30,000 rubles ($1,277) per month. Another problem is that the technical specifications of the rig are constantly changing, Kalistratov said.

Construction of the Prirazlomnaya rig began at Sevmash in 1998, and Sevmorneftegaz became the operator of the project in 2002.

—SARAH HURST

Norwegian public weighs in on licensing

Norway's proposal for its 20th oil and gas licensing round, comprising 79 blocks or parts of blocks in the Norwegian Sea and the Barents Sea, was sent out for public consultation for the first time. The response from the public was extensive and positive and the government took the expressed views into account when making its decision, the ministry said June 27. In some blocks time limitations on seismic surveys were introduced and conditions relating to the environment and fisheries were strengthened.

"It is important to continue the development of our welfare society by maintaining opportunities to make new discoveries, activities and value creation on the Norwegian continental shelf," said Minister of Petroleum and Energy Terje Riis-Johansen. "The announcement is a balanced solution with emphasis on environmental and fisheries concerns," he added. The deadline for applications in the 20th round is Nov. 7.

At the same time, Norway's Petroleum Directorate announced it was scaling back seismic work in waters near the Lofoten Islands in the Arctic. Delays involving two seismic vessels caused the survey to start later than planned and the Petroleum Directorate declined to extend the duration of the program in order to avoid the fishing season in August.

—SARAH HURST

Yamal projects need foreign assistance

Russia's Gazprom is considering inviting foreign partners to join it in a project to build an LNG plant on the Yamal Peninsula, the company's CEO, Alexei Miller, told the London-based Financial Times in an interview June 26. The list of partners would include Shell, but "it is premature to speak about the final configuration of the project and the contribution of each partner," Miller added.

Foreign workers are also needed for onshore oil and gas fields on the Yamal Peninsula, Dmitri Zayakin, the head of the regional association of employers, said recently. There are already 19,917 foreigners working in oil and gas projects in the region, 86 percent of whom are involved in construction projects. In 2008 the number of foreigners working in Yamal will increase to 22,560 and in 2009 to almost 29,000, according to Zayakin.

—SARAH HURST

Alaska gets charter flights to Russia

Alaska welcomed a new Russian air carrier to state runways on July 7.

The inaugural flight of Vladivostok Air arrived at Ted Stevens Anchorage International Airport at 5:45 a.m. and left for Petropavlovsk-Kamchatsky at 7:45 a.m.

The new carrier will provide passenger charters connecting Russia and Alaska.

"It's a delight to welcome Vladivostok Air, a company with a 75-year history, to Alaska," said Kris Perry, director of the Governor's Office of International Trade. "After more than five years without direct air service to Russia, we Alaskans appreciate the important link this provides to both sides. This new service is great for Alaska."

Vladivostok Air has announced a two-month schedule of weekly charters between Anchorage and Petropavlovsk-Kamchatsky, with same-plane service on to Vladivostok.

—PETROLEUM NEWS

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BETTING

It could be the answer...

Although the plan is new and details remain sketchy, the state wants the pipeline to run from Cook Inlet to Fairbanks through Glennallen and Delta Junction in order to hit military installations and state leases on the way to the population center of the Interior.

Those new markets could mean a 30 to 50 percent increase over existing Southcentral demand, according to Bill Popp, president of the Anchorage Economic Development Corp. and formerly involved with oil and gas issues for the Kenai Peninsula Borough.

Numbers like those might even approach the demand of an industrial customer like the mothballed Agrium fertilizer plant in Nikiski or the liquefied natural gas plant in Kenai.

"In effect, you are adding a very significant volume of gas demand to the market," Popp said. "From a purely speculative point of view, this gets pretty interesting."

Popp said the previous solutions for offsetting dwindling Cook Inlet supplies always involved bringing northern gas to Southcentral. Flipping the direction, he said, creates a "horse race," where the winner will be the first company to explore and produce gas — whether in the Cook Inlet or another part of the state.

That scenario not only gives explorers across the road system equal access to the new pipeline and new markets, it also lifts an old burden from Cook Inlet producers, according to Kenai Peninsula Borough Mayor John Williams.

"There has been concern in the past that if we bring too much gas south from up north it probably would delay exploration for gas here," Williams said.

Williams believes a pipeline heading north out of Southcentral will "undoubtedly spur development in Cook Inlet."

...or it could be a stretch

Not everyone agrees, though.

At first glance, the concept is rather counterintuitive: How could more customers do anything but further strain the declining gas supply in the Cook Inlet?

"I can't quite understand the logic of shipping gas north out of Cook Inlet," said Dan Britton, president of Fairbanks Natural Gas, the only gas utility in Fairbanks. "The market in Fairbanks can't support that type of expense."

Fairbanks Natural Gas stands to gain or lose based on the outcome of the pipeline. After struggling to get a contract for gas from Cook Inlet, the company is now building a liquefaction plant on the North Slope to truck supplies down to Fairbanks.

This newly proposed pipeline could make that plant unneeded. At least theoretically, once the pipeline reached Fairbanks it would connect to the distribution grid Fairbanks Natural Gas has spent the past decade building through the city.

