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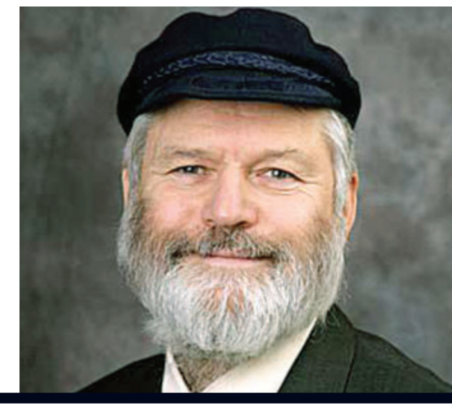

page 3 Seaton: Hydro needs renewable tag; changes in bill favor independents

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Prep work begins at Kenai Loop

BUCCANEER ALASKA

Buccaneer said March 9 that it has begun building a drilling pad and access road for its Kenai Loop No. 1 well on the Kenai Peninsula. See story, page 10.

Shell plans to drill in Beaufort and Chukchi seas in 2012-13

Shell plans to drill exploration wells in both the Chukchi and Beaufort seas in the 2012 and 2013 summer open water seasons. The company plans to use the Noble Discoverer drillship to drill up to four wells per drilling season in the Chukchi and to use the Kulluk floating drilling platform to drill up to two wells per season in the Beaufort, Pauline Ruddy, Shell regulatory affairs team lead, told the National Marine Fisheries Service Arctic Open-water Meeting in Anchorage, Alaska, March 8.

The company plans to upgrade the Kulluk with improved emissions technology to meet clean air requirements, Ruddy said. Shell has previously made similar upgrades to the Noble Discoverer.

Ruddy said that the Chukchi Sea drilling will target the Burger prospect, a 25-mile-diameter structure that is known to hold a major natural gas pool some 80 miles offshore the western end of Alaska's North Slope.

2011 plans

Shell has already deferred plans to drill in the Beaufort Sea in 2011, following the remand of its Beaufort Sea air quality permit

see **SHELL DRILLING** *page 22*

No comfort in oil price outlook; dependence could disrupt recovery

The recent spike in oil prices, fueled by recent conflicts and violence in the Middle East, is bad news for U.S. energy supplies and likely will slow the nation's economic recovery.

But a bigger worry is whether the unrest will continue and spread to engulf the entire Mideast region, said longtime oil industry observer Roger Herrera.

JUDY PATRICK

ROGER HERRERA

"I've not the slightest idea what will happen to oil prices in the short term. But beyond that, I don't think we will ever be comfortable about the price of oil again," said Herrera, who has spent more than 40 years observing oil prices, initially as a petroleum industry geologist who started his career in Alaska, and then working around the world, in places such as Peru, East and West Africa, Greece, Canada's Arctic Islands, Colombia, Papua-New Guinea, Libya and Barbados before returning to Alaska in 1975, where he became increasingly involved in the federal politics of operating in the northernmost state. Herrera spent a lot of time in Washington, D.C., on issues such as offshore exploration and opening the 1002 area of the Arctic National Wildlife Refuge to energy

see **HERRERA** *page 23*

LAND & LEASING

Repsol takes 70%

Pace of exploration tied to tax changes; Armstrong heads up operations

By KAY CASHMAN & KRISTEN NELSON
Petroleum News

BILL ARMSTRONG

ANTONIO BRUFAU

Denver-based Armstrong Oil and Gas has done it again: Assembled an acreage position in northern Alaska and brought in a large partner to develop North Slope and nearshore Beaufort Sea prospects.

This time the partner is Spanish oil mega-major Repsol YPF and the acreage is the largest block yet — 2,000 square kilometers, or 494,211 acres, including everything Armstrong, bidding as 70 & 148 LLC, won in state areawide lease sales in 2008 and 2009 south of the Kuparuk River unit, in the White Hills area and near the Oooguruk unit. All of GMT Exploration LLC's northern Alaska acreage was also picked up in the deal. GMT is a Denver independent that Armstrong brought to Alaska in early 2010.

Exploration drilling on the acreage will begin next winter, per a March 7 press release from Repsol, which said it had agreed to "a broad-reaching exploration and development program," with Repsol and Armstrong's 70 & 148 "collaborating on all aspects

see **REPSOL** *page 24*

NATURAL GAS

Mackenzie bounces back

Aboriginal Pipeline Group president optimistic about fiscal deal with government

By GARY PARK
For Petroleum News

Suddenly, out of a gathering gloom, the Mackenzie Gas Project has reappeared, apparently full of vigor and hope.

The rallying cry came from Bob Reid, president of the Aboriginal Pipeline Group, who told a Calgary conference that the MGP's corporate partners are set to resume talks with the Canadian government in hopes of reaching agreement on federal fiscal terms by mid-2011.

"We want to get back and get this thing done," he said. "The north is truly ready and waiting."

Reid told the Canadian Institute's Arctic gas symposium that the federal cabinet is expected to give final regulatory approval to the project in March, opening the way to settle on a fiscal framework.

> *"If you take an A rating, which we would get with this collection of companies right now, and improve that to an AAA ratings, you could reduce the toll by US$1.50 (per million British thermal units). That's how sensitive it is. It's huge."*
> **—Bob Reid, president, Aboriginal Pipeline Group**

see **MAC GAS PROJECT** *page 23*

LAND & LEASING

BP, Conoco feel left out

ExxonMobil, state wage private talks over Alaska's disputed Point Thomson field

By WESLEY LOY
For Petroleum News

The state and ExxonMobil are continuing negotiations to try to settle the legal dispute over Alaska's Point Thomson oil and gas field.

But dissension has emerged among the field's major stakeholders, with BP and ConocoPhillips recently complaining they've been shut out of the negotiations.

Another owner, Chevron, lodged a similar complaint back in January.

ExxonMobil is the largest stakeholder and the designated operator for Point Thomson, a nonproducing field located along the Beaufort Sea coast next to the western boundary of the Arctic National Wildlife Refuge.

The companies are fighting state efforts to take away their leases and dissolve the Point Thomson unit. Alaska officials are trying to reclaim the state acreage because of a lack of production from the field, discovered in 1977.

Over the years, ExxonMobil has cited technical challenges and the lack of a North Slope natural gas pipeline as primary reasons why the field hasn't been developed.

The Point Thomson dispute involves the highest of stakes. The field holds billions of dollars

> *"BPXA has not given ExxonMobil authority to negotiate on its behalf," lawyers for BP said in a March 7 filing with the Supreme Court.*

see **POINT THOMSON** *page 22*

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GOVERNMENT

DC needs to recognize hydro as renewable

Rep. Paul Seaton: Alaska hydro needs exception; notes most House Resources amendments to HB 110 geared to smaller companies

By STEVE QUINN
For Petroleum News

Rep. Paul Seaton just completed his first trip to the annual Washington, D C., Energy Council meeting. He joined 27 colleagues from the Alaska Legislature.

The trip came on the heels of the House Resources Committee forwarding Gov. Sean Parnell's tax rewrite bill, HB 110, to the House Finance Committee.

Seaton, a Homer Republican, is co-chair of the Resources Committee, which approved several amendments designed to assist independent producers.

Upon returning from Washington, Seaton sat down with Petroleum News to discuss the merits of his trip and the state's oil tax system.

Petroleum News: How well attended was the conference?

Seaton: I was impressed that there were as many Alaskans as there were. There were I think 28 Alaskans and 14 Canadians. There were not that many others. There were three or four from Texas, a couple from Kansas, one from Louisiana and one from Mississippi and that was close to about it.

Petroleum News: Is that overkill or does it suggest urgency on Alaska's part?

Seaton: I think it suggests other states are undergoing a severe economic decline. They did not participate from my understanding as they have in the past. I think people got quite a bit out of it, but it was a lot of the people we see a lot up here which was not as beneficial as seeing other folks and perspectives from around the country.

Petroleum News: You had additional priorities than the standard natural gas pipeline. What were they?

Seaton: One is that hydro power is not seen or not federally recognized as a renewable energy source. It was interesting that the FERC Chairman (John Wellinghoff) was able to identify the reason for that because it has been perplexing to us.

Where they are trying to establish renewable energy portfolios, if you count the existing hydro facilities then many states and areas have a high proportion from those old projects so it wouldn't stimulate wind, solar, biomass, other renewable portfolios. So in my conversations with folks on the Hill, the FERC chairman suggested we look at new hydro projects.

What I suggested is we might look at water sources that didn't have economic competition for the water so that if you had an area where you are talking about needing the water for population and for agriculture then you wouldn't get into it where you try to move that water into energy production. If you have 200 sources up here in Alaska that aren't being utilized for anything else then it could qualify as part of a renewable portfolio.

We're just trying to think of other ways to have it apply nationwide so it's not an Alaska carve out. Washington and Oregon have lots of streams and flowing water along the coast that doesn't go to other things and those should be classified as well.

REP. PAUL SEATON

Petroleum News: What was the second priority?

Seaton: The laws of the sea convention. It extends our jurisdiction north especially into the Arctic and capturing that economic benefit for the United States and Alaska of the oil and gas potential in the Chukchi Sea beyond the 200 mile limit. We got good feedback. Sen. (Roger) Wicker (Mississippi) was addressing the Energy Council. I asked about it. He said we should extend all efforts to try and do that. He was thinking it would be the administration's and secretary of State's responsibility. We have to balance the desire of that economic benefit versus some potential sovereignty questions.

Petroleum News: So it's not strictly a fishing issue.

Seaton: No it's not. It's the 200-mile limit and the extension of the continental shelf beyond the 200-mile limit if you can scientifically show you continental shelf goes beyond. That would be roughly estimated the size of California in the Chukchi Sea north of Alaska. The U.S. Geological Survey has estimated that 25 percent of the undiscovered hydrocarbon resources are in the Arctic. So that could be a huge economic boon to Alaska and the United States.

Petroleum News: Was there any push-back from people in Washington about anything happening in Alaska, like the gas line development or the state's tax system possibly hurting resource development.

Seaton: The conversations I had were they are hoping we proceed (with the gas line). They don't know whether we will. They are supportive of oil. There is always an ANWR balance, however. There are individuals that well, if gasoline hits $5 a gallon, say there will be a push to get more national sources.

It's interesting that the announcement by Repsol, how they are now 70 percent in with Armstrong, and the reason they are doing that is because they want to invest in OECD countries, those that are politically stable like us, Norway and other countries.

They want to enlarge their portfolio (in areas) that are politically stable. Even as we, Norway and other countries have higher tax rates than some Third World countries, the political stability is very beneficial.

It's interesting how they don't list any problems with the tax regime. It's this balance act we've been talking about: Where does Alaska fall in relation to where people want to invest? Here we see that our balance is good enough to get three-quarters of a billion dollars.

Petroleum News: With that in mind, there is a lot of discussion about what to do with the tax system, whether it's changing the base rate, or progressivity (surcharge) or credits, or a little of each?

Seaton: I've been a little surprised that the media has looked at the things we changed in the bill when it was in House Resources as if those were just monetary pieces. We were specifically targeting new exploration and new fields, like having to spread your credits from two years to one year so companies coming into the area could get their money turned around quicker.

We also expanded the small producer tax credits. The first seven amendments House resources did were all targeted toward accelerating production on the North Slope. My big problem with the way HB 110 is that it gives huge tax breaks to the three producing companies without having any plans for development, enhanced or expedited, at all.

We've had three companies come forward and say we want to expedite development: Brooks Range, Great Bear and Armstrong. They all have projects they are actively engaged in, have permits for and they are not in (Juneau) saying they need a tax rate cut.

They are saying that's not what they need for development. What people have been missing is Great Bear says they need roads to resources. The only way you can have a build out in the scope in which Alaska wants — you know a couple hundred wells a year — is to have year-round roads. You can't do it on an ice road. That is the way we can help that project the best.

Petroleum News: Is there an appetite for change in the tax system in this building?

Seaton: There is an intuitive sense that is what we need to do to fill the pipe. The proposal that comes forward doesn't offer us any assurance at all of putting more oil

see **SEATON Q&A** page 21

● ENVIRONMENT & SAFETY

Canada's offshore faces change

NEB official predicts operators will have to show means to handle spills; final report to Canadian government likely in 2012

By GARY PARK

For Petroleum News

With an eye on parallel developments in the United States, Canada is making measured progress toward an overhaul of its 40-year-old laws and liabilities covering drilling in Arctic waters, aiming to complete the first of three phases by the end of 2011, an official with the National Energy Board told an Arctic gas symposium in Calgary.

Robert Steedman, the federal regulator's environment team leader, said the current review is expected to result in "enormous" responsibilities being placed on operators to establish their "financial and technical capabilities" to handle spills.

The NEB was already engaged in updating its Arctic offshore safety and environmental regulations when it was blindsided by BP's Macondo well blowout in the Gulf of Mexico, which prompted the Canadian government to order a more comprehensive review.

The NEB was already engaged in updating its Arctic offshore safety and environmental regulations when it was blindsided by BP's Macondo well blowout in the Gulf of Mexico, which prompted the Canadian government to order a more comprehensive review.

