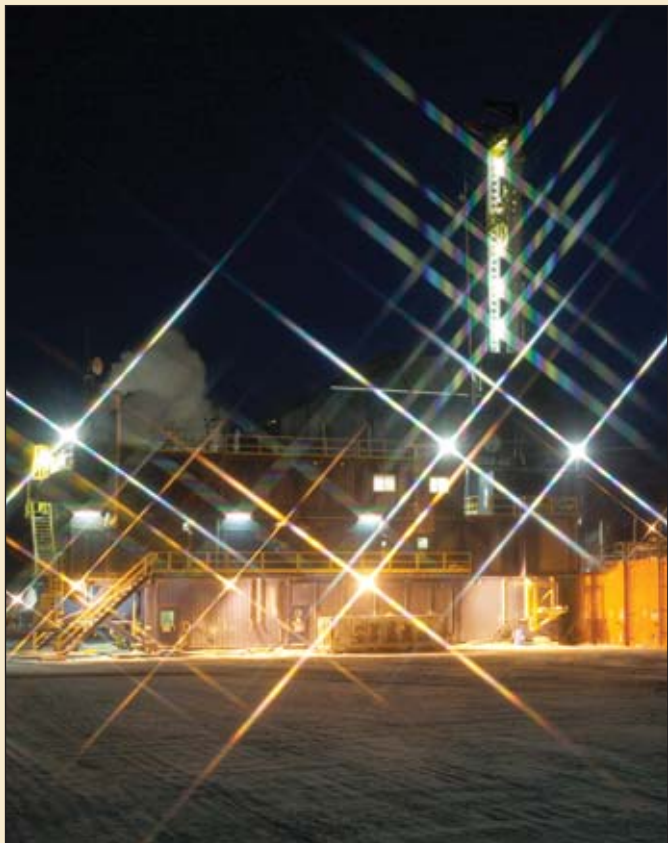




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Happy Holidays



JUDY PATRICK

Nabors coiled tubing Rig CDR2-AC drilling at Kuparuk 2T pad recently.

Banks offers Davis no state guarantees for Cook Inlet wells

ON DEC. 22 THE TOP EXECUTIVE of Escopeta Oil and Gas received a polite, but “absolutely not” reply from the State of Alaska’s oil chief in response to his Dec. 16 request that the state guarantee no “federal interference” in the company’s Cook Inlet oil and gas drilling activities, planned for 2010 and beyond.

The state’s reply came in the form of a letter from Kevin Banks, director of Alaska’s Division of Oil and Gas, to Escopeta President Danny Davis, whose company is obligated to drill its first exploration well in the undeveloped Kitchen Lights oil and gas unit by the end of 2010. The acreage in that unit belongs

to the State of Alaska and, simply put, is under lease to Escopeta and its partners. The leases, many past their individual expiration dates, are being held in the unit as long as Escopeta performs its promised exploration work, including one well in 2010.

Davis said his primary investor in the Kitchen Lights unit, Vetra Group, is concerned about the impact the beluga whale “issue” will have on Escopeta’s

ability to drill in the upper Cook Inlet unit, which is almost certainly going to be part of a federally mandated beluga critical habitat. (See last week’s Insider.)

In October 2008 Cook Inlet’s beluga whales were designated an endangered species under the U.S. Endangered Species Act, which mandates the establishment of a critical habitat and does not allow activities that harm the environment considered critical to the listed species.

The National Oceanic and Atmospheric Administration’s Fisheries Service wants to designate all of upper Cook Inlet as part of the belugas’ habitat.

see INSIDER page 14



KEVIN BANKS



NATURAL GAS

Plenty of gas

DNR assessment points to more than a decade of Cook Inlet gas reserves

By ALAN BAILEY
Petroleum News

In the light of widespread concern about the capacity of Alaska’s Cook Inlet gas fields to continue to supply sufficient natural gas to meet the needs of local gas and power utilities, the Alaska Department of Natural Resources has tried to replace gas supply conjecture with objective facts, using available data about the Cook Inlet gas fields to estimate how much gas remains to be produced and how long that production might last.

Scientists from Alaska’s Division of Oil and Gas and from the Division of Geological and Geophysical Surveys determined the estimates and have now reported results showing that there may be significantly more gas in the existing Cook Inlet fields than

people had feared.

“People here have been almost in a panic mode,” Kevin Banks, director of DOG, told Petroleum News Dec. 22. “People have been rushing to try to solve a problem that most people felt like was very imminent. In fact, I don’t think it is.”

The new estimates indicate that there is sufficient Cook Inlet gas still available to give people the breathing space needed to assess and develop future energy supply sources, such as building a major hydropower system or bringing natural gas from the North Slope, Banks said.

The gas cliff

Some of the heightened concern about Cook Inlet

see CI GAS page 16

FINANCE & ECONOMY

Lawyers debate BP motion

Company fights Alaska’s billion-dollar suit over ’06 Prudhoe Bay pipeline leaks

By WESLEY LOY
For Petroleum News

A lawyer for BP on Dec. 21 urged a judge to dismiss much of the State of Alaska’s lawsuit against the company seeking \$1 billion or more in damages for the 2006 pipeline spills in the Prudhoe Bay oil field.

Jeff Feldman, a private Anchorage attorney representing BP, argued in a hearing before Alaska Superior Court Judge Peter Michalski that the state is improperly pushing tort claims for damages. He also said some of the case should be deferred for now to the Alaska Oil and Gas Conservation Commission, which has expertise on the subject of waste in production of the state’s oil reserves.

The arguments were centered around BP’s motion to dismiss parts of the state’s suit against the company, which operates the nation’s largest oil field on behalf of itself and other owners ConocoPhillips, ExxonMobil and Chevron. If granted, the motion would effectively gut the state’s case.

