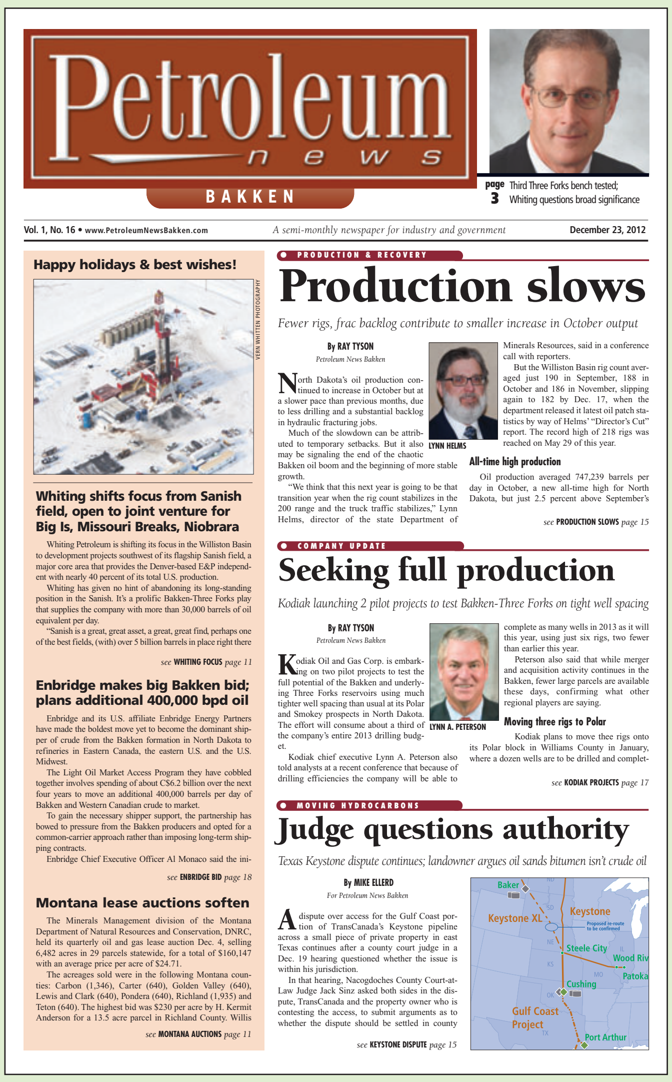
Petroleum news

page 12 AOGCC anticipates regulations for hydraulic fluid disclosure

Vol. 17, No. 52 • www.PetroleumNews.com — *A weekly oil & gas newspaper based in Anchorage, Alaska* — Week of December 23, 2012 • $2

Inside: Petroleum News Bakken



Petroleum news BAKKEN

page 3 Third Three Forks bench tested; Whiting questions broad significance

Vol. 1, No. 16 • www.PetroleumNewsBakken.com — *A semi-monthly newspaper for industry and government* — December 23, 2012

Happy holidays & best wishes!

VERN WHITTEN PHOTOGRAPHY

Whiting shifts focus from Sanish field, open to joint venture for Big Is, Missouri Breaks, Niobrara

Whiting Petroleum is shifting its focus in the Williston Basin to development projects southwest of its flagship Sanish field, a major core area that provides the Denver-based E&P independent with nearly 40 percent of its total U.S. production.

Whiting has given no hint of abandoning its long-standing position in the Sanish. It's a prolific Bakken-Three Forks play that supplies the company with more than 30,000 barrels of oil equivalent per day.

"Sanish is a great, great asset, a great, great find, perhaps one of the best fields, (with) over 5 billion barrels in place right there

see **WHITING FOCUS** page 11

Enbridge makes big Bakken bid; plans additional 400,000 bpd oil

Enbridge and its U.S. affiliate Enbridge Energy Partners have made the boldest move yet to become the dominant shipper of crude from the Bakken formation in North Dakota to refineries in Eastern Canada, the eastern U.S. and the U.S. Midwest.

The Light Oil Market Access Program they have cobbled together involves spending of about C$6.2 billion over the next four years to move an additional 400,000 barrels per day of Bakken and Western Canadian crude to market.

To gain the necessary shipper support, the partnership has bowed to pressure from the Bakken producers and opted for a common-carrier approach rather than imposing long-term shipping contracts.

Enbridge Chief Executive Officer Al Monaco said the ini-

see **ENBRIDGE BID** page 18

Montana lease auctions soften

The Minerals Management division of the Montana Department of Natural Resources and Conservation, DNRC, held its quarterly oil and gas lease auction Dec. 4, selling 6,482 acres in 29 parcels statewide, for a total of $160,147 with an average price per acre of $24.71.

The acreages sold were in the following Montana counties: Carbon (1,346), Carter (640), Golden Valley (640), Lewis and Clark (640), Pondera (640), Richland (1,935) and Teton (640). The highest bid was $230 per acre by H. Kermit Anderson for a 13.5 acre parcel in Richland County. Willis

see **MONTANA AUCTIONS** page 11

PRODUCTION & RECOVERY

Production slows

Fewer rigs, frac backlog contribute to smaller increase in October output

By RAY TYSON
Petroleum News Bakken

North Dakota's oil production continued to increase in October but at a slower pace than previous months, due to less drilling and a substantial backlog in hydraulic fracturing jobs.

Much of the slowdown can be attributed to temporary setbacks. But it also may be signaling the end of the chaotic Bakken oil boom and the beginning of more stable growth.

"We think that this next year is going to be that transition year when the rig count stabilizes in the 200 range and the truck traffic stabilizes," Lynn Helms, director of the state Department of Minerals Resources, said in a conference call with reporters.

LYNN HELMS

But the Williston Basin rig count averaged just 190 in September, 188 in October and 186 in November, slipping again to 182 by Dec. 17, when the department released it latest oil patch statistics by way of Helms' "Director's Cut" report. The record high of 218 rigs was reached on May 29 of this year.

All-time high production

Oil production averaged 747,239 barrels per day in October, a new all-time high for North Dakota, but just 2.5 percent above September's

see **PRODUCTION SLOWS** page 15

COMPANY UPDATE

Seeking full production

Kodiak launching 2 pilot projects to test Bakken-Three Forks on tight well spacing

By RAY TYSON
Petroleum News Bakken

Kodiak Oil and Gas Corp. is embarking on two pilot projects to test the full potential of the Bakken and underlying Three Forks reservoirs using much tighter well spacing than usual at its Polar and Smokey prospects in North Dakota. The effort will consume about a third of the company's entire 2013 drilling budget.

Kodiak chief executive Lynn A. Peterson also told analysts at a recent conference that because of drilling efficiencies the company will be able to complete as many wells in 2013 as it will this year, using just six rigs, two fewer than earlier this year.

LYNN A. PETERSON

Peterson also said that while merger and acquisition activity continues in the Bakken, fewer large parcels are available these days, confirming what other regional players are saying.

Moving three rigs to Polar

Kodiak plans to move thee rigs onto its Polar block in Williams County in January, where a dozen wells are to be drilled and complet-

see **KODIAK PROJECTS** page 17

MOVING HYDROCARBONS

Judge questions authority

Texas Keystone dispute continues; landowner argues oil sands bitumen isn't crude oil

By MIKE ELLERD
For Petroleum News Bakken

A dispute over access for the Gulf Coast portion of TransCanada's Keystone pipeline across a small piece of private property in east Texas continues after a county court judge in a Dec. 19 hearing questioned whether the issue is within his jurisdiction.

In that hearing, Nacogdoches County Court-at-Law Judge Jack Sinz asked both sides in the dispute, TransCanada and the property owner who is contesting the access, to submit arguments as to whether the dispute should be settled in county

see **KEYSTONE DISPUTE** page 15

NPR-A integrated activity plan, final EIS, draw mixed reviews

The Department of Interior released the integrated activity plan and final environmental impact statement, final IAP/EIS, for the National Petroleum Reserve-Alaska Dec. 19.

This is the first plan for the entire NPR-A.

ALAN BAILEY

KEN SALAZAR

Secretary of the Interior Ken Salazar described key elements of the department's preferred alternative, B-2, in August (see story in Aug. 19 issue of Petroleum News). In a memorandum to the Bureau of Land Management about the final release, Salazar said it "provides

see **NPR-A PLANS** page 17

Old icebreaker nears relaunch; Coast Guard act has Arctic focus

We're beginning to see substantial progress toward restoring the nation's depleted icebreaker fleet.

Vigor Shipyards in Seattle on Dec. 17 wrapped up a $56 million overhaul of the heavy icebreaker Polar Star, and the next day returned the ship to the U.S. Coast Guard.

It will undergo sea trials in 2013 before returning to service, Coast Guard Chief Warrant Officer Allyson Conroy told Petroleum News.

"It's not fully functional yet," she said.

Presently, the United States has only one operational icebreaker at its disposal, the medium-duty Healy.

The lack of ready icebreakers has been the subject of alarm and controversy. Building or repairing the specialized

see **ICEBREAKERS** page 18

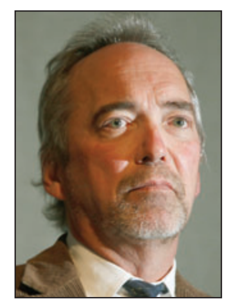
EXPLORATION & PRODUCTION

Assembling the data

Great Bear ends drilling season, plans seismic, assessing drill results

By ALAN BAILEY

Having drilled its first two vertical wells, the Alcor No. 1 and the Merak No. 1, as part of a pioneering shale oil program on Alaska's North Slope, Great Bear Petroleum has called a halt to its drilling season for this year, Ed Duncan, the company's president, told the Alaska Geological Society on Dec. 23. The company is drilling a series of test wells at six locations next to the Haul Road south of Prudhoe Bay, in hopes of proving the technical and economic feasibility of producing oil direct from the prolific oil source rocks of northern Alaska.



ED DUNCAN

"The first two wells that we've drilled south of Prudhoe have provided us a plethora of new data," Duncan said.

Drilling suspended

The company had originally hoped to drill a couple of horizontal sidetrack wells from the initial vertical wells by the end of this year, to test oil production from the shale oil play. But, with the drilling and subsequent rock sample analysis taking longer than anticipated, the company has settled for just drilling the two vertical wells for the time being.

"We have suspended drilling operations for the season," Duncan said. "Certainly operations took a

see **GREAT BEAR DATA** page 19

EXPLORATION & PRODUCTION

Jack-up driller fired

Buccaneer-Ezion-AIDEA JV claims 'nonperformance' against operator, hires Spartan

By ERIC LIDJI
For Petroleum News

As Buccaneer Energy Ltd. inches closer to exploring its offshore Cosmopolitan prospect in the Cook Inlet, it will have a new company operating its jointly owned jack-up rig.

The joint venture that owns the Endeavor rig, Kenai Offshore Ventures LLC, recently fired its project manager, Archer Drilling LLC, "for cause," Buccaneer announced Dec. 17. The dispute concerns claims that Archer failed to pay local vendors in Cook Inlet, as well as "a dispute for nonperformance of work" conducted while the rig was still in Singapore, said Jay Morakis, of JMR Worldwide, Buccaneer's public relations office.

Buccaneer believes "some operating and financial synergies will result" from Spartan operating two jack-up rigs in the Cook Inlet region concurrently.

Kenai Offshore Ventures has paid all outstanding bills to Archer "with the exception of those that are disputed for those that have been done on the rig," Morakis said.

