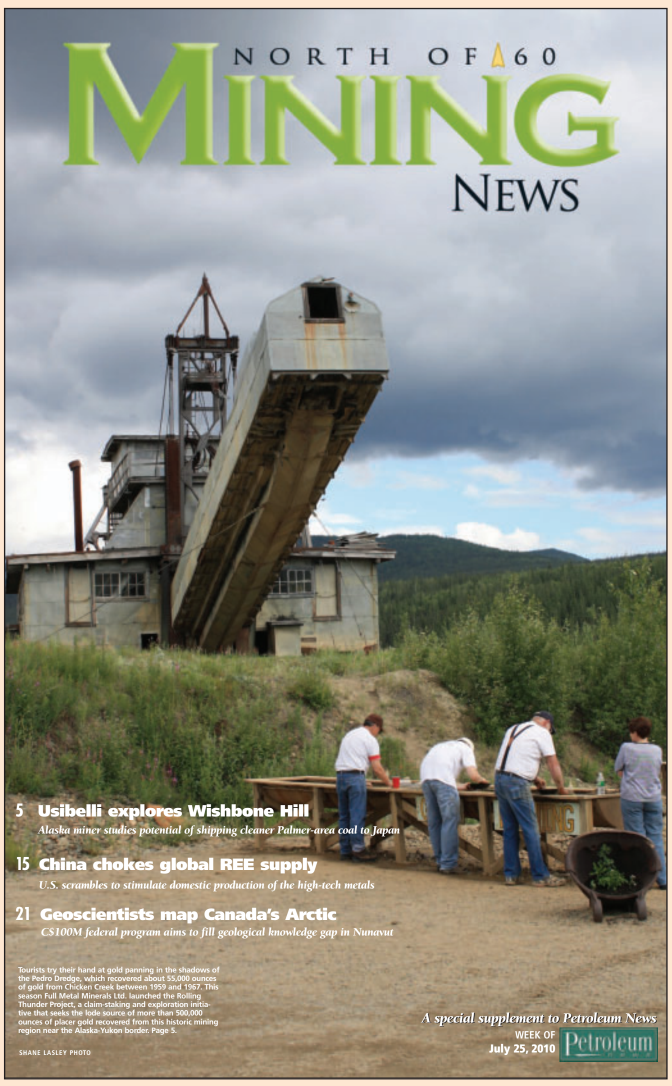
Petroleum news

page 3 Battle for hearts and minds over Alberta's oil sands gathers steam

Vol. 15, No. 30 • www.PetroleumNews.com | *A weekly oil & gas newspaper based in Anchorage, Alaska* | Week of July 25, 2010 • $2

July Mining News inside



The July issue of North of 60 Mining News is enclosed

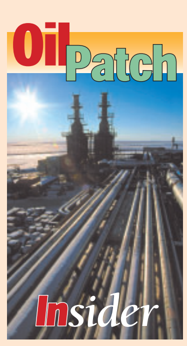
Apache acquires BP's Western Canada natural gas operations in Alberta, British Columbia

By rounding up embattled BP's natural gas operations in Western Canada, Apache has strengthened its role as one of Canada's largest gas producers at a time when it is at the forefront of plans to open up markets in Asia for gas from British Columbia and Alberta.

The big Houston-based independent will pay US$3.25 billion for the Canadian properties, which are concentrated in the Montney and unconventional gas plays of Alberta and northeastern British Columbia, boosting its overall Canadian output by 13 percent and its gas by 66 percent.

see **APACHE DEAL** *page 18*

TAPS a Gulf spill in making? Cade, Donkel hire former Exxon exec



BP OWNS THE LARGEST SHARE of the trans-Alaska oil pipeline. BP officials have often held top positions at Alyeska Pipeline Service Co., which operates the 800-mile pipeline. BP is facing increasing scrutiny for the way it manages its infrastructure and facilities. Therefore …

That "therefore" came up during a recent hearing before a U.S. House of Representatives subcommittee, one of three on the topic of "The Safety of Hazardous Liquid Pipelines."

The July 15 hearing before the Subcommittee on

see **INSIDER** *page 20*

LAND & LEASING

Chukchi Sea on hold

Federal judge bars lease activity pending lease sale EIS partial rework

By ALAN BAILEY
Petroleum News

A judge in the U.S. District Court for Alaska has put a hold on activities stemming from the 2008 U.S. Minerals Management Service Chukchi Sea lease sale in which oil companies paid out $2.6 billion in bonus bids. Shell and ConocoPhillips plan to drill in the Chukchi Sea in leases purchased in the sale.

The court order came on July 21 as a consequence of a January 2008 appeal against the lease sale by the Native Village of Point Hope, the Inupiat Community of the Arctic Slope and 12 environmental organizations. In the order Judge Ralph Beistline said that MMS had acted in an arbitrary manner in preparing the environmental impact statement for the lease sale by not considering the potential environmental impact of offshore natural gas development (as distinct from oil development), by not determining whether environmental information missing from the EIS was relevant or essential for consideration and by failing to present an assessment of the cost or difficulty of obtaining the missing information.

> *"We are still analyzing the potential impact of the ruling and how it might impact our 2010 planned operations as well as our aspirations to drill in 2011."*
> **—Shell spokesman Curtis Smith**

see **COURT ORDER** *page 24*

FINANCE & ECONOMY

BP retains Prudhoe Bay

Company's $7B deal with Apache Corp. doesn't include any Alaska properties

By WESLEY LOY
For Petroleum News

A purported deal whereby troubled BP would sell perhaps half its stake in Alaska's huge Prudhoe Bay oil field to Apache Corp. apparently has crumbled.

The two firms did announce a major transaction on July 20, but none of the properties involved are in Alaska.

The idea that BP would sell part of Prudhoe had been the subject of more than a week of trans-Atlantic media hype, starting with a July 11 article in the Sunday Times of London, where BP is based.

According to news reports based on unnamed sources, BP was to sell Alaska assets for up to $12 billion, with the proceeds to cover the huge liabilities BP faces for the Deepwater Horizon catastrophe in the Gulf of Mexico.

In the end, BP and Apache announced a $7 billion deal in which Houston-based Apache will pick up BP's Permian basin assets in west Texas and southeastern New Mexico, its western Canada upstream gas assets, and business and exploration concessions in Egypt.

Company statements

The deal followed BP's announcement in June that it planned up to $10 billion in divestments to raise cash for the company.

see **BP PROPERTIES** *page 22*

EXPLORATION & PRODUCTION

Still in the Kitchen

DO&G gives Escopeta another chance to drill a well at Kitchen Lights

By ERIC LIDJI
For Petroleum News

A laska officials are giving Escopeta one more chance at the Kitchen Lights unit.

DANNY DAVIS

In a decision released July 19, the Division of Oil and Gas chose to put the offshore Cook Inlet unit in default, rather than terminate it. Unit operator Escopeta failed to meet two work commitments it agreed to in 2009 after meeting several previous commitments.

The state gave Escopeta three tasks to complete in order to keep Kitchen Lights.

First, the Houston-based independent must give the state a $4 million security deposit in the next 90 days. The deposit represents the estimated final payment Escopeta would need to make in order to mobilize a jack-up rig on a heavy lift vessel bound for Alaska.

The state would return that deposit in time for Escopeta to make that payment.

Second, Escopeta must have that rig headed to Alaska by the end of February. Third, the company must drill an exploration well at Kitchen Lights by the end of September 2011.

If Escopeta fails any of those tasks, the unit would automatically terminate.

Under a plan of exploration for Kitchen Lights approved in early 2009, Escopeta agreed to have

see **KITCHEN LIGHTS** *page 23*

contents

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● EXPLORATION & PRODUCTION

Waging a war of words

Alberta, Canadian industry locked in combat with environmentalists over oil sands impact; Corporate Ethics backpedals on one claim

By GARY PARK
For Petroleum News

It's turning into a battle for hearts and minds that has no parallel in the history of Canada's petroleum industry and is overshadowed on a global scale only by BP's tattered and bruised image.

The end prize is the future of developing and marketing production from the Alberta bitumen deposits, generating billions of dollars in government revenues and thousands of jobs.

Exploitation of the vast oil sands resource in the remote, muskeg regions of northern Alberta went commercial in 1969 and gathered momentum against only occasional grumbles from First Nations and environmentalists. But that turned into worldwide notoriety in the least likely manner two years ago.

The discovery of 1,600 dead ducks in a tailings pond at the Syncrude Canada plant and the subsequent court ruling in June that found the oil sands consortium guilty of two environmental charges has become a landmark judgment that has smeared the industry's gains in lowering greenhouse gas emissions, reducing water consumption and restoring land scarred by open pit mining.

The final penalties to be imposed on Syncrude won't be known for some time as the court wrangling continues, but the court's option of imposing a maximum fine per duck could run to C$500 million.

Ponds could become illegal

More serious still is the prospect that all provincially licensed tailings ponds — an essential component of mining operations — could be made illegal, which a Syncrude spokeswoman warned carries "serious ramifications for Canada's mining industry."

The case has spawned an all-fronts attack on the oil sands business, with attempts by U.S. environmental groups and state governments to boycott imports of crude derived from the oil sands, forcing the Alberta government to mount a counterattack.

The latest assault comes from Corporate Ethics International, a San Francisco-based group that has set up billboards in Denver, Portland, Seattle and Minneapolis, labeling Alberta as one of the "world's dirtiest destinations" for travelers, rating the "tar sands" as "much worse" than the Macondo spill in the Gulf of Mexico.

"There is another oil disaster going on in Alberta every day and as more Americans become aware of it we believe they'll be less willing to support the province with their tourist dollars," said Michael Marx, executive director of Corporate Ethics, in a news release.

A video posted on YouTube juxtaposed scenes from the Canadian Rockies with images of dead ducks at Syncrude and claimed that "3 million gallons of toxic water leaks from these (tailings) ponds into nearby water systems and rivers every day" destroying a boreal forest the size of Michigan.

CAPP: Distorted claims

A spokesman for the Canadian Association of Petroleum Producers, said the campaign distorts claims that the area being strip mined in Alberta is double that of the United Kingdom when the area is smaller than that of most U.S. cities.


ED STELMACH

He urged Americans to visit Alberta and see for themselves the industry's cleanup efforts.

But, as fast as the industry and Alberta government try to keep pace with the crusade, Corporate Ethics is poised to start spreading its message in Europe, even though the group has admitted its ads contain inaccurate information.

In a rare public concession, Corporate Ethics said misinformation in its website video resulted from an "editing error" that claimed the oil sands were being mined in an area twice the size of England, instead of less than 1 percent.

A spokesman for Premier Ed Stelmach said the distortion was like removing one flawed card "and the whole house falls."

Keystone XL fight

On another front, the government tried and failed to get an opinion page piece by Stelmach published in the Washington Post, so it forked over C$55,800 for a half-page ad in the newspaper, answering a pitch made by 50 U.S. congressmen to Secretary of State Hillary Clinton, urging her to halt progress on TransCanada's US$12 billion Keystone XL pipeline expansion from Alberta through Montana, South Dakota and Nebraska to Cushing, Okla., with an extension to Houston and Port Arthur, Texas.

Critics of the Keystone project, including Texas ranchers, have raised concerns about groundwater contamination and the impact on air quality.

"We're picking up Canada's trash and dumping it in Texas," said Matthew Tejada, a spokesman for the advocacy group Air Alliance Houston.

Stelmach's ad opened with the comment: "A good neighbor lends you a cup of sugar. A great neighbor supplies you with 1.4 million barrels of oil per day." It then makes the case for Alberta's contributions to U.S. energy security and the economic benefits of Alberta oil to the U.S. economy.

The ad notes that "only in Alberta will you find mandatory GHG (greenhouse gas) reporting requirements, legislation requiring mandatory GHG reductions and a price on carbon emissions."

Opposition to ad money

David Swann, leader of the opposition Liberal party in Alberta, said it was reasonable of Stelmach to defend the oil sands as a "secure and stable supply," but opposed spending thousands of dollars when other means of conveying the message should have been available.

"The reality is our government has not set the environmental standards that we can be proud of and that the international community can respect," he said.

If anything, the Stelmach government intends to broaden its campaign, with Stelmach accusing Corporate Ethics of attacking about 100,000 Albertans whose livelihoods depend on the tourism industry.

"It's not fair, it's inaccurate and this is something we are going to push hard against," Stelmach said.

"We will look at all options," he said. "The goal of (Corporate Ethics) is to add fuel to the fire and sometimes your reaction supports their campaign."

Stelmach insisted that by law the industry is not allowed to discharge tailings into waterways, adding that the Athabasca River has been monitored for more than 30 years with no evidence of an impact on the river or any other surface water traceable to seepage from tailings ponds.

"There are only so many places that we can go to access hydrocarbons and one of them is Alberta," Stelmach said. "We are developing those resources responsibly; we are showing leadership in carbon and water legislation and in water recycling."

Energy Minister Ron Liepert said the Corporate Ethics campaign is just another in a series of misinformed efforts by special interest groups that unfairly target the oil sands.

"Most Americans want security of supply, they want their sources to be developed in a responsible way and as long as that's happening they're satisfied," he said.

The push by some individuals and organizations to "rid the world of fossil fuel reliance … is simply not going to happen," he said.

Stelmach spurns joint campaign

No matter how determined Stelmach is to retaliate, he has spurned an offer by opposition parties in Alberta to mount a joint campaign.