A private lawyer for the state, however, argued the state’s claims are proper, and that BP is simply trying to find a way to avoid facing a jury for its negligence in maintaining key Prudhoe Bay

see MOTION page 15

PIPELINES & DOWNSTREAM

Enbridge warns of possible pipeline over-capacity

By GARY PARK
For Petroleum News

Between TransCanada and Enbridge — Canada’s two biggest energy pipeline companies — there’s seldom a meeting of the minds.

From the time they got caught up squabbling over rights to ship Alaska North Slope gas to the Lower 48 and started encroaching on each other’s traditional territory (TransCanada into Enbridge’s crude oil shipments and Enbridge into TransCanada’s once-sacred natural gas turf) they



PAT DANIEL

have glared at each other across the no-man’s land between their downtown Calgary office towers.

And it may simply come down to a fundamental disagreement over the future of North America’s fossil fuel supplies and where those volumes should be delivered.

Daniel warns of overcapacity

Enbridge Chief Executive Officer Pat Daniel, in a series of year-end interviews, gave his

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Petroleum News

A weekly oil & gas newspaper based in Anchorage, Alaska

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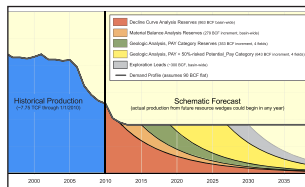
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SAFETY & ENVIRONMENT

State, feds investigate spill at North Slope's Lisburne field

Ruptured pipe in BP-operated field releases estimated 45,828 gallons of oil and water; criminal and civil probes under way by Alaska Department of Environmental Conservation, US EPA

By WESLEY LOY
For Petroleum News

State and federal authorities confirm they're conducting criminal and civil investigations into a pipeline rupture discovered in the BP-operated Lisburne oil field on Nov. 29.

Weld Royal, spokeswoman for the Alaska Department of Environmental Conservation, told Petroleum News a civil investigation is under way to determine if any pollution laws or regulations were violated.



Looking up at the hole in the ruptured pipeline.

A criminal investigation also has begun in cooperation with the U.S. Environmental Protection Agency, said Jim Bowden, chief investigator in the DEC's Environmental Crimes Unit.

The probe is just beginning, and Bowden said it was too early to say whether he's seen any evidence of a crime.

"We're just kind of going in to see what's there," he said.

Tyler Amon, acting special agent in charge with the EPA's Criminal Investigation Division in Seattle, confirmed his agency is looking at the Lisburne incident.

BP's Alaska spokesman, Steve Rinehart, said the company had no comment on the nature of the state and federal probes.

"We cooperate with regulatory agencies," he said. "We are conducting a thorough investigation of our own."

Details of the spill

According to joint reports from BP and regulators, a company operator making a routine check discovered a spill just after 3 a.m. Nov. 29 along an above-ground flow line between the L-3 drill pad and the Lisburne Production Center.

The pipeline, 18 inches in diameter, normally carries a mixture of oil, produced water and natural gas to the production center but was not in operation at the time of the spill.

Investigators found a rupture about two feet long on the bottom of the pipe.

"The rupture is consistent with an over-pressure scenario, linked to ice plugs forming inside the pipe," a Dec. 8 media update said.

The rupture resulted in an estimated spill volume of 45,828 gallons, or about 1,091 barrels, a Dec. 17 situation report from the DEC said. An estimated 8,400 square feet of snow-covered tundra was affected, with no product reaching the shoreline of nearby Prudhoe Bay.

Responders who used jackhammers to remove frozen contaminated material underneath the pipeline have mostly fin-

Pipe breaks, spilling oil at Prudhoe drill site

At 10:30 a.m. on Dec. 21 a six-inch production line carrying oil, water and natural gas from a well head at drill site six in the Prudhoe Bay field broke apart, spraying out a mixture of oil and produced water, releasing natural gas, demolishing the back of the well house and blowing open the well house front doors.

BP spokesman Steve Rinehart told Petroleum News Dec. 22 that the pipe had ruptured at a weld and that an on-site BP operator had observed fluid spraying from the break.

"The (well) surface safety valve immediately shut the thing down, so it basically just sprayed and stopped," Rinehart said.

A unified command was activated and a response team proceeded to delineate the extent of the spill. The response team has confirmed that the leak has stopped and that it is safe to work at the site, Rinehart said.

On Dec. 23 Alaska Department of Environmental Conservation environmental program specialist Paul Lhotka told Petroleum News that the response team had delineated the area of the spill, with 14,000 square feet of the gravel well pad, 158,000 square feet of adjacent snow-covered tundra and 50,000 square feet of the drill site's reserve pit impacted.

The team had removed 72 cubic yards of contaminated snow, primarily from the gravel pad, he said.

The contamination appears to be in the form of oil misting, heaviest near the pipeline rupture and around the well house, with light misting further out.

"It was a wind-driven release, so as you get to the far end of the plume it thins out quite a bit," Lhotka yet. No pooled spill products have been identified, he said.

The response team has not yet determined the amount of oil spilled and will use two approaches to assess a spill volume, Lhotka said. One approach is to estimate the spill volume from the extent of the surface contamination. The other approach is to use engineering calculations of fluid volumes, using the capacity of the ruptured pipe.

At this stage, the cause of the pipeline failure is unknown and is the subject of investigation.

—ALAN BAILEY

ished the cleanup, the DEC said.

BP on Dec. 21 notified regulators of another spill from a 6-inch well line at Drill Site 6 in the Prudhoe Bay field. An estimate of the size of that spill wasn't immediately available.

Glare on BP

BP has come under heightened scrutiny from regulators, as well as Congress, since corrosion-related pipeline leaks in 2006 forced a partial shutdown of Prudhoe. One release was 212,252 gallons of sales-grade crude, the largest oil spill ever on the North Slope.

Ultimately, BP's local subsidiary, BP Exploration (Alaska) Inc., would plead guilty in late 2007 to a federal misdemeanor under the Clean Water Act. A judge put the company on probation for three years and ordered \$20 million in penalties.

Now BP is defending itself against a pair of civil suits the state and federal governments brought against the company in March.