While Britton has not discussed the pipeline with either ANGDA or Enstar, he said he's skeptical of the basic assumption that demand from Fairbanks will spur development in the Cook Inlet.

Will the explorers explore?

The big question, and perhaps the only one that matters, is whether the explorers and producers in the Cook Inlet agree or disagree.

So far, neither the state, nor ANGDA, nor Enstar have specifically asked the largest gas producers in Cook Inlet whether the new residential and industrial demand along the proposed route would be enough to stimulate exploration.

And those companies — Chevron, ConocoPhillips and Marathon — seem reluctant to commit to multimillion-dollar drilling programs based on a press conference.

"As an operator in the Cook Inlet, Marathon has consistently invested in exploring for and developing new gas resources which meet the needs of our customers, while helping create a foundation for further economic development," Lee Warren with Marathon wrote to Petroleum News. "We will be reviewing the Governor's gas line proposal as more details become available."

ConocoPhillips spokeswoman Natalie Lowman pointed to the company's busy Cook Inlet drilling program this year, one of the busiest in decades for the company, but said the company couldn't speculate on future demand.

Chevron spokeswoman Roxanne Sinz said her company didn't know enough about the pipeline proposal to comment on it at this time.

Bargaining with a drill bit

In recent months, the state has successfully used exploration as a bargaining tool with the industry, and plans to continue with that strategy, according to Deputy Commissioner of Natural Resources Marty Rutherford.

To get state support for a federal extension of the export license for the Kenai LNG plant, ConocoPhillips and Marathon agreed to drill several development wells in legacy fields in Cook Inlet this summer. ConocoPhillips even decided to drill wells in the North Cook Inlet unit beyond the requirements of the state.

During those negotiations, the state told the companies that support for any further extensions would only come "in exchange for significant extra drilling commitments," according to Rutherford.

"And both companies have said they're very open to that," Rutherford said.

Chevron, the largest producer in the Cook Inlet, is also drilling new development wells this summer to get more gas from some of its most productive units.

What about the independents?

Those big companies are exploring in the oldest and most productive fields in the area.

But many believe the bulk of the undeveloped gas reserves in Cook Inlet sit along a set of long underground formations running diagonally through several offshore leases and units: the Corsair unit, the Kitchen unit and the Northern Lights prospect.

The North Cook Inlet unit on the northern end of the formation is among the most productive in Alaska, but other units to the southwest have remained underexplored for decades. Large and small companies have tried to develop those prospects for years, but failed for various reasons, including several years of low commodities prices.

Recent attempts have run up against a huge obstacle: the lack of drilling rigs.

Exploring these prospects in the waters of Cook Inlet requires a jack-up rig, and for decades companies have been unable to get one to Alaska.

Earlier this year, relative newcomer Pacific Energy Resource Ltd. out of California signed a three-year deal to bring one to Cook Inlet from the Caribbean. Not knowing if or when another jack-up might find its way to Alaska, Pacific Energy planned to use the rig to develop the Kitchen unit for Escopeta Oil and possibly the Northern Lights prospect for Renaissance Alaska.

But for several months, Pacific Energy has been fighting with the state to hold on to expired leases adjacent to, but outside the Corsair unit.

The company claims the leases are essential to making the field economic, but the state said the leases went too long without being developed, and therefore should be put back into the pool of acreage available at the next lease sale.

Pacific Energy has suggested it might not be able to justify bringing the jack-up rig to Alaska without those additional leases.

Even with the jack-up rig in Alaska and ready to drill, the timing could be tight. The three prospects would obviously have to use the rig consecutively. Exploring and developing the three prospects in time to commit to a pipeline by 2013 would be a quick turnaround.

Sights set on Glennallen

The state isn't putting all its chips on Cook Inlet.

By initially looking at a route running through Glennallen, the three parties hope and expect this new pipeline will spur development of the Copper River basin.

That prospect dates back at least 50 years to when Amoco drilled the unsuccessful Moose Creek No. 1 well in the area in the late 1950s and early 1960s. Copper Valley Machine Works drilled the Alicia No. 1 well in the area in 1983.

Efforts since 2004 have focused on Rutter and Wilbanks Corp., a Texas independent exploring on behalf of Anschutz Exploration and Pacific Energy on land owned by Ahtna Inc., a Native regional corporation with royalty rights on the project.

The company has drilled a well and several sidetracks over the years, but exploration attempts have been beset by poor tests, high-pressure rocks, large amounts of water in the reservoir and the recent failure to land a rig.

Still, the company knows it's sitting on gas.

"We've absolutely proven to have gas in that formation," Bill Rutter Jr. told Petroleum News in January. "It could be 100 bcf or it could be 300 bcf. It's definitely commercial."

Rutter Jr. expected to sell any gas his company developed to local utilities, or maybe build a small pipeline to Palmer. A pipeline already running through the area, though, would considerably broaden the market for Copper River gas, according to Rutherford.

"It's not the type of field that can support expensive transportation systems," Rutherford said about the Copper River basin. "But (a pipeline) will spur activity, just because it will be going right through the basin."

Nenana or the foothills

Although the state is focusing on its holdings in the Copper River basin, it insists this pipeline will be able to take advantage of other prospective basins.