Archer did not return a request for comment sent to its corporate office. A call to its Alaska office yielded a recording saying its voice mail had "not been seen up yet."

see **DRILLER FIRED** page 20

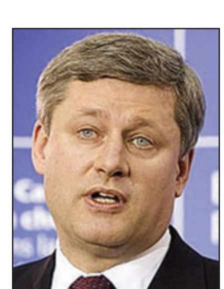
GOVERNMENT

Oil sands chill

Harper satisfies elements of both sides, raises SOE doubts over oil sands stakes

By GARY PARK
For Petroleum News

Canadian Prime Minister Stephen Harper was never going to get it exactly right when he rewrote the rules governing foreign investment in the petroleum industry.



STEPHEN HARPER

SHANE LASLEY

JOE OLIVER

He acknowledged that during a 48-minute press conference when he spread his arms and said the space between his hands represented the gap between opposing points of view on the issue of state-controlled companies buying up privately held assets in Canada.

In the initial fallout to the new framework, however, Harper was credited by many with skillfully dousing a national firestorm by approving CNOOC's US$15.1 billion takeover of Nexen, giving the Chinese their biggest offshore deal, giving market players a fat payoff and reassuring Canadians that China was not about to invade Canada's resource sector.

But a few days of sober second thought raised some questions, not least whether closing the door on outright ownership of oil sands companies by foreign state-owned enterprises, SOEs, other than in "exceptional" circumstances, will stifle development of the

see **SANDS CHILL** page 17

contents

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

● LAND & LEASING

DNR issues 2011 North Slope leases

Issuance includes Royale Energy, Great Bear affiliate, Repsol, ConocoPhillips and others; Cosmo sale finalized in Cook Inlet

By ERIC LIDJI

For Petroleum News

The Alaska Department of Natural Resources has issued the leases from its December 2011 North Slope areawide lease sale, where it earned more than $14 million.

The state issued 56 North Slope leases to Royale Energy Inc in November. The leases run through a region that the company believes is ripe for source rock development.

The state issued 32 North Slope leases to Ursa Major Holdings LLC in November. In Alaska Department of Commerce, Community and Economic Development filings, Ursa Major Holdings LLC is listed as being an affiliate of Great Bear Petroleum LLC.

The state issued 25 North Slope leases to Repsol E&P USA Inc. The leases include blocks near existing Repsol acreage in various spots across the central North Slope.

The state issued 23 North Slope leases to ConocoPhillips Alaska Inc. The leases include a block south of the Point Thomson and Badami units, on the eastern North Slope.

The state issued 11 North Slope leases to Armstrong Resources subsidiary 70 & 148 LLC. The leases stretch to the border of the National Petroleum Reserve-Alaska.

The state issued nine North Slope leases to Woodstone Resources LLC, a Houston based independent. The leases are within the White Hills region, south of existing production, and include three old exploration wells: Itkillik Unit 1, Nora Fed 1 and Susie Unit 1.

The state issued three leases to investors Daniel K. Donkel and Samuel H. Cade.

The state issued two leases to Savant Alaska LLC. The first is adjacent to three existing Savant leases on the edge of ANWR and the second is north on the ANWR border.

Finally, the state issued one lease to Pioneer Natural Resources Alaska Inc.

Arctic Falcon at Umiat

Arctic Falcon Exploration LLC transferred a small royalty interest in two leases in the Umiat oil field, in foothills of the Brooks Range, to numerous independent investors.

ADL 390720 and ADL 390884 are irregularly shaped leases along the Colville River at Umiat. The two leases are operated by Renaissance Umiat LLC, a Houston-based independent purchased last year by the Australian independent Linc Energy Inc.

Linc is planning a four to six well exploration program at Umiat this winter.

For ADL 390720, the independent transferred a 0.25563 percent royalty interest to Jane R. Crouch, a 5.625 percent royalty interest to Wooly Mammoth Royalties LLC, a 0.625 percent royalty interest to John T. Nydegger, a 0.36937 percent royalty interest to Kathryn D. Ray, a 0.36938 royalty interest to Robert R. Ray and a 0.25562 percent royalty interest to Marshall C. Crouch III. For ADL 390884, Arctic Falcon transferred a 5.625 percent royalty interest to Wooly Mammoth Royalties LLC, three 0.625 percent royalty interests to John T. Nydegger, Kathryn D. Ray and Robert R. Ray, respectively.

Also on the North Slope, Samson Resources Co. transferred interests in two Point Thomson unit leases to Samson Offshore LLC, retroactive to July 2012. The deals were a 0.5315773 working interest and a 0.2051632 percent royalty interest in ADL 47567, and a 0.5315773 working interest and a 0.21513 percent royalty interest in ADL 47562.

Cosmo and Cook Inlet

As part of its sale of the Cosmopolitan prospect, Pioneer Natural Resources Alaska Inc. transferred its ownership in two offshore leases ADL 384403 and ADL 18790 to partners Buccaneer Cosmopolitan LLC, a subsidiary of the active Australian independent Buccaneer Energy Ltd., and the Fort Worth based independent Bluecrest Energy Inc.

Although Buccaneer is operating the prospect, Bluecrest is the majority stakeholder in the two leases. For ADL 384403, Pioneer transferred a 75 percent working interest and a 60.42188 percent royalty interest to Bluecrest, and a 25 percent working interest and a 20.14063 percent royalty interest to Buccaneer. For ADL 18790, Pioneer transferred a 75 percent working interest and a 59.26407 percent royalty interest to Bluecrest, and a 25 percent working interest and a 19.75469 percent royalty interest to Buccaneer.

The transfer is retroactive to September 2012.

Additionally, John M. Martineck transferred 100 percent working interest and 85.25 percent royalty interest in ADL 391900 to Buccaneer Cosmopolitan, and Buccaneer Cosmopolitan transferred a 2.25 percent royalty interest in ADL 391900 to Kenneth W. Sanders. ADL 391900 is a small offshore lease off Anchor Point, separated from the two primary Cosmopolitan prospect leases by a block of three Apache Corp. leases.

Also in Cook Inlet, Pacific Energy Alaska Operating LLC transferred various interests in 12 Trading Bay unit leases to Hilcorp Alaska LLC. The values range from 46.8 and 50 percent working interests and 38.61 and 41.25 percent royalty interests.

And Renaissance Alaska LLC transferred a 1 percent royalty interest in one Northwest Cook Inlet unit lease — ADL 391270 — to an affiliated company Stellar Oil & Gas LLC. ●

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

Contact Eric Lidji at ericlidji@mac.com

ALTERNATIVE ENERGY

AEA files revised study plan for Susitna

The Alaska Energy Authority said Dec. 17 that it has filed a revised study plan for Susitna-Watana Hydro with the Federal Energy Regulatory Commission, which is responsible for licensing non-federal hydroelectric projects.

Fifty-eight studies — the environmental fieldwork for the next two years — are outlined in the plan.

AEA Executive Director Sara Fisher-Goad said the revised study plan "is the culmination of nearly a year's worth of work." She said the study effort moves AEA closer to filing for a FERC license in 2015 "and helps provide the balance between the need for long-term power and environmental concerns."

The revised study plan triggered a FERC public comment period, which runs through Jan. 18. AEA said comments are accepted online at www.FERC.gov for docket number P-14241. The budget released by Gov. Sean Parnell Dec. 14 included $95 million for Susitna-Watana Hydro. AEA said the funding would be used for environmental field work, geotechnical investigations and engineering design through fiscal year 2014.

AEA filed a proposed study plan with FERC in July covering nearly 186,000 acres surrounding the project site. A decision on the study plan is expected by spring and AEA said it hopes to begin conducting the studies in 2013.

Parnell announced start of work on the $4.5 billion, 600-megawatt hydroelectric power plant at Watana on the upper Susitna River in July 2011, following authorization by the Legislature earlier that year for AEA to pursue the project and allocation of $66 million for initial project work.

—PETROLEUM NEWS

● ENVIRONMENT & SAFETY

NMFS issues proposed IHA for Apache

Covers offshore Cook Inlet seismic program south of area surveyed this year; agency says surveys will not impact beluga whales

By ALAN BAILEY
Petroleum News

The National Marine Fisheries Service has issued a proposed incidental harassment authorization, or IHA, for the offshore seismic surveying that Apache Alaska Corp. plans to do in Cook Inlet in 2013. Apache is conducting a multiyear 3-D seismic program offshore and onshore the inlet, as part of a search for new oil resources in the Cook Inlet basin.

This year the company completed seismic surveys in the northern part of upper Cook Inlet, up the west side of the inlet and over a fairway across the inlet to the northern coast of the Kenai Peninsula. According to the proposed IHA, Apache now plans to conduct surveys to the south, off the coast of the Kenai Peninsula, from Anchor Point in the southwestern peninsula to Point Possession to the north of Kenai, and on the west side of the inlet from the McArthur River to the Beluga River.

Apache anticipates starting work in intertidal areas in March, possibly earlier, with offshore surveys taking place between April and September, the proposed IHA says.

The Fisheries Service requires comments on the proposed IHA by Jan. 9, after which the agency will have 45 days in which to issue or deny the authorization. An IHA allows the minor, unintended disturbance of marine mammals during an industrial operation, under the terms of the Marine Mammals Protection Act.

Protected species

Of particular sensitivity when it comes to offshore Cook Inlet seismic work is the possibility of disturbance to the Cook Inlet beluga whale, a marine mammal sub-species that has been listed as endangered under the Endangered Species Act. The Steller sea lion, another protected species, can also be found in the waters of the inlet. And in February the Fisheries Service issued a biological opinion for all of the Cook Inlet intertidal and offshore areas within which Apache anticipated conducting surveys. That biological opinion concluded that the surveys are unlikely to put the beluga whales or the sea lions in jeopardy, or to adversely impact the beluga whales' critical habitat.

In April the Fisheries Service issued an IHA which covered Apache's work this year across the northern part of the inlet, but did not include the areas to the south that Apache wants to survey in 2013. An appeal against the issue of that first IHA has yet to be resolved in the federal District Court in Alaska.

Uses air guns

Apache conducts its offshore surveys by firing air guns towed in the water behind a survey vessel, and using special recording devices called hydrophones to record sounds echoed from subsurface rock units. Each hydrophone sits on the seafloor, housed in a small, disk-shaped, self-contained node. The echoed sounds are recorded and precisely timed by a recording device inside each node — after retrieval of the nodes from the sea, data can be downloaded into a computer for merging into a complete seismic dataset for the survey area.

Onshore, along the coast, small explosive charges detonated underground in

An on-land observation station will enable some PSOs to monitor for marine mammals from onshore, while helicopter surveys will monitor for beluga whale aggregations around river mouths, prior to the start of survey operations near these locations.

boreholes provide a sound source, instead of air guns, for nearshore data acquisition.

Another sound system, using what are known as "pingers," enables precise determinations of the locations of the seafloor recording nodes.

No threat to animals

The new IHA that the Fisheries Service now proposes for Apache's next phase of surveying says none of the sounds from the seismic operations — the air-gun shots, the on-land detonations and the use of pingers — constitutes a threat to any of the marine mammals in the inlet, given the mitigation measures that Apache will need to have in place for its survey operations. Those mitigation measures include the establishment of a safety and disturbance zone around an air-gun operation, with a requirement to change course, or to power down the air guns if an animal appears likely to enter the zone. Depending on the proximity of the animal, a complete air-gun shutdown might be required.