The 2007 environmental conviction wasn't the first for BP in Alaska.

In 1999, the company pled guilty to a federal felony for not immediately reporting that a contractor, Doyon Drilling, illegally injected hazardous waste such as solvents and paint down well shafts in BP's Endicott oil field.

BP was fined and put on probation for five years in that case, with the probation period ending in 2005. ●

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• GOVERNMENT

Alberta heeds wake-up call

Province's premier agrees royalty changes are needed to counter the potential loss of C\$4 billion from shale gas 'game changer'

By GARY PARK

For Petroleum News

Alberta Premier Ed Stelmach has promised more changes to his government's unpopular royalty framework, which has been tinkered with over the past two years amid a rapid erosion of upstream investment.

In a series of year-end interviews, he conceded that the rapid emergence of shale gas supplies in British Columbia and the United States has forced Alberta's hand.

Stelmach said Alberta could see a drop of about C\$4 billion in gas royalties over the next four years unless it takes "repositioning" measures.

Describing shale as a "game-changer," he suggested it was unfair of critics to blame the government for not taking shale into account during its extensive royalty review in 2006 and 2007.

"Now, all of a sudden, it's very easy to predict the past," he said. "Anybody can do that. Tell me about the future."

Stelmach said the objective now is to

meet with the industry, put all of the grievances on the table, and establish royalty rules for the longer-term, "so that the industry has certainty in terms of where we go from here."



ED STELMACH

Some rapid decline evidence

However, he suggested that shale gas may not generate the wealth many have predicted.

He said there is early evidence that shale wells go rapidly into decline after two or three years, when huge initial volumes taper off.

If that is true, a lot of wells will be drilled in the United States, but whether they will be sufficient to sustain American demand is an unknown, Stelmach said.

He said that despite claims that hundreds of trillions of cubic feet of shale gas have been discovered, much of it could be difficult to produce because of challenging geography and a lack of infrastructure.

His willingness to deal with the industry drew strong praise from Sue Riddell Rose, chief executive officer of Paramount Energy Trust, who was part of an industry delegation that met with Stelmach earlier in December to discuss the challenge posed by shale gas.

She described Stelmach as a "good listener" — in contrast to claims during the royalty controversy that the Alberta government was paying no heed to industry concerns and recommendations — which is a "good first step" towards building a partnership.

Riddell Rose said the royalty framework, introduced this year, made Alberta "uncompetitive" with rival jurisdictions, a situation made worse by the nosedive in gas prices.

Review due in spring

The Stelmach government is due to release the findings of a "competitiveness review" in the spring, which Paul Hinman, an opposition member of the provincial legislature, said was vital to reverse a total undermining of "confidence and stability" among investors.

David Hughes, a veteran geologist with the Geological Survey of Canada, shares some of Stelmach's shale doubts, suggesting it might take "two to five years to know if all this hype is real."

He noted there has been growing disagreement over the long-term projections for the Barnett shale deposit of Texas.

Stelmach's comments were accompanied by quickening interest in Alberta's shale deposits, which have trailed British Columbia, despite a 2006 GSC study that suggested the Colorado Group of shales in northern Alberta present an "excellent and perhaps the best" prospect for multiple shale plays in Western Canada, although

the resources remain almost untouched.

Duvernay shale attracts interest

But the level of interest shows signs of accelerating, with the Devonian Duvernay shale attracting the most interest in the Alberta government's final land sale of 2009.

Robert Fitzmartyn, vice president and director of institutional research at FirstEnergy Capital, said in a research note that there is now "sufficient evidence to portray the Duvernay" as being linked to the related Muskwa shales of the Horn River basin in British Columbia.

He said the Duvernay zone, which is estimated to contain 25 trillion cubic feet — compared with the Horn River's 500 tcf — has the advantage of easier access to pipelines and gas plants and may have superior geology.

Noting that 25 tcf is not to be scorned, Fitzmartyn said a deposit of that size "is still going to move the dial."

But Derek Krivak, chief executive officer of Stealth Ventures, which drilled 81 Colorado shale wells in east-central Alberta in 2008, urged Alberta to introduce more attractive royalty rates for low-productivity gas wells and deeper rights, which could prevent companies from holding shallow rights indefinitely without developing them.

Stelmach's openness to royalty revisions came at the same time that Alberta — despite a bullish final auction for 2009 — saw its land sales again languish and, for the second year on record, fall behind British Columbia.

Better results elsewhere

Meanwhile, government and industry leaders found renewed support for their view that the regulatory and royalty structures in British Columbia and Saskatchewan are paying off.

Although the three dominant oil and gas producing provinces of Canada experienced a sharp setback in their 2009 land sales, those on either side of once-unrivaled Alberta, took an optimistic view of 2010.

British Columbia got a ringing vote of confidence for its latest royalty adjustments — a one-year royalty rate of 2 percent on wells drilled from September 2009 through June 2010, compared with an average rate of 19-20 percent — in a survey by PricewaterhouseCoopers of 11 companies accounting for 67 percent of the province's gas volumes.

Capital spending by those 11 producers was C\$2.61 billion in 2008, slumping to C\$1.86 billion this year because of low gas prices and demand and would have dropped another C\$340 million in 2010 without the government's measures.

The survey also reported that the group planned 183 wells in 2010 before the incentives and now anticipates boosting

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Watchdog wants to zap tanker stowaways

Prince William Sound group suggests treatment plant at Valdez to rid ballast water of potentially harmful nonindigenous organisms

By WESLEY LOY
For Petroleum News

An oil industry watchdog group is pushing for construction of a special treatment plant to kill invasive species in ballast water carried aboard oil tankers calling on Valdez to load Alaska North Slope crude.

The Prince William Sound Regional Citizens' Advisory Council believes the ships could bring in nonindigenous fish, crabs or microorganisms that could take up residence in local waters and potentially harm native aquatic life or the sound's commercial and sport fisheries.