Steedman said the first phase involves fact finding and information gathering, with stakeholders given until April 1 to make their submissions.

Phase 2 to discuss those submissions is expected to commence in May and June with hearings scheduled in Inuvik and Yellowknife in the Northwest Territories, Whitehorse in the Yukon and Iqaluit in Nunavut/

The final phase involves presentation of a final report to the Canadian government, which is unlikely to happen until 2012.

Attention to Deepwater Horizon

Steedman said the NEB will pay special attention to recommendations of the U.S. National Commission on the BP Deepwater Horizon blowout.

The final report of that commission in January urged a major reform of the industry and government approach to offshore drilling in the Gulf and Arctic.

It called for the U.S. government to persuade countries such as Canada, Russia and Norway to accept a common regulatory standard for Arctic drilling and ensure there is an international capacity to respond to blowouts.

The U.S. commission said the Macondo incident was not so much a case of one rogue company ignoring common safety standards as a failure by both government and industry to properly assess the risks as industry operations moved into deeper waters and harsher environments.

"There has been a culture of complacency that affects both government and industry," said commission co-chair William Reilly, a former Republican head of the Environmental Protection Agency.

Although the U.S. panel did not call for an outright moratorium on drilling, it said much needs to be done to strengthen safety and response capability before major activity should proceed.

Critics of Canada's offshore rules noted that last August a drillship contracted by Chevron Canada completed an exploration well in Newfoundland's Orphan basin — the deepest offshore well in Canadian history.

But current rules give Chevron two years from the well completion to disclose details about the design of the well, what equipment was in place to prevent a blowout and how that equipment held up in such uncharted depths.

Nathan Cullen, a Member of Parliament for the left-wing New Democratic Party, said the "coziness" between regulators and the industry in Canada is "so reminiscent of the U.S. situation in the Gulf. The public has been left in the dark. But if you're proud of your safety procedures, then clearly you'd want to tell the public about it."

Canadian rules in place for 40 years

The NEB's call for a review attracted about 90 registrations from oil and gas companies, provincial and territorial governments, labor organizations, non-governmental organizations, environmental groups, aboriginal communities, political parties and individuals.

While the NEB's mandate covers technical and operational issues, the Canadian government is under extreme pressure to update rules that have been in place for 40 years, when the price of oil was about US$7 a barrel.

The liability cap under a same-season relief well policy — which itself is being questioned by Imperial Oil and ExxonMobil Canada as they develop plans to drill in the Beaufort Sea — is C$40 million, a tiny fraction of the market capitalizations of Imperial, ExxonMobil, BP and Chevron, which hold deepwater acreages in the Beaufort.

But the liability caps are only modestly more onerous in the U.S. at US$75 million and the British North Sea at US$120 million.

Adding to the Canadian concerns is the loss of physical equipment and human knowledge since Beaufort Sea drilling went into sharp decline in the 1980s.

As far back as 20 years, a Northern Environmental Impact Review Board found there was a "startling lack of preparedness" by the Canadian government and Gulf Canada Resources (since acquired by ConocoPhillips) to deal effectively with a major oil well blowout during the open waters season.

An 82-page report by the board rejected an application by Gulf Canada because of a worst-case scenario that a well blowout could release 40,000 barrels per day for 15 days, resulting in 1.8 million barrels flowing into a wide area — seven times the volume released by the Exxon Valdez.

In a submission to the NEB, the British Columbia Investment Management Corp., which has assets valued at about C$80 billion under its control including shares of BP, said companies should be forced to drill simultaneous relief wells when they are drilling deepwater wells in Canada. ●

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● ENVIRONMENT & SAFETY

Climate models critical to ESA listings

The listing of animals threatened by warming climate hinges on how far into the future models can predict future climate trends

By ALAN BAILEY
Petroleum News

There was a time, not too many years ago, when wildlife such as the Lower 48 bald eagle qualified for protection under the Endangered Species Act because a precipitous population decline had flagged the imminent possibility of extinction. But nowadays, with increasing concern about the Earth's warming climate, there has been a burgeoning trend to list species perceived to be threatened by climate change, regardless of whether the populations of those species have shown any inclination to drop.

The poster child for this new trend is the polar bear, listed as threatened in 2008 because of the destructive effects of global warming on the bear's sea-ice habitat.

Climate models

Climate-change-related listings depend on climate models that make predictions about future climate trends. And all of the recent listing decisions have hinged on the same climate science, the science presented in the fourth report of the Intergovernmental Panel on Climate Change, or IPCC, Jason Morgan, an attorney with law firm Stoel Rives LLP, told the Law Seminars International's Endangered Species Act — Impacts on Alaska seminar on Feb. 24.

The question of how to predict the future is critical in the application of the ESA because of wording in the act that says a species is threatened if there is a likelihood of the species becoming extinct at some time in the "foreseeable future."

But, in the context of climate change, what exactly is meant by "foreseeable," and how far into the future can the climate be foreseen? If climate science were to predict the extinction of 50 percent of current species in 200 years, would that constitute the foreseeable future and, if so, what impact would that forecast have on the application of the ESA, Mason asked.

The IPCC report made climate predictions through to 2050, using existing, known greenhouse gas concentrations in the atmosphere, with the models becoming markedly less certain beyond that time window. So, the period to 2050 became the "foreseeable future" for the polar bear listing, with the U.S. Fish and Wildlife Service using the IPCC climate predictions to project future loss of the polar bear's sea ice habitat.

"They picked the 45-year foreseeable future because for the first half of the 21st century, to 2050 or so, the models used by the IPCC are largely based on existing carbon inputs," Morgan said.

Further into the future

But in the case of the Pacific walrus, another Arctic species that uses a sea-ice habitat, Fish and Wildlife appears to have moved that foreseeable future time horizon out towards 2100 by considering IPCC climate models that project beyond 2050, Morgan said. In February the agency designated the walrus as warranting protection under the ESA but currently precluded from protection because of insufficient agency resources to deal with listing the species — Fish and Wildlife has a system for prioritizing proposed listings and has placed the walrus at a lower priority than some other species.

The National Marine Fisheries Service, the federal agency responsible for the management of most U.S. marine mammals, also pushed the time horizon farther out by using climate projections to around 2100 in its December 2010 proposal to list the ringed and bearded seals as threatened, Mason said.

On the other hand, a December 2008 NMFS decision not to list the ribbon seal probably resulted from the restriction of climate predictions to a 50-year window, he said. But the current trend to move the "foreseeable future" time horizon out to 100 years will likely trigger an increasing number of listings.

"The longer the horizon gets out on foreseeable future … the more species seem to fall within that net," Mason said.

In addition, the fact that the Fish and Wildlife Service, an agency within the Department of the Interior, oversees polar bears and walrus, while NMFS, an agency within the National Oceanic and Atmospheric Administration, oversees other marine mammals has also been leading to some inconsistencies in the way in which the ESA is being applied, Mason said.

Special ESA rules

These inconsistencies have become particularly evident in the use of section 4(d) of the act, the section that allows the regulating agency to instigate special regulations for a threatened species. In the case of the polar bear, Fish and Wildlife introduced

see **ESA LISTINGS** *page 6*

An environmentalist view of the ESA controversy

While those who wish to promote the development of Alaska natural resources worry about the obstacles that Endangered Species Act listings may place in the way of development projects, people on the environmental side of the ESA debate see the act as an essential tool in the conservation of wildlife.

The Center for Biological Diversity, with its mantra that human wellbeing depends on a sustained diversity of wildlife, has spearheaded the use of the ESA to protect species that it believes to be threatened by climate change.

"I spend a lot of time (thinking) … about how we as people are impacting the species, and how we're impacting polar bears and all the Arctic species," Rebecca Noblin, Alaska director of the Center for Biological Diversity, told the Law Seminars International's Endangered Species Act — Impacts on Alaska seminar on Feb. 24. Arctic sea ice is shrinking faster than climate models have predicted and sea ice is important to the survival of many Arctic species, she said.

Polar bears vulnerable

Polar bears, for example, range across huge areas of sea ice, raising their young and preying on seals that live on the ice. And, although the bears can swim, swimming expends much energy and does not allow the bears to hunt. More polar bears are starving and people are observing increasing numbers of bears drowning, Noblin said.

"Greenhouse gases that we put into the air right now are going to keep warming the Earth for another 50 years," Noblin said. "So if we wait until polar bear populations have completely crashed because of global warming, it's too late. … The time to act is now."

Congress wrote the ESA to be very broad in its application and the act is intended to address all kinds of threats to species, including climate change, Noblin said. People need to consider the potential impact on Arctic species when planning a project that may result in increased greenhouse gas emissions, she said.

Van Tuyn: an uncertain world

Peter Van Tuyn, an attorney with Bessenyey and Van Tuyn LLC, has represented

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● GOVERNMENT

BOEMRE opts to assess Chukchi Sea spill

Action to add very large oil spill assessment to lease sale SEIS will delay resolution of appeal until at least late October

By ALAN BAILEY
Petroleum News

Just as it appeared that resolution of an appeal in the Alaska District Court against the 2008 Chukchi Sea outer continental shelf lease sale might finally be in sight, the appeal case took a new twist March 4 when the Bureau of Ocean Energy Management, Regulation and Enforcement announced that it has opted to add a very large oil spill assessment to the supplementary environmental impact statement for the sale.

2010 court order

In July 2010 the court ordered BOEMRE to revise the original EIS for the lease sale in response to an appeal against the sale by the Native Village of Point Hope, the Inupiat Community of the Arctic Slope and 12 environmental organizations. And the court has banned Chukchi Sea lease related activities until the appeal is resolved.

Shell, ConocoPhillips and Statoil are all actively pursuing exploration programs in leases that they purchased in the 2008 sale but will not be able to carry out any drilling in their leases unless the court determines that BOEMRE has prepared a legally acceptable SEIS.

In the July 10 order Judge Ralph Beistline said that MMS, the predecessor agency to BOEMRE, had acted in an arbitrary manner in preparing the lease sale EIS 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.

In October BOEMRE published a draft SEIS for public review, saying that the new SEIS had addressed the deficiencies that the court had listed in its July order. But, with BOEMRE subsequently receiving more than 150,000 comments on the SEIS, the agency has spent several months working on the document since the public comment period ended.

Response to public comments

But by conducting a new oil spill assessment in response to concerns raised in public comments on the draft SEIS, BOEMRE is going beyond the requirements of Judge Beistline's order.

"Due to the Deepwater Horizon oil spill, many commenters requested an analysis that takes into account the possibility of a blowout during exploration," wrote David Glazer of the U.S. Department of Justice in a status report submitted to the court March 4. "After reviewing those comments, BOEMRE has determined that it is appropriate to update its spill risk assessment and provide a very large oil spill ("VLOS") analysis from an exploration well blowout as part of this SEIS."

BOEMRE now anticipates releasing a new draft SEIS by late May for public review, with the public review period ending in early July and final record of decision on the new SEIS likely in late October, Glazer wrote.

The new oil spill analysis will "promote the agency's decision-making on remand and aid any future environmental reviews and decisions" for Chukchi Sea leases, he wrote.

Shell evaluating situation

Shell is still evaluating the potential impact on the company's 2012 plans for the Chukchi Sea following BOEMRE's decision, Shell spokesman Curtis Smith told Petroleum News March 7.

"It's fair to say that the announcement is extremely troubling and could potentially impact thousands of jobs, future energy security and the economic stimulus that would result from offshore development," Smith said.

Smith said that Shell is particularly concerned that the new schedule for completion of the Chukchi Sea SEIS is inconsistent with what the court has ordered. Shell has already done significant oil spill scenario planning — the

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ESA LISTINGS

a special 4(d) rule allowing this species to be protected under the regulations of the Marine Mammals Protection Act and the Convention on International Trade in Endangered Species, with this rule being of particular benefit to the petroleum industry and to communities within the polar bear's range. Fish and Wildlife also backed the ESA out of greenhouse gas regulation by implementing a 4(d) rule excluding activities outside the bear's range from incidental take considerations — without this rule any activity in the U.S. that generates greenhouse gases might be viewed as harassing polar bears.

But NMFS, the agency now facing the listings of multiple sea-ice-dependent species, has so far shown no inclination to introduce 4(d) rules of the type that Fish and Wildlife has introduced, Mason said.

"They're going to be faced in the near future with having multiple species that are listed on the basis of loss of sea ice, and they're going to have to wade into this (greenhouse gas regulation) question, unless … they put out their own 4(d) rule," Mason said.

Consultation costs

A key provision of the ESA is the requirement for consultation with the appropriate regulating agency if an activity involving the federal government may impact a listed species (almost all industrial activities in Alaska involve the federal government in some way). The regulating agencies have downplayed the potential costs of these ESA consultations, but industry has estimated that the cost of a consultation could run to hundreds of thousands of dollars — companies have to go through the consultation process thoroughly or risk having projects stopped through litigation, Mason said.

And, for companies operating in Alaska, the designation of listed species critical habitat over wider and wider areas of territory is also causing major concern, with the designation of 187,257 square miles of polar bear critical habitat attracting particular attention. The designation of critical habitat will create process related costs for people conducting projects and may prohibit certain projects, Mason said. The regulating agencies have adopted a position saying that critical habitat designations do not have much impact beyond that of the ESA consultation requirements, but there is reason to believe that it is more difficult to carry out a project in an area of critical habitat than elsewhere, he said.