A team of experienced protected species observers, or PSOs, on vessels engaged in a survey would monitor for wildlife in proximity to the survey operations.

At night, after PSO activity has finished for the day, a single "mitigation air gun" will operate continuously, to alert animals of the presence of the seismic operation during periods when the regular air guns are shut down for some reason. If the mitigation air gun itself has to be shut down for more than 10 minutes, perhaps after a vessel crew member has spotted an animal within the safety zone for this gun, the seismic operation will be suspended until the following day.

Apache has already conducted tests that have demonstrated that underwater sounds from onshore detonations are not

see APACHE IHA page 5

Petroleum news
www.PetroleumNews.com

Kay Cashman	PUBLISHER & EXECUTIVE EDITOR
Mary Mack	CHIEF FINANCIAL OFFICER
Kristen Nelson	EDITOR-IN-CHIEF
Clint Lasley	GM & CIRCULATION DIRECTOR
Susan Crane	ADVERTISING DIRECTOR
Bonnie Yonker	AK / NATL ADVERTISING SPECIALIST
Heather Yates	BOOKKEEPER
Shane Lasley	IT CHIEF
Marti Reeve	SPECIAL PUBLICATIONS DIRECTOR
Steven Merritt	PRODUCTION DIRECTOR
Alan Bailey	SENIOR STAFF WRITER
Eric Lidji	CONTRIBUTING WRITER
Wesley Loy	CONTRIBUTING WRITER
Gary Park	CONTRIBUTING WRITER (CANADA)
Rose Ragsdale	CONTRIBUTING WRITER
Ray Tyson	CONTRIBUTING WRITER
John Lasley	DRILLING CONSULTANT
Allen Baker	CONTRIBUTING WRITER
Judy Patrick Photography	CONTRACT PHOTOGRAPHER
Mapmakers Alaska	CARTOGRAPHY
Forrest Crane	CONTRACT PHOTOGRAPHER
Tom Kearney	ADVERTISING DESIGN MANAGER
Amy Spittler	MARKETING CONSULTANT
Renee Garbutt	ADVERTISING ASSISTANT
Julie Bembry	CIRCULATION SALES EXECUTIVE
Dee Cashman	CIRCULATION REPRESENTATIVE
Joshua Borough	ASSISTANT TO THE PUBLISHER

ADDRESS
P.O. Box 231647
Anchorage, AK 99523-1647

NEWS
907.522.9469
publisher@petroleumnews.com

CIRCULATION
907.522.9469
circulation@petroleumnews.com

ADVERTISING
Susan Crane • 907.770.5592
scrane@petroleumnews.com

Bonnie Yonker • 425.483.9705
byonker@petroleumnews.com

FAX FOR ALL DEPARTMENTS
907.522.9583

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

OWNER: Petroleum Newspapers of Alaska LLC (PNA)
Petroleum News (ISSN 1544-3612) • Vol. 17, No. 52 • Week of December 23, 2012
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518
(Please mail ALL correspondence to:
P.O. Box 231647 Anchorage, AK 99523-1647)
Subscription prices in U.S. — $98.00 1 year, $176.00 2 years, $249.00 3 years
Canada — $185.95 1 year, $334.95 2 years, $473.95 3 years
Overseas (sent air mail) — $220.00 1 year, $396.00 2 years, $561.00 3 years
"Periodicals postage paid at Anchorage, AK 99502-9986."
POSTMASTER: Send address changes to Petroleum News, P.O. Box 231647 Anchorage, AK 99523-1647.

● PIPELINES & DOWNSTREAM

Hilcorp buys remaining 50% of pipeline

By KRISTEN NELSON

Petroleum News

Hilcorp Alaska is adding to its infrastructure in Cook Inlet, buying the 50 percent interest in Cook Inlet Pipe Line Co. that it doesn't already own from Pacific Energy Alaska Holdings, which has been in bankruptcy since 2009, the Regulatory Commission of Alaska said in a Dec. 4 notice.

The companies need RCA approval to transfer Pacific Energy's 50 percent ownership in the certificate of public convenience and necessity for the line.

Hilcorp Alaska acquired 50 percent interest — and operatorship — of the line when it purchased Union Oil Company of California's Cook Inlet assets, a sale which closed in January.

The 42-mile pipeline transports crude oil from the Granite Point, McArthur River, Redoubt Shoal and Trading Bay fields to the Drift River Marine Terminal, which is also owned by CIPL. In addition to the pipeline and terminal, CIPL owns lateral pipelines and a tanker loading platform and pipelines connecting to that platform, RCA said.

When Hilcorp Alaska acquired Union Oil's assets in Cook Inlet it acquired a 50 percent interest in CIPL, oil and gas production properties and Union Oil's interests in two natural gas pipelines, Cook Inlet Gas Gathering System and the Kenai Kachemak Pipeline. RCA approved transfer of those ownership interests from Union Oil to Hilcorp in December 2011.

In addition to the Union Oil Cook Inlet properties, Hilcorp has an agreement with Marathon Oil Co. to acquire that company's Cook Inlet producing properties as well as Marathon's interests in four Cook Inlet natural gas pipelines, subject to regulatory approval. RCA recently approved applications to transfer Marathon's pipeline interests.

On the web

See previous Petroleum News coverage:

"Hilcorp deal closes," in Jan. 8, 2012, issue at www.petroleumnews.com/pnads/647077236.shtml

"Hilcorp pipelines transfer before RCA," in Sept. 4, 2011, issue at www.petroleumnews.com/pnads/728294995.shtml

"Explorers 2011: Chevron sells Cook Inlet assets to Hilcorp," in Nov. 20, 2011, issue at www.petroleumnews.com/pnads/845223557.shtml

Voting interests assigned

Pacific Energy abandoned its rights in CIPL stock in 2010 and the voting interests in CIPL were assigned to Union Oil, which continued operations.

RCA said that Hilcorp Alaska and Pacific Energy agreed Sept. 13 that Hilcorp would acquire Pacific Energy's Cook Inlet interests including its 50 percent interest in CIPL. The Bankruptcy Court approved the purchase on Nov. 5, RCA said. (Hilcorp has also acquired Pacific Energy interests in leases at the Trading Bay unit — see lease update story in this issue.)

Upon commission approval of the Hilcorp acquisition, Hilcorp will continue the operation of CIPL assets, RCA said.

The commission said it has already found Hilcorp Alaska to be "qualified, willing, and able to own and operate the CIPL" in accordance with the Alaska Pipeline Act and its own requirements, and said day-to-day operations of CIPL will not change as a result of the proposed acquisition. Hilcorp has been operating CIPL for more than a year.

Projected life

The 42-mile pipeline has a diameter of 20 inches, and was designed with a flow rate of 225,000 barrels per day, although its peak capacity was 140,000 bpd in 1970.

In a state settlement in 2008 the projected life of CIPL was 2014, but RCA said "CIPL anticipates operating the pipeline beyond that time," RCA said.

"In fact, CIPL has reached a preliminary agreement with the State of Alaska to extend the life of the line to 2021 and is working to finalize the documentation for that agreement. The Pipeline's remaining economic life will be determined by the length of time crude oil is tendered to the Pipeline, in economically

see HILCORP PIPELINE page 6

EXPLORATION & PRODUCTION

Conoco permitting Cassin No. 6 well

ConocoPhillips has officially applied for a second drilling permit in the Bear Tooth unit.

The company is asking for permission to drill the Cassin No. 6 well in the National Petroleum Reserve-Alaska unit, according to U.S. Bureau of Land Management filings.

Cassin No. 6 would be on lease AA081833, in the middle of the unit. The lease is included in Unit Area A, a subset of the unit designated for initial work commitments.

At the end of November, the BLM published a notice that ConocoPhillips had applied to drill the Cassin No. 1 exploration well on lease AA081754, also in Unit Area A.

Under its current agreements, ConocoPhillips must drill an exploration well in Unit Area A and test a previous well it drilled in the unit — Scout No. 1 — by June 1, 2013.

—ERIC LIDJI

continued from page 4

APACHE IHA

loud enough to harass animals in the water, the proposed IHA says.

Beluga whale monitoring

An on-land observation station will enable some PSOs to monitor for marine mammals from onshore, while helicopter surveys will monitor for beluga whale aggregations around river mouths, prior to the start of survey operations near these locations.

Apache has told Petroleum News that, for the offshore surveys conducted in 2012, the company conducted aerial reconnaissance flights beyond what were required under the terms of the IHA. John Hendrix, Apache's general manager in Alaska, said that the seismic survey in the northern part of the Cook Inlet did not disturb any beluga whales. ●

Contact Alan Bailey at abailey@petroleumnews.com

EXPLORATION & PRODUCTION

Linc mobilizing Umiat drilling rig

Linc Energy Inc. has started mobilizing a drilling rig to the Umiat field.

The Australian independent is using overland travel and a C-130 Hercules aircraft to move the Kuukpik No. 5 rig to the oil field in the foothills of the Brook Range mountains along the Colville River and the border of the National Petroleum Reserve-Alaska.

The company is planning a four to six well program at Umiat this winter, starting with the Umiat DS No. 1 Class II disposal well scheduled to spud around Jan. 22, 2013.

The program would continue with the Umiat No. 16 and Umiat No. 16H wells, a side-by-side vertical and horizontal test of an interval in the Lower Grandstand formation. The Umiat No. 23 well would test deeper natural gas and oil targets in the Lower Grandstand. If time permits, Linc would drill "one or both" of the Umiat No. 18 and No. 19 wells.

Following the end of drilling, in April, the company is currently planning to cold stack the rig at Umiat through the summer to get a jumpstart on drilling activities in 2013-14.

—ERIC LIDJI

NATURAL GAS

Imperial, Exxon hunt LNG prospect

Imperial Oil and its parent company, ExxonMobil, are pressing ahead with their plans to export LNG from British Columbia, said Imperial Chief Executive Officer Bruce March.

He said the project would be built partly on the foundations of its C$3.1 billion acquisition of natural gas producer Celtic Exploration, along with the gas holdings the related companies hold in the Horn River shale play in British Columbia and other assets across Western Canada.

March told an investment conference that the partnership is "anxious to scale up the operations" assembled by Celtic by accelerating development of the resources.

"We are in the very early stages of looking at LNG off the British Columbia coast and Celtic reserves would be the underpinning of a potential LNG strategy," he said.

But March said the two companies are still looking carefully at the prospects, while facing competition from a growing number of global players that have picked the British Columbia coast to build integrated operations that involve the production, shipment and liquefaction of gas.

However, he noted that ExxonMobil is a big player in the global LNG business and is well-acquainted with the prospective customers.

—GARY PARK

● FINANCE & ECONOMY

Canada hears the whip cracking on oil, gas exports

By GARY PARK

For Petroleum News

Canada has little more than a decade to overcome the obstacles to building crude oil pipelines to the British Columbia coast or producers in Western Canada will experience the same price of price collapse that has crippled the North American gas sector, said Lorraine Mitchelmore, president of Royal Dutch Shell's Canadian unit.

"It's become even more urgent than in the past that we get access to tidewater, meaning access to Asia," she told a conference sponsored by the Canadian Council of Chief Executives.

Although the Asian demand for Western Canadian crude could extend far into the future, right now supply is the key, she said.

"We've seen it happen in gas. In the span of three years, our market has virtually dried up," Mitchelmore said.

"So you could possibly see the same thing happening in the oil business, with tight oil," she said. "So there's going to be a lot of pressure. There is quite a complex marketplace right now with the light oil coming on. And that could put a lot of downward pressure on the prices of our heavy crudes as well."