One of the most talked about of those basins is on Doyon Ltd. land near Nenana, an area that could be accessed with a 40 to 60 mile spur line, according to Rutherford.

Another nearby prospect is in the Yukon Flats. The state is currently considering whether to issue an exploration license to a California company looking to drill in that area.

If all else fails, the pipeline will simply keep heading north until it finds a supply of gas.

For most of the year, Enstar has been promoting an effort to partner with Anadarko Petroleum, the company exploring for gas at Gubik in the foothills of the Brooks Range.

"We think that the Gubik field is still the best destination with regard to the reserves that we need," said Gene Dubay, chief operating officer for Continental Energy Systems, the parent company of Enstar. "There may be reserves in the Copper River or the Nenana basin that are picked up to add more reserves to this line, but ultimately we think that the line's end point will be at the foothills." ●

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NORTH

Inlet by 2013.

The new project touches the most troublesome energy issues facing the road system communities: the impending shortage of natural gas supplies in Southcentral, the rising cost of fuel in the Interior and the stranded natural gas reserves in the Cook Inlet.

For the past several years, ANGDA and Enstar have independently worked and reworked pipelines, spur lines and bullet lines designed to offset expected shortages in Anchorage by shipping gas from fields north of the Brooks Range.

FORREST CRANE

HAROLD HEINZE

Those plans were mutually exclusive, often at odds and occasionally contentious, but always involved a basic assumption: northern gas would come to the rescue.

The new pipeline partnership seems to flip all that.

Now, ANGDA and Enstar have suddenly agreed to work together.

And instead of bringing northern gas south they plan to take southern gas north, saying the proposed pipeline will spur natural gas development in the Cook Inlet, and that new supply of Cook Inlet gas can help fuel Fairbanks for a generation or more.

Phase one

Or not.

The pipeline as proposed by ANGDA and Enstar is very agile. It's designed to change directions — quite literally, it turns out — as circumstances in Alaska change.

Ideally, the partnership would spend the next two and a half years collecting field data and permitting a 450-mile pipeline running from Palmer to Glennallen, then up the Richardson Highway to Delta Junction and west to Fairbanks.

The partnership would also use that time to convince producers that demand along that route, which includes around 100,000 people and several energy intensive military installations, warrants a new wave of exploration to unlock long-stranded gas reserves in the Cook Inlet.

Construction on this "phase one" would begin in 2011, with the pipeline gearing up to ship around 460 million cubic feet of gas each day as early as 2013.

Phase two

Geologists, producers and policy makers generally agree that Cook Inlet still holds enough gas in its reservoirs to supply Alaskans for decades to come, possibly as much as 25 trillion cubic feet of recoverable reserves, according to a U.S. Department of Energy report from 2004.

But oil and gas exploration is always an uncertain business. Even with advances in seismic technology, dry holes are both common and costly. That DOE report also suggested the North Slope might be a cheaper solution than developing Cook Inlet.

If the proposed pipeline didn't spur Cook Inlet exploration, or if those efforts were ultimately neither fruitful nor timely, the partnership would start on "phase two."

Phase two means continuing the pipeline north from Fairbanks to gas fields in the foothills of the Brooks Range. Once there, sometime around 2014 and now nearly 800 miles from Anchorage, the flow of the pipeline would be reversed to send northern gas to Fairbanks and communities in Southcentral.

Anadarko is currently exploring for gas in the foothills of the Brooks Range, but has released only broad figures about the quantity of gas that might be sitting underground.

If the foothills ultimately turn out to be an unfeasible source, the partnership would keep building north until it hit the North Slope, around 900 miles of pipe from Anchorage, or twice as long as the original line from Cook Inlet to Fairbanks.

If the project does spur a successful round of Cook Inlet exploration and phase two isn't needed, the pipeline could eventually connect to either a TransCanada or Denali pipeline running from the North Slope to markets in the Lower 48 around 2020.

That would create a comprehensive pipeline network in Alaska, where any prospective gas sources along the road system — either in the Cook Inlet, the Copper River or Nenana basins, the Yukon Flats, the foothills of the Brooks Range or the North Slope — could all feed into one of the hungriest energy markets in the world: North America.

Proposal came together fast

As of late June, ANGDA and Enstar appeared to be at odds on the issue of in-state gas, both spending large amounts of money this summer on different pipeline projects.

Although the announcement on July 7 is the first public indication of any kind about the project, the state began considering a partnership during negotiations to extend the export license of the liquefied natural gas plant on the Kenai Peninsula, according to Deputy Resources Commissioner Marty Rutherford.

MARTY RUTHERFORD

The move only "meshed" within the last month, she said. ANGDA and Enstar came together to talk about the idea with the state only within the last two weeks, according to Scott Heyworth, chairman of the ANGDA board.

Gov. Sarah Palin said the state saw the potential for synergy among the three parties: Enstar brought decades of experience as a pipeline operator and builder in Alaska, ANGDA can marshal its status as a public corporation to secure financing for the multi-billion dollar project and the state could help to ensure low tariffs and transportation costs.