"There is the potential for critical habitat to effectively preclude certain projects from happening just by virtue of its existence," Mason said. "It becomes politically untenable for an agency to authorize certain projects within designated critical habitat, simply because it is critical habitat." ●

Contact Alan Bailey at abailey@petroleumnews.com

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ESA VIEWS

the environmental lobby in several high-profile court cases, including the successful appeal against the U.S. Minerals Management Service 2007-12 outer continental shelf lease sale program.

"What we're trying to deal with here … is how to manage in a world of great uncertainty — how does that relate to specific decisions that people can get really frustrated with, especially if they're project proponents, or just really challenged with if they're agency employees, just trying to make reasoned decisions within the law," Van Tuyn said.

The United States was the first country in the world to establish a national policy, making the protection of other life on Earth a priority — history has shown that societies that protect their environments tend to thrive while those that do not tend to fail, Van Tuyn said.

But there is a near hysteria in Alaska over the use of the ESA, even although experience from the Lower 48 demonstrates that the cost of ESA compliance need not be high, Van Tuyn said. There have been relatively few determinations that planned activities will adversely impact protected species and, where an adverse impact has been determined, it has generally been possible to find alternative, acceptable ways to conduct projects, he said.

Alaska is home to an ancient culture and also has wildlife that is the envy of the world; the state has fisheries that earn billions of dollars per year; and tourists travel to Alaska to see natural bounty no longer seen elsewhere, Van Tuyn said.

—ALAN BAILEY

● NATURAL GAS

Doubling up in Montney

South Africa's Sasol matches pre-Christmas BC shale gas assets acquisition, evaluating GTL; partner Talisman says LNG exports option

By GARY PARK
For Petroleum News

South Africa's petrochemical giant Sasol is expanding its natural gas interests in British Columbia to build feedstock for a possible gas-to-liquids plant, although its joint-venture partner Talisman Energy is not yet fully sold on that option.

But Sasol left no question about its commitment to the Montney shale gas play of northeastern British Columbia by committing C$1.05 billion to develop stranded gas.

The investment matches its original foray when it acquired a 50 percent working interest in Talisman's Farrell Creek Montney assets, including land, wells and processing facilities, negotiating a similar stake in the Cypress A resource 25 miles to the north.

Similar to the initial transaction, Sasol will pay C$250 million in cash at closing and C$800 million to fund 75 percent of Talisman's future capital commitments to Cypress A.

The joint-venture partners say they do not expect to start commercial development at Cypress A, which is less advanced than Farrell Creek, for several years, reinforcing Sasol's strategy of accumulating long-term prospects.

Higher price for Farrell Creek

In a research report, Ticonderoga Securities estimated Sasol will pay C$37,000 per net acre for the Cypress lands compared with C$41,000 for Farrell Creek, which gave it an estimated 4.8 trillion cubic feet of net contingent resources. Cypress A covers 57,000 acres and holds an estimated contingent resource of 11.2 tcf.

CIBC World Markets analyst Andrew Potter said terms of the Cypress A deal "infers a valuation for Talisman's Montney acreage" of about C$7 billion, up C$5.5 billion from his firm's valuation following the Farrell Creek deal.

Sasol and Royal Dutch Shell are the only companies that operate commercial-scale GTL plants, with Sasol running facilities in South Africa and Qatar and currently building another in Nigeria, with more developments planned for other countries.

Shell operates a plant in Malaysia and is building the world's largest GTL plant in Qatar.

Following the initial Sasol-Talisman deal, the two companies started a feasibility study that is expected to take 18 to 24 months of a commercial GTL facility in Western Canada, with the thought of producing premium-priced diesel, naphtha and jet fuel to meet a high demand in North America.

Sasol Chief Executive Officer Pat Davies said the transaction "will accelerate our upstream growth" and open the way for his company to utilize its proprietary GTL technology.

Talisman Chief Executive Officer John Manzoni said the Cypress A deal allows the partnership to "unlock the additional value (of the Montney play) and potentially accelerate development" of the Farrell Creek resources.

"Exploring the option of doing something other than simply sticking the gas into the North American pipeline network is potentially a hugely accretive option," said Paul Smith, Talisman's North American vice president.

He said the injection of Sasol capital, along with strong early drilling results, will help speed the pace of development from four production wells that were completed last year in Farrell Creek, where Talisman has four operated rigs and drilled another 17 gross operated wells. A piloting program, including 16 gross wells last year, is continuing at Greater Cypress and Greater Groundbirch, Talisman's other major areas of interest in the Montney.

Equal weight to LNG

However, Mike Adams, Talisman's senior manager of corporate projects and business development, told a gas symposium earlier this year that Talisman is giving equal weight to GTL and LNG as it ponders options for the Montney gas.

He said Talisman is interested in LNG "because it's a way to monetize some North American gas" by taking advantage of anticipated growth over the next 10 years in Asian markets, where gas prices are indexed to oil and currently fetch about $12 per thousand cubic feet, compared with $4 in North America.

But Adams conceded the prospect of LNG exports from Canada faces obstacles, noting the Kitimat LNG project has to overcome First Nations concerns about the environmental impact as well as obtain Canadian government approval for exports.

On the plus side for GTL "you don't have to know anything about the GTL technology to know when you have high oil prices and low gas prices the economics of this are enhanced. The bigger the gap, the better the economics," he said.

Even though GTL technology exists and works, it is expensive and less efficient than LNG, he cautioned. ●

Contact Gary Park through publisher@petroleumnews.com

continued from page 6

SPILL ASSESSMENT

company considered all realistic oil spill scenarios before building a world-class Alaska oil spill response fleet, Smith said.

"Shell has made every effort to cooperate with BOEMRE at all levels so it's surprising to learn of this significant change in timeframe," Smith said. "Our issue is not with best practices being applied to the Arctic, because Shell supports a high bar and we take pride in exceeding it. Our issue is with the Department of Interior constantly moving the goal posts when it comes to the offshore. These constant delays seriously threaten our ability to make long term plans for Alaska."

Environmentalist support

Referencing reported difficulties in recovering oil spilled from a container ship that recently ran aground in sea-ice conditions off the southern coast of Norway, Leah Donahey, western Arctic and oceans program director for Alaska Wilderness League, praised BOEMRE's decision.

"We are glad that BOEMRE is applying lessons learned from the Deepwater Horizon disaster to the Arctic Ocean, by incorporating the impacts of a very large oil spill into their new analysis," Donahey said. "However, as we saw with last month's oil spill in Norway, the Arctic comes with its own unique set of challenges. BOEMRE must take into account the fact that — as painfully illustrated in Norway where more than 200 birds have been shot after being drenched in oil — there is no known way to clean up a spill in the Arctic's icy, extreme conditions."

Shell, for its part, has consistently argued that it can drill safely in the Chukchi.

The company has assembled a spill response fleet, including a purpose-built oil spill response vessel, and has committed to build an oil spill containment dome for its planned Chukchi Sea drilling. The company has said that, because Chukchi Sea exploration wells will be drilled in shallow water into relatively low-pressure reservoirs, the Chukchi Sea drilling will be much less risky than deepwater drilling in the Gulf of Mexico. ●

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GOVERNMENT

Units may not work for resource plays

Shublik, Kingak, Hue shales extend across North Slope; lack of drainage may mean unit formation not needed for shale development

By KRISTEN NELSON
Petroleum News

Sen. Tom Wagoner, R-Kenai, co-chair of Senate Resources, has a bill in the Alaska Legislature which would provide credits for development costs against the first five years of production tax for new oil and gas produced from leases not in units at the end of 2008. Wagoner is pushing the credits as a way to get more oil in the trans-Alaska oil pipeline.

How would those credits apply to Great Bear Petroleum's proposal for a resource play development on some 500,000 acres of state leases, an area where the company plans to produce from a nonconventional source, three source rocks or shales which stretch across the North Slope?

Current production in Alaska is from conventional sources, oil and gas in distinct pools. While the state has some production from individual leases, most is from blocks of leases organized into units.

Pools and units may not apply to regional shale trends, the Senate Resources Committee was told Feb. 28.

Conventional field development in Alaska involves, among other things, a unit application to the Division of Oil and Gas and a pool rules application to the Alaska Oil and Gas Conservation Commission. Then, before production begins, there is an application to the division for a participating area — a designation of the portion of the unit that will be producing.

KEVIN BANKS

JUDY PATRICK

CATHY FOERSTER

Great Bear is looking at three shales, the Shublik, Kingak and Hue or HRZ, shales which extend in a broad swath across Northern Alaska from the Chukchi Sea, south of producing fields, and in the case of the Hue, into the Arctic National Wildlife Refuge. These shales are the source rocks for conventional producing fields on the North Slope, but the majority of the oil is still contained in the shales, Great Bear has said in recent presentations to legislators.

Shales regional; drainage not an issue

Asked by Wagoner about pools as applied to shale production, AOGCC Commissioner Cathy Forester said "these shales tend to just be regional trends that cover large areas."

She said the commission looks for continuity and contiguity in a reservoir. If a credit under the proposed bill had already been granted to a producer in a regional shale play, it would be up to another producer to demonstrate to the commission that it had a new discovery and is not part of a pool already granted a tax credit, Foerster said. Most likely the commission would "put the burden on the operator to demonstrate to us scientifically that he is in a new pool."

Something like a big fault could be proof of lack of contiguity, she said, and could establish that there couldn't be flow from one side to another.

Co-chair Joe Paskvan, D-Fairbanks, asked if the HRZ, Kingak and Shublik shales are individual pools which could each run for hundreds of miles, Foerster said "yes" to both, the shales are individual pools and they run for hundreds of miles.

Foerster said the way the commission would interpret the bill is that "an operator would have to demonstrate to us they were in a new pool (to be eligible for the credit proposed in the bill). It could be those same — HRZ, Kingak and Shublik trends — but they would have to demonstrate to us that they were isolated."

Department of Natural Resources Division of Oil and Gas Director Kevin Banks said that the way the bill is written, it appears that "if there were no faulting or discontinuities in the shale layer" penetrated by a discovery well "… it would mean that there would be no more credits offered to the other players that may be drilling into the shale prospects."

Wagoner said his idea with the bill "is to generate activity to fill the pipeline up or put more oil into the pipeline," and said he didn't think they needed to be concerned with pool issues, because this is "entirely different than a pool of oil that's caused by a trap."

Units and resource plays

Banks said DNR wants to see units formed to conserve resources in development and to protect the rights of adjacent leaseholders.

"DNR is particularly interested in the economic development of the resource, so we don't want to see a lot of duplicative facilities on the surface," Banks said. The idea with unit development, he said, is to make sure that the lease tracts overlaying the pool "get their fair share of the costs and the … benefits of its development."

Foerster agreed, saying "the only time that unitization might be warranted in this kind of development is if there are economies that could encourage greater ultimate recovery. In other words, stopping competition between checkerboard small leases and having one set of facilities, one gathering system, rather than everybody going out on their own little patch of land and building the whole shebang."

Formation of units to protect correlative rights, to prevent drainage, probably isn't as important as with development of conventional oil and gas resources.

Banks said that with shale drainage isn't an important issue "because the wells produce from fairly limited distance from the wellbore and do not necessarily drain the oil or gas from another lease nearby."

Foerster also told the committee that with shale, "the drainage area for one well" may not impact other wells.

Banks said his knowledge of how jurisdictions for the Eagle Ford shale in Texas and the Bakken shale in North Dakota handle shale development is limited, but said "I don't think that unitization is common at all in some of these shale plays" because "… there isn't concern about drainage from one lease to another." ●

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Congratulations

Congratulations

Repsol, Alaska Armstrong & GMT

Armstrong Oil and Gas has done it again: Assembled an acreage position on Alaska's North Slope and near-shore Beaufort Sea and brought in a large partner to develop prospects.

This time the partner is Spanish oil mega-major Repsol and the acreage is the 462,646 acres Armstrong, bidding as 70 & 148 LLC, took in state areawide lease sales in 2008 and 2009 south of the Kuparuk River unit, in the White Hills area and near Oooguruk in the near-shore Beaufort Sea. Some of GMT Exploration LLC's northern Alaska acreage was also picked up in the deal. GMT is a fellow Denver independent that Armstrong brought to Alaska in early 2010. By PN's estimates GMT held 31,565 net acres of the blocks picked up by Repsol, including a 25 percent interest in Armstrong's White Hills acreage.

Exploration drilling on the 2,000 square kilometers, or 494,211 acres will begin next winter, per an early morning press release from Repsol, which said it had agreed to "a broad-reaching exploration and development program," with Repsol and 70 & 148 "collaborating on all aspects of the program" and Repsol holding a 70 percent interest in the acreage.

Further, the Madrid-based company said it had committed to supplying "the investment necessary to explore and evaluate the economic viability of the resources contained in these blocks."