A spokesman said the government is

see WAR OF WORDS page 5

● GOVERNMENT

BPA: Feds to permit wells on state lands

Blowout Prevention Act adds layers of rules, bureaucracy to oil and gas permitting; Waxman says needed to prevent more oil spills

By **KAY CASHMAN**
Petroleum News

A major oil spill occurs in federal waters — under federal regulatory jurisdiction — and the U.S. House Energy and Commerce Committee decides to take away the rights of states and private property owners to regulate oil and gas wells on their lands.

Canada Free Press calls the U.S. Blowout Prevention Act of 2010 the "Oil-Production Prevention Act."

Dan Kish, senior vice president of policy for the Institute for Energy Research in Washington, D.C., describes the bipartisan effort in the U.S. House of Representatives to push the bill through before Congress adjourns for the election season as "the most stunning power grab of all" because it's the first bill ever to "require federal permission for every onshore oil or gas well drilled in the United States."

The Blowout Prevention Act, championed by House Energy and Commerce Committee co-chairman Henry Waxman, a Democrat from Hollywood, Calif., is designed to "make energy harder to produce, more expensive, more imported and

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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. 15, No. 30 • Week of July 25, 2010
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. — $98.00 1 year, $176.00 2 years, $249.00 3 years
Canada — $185.95 1 year, $334.95 2 years, $473.95 3 years
Overseas (sent air mail) — $220.00 1 year, $396.00 2 years, $561.00 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.

CORRECTIONS

Correction: If DEC had heeded Exxon, harm to environment, wildlife would have been less, but not minor

The lead sentence in the July 18 edition article, "State of Alaska culprit in 1989 spill," said that if Exxon had received an open burn permit from the Alaska Department of Environmental Conservation in a timely manner, "almost all" of the 11 million gallons of spilled crude oil could have been incinerated before a storm hit on the evening of Sunday, March 26.

That's not the case. DEC blew the opportunity to destroy a "significant" amount of the oil that killed thousands of birds and animals and oiled 1,300 miles of pristine shoreline, but not "almost all the oil."

The mistake was not the fault of freelance writer Steve Sutherlin; rather I changed the wording in editing the article because the burn rate I had heard about was 200,000 gallons of oil per hour, whereas Steve quoted a different source in the article that said 50,000 gallons per hour.

If Steve's source is correct, then 1.8 million gallons of oil that could have been incinerated by midnight on Sunday if burning had started around noon on Saturday, March 25.

If my source, not quoted in the article, was correct then 7.2 million gallons would have been burned.

In either case, it is a "significant" amount of oil, but not "almost all" the oil.

We're going back to our research and sources for more precise information. Please feel free to contact Steve Sutherlin if you have information about the burn rate that is verifiable.

My apologies for the error.

Following is the headline and a replacement subhead and lead paragraph for the article, both of which have already been inserted in the article on Petroleum News' online story archive and in the pdf of the July 18 issue:

Head: State of Alaska culprit in 1989 spill

Subhead: If DEC had heeded Exxon, harm to environment, wildlife would have been less

Lead paragraph: Exxon Corp. wanted to burn freshly spilled oil from the 1989 tanker spill in Prince William Sound, but a slow response by the Alaska Department of Environmental Conservation blew the opportunity to destroy a significant amount of the oil that killed thousands of birds and animals and oiled 1,300 miles of pristine shoreline.

—**KAY CASHMAN**
publisher & executive editor

Contact Steve Sutherlin: stevepna@hotmail.com or (907) 250-1533

Correction: TransCanada did not back away from Cook Inlet gas storage plan

An article in the July 18 issue of Petroleum News about a proposed new gas storage facility on Alaska's Kenai Peninsula incorrectly stated that TransCanada, a subsidiary of which had planned to build and operate the facility, had backed away from the gas storage project. The article reported on a meeting of the Regulatory Commission of Alaska at which officials from Semco Energy provided information about the status of the project, which Semco is now moving ahead with.

Semco had correctly stated that it had bought out the work product for the project from TransCanada.

However, TransCanada had wanted to continue with the project and had been excited to do so, Michael Barnes, communications manager for TransCanada's U.S. Pipelines and Storage operations, told Petroleum News July 19. But, under the terms of a memorandum of understanding between Semco and TransCanada, Semco had exercised its right to buy out the project. Subsequently, TransCanada has been working with Semco to transition the work product for the project to Semco.

"We certainly didn't pull out of the project," Barnes said.

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BPA

more rare," Kish says.

Waxman and his supporters believe the bill, intended to prevent more oil spills and overhaul the way federal authorities regulate both offshore and onshore drilling, is needed to protect the United States from another major oil spill.

The legislation, Waxman says, "seeks to ensure that we never have a repeat of the BP disaster."

Control of wells on state and private land

For the states, including the State of Alaska, and private landowners, the bill will place all onshore and offshore oil and gas exploration, development and production wells under the control of the federal government.

The states will be allowed to regulate under the Blowout Prevention Act, but only after federal approval of the projects within their borders, which is currently a complex, time-consuming and uncertain process at best.

The Blowout Prevention Act, Kish says, "extends the possibility of a state regulatory scheme mirroring the federal one."

Why Republicans voted for the Act

The legislation, which contains a bundle of new rules for drillers, has already unanimously passed Waxman's committee. Press reports have been favorable; the issue of state's rights seldom addressed.

"Every committee Republican" in the Energy and Commerce Committee voted for "a federal takeover of the oil and gas permitting process for all drilling, even on state or private property," a recent Wall Street Journal editorial noted, describing the situation in Congress as a "madhouse."

Why would Republicans vote to abdicate state and private landowners rights AND add layers of bureaucracy on oil and gas development before a final report on the Macondo disaster has been completed?

Because the vote on the Blowout Prevention Act "unfortunately came against the backdrop of Joe Barton of Texas's much-criticized apology to BP and those who might have normally opposed apparently went along with it, so as not to look uncaring regarding the spill. Therefore, it passed 48-0 out of Energy and Commerce, making it harder to stop," Kish told Petroleum News in a July 21 e-mail.

Kish would like to see new legislation that deals with regulation of drilling on hold until after the investigation of what went wrong at BP's Macondo well in the deepwater Gulf of Mexico has been determined.

"With this bill, Chairman Waxman is leaping before he looks, with serious consequences for U.S. energy and national security, as well as for the jobs of not just the hundreds of thousands who work in the offshore energy industry, but their counterparts on land, as well. He is leaping off a cliff while holding onto America's arm," Kish wrote in a July 19 report on the legislation on the institute's web page, at www.instituteforenergyresearch.org.

States deemed 'incapable' of regulating without feds

Currently, there are about 1 million producing oil and gas wells in the United States, the vast majority on state and private lands, Kish said.

"States have adjusted their permitting to meet the conditions on the ground and have a stellar track record of working to enhance and improve operational safety while minimizing environmental impacts," he said.

"But under this bill Texas — with almost 250,000 operating wells and California — with over 50,000 wells, are deemed incapable of what they've been doing for a century unless they seek and are awarded federal approval. And while "marginal wells" (those producing 10 barrels or less per day) are exempted from the bill, it is silent on how someone can validate that a well he intends to drill is marginal before he drills it," Kish said.

Alaska, he said, has 1,767 producing oil wells and 261 gas wells.

"The only thing that is certain about this bill is that it will make it harder to produce domestic energy, create uncertainty for domestic producers and all the jobs they support, and lead to making the U.S. less competitive in energy production and more reliant on foreign sources of energy made competitive by the visible hand of government malfeasance," Kish said. ●

Contact Kay Cashman at publisher@petroleumnews.com

continued from page 3

WAR OF WORDS

"well under way in terms of expanding our campaign," and saw no benefit in developing a united strategy with the Liberals, Wildrose Alliance and New Democratic Party, but expressed the hope that all parties would "stand firm" against Corporate Ethics.

The level of anxiety has extended to the Premier's Council for Economic Strategy, consisting of former legislators, business leaders and academics drawn together by Stelmach.

David Emerson, a former federal trade and industry minister, said Alberta's "reputation with key energy customers has been damaged in recent years and relationships with communities near oil sands developments (especially First Nations communities) are strained."

The council suggested the public needs to see measureable gains in how energy is developed and is no longer prepared to hear just good intentions.

"It may take a dramatic gesture to convince a skeptical public to applaud Alberta as a natural resource steward," Emerson said.

Jim Gray, an upstream pioneer, said the council is seeking advice from experts around the world on "steps we can take."

Total E&P Canada President Jean-Michel Gires said organizations attacking the oil sands are dangerous to the energy sector, noting their pitch has captured the attention of decision makers in Washington, London and other key cities.

However, Gires in June accused Alberta regulators of taking too much time to approve new oil sands projects.

He said Alberta's process is "sophisticated," not "cowboy style," but the delays are unreasonable, compared with his experience dealing with regulators in France before he entered the oil industry.

"Why do we need five years to get regulatory approval for a new mine (at the company's Joslyn lease) when it is not really the first type of mine we are developing," he said, while welcoming indications from the Alberta and Canadian governments that they are seeking ways to streamline the approvals. ●

Contact Gary Park through publisher@petroleumnews.com

● EXPLORATION & PRODUCTION

Continuing the development at Prudhoe

While oil production slowly declines, advanced oilfield technologies tease as much oil as possible from the North Slope giant

By ALAN BAILEY
Petroleum News

The Prudhoe Bay oil field at the fulcrum of Alaska's North Slope oil industry is so large that, even after more than 30 years of operation, development activity at the field continues apace, squeezing as much product as possible from the field's 254 square miles of underground reservoir.

According the most recent Prudhoe Bay progress report submitted by field operator BP to the Alaska Department of Natural Resources, 2009 saw more than 3,000 jobs involving work on wells at the field, with 300 of those jobs adding to oil production volumes through techniques such as perforating wells and stimulating the oil reservoir.

62 new wells

BP drilled 62 new wells in the field in 2009, the report says. Those wells primarily involved sidetracking, a technique involving the drilling of a new well bore out from the side of an existing, poorly performing well, the report says. The sidetracking done in 2009 involved both conventional rotary drilling in which a jointed drill pipe rotates a drill bit, and coiled tubing drilling, in which a continuous length of narrow-bore steel tubing is fed into the well, with the drilling mud circulating through the well driving a mud motor that turns the bit at the down-hole end of the tubing.

These sidetrack wells often run at relatively low angles out from the original well bore, with precision drilling techniques enabling the drillers to thread a well through the relatively small pockets of oil left, as the oil pool in the field becomes increasingly fragmented with age.

"As Prudhoe Bay has matured, drilling targets continue to become smaller and more complex, with increased drilling and reservoir risk," the report says.

BP anticipates Prudhoe Bay drilling activity in 2010 to be similar to that in 2009, with 14 to 24 rotary drilling penetrations and 32 to 42 coiled tubing penetrations, the report says.

Slowing the decline

However, the work program at Prudhoe Bay is slowing rather than reversing the inevitable long-term decline in oil production. The average daily oil production of 252,000 barrels in 2009 will likely decline to somewhere in the range of 206,000 to 247,000 barrels in 2010, the report says (at its peak, the field delivered about 1.5 million barrels per day of oil).

And a pipeline replacement project is continuing the inspection and upgrading of the field's aging pipeline infrastructure, with some further pipeline replacements in the offing. In 2009 BP used devices called smart pigs to check the condition of nine three-phase pipelines, nine produced water injection lines, three natural gas lines and six oil lines, the report says.

Field reservoirs

The main reservoir in the Prudhoe Bay field is the 450-foot thick Permo-Triassic Ivishak formation, with the much thinner Sag River formation forming a second reservoir above the Ivishak. The rock formations have been bent into a broad arch, with a discontinuity called the lower Cretaceous unconformity cutting out the crest of the arch. Oil and gas in the reservoir rock became trapped against the unconformity to form the oil field.

The detailed geology within the reservoir is complex, with layers of impervious rocks known as shales interstratified with sandstones and conglomerates and inhibiting the free flow of hydrocarbons through parts of the field.

BP maintains a computer model of the oil field, to simulate the effect of different field development approaches and hence determine how best to maximize oil recovery. The company has continued to refine and update this model, the progress report says.

"The geologic model has been improved, incorporating new well data and a refined description of the Sag River formation," the report says.

Pressure management

However, reservoir management continues to focus on managing the reservoir pressure and optimizing the placement of injected water to support oil offtake across the field.

When Prudhoe Bay initially went into production a huge natural gas cap sat on top of an equally huge "rim" of oil. Pressure in the gas cap forced oil up through production wells. Oil would flow down the gently sloping reservoir rock layers toward production wells, thus giving rise to the term "gravity drainage area" for the section of the reservoir where this phenomenon occurred.

And as field production has progressed, gas produced from the field has been pumped back into the gas cap to maintain reservoir pressure.

In peripheral areas of the reservoir, too distant from the gas cap for the gas pressure to effectively drive oil production, massive volumes of water have been injected underground to flush oil from the reservoir rock, in a technique referred to as waterflood. And in 2002, to stem a pressure decline in underground gas pressure, BP also started pumping water into the gas cap.

Tertiary recovery

In recent years so-called tertiary enhanced oil recovery techniques have come into play, to extract yet more oil from the reservoir. An important technique used at Prudhoe Bay has been the sweeping of a solvent known as miscible injectant through the reservoir, to act like laundry detergent, clearing residual oil from the rock pores. Miscible injectant consists of a mixture of natural gas and some of the natural gas liquids that drop out from natural gas when the produced gas is chilled.