The group proposes that a new wing be added to the existing ballast water treatment plant at the Alyeska dock in Valdez. The main treatment plant would continue its job of cleansing tanker ballast of residual oil before the water is discharged into the Sound, while the new unit would eradicate organisms using ultraviolet or chlorine disinfection and a filtration system.

Types of ballast

Ballast water gives tankers empty of oil stability as they travel through sometimes heavy seas.

Anil Mathur, president of Alaska Tanker Co., which carries oil for BP, told Petroleum News his ships already do ballast exchange.

Tankers calling on Valdez can carry two types of ballast, segregated and unsegregated. Segregated ballast is carried in tanks or compartments separate from the cargo holds, while unsegregated ballast is carried in the same holds as the oil.

The volume of unsegregated ballast has dropped sharply in recent years as the tanker fleet has converted from single-hull to double-hull ships, which have segregated ballast tanks.

The fleet upgrade, ironically, has heightened the threat from nonindigenous species, as segregated ballast is simply pumped overboard upon arrival at Valdez, the RCAC says. Aquatic stowaways can't survive the oily unsegregated ballast.

The RCAC outlined its ideas for an onshore invasive species treatment plant in recent comments to the U.S. Coast Guard, which is proposing nationwide regulations to limit concentrations of living organisms in ballast dis-

charges. The rules potentially could affect the tankers that run between Valdez and West Coast ports.

While onboard eradication systems or ballast exchange are the options getting the most attention, the RCAC argues the fastest and best way to guard against invaders in Prince William Sound is to expand the existing ballast treatment system at Valdez.

A retrofit of the plant "could be accomplished by 2012," the council told the Coast Guard.

Industry doubts

Already, 15 nonindigenous species such as certain algae, sea squirts and shellfish have been identified in the Sound, the council said.

Invaders such as zebra mussels have caused hundreds of millions of dollars in damage in other U.S. waters such as the Great Lakes.

"While there may be other contributors to the non-indigenous species found in Prince William Sound, there is reason to believe that many of these invaders are being transported by crude oil tankers that take ballast water on at West Coast refineries, transport it to Alaska and discharge

see STOWAWAYS page 13

continued from page 4

ALBERTA

that total by 105 wells."

The respondents said the incentives have spurred them to hike next year's spending by C\$600 million to C\$2.1 billion.

Energy Minister Blair Leckstrom said his province "continues to be one of the most competitive natural gas jurisdictions in North America and (our) stimulus package will further strengthen the sector while increasing provincial revenues."

Dave Pryce, Western Canada operations vice president of the Canadian Association of Petroleum Producers, said the industry has repeatedly told governments "you set the right fiscal framework and we will respond favorably," noting that auction bids in B.C. are proof that incentives linked to emerging gas plays are generating "investment that is out of sequence" with the current low-end gas prices.

Land sales down

Collecting C\$562 million from its final quarter sales, B.C. raised its calendar year total to C\$893 million, down from C\$2.66 billion in 2008.

But its peers had a similar experience. Alberta slid to C\$741 million from C\$1.2 billion and Saskatchewan plunged to C\$118 million from C\$1.1 billion.

The trio had a combined C\$1.75 billion, compared with their staggering record C\$5.01 billion in 2008 and posted their weakest total results since 2004.

B.C. averaged C\$3,659 per hectare from the disposal of 50,202 hectares; Alberta had an average C\$402 per hectare, compared with C\$333 last year, but total land changing hands fell to 1.84 million hectares from 3.68 million hectares. Saskatchewan's per-hectare average nose-dived to C\$385 from C\$1,461, with sales dropping to 206,658 hectares from 765,843 hectares.

However, Saskatchewan Energy Minister Bill Boyd said his province saw "increased industry (exploration) activity over the last half of 2009 as a result of the strengthening in oil prices."

"Some companies have announced ambitious drilling programs for 2010 and (the latest) sale would indicate others may be drilling more aggressively next year," he said. ●

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LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
DNR	Beaufort Sea Areawide	Feb. 24, 2010
DNR	Alaska Peninsula Areawide	May 19, 2010
DNR	Cook Inlet Areawide	May 19, 2010
DNR	Beaufort Sea Areawide	October 2010
DNR	North Slope Areawide	October 2010
DNR	North Slope Foothills Areawide	October 2010
MMS	Sale 209 Beaufort Sea	2010*
MMS	Sale 211 Cook Inlet	2010*
MMS	Sale 212 Chukchi Sea	2010*
MMS	Sale 217 Beaufort Sea	2011*
MMS	Sale 214 North Aleutian basin	2011*
MMS	Sale 219 Cook Inlet	2011*
MMS	Sale 221 Chukchi Sea	2012*

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

*On April 17, 2009, the U.S. Court of Appeals for the District of Columbia issued an opinion requiring Interior to withdraw and reconsider the MMS 2007-12 oil and gas lease sale program for the outer continental shelf.

This week's lease sale chart
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FINANCE & ECONOMY

Precision Drilling cuts rigs to cut debt

By GARY PARK
For Petroleum News

There's no bigger window on the state of Canada's drilling sector than Precision Drilling Trust, which has decided to start some drastic house-cleaning.

The largest oil and gas driller in Canada said it will decommission 38 drilling rigs and 30 service rigs, to reduce spending in 2010 and start clawing back its debts.

The trust's capital budget for 2010 has been slashed to C\$75 million from an expected C\$194 million this year and C\$230 million in 2008, while its cash payouts to unit holders will remain frozen.

In addition, Precision has tagged C\$25 million for performance improvements to 13 to 15 existing rigs to prepare them for work on unconventional resource plays in Canada and the United States.

The moves will allow Precision to exit 2010 with more than 72 percent of its fleet as Tier 1, Super Series and Tier 2, horizontally capable, high performance rigs,

which Chief Executive Officer Kevin Neveu said puts the trust in good position once customer demand returns.

Once the decommissioning is finished, Precision will have 352 rigs—203 in Canada, 146 in the U.S. and three outside North America.