Mitchelmore gave Canada little more than the current decade to start oil and LNG exports to Asia, given the rate at which its competitors are moving ahead.

> *"We've seen it happen in gas. In the span of three years, our market has virtually dried up."*
> **—Lorraine Mitchelmore, president of Royal Dutch Shell's Canadian unit**

"In gas, look at what Australia is achieving. Our oil sands investment pales in comparison to LNG investment in Australia. It's less than half. And then Russia is building infrastructure to get to Asia," she said, adding she was worried Canada could find itself on the fringes as a bit player unless it takes advantage of its opportunities.

Rick George, the retired chief executive officer of Suncor Energy, echoed Mitchelmore's thoughts.

"If you look at the gas coming out of the Middle East and the gas coming out of East Africa — these are massive volumes and the buyers are well aware of these reserves. So it's our opportunity. If we don't move on gas and oil there's a very god possibility we'll miss that opportunity," he said. ●

Contact Gary Park through publisher@petroleumnews.com

continued from page 5

HILCORP PIPELINE

sufficient quantities, for transportation from Pipeline-connected producing fields and facilities," RCA said.

Because Hilcorp Alaska is a current owner of CIPL, the Alaska Department of Natural Resources does not require prior approval for transfer of Pacific Energy's interest in right-of-way agreements to Hilcorp.

Hilcorp Alaska paid $6.8 million for the CIPL assets and agreed to release a $21 million CIPL claim against Pacific Energy; it also paid $50,000 for Pacific Energy's 20,000 shares in Cook Inlet Pipe Line Co. ●

> *The 42-mile pipeline has a diameter of 20 inches, and was designed with a flow rate of 225,000 barrels per day, although its peak capacity was 140,000 bpd in 1970.*

Contact Kristen Nelson at knelson@petroleumnews.com

NATURAL GAS

Hilcorp begins production from Red Pad

Hilcorp Alaska began natural gas production from Red Pad on the Kenai Peninsula Dec. 17.

Production is at 5 million cubic feet per day, Hilcorp Alaska spokeswoman Lori Nelson told Petroleum News in a Dec. 18 email. She said Hilcorp is "continuing to monitor the system" and hopes to reach its original production estimate of 6.5 million cubic feet per day.

The field was discovered by Unocal in 2004 and the Red 1 well tested 3.2 million to 5.8 million cubic feet per day in a 26-hour test. A second well, Red 2, was also drilled and tested in 2004, but there were no measurable hydrocarbons. Production is from an existing gravel pad built by Unocal. The Nikolaevsk unit leases were transferred to Hilcorp Jan. 1 as part of Hilcorp's purchase of Chevron subsidiary Union Oil Company of California's Cook Inlet assets.

Line just completed

The accumulation is in the Nikolaevsk unit some 14 miles southeast of Ninilchik on the southern Kenai Peninsula, and was stranded until a six-inch pipeline was completed by Semco Energy's Alaska Pipeline Co., APC, subsidiary in early December. The line runs some 10 miles east to connect with APC's Anchor Point Pipe Line.

Hilcorp funded the Red Pad Pipeline through a contribution in aid of construction agreement; the estimated pipeline cost was $8.4 million.

In filings with the Regulatory Commission of Alaska in the fall, APC said pipe for the Red Pad Pipeline had already been purchased and that Hilcorp "has arranged for its expedited transportation to the construction site," with most of the pipe already in Alaska.

—KRISTEN NELSON

● FINANCE & ECONOMY

ConocoPhillips settles on Kuparuk spills

In agreements with EPA and Alaska regulators, company agrees to pay total of nearly $313,000 for corrosion-related pipeline leaks

By WESLEY LOY

For Petroleum News

ConocoPhillips Alaska Inc. has reached settlements with federal and state regulators over a pair of pipeline spills in 2006 and 2007 in the Kuparuk River oil field on Alaska's North Slope.

Under the settlements, ConocoPhillips agreed to pay nearly $313,000 in fines and costs.

One settlement was with the U.S. Environmental Protection Agency. Another was with the Alaska Department of Environmental Conservation.

The two agencies announced the settlements on the same day, Dec. 17.

State officials said the two spills involved corrosion in flow lines, which carry the raw mixture of crude oil, water, natural gas and solids from wells to processing centers. Corrosion is an ever-present threat in Alaska's maturing North Slope oil fields.

"The cause of these releases are reminders of the complexities of pipeline corrosion and the need to continually reassess and rapidly adapt to changing operating conditions in order to prevent spills," said Larry Dietrick, DEC's director of spill prevention and response. "DEC has instituted new requirements for leak detection, monitoring, engineering reviews, reporting and inspections for flow lines since 2007 because of risks of corrosion as evidenced by these and other leaks that have been experienced on the North Slope."

"Any oil discharge on Alaska's North Slope can cause harm," said Jeff KenKnight, an EPA permit compliance manager. "Spills can often be reduced or eliminated by upgrading existing maintenance and inspection programs and being more aggressive with spill prevention planning."

The spill and ensuing cleanup forced the shutdown of three drill sites producing 12,000 barrels of oil per day.

The 2007 spill

ConocoPhillips operates Kuparuk, Alaska's second-largest oil field, on behalf of a stakeholder group that also includes BP, Chevron and ExxonMobil.

Kuparuk began production in December 1981, and along with its satellite fields has produced nearly 2.5 billion barrels of crude oil to date.

The larger of the two spills covered under the settlements was discovered by field workers on Dec. 16, 2007. A blend of water and crude oil leaked from a ruptured 24-inch flow line between the 2U and 2W drill pads. The discharge went onto snow-covered tundra.

The spill consisted of 2,870 gallons of contaminated water and 1,386 gallons of crude oil, the DEC said in a Dec. 17 press release.

The spill and ensuing cleanup forced the shutdown of three drill sites producing 12,000 barrels of oil per day.

"Investigation determined the leak resulted from external corrosion caused by an anomaly in the manufacture of pipe insulation that allowed water to be drawn to the sidewall of the pipe," the DEC said. "As a result of its investigation and DEC recommendations, ConocoPhillips took a number of remedial measures in response to the corrosion."

The EPA alleged violations of the Clean Water Act.

ConocoPhillips agreed to pay federal and state penalties for the spill.

The company paid a $45,000 penalty under a "consent agreement and final order" signed with the EPA. The agreement says ConocoPhillips "neither admits nor denies" the factual allegations contained in the document.

ConocoPhillips agreed to pay the state a $77,009 civil assessment.

see CONOCO SETTLES page 10

● NATURAL GAS

FNG settles rate re-regulation case

Fairbanks utility claims to have reached an agreement with Attorney General, Fairbanks North Star Borough over ratemaking

By ERIC LIDJI
For Petroleum News

Although the details remain as yet unknown, Fairbanks Natural Gas LLC claims to have reached a settlement with the parties seeking to reinstate rate regulation on the utility.

The local distribution company for Fairbanks recently asked the Regulatory Commission of Alaska to vacate the hearing schedule arranged for the case, saying the parties met "informally" on Dec. 10 and "reached an agreement to amicably settle this docket." The Attorney General and the Fairbanks North Star Borough are the other parties in the case.

While the RCA would need to approve any settlement before it went into effect, the commission agreed to drop the current hearing schedule, saying it would issue a revise schedule should the settlement prove inadequate. The settlement is due by Jan. 14, 2013.

While the public conversations between Fairbanks Natural Gas and the state have mostly been cooperative, the utility has sparred some with the Fairbanks North Star Borough.

Three parties to case

The case grew out of a 2009 investigation into Fairbanks Natural Gas' regulatory status, one of many the company has gone through since its creation in the late 1990s. At the time, the Attorney General favored a price cap over rate regulation, but suggested revisiting the matter again in 2012 to gauge the effectiveness of the protective measure.

While Fairbanks Natural Gas started life as a rate regulated utility, the RCA subsequently gave it the ability to change its rates up and down, at will, to better compete against the unregulated fuel oil companies that dominate the home heating market in the Interior.

In October 2012, Fairbanks Natural Gas suggested it might willingly accept rate regulation, under certain conditions, and said it had kicked off discussions with the Parnell administration. Asked why, Fairbanks Natural Gas President Dan Britton told Fairbanks officials that it saw rate regulation as an inevitability, given its plan to seek public financing for a North Slope liquefied natural gas plant and its expectation that it would eventually expand its market share in the home heating sector in Fairbanks.

Britton also said the cost of revisiting the issue was negating the benefits of exemption.

In November, an economist representing the Attorney General testified that Fairbanks Natural Gas had failed to compete against fuel oil prices and should be rate regulated.

In mid-December, the Parnell administration announced a $355 million financial package designed to spur construction of a North Slope LNG plant to supply Interior markets.

While the public conversations between Fairbanks Natural Gas and the state have mostly been cooperative, the utility has sparred some with the Fairbanks North Star Borough.

The Fairbanks North Star Borough also supported a return to rate regulation, but in the hope of lowering consumer prices by keeping rates tied to service costs. And it raised additional concerns about Fairbanks Natural Gas' service area. In particular, it accused the company of not providing service to all the interested customers in its service area.

Fairbanks Natural Gas said both issues fell outside the intended scope of the docket. The company even asked the RCA to consider removing the borough as a party to the case. ●

Contact Eric Lidji at ericlidji@mac.com

ENVIRONMENT & SAFETY

Ship discharges pose threat

Discharges of oily effluent from ships pose a bigger problem to British Columbia coastal waters than catastrophic oil spills, the final phase of public hearings into Enbridge's planned Northern Gateway project was told by an attorney for Nature Canada.

Chris Tollefson, representing the non-profit conservation groups, challenged representatives of Enbridge to refute research that claims the cumulative impact of the chronic oiling is greater than the effects of major oil spills on endangered birdlife.

The Northern Gateway plan estimates 220 tankers a year would traverse the area to and from the deepwater terminal at Kitimat.

Jeff Green, who is responsible for the project's environmental assessment, conceded that "mystery" sills can be as large as tanker spills, but argued they occur in different regions and in small quantities.

"Yes, it is a problem," he said. "There's absolutely no question, it's a problem."

In noting that there has been a call for increased surveillance and increased enforcement of laws that prevent ship-source discharges, he said recreational boats, fishing vessels, urban run-off and sewage, along with natural seepage from oil deposits in the Pacific, are likely sources of the mystery oil.

Green said that under the Canada Shipping Act authorized discharges are legally confined to an amount that does not have a significant impact on wildlife.

John Carruthers, president of Enbridge Northern Gateway Pipelines, said the project will "fully comply with all laws and regulations. That is our firm expectation."

But Tollefson questioned whether Enbridge can offer that assurance when it has yet to name all of its Northern Gateway partners.

Carruthers said that all shippers would be required to abide by Canadian laws.

—GARY PARK

GOVERNMENT

BSEE publishes draft safety culture policy

As a follow up to various recommendations in response to the Deepwater Horizon disaster, the Bureau of Safety and Environmental Enforcement, or BSEE, has published a draft "Safety Culture Policy Statement" that would apply to businesses operating on the U.S. outer continental shelf. The agency wants public comments on the policy statement by March 20.

"The Safety Culture Policy Statement is at the core of BSEE's guiding principle of safety at all levels, at all times, because every offshore operation — no matter when or where it is performed — carries with it some degree of risk," said BSEE Director Jim Watson. "From the boardroom to the control room, this policy pushes us all to a safer offshore environment."