A state-of-the-art technique known as miscible injectant sidetrack, or MIST, involves releasing bubbles of miscible injectant from a specially shaped sidetrack well around a production well.

And the alternating use of injected water and gas (referred to as "water alternating gas," or WAG) has also been a commonly used technique for flushing out oil

In the eastern waterflood area five MIST injectors have been added to WAG injectors, to tease out some of the more elusive oil. Drilling in this part of the field has targeted both the Ivishak and the Sag River reservoirs, the report says.

The western part of the waterflood area has been subject to a similar enhanced oil production program and saw nine new wells drilled in 2009. Those new wells included, in the Sag River formation, a multilateral well in which several separate well bores were drilled out from the same central well. BP acquired some 3-D seismic data in early 2009 for this part of the field and this data is providing improved subsurface imagery for identifying new drilling targets, the report says.

Sidetrack wells are also continuing to find new oil targets in the gravity drainage part of the field, the report says.

However, in an area of the field where the gas cap has expanded, gravity drainage has become less efficient, so that water injection and miscible injectant are being used to increase oil recovery.

New technologies

BP is also evaluating some new technologies that might further increase oil recovery, the report says. Initial tests of a trademarked Bright Water technology have shown promise — the technology involves the use of temperature sensitive polymers in injected water to help control the route of the water flow through the reservoir. LoSal — another trademarked technique under evaluation — uses low salinity water to improve oil displacement during water flood.

And BP has been working with Halliburton to test a new tool for the down-hole separation and re-injection of gas, with field testing of the tool expected within the next two years, the report says. ●

Contact Alan Bailey at abailey@petroleumnews.com

● PIPELINES & DOWNSTREAM

Asia on Canada's radar screen

Pipeline execs agree Asia-Pacific markets give Canadian producers, shippers chance to become price-makers; China shipments to grow

By GARY PARK

For Petroleum News

Canadian oil sands producers and shippers are increasingly attracted to markets beyond the United States, according to pipeline executives, bolstered by the latest statistics that have seen China outstrip the U.S. as the world's largest energy consumer.

A TD Newcrest-sponsored oil sands forum in Calgary got a consistent message from Ian Anderson, president of Kinder Morgan Canada, and Steve Wuori, executive vice president of Enbridge — Canadian crude producers are turning to Asia as their next major outlet.

Anderson said shippers and producers are now taking a much longer term view of future markets, while Wuori said the hunt is on for "better markets" than the U.S.

"We are hearing more and more optionality, flexibility and growing demand in Asia is going to be an outlet for producers in Canada," Anderson said. "Those are markets they want to tap more and more into."

Wuori said the "long game is to maneuver Canadian production to be a price maker more than a price taker."

"The West Coast-Pacific market is becoming increasingly important."

Regulatory phase for Northern Gateway

Enbridge has entered the regulatory phase with its planned 525,000 barrel-per-day Northern Gateway pipeline, which is primarily targeted at Asia, while greater volumes from Kinder Morgan's long-established Trans Mountain pipeline from Alberta to the Pacific coast are finding buyers in offshore markets.

In April, 143,000 bpd of Trans Mountain's capacity of 300,000 bpd was shipped from the company's Westridge dock in the Vancouver area, with a growing percentage destined for the U.S. Gulf Coast.

Anderson said the accelerating Chinese investment in the oil sands is evidence of China's determination to diversify its global supply sources.

Although the current volumes of 40,000 to 60,000 bpd that are allocated to Chinese investors are not significant enough to support exports to China, Kinder Morgan believes that by 2020 it is possible that a steady stream will be headed to the world's largest market, he said.

Anderson said an expansion for Trans Mountain is a cheap way to build shipping capacity to the West Coast "relatively quickly with the lowest risk for ourselves and for Canada and its shippers."

He said shippers want cheap, quality pipeline space to protect the quality of some of the lighter crudes and blends and Kinder Morgan's toll system can meet that demand.

Ultimately, there will be a second pipeline in the existing right of way from Edmonton to Vancouver, with the proposed addition expected to offer 80,000 bpd by 2014-15, assuming regulatory approval and shipper backing, Anderson said.

A later expansion phase could be completed with another one to two years, adding 320,000 bpd of capacity, he said.

Although the port of Vancouver does not have deep enough waters to accommodate the largest crude carriers, an Aframax size tanker with a draft of more than 12.5 meters successfully conducted a trial from the terminal last year, carrying a load of crude for Asian markets, Anderson disclosed.

China largest energy user

The pull of Asia is evident in an International Energy Agency report that China last year consumed 2.252 billion metric tons of oil equivalent energy from coal, oil, natural gas, hydro power and nuclear power, about 4 percent more than the U.S., ending more than a century when the U.S. was unchallenged as the world's biggest energy user.

China is now on track to surpass Japan later this year as the world's second largest economy and to unseat the U.S. as early as 2027.

To date this year, China's crude oil imports have averaged 4.77 million bpd, up a staggering 30.2 percent from a year earlier, with the country's total crude consumption at 8.71 million bpd, an increase of 18.2 percent.

The IEA estimates China's fast-rising energy demands will need investment of US$4 trillion over the next two decades to power economic growth and avoid fuel shortages.

As Canada edges towards increased crude deliveries to Asia resistance is building among First Nations and environmentalists to the Northern Gateway project and rising shipments out of Vancouver.

Michael Ignatieff, leader of Canada's Liberal Party, the largest opposition party in the House of Commons, has called for a ban on oil tankers in northern British Columbia, at the same time he has chastised Prime Minister Stephen Harper for waiting too long to build an economic relationship with China.

He said Northern Gateway should not be allowed to go ahead until there are guarantees that a catastrophic oil spill will not occur off the British Columbia coast.

"Everybody understands it would be a good thing for us to diversify our energy exports by adding China to the list so we're not dependent on the United States," Ignatieff said.

"But I'm not willing to do that and sacrifice the Pacific north coast."

Canada's Environment Minister Jim Prentice rejected Ignatieff's plea for an oil tanker ban, arguing the infrastructure to carry Alberta crude to Asia can be built in an environmentally sound manner.

"Canada's is an energy superpower," Prentice said. "We intend on being an environmentally responsible energy superpower." ●

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● FINANCE & ECONOMY

Law to combat Mafia used in BP lawsuits

Racketeering Influenced and Corrupt Organizations, or RICO, basis of 3 suits among more than 200 brought over Deepwater Horizon

By CURT ANDERSON

Associated Press Writer

Using a law originally enacted to combat the Mafia, attorneys are filing lawsuits accusing BP PLC and Transocean Ltd. of committing a long-term series of crimes by concealing flaws in deepwater drilling plans and lacking safeguards to contain a catastrophic Gulf of Mexico spill.

BP has been named in at least three lawsuits brought under the federal law known as RICO, which stands for Racketeering Influenced and Corrupt Organizations. Transocean, which leased the ill-fated Deepwater Horizon drilling rig to BP, has been named in two lawsuits filed in Louisiana and Florida.

The lawsuits accuse both companies of committing wire and mail fraud over a number of years by filing false documents with the U.S. government, and by misleading investors through other documents and falsehoods. They also claim both companies are guilty of bribery because they are part of an overall oil and gas industry effort to "infiltrate" federal regulators by providing favors such as alcohol and drugs, sex, golf and ski trips, concert and sports tickets, and more.

"The pattern of racketeering activity engaged in by defendants involves a scheme to fraudulently create a pretense of safety to the public while, at every turn, seeking to avoid the costs associated with actually conducting their operations in a safe manner," claims a lawsuit filed by Louisiana attorney Daniel Becnel and others on behalf of a restaurant seeking to represent a huge class of businesses suffering economic loss from the oil spill.

Even as use of RICO in criminal cases has waned somewhat, it's become increasingly popular on the civil side. This year alone, RICO lawsuits have been filed against the Roman Catholic Church over priest abuses; Toyota over its sudden acceleration problems; a group of title insurers over alleged overcharges; and online cigarette vendors over lost tax revenue.

RICO passed in 1970

RICO, passed by Congress in 1970, contains both a civil and criminal component, but both of them rely on proof of long-term violations of at least two specific crimes from a lengthy list. The attraction of the civil portion, which is being used in the current lawsuits, is that any damages would be tripled.

In the past, civil RICO cases have often been followed by criminal prosecutions. The Justice Department has not ruled out using RICO in its ongoing criminal investigation of the April 20 Deepwater Horizon explosion, which killed 11 rig workers and triggered a massive oil spill that has affected five Gulf Coast states.

Criminal convictions can lead to prison sentences of 20 years on each racketeering count, plus hefty fines and forfeiture of ill-gotten gains.

"We are investigating any possible violations of the law," said Justice Department spokeswoman Hannah August.

BP declined comment on the RICO allegations. Transocean did not respond to a request for comment.

Florida attorney Peter Prieto, a former federal prosecutor, said it might be a stretch for the Justice Department to bring a criminal RICO case when there might be easier-to-prove offenses.

"If it's a simpler crime, that's what they are going to do. Prosecutors are going to use RICO when it is truly applicable or when it involves organized crime," said Prieto, who is not involved in the oil spill cases. "It is kind of a hammer, but if the facts fit RICO, you can use RICO."

Even as use of RICO in criminal cases has waned somewhat, it's become increasingly popular on the civil side. This year alone, RICO lawsuits have been filed against the Roman Catholic Church over priest abuses; Toyota over its sudden acceleration problems; a group of title insurers over alleged overcharges; and online cigarette vendors over lost tax revenue.

In March, pharmaceutical giant Pfizer was ordered by a Boston jury to pay $142 million in damages for wrongly marketing the epilepsy drug Neurontin as treatment for migraines and bipolar disorder.

The difficulty in the BP and Transocean cases, some experts say, is finding evidence tying the companies' actions to damages caused by the spill. On the criminal side, a prosecutor would have to have ironclad proof of criminal intent, not just negligence or stupidity.

"The problem is just connecting the dots," said Thomas Walker, an Idaho attorney who has tried about 20 civil RICO cases and maintains a blog on RICO. "The fraudulent communications, if they were fraudulent, went from BP to the government. The damage was not caused by the letter, it was caused by the oil spill."

More than 200 suits filed

The RICO lawsuits are among more than 200 filed against BP, Transocean and other companies seeking damages for economic losses, environmental damage and shareholder losses. A federal judicial panel will meet July 29 in Boise, Idaho, to consider whether to consolidate some or all of them for pretrial purposes.

Potential damages from those lawsuits would come on top of the $20 billion BP has pledged to set aside to pay claims and other spill cleanup costs.

Most of the criminal allegations in the RICO lawsuits are taken from testimony and documents produced by congressional investigations of the spill, documents filed with financial regulators and investors, and even investigative news articles by The Associated Press and other news outlets. For example, the Louisiana complaint charges that:

• According to an AP story, an independent firm hired by BP in 2009 found the company was violating its own policies by failing to have key engineering documents aboard the deepwater drilling rig Atlantis. The study was never disclosed to regulators.

• BP filed documents showing it had a solid response plan for a catastrophic oil spill, when in fact it "lacked any meaningful ability" to respond.

• BP repeatedly failed to disclose to the U.S. Department of the Interior a range of safety concerns about the Deepwater Horizon, including use of a risky well cementing technique and problems with pockets of flammable natural gas.

• Transocean assured investors and regulators that it had an excellent safety record, when in fact it was responsible for an increasing number of accidents on deepwater drilling rigs.

• Both companies are part of an oil industry effort to prevent the Minerals Management Service — now renamed the Bureau of Ocean Energy Management — from imposing tough rules, in part through industry events where government officials were given cocaine, marijuana and alcohol, had sex with company executives and received gifts ranging from exotic travel to concert tickets. ●

● ALTERNATIVE ENERGY

AEA starting hydropower investigation

Looking for a consultant to manage contract to evaluate options for power generation for the Alaska Railbelt electricity grid

By ALAN BAILEY
Petroleum News

The Alaska Energy Authority is seeking a consultant to manage an investigation into potential hydropower projects that may qualify for state funding.

In December, AEA published a draft Alaska Railbelt integrated resource plan that proposed a major shift toward hydropower for future power generation in the Railbelt region, with a recommendation for a new major hydropower system, either at Lake Chakachamna, near Mount Spurr west of Anchorage, or on the Susitna River south of the Alaska Range. The plan also recommended investigating the possibility of a smaller-scale hydropower system at Glacier Fork, on the Knik River near Palmer.

At present the Railbelt power grid, stretching from the southern Kenai Peninsula north to the Fairbanks region in the Alaska Interior, is heavily dependent on natural gas-fired power stations, fueled by ever tightening gas supplies from the aging gas fields of the Cook Inlet basin.

During the 2010 state legislative session lawmakers passed a bill saying that 50 percent of power generation within the state should come from renewable energy sources by 2025 and setting an energy policy that, among other things, encourages the development of renewable and alternative energy sources, including hydropower.

And in the state budget for the current financial year legislators included an appropriation of $10 million to AEA to investigate the feasibility of new hydropower systems for the Railbelt and to carry out some initial planning, design and permit reviews for candidate systems, to facilitate decision making on any future state funding of hydropower.