The trust recently reduced its outstanding debt by a cash payment of US\$75 million, leaving long-term debt at C\$899 million on Nov. 30, with secured-term loans of C\$724 million and an unsecured senior note of C\$175 million.

Precision lost some favor with analysts when it acquired substantial debt from its C\$2 billion takeover of U.S. competitor Grey Wolf just as international credit markets wound down in 2008.

UBS Research analyst Chad Friess said the deal was "absolutely not worth it," diluting Precision stock "so horribly to pay down debt."

He said Canada has a fleet of 850 rigs, but has never seen 600 rigs operating since 2006, endorsing Precision's decommissioning action. ●

EXPLORATION & PRODUCTION

Eastern slope opens for tundra travel

The eastern coastal area of the North Slope opened for tundra travel at 8 a.m. Dec. 22.

This is the second of the four North Slope areas to open; the western coastal area opened Dec. 17. The upper and lower Foothills areas remain closed.

The Department of Natural Resources Division of Mining, Land and Water said soil temperatures and snow cover within the eastern coastal area have now

see TUNDRA TRAVEL page 7

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• NATURAL GAS

FERC OKs Oregon LNG port; state to appeal

By ALLEN BAKER
For Petroleum News

The Federal Energy Regulatory Commission has approved construction of a liquefied natural gas terminal at Coos Bay on the Oregon Coast.

Appeals are planned by both the state administration and environmental groups, but the project may face more serious hurdles in the economic arena.

FERC voted 3-1 on Dec. 16 to approve the Jordan Cove project and an associated 230-mile gas pipeline across the rugged Coast Range to link the port to the existing gas supply network.

Oregon Gov. Ted Kulongoski and Attorney General John Kroger said they would formally ask the commission to reconsider, and appeal to the 9th U.S. Circuit Court of Appeals if necessary, as they have already done with another LNG terminal approved by FERC at Bradwood Landing on the lower Columbia River.

But both Oregon projects could be substantially delayed or canceled entirely due to changes in economic realities since they were proposed.

Sempra Energy has already built its LNG import terminal in Mexico, far closer to the big Southern California market. The Ensenada facility is operating only sporadically and has lots of spare capacity.

Meanwhile the natural gas supply balance has changed dramatically with development of shale gas. British Columbia's Horn River likely will have ample capacity to provide gas to the West Coast market at a far lower price than LNG, and with a pipeline network already in place. The U.S. economic downturn also has blunted demand, at least for the immediate future.

The Coos Bay terminal, which could send out a billion cubic feet of gas a day, is owned by a unit of First Chicago Energy Partners L.P. The pipeline project is a partnership involving subsidiaries of First Chicago, Williams Cos. Inc. and PG&E Corp.

The total cost of the project is estimated at \$2.5 billion. ●

—The Associated Press contributed to this story

continued from page 6

TUNDRA TRAVEL

met the criteria for opening, which is six inches of snow and a soil temperature colder than minus 5 degrees C at a depth of 30 centimeters.

The opening applies only to operators who have valid off-road vehicle travel permits to operate on state-owned lands on the North Slope.

The division said that while overall snow cover is good, it may be thin in some areas and those areas should be avoided or special construction methods should be used to protect the tundra surface.

The division's stipulation for winter off-road vehicle travel requires adequate frost and snow cover.

—PETROLEUM NEWS

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• GOVERNMENT

Energy policy: a neglected stepchild?

The Congressional focus on greenhouse gases and climate change is pushing U.S. energy policy into the background, lawyer says

By ALAN BAILEY
Petroleum News

While debate in the U.S. Congress centers on greenhouse gas emissions and climate change, energy policy and U.S. energy security have become somewhat neglected, Tom Roberts, a member of Washington, D.C., law firm Van Ness Feldman P.C., told Law Seminars International's Energy in Alaska conference Dec. 7.

"The fact is that climate change and energy are inextricably tied together," he said. "The only way we are going to get a handle on our greenhouse gas emissions is to do things that affect the way we produce, transport and use energy."

But climate change considerations are apparently driving the pace of progress of some key pieces of energy-related legislation currently wending their way through Congress.

House ACES bill

The Waxman-Markey bill, otherwise known as the American Clean Energy and Security Act, or ACES, that has narrowly passed the House of Representatives, has rolled together earlier bills that individually considered climate change, renewable energy and energy efficiency, and now contains two titles with provisions for renewable energy standards and for energy efficiency, in addition to major legislation that would

ACELA proposes the relaxation of some restrictions on oil and gas drilling in the eastern Gulf of Mexico and directs the Secretary of the Interior to establish an Alaska outer continental shelf lease and permit processing office.

enact a greenhouse gas cap-and-trade system.

The renewable energy standards in the bill apply to electricity utilities that generate more than 4 million kilowatt-hours per year, a size threshold that probably excludes any utilities operating in Alaska, Roberts said. By 2020 utilities of the appropriate size have to demonstrate that 20 percent of their sales come from renewable energy, with the possibility of demonstrating energy efficiencies as a contribution to that goal. But a limit imposed by the bill on the extent to which efficiency gains can be used to meet the standard suggests that the proposed standard has more to do with creating a market for wind and solar power than being more efficient, Roberts said.

It's driven by the environmental community, and the wind and solar energy industries, he said.

The concept is that a utility can earn renewable energy certificates for submission to the U.S. Department of Energy, with the possibility of trading or banking for the future any certificates in excess of what the

utility needs to meet the standard.

Two Senate bills

The Senate has two separate bills that together correspond to ACES, with the Clean Energy Jobs and American Power Act, or Kerry-Boxer bill, dealing with climate change and the American Clean Energy Leadership Act, or ACELA, dealing with energy. ACELA has bipartisan support but has been on hold for six months, waiting for action on climate change legislation, Roberts said.

ACELA contains a renewable energy standard for electricity generation, very similar to that in the ACES bill, with an identical threshold for the size of utility impacted but with a requirement for 15 percent of power to come from renewable sources by 2021. ACELA allows slightly more of the standard to be met from improved energy efficiency and the bill contains some types of renewable energy credit not available under ACES.