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NATURAL GAS

Buccaneer starts work at Kenai Loop

Buccaneer Alaska has begun building a drilling pad and an access road for its onshore Kenai Loop No. 1 well on the Kenai Peninsula, the company announced on March 9.


COURTESY BUCCANEER ALASKA

The local subsidiary of an Australian independent plans to target the natural gas potential of multiple stacked pay zone possibilities at depths between 5,000 and 10,000 feet.

The company said it is permitting three drilling locations and hopes to spud in April. The field is located just north of the city of Kenai on the east side of the Cook Inlet basin.

Buccaneer is forecasting resource potential around 52 billion cubic feet of natural gas from the field, with initial flow rates between 5 million and 10 million cubic feet per day.

Kenai Loop No. 1 would be Buccaneer's first well in Alaska. The company is also looking to buy a jack-up rig to drill several offshore Cook Inlet wells.

To fund those projects, Buccaneer recently announced plans to undertake a "shareholders purchase plan" to bring in as much as $16.6 million by issuing nearly 175 million shares.

—ERIC LIDJI

PIPELINES & DOWNSTREAM

Tesoro Alaska throughput up for 2010

Tesoro Corp. moved 53,400 barrels of oil per day through its Alaska operation in 2010, up 5.5 percent from 2009, a slight bump after several years of declining throughput.

The increase is mostly the result of a planned turnaround in 2009 that reduced throughput to 50,600 bpd. Tesoro moved 55,600 bpd in Alaska in 2008 and 61,800 bpd in 2007.

Tesoro operates a 72,000 bpd oil refinery on the Kenai Peninsula that processes mostly Alaska oil, but also some foreign supplies. Tesoro also operates a 120,000 bpd oil refinery in Anacortes, Wash., that processes Alaska North Slope and other oil supplies.

Those two facilities refined 93,000 bpd in 2010, down from 135,000 bpd in 2009 and 159,000 bpd in 2008. Tesoro reported gross refining margins from the two facilities were $367 million (or $10.84 per barrel) in 2010, down from $376 million (or $7.65 per barrel) in 2009 and $396 million (or $6.82 per barrel) in 2008. Costs increased as well to $5.88 per barrel in 2010, up from $3.81 per barrel in 2009 and $3.99 per barrel in 2008.

Tesoro does not break out margins by facility.

Tesoro also owns 75 retail stations in Alaska.

—ERIC LIDJI

EXPLORATION & PRODUCTION

UAF to conduct Arctic seismic survey

The University of Alaska Fairbanks Geophysical Institute plans to conduct a National Science Foundation-funded 2-D seismic survey in the Chukchi Borderland of the Arctic Ocean between early September and early October 2011, UAF Associate Professor Bernard Coakley told the National Marine Fisheries Service Arctic Open-water Meeting March 8. The research vessel Marcus G. Langseth will be used for the survey, Coakley said.

The purpose of the survey will be to better understand how the Canada basin, the section of the Arctic Ocean immediately north of Alaska, formed. That in turn will enable a better understanding of the Mesozoic geology of the region. And the project will provide research for a doctoral student at UAF.

The purpose of the survey will be to better understand how the Canada basin, the section of the Arctic Ocean immediately north of Alaska, formed.

Many geologists think that the Canada basin opened by a counter-clockwise rotation of the Alaska North Slope away from northern Canada. But there is a general lack of data to support this theory and the Chukchi Borderland, a large region of continental crust protruding north from the continental shelf of the northern Chukchi Sea, presents a problem with this concept of basin formation, Coakley explained.

The UAF team plans to shoot a grid of 2-D seismic lines over the Chukchi Borderland, to obtain images of the stratification of the rocks in the Borderland continental shelf. Then, by running some seismic lines down into the northern Chukchi Sea, into the area of some oil exploration wells drilled by Shell around 1990, the team plans to determine the ages of the strata in the Chukchi Borderland by linking these strata through the seismic to known rocks encountered by the wells. A knowledge of the geologic structure of the Chukchi Borderland massif, together with information about the ages of the strata in the massif, should shed much needed light on the history of the Canada basin.

—ALAN BAILEY

● EXPLORATION & PRODUCTION

Statoil moves toward Chukchi drilling

Company has identified two prospects and plans to start site survey work, as well as reconnoitering possible pipeline routes

By ALAN BAILEY
Petroleum News

Following a successful 3-D seismic survey in its Chukchi Sea leases in the fall of 2010, Statoil has identified "positive indications" from the seismic data and plans to take the first steps towards some exploration drilling, Statoil lead geoscientist April Parsons told the National Marine Fisheries Service Arctic Open-water Meeting in Anchorage, Alaska, on March 8.

The company has identified two prospects in its leases, naming one prospect "Amundsen," after the Norwegian explorer, and the other prospect "Augustine," after the Alaska volcano, Parsons said. The prospects are about 150 miles west of Barrow, and about 100 miles offshore from the village of Wainwright, she said.

"These are our two primary prospect locations and we have identified some preliminary drilling locations," Parsons said.

Statoil owns leases in partnership with Italian major Eni in the northern part of the Chukchi Sea, as well as owning a 25 percent stake in some ConocoPhillips-operated Chukchi Sea leases.

Initial surveying

As part of preparation for an exploration plan that includes the drilling of wells, Statoil plans to conduct site surveying and seabed coring during the 2011 open water season, Parsons said.

A survey vessel, the M/V Duke, will conduct about 2,500 line kilometers of shallow seismic surveys in the prospect areas, obtaining seafloor imagery and high-resolution bathymetry, and using the seismic to locate any shallow drilling hazards. The survey team will also collect some data along potential pipeline corridors from the prospects.

Any developments in the Statoil leases would need to connect by subsea pipeline to a facility shared with other Chukchi Sea operators, to transfer products by pipeline to shore, Parsons said.

"Developments in the Chukchi, we feel, will have to be a cooperative effort between all of the operators here," she said.

Core sampling

Statoil's other 2011 open-water season activity will involve the M/V Fugro Synergy, a drillship equipped with dynamic positioning and echo sounder capabilities, doing core sampling of the seabed at potential drilling sites, Parsons said. In addition to coring at Statoil sites, the team will do some coring at some potential ConocoPhillips drill sites, she said.

And depending on available time, the survey teams may collect seafloor samples for the investigation of ice gouging.

The survey vessels will mobilize from Dutch Harbor in the Aleutians on July 15, in preparation to be on site on Aug. 1; coring should start on Aug. 15. All work should be completed by early October but could continue through mid-November, Parsons said. Statoil has started work on a plan of cooperation with North Slope communities and has already visited several villages, she said.

Karin Berentsen, Statoil's Alaska HSE and stakeholder advisor, said that Statoil is negotiating a conflict avoidance agreement with North Slope whalers. ●

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NATURAL GAS

FERC sets subsistence data requirements

The Federal Energy Regulatory Commission has notified Denali – The Alaska Gas Pipeline LLC and TransCanada Alaska Co. LLC of requirements for data on subsistence requirements for the companies' applications for certificates of public convenience and necessity to the commission.

In Feb. 17 letters FERC told the companies that a subsistence analysis must accurately describe the role of wild resources in the lives, communities and culture of residents; contain adequate information to assess potential environmental impacts of the project on both subsistence resources and uses; and propose mitigation, as appropriate, to minimize project impact on subsistence resources and users. FERC provided a more detailed list of requirements.

Negotiations continue

Denali's January monthly status report to the commission notes that the company continued negotiations during January with prospective shippers.

Denali said technical work activities have continued at the level of effort needed to prepare for the next phase of project development and to support ongoing negotiations with prospective shippers.

The company also continued outreach activities in both Alaska and Canada.

Denali's current schedule is to submit an application to FERC in 2013, but the company has said that continuing to the application stage is dependent upon shipper demand.

TransCanada's target application date is October 2012, and continuing through receipt of a FERC certificate was part of TransCanada's commitment to the State of Alaska in exchange for receipt of the state's license under the Alaska Gasline Inducement Act.

TransCanada said it is continuing its evaluation of initial open season bids and commercial discussions with potential shippers.

Public outreach continues and plans are being developed for the next round of community meetings, the company said, along with preparation of materials for technical workshops on the pipeline right of way to be held in the first quarter, and continuation of preliminary engineering work to define pipeline routing.

LiDAR data from last summer's program are in the final stage of process and planning and permitting of 2011 winter and summer engineering field programs is in progress.

Design and execution planning optimization work for the gas treatment plant continues and 3-D modeling efforts have begun, the company said.

TransCanada also reported on activities in Canada during January, including preparation for winter field data collection in the first quarter and plans for continued field programs during the remainder of the year.

—PETROLEUM NEWS

● FINANCE & ECONOMY

Repsol sees nice alternative in Alaska

Compared to the Repsol's other assets, the North Slope is stable, oil-rich and low risk, which is why the company plans to spend big

By ERIC LIDJI
For Petroleum News

The recent activity of Repsol YPF sheds light on four phrases in the Spanish major's press release announcing its North Slope lease acquisition, clues about what Alaska means to the global company: "oil-rich," "low exploratory risk," "OECD" and "boosted." (See related story on page 1.)

"The North Slope of Alaska is an especially promising area for Repsol as it has already shown to be oil-rich and carries low exploratory risk. This acreage also helps increase the company's presence in OECD countries," the company wrote in March 7 release, adding, "Repsol has significantly boosted its onshore and offshore exploration activities in the last five years, resulting in some of the world's largest oil and gas discoveries."

Repsol traces its lineage to a state-owned petroleum industry monopoly created before the Spanish Civil War and reorganized often in the following decades. Repsol became a private company in the late 1980s and gradually expanded internationally, buying the Argentinean company YPF in 1999 and establishing a vast Latin American portfolio.

In the past decade, Repsol made liquefied natural gas a major segment of its portfolio, while expanding in North and South America, the Caribbean, Europe, Russia and Africa.

With some 40,000 employees working in more than 30 countries, Repsol is currently one of the 10 largest private oil companies in the world. The company earned €4.7 billion of income in 2010 (around $6.5 billion) up from €1.5 billion in 2009 (around $2 billion).

With some 40,000 employees working in more than 30 countries, Repsol is currently one of the 10 largest private oil companies in the world.

"Oil-rich" and "low-exploratory risk"

By saying that the North Slope "has already shown to be oil-rich and carries low exploratory risk," Repsol placed Alaska apart from its LNG and challenging oil plays.

Because Repsol is the third largest LNG company in the world, its portfolio is tilted toward natural gas. In 2009, the company reported total reserves of 2 billion barrels of oil equivalent, some 890 million barrels came of oil and 6.7 trillion cubic feet of natural gas.

Those LNG assets are strategically located. In the Atlantic Ocean, the company owns import terminals in Spain and eastern Canada, and an export terminal in Trinidad and Tobago. In the Pacific Ocean, the company owns an export terminal in Peru.

With talk of LNG surpluses in the Atlantic in recent years, though, Repsol might see its Alaska acquisition as a relatively easy way to boost crude oil reserves and production. Its new lease position in Alaska is both prospective and close to existing infrastructure.

Repsol's oil portfolio includes exploration and production from many challenging, but prolific basins, like the deepwater Gulf of Mexico and the Santos basin off Brazil.

Repsol is arriving in Alaska the way several other larger players have in the past: by partnering with Armstrong Resources on acreage already proven up to some degree.

The White Hills region is onshore, close to the trans-Alaska oil pipeline and recently explored. Chevron drilled five shallow wells across the large play in 2008 and 2009.

Chevron never released well results, but the State of Alaska believes the region is both oil and gas prone. Alaska Oil and Gas Conservation Commission well logs released last year suggest Chevron was targeting natural gas prospects in the Brookian formation.

Although North Slope natural gas is currently stranded because of the lack of transportation options, and the Alaska export market for LNG is jeopardized by the upcoming closing of the export terminal on the Kenai Peninsula, Repsol's focus on global LNG and long-dormant rumors that it considered building a North Slope gas pipeline suggest that the company might be interested in gas resources as well as oil resources.

Repsol's other state leases sit north of the nearshore Oooguruk unit, where Pioneer Natural Resources continues to expand operations, resource estimates and production rates.

Increased presence in OECD

By saying its new acreage "also helps increase the company's presence in OECD countries," Repsol was acknowledging Alaska's stability on the international stage.

Repsol's decade-long focus on Latin America and North Africa brought it tremendous reserves and production, but it also placed the company at increased political risk.

In early 2008, Repsol laid out a four-year strategic plan that included "selective growth through large new projects in OECD countries." Specifically, Repsol set a goal to have at least 55 percent of its assets located in OECD countries by 2012. While the company currently maintains upstream operations in Canada, the Gulf of Mexico, Norway, Australia and its native Spain, it also operates in Algeria, Venezuela and Kazakhstan.

Repsol recently planned to invest $10 billion in an Iranian natural gas venture, but pulled out last June amid international efforts to sanction the regime over nuclear issues.

In February, Repsol suspended Libyan operations following unrest in the North African country, cutting its 300,000-barrel per day output nearly in half, to around 160,000 bpd.

In 2009 and 2010, the company announced 15 discoveries, including four in the offshore Santos basin of Brazil, the Buckskin and Shenzi prospects in the deepwater Gulf of Mexico and discoveries in North Africa, South America and off the coast of Spain.