Decision document

The consultant that AEA is now seeking will assist the agency in contracting with a firm to carry out the hydropower investigation envisaged in the budget, leading to a hydropower decision document for the state. The scope of the investigation may include the three potential hydropower systems discussed in the integrated resource plan, as well as other possible hydropower projects, AEA said in a July 14 request for proposals for the consultant.

"However, it is anticipated that not all projects will move forward with continued funding support from the state," the request for proposals says. "Decisions on which projects the state would support will be based on energy needs and project costs. The projects need to be further evaluated and compared as to which project(s) have the greatest likelihood of success based on defined cost estimates, more detailed project scopes, potential schedules, permit requirements, energy use, power transmission and financing assumptions."

Earlier evaluations

In the 1970s and 1980s several organizations, including the U.S. Army Corps of Engineers, prepared and evaluated preliminary designs for the Susitna River hydropower concept. And in the 1980s Bechtel prepared a preliminary evaluation of a Lake Chakachamna system. Interest in both projects subsequently waned for a variety of reasons, including a drop in the price of fossil fuels.

But the recent interest in diversifying Railbelt power supplies has caused people to brush the dust off these 30-year-old studies.

And the 2009 Railbelt integrated resource plan came out in favor of the Lake Chakachamna option, a system that would use an existing lake as a hydropower resource and that could potentially supply about one-third the Railbelt's existing power needs. However, in the interests of enabling a fully informed decision on which project to pursue, the plan also recommended a new investigation of the alternative possibility of building a larger two-dam system on the Susitna.

TDX Power

Since 2007 TDX Power, a subsidiary of the Tanadgusix Native Corp. and operator of electric utilities at Sand Point and Prudhoe Bay, has been engaged in its own investigation of the Lake Chakachamna hydropower concept, under the terms of a Federal Energy Regulatory Commission permit. The company has asked for state funding assistance for fieldwork associated with the project.

TDX has estimated that the construction of the 350-megawatt Lake Chakachamna power plant would cost $1.6 billion in 2008 money with an additional $58 million in transmission costs and around $10 million in annual operating expenses.●

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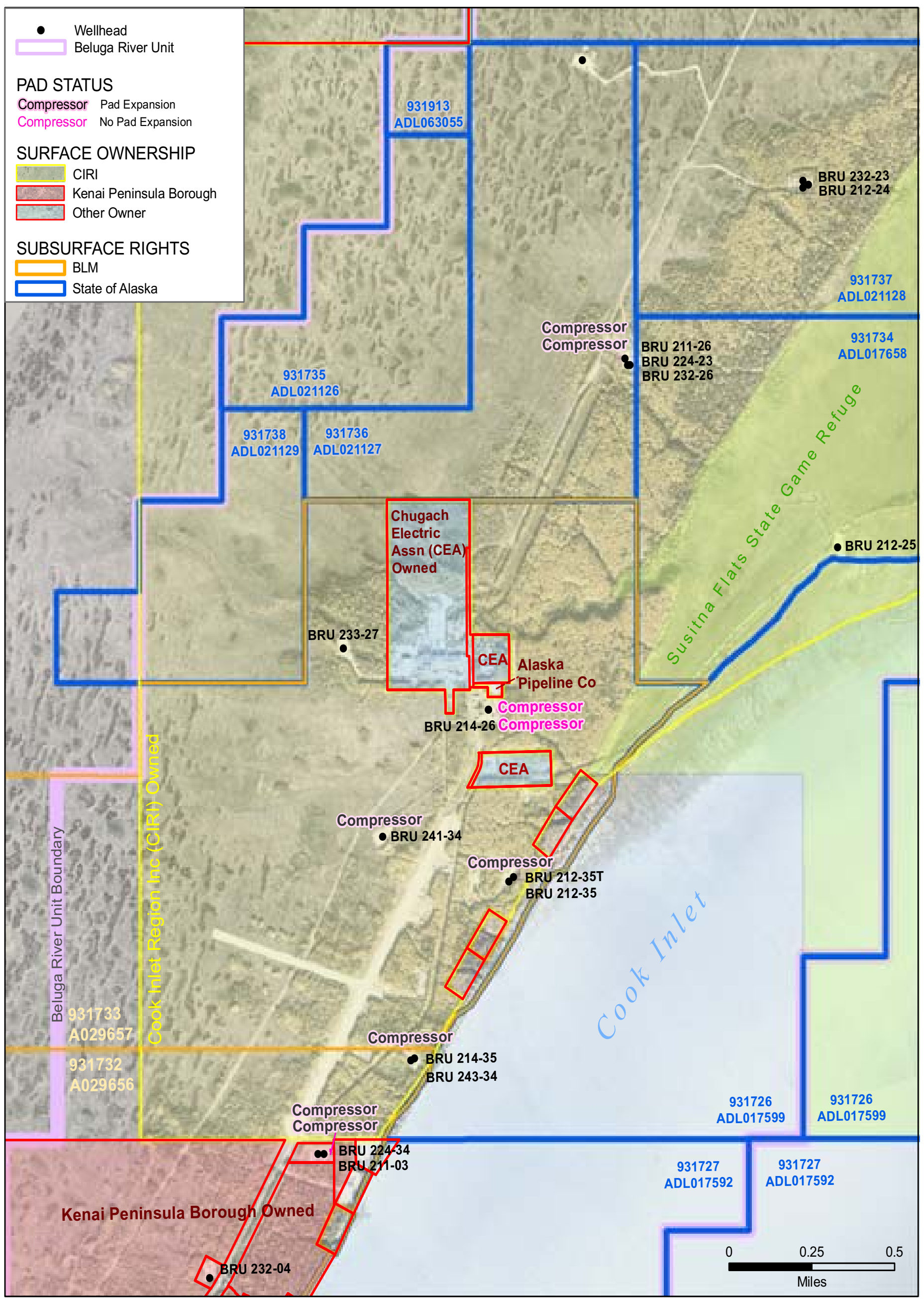
CONOCOPHILLIPS ALASKA INC



The ConocoPhillips Alaska plan involves installing compressors to boost capacity at several of the well pads in the Beluga field, which is located on the west side of Cook Inlet.

● NATURAL GAS

ConocoPhillips: Taking aim at Beluga River unit

Company might install compressors to boost key Cook Inlet gas field; ownership trio with ML&P, Chevron yet to make investment call

By WESLEY LOY
For Petroleum News

ConocoPhillips Alaska Inc. has submitted a plan to federal land managers to improve the performance of the Beluga River unit, for decades a vital source of natural gas for powering the state's main population center.

The plan involves installing compressors to boost capacity at several of the well pads in the Beluga field, which is located on the west side of Cook Inlet.

"The addition of compression will increase the delivery volumes to sales as the formation pressure and production volumes continue to decrease," says a ConocoPhillips project description.

The company has submitted details about the compression project to the Bureau of Land Management. The paperwork includes permit applications, the project description and drawings.

ConocoPhillips said in a June 10 cover letter to the BLM that the project would begin in July and finish by Dec. 31, 2011.

But a company spokeswoman, Natalie Lowman, told Petroleum News on July 21 that the project isn't locked in.

"This project is still under evaluation by the owners, and no firm decision has been made yet on going forward," Lowman said in an e-mail.

"The project design and cost estimation is still in progress," she wrote. "We do not anticipate that a final investment decision will be made until late 2010 or first quarter 2011."

Project details

The project description says the work would involve installing nine compressor modules at well sites throughout the gas field.

"The project also includes addition of sand and water handling equipment at most of the compression locations," the description says. "With the addition of compressors, new pipelines and jumper lines will be installed. Most lines will be installed on pad with a few instances where they go off pad."

The compressor modules would come new from an unnamed factory.

A map shows the pads where the compressors would be added. As an example, at the Central Processing Pad at the heart of the Beluga unit, the plan calls for the addition of two compressor skids; new buried flow lines from the well to compressors and back to the existing on-pad dehydration building; one new six-inch well line to bring production from a neighboring well site to the compressors; new water and fuel gas lines to support the compression; a surplus 131-barrel tank; and new meters and chokes.

A compressor, according to Schlumberger's handy online oilfield glossary, is "a device that raises the pressure of air or natural gas. A compressor normally uses positive displacement to compress the gas to higher pressures so that the gas can flow into pipelines and other facilities."

Petroleum News asked ConocoPhillips about the goals of the Beluga compression project — whether it would increase gas recovery from the field over the remainder of its lifetime, or merely boost gas production during times of high demand.

The company, through Lowman, replied: "The purpose of the project would be to lower the surface pressure that the wells deliver into. This lowering of pressure would likely increase gas recovery from the field and there would likely be some improvement in the near term to the overall field deliverability."

ConocoPhillips also has submitted a request to the U.S. Army Corps of Engineers to expand a gravel drill site known as Helipad. The expansion, covering about a tenth of an acre, would involve a potential wetland.

Legacy gas field

The Beluga gas field long has played a major role in providing electric power to the

see BELUGA page 11

continued from page 10

BELUGA

state's largest city, Anchorage.

Cook Inlet Region Inc., an Anchorage-based Alaska Native corporation, and the Kenai Peninsula Borough are the two primary owners of surface lands within the Beluga unit.

Located in the middle of the field is Chugach Electric Association's Beluga power plant, the largest in Alaska. Situated about 40 miles west of Anchorage, the plant opened in 1968 and uses gas turbines to generate electricity. Transmission lines carry the power from the plant to the city.

The power plant used to burn Beluga gas exclusively. Today, it also takes other Cook Inlet gas delivered via a Marathon pipeline from Granite Point, said Phil Steyer, a Chugach spokesman.

Not all of Beluga's gas production goes to the Chugach plant. Some goes into the Enstar pipeline system. Enstar is the main gas utility for Southcentral Alaska.

Three companies each own a third of the Beluga River unit: the operator ConocoPhillips, Anchorage Municipal Light & Power and Chevron.

Beluga has been one of Cook Inlet's most prolific gas fields, producing nearly 1.15 trillion cubic feet over its lifetime through 2009, state Division of Oil and Gas figures show. Production peaked at 57.6 billion cubic feet of gas in 2004, declining to 40.9 billion cubic feet in 2009.

Cook Inlet gas production has become a hot topic in recent years as the basin's known reserves play out, putting stress on the system to deliver adequate gas on cold winter days when demand is highest.

State legislators have passed a number of incentives to encourage exploration and gas storage.

'Mature asset'

In early June, BLM officials approved ConocoPhillips' 48th plan of development and operations for the Beluga River unit. The plan covers the period from June 18, 2010, through June 17, 2011.

Beluga is a "mature asset," says the POD submitted by Dan Clark, Cook Inlet asset manager for ConocoPhillips.

"The Sterling reservoir pressure has declined to approximately 41% of original pressure," the POD says. "Reservoir deliverability has declined with pressure depletion. Aquifer encroachment has also been observed in isolated sands in some wells. The Beluga River field will continue to decline with further production."

Proposed operations during the plan period include completing one new well, plus four drill site turnarounds, the POD says.

The POD also talks of spudding and completing a "grass roots twin" for a Beluga well that was shut-in in 2005 after it "began to produce increasing amounts of water and finally loaded up and died."

A new well also was drilled and completed during the 47th plan period, the POD says.

The POD lists a total of 24 wells in the Beluga River unit, including producer and disposal wells. ●

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ENVIRONMENT & SAFETY

Oil spill reported at Swanson River

A crude oil spill from an undetermined source at the Swanson River oil field in the Kenai National Wildlife Refuge was discovered by a power pole survey crew the afternoon of July 20.

Chevron, the field operator, reported the spill to the Alaska Department of Environmental Conservation later that day and has estimated the volume at 630 gallons.

DEC said the spill occurred above a buried pipeline corridor containing both active and inactive piping along a roadway near pad 21-27 at the field.

DEC said the spill occurred above a buried pipeline corridor containing both active and inactive piping along a roadway near pad 21-27 at the field.

The agency said July 21 that the active 6-inch oil line was isolated by valves and the two wells serviced by the line have been shut down.

The pipeline corridor will be excavated to determine the source of discharge.

DEC said Chevron personnel deployed sorbent boom and pads on both sides of a culvert under the entrance to pad 21-27 and along a natural drainage area down gradient of the spill site. Boom was also placed in a standing water body some 700 feet from the spill location.

There are dense grasses, surface and standing water along the pipeline corridor, DEC said. The dense grasses along the roadway will be cut to expose more of the ground surface for better delineation of the impacted area and the pipeline corridor will be excavated to determine the source of the discharge.

—PETROLEUM NEWS

EXPLORATION & PRODUCTION

Aurora planning new Nicolai Creek well

Aurora Gas is planning to drill a gas development well at the Nicolai Creek unit.

The local independent, which operates five natural gas fields on the west side of Cook Inlet, is permitting the Nicolai Creek Unit No. 10 well. Because the proposed well would be within 3,000 feet of a well capable of producing from the same interval, Aurora is requesting a spacing exemption from the Alaska Oil and Gas Conservation Commission.