And both ACES and ACELA have buy-out provisions, allowing utilities to purchase renewable energy credits from the U.S. Department of Energy, if necessary, Roberts said.

Carbon capture and sequestration, a set of technologies aimed at removing and disposing carbon dioxide generated from fossil fuel use, also figures in both bills, with each bill spelling out a major program to help develop and demonstrate the CCS technologies. The carbon capture and sequestration provisions within ACELA include government indemnification of carbon dioxide storage site developers against future carbon dioxide leakage, one of the big CCS liability unknowns.

Both bills give the Federal Energy Regulatory Commission a new role in the oversight of electrical transmission line development, to facilitate the construction of interstate lines in support of renewable energy sources. And the bills include new energy efficiency standards for electrical appliances and other equipment.

ACELA also has a provision to establish a new quasi-independent agency within DOE to handle government funding support for energy development projects. The agency is supposed to be supplied with \$10 billion of initial capitalization.

"This is a very far-sighted, aggressive approach," Roberts said. "Whether it ultimately makes it in the end will be something

to watch. If it does, it will drastically change the way the federal government supports energy project development, energy technology development."

Oil and gas provisions

ACELA proposes the relaxation of some restrictions on oil and gas drilling in the eastern Gulf of Mexico and directs the Secretary of the Interior to establish an Alaska outer continental shelf lease and permit processing office. The bill also includes some amendments to the federal loan guarantee program for the Alaska natural gas pipeline — those amendments include an increase in upper limit for the loan guarantee from \$18 billion to \$30 billion and a guarantee that 80 percent of the total project cost will be covered, up to that \$30 billion.

There is also a specific authorization to issue a right of way through non-wilderness areas of Denali National Park for an Alaska in-state natural gas pipeline.

However, as long as energy legislation remains tied to climate change it's going to be a long time before any of the energy legislation passes into law, Roberts said.

"Right now the majority leader has kicked the climate-change can down the road until at least spring in the Senate," he said.

And in 2010 it is unlikely that Congress will do much more than pass the annual appropriations bills ahead of the election that year — fear of unpredictable impacts on the U.S. economy of a cap-and-trade system will make passing climate change legislation in the Senate especially difficult, he said.

Some senators, including Sen. Lisa Murkowski, have been pushing to move an energy bill forward as standalone legislation, Roberts said.

And Roberts endorses that approach. It's time to stop neglecting the energy stepchild, he said.

"Any study you look at shows you can get significant greenhouse-gas reductions from just simply doing energy things," Roberts said. "... Let's do some energy legislation. Let's make a down payment on what we want to achieve on the greenhouse gas side and see what happens."

Then people can expend time and energy working on climate change legislation, he said. ●

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• OUR ARCTIC NEIGHBORS

Russians, Norwegians set standards

Barents 2020 project concludes with recommendations on health, safety and environment for petroleum activities in the Barents Sea

By SARAH HURST
For Petroleum News

Russian and Norwegian experts participating in the Barents 2020 project have presented their recommendations on common regulations for health, safety and the environment during petroleum activities in the Barents Sea at a conference in Moscow, risk management company Det Norske Veritas said in a release Dec. 17.

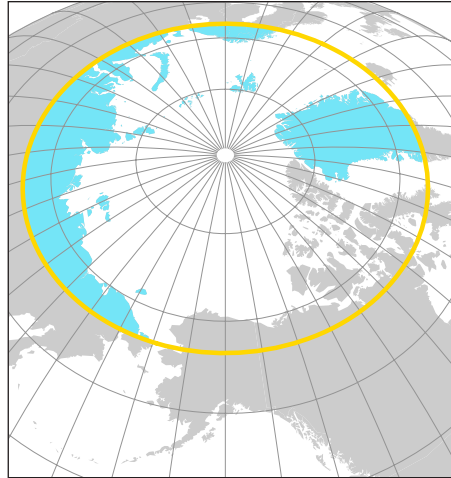
The recommendations cover how existing standards may be applied for oil and gas operations in the Barents Sea, suggest new standards for the design of stationary offshore units against ice loads, and for risk management of major hazards such as fires, explosions and blow-outs on offshore drilling, production and storage units.

Barents 2020 was initiated by Norwegian Foreign Minister Jonas Gahr Store in 2007 and is a central element of the Norwegian government's strategy on the High North. DNV has been in charge of coordinating the project on the Norwegian side, with Gazprom and its research affiliate VNIIGAZ steering the Russian side.

In addition to receiving funding from the Norwegian and Russian governments, a substantial part of the financial contributions to Barents 2020 came from industry.

"I am confident that its public-private nature has been one of the success factors of this project," said Henrik O. Madsen, the CEO and president of DNV. "Both authorities and the industry realize the need to enforce and implement adequate rules and standards in order to safeguard petroleum activities in the Barents Sea in the years to come. And we all realize our obligation in making this happen."

The project has brought together two sets of unique experiences, according to DNV: Russian in-depth knowledge and



expertise with regard to operations in cold climates, and Norwegian expertise from offshore operations. ●

Gazprom's Yamal gas project revving up

Production at the Bovanenkovskoe gas field on Russia's Yamal Peninsula might begin ahead of schedule, Gazprom executive Alexander Ananikov said on a visit to the region. Construction of key production facilities for the project, including comprehensive gas treatment units, engineering support facilities for drilling operations and gas well clusters, is progressing intensively, Gazprom said in a release Dec. 10.

Drilling of production wells is going according to schedule, and all the Ekaterina drilling rigs have been delivered to the field. Seven out of the nine rigs have commenced drilling operations. The remaining two rigs will be completely installed in early 2010, according to the release.

More than 211 miles of the gas pipeline have been built, including the first part of the most complex section — the underwater crossing via Baidarata Bay. Installation of the gas-pumping equipment has been initiated at the Baidaratskaya compressor station. Construction of the Obskaya-Bovanenkovo railroad is nearing completion.