Repsol is placing its Alaska acquisition in the context of its other North American operations, particularly its recent exploration and production from the Gulf of Mexico.

The company included its Gulf of Mexico operations among five upstream projects in its strategic plan, alongside ventures in Brazil, Libya, Algeria and Peru.

The company already holds acreage offshore Alaska, including a minority stake in federal leases in the Beaufort Sea and wholly owned federal leases in the Chukchi Sea.

Boosted exploration activities

By saying it "has significantly boosted its onshore and offshore exploration activities in the last five years" and by announcing a $768 million budget for Alaska, Repsol is suggesting that it plans to bring its aggressive exploration attitude up to the North Slope.

After years of partnerships and acquisitions, Repsol began focusing on exploration starting in the middle of the last decade. That strategy appears to have paid off. Since 2008, Repsol has made 35 discoveries on four continents, including 20 that it operates.

In 2009 and 2010, the company announced 15 discoveries, including four in the offshore Santos basin of Brazil, the Buckskin and Shenzi prospects in the deepwater Gulf of Mexico and discoveries in North Africa, South America and off the coast of Spain. ●

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The Nature Conservancy
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Working for people and nature in Alaska
CLARK JAMES MISHLER

● GOVERNMENT

Judge defers to governments, ExxonMobil

Alaska industry watchdog Steiner denied in request for $92 million 'reopener' payment to address residual harm from 1989 oil spill

By WESLEY LOY

For Petroleum News

A federal judge has ruled it's up to the state and federal governments, and not the court, to press a $92 million supplemental claim against ExxonMobil for the 1989 oil spill in Prince William Sound.

An oil industry critic and former university professor, Rick Steiner, in December sought permission to file an amicus curiae or "friend of the court" brief asking a judge to order ExxonMobil to pay the $92 million, which the state and federal governments had demanded directly of the company by letter in 2006.

Steiner said it was evident to him that the governments didn't intend to pursue collection of the demand.

U.S. District Judge H. Russel Holland of Anchorage, who has presided over many years of arduous court activity resulting from the oil spill, denied Steiner's motion.

In a five-page order issued March 7, Holland reasoned that because no party had filed a new claim in court, "there is neither an issue nor any cause of action as to which Professor Steiner could serve in an amicus curiae capacity."

Disappointed

The state and federal governments, as well as ExxonMobil, all opposed Steiner's motion.

The governments jointly served ExxonMobil with a demand for $92,240,982 on Aug. 31, 2006.

They did so under a civil settlement, struck in 1991, that not only required ExxonMobil to pay $900 million for the spill, but left the company liable for a later claim of up to $100 million under a "reopener" clause.

The governments said their $92 million reopener claim would go toward addressing unanticipated wildlife and habitat injuries from the spill.

To date, however, ExxonMobil has not paid the amount and argued in court that it has no further obligations. The governments, meantime, haven't sued for the money as certain studies continue on questions such as whether attempts to clean up lingering oil are even advisable.

Steiner told Petroleum News he wasn't surprised his amicus brief was barred, but was disappointed the judge didn't simply order ExxonMobil to pay.

"Exxon has been clear it does not intend to pay the claim, and the governments have either lacked commitment or confidence in aggressively pursuing the demand for payment," Steiner said. "As I argued to the court, the singular question in all of this is what is in the highest and best interest of assisting with full ecological recovery from the spill. Clearly with that as the standard, the court should have ordered the full payment plus interest."

Judge's comments

Holland did ask the governments and ExxonMobil to provide him with a status report on the reopener issue by Sept. 15.

He also made some interesting comments, cautioning readers not to draw conclusions on his view of the merits of any reopener claim.

The governments and ExxonMobil "have a right to decide for themselves how and when to proceed further with the claim which has been asserted," Holland wrote.

But he urged the governments to "proceed with all possible speed" to complete the studies.

"There is a public perception that the matter has been unresolved for far too long," Holland said of the reopener matter.

Further, he said, "the court has expressed its interest in seeing overall closure of proceedings flowing from the grounding of the Exxon Valdez."

Holland continues to oversee a complex distribution of winnings to thousands of commercial fishermen and others who brought an epic civil suit against ExxonMobil. ●

Contact Wesley Loy at wloy@petroleumnews.com

ENVIRONMENT & SAFETY

The Porcupine caribou herd is flourishing

A photo census carried out in July 2010 has shown that the Porcupine caribou herd, the herd that roams northeastern Alaska and the Yukon, Canada, has grown to an estimated 169,000 animals, the Alaska Department of Fish and Game announced March 2.

"There's no doubt the herd has grown since 2001. People on both sides of the Alaska-Canada border are pleased," said Jason Caikoski, assistant area biologist for northeast Alaska.

Caribou form an important resource for people living in the area used by the Porcupine herd.

Most of the aerial photos used for the survey were of good quality and the survey team accounted for all active radio collars in the herd, thus making it likely that few caribou were missed, Caikoski said. Similar surveys between 1992 and 2001 had documented a decline in the herd size to 123,000 animals from a size of 178,000 in 1989. But unfavorable weather conditions, problems with caribou movements and the poor aggregation of the herd resulted in the failure to complete any surveys between 2002 and 2009.

Caribou of the Porcupine herd calve on the coastal plain of the Arctic National Wildlife Refuge.

—ALAN BAILEY

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● GOVERNMENT

ACMP hearings begin in Legislature

Alaska Coastal Management Program terminates July 1 without action; bill to extend program heard; audit reviews program since changes

By KRISTEN NELSON

Petroleum News

The governor's bill to extend the Alaska Coastal Management Program beyond its July 1 statutory termination came up for a first hearing in House Resources.

The March 7 meeting was an overview of the program — and an opportunity for legislators to express their displeasure to Randy Bates, director of the Division of Coastal and Ocean Management, which runs the coastal management program.

Local coastal districts have been unhappy with changes the Legislature made to the program under the Murkowski administration, and legislators from coastal areas have been trying to get consensus to make changes in the program for several years.

Bills which have been introduced so far this session — the governor's House Bill 106 and its companion Senate Bill 45, and SB 56 by the Senate Finance Committee, address only extending ACMP. The Senate Finance bill proposes a one-year extension; the governor proposes a six-year extension; and a recently completed audit by the Division of Legislative Audit recommends a four-year extension.

Alaska participates voluntarily in the federal coastal zone management program through ACMP, allowing the state a voice in federal permitting activities within the state's coastal zone and on the outer continental shelf.

Statutory revisions to the ACMP in 2003 and 2005, and regulatory revisions in 2004, made substantial changes in the way the program operates. Local enforceable policies were limited, the Coastal Policy Council was eliminated and the program was moved from the governor's office the Department of Natural Resources.

Local policies an audit issue

In its findings and recommendations the Division of Legislative Audit recommended that the Legislature reauthorize ACMP. The division said it found a demonstrated public need for the program's continued existence and recommended either the repeal of the sunset now in statute or, "if another program evaluation is preferred," a four-year extension of the program.

In the first part of the audit, released in December, the division said regulatory changes have limited the ability of coastal resource districts to establish enforceable policies for local concerns.

"Under the former ACMP," the division said, "if a district program addressed the same subject as a statewide standard, the district program governed. Now a coastal resource district must demonstrate that a matter is not adequately addressed by state or federal law for its enforceable policy to be approved. A matter can be adequately addressed if an agency has the authority to regulate, whether or not it has regulations concerning the matter."

Of some 490 local enforceable policies submitted, approximately 35 percent were disapproved at least partly because the district did not show matters were of local concern, and more than half of the coastal resource districts surveyed by the division said they "believed they had enforceable policies disallowed even though they met the statutory requirement."

In a Feb. 24 letter to Reps. Neal Foster, D-Nome, and Bob Herron, D-Bethel, responding to questions raised in a January meeting, DCOM Director Bates addressed the issue of district enforceable policies, noting that they "must be consistent with the state standards and are meant to clarify or add specificity to the state standards without being more stringent." He said that under Alaska statutes local standards cannot duplicate, restate or incorporate by reference state or federal statutes or regulations.

District enforceable policies cannot "address a matter regulated or authorized by state or federal law unless the enforceable policies relate to a matter of local concern," Bates said, adding that districts often want to address matters, such as marine mammals, which "are already highly regulated through the federal Marine Mammal Protection Act and other applicable laws."

Designated areas

Legislative Audit cited designated area requirements as limiting the ability of coastal districts to establish enforceable policies for subsistence uses and important habitats.

Bates noted in his Feb. 24 letter that the federal Coastal Zone Management Act does not require that states consider subsistence uses, but said the ACMP voluntarily considers and evaluates impacts to subsistence uses during reviews of proposed projects in coastal areas.

He said that designated areas of subsistence use must be specific locations and must be documented. Two coastal resource service areas had enforceable policies and designated areas denied and Bates said DCOM recommended denial because the designated areas did not meet regulatory requirements that subsistence is an important use. And the areas designated were broad and not well documented, he said.

The audit noted that clarifying standards and policies and reducing redundancy were the Legislature's intent in its statutory changes, specifically: reducing delays and avoiding regulatory confusion; updating and reforming ACMP standards; updating and reforming district plans so enforceable policies are "clear, concise, more uniform, related to local concerns, and non-duplicative of state and federal laws"; and that DNR should develop and implement the reforms.

The audit also found that district plan requirements in regulations are "more stringent" than in the legislation.

DEC carve out an issue

In its changes the Legislature intended that Department of Environmental Conservation air, land and water quality issues were excluded from ACMP reviews, the audit said, streamlining the process by allowing ACMP review and DEC permitting to occur concurrently rather than consecutively.

The audit found that this has been a positive change from the perspective of industry, but has disadvantages from the perspective of coastal resource districts, which are concerned that gaps in DEC statutes and regulations "cannot be resolved due to the revised ACMP statutes and regulations prohibiting coastal resource districts from creating enforceable policies over air, land, and water quality issues under the authority of DEC."

Coastal resource districts also said that DEC control of land, air and water quality issues "eliminates the collaborative opportunities among coastal resource districts, applicants, and resource agencies to determine if an activity will have an adverse impact on coastal uses and resources."

The audit recommended that DNR "develop proposals to reintegrate DEC permitting processes into the ACMP process while maintaining the benefits of allowing the processing of complex DEC permits to run concurrently with the ACMP consistency review."

The December portion of the audit concluded that the 2003 statutory and 2004 regulatory changes to ACMP "have not reduced Alaska's rights under the CZMA. The State still has and does take advantage of its rights to weigh in on fed-

see **ACMP** *page 17*

PIPELINES & DOWNSTREAM

Union Oil wants to use Kustatan storage

Chevron is seeking permission from the Alaska Oil and Gas Conservation Commission for Union Oil to use tanks at Cook Inlet Energy's Kustatan facility to store oil from the Trading Bay and McArthur River fields.

The company said in a March 2 letter that there are two 10,000 barrel tanks not presently in use which could store a portion of Trading Bay and McArthur River crude oil; the oil would then go into the Cook Inlet Pipe Line for delivery. The Union Oil crude would be stored in tanks 133 and 134, which would be separated from the remaining tanks at the facility by means of valves and seals. Those tanks are presently empty, as is the line from the tanks to Union's Trading Bay production facility.

Oil shipments to Kustatan would take place between tanker loading events.

Storage formerly at Drift River

Oil was formerly stored at the Drift River Terminal prior to loading, but that facility was closed in 2009 following volcanic activity at Mount Redoubt which sent mud flows down Drift River, raising concerns about the nearby storage facilities. Oil is now sent directly to the Christy Lee platform for tanker loading.

In a related letter to the commission, Cook Inlet Energy requested permission to comingle production from its facilities at West McArthur River and Redoubt at Kustatan, using tanks 142 and 135.

AOGCC has tentatively scheduled a public hearing for April 14, but said it may issue an order without a hearing if it receives no hearing requests. The commission will accept written comments on the application through April 11; if a hearing is held, it will accept comments through the end of the hearing.

—KRISTEN NELSON

● PIPELINE & DOWNSTREAM

Alyeska sues federal safety regulator

Operator of trans-Alaska oil pipeline argues PHMSA levied 'excessive' fine for alleged violations, requests $173,000 refund

By WESLEY LOY
For Petroleum News

The operator of the trans-Alaska oil pipeline is suing its federal regulator in a bid to defeat a $263,000 fine.

In a lawsuit now pending in Alaska's federal court, Alyeska Pipeline Service Co. argues the fine is excessive and arbitrary.

The suit is against the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration.

The agency issued a final order against Alyeska on Jan. 13, 2010, alleging the company committed two violations of pipeline safety regulations.

First, Alyeska was too slow to obtain a vendor's full report on a 2004 pig run on the 800-mile pipeline, PHMSA said. A pig is a device that travels through a pipeline to test for hazards such as corrosion.

Second, Alyeska failed to promptly repair a dent discovered during the summer of 2004 on top of a buried segment of pipe near mile 546. The dent, which had metal loss, wasn't repaired until June 2005, the agency said.