BSEE defines a safety culture as "the core values and behaviors resulting from a collective commitment by leaders and individuals to emphasize safety over competing goals to ensure protection of people and the environment." And the policy statement says that a robust safety culture includes characteristics such as leadership behavior demonstrating a commitment to safety; prompt identification and resolution of safety issues; personal accountability; work processes that maintain safety; continuous learning; an environment conducive to people raising concerns; effective safety communications; a work environment of trust and respect; and a culture encouraging an inquiring attitude rather than an attitude of complacency.

The agency cites the nuclear power industry and the safety culture policy of the Nuclear Regulatory Commission, or NRC, as providing a strong foundation for a similar approach for outer continental shelf oil and gas operations. A 2011 report on Deepwater Horizon commented that, following the Three Mile Island nuclear accident in 1979, the nuclear industry had made huge improvements in its safety culture, helped and influenced by the NRC policy.

—ALAN BAILEY

● PIPELINES & DOWNSTREAM

Transfer of Koch pipeline stake OK'd

BP, Conoco, Exxon assume Koch's piece, will now own slightly larger shares of trans-Alaska oil pipeline; Unocal transfer pending

By WESLEY LOY

For Petroleum News

The Regulatory Commission of Alaska has approved the transfer of Koch's small interest in the trans-Alaska pipeline system to BP, ConocoPhillips and ExxonMobil.

The commission's Dec. 14 order caps a process that began in June, after Koch Alaska Pipeline Company LLC informed the other TAPS owners that for "strategic reasons" it wished to exit the Alaska transportation market.

Koch Alaska is a unit of Koch Industries Inc. of Wichita, Kan.

The transfer of Koch's interest means the TAPS ownership group shrinks from five companies to four.

The shrinkage is expected to continue as another minor owner, Unocal Pipeline Co., also is looking to deal away its stake in TAPS.

The trans-Alaska pipeline carries North Slope crude oil south 800 miles to the tanker terminal at Valdez.

Koch's sole crude shipper on the pipeline was Flint Hills Resources, a Koch subsidiary that operates a refinery at North Pole near Fairbanks.

Ownership of a pipeline carrier can't change without regulatory commission approval.

In considering the transfer, the commission considered whether BP,

see **PIPELINE STAKE** *page 13*

continued from page 8

CONOCO SETTLES

The 2006 spill

The DEC settlement with ConocoPhillips also covers a second Kuparuk spill discovered on March 9, 2006.

The leak from a 24-inch flow line released about 500 gallons of slightly oily produced water.

"ConocoPhillips conducted an investigation, with DEC's participation, into the cause of the spill," the DEC said. "The investigation determined that the leak resulted from internal corrosion which involved a number of factors. The settlement agreement includes remedial measures ConocoPhillips shall take to address the risk of similar leaks in the future. These include improvements to its program to monitor for evidence of corrosion in its flow lines."

ConocoPhillips agreed to pay a $78,283 civil assessment for the 2006 spill.

The settlement also requires the company to finish the restoration of areas impacted by the spills, totaling under half an acre. And ConocoPhillips agreed to reimburse the state's investigation and spill oversight costs of $112,273.

"We are glad to bring this legal matter to a successful conclusion and to focus on the lessons learned from these two events," Alaska Attorney General Michael Geraghty said. "It is important that appropriate measures be instituted to prevent these types of events from occurring in the future."

Natalie Lowman, spokeswoman for ConocoPhillips Alaska, on Dec. 17 provided this statement to Petroleum News regarding the EPA and DEC settlements:

"Spill prevention and protection of the environment are top priorities for ConocoPhillips. Lessons learned from these two incidents about potential corrosion pathways have been applied to our integrity management program, which has been subjected to rigorous internal and external oversight. ConocoPhillips continues to spend significant funding on pipeline inspection, asset renewals such as pipeline replacements and pigging infrastructure upgrades and to advance technologies that provide continuous improvement." ●

Contact Wesley Loy at wloy@petroleumnews.com

PIPELINES & DOWNSTREAM

Spectra tackles oil transportation

Houston-based Spectra Energy is tossing out a challenge to Enbridge, TransCanada and Kinder Morgan in the transportation of crude oil from Western Canada, by acquiring the Express-Platte system for $1.49 billion.

The deal, consisting of $1.25 billion in cash and $240 million in debt, gives Spectra ownership of one of the three leading pipelines carrying Canadian crude to refineries in the U.S. Rocky Mountain and Midwest regions, while reducing Spectra's reliance on natural gas.

The deal, consisting of $1.25 billion in cash and $240 million in debt, gives Spectra ownership of one of the three leading pipelines carrying Canadian crude to refineries in the U.S. Rocky Mountain and Midwest regions, while reducing Spectra's reliance on natural gas.

The Express pipeline carries 280,000 barrels per day from the Hardisty terminal in central Alberta to refining markets in Montana and Wyoming, while the 164,000 bpd Platte line connects with Guernsey, Wyo., and the Wood River refining region in Illinois.

BMO Capital Markets analyst Carl Kirst welcomed the move because it offers a "new growth platform" at a time when the industry has few prospects of new infrastructure on the horizon and "provides a backbone to compete."

Spectra Chief Executive Officer Greg Ebel told analysts that Spectra intends to chase investments in oil and refined products pipelines, storage tanks and terminals.

The Express-Platte system was owned equally by the Ontario teachers' Pension Plan, Borealis Infrastructure and Kinder Morgan Energy Partners.

—GARY PARK

FINANCE & ECONOMY

EIA switches to Brent reference price

For its 2013 Annual Energy Outlook the U.S. Energy Information Administration, or EIA, is switching to Brent crude for its reference oil price, EIA announced in early December. EIA, which publishes information and data on oil production and prices, had been using West Texas Intermediate, or WTI, for its reference price.

High oil production in the United States coupled with transportation bottlenecks in shipping West Texas oil to market through the U.S. pipeline infrastructure have tended to depress WTI prices below Brent prices in recent years, raising questions over the suitability of WTI prices as a proxy for worldwide prices.

"This change was made to better reflect the price refineries pay for imported light, sweet crude oil and takes into account the divergence of WTO prices from those of globally traded benchmark crudes such as Brent," EIA wrote in its early release overview for the 2013 Energy Outlook. "WTI prices have diverged from other benchmark crude prices because of insufficient pipeline capacity to move crude oil to and from Cushing, Oklahoma, and the growth of midcontinent and Canadian oil production that has overwhelmed the transportation infrastructure needed to move crude from Cushing to the U.S. Gulf of Mexico."

—ALAN BAILEY

● NATURAL GAS

Enstar, Hilcorp agree on delivery schedule

Colder than normal weather in Southcentral Alaska pushes gas supply volume toward upper limit of Hilcorp's annual commitment

By ALAN BAILEY
Petroleum News

In what appears to be another indication of tightening gas supplies from Alaska's Cook Inlet basin, Enstar Natural Gas Co. and Hilcorp Alaska have agreed on a procedure for the delivery of Hilcorp gas to Enstar for the last couple of weeks of this year.

According to a notification sent by Enstar to the Regulatory Commission of Alaska on Dec. 14, colder than normal weather in Southcentral Alaska has caused Hilcorp gas deliveries to approach the contracted limit for 2012 of 20.5 billion cubic feet. In the absence of warmer weather, the supplies would reach that limit during the last week of December. Hilcorp is unwilling to exceed the contracted supply ceiling for fear that the delivery of extra gas in December would compromise the company's ability to meet its gas delivery commitments in the first quarter of 2013, Enstar told the commission.

Schedule set

Instead, the two companies have agreed on a daily delivery schedule beginning on Dec. 15 that will ensure the continuity of Hilcorp gas supplies through to the end of the month without exceeding the annual gas supply ceiling. If these daily supplies fall short of what Enstar needs, Enstar will obtain additional gas either through its daily gas bidding system or by withdrawing gas that the utility has stored in the Cook Inlet Natural Gas Storage Alaska storage facility, known as CINGSA, on the Kenai Peninsula, Enstar wrote.

"Had Hilcorp and Enstar not modified the delivery methodology … and had Enstar reached the 2012 ceiling prior to Dec. 31, 2012, Enstar would have been forced to withdraw 100 percent of the replacement gas … out of CINGSA on each day after reaching the ceiling," Enstar wrote. "This would have very rapidly depleted Enstar's CINGSA balance and may have exceeded CINGSA's performance on any given day, causing serious disruptions throughout the system."

Enstar initiated its gas bidding system in early 2011 to allow the company to cover a growing shortfall in gas supplies committed under contract. The bidding system enables gas producers to bid to meet the shortfall on a day-by-day basis. ●

Contact Alan Bailey at abailey@petroleumnews.com

● GOVERNMENT

AOGCC considers shale oil development

Foerster says commission anticipates new regulations for disclosure of hydraulic fluids; extended gas flaring will not be allowed

By ALAN BAILEY
Petroleum News

The Alaska Oil and Gas Conservation Commission, or AOGCC, is viewing with interest Great Bear Petroleum's efforts to develop oil direct from source rocks on the North Slope, AOGCC Commissioner and Chair Cathy Foerster told Law Seminars International's Energy in Alaska conference on Dec. 4.

Given the size of North Slope oil fields such as Prudhoe Bay, the prospects for shale oil development in Alaska should be good, Foerster said. "If there is any correlation between how good the conventional reservoir is and how good its source is, we're sitting on a gold mine," she said. "We're really optimistic that Great Bear will do great things."


JUDY PATRICK
CATHY FOERSTER

Foerster said that the exploration phase of Great Bear's program raises few issues for the commission, but that the commission is considering what actions it needs to take as the shale oil program moves through production testing and development.

Shale oil is a commonly used term referring to oil produced from source rocks, although those source rocks are not necessarily shale.

Hydraulic fracturing

Great Bear will likely have to apply hydraulic fracturing techniques in all of its wells. But this technique is by no means new to Alaska, Foerster said.

"One out of every four wells in the State of Alaska has been hydraulically fractured, and we've been fracturing wells for 40 years here," she said.

The commission already has adequate regulations in place to ensure that

see AOGCC & SHALE page 13

FACILITIES

Repsol permitting gravel exploration work

Repsol E&P USA Inc. has applied to the Alaska Department of Natural Resources, Division of Mining, Land and Water, for a land use permit for winter geotechnical drilling at Kuparuk. In a Dec. 14 public notice the division's Northern Region Land Office said the geotechnical drilling was "to identify and delineate potential gravel material sites for use in development of potential oil production facilities."

There are four sites for the winter drilling program, and up to 25 boreholes may be drilled at depths up to 70 feet at each site. The division said that if an area is chosen for in-depth gravel delineation, "up to 45 boreholes would be drilled to a maximum depth of 60 feet."

Boreholes would be backfilled to tundra grade with soil cuttings and purchased soil material, if needed, after sampling.

Public comments are being accepted through close of business Dec. 27, but the division said that it believes "the requested activity would be de minimis in nature and would not restrict other uses of the gravel pad and intends to authorize the activity."

Repsol is in the second year of an extensive winter exploration drilling program on the North Slope, with four wells planned this season in the fairway between the Oooguruk and Colville River units.

—PETROLEUM NEWS

continued from page 10

PIPELINE STAKE

ConocoPhillips and ExxonMobil were "able and willing" to operate Koch's share of TAPS, whether the continued operation of the pipeline was required for "public convenience and necessity," and whether the transfer was in the public's best interest.