—SARAH HURST

Shipyard launches second shuttle tanker

The Admiralty Shipyard in St. Petersburg has launched a new shuttle tanker built for Sovcomflot, Russia's largest shipping company said in a release Dec. 18. The Kirill Lavrov will operate alongside the Mikhail Ulyanov, a similar tanker that was launched recently, shipping oil from the Prirazlomnoye field in the Pechora Sea to the floating Belokamenka terminal in the Kola Bay near Murmansk. Prime

see ARCTIC NEIGHBORS page 11

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Photo by Judy Patrick Photography

• NATURAL GAS

ANGDA resolves EIS project description

Authority's board approves moving ahead with Beluga to Fairbanks gas line permitting work, exclusive agreement on propane project

By KRISTEN NELSON
Petroleum News

The Alaska Natural Gas Development Authority, the U.S. Army Corps of Engineers and the Bureau of Land Management appear to have come to an agreement on a project description of ANGDA's Beluga-to-Fairbanks gas pipeline project for its environmental impact statement, and on its authority to permit rights of way for the project.

At a Dec. 14 meeting the board discussed a revised project description and approved the authority of CEO Harold Heinze to speak for the board on the B2F gas pipeline project; it also authorized moving ahead with the authority's propane project through solicitation of a partner or partners for development of a propane extraction facility.

ANGDA and the federal agencies had been at loggerheads over what one agency described as a moving target for the B2F project description in the authority's EIS application and what another agency described as a question of ANGDA's authority to permit a right of way for the line.

The B2F right of way crosses 265 miles of state land, 73 miles of BLM-managed federal land, 53 miles of Native land, 31 miles of federal military land and 25 miles of private land.

Serena Sweet, the Corps of Engineers manager for the EIS, also said at a Nov. 23 meeting that the description in ANGDA's EIS application was at odds with how ANGDA was describing its proposal to the public, a concern to the corps as its scoping process is based on the project description it is given by the applicant.

Heinze said at the November meeting

that the project was always more than just a line to Fairbanks — it was also storage for gas to serve Southcentral in times of high winter demand and would serve as a spur line to Southcentral from a North Slope line to market, once that mainline was built.

Revised project description

A revised project description was provided to the agencies after workshops involving the ANGDA board, staff, contractors and the federal agencies.

The version available at the Dec. 14 meeting gave the following description of the project purpose: "Initially the B2F pipeline will deliver gas from Cook Inlet to the Copper Valley, Glennallen, Delta Junction and Fairbanks, and will provide gas storage for Southcentral use. The ultimate purpose of the B2F pipeline will be to serve as a spur pipeline to a major ANS gas pipeline, when one is built, to move ANS gas into Southcentral Alaska markets, with a connection at either Delta Junction or Glennallen."

Deputy Commissioner of Revenue Marcia Davis said the agencies had concerns at the last board meeting — BLM over the authority for the right of way and the corps over concern about disclosures. The wording of the project description was reworked, she said, and sent to the federal agencies. Davis said that in addition to a finalized project description, Sweet also wanted a cover letter stating that this was the final project description.

Ron Dunton, BLM's gas pipeline project manager for the Alaska Division of Lands, said that the agencies had seen the new wording and were confident with the purpose as described.

Heinze told the board he was concerned whether ANGDA remained an independent utility under the revised description. He said if the federal agencies determined that ANGDA did not have a project that makes sense without the mainline they wouldn't let the authority proceed as an independent utility and its project would get thrown in with the big line.

"If we get into that trap it's a bad trap," he



HAROLD HEINZE

said, and would require that ANGDA get in line at the Federal Energy Regulatory Commission behind the big projects.

Davis said she talked with the FERC manager for big projects and was told that as long as ANGDA was not building a line for liquefied natural gas export it would not be subject to FERC jurisdiction.

Focus on flaws

Board member Bill Jeffress asked if the corps or BLM had identified any other areas where the project wasn't adequately described.

Dunton said the agencies were comfortable with the rewrite as far as the purpose and need went, but said the corps would do an in-depth project review.

Sweet said she was comfortable with what she'd heard but would need to see it in writing.

Board member Kate Lamal asked about sending a copy to Gene Therriault, Gov. Sean Parnell's senior energy advisor, and Davis said a copy had been sent to Therriault.

Heinze said the board had legitimate concerns and said if the board was comfortable it would be appropriate for the board to tell ANGDA's staff it could continue; if the board was uncomfortable there are other options, he said.

Davis said Heinze had an earlier resolution, and said she thought the board needed to "put a bow" on its agreement with the project description with a written resolution referencing the cover letter and the new description.

Dunton said the resolution is a BLM requirement; a resolution authorizing Heinze to act for the board is one of the things BLM asked for.

The four members of the board participating in the meeting voted unanimously on a resolution directing Heinze to act on behalf of the board regarding the B2F system.

Sweet said that the corps didn't see any other major shortcomings in the project description but might need to talk to the EIS

contractor about needed information.

Discussion with port authority

At a Nov. 4 board meeting the board asked Heinze to meet with Bill Walker, project manager for the Alaska Gasline Port Authority, to discuss how the two organizations might cooperate on a project to bring propane off the North Slope, a project on which ANGDA has been working.

The port authority is involved in a project to produce liquefied natural gas on the North Slope; propane could be produced as a byproduct of the LNG project.

Heinze told the board Dec. 14 that he didn't have enough information as a result of the telephone meeting Nov. 10 with the port authority to allow him to make a recommendation to the board. He said there is a confidential relationship among the port authority, Fairbanks Natural Gas and Golden Valley Electric Association and said if that relationship is finalized he believes ANGDA needs to advance its project outside GVEA, and define the propane project more independently.

Board Vice Chairman Don Benson asked Heinze about the administration's request, through Gene Therriault, that ANGDA get involved in some way with propane from FNG.