Alyeska is an Anchorage-based consortium that runs the pipeline for owners BP, ConocoPhillips, ExxonMobil, Chevron and Koch Industries.

Alyeska's arguments

Originally, PHMSA imposed a civil penalty totaling $350,000. But after Alyeska contested the allegations and requested a hearing, which was held on Jan. 18, 2007, the agency trimmed the amount to $263,000.

Alyeska also complains that the agency didn't issue its final order until almost three years after the hearing, thus violating a federal regulation requiring that such orders be issued "expeditiously."

Alyeska sued PHMSA on Aug. 3, 2010.

The suit contends the $173,000 penalty assessed for the pigging violation is "excessive in light of PHMSA's past enforcement practice against Alyeska and other entities."

Alyeska also complains that the agency didn't issue its final order until almost three years after the hearing, thus violating a federal regulation requiring that such orders be issued "expeditiously."

Alyeska further argues that PHMSA's final order is "unsupported by substantial evidence."

The suit asks the court to enjoin PHMSA from enforcing the order, and require the agency to return the $173,000 that Alyeska already has paid under protest.

In answer to the lawsuit, PHMSA argued the $263,000 civil penalty is "just, reasonable, and appropriate." ●

Contact Wesley Loy at wloy@petroleumnews.com

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ACMP

eral decisions through the consistency review process," but noted that "regulatory changes may have affected the purview of the consistency review."

Transparency

In part 2 of its audit, released in January, the Division of Legislative Audit said ACMP "is operated openly and transparently in many ways, but is lacking in certain aspects."

DCOM does not generally record working group meetings and does not keep participants actively informed about the status of the ACMP reevaluation, the audit said.

In a Feb. 4 response to the audit, DNR Commissioner Dan Sullivan said participating working group members and coastal district coordinators had agreed to the policy of not recording working group or coastal district meetings and said the meetings are not subject to the same public notice and meeting minute requirements as prior to the 2003 legislative changes when the Division of Governmental Coordination (in the Office of the Governor) was performing functions on behalf of the Coastal Policy Council.

Sullivan said the assertion that DCOM has not kept participants informed is inaccurate.

"DCOM has held monthly meetings of the working group and coastal districts to address any issue a participant would like addressed," he said, adding that DCOM actively advised meeting participants of the status of the reevaluation, while DCOM staff made individual and personal contacts with various ACMP participants including all active district coordinators.

The consultants issue

The audit said DCOM's policy regarding consultants disregards coastal district autonomy.

This is an issue that Bates discussed in some detail in his Feb. 24 letter to Reps. Foster and Herron.

He said that for DCOM to successfully implement ACMP requires direct contact with each of the participating entities, and while DCOM encourages districts to employ consultants for many tasks it "does not allow a consultant to be a district's official point of contact during a consistency review."

Bates said this has been an issue in one of the four coastal resource service areas.

The audit concluded that DNR is an appropriate agency to manage ACMP, but said that the ACMP's other two resource agencies, DEC and the Department of Fish and Game, have missions similar to DNR and "could be appropriate agencies as well." And, because of the coordination functions that are critical to ACMP, "the Office of the Governor could also be considered an appropriate location for the ACMP." The agency was formerly housed in the governor's office.

The audit found that in general changes to the ACMP have centralized decision making and lessened consensus building among review participants.

Since the elimination of the Coastal Policy Council, the DNR commissioner now has sole responsibility for approving coastal district management plans and reviewing consistency determinations elevated to him.

"This centralized decision-making has been criticized for lacking impartiality and local representation," the audit said. "However, a perceived weakness of the CPC was that sometimes the local members well not well-informed." ●

Contact Kristen Nelson at knelson@petroleumnews.com

LAND & LEASING

DNR terminates Cosmo unit and leases

The Alaska Department of Natural Resources has terminated the Cosmopolitan unit. Unit operator Pioneer Natural Resources voluntarily relinquished the offshore Cook Inlet unit earlier this year after well results discouraged the Texas independent from pursuing development. The unit agreement required Pioneer to drill a well there by Jan. 31, 2011.

The DNR also terminated five state leases at the unit — ADL 384404, ADL 387102, ADL 389230, ADL 389525 and ADL 389526. Pioneer kept two other leases — ADL 18790 and ADL 384403 — held by wells certified of producing in paying quantities.

Pioneer must still submit a plan of development for those leases by March 1, 2012.

The DNR also noted that the unit termination does not relieve Pioneer from its obligations into the Cosmopolitan unit agreement and lease agreements to "remove all machinery, equipment, tools and materials, and to restore the surface of the lease area."

—ERIC LIDJI

ENVIRONMENT & SAFETY

State sues over habitat designation

The State of Alaska filed suit March 9 against the U.S. Fish and Wildlife Service over its designation of 187,157 square miles of critical habitat for the polar bear.

The Alaska Oil and Gas Association had filed suit March 1 over the designation and a coalition of Alaska Native groups have given the required 60-day notice that they intend to sue over the recovery plan for polar bears.

The state gave notice of its intent to file suit on Dec. 21; it is challenging the decision to list the bears as threatened in a separate suit.

"We already have a comprehensive slate of state laws, the federal Marine Mammal Protection Act and international agreements that provide strong conservation measures for polar bears," Alaska Gov. Sean Parnell said in a statement. "The additional regulations, consultations, and likely litigation that would be triggered by this habitat designation would simply delay jobs,

The state contends in its lawsuit that the Fish and Wildlife Service disregarded federal law by including geographical areas in the designation in which there is little or no evidence of physical or biological features essential to conservation of polar bears. An example, the state said, is the inclusion of Norton Sound as critical sea habitat even though mapping does not show the area even within the range of polar bears.

The state is also concerned with the apparent motive to designate the entire geographical area that could be occupied by the polar bear, rather than only those areas critical to its survival.

Polar bears were declared a threatened species by the U.S. Department of the Interior in 2008 due to diminishing sea ice.

—PETROLEUM NEWS

EXPLORATION & PRODUCTION

AOGCC issues permit for North Tarn well

The Alaska Oil and Gas Conservation Commission issued a permit on Feb. 16 for Brooks Range Petroleum Corp. to drill the North Tarn No. 1 exploration well. North Tarn No. 1 will likely be the only exploration well drilled on the North Slope this winter.

The Alaska-based independent plans to start drilling the 6,300-foot well in March from a site some two miles west of the Kuparuk River unit using Nabors rig 9ES.

North Tarn No. 1 will test targets in the Brookian formation and the deeper Kuparuk formation. The Brookian is the same formation producing at the Tarn satellite to the south, while the Kuparuk is the main formation producing at the Kuparuk River unit.

BRPC estimates that the Brookian reservoir could contain some 35 million barrels of oil and that the Kuparuk reservoir could contain an additional 6 million barrels of oil.

BRPC is the operating arm of the Kansas-based Alaska Venture Capital Group and operates a joint venture with partners TG World Energy and Ramshorn Investments.

—ERIC LIDJI

● GOVERNMENT

BP probation hearing delayed until fall

Federal prosecutors plan to gather spill evidence in summer on Alaska's North Slope to support allegations against oil company

By WESLEY LOY
For Petroleum News

An evidentiary hearing planned for late April on BP Exploration (Alaska) Inc.'s alleged probation violations has been rescheduled for September.

A federal judge granted the delay at the request of the U.S. attorney's office. In a Feb. 24 court filing, prosecutors said putting off the hearing would allow for summer field work on the North Slope to collect additional evidence.

BP Alaska was put on probation for three years after pleading guilty to a misdemeanor violation of the Clean Water Act in connection with a major pipeline leak in 2006 in the Prudhoe Bay oil field.

Near the end of the probationary period, in November 2010, the company's probation officer, Mary Frances Barnes, petitioned the court to revoke BP's probation due to violations.

The violations center on an incident in November 2009 when a pipeline carrying a mix of crude oil, produced water and natural gas from wells to the Lisburne Production Center ruptured, discharging about 13,000 gallons of oil plus some water onto the tundra. Ice or hydrates formed and expanded inside the 18-inch line, causing overpressure and a rupture, Barnes said.

BP failed to follow preventative measures and failed to respond to persistent warning alarms, constituting criminal negligence, she said.

BP has denied violating its probation. If the allegations stick, the company could face more probation and millions of dollars in fines.

An evidentiary hearing was scheduled to begin April 25 and last three to five days.

But federal prosecutors asked the court to delay the hearing for several months.

"The United States seeks a continuance to the first week in September 2011 in order to collect additional evidence to establish that the spill at issue in the Petition to Revoke Probation occurred to a water of the United States for purposes of Clean Water Act jurisdiction," the government's Feb. 24 motion said. "The evidence necessary includes samples of the soil and plants as well as the hydrological flow at the location of the spill. These samples and the hydrological flow can only be obtained during the growing season on the North Slope, which does not start until June. Once the samples are collected, and the hydrological flow monitored, time will be needed to analyze the evidence."

BP did not oppose the delay, and the hearing is now set to begin on Sept. 6. ●

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Oil Patch Bits

Solstice Advertising names Bowman client insights


KATHLEEN BOWMAN

Solstice Advertising, an Anchorage-based full-service advertising agency, said March 7 that it began a significant expansion last fall and is pleased to announce the expansion is still happening and now includes Kathleen Bowman as client insights to help lead a team approach to client satisfaction. Bowman brings more than five years of experience in marketing, business strategy and client services to Solstice. Originally from the Kenai Peninsula, she moved out of state to earn her undergraduate degree in marketing from Colorado State University. Afterward, Bowman worked in London, England, for a cutting-edge E-based company before returning to Anchorage to receive her MBA from Alaska Pacific University. Having worked with hundreds of clients, Bowman is a multitasking guru and brings with her a full spectrum of marketing tools to meet clients' needs.

Calista Heritage Foundation focused on scholarships

Calista Corp. said March 1 that it has selected Debra Call as the first president and CEO of the newly formed Calista Heritage Foundation, an organization focused on scholarships and internship opportunities for postsecondary students, plus programs and services for Elders. The Calista Heritage Foundation is the evolution and replacement of two programs, the Calista Scholarship Fund and the Calista Elders Council.


DEBRA CALL

"Call's experience and vision will benefit the Calista Heritage Foundation," said Calista Corp. President Andrew Guy. "While guiding the leaders of tomorrow with scholarships and internship opportunities, she will help preserve the culture of the Calista region with assistance from our Elders."

Call recently served as the Alaska Native Heritage Center's vice president of operations and human resources. She also promoted workforce development as the Alaska Native program manager with Alyeska Pipeline Service Co. Call earned a Masters in Business at Washington State University.

The scholarship program was formed in 1994. Since then the scholarship program has gathered over $5 million in total funding through donations and special events, including a $1 million donation by Calista in 2009. In 2010 more than 300 scholarships were awarded.

Schlumberger introduces its new PowerDrive Archer

Schlumberger said March 1 that it has released its new PowerDrive Archer high build rate

see OIL PATCH BITS page 21

LAND & LEASING

Federal jury convicts environmentalist

By CHI-CHI ZHANG

Associated Press Writer

Environmental activist Tim DeChristopher knew what he was doing when he made $1.8 million in false oil and gas drilling bids at a federal auction in Utah. He knew he couldn't possibly pay for them. And he knew he could end up behind bars.

But he did it for the cause. On March 3, a Salt Lake City federal jury convicted him on two felony counts of interfering with and making false representations at a government auction. He now faces up to 10 years in prison and a fine of $750,000 at his June 23 sentencing.

It was a case that became a cause célèbre among avid supporters and Hollywood celebrities such as Robert Redford and Daryl Hannah.

The 29-year-old made the bids to run up the price of 13 oil-and-gas leases near Utah's Arches and Canyonlands national parks and push the land beyond the reach of buyers.

But in the end, he lacked the ability to cover his bids.

DeChristopher remained stoic and resigned as the verdict was read, showing little emotion. Supporters, who filled more than half the courtroom, gasped and cried.

"Nobody told me this battle would be easy," he later told more than 50 fellow activists on the courthouse steps. "Because of what you have done on the outside, it doesn't matter what happened on the inside."

Supporter Maureen Simes, 43, of Salt Lake City, called the outcome a mistake.

"I hope this verdict will strengthen our cause," the teary-eyed Simes said.

Defense says no malicious intent

Defense attorney Ron Yengich told reporters it was a fair trial and he hoped for leniency at DeChristopher's sentencing, given his client has no previous criminal history.

DeChristopher simply wanted to raise awareness about aggressive drilling in pristine western areas, and had no malicious intent, the lawyer said.

In closing arguments, however, U.S. Attorney John Huber said DeChristopher "derailed, disrupted and sabotaged" the December 2008 auction in the final days of the administration of President George W. Bush.

As Bush prepared to leave the White House for President Barack Obama, the Bureau of Land Management held one of its final quarterly oil and gas lease auctions, offering 131 parcels that included nearly 150,000 acres of land. The auction drew controversy from environmental groups that called the sales illegal.

Assistant U.S. Attorney Scott Romney has said the case was not about "Big Oil" or the federal government, but about DeChristopher breaking the law.

His trial drew colorful courthouse demonstrations by hundreds of supporters.