On all counts, the commissioner determined in favor of the transfer.

"The Parties maintain that conveying (Koch's) TAPS interest to existing TAPS Owners will not change the TAPS rate base or impact the methodology for calculating maximum tariffs for TAPS and that there will be no change in the day-to-day operations or management of the pipeline as a result of the conveyance," the RCA order said.

The order did not specify a sale price.

Koch held a 3.0845 percent interest in the TAPS pipeline assets and Valdez Marine Terminal oil storage tank assets.

The company acquired its interest from The Williams Cos. in 2003.

With the transfer, the commission amended company certificates of public convenience and necessity to reflect the following:

- BP Pipelines (Alaska) Inc. will own 48.441 percent of TAPS pipeline assets and 47.5881 percent of terminal tankage. Previously, BP held a 46.9263 percent interest in TAPS pipeline assets and a 46.0955 percent interest in tankage.
- ConocoPhillips Transportation Alaska Inc. will own 29.2086 percent of TAPS pipeline assets and 28.1267 percent of tankage. Previously, ConocoPhillips held a 28.2953 percent interest in TAPS pipeline assets and a 27.2445 percent interest in tankage.
- ExxonMobil Pipeline Co. will own 20.9943 percent of TAPS pipeline assets and 22.6252 percent of tankage. Previously, ExxonMobil held a 20.3378 percent interest in TAPS pipeline assets and a 21.9155 percent interest in tankage.

The commission, with its order, revoked Koch Alaska's certificate.

Unocal owns a 1.3561 percent interest in the pipeline and a 1.66 percent interest in terminal tankage.

"There will be no change to Unocal's ownership interests as a result of the transfer addressed in this order," the commission said.

Unocal, part of Chevron, in July received permission from the RCA to temporarily suspend service on its share the pipeline.

Unocal has said it intends to sell or transfer its ownership interest to a third party, another TAPS owner, or all of the remaining TAPS owners.

"Negotiations regarding the transfer of Unocal's ownership interest in TAPS are ongoing, but an agreement regarding the terms of a transfer has not yet been reached," Unocal told the commission Oct. 25.

On Dec. 18, the commission ordered Unocal to file an application by Jan. 25 to transfer its operating authority in TAPS, or "make a filing explaining why the transfer application has not been filed." ●

Contact Wesley Loy at wloy@petroleumnews.com

continued from page 12

AOGCC & SHALE

hydraulic fracturing is performed safely, Foerster said. However, in recognition of recent technical advances, and recognizing public concerns, the commission will update its regulations in 2013. New regulations will require disclosure of what fluids are being used and will require freshwater monitoring, Foerster said.

As more people become aware that fracturing is happening in Alaska, more people will want to know what is going on, she said.

Gas flaring

The most difficult issue for shale oil regulation will likely, however, relate to the flaring of gas that is produced along with the oil. With the impracticality of transporting gas from shale oil well sites during production testing, companies will want to flare gas during that phase of the development cycle, Foerster said. But AOGCC will insist on the construction of gas handling facilities before wells go into full production. The commission will not allow extended flaring, Foerster said.

"We're not going to be North Dakota, which flares 34 percent of the gas it produces. We currently flare less than 0.5 percent of the gas that we produce and we'd like to keep it that way," Foerster said. "We'll have some fights about that, I suspect. I'm ready."

Ideally, the gas would be shipped to Prudhoe Bay for oil-field reservoir pressure maintenance and improved oil recovery, she said.

The other issue for shale oil production — the metering of the production, to ensure that the state receives its royalty share of the oil — should prove relatively simple to deal with, Foerster said. ●

Contact Alan Bailey at abailey@petroleumnews.com

FINANCE & ECONOMY

BP shareholders drop Alaska appeal

BP shareholders who sued in Alaska following the Deepwater Horizon disaster have dropped their appeal to the state Supreme Court.

The shareholders had brought what's known as a derivative action, suing on behalf of the company against BP board members and executives. They alleged mismanagement in connection with Deepwater Horizon, and with respect to pipeline leaks and other problems in BP's Alaska North Slope operations.

After an Anchorage Superior Court judge on June 4 dismissed their case, the shareholders appealed to the state Supreme Court, saying the lower court erred and citing "BP's continuing problems in Alaska."

On Sept. 14, the shareholders moved to stay the appeal. Their attorney said the shareholders were "engaged in settlement discussions" with BP.

On Nov. 26, the Supreme Court dismissed the appeal at the joint request of the shareholders and counsel for BP, its board members and executives.

Court papers don't reveal any terms for whatever settlement might have been reached in the matter.

—WESLEY LOY

UTILITIES

High rainfall triggered action at Cooper Lake

The deluge of rain that hit Southcentral Alaska in mid-September called for some immediate action at the Cooper Lake hydroelectric power plant on Alaska's Kenai Peninsula, according to a report submitted to the Federal Energy Regulatory Commission, or FERC, by Chugach Electric Association, the power plant's operator.

Chugach Electric told FERC that, with 13.8 inches of rainfall in the second half of September, compared with a 20-year average of 3.1 inches in that time period, the water level behind the dam at Cooper Lake had climbed towards the normal high operating level of 1,194 feet above sea level. The spillway height at the dam is 1,215 feet, but the maximum licensed water level is 1,201 feet.

Apparently, Chugach Electric normally plans for a relatively high water level in the lake in the fall, in anticipation of high winter power and natural gas demand, and recognizing that rainfall input to the reservoir drops in the winter. And the utility had scheduled inspection and maintenance of the power plant prior to the onset of winter.

With the water level in the lake rising and a maintenance shutdown set to suspend the flow of water through the generation system, a water flow that is the only means of lowering the reservoir level, Chugach Electric decided to expedite the maintenance program: Crews worked 10-hour days, seven days a week, to limit the maintenance outage to 11 days, compared with the normal 19 days, the utility said.

The reservoir level crested at 1,194.5 feet on Oct. 19, before starting to drop back, Chugach Electric told the commission. No damage was caused to the facility or to private property, and no one was injured, Chugach Electric said.

—ALAN BAILEY

INTERNATIONAL

Rig arrives off Cuba for new exploration

A Norwegian-owned platform arrived in waters off Cuba's north-central coast for exploratory drilling by the Russian oil company Zarubezhneft, authorities said Dec. 15, renewing the island's search for petroleum after three failed wells this year.

Drilling is to begin "in the coming days" and take six months, according to a notice published by the Communist Party newspaper Granma. The depth of the project was given as 21,300 feet.

State-run oil company Cubapetroleo said in the announcement that the Songa Mercur rig, owned by Songa Offshore of Norway, was inspected to make sure it contains less than 10 percent U.S.-made parts. That allows the companies involved in the drilling to avoid sanctions under the 50-year-old U.S. embargo against Cuba.

The exploration block in question, near the gleaming beaches of a major tourist resort, is considered less promising than offshore areas to the west where earlier this year a superdeep-water platform drilled three wells deemed commercially nonviable.

The Scarabeo-9, a huge semisubmersible rig owned by Italy's Saipem, left Cuban waters in November after sinking the three dud wells, and analysts said it could be years before drilling resumed in those deep-water blocks.

Geologic surveys say 5 billion to 9 billion barrels of oil may lie off Cuba's coast. Island authorities hope there may be even more and have been banking on a big strike.

An injection of petrodollars could boost Cuba's struggling economy, bankroll President Raul Castro's economic reforms and ease the island's energy dependence on Venezuela, which has sent billions of dollars' worth of oil on preferential terms.

"The new well has the objective of determining the potential of petroleum and natural gas in this sector of our country," the notice in Granma read. "Its results should contribute to the knowledge of the area of the perforation, as well as all of north-central Cuba."

Cuba's oil exploration in the Gulf of Mexico has prompted protest from Cuban exiles in the United States and alarmed some who fear a spill could befoul American shores from Florida to the Carolinas.

The notice in Granma said the Songa Mercur rig also underwent safety inspection and is capable of drilling with minimum environmental risk.

—ASSOCIATED PRESS

Business Spotlight

HDR Alaska Inc.

HDR, headquartered in Omaha, Neb., is a global employee-owned firm providing architecture, engineering, consulting, construction and related services through its various operating companies. With more than 185 locations and completed projects in 60 countries, its professionals are committed to helping clients manage complex projects and make sound decisions.

SUSAN CRANE

Larry Houle

Larry Houle, Alaska Resource Marketing Manager

Larry Houle has more than 25 years of experience in project management, real estate services and business development. With an extensive background in the legislative and regulatory aspects of the energy and transportation industries, Houle has built a strong network of professional relationships with consultants and clients throughout Alaska. He has Master of Science in construction management from Colorado State University and a Bachelor of Science in economics from Willamette University.

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

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

continued from page 1

SANDS CHILL

sector.

Oliver: Ample access to capital

Natural Resources Minister Joe Oliver wasted no time making a case that Canada will continue to have ample access to capital, estimating that need at C$650 billion over the next 10 years.

He said there is a vast pool of capital available globally and within Canada to fuel growth.

"Historically, the bulk of the financing has come from the private sector," he said. "So we expect that capital will continue to be available."

Oliver said SOEs looking for oil sands assets will be closely scrutinized, but "outside the oil sands there will be opportunities and inside the oil sands there will be opportunities in joint ventures and minority interests."

Partnership vs. control

Many observers argue that the partnership model works best for SOEs, giving them a chance to understand the market-based environment and deal with higher standards and accountability.

"We're not turning our backs on SOE investment overall," Oliver said. "Their capital is welcome."

But industry experts caution that foreign investors are looking for greater control over their assets, especially in high-cost arenas like the oil sands.

"Whether SOE investors are prepared to live with this regime where they are limited to acquiring only minority positions, we'll have to see," said Frank Turner, a lawyer with the firm of Osler Hoskin & Harcourt.

Oliver acknowledged he will have some work to remove any doubts in places such as China, India, Brazil, South Korea, Kuwait and Abu Dhabi — all of which have hinted they are on the lookout for investment opportunities in Canada — that Canada remains open for business.

India reportedly upset

India, which has been hinting over recent years that it is on the verge of making an offer through its Oil and Natural Gas Corp. (owned 69 percent by the Indian government), is reported to be upset by the new rules just a month after Harper took a team of industry leaders to India to talk up energy deals.

The official line from India is that its companies will probably adjust their acquisition strategies and now settle for minority partnership.

But some industry leaders in India suggest the Canadian government position is hypocritical when measured against Canada's free trade rhetoric and, in punishing the communist regime of China unfairly penalizes India's democracy.

Concern in Alberta

If there has been a setback for India and other investors the worry in Alberta is whether placing the oil sands off-limits to wealthy state-owned firms amounts to a chill over the resource.

The province's Energy Minister Ken Hughes was emphatic that "there is now the potential for less investment going into the oil sands," which could reduce competitiveness in a resource that already faces high costs of producing crude at a time when higher financing costs loom.

Alberta Finance Minister Doug Horner said his government needs greater clarification of the rules before deciding whether the foreign investment required to "fully realize the potential of our resources" is at risk.

The Calgary Chamber of Commerce agreed that more must be done to improve and clarify the "net benefit test" Canada applies to its review of foreign investment proposals.

"The demand for energy resources is going to be insatiable," said Ben Brunnen, the chamber's chief economist and policy director.

"It's important that we get our rules up to date and done right at this point in time, otherwise we're going to be scaring off some significant potential trade partners and investors to develop our energy resources," he said.