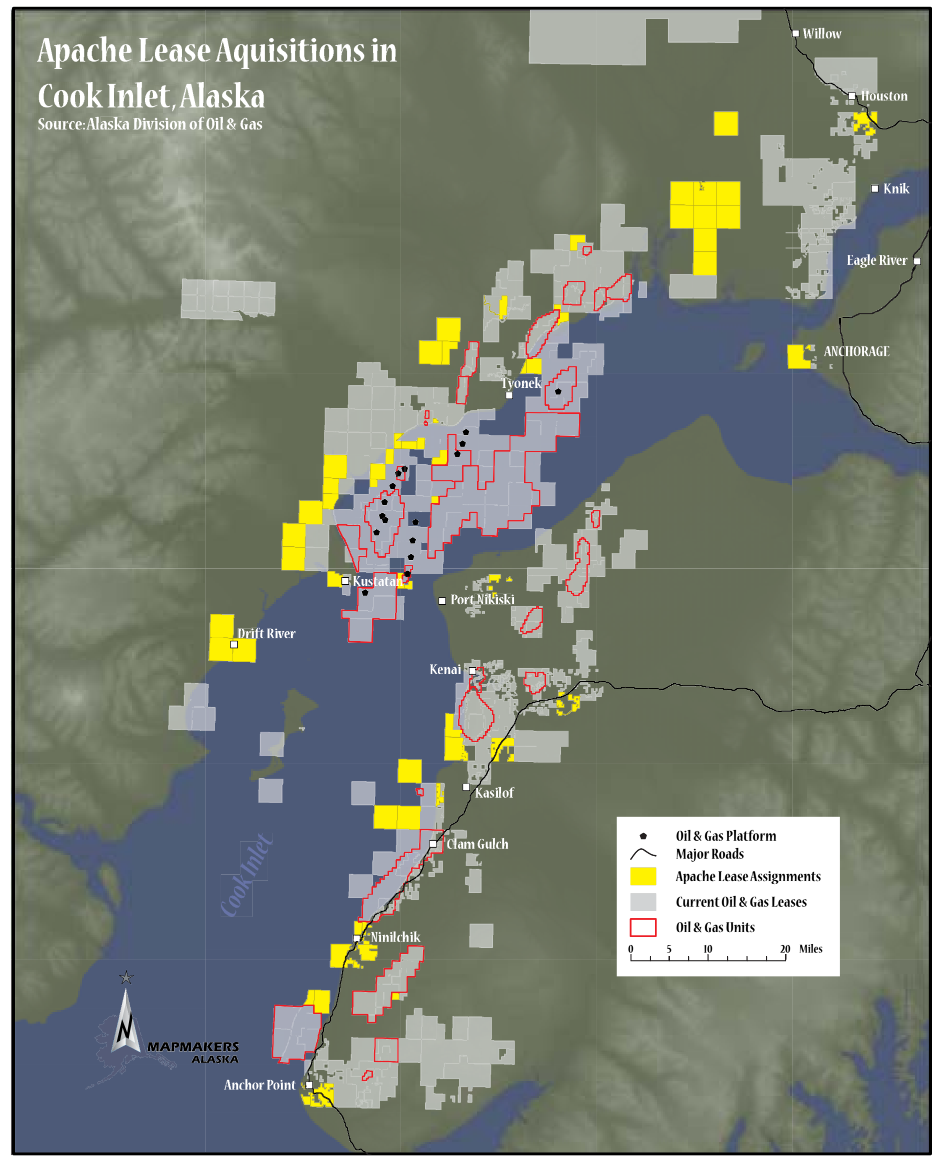
The state recently expanded Nicolai Creek, adding about 60 acres to the onshore unit and creating two new participating areas: the West Beluga PA and the West Tyonek PA.

NCU No. 10 would have a top hole location in the North participating area of the unit, near the NCU No. 3 well, and a bottom hole location around 1,800 feet to the west. The unit is at the northern end of Trading Bay, on the western coast of Cook Inlet.

The state recently expanded Nicolai Creek, adding about 60 acres to the onshore unit and creating two new participating areas: the West Beluga PA and the West Tyonek PA.

Those participating areas include the NCU No. 11 well Aurora brought online last year.

—ERIC LIDJI



● LAND & LEASING

Apache picks up Cade-Donkel inlet leases

Acquires almost 200,000 acres spread across Cook Inlet from Wasilla in the north to Anchor Point in the south, onshore, offshore

By KRISTEN NELSON
Petroleum News

Apache Corp. has been rumored to be interested in acquiring Alaska acreage, and while a portion of BP's interest in Prudhoe Bay was not included in acquisitions announced July 20 (see story on page 1 of this issue), Apache is acquiring almost 200,000 acres in the Cook Inlet basin.

Asked about the possible acquisition by Apache of Cook Inlet leases, Division of Oil and Gas Director Kevin Banks said July 21 that applications for assignments had been received by the division the previous week.

Apache is in the process of acquiring 196,524 acres of Cook Inlet oil and gas leases owned in various proportions by Samuel H. Cade, Daniel K. Donkel, Monte J. Allen, Douglas A. Barr and Daniel J. Donkel, with Cade the majority (and in some cases the sole) owner in most of the leases and Daniel K. Donkel a partner in most.

The leases are scattered over the Cook Inlet basin from the Wasilla area in the north to Anchor Point in the south, both onshore and offshore. The largest acreage

see **APACHE** *page 17*

● NATURAL GAS

Persily: demand key for Alaska gas line

Federal coordinator says gas pipeline sponsors, bidders at open season, not required to provide copies of bids to feds or state

By KRISTEN NELSON
Petroleum News

Is there a gas line to the Lower 48 in Alaska's future? Federal Coordinator Larry Persily, Office of the Federal Coordinator, said at a July 20 press briefing in Anchorage that it depends on market demand for gas.

"Americans want cleaner fuels, they're paying attention to climate change," and there is both congressional and presidential support for an Alaska gas line, he said. Persily, appointed to the office by President Barack Obama, said he took the job — which involves coordinating the work of federal agencies on permitting an Alaska gas line, "because I think there's a chance for an Alaska gas line."

But Alaskans need to realize that chances for an Alaska gas pipeline would be helped by passage of "comprehensive energy legislation that helps move the nation to natural gas as a preferred fuel for electrical generation," he said.

"Alaskans need to understand that the hope for an Alaska gas pipeline rests on whether the market needs our gas; it's just that simple."

Underpinning the demand growth that would make the line possible are "those large-volume, long-term customers that the project needs; those are electrical utility companies," Persily said.

There is a chance for an Alaska gas pipeline if the nation turns "to gas as a primary fuel for new power plants."

He said a recent study by the Interstate Natural Gas Association of America found that if the power load from just half of the oldest, dirtiest U.S. coal-powered plants was switched to natural gas, gas demand would increase by more than 5.5 billion cubic feet a day. (INGAA describes itself on its website — www.ingaa.org — as a trade organization advocating regulatory and legislative positions of importance to the North American natural gas pipeline industry.)

And that replacement would be driven by costs, Persily said, noting that Lansing, Mich., utilities just decided to spend some $200 million to replace a 50-year-old coal-fired power plant rather than the $100 million it would have cost to retrofit the old plant to meet tighter Environmental Protection Agency emissions standards.

Role of shale

Persily said shale gas could play an important role in making those utilities comfortable with converting to natural gas.

While it's seen as a competitor to Alaska gas, he said "the optimistic way of looking at it is that shale can actually be good for the Alaska pipeline because having that long-term abundant domestic supply is starting to make utilities feel a little more comfortable about going out for long-term gas contracts."

The days of spikes in the natural gas price to $12 and $14 per thousand cubic feet could be eliminated by shale gas.

"Shale will cut the top off those price spikes, so a utility that would have been scared about going to a new plant with gas" because of the price spikes, is going to feel more comfortable because of the supply of shale gas.

"Then it just becomes, can Alaska gas get into the market at a competitive rate against shale and take some of that demand growth," Persily said.


TOM KEARNEY
LARRY PERSILY

He also said that growth in shale gas production is needed to hold production steady because of declines in conventional natural gas production from the Western Canada Sedimentary basin and elsewhere.

The open season

Both the TransCanada-ExxonMobil Alaska Pipeline Project and the BP-ConocoPhillips Denali line are holding open seasons. The TransCanada open season ends July 30; the Denali open season, which started later, ends Oct. 4.

But the close of an open season doesn't mean that there will be an announcement of the results, Persily said.

"Under the open season process, when a potential natural gas shipper turns in their bids to the potential natural gas pipeline developer, no one gets a copy of the bids," he said, not FERC, not the State of Alaska.

"Those bids are confidential; they're a financial proposal from one entity to another."

The close of the open season signals the start of negotiations between bidders and the project sponsor. Open season bids have conditions, Persily said, comparing them to offers to buy a house, where the potential purchaser can throw in multiple conditions.

Likewise, open season bids can contain any condition the potential shipper wants to include.

Precedent agreements

When a shipper and a project sponsor reach agreement they sign a precedent agreement which is then filed with FERC: Precedent agreements become public after 10 days.

The Alaska Pipeline Project's schedule says it is seeking to have precedent agreements signed by the end of the year; Denali's schedule says Feb. 1, 2011.

Persily said what that means is that by the "end of this year, early next year, we'll know if we're closer to a deal on a gas line; we'll know if there are any signed precedent agreements out of the open season."

Could bidders make their bids public? They could, he said, but since those bids will lay out a bidder's commercial terms, "where your business is going, how much gas you think you want, where you want to take it off — you probably don't want your competitors to know what your business plans are for the next 30 years." ●

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● GOVERNMENT

Bush DOI chiefs: Major spill not expected

By MATTHEW DALY

Associated Press Writer

Two former Interior secretaries told Congress July 20 they did not anticipate an accident as large as the BP oil spill in the Gulf of Mexico.

But Gale Norton and Dirk Kempthorne say no one else did either — including members of Congress who are now blaming the Bush administration for failing to prevent the tragedy.

Kempthorne, who served as Interior secretary from 2006 to January 2009, while George W. Bush was president, said he did not recall being asked at his confirmation hearing or in later congressional testimony about major oil spills.

In fact, Kempthorne said, the opposite occurred. In testimony before the House Energy and Commerce Committee, he recalled being pointedly asked why Interior wasn't doing more to expand offshore energy development, not less. Those concerns were driven by $4 per gallon gas prices, Kempthorne said.

40 years of environmental protection

Norton, who served from 2001 to 2006, also under Bush, said the industry had a remarkable safety record, including during Hurricanes Katrina and Rita in 2005.

Before the Deepwater Horizon rig exploded April 20, killing 11 men, "there was a 40-year record of environmental protection in offshore drilling," Kempthorne said. Since the 1969 oil spill near Santa Barbara, Calif., natural cracks in the sea floor had caused oil seeps larger than oil spilled due to offshore drilling, he said.

Interior Secretary Ken Salazar, who took office in January 2009, acknowledged that long safety record and said he and other members of the Obama administration "were lulled into a sense of safety" that proved to be false.

"Prior administrations and this administration have not done as much as we could have done relative to making sure that there was safer production in the Outer Continental Shelf," Salazar said, referring to coastal areas where offshore drilling occurs.

In the wake of the Gulf oil spill — which has dumped as much as 184 million gallons of oil into the sea — Salazar has imposed a six-month ban on deepwater drilling.

The moratorium, in effect through Nov. 30, could be modified or lifted in specific cases if drillers can answer questions about drilling safety, oil containment and adequacy of response in case of an oil spill, Salazar said.

Rep. Henry Waxman, D-Calif., chairman of the Energy and Commerce panel, said the Interior Department made serious mistakes under both President Bush and President Barack Obama.

"The cop on the beat was off-duty for nearly a decade. And this gave rise to a culture of permissiveness," Waxman said.

Waxman said the agency's problems escalated dramatically under a "secretive task force" on energy organized by former Vice President Dick Cheney in 2001. The task force gave Interior marching orders to provide incentives to oil and gas companies to increase domestic production, while reducing regulatory impediments that may slow production, Waxman said.

Norton says 9/11 a factor

He told Norton that under her watch, it appeared that the mission of the Minerals Management Service — the Interior agency responsible for offshore drilling — was mainly to serve the oil and gas industry by helping to expand deepwater drilling.

Her decisions "sent a clear message: the priority was more drilling first, safety second," Waxman said.

Norton, now a lawyer for Royal Dutch Shell oil company, called that unfair. Interior took numerous steps to increase safety, including reducing areas where drilling was permitted off the coast of Florida, she said.

Norton said the 2001 terrorist attacks brought the need for domestic energy production "shockingly into focus," adding that the attacks transformed the need for more domestic energy "into a matter of grave national security."

Norton and Kempthorne urged Congress to take a balanced approach, increasing safety while not unnecessarily impeding domestic drilling.

Both said they opposed the six-month moratorium on deepwater drilling imposed by the Obama administration.

"In my mind you don't ground all the airplanes because there was one problem" with a plane crash, Norton said.

"The important thing is to address the (safety) issues, not send the drilling rigs overseas where they may not return for several years," with the result that thousands of jobs are sent to other countries, she said.

Kempthorne called an initial safety review appropriate after the initial explosion, but said the moratorium now is causing more harm than good. A former Idaho governor and senator, Kempthorne is now a business consultant in Idaho and Washington, D.C. ●

● FINANCE & ECONOMY

BP off death watch; future open question

BY CHRIS KAHN & JANE WARDELL

Associated Press Business Writers

The future of BP PLC has shifted in recent days from a death-watch discussion to a debate about how valuable the British oil giant will be after it finishes paying for the worst offshore oil spill in U.S. history.

BP gained temporary control of its broken well in the Gulf of Mexico on July 15 and is counting on shutting it off permanently within weeks. Its shares have regained more than a quarter of the value lost in the wake of the April 20 explosion on the Deepwater Horizon drilling rig. Talk of a possible bankruptcy or takeover of the company has mostly faded.