On the day of the 2008 auction, DeChristopher dressed casually, unlike the average bidder, but posed as one of them. He said later he felt the stunt would make a stronger statement than merely protesting with demonstrators outside the BLM offices.

He didn't deny disrupting the auction and hadn't planned on actually winning the bids, but instead his intent was to simply raise the price of the leases closer to fair market value.

Only such charge in Utah

Federal prosecutors say he is the only person ever charged with failing to make good on bids at a lease auction of public land in Utah. They had offered plea deals, but DeChristopher chose a trial.

A University of Utah economics student at the time of the bids, DeChristopher offered to cover the bill with an Internet fundraising campaign, but the government refused to accept any of the money.

DeChristopher testified during the trial that he didn't intend to actually bid on the leases but decided during the auction that he wanted to delay the sale so the new Obama administration could reconsider the move.

A federal judge later blocked many of the leases from being issued.

Fellow environmentalists and supporters have made DeChristopher a folk hero of the movement, insisting he was standing up to a federal agency that violated environmental laws by holding the auction in the first place.

"He wanted to give some hope to people," Yengich told jurors in closing arguments. "You may disagree with how he went about it, the government may disagree. But that was his purpose in being there. It wasn't to fool anybody."

Filming outside the courthouse on March 3 was Telluride, Colo., filmmaker George Gage, who with his wife has spent more than two years working on an hour-long documentary about DeChristopher. ●

continued from page 3

SEATON Q&A

in the pipe.

Petroleum News: How do you explain the production forecast dropping more than 100,000 barrels from the time ACES was first proposed until now? Do you see a connection?

Seaton: Not between that and taxes, not at all. There is none. You go through and look at what's our production going to be and something is delayed, then that is lowered production.

When we went to a profits tax we did so because companies were not investing as much in Alaska as we thought they should.

That's what the profits tax was created to do. If you reinvest your money here, you don't have to pay taxes on it. If you take it to Bolivia or Indonesia, you'll have to pay on the profits. It's going to cost you money to take it out of Alaska. It has worked. The question is has there been the level of reinvestment that we want? No. Is there more investment than there was prior? Yes.

That's the data the Revenue Department came up with. Maybe some of it was maintenance. Maybe it wasn't all drilling wells. You can always question the data. But the one thing you can say is that there is more investment now and the investment didn't occur before.

Petroleum News: So what is the answer to getting more investment and filling the pipe?

Seaton: I think we are getting it. You have to have projects. You have to have someone proposing projects. We have seen no projects proposed that were slowed down or didn't happen because of the tax rate. You've got Point Thomson which is a disputed unit; you have CD-5, which didn't go forward because of the U.S. Corps of Engineers and building the bridge over the (Colville) River; you have Liberty, which was supposed to come on and be drilled, but BP is reassessing the capacity of the rig to do it safely.

Every single project that has been delayed can be identified with a specific reason that has nothing to do with the tax rate. Where do you see BP, Conoco or Exxon saying here is a project that we would do if you had different tax rates? They have put no plans of development on the table. The people who have put plans of development on the table are Great Bear, Armstrong and Brooks Range.

They all have put money in and leased land. I just want to make sure we direct our state resources to the projects that are on the table, that are being proposed. Hopefully, they will be successful. But giving away state resources without any assurance that there is even a plan to accelerate development doesn't make sense. ●

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OIL PATCH BITS

rotary steerable system. The system delivers well profiles previously possible only with motors, and with the ROP and wellbore quality of a fully rotating RSS. The system can drill complex 3D trajectories and openhole sidetracks from any inclination. It can drill vertical and horizontal sections, in one run, with no flat time for trips to change the bottomhole assembly. "The unique PowerDrive Archer system has repeatedly and consistently drilled high-build rates during field trials in many formations, some wells exceeding 17°/100 ft," said Andy Hendricks, president, Schlumberger Drilling & Measurements. "This unique technology maximizes reservoir exposure, reduces risk and increases potential hydrocarbon production." The control unit comes from PowerDrive X6 RSS, which allows a wider operating envelope and provides greater reliability. All PowerDrive Archer external parts rotate, reducing the risk of mechanical or differential sticking and improving wellbore quality for easier well completion. For more information visit www.slb.com.

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

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SHELL DRILLING

to the Environmental Protection Agency by the Environmental Appeals Board, after an appeal to the board over EPA approval of the permit. The company has also decided not to conduct any new seismic surveying in the Alaska Arctic OCS in 2011, although the company will continue its offshore environmental monitoring and research programs, Ruddy said.

In October 2010 Shell said that it would initially target the Beaufort Sea for 2011 drilling because of unresolved appeals against the 2008 Chukchi Sea lease sale in which the company purchased its leases.

Shell's 2012-13 exploration plans will be based on plans previously submitted to the Bureau of Ocean Energy Management, Regulation and Enforcement. However, for its 2012-13 program, the company plans to have two rigs in operation simultaneously, one in the Beaufort Sea and one in the Chukchi Sea. In the unlikely event of a well blowout, the rig not in operation at the out-of-control well would be available as a back-up rig for the drilling of a relief well, Ruddy said.

Relief well feasible

Asked about the practicality of drilling a relief well before the end of the open water season, were a blowout to occur late in the season, Ruddy said that Shell anticipates it taking about 30 days to drill each of its Beaufort and Chukchi seas wells. These wells would not be as deep as the Macondo well involved in the Deepwater Horizon disaster, she said.

With planned drilling continuing no later than October, relief well drilling could take until December to complete, Ruddy said. And both of the rigs that Shell plans to use are ice capable and would be supported by

As in its 2011 Beaufort Sea exploration plan, Shell is opting not to discharge drill cuttings into the ocean, other than cuttings from the uppermost parts of its wells, when drilling in the Beaufort Sea in 2012 and 2013

ice management vessels, thus making it practical to continue relief well drilling into December, after sea ice has formed, said Michael Macrander, Shell's Alaska lead scientist. In fact, the Kulluk has a track record of successful drilling in sea ice conditions, he said.

No Beaufort discharges

As in its 2011 Beaufort Sea exploration plan, Shell is opting not to discharge drill cuttings into the ocean, other than cuttings from the uppermost parts of its wells, when drilling in the Beaufort Sea in 2012 and 2013, Ruddy said. Cuttings and some other non-toxic waste, such as sanitary waste, that could legally be permitted for discharge into the water will instead be transported out of the region for disposal.

The decision to eliminate discharges into the ocean from drilling in the Beaufort Sea has resulted from a commitment made to the Alaska Eskimo Whaling Commission and the North Slope Borough, following concerns about the potential impact of drilling discharges on Beaufort Sea bowhead whale migration near the drilling operations, Macrander said. Shell does not anticipate following the same policy for discharges from its Chukchi Sea drilling, he said.

—ALAN BAILEY

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POINT THOMSON

worth of natural gas and petroleum liquids, and some industry observers believe the planned gas pipeline won't work without Point Thomson reserves.

More time requested

At the moment, the Point Thomson legal battle sits before the Alaska Supreme Court, to which the state appealed after an adverse Superior Court ruling in January 2010.

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On March 7, the state and ExxonMobil filed a joint request with the high court asking that the case be stayed for 60 days while they continue settlement discussions. It's the fourth time the two sides have asked for a time-out in the proceedings so they could concentrate on trying to settle the Point Thomson dispute out of court.

Two companies, BP Exploration (Alaska) Inc. and ConocoPhillips Alaska Inc., are taking issue with the latest timeout request.

While the two firms say they're supportive of trying to reach a settlement, they complain that ExxonMobil and the state have closed them out of the negotiations.

"BPXA has not given ExxonMobil authority to negotiate on its behalf," lawyers for BP said in a March 7 filing with the Supreme Court. "BPXA has asked to participate and has asked to see draft settlement documents that it has been told have been exchanged, but the State and ExxonMobil have refused to share the documents or to allow BPXA to participate in the negotiations."

The company said it doesn't support a further stay of the case unless all of the working interest owners in Point Thomson "are allowed to participate meaningfully" in the negotiations and to review copies of proposed settlement agreements.

BP further noted that it holds a 32 percent ownership interest in the Point Thomson unit, nearly as much as ExxonMobil's 37 percent.

Sullivan has mail

In its court filing, BP supplied a copy of a Jan. 24 letter it sent to Dan Sullivan, commissioner of the Alaska Department of Natural Resources.

The letter, signed by BPXA's chief financial officer, Claire Fitzpatrick, said BP was aware that the DNR had recently provided ExxonMobil a "revised draft" of a proposed Point Thomson unit settlement agreement.

"Our counsel has asked for a copy of that document, but has not yet heard back regarding that request," the Fitzpatrick letter said.

The letter to Sullivan continued: "Because we have been excluded from the negotiations, BPXA does not have a full understanding regarding the terms and conditions of the proposed PTU settlement. Although ExxonMobil shared a copy of a draft 'term sheet' with us in late 2010 and met with us earlier this month, the State has rejected BPXA's joint effort with Chevron to meet in order to more fully understand your perspective about the contents of that 'term sheet' and to date has rejected our requests to provide us a copy of the draft agreement. We find this unacceptable."

Fitzpatrick added that "BPXA's support and approval will be required for any successful PTU settlement."

ConocoPhillips also objects

ConocoPhillips, in its own March 7 filing with the Supreme Court, registered many of the same complaints as BP. ConocoPhillips said it holds a 5 percent ownership interest in Point Thomson unit leases.

"ConocoPhillips has been excluded from the settlement discussions," the company filing said.

ConocoPhillips also sent a letter to Commissioner Sullivan, and provided a copy to the court. The Feb. 7 letter, signed by Bijan Agarwal, ConocoPhillips Alaska vice president of commercial assets, said the company was aware that ExxonMobil and the state had been negotiating settlement of "various disputes and litigation" relating to Point Thomson, but that ConocoPhillips hadn't been invited to participate in any negotiations over the last year.

"Please be advised that ExxonMobil is not authorized to represent the interests of ConocoPhillips" in the litigation, Agarwal's letter said.

As of press time, the Supreme Court had not yet ruled on the request for another 60-day stay of the case proceedings. ●

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MAC GAS PROJECT

If a fiscal deal included loan guarantees for borrowing capital at a low cost, it would allow the APG to finance its one-third share of a Mackenzie Valley pipeline — last estimated to cost C$11.3 billion of the project's overall price tag of C$16.2 billion.

That, along with federal money for related infrastructure in the Northwest Territories, might ensure the MGP was economically viable for the other partners — Imperial Oil 34.4 percent, ConocoPhillips Canada 15.7 percent, Shell Canada 11.4 percent and ExxonMobil Canada 5.2 percent.

The consortium could then start talks for final off-take deals with shippers to provide 1.2 billion cubic feet per day, Reid said.

He said a key breakthrough is imminent that would see the Dehcho First Nations join the APG and provide unanimous support from aboriginal communities along the proposed pipeline right of way.

First oil by 2018

Reid indicated that if all the pieces fall into place, construction could start in 2013 and the first gas could reach markets in 2018.

In the meantime, completion of a fiscal deal might also open the way for the MGP partners to rehire staff and resume detailed engineering and field work which was suspended in 2007 during the protracted regulatory process.

Northwest Territories Industry Minister Bob McLeod said the Canadian government must demonstrate its support in a tangible way, remarking that "currently federal engagement is lacking.

"Northern leaders are saying the federal government is not doing nearly enough to support development in Canada's north or development of Arctic gas," he said, arguing that was in "stark contrast" to U.S. government backing of an Alaska natural gas pipeline.

McLeod said Ottawa must ensure that the MGP's aboriginal partners can obtain the best possible financing rates.

In making a case for the project at a time when many observers question its need, Reid said the initial 6 trillion cubic feet of Mackenzie Delta reserves that back the MGP would provide enough gas to heat every home in Canada for six years.

Like other proponents of the MGP, he also noted that the U.S. government has committed US$18 billion in loan guarantees for an Alaska gas pipeline.

Lower tolls could result

If Canada followed the U.S. lead it would lower the cost of capital by improving ratings of the debt, resulting in lower transportation tolls, Reid said.

"If you take an A rating, which we would get with this collection of companies right now, and improve that to an AAA ratings, you could reduce the toll by US$1.50 (per million British thermal units). That's how sensitive it is. It's huge," he said.

Reid also said he is a firm believer that "market forces will prevail" and gas prices will recover, estimating that Canada needs to deliver 3 billion cubic feet per day of new gas per year just to maintain 2009 levels of 15.8 bcf per day.

He said that on an energy-equivalent basis the current price of oil versus gas is 25-to-1, when it should be 6-to-1.

Reid said shale gas — aside from concerns about the high initial decline rates in shale gas wells, high water consumption and potential groundwater consumption — has not been able to offset natural declines in Canadian production and gas well completions are now down 66 percent from 2004.

On top of that, demand from Canada's industrial sector is forecast to rise 3.1 percent a year, while the country's 33 coal-fired power plants have been given until 2020 to meet new environmental standards — an incremental market that would by itself consume the entire throughput of the Mackenzie Valley pipeline, he said.

The APG estimates power generation, where consumption has grown by 70 percent since 2000 — will be the largest growth sector for natural gas over the next 10 to 15 years.