Industry agreement

From the inside of the oil sands, Marcel Coutu, chief executive officer of Canadian Oil Sands, which owns almost 37 percent of the giant Syncrude Canada consortium, described the new investment rules as "very balanced."

He said that when SOEs have access to a lower cost of capital, coupled with strategic political and economic reasons for owning energy projects, they have an edge over other potential buyers — an advantage that is now being taken away.

"We now have a level playing field which I think will be healthy for any industry," Coutu said.

Hal Kvisle, chief executive officer of Talisman Energy, which has no presence in the oil sands, said that if company can acquire 100 percent of another enterprise it will naturally pursue that objective, but if taking control becomes difficult or impossible, the attention of acquisitors will shift to models that are better for the Canadian oil patch.

Kvisle said minority ownership can help lower the cost of capital for companies while retaining local leadership teams.

He said that is healthier than a model that allows small companies to accumulate assets to flip them to larger players — a trend he rated as "quite disruptive to the development of strong management teams and strong technical teams that have been the foundation of our success." ●

Contact Gary Park through publisher@petroleumnews.com

continued from page 1

NPR-A PLANS

access to nearly 12 million acres of the NPR-A for oil and gas leasing, with a special focus on lands in the eastern portion of the NPR-A where development interest is highest due to the size of the resource and proximity" to the trans-Alaska oil pipeline.

The Federal Register publication will be Dec. 28, the department said, and will start a minimum 30-day review period before issuance of a final decision by the secretary.

The plan drew praise from environmental groups, concern from industry, and mixed reviews from Alaska's congressional delegation.

Congressional delegation

The state's junior senator, Democrat Mark Begich, said he was pleased federal officials listened to his demands to allow oil development and shipment through NPR-A, but said the department hasn't done enough to clear hurdles for development inside NPR-A.

Begich said he would "keep up the full court press on the Obama administration over the next few weeks to make sure our state's onshore and offshore resources can be delivered to TAPS and to market."

Alaska's senior senator, Republican Lisa Murkowski, said she continues "to be concerned that the management plan chosen by the administration greatly restricts access to our nation's oil and natural gas resources, especially in the eastern portion of the petroleum reserve."

She said while Salazar attempted in a memorandum to BLM "to clarify that pipelines may be constructed across the petroleum reserve, I remain concerned, however, that the plan sets up roadblocks to an economically feasible project."

The state's lone representative, Don Young, a Republican, called the plan "misguided" and said he remains "concerned about the economic feasibility of future pipelines it would allow."

He said as producers begin to develop offshore, "they must have a feasible route to connect with the Trans-Alaska Oil Pipeline" through NPR-A.

Pros and cons

AOGA, the Alaska Oil and Gas Association, called the plan a setback for oil and gas development in Alaska.

"While the plan does attempt to accommodate for a potential pipeline corridor, it is clearly a win for environmental organizations and those who advocate for locking up Alaska's natural resources," AOGA Executive Director Kara Moriarty said in a statement.

Jamie Williams, president of The Wilderness Society, said "The BLM's decision is based on sound science," said called it a "strategy that balances the nation's demand for energy with the need to protect America's public lands."

Cindy Shogan, executive director of the Alaska Wilderness League called alternative B-2 "the right balance" and thanked the department "for listening to the Western Arctic Caribou Herd Working Group, to the regional and local tribes of Alaska, and to the over 400,000 Americans who showed their support for the National Petroleum Reserve-Alaska."

Salazar's Dec. 19 memo to BLM asked for input from the agency on two issues, saying he wanted to specifically address them in his upcoming record of decision.

The first issue, also a concern for the state's congressional delegation, is potential construction of a pipeline or pipelines through NPR-A to transport oil from offshore locations.

"I believe that the final plan should state with clarity that the plan will allow for the construction of such pipelines," Salazar said. Construction approaches would need to take into account special areas and river crossings, but "nothing in the IAP/EIS is intended to act as a bar to potential pipelines or otherwise make construction of such pipelines impracticable," Salazar said.

While a pipeline proposal would go through a National Environmental Policy Act public process, "we should be clear that this Integrated Activity Plan does not preclude any such potential pipeline applications," he said.

The other issue Salazar addressed in the memo was concerns expressed by some North Slope residents "regarding the scope of certain protected areas, including the protected area south of Teshekpuk Lake, and the scope of the Utukok Uplands protections."

He asked for additional outreach from Interior and BLM officials to local communities prior to the record of decision, with a focus on how Interior "can engage in a continuing dialogue with local communities and tribes on key implementation issues that will rise under the NPR-A's Integrated Activity Plan," such as future pipeline issues, leasing questions, subsistence issues and related matters.

The documents are available on the BLM-Alaska website at www.blm.gov/ak.

—KRISTEN NELSON

Contact Kristen Nelson at knelson@petroleumnews.com

EXPLORATION & PRODUCTION

US drilling rigs drop by one to 1,799

Oilfield services company Baker Hughes Inc. says the number of rigs actively drilling for oil and natural gas in the U.S. fell by one the week ending Dec. 14 to 1,799.

Baker Hughes, based in Houston, said 1,381 rigs were drilling for oil and 416 for gas. Two were listed as miscellaneous. A year ago, Baker Hughes counted 2,019 rigs.

Of the major oil- and gas-producing states, New Mexico gained eight rigs, Alaska gained four and Colorado and North Dakota each gained one.

Louisiana lost six rigs, Texas lost five, Oklahoma lost three and Arkansas lost one. California, Pennsylvania, West Virginia and Wyoming were unchanged.

The rig count peaked at 4,530 in 1981 and bottomed at 488 in 1999.

—ASSOCIATED PRESS

OPEC doesn't see US output as a threat

OPEC does not see increased U.S. oil output as a threat to its interests but is skeptical about current forecasts on the boom of American shale gas production, a senior official of the 12-nation cartel said Dec. 13.

Abdullah Al-Badry also said that figures supplied by Iran show it producing around 3.7 million barrels a day. That is the same amount as Tehran pumped before international embargos on its crude that took effect this year and had been estimated to have cost it hundreds of thousands of barrels a day in sales.

OPEC, which accounts for about a third of the world's oil production, is projecting a slight fall in demand for its crude next year, and world inventories are well stocked, in part because of resurgent production by the United State, which is tapping into oil extraction from shale.

Al-Badry spoke to reporters a day after OPEC ministers agreed to keep their daily crude production target unchanged at 30 million barrels. They also extended his term for a year after failing to agree on a successor for the post because of rivalries among Saudi Arabia, Iran and Iraq, which nominated successors.

OPEC, which accounts for about a third of the world's oil production, is projecting a slight fall in demand for its crude next year, and world inventories are well stocked, in part because of resurgent production by the United State, which is tapping into oil extraction from shale.

The Paris-based International Energy Agency is predicting that America will be a net exporter of oil by the next decade and could overtake Saudi Arabia — OPEC's powerhouse — as the world's top crude producer by 2020. Analysts have suggested a looming dent in OPEC influence as a result.

But Al-Badry told reporters his organization "is not really concerned" about any increase in world supply due to U.S. shale extraction.

He questioned industry estimates that U.S. shale extraction could amount to an extra 3 million barrels of oil a day within 20 years as well as forecasts of U.S. energy independence. At the same time, he said any extra supply was welcome.

"It's fine with us, it's another source of energy and the world really needs this oil, I don't see it as a threat to OPEC" he said.

His comments on Iranian production indicated that figures from other organizations may be off or that Tehran's statistics might be inaccurate.

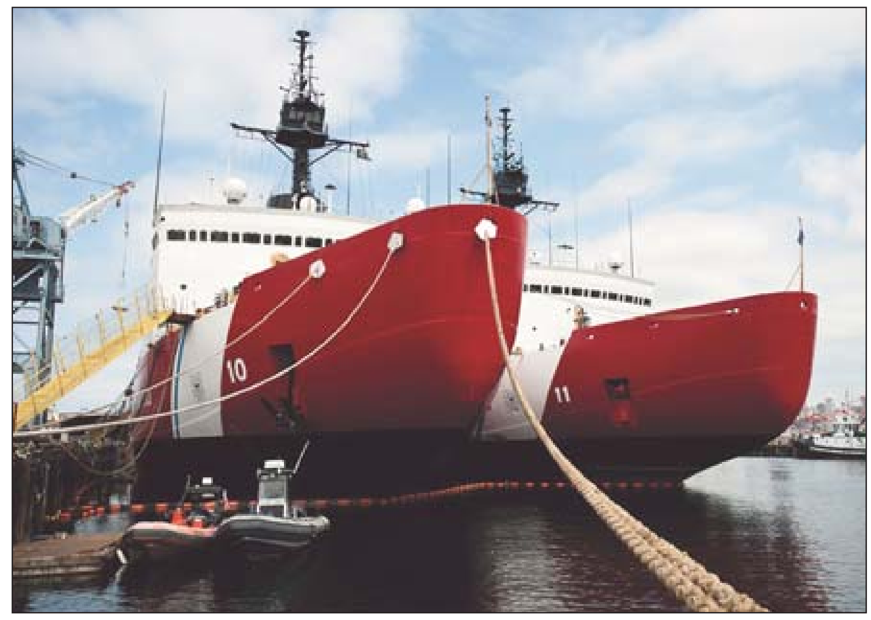
Oil exports from the Islamic Republic have dropped this year as a result of international sanctions imposed due to concerns that Tehran may be seeking nuclear arms — something Iran denies. The International Energy Agency, which offers energy expertise to industrialized country, said in November that Iranian oil output was at a daily 2.7 million barrels in October.

But Al-Badry said Iran has told OPEC that it is producing 1 million barrels a day more than that, which would equal output before the embargoes took hold.

Ahead of Dec. 12's OPEC oil ministers' meeting, Iranian Oil Minister Rostam Ghasemi played down the effects the sanctions were having on his country, claiming the Iranian state had cut its financial dependence on oil income by 20 percent in the last three years.

"Next year we will do the same," he said.

—ASSOCIATED PRESS



VIGOR SHIPYARDS

The icebreakers Polar Star, left, and Polar Sea

continued from page 1

ICEBREAKERS

ships is extremely expensive, yet political leaders say an adequate icebreaker fleet is essential as climate change makes the Arctic Ocean more accessible.

Preserving icebreaker options

Congress on Dec. 12 passed the Coast Guard and Maritime Transportation Act of 2012 (H.R. 2838), which is now before President Obama for his signature.

The act includes a section on icebreakers, and other provisions related to the Arctic.

The Polar Star is an old ship that's been out of service for quite a while, having been placed in "caretaker" status in 2006. Commissioned in 1976, it is one of the world's most powerful non-nuclear ships, capable of breaking through ice several feet thick.

The Polar Star's sister ship, the heavy icebreaker Polar Sea, also is homeported at Seattle and inactive, having experienced major engine problems in 2010.

The Polar Sea was headed for scrap, but the Coast Guard act plots a different course. It directs the government to conduct a "business case analysis" of the options and costs of reactivating and extending the service life of the Polar Sea until at least 2022. The act forbids the government from taking parts off the Polar Sea until the analysis is done.

If the analysis shows it's not cost-effective to reactivate the Polar Sea, the Coast Guard must submit a strategy for maintaining polar icebreaking services until at least 2022.

"Icebreakers are critical to our national security and America's interests in the Arctic," said U.S. Sen. Maria Cantwell, D-Wash. "As commerce in the Arctic continues to increase, our nation's need for icebreakers will continue to grow. This bill preserves the option of refurbishing the Polar Sea and supports shipbuilding jobs in the Puget Sound as America determines the most cost-effective way to meet our mission requirements for icebreakers."