But the company still faces the daunting task of paying huge government fines and royalty payments, cleanup costs, damage claims and legal expenses for years. Analysts estimate BP's final tab for the Gulf oil spill will be anywhere from $50 billion to $100 billion.

Many analysts feel BP can cover the costs if they're spread out over years or even decades. But others don't like the uncertainty. They note that the asset sales needed to offset at least part of those costs will likely make it a smaller company with reduced cash flow.

"We still don't have any way of gauging" how much BP could eventually spend on the spill, Macquarie Research analyst Jason Gammel said. "We're certainly not buying the stock."

Others are more encouraged. "People are relatively optimistic about the situation for the first time since this started," said Dougie Youngson, an analyst with Arbuthnot Securities in London.

BP shares traded in the U.S. were worth $60.48 on April 20, hours before the explosion of the drilling rig triggered the oil spill. They then spiraled downward to as low as $26.75 during trading on June 28. That slide wiped out $105 billion in market capitalization.

The stock began to rebound in July as details emerged about the possible sale of $10 billion or more in assets to help cover BP's liabilities. The temporary capping of the well helped send the stock 9 percent higher in mid-July to $37.10.

Possible costs, liabilities

BP promised the Obama administration it will set aside $20 billion over four years to pay spill-related claims along the Gulf and has spent $3.5 billion so far. But beyond that, BP says "it is too early to quantify other potential costs and liabilities associated with the incident."

Those include:

• Possible civil fines of up to $1,000 for every barrel of oil spilled. With the government's estimate of the spill ranging from 2.15 million to 4.3 million barrels, the fine could be from $2.15 billion to $4.3 billion.

• The government also wants BP to pay royalties at a rate of 18.75 percent on the oil it collected from the well. BP put that figure at 826,800 barrels. However, the company could also owe royalties on the oil spilled into the Gulf if investigators determine that the spill was the result of BP's negligence.

• BP has vowed to stay in the Gulf until the oil is cleaned up, which will take years. It's hired thousands of people to

Analysts estimate BP's final tab for the Gulf oil spill will be anywhere from $50 billion to $100 billion.

clean beaches and marshes and skim oil off the water. It also has to pay cleanup costs incurred by the government.

• Anadarko Petroleum Corp. and MOEX LLC, BP's partners in the blown-out well, are contractually obligated to pay 25 percent and 10 percent of the costs, respectively. But they have refused to pay BP's initial bills totaling $388 million because they claim BP was negligent in its management of the well.

• The biggest wild card is legal liabilities. Lawsuits have been filed on behalf of workers who died or were injured in the blast, as well as local businessmen, shareholders and employees.

Capital spending cut

Analysts estimate BP's operations will generate about $30 billion in cash this year if oil prices hold steady. BP recently cut back capital spending to around $18 billion, so that leaves about $12 billion in free cash. Normally, dividends totaling $10.6 billion would come out of that, but BP suspended dividend payments in June.

BP also has another $5 billion in cash, plus a $15 billion credit line. Adding in potential asset sales, that means BP will have as much as $30 billion available for paying penalties and other liabilities.

see BP FUTURE page 17

LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
BLM	NPR-A	Aug. 11, 2010
DNR	Beaufort Sea Areawide	October 2010
DNR	North Slope Areawide	October 2010
DNR	North Slope Foothills Areawide	October 2010
DNR	Alaska Peninsula Areawide	May 2011
DNR	Cook Inlet Areawide	May 2011
DNR	Beaufort Sea Areawide	October 2011
DNR	North Slope Areawide	October 2011
DNR	North Slope Foothills Areawide	October 2011
MMS	Sale 211 Cook Inlet	2010*
MMS	Sale 219 Cook Inlet	2011*

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

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

ENVIRONMENT & SAFETY

State objects to polar bear cost estimate

The State of Alaska has objected to the U.S. Fish and Wildlife Service's estimate of $669,000 as the total cost over a 29-year period of the critical habitat designation for the polar bear. The critical habitat designation followed the 2008 listing of the animals as threatened under the Endangered Species Act — the ESA requires an assessment of the economic ramifications of the critical habitat designation.

The review report says that costs would result from delays in the initiation or expansion of oil and gas exploration projects; reductions in oil production; and restrictions on construction projects, Parnell said in a July 9 press release announcing the state's objections to the Fish and Wildlife cost estimate.

Fish and Wildlife based its cost estimate on the assumption that the designation would have little impact beyond protections already in place for the bears under the terms of the Marine Mammals Protection Act: The main economic impact of the critical habitat designation would be the cost of additional government consultations, Fish and Wildlife said.

An independent review commissioned by the State of Alaska and Arctic Slope Regional Corp. has concluded that "potential impacts may be in the hundreds of millions or even billions of dollars in just the next 15 years," Alaska Gov. Sean Parnell said in a July 9 letter to Interior Secretary Ken Salazar.

The review report says that costs would result from delays in the initiation or expansion of oil and gas exploration projects; reductions in oil production; and restrictions on construction projects, Parnell said in a July 9 press release announcing the state's objections to the Fish and Wildlife cost estimate.

The state is also questioning whether the critical habitat designation will in fact benefit polar bears, given that Fish and Wildlife has said that the designation will not result in additional conservation measures, Parnell said.

In late 2009 the state filed suit in federal court to have the polar bear listing rejected. That case has not yet been resolved.

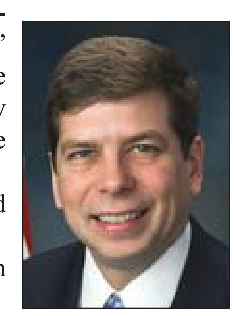
—ALAN BAILEY

GOVERNMENT

Begich outlines AK priorities to Obama

In a July 14 letter to President Obama, Sen. Mark Begich outlined Alaska's energy priorities, as part of a dialogue over federal energy policy and energy legislation.

"Energy is a leading concern of my constituents for two keys reasons," Begich said. "Alaskans already pay the nation's highest energy costs due to long distances to markets, high transportation costs, and a widely dispersed population. And Alaska has served as America's energy storehouse for decades, at one time producing up to a quarter of the nation's domestically produced oil, which generates thousands of good-paying jobs."


MARK BEGICH

Begich said that Alaska is "ground zero for climate change" and that versions of energy legislation currently under discussion do not adequately meet Alaska's needs. He emphasized seven priority issues for the state:

- The need to share federal outer continental shelf oil and gas revenues with local, affected communities.
- The importance of building a natural gas pipeline from Alaska's North Slope.
- The need for increased domestic energy production, including production from the National Petroleum Reserve-Alaska, the Arctic outer continental shelf and the Arctic National Wildlife Refuge.
- The need to address the adaptation needs of Alaska villages impacted by the effects of climate change.
- The need to pre-empt the use of the Clean Air Act to regulate the emission of greenhouse gases.
- The recognition of Alaska hydropower as a renewable resource, to make it eligible for funding assistance under U.S. Department of Energy renewable energy programs.
- The need to expand Arctic and climate research, to broaden an understanding of how Arctic communities can adapt to changing conditions.

"I pledge my cooperation with you and Senate leaders in crafting comprehensive energy legislation that addresses Alaska's unique needs and national issues," Begich said.

—ALAN BAILEY

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BP FUTURE

The company's debt level stood at about $32.15 billion at March 31. It has talked to banks about borrowing more money if needed.

Even if BP sells some assets, it's likely to remain one of the largest non-government-owned oil companies in the world. Just how big? The high-end estimate of around 4 million barrels spilled in the Gulf amounts to no more than one day's output from BP's vast global operations.

If BP can continue to get between $70 and $75 a barrel for the oil it produces, analysts believe its cash flow will remain sufficient to cover its Gulf liabilities. That doesn't mean people pressing claims against BP have to root for higher prices, but the reality is that a sharp drop in oil could put them at risk.

West Texas Intermediate crude, the light oil that is the benchmark for global prices, is trading at around $76 a barrel. Brent crude, which is found in the North Sea among other areas, is priced around $75.40.

The company's financial condition will become clearer when BP reports results for the second quarter on July 27. There's a chance it will announce the sale of assets at that time.

The company's financial condition will become clearer when BP reports results for the second quarter on July 27.

Alaska, Argentina asset sales possible

Published reports have suggested the company is talking with Apache Corp. about selling a stake in the Prudhoe Bay oil field in Alaska, but BP has declined to disclose specifics.

Youngson, the Arbuthnot analyst, said a sale to Apache would fit with BP's plan to sell assets that don't affect the company's long-term growth, a strategy it had before the Gulf spill. It also would make sense politically, he added.

Another candidate for a sale is BP's 60 percent stake in Argentine Pan American, an Argentine oil and gas producer that also has operations in Bolivia and Chile. Analysts estimate the stake is worth about $9 billion.

Oppenheimer & Co. analyst Fadel Gheit said BP doesn't need to sell assets now, but the company is digging in for years of damage claims. "Eventually they know they're going to have to sell something," he said. "It's not if, but when." ●

—Wardell reported from London. AP Reporter Jennifer Quinn contributed to this report.

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APACHE

block is in the Susitna flats area north of Cook Inlet across from Anchorage.

The State of Alaska is processing applications for assignments of 60 leases, 59 from the Alaska Division of Oil and Gas leases and one Alaska Mental Health Trust lease. (The accompanying map highlights leases included in the assignment applications.)

Cade-Donkel west side acreage includes leases at the Drift River terminal, and, farther north, leases along the west side in the North Forelands and Trading Bay areas, near Lone Creek and near Lewis River.

On the Kenai Peninsula, leases are at Anchor Point, on the northern edge of Pioneer Natural Resources Alaska's Cosmopolitan unit, in the Ninilchik area, primarily offshore between Soldotna and Clam Gulch and onshore in the area between Soldotna and Kenai.

Too early for plans

Apache spokesman Bill Mintz told Petroleum News in a July 21 e-mail that it was too early for the company to discuss its plans in Cook Inlet as it just recently agreed to acquire the leases.

Petroleum News reported in June that Houston-based Apache had made an offer for some of Escopeta Oil Co.'s Cook Inlet leases. Escopeta President Danny Davis said at that time that the offer was too low; he also said Escopeta had received another offer for some Escopeta leases.

A Petroleum News source said in June that Apache had made offers other than to Escopeta to buy Cook Inlet basin leases.

Apache has international offshore operations, has been seeking new acquisitions and is known to have been investigating Cook Inlet prospects.●

—A copyrighted oil and gas lease map from Mapmakers Alaska was a research tool used in preparing this story.

Contact Kristen Nelson at knelson@petroleumnews.com

PIPELINES & DOWNSTREAM

Kuparuk Transportation enlarging line

Kuparuk Transportation Co. is standardizing the pipeline size of the Kuparuk Pipeline Extension and installing a pig launcher and receiver to meet standards for the U.S. Department of Transportation's Integrity Management Program.

The project began last year when the Regulatory Commission of Alaska granted Kuparuk Transportation Co. a permit to enlarge a section of the pipe in the Kuparuk Pipeline Extension, a part of the Kuparuk Pipeline.

In February 2009 RCA granted the company a temporary permit to begin construction so that work could begin to replace a 4.15-mile 12-inch diameter pipe with an 18-inch diameter pipe, making the entire length of the extension a standard size so smart pigs can be run through the line.

By enlarging the size of the pipeline, the company will have a more accurate means of detecting potential corrosion because it will be able to use a smart pig on almost the entire Kuparuk pipeline.

Kuparuk Transportation told RCA the work will allow it to meet requirements of DOT's "Integrity Management Program."

By enlarging the size of the pipeline, the company will have a more accurate means of detecting potential corrosion because it will be able to use a smart pig on almost the entire Kuparuk pipeline.

The company applied for expedited consideration, telling RCA that unless it could proceed with pipeline construction in the first quarter of 2009, it would be "significantly challenged" to meet the regulatory deadline of May 2011 for compliance with DOT regulations. Pipeline construction beginning in February 2009 and placement of pipe in racks beginning in March 2009 were necessary to meet a May 2011 deadline for a baseline inspection required by DOT.

The schedule called for pipeline construction and installation in the first quarter of 2009, including installation of pigging module valves, so pigging modules could be installed in 2010 without the need for a pipeline shutdown.

The new pipe was scheduled to be tied into the existing 18-inch pipeline and placed in service in July 2009.

Pig launcher and pig receiver installation was scheduled for the second quarter of 2010, with launcher and receiver to be placed in service in the third quarter of 2010, allowing for in-line inspection and validation of results, typically a 180-day process, prior to the May 2011 regulatory deadline.

—KRISTEN NELSON

NATURAL GAS

Aurora Gas to bury gas gathering line

Aurora Gas LLC has applied to the state for permits to bury the temporary above-ground gathering line for the Nicolai Creek No. 11 well.

A fuel gas line and electrical conduit would be buried in the same trench, according to a state notice on an application for a gas line easement.

The company said the work would be done during the fall in support of continued sustained production at the well.

New production facilities were installed last November on the Nicolai Creek 11 pad and a temporary line was built to the Nicolai Creek 1B, 2 and 9 existing facilities some 1,400 feet to the east.

Aurora said burial of the existing above-ground line is expected to take three weeks, and will include disconnecting the pipeline from facilities, trenching and relocating it to the trenched area. The 4-inch pipe will be relocated and rewelded within a trench along the existing road and the trench will be backfilled.