JUDY PATRICK

GOV. SARAH PALIN

The state might even be willing to pick up part of the tab if need be, Palin said.

"I believe that the sense of the populous is if it takes a contribution from the state through ANGDA to get more affordable sources of energy to our businesses, to our homes, I think the sense is that that is a positive thing, that is not a hardship for the state, especially in this time of surplus," Palin said.

All three parties acknowledged the plan is still short on details, but said the partnership is still only days old and the next few months would be devoted to answering the big questions: who will own the line, who will operate it and who will pay for it.

The goal is to answer those questions by the end of the year, and present any legislation and appropriation requests to state lawmakers during the next regular session.

Announcing the unformed plan now was preferable to the alternative, Palin said.

"And that would be just having the exclusive discussions without the public knowing that there is light at the end of the tunnel here," Palin said. "We have not lost sight of the need for an in-state gas line." ●

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

Business Spotlight

Cruz Construction, Inc.

COURTESY PHOTO

Jeff Miller, senior project manager

Cruz Construction is a general contractor experienced in remote exploration support and large-scale heavy civil projects. Its extensive logistical capabilities get the right people and equipment where they are needed. Cruz Construction has been designated a 10-year "first responder" for the Alaska Division of Emergency Services due to the company's ability to mobilize statewide on extremely short notice.

Jeff Miller graduated from Oregon State University (construction engineering management, business degree) and worked for Wilder Construction three years before joining the Cruz operation in 2004. Jeff and wife Monica have two daughters and a son; dad has great fun coaching their athletic teams. He also loves working and playing outdoors, and his frequent wintertime pratfalls provide great entertainment to bystanders.

—PAULA EASLEY

Opti Staffing Group

FORREST CRANE

Avonly Lokan, founder

Opti Staffing Group is the premier, full service personnel provider in the marketplace. It was founded on one principle alone: Individuals are the catalyst behind the success of any organizations goals and objectives, and therefore are the key asset that any organization possesses. Placing the individual at the center of focus for Opti Staffing Group's own objectives and its internal employees' career goals, maintaining this regarding the aspirations of the candidates it represents, and finding the right match between a client's organizational goals and the people it hires, has led to a higher rate of success than other personnel providers and embodies Opti Staffing Group's motto: "Our success is determined by your success!"

Founded by Avonly Lokan, a long time Anchorage resident along with her husband and daughter, this way of doing business has led to the expansion of this business model and its success rates in the Pacific Northwest and continues to challenge traditional thinking about staffing and the role individuals play within the employment arena.

—PAULA EASLEY

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

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

Petroleum news Oil Patch Bits

NAC re-introduces jet service to St. Mary's, Unalakleet

On June 27, Northern Air Cargo restarted jet service from Anchorage to St. Mary's and Unalakleet two and three times per week, respectively. NAC said its Boeing 737-200 all-cargo jet aircraft have a maximum freight load of 28,000 pounds. NAC is Alaska's oldest and largest all-cargo airline, the company said.

For more information visit www.nac.aero.

1000 gallon-per-minute bag filter at Rain for Rent

Rain for Rent is now carrying the BF-1000, the company said June 30. The 1000 gallon-per-minute bag filter allows for "high efficiency high flow filtration of many fluids like oil, water, and general process systems," the company said. Typically used at construction sites, refineries, petrochemical plants and general manufacturing facilities, the stainless steel BF-1000 is configured as a standalone unit or it can be "manifold to achieve higher flow rates."

For more information visit www.rainforrent.com.

Schlumberger acquires Extreme Engineering

Schlumberger said June 24 that it has acquired "the business of" Extreme Engineering Ltd., a Calgary-based supplier of unmanned measurement-while-drilling (MWD) systems from its founders and investors that include Shell Technology Ventures Fund 1 BV. Schlumberger executive Jean-Francois Poupeau said the "combination of Extreme XPulse and XEM technologies with Schlumberger PowerDrive rotary-steerable drilling systems will provide operators in North America and Canada with advanced technologies that can bring heightened efficiency to land operations where improved well performance must be enabled by cost-effective services."

He said during 2009 the company's geographical focus "will widen to expand deployment of Extreme (Engineering) technologies to regions outside North America."

For more information visit www.SLB.com.

Editor's note: The full versions of these news briefs will appear in the next edition of the Petroleum Directory magazine, which will be released in late 2008

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PARTNERS

was often due to some point of dispute.

Federal money for Parks route

After Enstar received a $2 million federal grant in 2005 to study the Parks Highway route, Alaska's Congressional delegation sent a letter to state transportation officials clarifying that the money should only go toward studying the Parks Highway.

"The Glennallen-Delta route isn't competing with the Parks Highway route," the letter read. "ANGDA is fully cooperating with Enstar, and the goal is to have feasibility and conceptual engineering work done on two options for spur pipelines to South Central."

Sen. Ted Stevens was one of the signatures on that letter, and some questioned the appropriation because Stevens' son Ben, the former state senator, sat on the board of directors for Semco Energy, the company that owned Enstar at the time.

In early 2007, the Alaska Public Offices Commission fined Ben Stevens $630 for failing to disclose compensation he received as a member of the Semco board.

The state put the Parks Highway project out to bid late last year.