The study will look at potential locations for a deepwater port, and the timeframe and resources needed to establish it. The study will be due one year after enactment of the act.

Deepwater Arctic port

The Coast Guard act features two other important Arctic provisions.

It directs the government to prepare "an assessment of the need for additional Coast Guard prevention and response capability in the high-latitude regions."

The act also directs the Coast Guard, in consultation with the U.S. Army Corps of Engineers and others, to conduct a study on "the feasibility of establishing a deepwater seaport in the Arctic to protect and advance strategic United States interests within the Arctic region."

The study will look at potential locations for a deepwater port, and the timeframe and resources needed to establish it. The study will be due one year after enactment of the act.

—WESLEY LOY

Contact Wesley Loy at wloy@petroleumnews.com

continued from page 1

GREAT BEAR DATA

little bit longer than we expected, particularly on Alcor, and the lab analysis quite frankly has taken much longer than we had hoped."

The concept behind the test wells was to drill through the three major North Slope source rock units — the Shublik, the lower Kingak and the Hue shale/HRZ — at locations where geologists have predicted that the extent of past subsurface heating, referred to as the thermal maturity, would be appropriate to the formation of oil, and hence to support the existence of oil in the rocks.

And Duncan expressed optimism about what his company has found so far.

"We have drilled through all of our targeted source rock units," Duncan said. "We've proven those (to be) present at the depths predicted and in the state of thermal stress or thermal maturity, certainly within the range of expected outcomes."

Data collection

Duncan said that Great Bear and its partner, Halliburton, had taken considerable care to obtain as much data as possible from the two test wells and that the companies had done extensive rock coring in the wells. The idea now is to plug the data into regional geology and petroleum system models, particularly targeting the geology and properties of the Shublik, the top contender for a potential shale oil play.

And, in addition to penetrating the source rock intervals, the two wells drilled through other rock sequences — Brookian turbidites, Kuparuk sands and the Ivishak — that elsewhere on the Slope form oil reservoirs in some of the producing conventional oil fields of the region.

"We're also going to be revising regional reservoir models for all the conventional units," Duncan said. "They're clearly of high interest to us in addition to the unconventional resource play."

Seismic surveys

Great Bear has already carried out a small, 57.6-square-mile 3-D seismic survey around its well locations. This winter the company plans to extend its seismic coverage west across the company's leases and has contracted with CGGVeritas to carry out a suitable survey.

"We've just executed a contract to acquire another 380 square miles of 3-D," Duncan said. "Effectively we'll be covering the central core of the … Great Bear lease holding."

The additional seismic data will feed into Great Bear's geologic modeling, to provide insights into where to conduct resource play tests. And although the company continues to focus on shale oil, the seismic will probably shed new light on conventional exploration opportunities.

The larger seismic survey "is very likely to populate our prospect inventory, not just with additional locations for resource play tests … but we also expect a fair number of conventional type prospects to evolve out of that," Duncan said. "We've got some good ideas, but I would really like to make our investment decisions with a large inventory of conventional things to play with as well."

Geologic modeling

A part of the data analysis involves the updating of a North Slope petroleum system model based on computer software developed by Schlumberger. Great Bear used this model when deciding on where to acquire leases and the company now anticipates refining the model using new data.

"Now that we have additional well information from Alcor and Merak, we'll be able to up the ante by quite a lot, in fact, on adding additional detail and fidelity to the model output," Duncan said.

Duncan said that Great Bear had contracted with retired U.S. Geological Survey geologist Ken Bird, a recognized expert on North Slope geology, as part of the team working on Great Bear's data analysis. A PhD student from Stanford University will also be working on the company's seismic and well data, and the company is considering the potential involvement of other students in the analysis.

Environmental assessment

Great Bear has also carried out a more than 200-square-mile survey using Lidar, a laser-based system for measuring surface topography. This survey will provide highly detailed topographic information for Great Bear's leased acreage, as well as bathymetry for lakes, with this information providing a platform for a regional environmental assessment, and for state and federal permitting.

"We'll be initiating a regional environmental assessment across the tundra, particularly moving west from the highway into the core of our acreage," Duncan said. "Those studies will be very important for the purposes of federal and state permitting as we move to the west over time."

The company will also be participating in the "current and pending political process" in Alaska, Duncan said.

Work schedule

But Duncan did not offer any comment on how the timeline for the geologic data analysis program might impact the schedule for moving towards the development phase of Great Bear's overall shale-oil program. The company had hoped to start some extended shale-oil testing this winter, with a view to possibly making a decision in mid-2013 on whether to proceed to a full-scale development. Presumably, with no horizontal wells drilled and no production tests started, that decision will have to be deferred.

Patrick Galvin, Great Bear's vice president of external affairs and deputy general counsel, told Petroleum News in a Dec. 17 email that the analysis of data from the Alcor and Merak wells was taking much longer than anticipated and that the company's drilling rig contract had expired for the season before the company had reached a position to decide on what drilling to do next.

Although Great Bear sees the possibility of conventional oil targets as an exciting addition to its North Slope program, the company continues to see its core strategy of pursuing the shale-oil resource play as its primary objective, Galvin wrote.

"When the analysis on our drilling program is completed, bolstered by the 3-D program we are acquiring, Great Bear will be in a strong position to determine its next steps in its exploration program," he wrote. ●

Contact Alan Bailey at abailey@petroleumnews.com

Intriguing findings from Great Bear's wells

During a Dec. 13 talk to the Alaska Geological Society, Ed Duncan, president of Great Bear Petroleum, described some of the findings from two shale oil test wells that the company has completed this year. The two wells, drilled vertically, were planned for data gathering, to help determine whether, how and where to drill horizontal wells, to test the possibility of oil production direct from North Slope oil source rocks.

Two wells

The Alcor 1 well, spud in June, reached a depth of 10,813 feet, while the Merak 1, drilled shortly after the Alcor well, attained a depth of 11,094 feet. Both wells were designed for maximum data recovery, with more than 600 feet of rock core being obtained in total, Duncan said.

The wells penetrated all three of the major North Slope source rock intervals: the Hue shale/HRZ, the lower Kingak and the Shublik.

Coring proved especially successful in the Merak well, where the drillers managed to core through to the Ivishak, the main reservoir rock for the Prudhoe Bay oil field. And, with the two wells being only about one-and-a-half miles apart, correlating the cores from the Shublik between the two wells should prove particularly illuminating, Duncan said.

Hue shale

The Shublik is thought to have the most promise as a shale oil target. But the lower Hue shale and HRZ turned out to be very thick: about 900 feet in the Merak well and slightly less than that in the Alcor well, Duncan said.

"The zone is organic-rich and thermally mature and very clearly generating oil at this time," he said. "From a research or regional study perspective we're going to spend a lot of time over the next six months working this zone really hard, because it's of high interest to us. It's certainly going to provide a lot of hydrocarbon into anything in the lower portion of the Brookian and Kuparuk intervals."

The "Brookian" refers to the youngest and shallowest major rock sequence within the petroleum systems of the North Slope, while the "Kuparuk" refers to sand units that reservoir oil in the Kuparuk River field. Some North Slope oil fields have oil reservoirs in the Brookian.

—ALAN BAILEY

Great Bear promotes Alaska GeoFORCE

The Alaska GeoFORCE program, sponsored by companies in the Alaska oil industry and founded in April 2011 by Great Bear Petroleum and Shell among others, has seen its first academy of ninth grade school students participating in the program, Ed Duncan, president of Great Bear, told the Alaska Geological Society on Dec. 13. Students from North Slope villages have been participating, Duncan said.

The program provides outreach to high school students who may be interested in a geoscience career. Participants go on geology field trips and receive mentoring from professional geologists.

The program particularly targets kids who might not otherwise consider going to college or university, to have them think about doing so, particularly in terms of science, technology, engineering and mathematics, Duncan said.

"It's a geoscience oriented program … that's about enabling kids to better themselves," he said.

—ALAN BAILEY

continued from page 1

DRILLER FIRED

BUCCANEER ENERGY

Endeavor has been docked in Homer since late August as crews worked on the rig.

Letter of intent with Spartan

With Archer off the project, Kenai Offshore Ventures intends to hire Spartan Drilling LLC to take over as operator of the rig. As of Dec. 19, the companies have executed a letter of intent and expect to finalize the arrangement soon, according to Buccaneer.

Since mid-2011, Spartan has been operating the Spartan 151 jack-up rig on behalf of Furie and its precedent Escopeta. The Spartan 151 has been drilling at the offshore Kitchen Lights unit. Buccaneer believes "some operating and financial synergies will result" from Spartan operating two jack-up rigs in the Cook Inlet region concurrently.

Endeavor has been docked in Homer since late August as crews worked on the rig.

Responding to a recent report that Buccaneer is about six weeks behind on its payments to the City of Homer for various docking fees, Morakis called the claim "incorrect."

The city sent Buccaneer three invoices — two for tugs and one for the rig — due on Nov. 15, according to Morakis. "As of Dec. 6, Buccaneer was current with all invoices owed," he said, noting that the company had paid one invoice late because of an accounting discrepancy and, as of Dec. 19, was four days late on its most recent set of invoices.

While acknowledging the disputes over payments, Morakis praised the local workforce, saying: "The quality of work done by the local contractors in Alaska has been superb."

Kenai Offshore Ventures is a joint venture between Buccaneer, the Singapore-based Ezion Holdings Ltd. and the Alaska Industrial Development and Export Authority.

"AIDEA was made aware of a situation regarding the operator of the Endeavour," AIDEA spokesman Karsten Rodvik told Petroleum News by email. "As the preferred member of KOV LLC, our first concern and main priority is for Alaska workers and businesses to be promptly paid. We are pleased that our partners are responding quickly and responsibly, and we are confident in their ability to resolve this matter as soon as possible. AIDEA will continue to monitor the situation during this transition process, to assure that obligations are met. Our goal, along with our partners, is to have all work on the rig completed so it can get to work in Cook Inlet for the benefit of Alaskans."

Eyeing January move

While in Homer, crews have been rectifying work conducted on the rig at the Keppel Fels shipyard in Singapore, according to Buccaneer. The company is currently working on "two small outstanding items" uncovered by an American Bureau of Shipping inspection.

With a formal report from the ABS, Buccaneer can proceed with an inspection by the U.S. Coast Guard, a perquisite for operating in U.S. waters, according to the company.

In addition to the Coast Guard inspection, Buccaneer must get a land use permit from the Department of Natural Resources before it can move the rig to the Cosmopolitan prospect. As of Dec. 19, Buccaneer said it expected to move the rig sometime in January.

Once on site, the rig must undergo Alaska Oil and Gas Conservation Commission safety inspections before Buccaneer can begin drilling. Buccaneer is also waiting for the Department of Environmental Conservation to approve its revised oil spill contingency plan and for the Department of Natural Resources to approve its plan of operations.

Looking to speed up the process, Buccaneer said it recently applied to the AOGCC to designate Cosmopolitan as a gas-only prospect. Cosmopolitan includes a shallow gas reservoir atop a deep oil reservoir. With a gas-only designation, Buccaneer would be allowed to spud a well and drill through the gas zone while waiting for its spill plan.

Without it, drilling could begin no sooner than late January, according to Buccaneer. ●

Contact Eric Lidji at ericlidji@mac.com