Nicolai Creek is some 55 miles southwest of Anchorage, some 12 miles south of the village of Tyonek and 2 miles from the Shirleyville Camp, the closest permanent settlement.

The company said there is an existing network of gravel roads in the Shirleyville-Tyonek area which provide access from Shirleyville, Tyonek and the Beluga gas field to the north.

Several barge landings are available in the project area, including those at Tyonek and Beluga. Aurora said the primary barge landing for this project will be the Tyonek North Foreland barge landing because it is closer to the company's operations.

Regular air support will be provided out of Anchorage, Kenai and Nikiski, with gravel strips at Tyonek and Shirleyville used to support the project.

Project personnel will stay at the Shirleyville Camp in Shirleyville and will travel to the work location by crew cab truck.

—PETROLEUM NEWS

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APACHE DEAL

Apache Chief Executive Officer Steven Farris rated the Canadian portion of the US$7 billion transaction as the cream of the deal, meshing with his company's existing unconventional gas assets and its emerging Horn River properties.

"If it hadn't been for the Gulf of Mexico incident … I'm sure we wouldn't be sitting here tonight," he told analysts in a conference call.

Daily production from BP's Canadian holdings yields 240 million cubic feet of gas and 6,529 barrels of liquids.

The BP deal will raise Apache's Canadian volumes to about 120,000 boe per day, from estimated proved additional reserves of 224 million barrels of oil equivalent and 1.35 million net acres, including significant positions in emerging unconventional plays such as the Montney, Cadomin, Doig and coalbed methane.

Apache's Canadian operations produced 340 million cubic feet per day of gas and 16,557 bpd of liquids in the second quarter. At year-end 2009, it had proved reserves of 531 million boe and 5.6 million gross acres.

BP keeping oil sands

The sale excludes BP's hefty oil sands division, built up in just the last few years and consisting of a joint venture with Husky Energy, the Terre de Grace project with Value Creation and a joint venture with Devon Canada to develop the Kirby lease.

Also left in BP's hands are exploration leases in the Beaufort Sea, where it has committed to spend C$1.2 billion exploring for oil, and a natural gas liquids and marketing business in Alberta.

In May, BP was grilled by Members of Parliament in Ottawa about the safety of Arctic drilling and wasn't able to assure the legislators that a blowout on the scale of the Gulf of Mexico would not spill oil into the Beaufort for several months.

A BP Canada spokeswoman said 520 of the Canadian workforce of 1,300 will have directly affected by the deal.

She said Apache will decide how many current BP employees will be transferred, but BP is certain that the assets changing hands are "valuable because of the people who know them and run them."

The spokeswoman said that BP's long-term strategy for Canada is keyed on the oil sands and Beaufort.

> *"Typically, there's a lot of meat on the bone when you do make an acquisition from a big company like this. For Apache, it really complements what they already have in Canada."*
> **—Laura Lau, energy analyst, Sentry Select Capital**

Analyst: 'significant lift'

Michael Tims, chairman of investment dealer Peters & Co., said most acquisitions on this scale have been corporate rather than limited to assets.

He said the result is a "significant lift" to Apache's Canadian operations, which include a joint effort with EOG Resources to build and operate the proposed C$3 billion Kitimat LNG project, liquefying gas from the shale and tight deposits of Western Canada for export to Asia.

It is also involved in a major partnership with Encana to develop the Horn River field, north of the Montney in British Columbia.

Apache Canada President Tim Wall said his company will "aggressively" develop the new properties.

Laura Lau, an energy analyst with Sentry Select Capital in Toronto, said it is not often that "big assets from a big company" are put on the block.

"Typically, there's a lot of meat on the bone when you do make an acquisition from a big company like this," she said. "For Apache, it really complements what they already have in Canada."

BP has conducted a series of makeovers in Canada over the past two decades, starting when its Canadian division was spun off and created Talisman Energy, followed in the late 1990s when it bought Amoco.

At that time, BP solid its Canadian oil assets for C$1.6 billion to Canadian Natural Resources and Penn West Petroleum, including land that is now the operating Horizon oil sands mine.

BP then adopted a low-profile role as a gas and gas liquids producer, refusing to join the scramble to secure a place in the oil sands until it teamed up with Husky in the C$2.5 billion Sunrise project and took stakes in two early-stage projects. ●

— GARY PARK

Contact Gary Park through publisher@petroleumnews.com

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INSIDER

Railroads, Pipelines and Hazardous Materials, under the Committee on Transportation and Infrastructure, came one week after Alyeska President Kevin Hostler said he planned to retire at the end of September. His announcement came one day after an article on the website truth-out.org linked cost cutting measures on integrity management programs run by BP and Alyeska, although Alyeska claims Hostler previously announced his intention to retire this year.

Before taking over at Alyeska, Hostler spent 27 years with BP. The article quoted an unnamed BP Alaska official who questioned whether, in light of the oil spill in the Gulf of Mexico, a former BP executive should run the pipeline "where BP can exert cultural and economic influence through the president of (Alyeska) as well as its ownership share, in directions that are not good for the safety and the integrity of (the pipeline)." The unnamed official linked safety problems at BP and Alyeska, citing "pervasiveness of a BP leadership culture that is focused on cost cutting that reduces operational integrity."

Do the problems of BP Alaska reflect on Alyeska, and vice versa?

At the hearing, Chairwoman Corrine Brown, D-Fla., used that report to question whether Alyeska was "following in BP's footsteps by making dangerous cuts in safety."

The charges weave between BP Alaska and Alyeska incidents in recent years. In a background statement on the hearing, the House subcommittee pointed first to the leaks at BP-operated Prudhoe Bay pipelines in March and August 2006. During investigations about those leaks, the U.S. Pipeline and Hazardous Materials Safety Administration became concerned about another pipeline at Prudhoe Bay, leading the agency to issue a "corrective action order" against the companies, which in response replaced the line.

The report also notes an incident from May 25, 2010, when a power outage triggered a valve that diverted oil into relief tanks. Those tanks overflowed, spilling oil onto the ground, according to the report, which includes a citation symbol after making the claim but no corresponding footnote. The report said the control center in Anchorage didn't know about the spill because it lost sight of the Pump Station during the outage.

The report points to other incidents mentioned in an Alyeska report released in June.

Okay, so the oil overflowed, but did it hit the ground or not?

But Alyeska noted that it went 5 million hours last year without a lost time injury and received six API Pipeline Environmental Performance Award in the 2000s, according to the testimony of Greg Jones, senior vice president of technical support for Alyeska.

After giving an eight-page description of Alyeska's integrity management program, Jones said that the May incident proved that Alyeska's system works. He said the relief tanks overflowed into a secondary containment unit and that no oil hit the ground.

"While the response went as required, we clearly find the incident unacceptable. We have done a full investigation into the event, and are now working to implement both system and process recommendations to ensure that it will not happen again," Jones wrote in his testimony.

State Rep. David Guttenberg, an Interior lawmaker and former Alyeska employee, also testified at the hearing, saying that Alyeska's recent decision to move positions from Fairbanks, where a section of the pipeline is located, to Anchorage, where it is not, presented a safety issue, because it left fewer people on the ground to respond to events.

In his testimony, Guttenberg wrote that Alyeska's boasts of safety awards and record-setting injury-free stretches have "little or no bearing on the likelihood of TAPS to have a significant spill event." For example, he noted, "a pipeline operator could have an excellent worker safety record because there is little or no maintenance work being performed on the pipeline while at the same time it is about to fall apart in 20 locations."

Young: BP is BP and Alyeska is Alyeska and never the twain shall meet

Rep. Don Young also spoke up at the hearing, saying that Alyeska isn't BP and that the producers don't manage the pipeline. He noted that the largest spill on Alyeska-operated facilities came in 2001 when a drunken man north of Fairbanks shot at the pipeline.

Later in the day, Young released a statement saying, "This subcommittee is trying to use Alyeska as a scapegoat for what has happened in the Gulf of Mexico and it's wrong."

He added that the hearing pulled Alyeska officials away from Alaska as the company prepared for maintenance work planned for the end of the month. "I appreciate the committee's interest in pipeline safety, but they should consider the timing of large maintenance projects and the short season we have to do such work in Alaska," he said.

—ERIC LIDJI

Donkel, Cade hire former Exxon exec to market North Slope prospects

ON JULY 19 A BLOG POSTING appeared online at seekingalpha.com/instablog reporting that "Dr. R. G. Bailey, retired president of Exxon Arabian Gulf, has been retained to help promote the development of over 96,000 acres on the North Slope of Alaska currently owned by Dr. Samuel H. Cade and Daniel K. Donkel, longtime Alaskan investors."

It wasn't clear who had made the post.

In the blog post Donkel was quoted as saying, "In light of the recent coverage of North Slope drilling tax incentives and recent acquisition activity by independents, hiring Dr. Bailey will help us find the right company to acquire our North Slope acreage. This will support Governor Parnell and the Alaska Legislature's commitment to helping responsibly develop its resources to the benefit of Alaskans, the State of Alaska, and the United States."

Bailey, the blog posting said, will "assist in indentifying the best companies" to develop Donkel and Cade's acreage, particularly seven leases (16,016 acres) near the ExxonMobil-operated Point Thomson project on the eastern North Slope.

According to the post, he will also be promoting Cade and Donkel's other North Slope properties, "including the East Prudhoe Bay Prospect, Hemi Springs Prospect, Mikkelsen Prospect, and the Red Dog Prospect, a group of select prospects that total another 80,000 acres that include known bypassed oil reserves."

To learn more about Bailey's background and what Donkel and Cade are selling visit www.Donkeloilalaska.com.

—KAY CASHMAN

Petroleum news

Oil Patch Bits

Guess & Rudd law firm celebrates 50th anniversary

Guess & Rudd P.C. is celebrating its 50th year of practicing law in Alaska. With law offices located in Anchorage and Fairbanks, Guess & Rudd provides experienced legal representation throughout Alaska in practice areas that include natural resources law, administrative law, mining law, environmental law, real property law, commercial law, employment or labor matters, ANCSA law, insurance coverage disputes, insurance defense, personal injury, estate and probate law, product liability and aviation accidents. The firm was heavily involved in the legal issues surrounding the construction of the trans-Alaska pipeline system, and has had continued involvement in most of the major oil and gas and mining transactions in Alaska since then. Four of the current shareholders have over 100 years collective experience in practices focused on natural resources and environmental issues: Louis R. Veerman, pipeline and related issues; Jamie D. Linxwiler, oil and gas, mining and Native law; George R. Lyle, oil and gas and environmental; and Michael S. McLaughlin, oil and gas and regulatory issues. In addition the firm is ranked Band 1 by Chambers and Partners in environmental, natural resources and regulated industries categories. For more information visit www.guessrudd.com.

Kuukpik purchases rig and consolidates ownership

Kuukpik Corp. said July 19 that it has completed transactions for the purchase of Kuukpik Rig No. 5 from Saxon Energy Services Inc. and the purchase of the minority ownership of Kuukpik Drilling LLC from the corporation's partners. Kuukpik Drilling LLC is now wholly owned by Kuukpik Corp., with all ongoing and future operations continuing under the name Kuukpik Drilling LLC. Kuukpik Corp. is an Alaska Native village corporation established in 1973 under the provisions of the Alaska Native Claims Settlement Act. Kuukpik's business interests and activities consist primarily of oil and gas support services including drilling, catering, security, ice road and civil construction, infrastructure maintenance, seismic acquisition, engineering services and cargo transportation.

The corporation has significant land holdings in and around the Greater Colville River Delta and the National Petroleum Reserve-Alaska. Kuukpik Corp. maintains offices in both Nuiqsut and Anchorage, Alaska.

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

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

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BP PROPERTIES

“Over the last two months the Board has considered BP’s options for generating the cash necessary to meet the obligations likely to arise from the Gulf of Mexico oil spill,” BP Chairman Carl-Henric Svanberg said in a July 20 press release announcing the Apache deal. “BP has an extremely strong asset base which is diversified geographically as well as by asset class. The Board believes that there are opportunities to divest assets which are strategically more valuable to other parties than they are to BP. Today’s announcement is the first such transaction and meets the value and strategic criteria of both parties.”

BP Chief Executive Tony Hayward added: “We have achieved an excellent price for a set of properties that are worth more to others than to BP. This is a good first step which underlines our ability and determination to get maximum value for everything we sell.”

“This is a rare opportunity to acquire legacy positions from a major oil company, with oil and gas production, acreage, infrastructure, seismic data, field studies, exploration prospects and other essential aspects of our business,” said G. Steven Farris, Apache’s chairman and chief executive. “We seldom have an opportunity like this in one of our core areas let alone three. This is a step change that will add muscle, enabling Apache to add value for decades to come through our demonstrated exploitation capabilities and exploration drilling.”

The companies said the deal is subject to regulatory approvals in the various countries, with the sale of the Permian and Canadian assets requiring antitrust clearance.

Apache said it would advance $5 billion of the purchase price to BP on July 30, ahead of the anticipated closing.

“This is a rare opportunity to acquire legacy positions from a major oil company, with oil and gas production, acreage, infrastructure, seismic data, field studies, exploration prospects and other essential aspects of our business.” **—G. Steven Farris, Apache’s chairman and chief executive**

Alaska reaction

That BP didn’t sell part of Prudhoe seemed no surprise to observers in Alaska, who have heard years of speculation that BP might be planning to exit the state. The company has taken pains to refute such talk, often talking about the 50 years of remaining business it sees in the North Slope oil and gas fields.