DOE compares two routes

Between 2006 and 2007, the U.S. Department of Energy compared the two routes: a 320-mile spur line running from Wasilla to Fairbanks up the Parks Highway and a 280-mile spur line running from Palmer to Delta Junction through Glennallen.

A draft report released in September 2006 found "essentially no difference in the price of gas delivered to Cook Inlet via either the Fairbanks or Delta Spur options."

Enstar said it preferred the Parks Highway because it could piggyback on the busiest infrastructure corridor in the state. But ANGDA pointed to the legislative permission needed to pass through the state and federal parks along the highway.

ANGDA preferred the Glennallen route up to Delta Junction because it provided easy access for a future liquefied natural gas plant out of Valdez.

Transitions for both companies

As work progressed on the two routes, both companies went through major transitions.

Semco asked state regulators in early 2007 to approve a sale of Enstar to the Texas utility holding company Cap Rock Holding Corp., and got that approval by the end of the year.

The sale turned Enstar from a public company into a private one, although state regulators still maintained oversight of the utilities operations and activities in Alaska.

Meanwhile, ANGDA struggled through the whims of two different administrations, each with a different philosophy on how best to get a large natural gas pipeline built. With the tremendous focus on that pipeline over the past two years, ANGDA found itself forced to re-examine its role in the state or face becoming irrelevant.

The original voter initiative that created ANGDA in 2002 revolved around an "All Alaska project" or a gas pipeline running from the North Slope to an LNG facility in Valdez, but that effort lost some momentum during the Murkowski administration.

Following a meeting with Palin after her inauguration in late 2006, then ANGDA board Chairman Andy Warwick told Petroleum News that the Murkowski administration was "very cool" toward an all-Alaska gas pipeline project.

In the final days of the Murkowski administration, ANGDA made a new business plan to help refocus its efforts. In addition to its spur line, ANGDA began taking on projects related to propane and other value-added industries that could be created from a large stream of natural gas moving across the state. It also looked at aggregating the demand from utilities and preparing local companies for an in-state open season.

There has also been shifting personnel. In the fall of 2006, Tony Izzo resigned as president of Enstar after five and half years in charge of the company. Izzo recently signed a one-year consulting deal with ANGDA.

Accelerated efforts in 2008

Even with all the work ANGDA and Enstar put into their projects in the past, both companies seemed to be accelerating their efforts this year.

With the call for applications under the Alaska Gasline Inducement Act in late 2007, ANGDA unveiled two possible spur lines designed to fit with any pipeline project.

Around that same time, Enstar said a $700 million to $800 million spur line connecting Cook Inlet to Fairbanks and the Nenana Basin was still a viable option, even without an industrial anchor, and could be built in as little as four to five years.

During the regular legislative session in March, Enstar announced an expanded version of that project: a $3.3 billion bullet line running from Cook Inlet to the Gubik gas fields in the foothills of the Brooks Range. That project would need an industrial anchor and a large supply of natural gas.

ANGDA and Enstar both testified twice during the just-finished special session, updating lawmakers on the fieldwork going on this summer and the plans on the horizon.

Enstar planned to spend $6 million this year on engineering for the Parks Highway bullet line to Gubik, while ANGDA planned to spend as much as $2 million on a wetlands study of the route up the Glenn and Richardson Highways.

Enstar said it had the fastest plan for getting gas to Anchorage. And with a large industrial customer anchoring the end of the line, Enstar believed it could even make that gas affordable for residential customers.

ANGDA argued that the lowest price depended on connecting in-state gas to out-of-state markets, which is only possible through a spur line. ANGDA also said it could shave some construction time by pre-building its spur line.

As recently as late June, the companies seemed fairly at odds: ANGDA began looking for a contractor to study routes between the Gubik gas fields and Dalton Highway, covering the same potential corridor Enstar is currently examining.

State picks Richardson route

At least in regard to the route, the new partnership favors ANGDA. The state wants the pipeline to run up the Richardson Highway, rather than the shorter Parks Highway route, in order to hit state leases in the Copper River basin.

"We have a public interest in reaching the populations and the communities and the military and the industrial facilities along the Richardson Highway," Gov. Sarah Palin said on July 7. "In addition, as a resource owner in the Copper River Valley, the state has a significant interest in promoting the exploration and development of energy in that basin."

But while Enstar agreed to look at the Richardson, it said it would return to the Parks Highway if that ultimately proved to be the best route.

"We're going to do the right thing for the community. We're sitting here right now finalizing that decision before digging a trench," said Gene Dubay, chief operating officer for Continental Energy Systems, Enstar's parent company.

Depending on how the partnership shakes out, the pipeline could also mean a lot for Enstar. In addition to possibly solving the supply problem that motivated the company to look at spur lines and bullet lines in the first place, owning a piece of the pipeline would mean a larger asset base for a company with a fixed rate of return.