Both lines can proceed

Speaking at the same conference, Larry Persily, federal coordinator for Alaska natural gas transportation projects, echoed Reid's view that both the Alaska and Mackenzie projects could proceed in the long term, provided they are designed and financed to compete in the North American market.

"If there is ever going to be an Alaska pipeline project, somehow there is going to have to be a commercial deal between the producers on the North Slope, who will provide the financial underpinnings, and TransCanada probably," he said.

"Alaskans are losing patience as they once made money out of oil and now they want to be rich on gas.

"They need to stop thinking of their fair share in tax dollars alone and rather sit down and negotiate fiscal terms and find shippers that will tip the balance in their favor," he said. ●

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HERRERA

exploration. From time to time in the past decade and a half, he has been interviewed by Petroleum News. Each time, he has accurately predicted the direction of oil prices.

"Forty-one years ago, I was in Libya when Col. (Muammar) al-Gaddafi took over in a (bloodless) military coup from King Idris (in 1969), and here we seem to have come full circle," Herrera told Petroleum News in a March 8 interview.

At stake is Libya's 1.5 million barrel-per-day oil output.

"We're so close to the edge now that stability is only a breathing space," he said. "The only thing holding oil prices back now (from sharp spikes) is a widespread belief that Saudi Arabia will fill the gap if countries such as Libya curtail their output," Herrera said. "I, for one, don't believe Saudi Arabia can drag us back. But if they do manage to keep us from tipping over the edge, we should thank our lucky stars and do something about it."

Herrera has said oil prices climbing to $148 a barrel in 2008 "without any shadow of doubt" pushed the economy over the edge into recession.

He said little has changed in his ongoing forecast for medium- and long-term oil prices. Numerous factors including hydrocarbons comprising 85 percent of world energy consumption and world oil reserves having peaked around 2005 suggests that crude prices will again spike to $150 a barrel and, at some point, keep climbing, he said.

A growing thirst worldwide for oil and little progress in getting alternative energy sources and transportation fuels to close the supply-demand gap also contribute to the trend toward higher prices.

Benchmark West Texas Intermediate for April delivery fell $3.06, about 3 percent, to $101.32 per barrel in midday trading on the New York Mercantile Exchange March 10. In London, Brent crude lost $1.80 at $114.14 per barrel.

"We will always be close to the edge of something radical affecting the price of oil, whether it's a political event, a supply-demand event or an alternative energy event, and we don't have a way to rescue ourselves," Herrera said. "As these crises come down the pike, the effect of oil prices on the economy will get worse rather than better."

He said periods of stable oil prices will become "the exception rather than the rule."

The industry analyst said his biggest worry now is the nation's increasing vulnerability to events in faraway places like Libya and Egypt caused by our dependence on foreign oil.

Shrinking domestic supply

The industry analyst said his biggest worry now is the nation's increasing vulnerability to events in faraway places like Libya and Egypt caused by our dependence on foreign oil. Meanwhile, U.S. policymakers ignore the situation, just as they have for the past 20 years.

"Until our politicians (in Washington, D.C.) do something logical and rational about it, we will remain close to the edge" and vulnerable to high oil prices, he said.

Equally frustrating is the American public's lack of interest in climbing oil prices unless they affect the price of gasoline. And ironically, higher gasoline prices seem to do little to change consumer habits, he said.

"Even in Europe and Britain where gas prices are averaging about $7 a gallon, every household has two cars, and people continue to drive them everywhere," he observed.

The oil industry's inaction is also dismaying, Herrera said.

"Oil companies are always looking at the 10- to 20-year horizon, and high oil prices could jeopardize their future," he said.

With the exception of Shell, which has billions of dollars invested in Alaska, "the oil companies are doing absolutely nothing to increase the domestic supply of oil — aside from a few touchy-feely ads on television," he said. "They are scared silly about public opinion, which in general is anti-oil, about the Gulf of Mexico oil spill; and about the cost of dealing with regulations and the local environment in this country."

Oil companies, instead, are investing heavily in Russia, "which has got to be the riskiest venture ever," Herrera said. "They should be kicking and screaming against that."

—ROSE RAGSDALE

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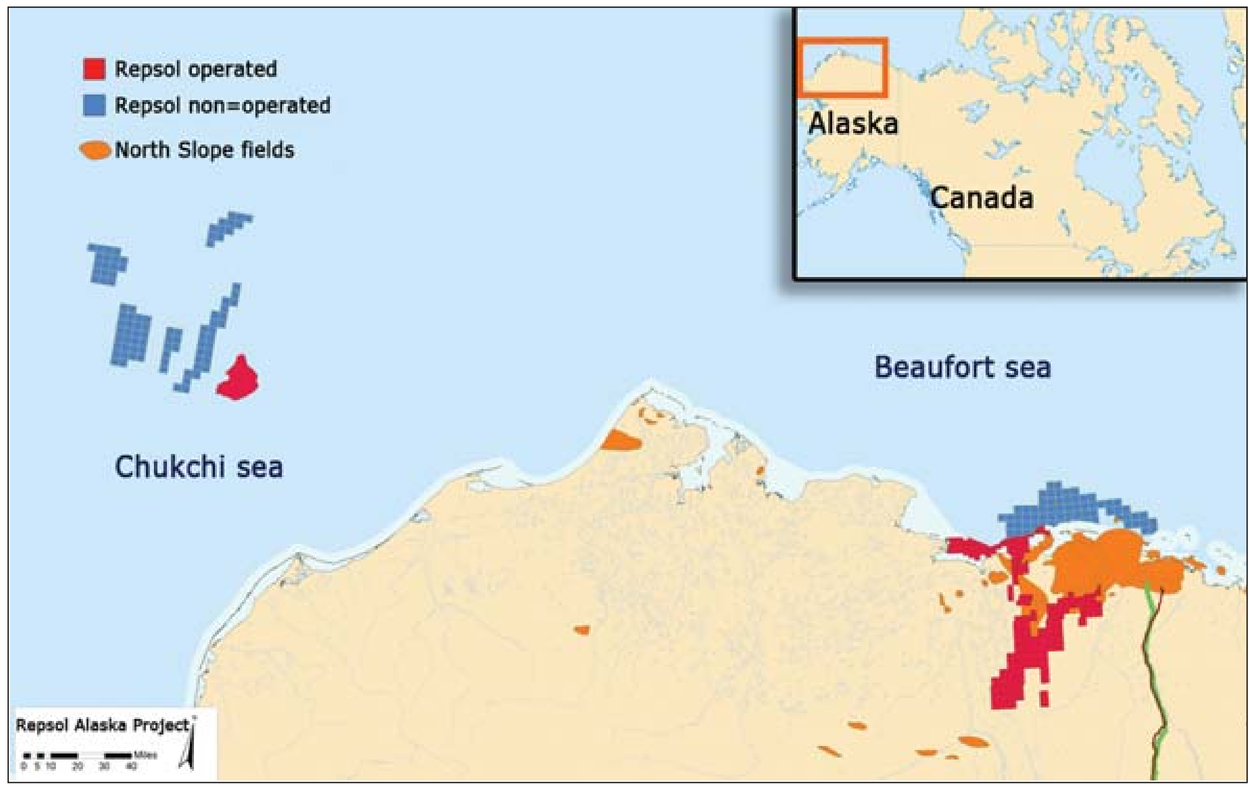
REPSOL

of the program."

A Petroleum News source close to the three partners said Repsol asked Armstrong to oversee operations because of the independent's previous experience in permitting and executing northern Alaska exploration programs.

Under the agreement, Repsol holds a 70 percent working interest in the acreage; the remaining 30 percent is 75 percent held by Armstrong and 25 percent by GMT.



COURTESY REPSOL

Armstrong, GMT taking little cash

Madrid-based Repsol said it has committed to supplying "the investment necessary to explore and evaluate the economic viability of the resources contained in these blocks," which it noted are close to producing fields (see map adjacent to this article from Repsol).

The "minimum exposure" for Repsol, "including amounts to be paid to its partners and the cost of exploration to be carried out over several years, amounts to $768 million," the release said.

Petroleum News sources say Armstrong and GMT are receiving very little cash in the deal; that $750 million is slated for exploration. "They want to see their leasehold explored and developed. That's the payoff for them," one PN source said.

Changes in ACES expected

What wasn't said in Repsol's press release, Petroleum News sources contend, is that the Spanish major expects Alaska Gov. Sean Parnell's proposed changes in Alaska's production tax to pass into law.

It's not hard to believe. Just three weeks before the long-awaited deal closed with Repsol, Armstrong Vice President Ed Kerr submitted a letter to the co-chairs of the Alaska Legislature's House Resources Committee, saying that the governor's bill, "HB 110 will have a significant impact on our capital expenditures and futures activities in Alaska. The improved fiscal terms as proposed by HB 110, particularly the portions of the bill that apply to activities outside of existing units, will give us the needed incentive to not only drill multiple new wildcat and delineation wells, but the motivation to drive certain projects to development."

Kerr said Armstrong has "more than a dozen ideas outside of existing producing units" on its project list, ideas it hopes to drill and test over the next several years.

"In many cases we know the oil is in place. The improved fiscal terms as provided in HB 110 will greatly affect whether these projects will get developed."

Conventional hydrocarbons only

Although some of the acreage held by Armstrong and GMT contains shale source rock, at this point the partners are only interested in conventional oil targets, a source close to Armstrong told Petroleum News.

That information is supported by previous statements by Armstrong's top executive, Bill Armstrong, who said his company had taken a look at the Shublik shale in its acreage, but elected to stick with conventional targets because of the significant remaining potential of conventional oil on the North Slope.

The Shublik is one of Alaska's three major source rocks that generated the oil and gas in the fields along the Barrow Arch, including Point Thomson, Prudhoe Bay, Kuparuk and Alpine.

Sold on Alaska

Except for needing tax relief, Repsol appears sold on Alaska.

"The North Slope of Alaska is an especially promising area for Repsol as it has already shown to be oil-rich and carries low exploratory risk," the company said in its press release. "This acreage also helps increase the company's presence in OECD (Organization for Economic Cooperation and Development) countries. In the United States, Repsol has already successfully explored for and developed hydrocarbons production in the Gulf of Mexico."

The company has been shifting resources away from its Argentine operations, which are beleaguered by political interference and declining production. Plans to increase exploration in Libya this year have been disrupted by political unrest that industry observers say could result in moving that investment to other oil regions of the world. (See related story on page 12 of this issue.)

Repsol Chairman Antonio Brufau was quoted in the March 7 release about Alaska as saying, "This deal is a perfect fit in our efforts to balance our exploration portfolio with lower risk, onshore oil opportunities in a stable environment. We are confident that our worldwide experience combined with a partner with an extensive local knowledge is going to deliver value in the near future."

Repsol's presence in Alaska complements the company's successful work in the Gulf of Mexico, its release said.

"Repsol has significantly boosted its onshore and offshore exploration activities in the last five years, resulting in some of the world's largest oil and gas discoveries. Repsol's upstream unit in 2010 posted a record reserve replacement ratio of 131 percent and incorporated resources that have significantly boosted the company's future prospects," the company said.

History of partners in Alaska

Armstrong Oil and Gas came to Alaska in 2001, picking up tracts in the state's areawide Beaufort Sea lease sale. In 2002, Armstrong brought in Dallas-based Pioneer Natural Resources. In early 2004, Armstrong brought in Oklahoma City-based Kerr-McGee and in August 2005, Armstrong sold all of its Alaska interests to Italian major Eni Petroleum, which by that time had purchased all of Kerr-McGee's Alaska interests from Anadarko Petroleum, following Anadarko's acquisition of Kerr-McGee.

Armstrong's North Slope prospects have been developed as Oooguruk, operated by Pioneer, and Eni-operated Nikaitchuq; both are currently producing oil.

After selling its northern Alaska acreage, Armstrong acquired onshore Cook Inlet basin assets and as Armstrong Cook Inlet LLC holds 3,541 acres on the Kenai Peninsula, where it and partners are developing the North Fork natural gas field. GMT holds 20 and 30 percent of those leases.

Repsol has interests in Alaska, but none — until now — on State of Alaska acreage.

The company is a 20 percent partner with Shell and Eni, each 40 percent, in outer continental shelf Beaufort Sea acreage, and a 20 percent partner with Eni in other acreage in which Eni holds 80 percent, from federal lease sales 195 and 202. Repsol did not bid in either sale 195 in 2005 or sale 202 in 2007, but subsequently partnered in acreage from those leases.

Repsol acquired OCS acreage on its own in 2008 in Chukchi Sea sale 193; exploration activities on that acreage are currently enjoined under order of the U.S. District Court for the District of Alaska. The company bid $15.6 million on 104 blocks and was the high bidder on 93 blocks for $14.4 million.

Repsol has not said whether it will operate its Chukchi leases, but rumors of a potential partnership with Shell, Eni and/or Statoil have made their way to Petroleum News. None of those rumors have been confirmed by any of the companies.

Tudor Pickering and Holt, a Houston based energy investment bank, acted as advisor to Armstrong and GMT on the transaction with Repsol. ●

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