Though in decline for years, Prudhoe Bay remains the nation’s largest oil field, with BP acting as operator. BP holds a 26.36 percent working interest in the Prudhoe Bay unit, ExxonMobil owns 36.40 percent, ConocoPhillips owns 36.08 percent, and Chevron holds 1.16 percent.

BP, in its most recent annual report filed March 5 with the U.S. Securities and Exchange Commission, reported its net share of production from Prudhoe Bay at 69,000 barrels per day in 2009, down slightly from 72,000 barrels in 2008.

Had Apache worked the Prudhoe deal as reported, it presumably would have taken a position of about 13 percent in the field.

In the face of persistent media reports out of London and New York, spokesmen for BP and Apache consistently declined to comment on what they termed “market speculation.”

An energy adviser to Gov. Sean Parnell told Petroleum News that BP, prior to the July 20 announcement, gave no advance notice to the governor’s office of any deal affecting Alaska assets.

Ken Boyd, a former Alaska oil and gas director now consulting privately for clients including Statoil, said he wasn’t surprised Apache didn’t work a deal for Prudhoe.

“I never believed it for a minute, because of the complexity of it, really,” Boyd told Petroleum News on July 21.

A relatively small company like Apache buying into Prudhoe “just didn’t feel right,” he said.

It would have been a complex transaction with lots of considerations, such as how Apache would get its share of Prudhoe oil to market, Boyd said. For example, would it need to own a share of the trans-Alaska oil pipeline? And how about tankers?

“There’s more pieces than, oh, I have a piece of Prudhoe,” he said.

It’s also possible, under the Prudhoe Bay unit agreement, that the other owners have a right of first refusal when a partner wants to sell, Boyd added.

Media reports made much of Apache’s talents in buying mature fields and massaging them for extra production. This would be helpful in a declining field such as Prudhoe, the stories went. But Apache likely wouldn’t have become the operator at Prudhoe, and as a small minority owner wouldn’t have been in a position to call the shots on field investments.

What now?

So, is Prudhoe Bay now off the sale block?

As BP’s chairman noted, the Apache sale is only the first transaction toward raising $10 billion. Selling Prudhoe at this point presumably would far overshoot that goal. And BP indicated separately July 20 that it’s selling assets in Vietnam.

Asked on July 21 whether Prudhoe is, or ever was, up for sale, BP spokesman Steve Rinehart replied: “We do not comment on market speculation. We said in June we planned to sell some assets to raise some cash. We did not specify which assets.”

The assets Apache is buying from BP seem to match up well with the company’s existing portfolio. Apache already has exploration and production interests in the Permian basin, Canada and Egypt.

Apache said it’s acquiring “all of BP’s oil and gas operations, acreage and infrastructure in the Permian Basin of West Texas and New Mexico and Egypt’s Western Desert. Apache also will acquire substantially all of BP’s upstream natural gas business in western Alberta and British Columbia. Apache will pay $7 billion for the assets, which include estimated proved reserves of 385 million barrels of oil equivalent.”

Net production from the properties in the first half of 2010 was 28,000 barrels of liquid hydrocarbons and 331 million cubic feet of gas per day, or a total of approximately 83,000 boe per day, Apache said.

By comparison, in the second quarter of 2010, Apache said it produced 646,866 boe per day.

BP said the $5 billion cash advance due from Apache on July 30 breaks down this way: $3.25 billion for Canada, $1.5 billion for the Permian and $0.25 billion for Egypt.

In Canada, said Apache’s Farris, “We are buying a substantial production base and 1.3 million net acres that include significant positions in several emerging unconventional plays including the Montney, Cadomin, Doig and coalbed methane.” ●

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KITCHEN LIGHTS

that rig bound for Alaska by June 30, 2010, and have a well drilled by the end of this year. In late May, the company asked for an extension, one of several the company has requested since arriving in Alaska in 2000 and becoming a unit operator in 2007.

Division of Oil and Gas Director Kevin Banks told Petroleum News on July 19 that he chose to put Kitchen Lights in default again, rather than simply terminating it, because, "This will assure more clearly that (Escopeta President Danny Davis has) been given the appropriate due process that perhaps terminating it today perhaps would not do."

Escopeta previously indicated it would appeal any ruling it found unfavorable.

Prospective acreage

The acreage included in Kitchen Lights has been a conundrum for the state for years.

While it's considered to be the most prospective underexplored acreage in the Cook Inlet basin, the technical challenges of drilling in shallow, sub-Arctic waters have placed Kitchen Lights in a gap: Larger companies with the financial resources to explore it have not shown an interest in doing so, while smaller companies interested in the large trend have not been able to successfully arrange a drilling program for the offshore acreage.

Earlier this year, the state passed a law, Senate Bill 309, providing significant incentives for the first company to successfully use a jack-up rig to drill in the waters of Cook Inlet.

Banks, in his ruling, said this law had increased interest in Cook Inlet leases. Davis told Petroleum News on July 21 that he welcomed the partnership of companies in the region.

Currently 25 of the 30 leases in the Kitchen Lights unit are past their primary term and two more are set to expire on Sept. 30, accounting for 92 percent of the 83,394 acre unit.

Banks told Petroleum News that the newest extension shouldn't prevent the state from including that acreage in the May 2011 Cook Inlet areawide lease sale, should Escopeta fail to meet its new work commitments. "I think we're probably in a good position, if (Davis) does not litigate, to be able to offer the leases in the sale," Banks said.

Looking for partners

Davis, though, doesn't think the state will have to worry about the lease sale.

"I think we'll have the money," he said.

His confidence comes, in part, from SB 309, which he said gives his partners and contractors the assurance that they'll get paid, so long as they can get a well drilled.

Davis said drilling companies are not scrambling to bring a jack-up rig, a mobile drilling unit used in shallow waters, to the harsh tides and temperatures of Cook Inlet. He said three rig companies turned him down outright, while Pride International, the company he is working with now, won't make a firm commitment until it completes an engineering study on its rig, the Pride Hawaii. He expects to have results before the end of July.

"If they fall by the wayside, I'll find someone else," Davis said, although it's far from certain whether Escopeta could find a willing rig contractor in the new 90-day timeline.

On the financial side, Davis said Escopeta is still looking for a partner. "I'm not sure who it's going to be yet, but I have two or three groups who are interested," he said, adding that he had not been in contact with two newcomer independents, Apache and Buccaneer.

It's all about the rig

While Escopeta got more time, it didn't generate much good will.

For starters, the state questioned Escopeta's expenses at Kitchen Lights.

Attempting to prove its commitment to Kitchen Lights, Escopeta claimed to have spent "approximately $32.5 million" at the unit, giving the state an itemized, but confidential, list of expenses to back up that claim. In its ruling, though, the state noted that the $32.5 million figure included expenses by Pacific Energy and Renaissance Alaska, companies that owned offshore Cook Inlet leases that eventually were co-opted into Kitchen Lights.

The state said Escopeta has spent less than $2 million since becoming the operator of the Kitchen unit in 2007 and less than $600,000 since becoming operator of Kitchen Lights in early 2009, most of that being spent on lease rentals and not on exploration expenses.

Davis didn't dispute that assessment, but said the criticism was misplaced.

"It's not about who spent what. It's about whether we can get a rig up there," he said.

Second, while the state is giving Escopeta more time, the ruling suggests the state is skeptical that the extension will lead to drilling. "Escopeta has provided no evidence of any substantive or timely efforts to complete its work obligations under the (Kitchen Lights unit Plan of Exploration). And Escopeta has provided no evidence that another unconditional extension will result in the delivery of a rig to Cook Inlet," Banks wrote.

Davis said he appreciated the newest extension and accepted both the criticism and the challenge. "Criticism is nothing," he said. "You've got to set timelines. You've got to set goals. Now they've set the timeline and my goal is to meet that timeline." ●

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COURT ORDER

The judge now requires the Department of the Interior to address the issues that the court has highlighted, with the hold on lease sale related activities remaining in place until the issues have been reviewed and the lease sale re-affirmed under the terms of the National Environmental Policy Act.

"This does not necessarily require the agency to completely redo the permitting process, but merely to address the three concerns addressed above," Beistline said, referring to the issues in which he said that MMS had acted arbitrarily. "In all other respects the court finds defendants have complied with NEPA."

Shell evaluating

Shell, whose planned drilling in the Chukchi Sea has already been deferred from 2010 as a consequence of a Gulf of Mexico oil spill-triggered outer continental shelf drilling moratorium, told Petroleum News July 21 that it is evaluating the consequences of the district court decision. The company has been planning some environmental studies in the Chukchi Sea during the 2010 open water season.

"We are still analyzing the potential impact of the ruling and how it might impact our 2010 planned operations as well as our aspirations to drill in 2011," Shell spokesman Curtis Smith told Petroleum News July 21.

"I'm disappointed by the court's ruling and urge the (state) administration to appeal," said Sen. Lisa Murkowski. "Shell has done everything in its power to adhere to the strictest environmental standards, including working with the local communities to protect their traditional subsistence activities. Alaska's offshore resources are vital for the future of both the state's economy and the energy security of the nation."

"As one of the first environmental organizations to litigate oil and gas issues on the North Slope, Pacific Environment is elated by today's decision to remand lease sale 193 (the Chukchi Sea sale) back to the Department for Interior for further environmental review," said Carole Holley, Alaska program co-director for Pacific Environment, one of the plaintiffs in the appeal. "As we've known all along, the former MMS did slipshod work when evaluating the environmental impacts of offshore oil and gas development, putting at risk Alaska Native communities and threatened Arctic ecosystems"

NEPA requirements

NEPA requires a federal agency such as MMS to assess the environmental impacts of any action involving the agency. And MMS presumably prepared its environmental impact statement for the Chukchi Sea lease sale in recognition of the potentially significant environmental impacts of oil and gas development in the region.

If an agency's environmental analysis under NEPA is challenged in the courts, a court will normally defer to the technical expertise of the agency's staff, restricting the court's review to an assessment of whether the agency's actions complied with NEPA.

A court cannot substitute its judgment for that of a federal agency, Judge Beistline said. But a court can determine that a federal agency has failed to comply with NEPA if the court determines that the agency has acted in an arbitrary or capricious manner by not taking a "hard look" at the consequences of its proposed action, by relying on factors that NEPA was not intended to address or by explaining a decision through an implausible argument.

The plaintiffs in the appeal had argued that the lease sale EIS did not adequately analyze potential impacts of oil and gas development on the environment and on human communities; had failed to include some essential environmental information about the Chukchi Sea; had failed to analyze the impact of the lease sale in the context of a warming climate; had analyzed too limited a development scenario; had understated the risks of an oil spill; had failed to fully analyze the potential impact on the habitat of threatened eider ducks; and had provided a misleading analysis of the environmental impacts of seismic surveys, the court order said.

Tiered approach

MMS had argued that its standard of review was appropriate for the lease sale and that a more tightly focused environmental analysis would ensue if development progressed to more site-specific exploration and development activities.

And Beistline accepted this approach in his evaluation of the questions raised about the impacts of seismic surveying and the potential impacts on eider ducks, saying that the Court of Appeals for the 9th Circuit has in the past ruled in favor of the MMS tiered approach to environmental analysis.

The district court finds that the record reflects a "hard look" in these areas, while acknowledging that necessary mitigation measures can be implemented in later stages of the oil and gas development process, Beistline said.

On the other hand, Beistline took issue with the lack of analysis in the EIS of the potential environmental impacts of natural gas development.

"The court agrees with plaintiffs that the inclusion of incentives for natural gas exploration without addressing the impacts of natural gas exploration is arbitrary because it 'entirely failed to consider an important aspect' of the lease sale," Beistline said.

Missing information

And, with regard to the issue of missing environmental information, the EIS contains numerous statements acknowledging a lack of information about wildlife, habitats and the effects of activities on the wildlife, Beistline said. NEPA regulations do not require environmental information to be complete, but the regulations do require a federal agency to determine whether the missing information is relevant or essential, and to determine whether the cost of obtaining the missing information is "exorbitant," or whether the means of obtaining the information is unknown, he said.

The court finds that MMS's failure to comply with the clear instructions of NEPA regulations "was an abuse of discretion," Beistline said. ●

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OCS lease sale program still under appeal

A case in the U.S. Court of Appeals for the District of Columbia, appealing the entire MMS 2007-12 outer continental shelf lease sale program, including the 2008 Chukchi Sea lease sale, has yet to be resolved.

In an April 2009 ruling in that appeal, the D.C. court said that MMS had not done an adequate analysis of the potential environmental impacts of oil and gas leasing in the Alaska OCS. The court subsequently directed MMS to rework the environmental analysis for reconsideration, saying that the April decision only had the effect of withdrawing Alaska lease sales (including the Chukchi Sea sale) from the lease sale program.

In April of this year the U.S. Department of the Interior published its proposed revised environmental analysis and lease sale program, affirming the 2008 Chukchi Sea lease sale. The revised environmental analysis went through a 30-day public review. On June 18 the U.S. Department of Justice notified the D.C. court that the Department of the Interior was still in the process of revising its lease sale program document, having received more than 100,000 comments during the public review.

—ALAN BAILEY