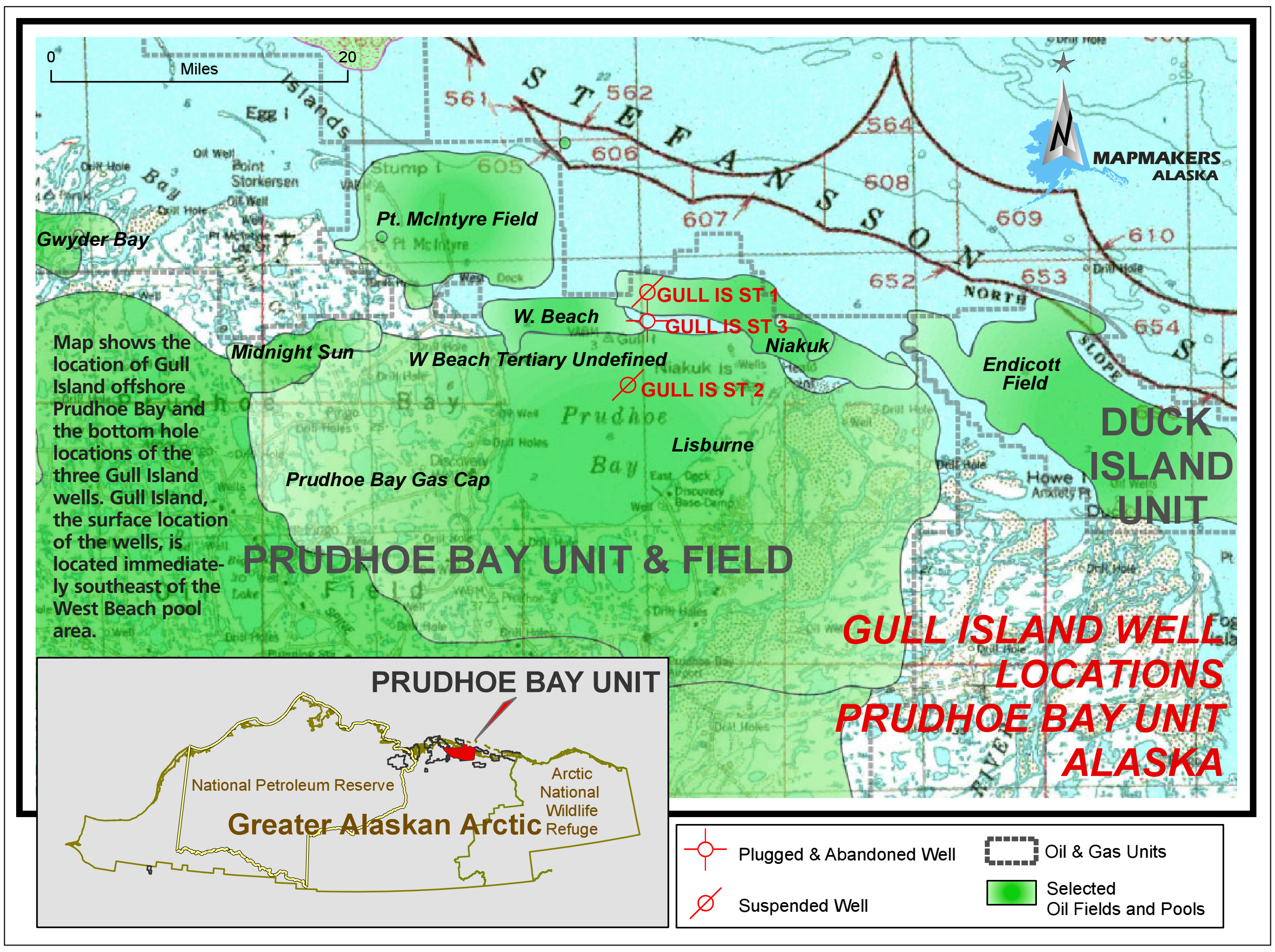
Enstar said it was prepared to build the line without help from the state.

"With the state's help, we believe that it's a slam dunk to get this line done," Dubay said.

ANGDA sees the partnership as the culmination of that voter initiative passed in 2002.

"This is the single biggest, boldest, most-positive thing that's ever been done to help the in-state gas," said Harold Heinze, chief executive officer of ANGDA.

—ERIC LIDJI



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GULL ISLAND

Williams' book included a description of the Gull Island field.

And, as oil prices started climbing in 2006, this time past $60 per barrel, Williams told a meeting of the Midwest Concerned Citizens group in Kansas City about how the fabulous Gull Island field could supply the United States with oil for 200 years. Gasoline prices could drop to just $1.50 per gallon if only the U.S. government and the oil companies were to open the spigots on the vast, undisclosed North Slope oil reserves, he said.

North Slope chaplain

Williams said that in the 1970s Alyeska Pipeline Service Co. had given him a position as chaplain for people working on the northern section of the trans-Alaska oil pipeline and the camp at Prudhoe Bay. He said that Alyeska became so pleased with his success in counseling workers that they gave him executive privileges on the North Slope, thus enabling him to sit in on board meetings held by company executives.

Williams said that in 1976 he stumbled across the discovery of a vast oil field penetrated by an exploration well drilled on Gull Island by ARCO. He said that at the time of the discovery he had attended the management meeting in ARCO's North Slope base camp, in which the "top eight oil company men of the world" had confirmed the find. But ARCO refused to make public the Gull Island discovery and the field has remained a closely guarded secret ever since, Williams said.

Williams outlined the field's characteristics in a second edition of the "The Energy Non-Crisis." The Gull Island field has a 1,200-foot thick pay zone and an area four times the size of the giant Prudhoe Bay field, he said. He said that three wells drilled from Gull Island had encountered the field, as did a well at East Dock. All wells drilled in an area extending 40 miles to the east of Gull Island had struck oil, thus demonstrating the huge areal extent of the field, he said.

And now, with oil prices moving through $130 per barrel, a flood of Internet chat has appeared on the subject of the supposed government and oil industry Gull Island secret — at the time of writing this article a Google search for "Gull Island" resulted in multiple pages of hits. Although some Web sites question Williams' claims, many seem to view the claims as evidence of government manipulation of the price of oil and a cover-up of the real status of world oil reserves.

"The public needs to demand the opening of the Gull Island oil field," appears as a call in some sites.

And Petroleum News has heard of congressional staffers in Washington, D.C., asking questions about the truth behind the Gull Island story.

One Internet site quotes an official in Alaska's Division of Oil and Gas expressing concern that Gull Island might explode because of excessive amounts of underground oil, thus causing an environmental disaster (hint: the url for the Web site begins with the word "sirsatire").

Three wells

So what are the facts concerning oil drilling at Gull Island?

There have been three wells drilled from the island. And, although these wells were tight at the time of the drilling, the data from the wells are now in the public record. Williams' supposed Gull Island field discovery presumably relates to the Gull Island State No. 1 well, completed and suspended by ARCO in 1976.

In a response to Rep. Stump's 1981 letter AOGCC Commissioner Harry Kugler set the record straight on the two Gull Island wells that had been drilled at that time (Gull Island State No. 3 wasn't drilled until 1992). The Gull

see **GULL ISLAND** *page 23*

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NAFTA

NAFTA exemption, can curtail its energy exports. Under existing rule, Canada has largely unfettered access to U.S. markets, but NAFTA terms prevent either Canada or the U.S. from lowering the proportion of their energy exports to the other relative to the "total supply" of the exporting country during the prior 36-month period.

That "total supply" covers shipments to both domestic and foreign users.

Oil sands a new element

In pure dollar terms the deal has handsomely benefited Canadian and provincial governments and producing companies to the tune of billions of dollars — C$90 billion in export revenues alone last year.

What wasn't a factor 20 years ago, but is now a vital element of North American energy security is the rise of the oil sands, currently at about 1.5 million barrels per day and expected to add 2 million bpd by 2015.

But the Canadian industry is increasingly troubled by the prospect of these volumes of heavy oil and bitumen flooding U.S. refineries to the point where they can only be sold at heavily discounted prices.

To buy insurance and keep the market competitive, more producers — including oil sands heavyweight Suncor Energy — want to open routes to Asia, notably China, Japan, Korea and Taiwan.

What stands in the way is that NAFTA, assuming Canadian consumption remains fairly constant, prevents exports to any country other than the U.S. under the proportionality maintenance obligation.

It is the price Canada has paid for its concern 20 years ago that the U.S. pursuit of energy self sufficiency could limit Canadian energy shipments across the 49th parallel while the U.S. stimulated its own production.

J. Michael Robinson, an adjunct professor of law at two Ontario universities, believes the "prospect of the U.S. walking from NAFTA and watching China and others scoop Canada's energy exports is slim to nil."

Energy, he said, is the "ace in the hole for Canada and we should not agree to maintaining this commitment without major concessions elsewhere. Canadian industry would probably support removing the commitment, so that it can sell energy unrestricted to the highest bidder."

Former Canadian deputy Prime Minister John Manley said the rhetoric from U.S. Sen. Barack Obama, D-Ill., about NAFTA, echoed by U.S. Sen. Hillary Clinton, D-N.Y., ignores the obvious energy benefits to the U.S.

He said that if renegotiation of NAFTA is proposed by the next administration in Washington Canada should make the point that during times of possible energy shortages "we may prefer the flexibility to look to Canadian requirements first, before satisfying the insatiable appetite for energy" in the U.S.

Manley suggested that if illegal immigration across the US-Mexico border is at the root of Washington's free-trade concerns, Canada and the U.S. may see an opportunity to de-link Mexico from the pact and return to the bi-lateral FTA.

"The U.S. and Canadian economies are much bigger, so let's get on with the work of making our economies strong and competitive in a renewed Canada-US agreement," he said.

"After all, we have the natural resources you want and need, while you have the market that is important to us, so let's make a deal," he said.

NAFTA reopening worries Mexico; cancellation seen likely

The prospect of NAFTA being reopened for whatever reason sends a shiver through Mexico, where former president Carols Salina, one of the architects of NAFTA, sees an inevitable outcome.

"We need to change the perception that it would be good to renegotiate (NAFTA)," he said. "Any reopened negotiation would lead to its cancellation," because a "Pandora's box" of special interests would all want the deal changed in their favor.

David Wilkins, the U.S. ambassador to Canada, said U.S. election talk should be taken with a grain of salt, suggesting that "rhetoric on the campaign trail is not the policy that you adopt when you are the leader."

"I believe, when all is said and done, whoever is president, he or she will understand the full benefits of NAFTA and understand that you can't unilaterally renegotiate a trade agreement — and that they will support it and it will not be changed."

Wilkins, appointed to his job by President George W. Bush, gave a nod of approval to Prime Minister Stephen Harper's decision to play the energy card in warning future U.S. leaders against putting NAFTA back on the table

Harper issued a blunt warning that U.S. dependence on Canadian oil gives Canada a strong trade bargaining hand.

"We are a secure, stable energy supplier," he said. "That is of critical importance to the future of the United States."

If Canada is forced into a new round of NAFTA talks "we'll be in an even stronger position than we were 20 years ago. And we'll be in a stronger position in the future."

Bush has also noted that Canada and Mexico are reliable suppliers of oil at a time when the U.S. is paying the price for not stepping up exploration.

He argued that those "who say get rid of NAFTA as a throwaway political line" are playing with fire because dumping the agreement would cost the U.S. even more jobs and investment.

—GARY PARK

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GULL ISLAND

Island No. 1 well tested 1,144 barrels of oil per day in "the equivalent of the North Prudhoe Bay (Permo-Triassic) reservoir," while the Gull Island No. 2 well tested 2,971 barrels of oil per day from the Lisburne, Kugler said.

"We do not believe the evidence from these two wells indicates a massive new oil find," Kugler said. "Additional wells will have to be drilled and additional studies made before the economic feasibility of developing these known reservoirs is determined."

Geologist Peter Barker didn't sit in on senior oil company executive board meetings, but he did sit the Gull Island No. 1 well in 1976 ("sitting a well" is geologist speak for monitoring and interpreting the geologic evidence from a well while the well is being drilled). The objective of the Gull Island drilling was to test a deep structure on the north side of a geologic fault, to the north of the Prudhoe Bay field, Barker told Petroleum News July 7. The drilling proved disappointing, he said.

"There was an (oil and gas) trap there but there wasn't an economic quantity of oil," he said.

However, the drilling team did recover a beautiful core sample from the Ivishak formation, the main reservoir rock in the Prudhoe Bay field. Because Gull Island is closer to the inferred source of the sand that constitutes the Ivishak sandstone, the sandstone is coarser grained at Gull Island than in the Prudhoe Bay field, Barker said.

Barker said that the drilling results were extremely confidential at the time of drilling — the critical data display instrumentation was even covered, to prevent unauthorized viewing of data. "We ran it as a very tight hole," he said. "… There was no information that got out of there."

In fact, the electric well logs were taken off the North Slope in a very secure manner and were unlikely to have even been seen in ARCO's North Slope camp, Barker said.

Long-time Alaska geologist David Hite also sat the well briefly and told Petroleum News that only ARCO personnel were allowed on the rig and rig floor. If necessary, one expert from the mud logging company was allowed to come in to troubleshoot the mud logging, Hite said. And Barker recalls the expert having to determine, without being allowed to see the instrumentation, why the gas detectors failed to signal gas as the well penetrated the Sag River formation, the uppermost reservoir rock at Prudhoe Bay. It turned out that mud from the well had formed a dam, blocking new mud from reaching the detectors, Barker said.

Ken Bird, a U.S. Geological Survey geologist and an expert on North Slope geology, provided Petroleum News with some geologic perspective on the Gull Island drilling.

"Three directional wells have been drilled from Gull Island in Prudhoe Bay to different subsurface targets, all of which tested different geologic 'prospects' in and beyond the northern boundary of the earlier discovered Prudhoe Bay oil and gas accumulation," Bird said.

The Gull Island State No. 1 well drilled a faulted block of rock known as a horst and recovered oil from a very thin, 9-foot-thick interval at the base of the Shublik formation, Bird said. Gull Island State No. 2, completed in 1977, was deviated to the southeast to delineate the gas cap of the previously discovered Prudhoe Bay field and the underlying Lisburne oil pool, he said. The Gull Island State No. 3 well drilled in 1992 targeted a Cretaceous horizon in an area between the two older wells but proved to be a dry hole, Bird said.

Since 1980 at least four oil pools, the West Beach, Niakuk, Point McIntyre and North Prudhoe pools, as well as Prudhoe Bay satellites, have been delineated and developed in the area immediately around the Gull Island wells, Bird said. The four pools in the immediate Gull Island area are all currently in production: According to Alaska's Division of Oil and Gas 2007 annual report, Point McIntyre had a cumulative production of 395.6 million barrels of oil at the end of 2006, with 164 million barrels of remaining reserves. The other three pools are much smaller than Point McIntyre.

"Both the geologic evidence and the small area not yet developed into oil fields around the Gull Island wells preclude the possibility of a giant oil accumulation," Bird said.

But the Gull Island legend seems to persist. And just to cap it all, used versions of Williams' book "The Non-Energy Crisis" have appeared on Amazon.com as collector's items — on July 7 three copies were listed with prices ranging from $1,299 to $1,499.

Maybe there's money to be made from Gull Island after all.

—ALAN BAILEY