Heinze said he would suggest that ANGDA "be very careful in associating ourselves with a project we know nothing about" and said ANGDA needs more information, information which it hasn't received.

He also said he didn't believe there was anything ANGDA could do to advance the LNG project.

The port authority became involved in North Slope facilities development when it announced Sept. 29 that it intended to buy Fairbanks Natural Gas and develop a North Slope liquefaction plant that would produce LNG to be trucked to Fairbanks, a project FNG has been working on since 2006. FNG currently liquefies Cook Inlet natural gas and trucks it to Fairbanks, but has had problems with its supplies of natural gas since Aurora Gas terminated a contract in 2006. In

see ANGDA page 13

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• GOVERNMENT

Energy Committee lays out draft bills

Policy bill includes energy efficiency; omnibus bill includes Energy Department to give cabinet-level focus to Alaska energy issues

By KRISTEN NELSON
Petroleum News

The Alaska House Special Committee on Energy is preparing two bills for introduction in next year's session of the Legislature: a state energy policy bill and an energy omnibus bill which incorporates elements from 11 bills introduced earlier in the year.

Drafts of the bills, discussed at a Dec. 11 committee hearing in Anchorage, are the culmination of numerous hearings the committee held around the state on the subject of energy and also reflect the work of a stakeholder advisory panel.

Legislative intent language for the energy policy bill includes: a goal for per-capita improvement in energy efficiency — a 15 percent improvement between 2010 and 2020; achieving 50 percent of electric generation from renewable energy by 2025; ensuring a reliable in-state supply of gas for residents; and establishing the power project fund as the main source of state assistance for energy projects.

The energy omnibus bill adds energy efficient to standards for schools in the state; discusses regulation of nuclear facilities; adds energy requirements for state buildings; creates a state Department of Energy (both the Alaska Natural Gas Development Authority, now in the Department of Revenue, and the Alaska Energy Authority, now in the Department of Commerce, Community and Economic Development, would be moved to the new Department of Energy); creates an emerging energy tech-

nology fund; establishes a renewable energy production tax credit "in the amount of 15 percent of the retail rate for each kilowatt-hour of electricity charged by the energy producer, as determined by the Regulatory Commission of Alaska," which would be from 2.1 cents to 5 cents for each kilowatt-hour of renewable energy produced.

Energy Committee co-Chair Charisse Millett, R-Anchorage, said the fiscal note for the bill wasn't available yet. She also said there were a number of things not included in the omnibus energy bill: the Greater Railbelt Energy and Transmission Corp., the Regional Integrated Resource Plan for the Alaska Railbelt and in-state gas.

The new department issue

Gene Therriault, the governor's senior energy advisor, told the committee that Gov. Sean Parnell questions whether the expense of adding a new department is worthwhile. Therriault said the governor agrees the focus on energy is worthwhile and said the administration would work with the Legislature to ensure energy needs are met.

Millett said support for the new department came out of many discussions the committee had across the state where it heard that the existing structure is not user friendly and is duplicative. She said former Gov. Sarah Palin was also hesitant about the new department but said the bill is not meant to grow government but to eliminate duplication.

Committee co-Chair Bryce Edgmon, D-Dillingham, said the committee heard from virtually all corners of the state, including mayors, on the need to have some consoli-

see ENERGY BILLS page 13

Cook Inlet recovery act

Alaska state Reps. Mike Hawker, R-Anchorage, and Mike Chenault, R-Nikiski, said Dec. 22 that they will introduce legislation promoting Cook Inlet natural gas exploration, production, storage and deliverability.

The men are in the final stages of preparing their legislation and are reviewing the initial proposal with Cook Inlet stakeholders, including regulators, community organizations, explorers, producers and utility companies.

Hawker and Chenault said in a statement that the Cook Inlet Recovery Act will provide tax and regulatory incentives to construct large gas storage facilities to help meet consumers' peak winter gas demands; allow more rapid recovery of exploration tax credits to entice private investment; and eliminate a production tax penalty imposed on companies working both in Cook Inlet and on the North Slope.

They said the legislation will also help protect consumers from the threat of gas delivery interruptions by addressing state regulatory policy that has resulted in "the ill-conceived rejection of critical, long-term gas supply contracts negotiated by utilities." (This is a reference to difficulties utilities have had securing approval for gas supply contracts from the Regulatory

see RECOVERY ACT page 13

continued from page 9

ARCTIC NEIGHBORS

Minister Vladimir Putin and other high-level officials in the Russian government attended the launch ceremony.

The vessels are 70,000-ton ice-class tankers. They use the patented principle of "double action," according to Sovcomflot: They move with the ice-breaking stern facing forward in heavy ice, and with the bow facing forward in clear water and light ice. The tankers include landing pads for Mi-8 transport helicopters and can operate in ice with a thickness of up to nearly four feet. They will have crews of 25, who will be able to enjoy an on-board gym, sauna, swimming pool, satellite television and internet access.

—SARAH HURST

Russian investment climate needs a boost

Russia needs to make itself more attractive to investment from foreign energy companies, the country's minister of natural resources, Yuri Trutnev, said in an interview with the newspaper Vremya Novostey Dec. 9. The level of foreign investment in the energy sector declined considerably this year, he said. The newspaper attributed this to the high political risks in Russia and the fact that current oil prices make the development of new fields uneconomic.

"The whole world is working on the search for energy resources, including alternative energy, and we're now putting our fields in a bag and not giving them to anyone," Trutnev said. He proposed liberalizing access to Russian prospects for foreign com-

panies. "This is in the interest of the Russian economy, not foreigners," Trutnev said.

Another problem is that the biggest state-owned Russian companies, Gazprom and Rosneft, which have a monopoly on licenses for offshore Arctic deposits, can do anything they want after being awarded a license for a field. "It's all at their discretion," Trutnev said. "Whether they form a consortium to develop it or don't form one, whether they invest in opening it up or don't invest — we can't influence that."

Large-scale projects in the offshore Arctic will require the participation of foreign companies, investment analyst Dmitri Alexandrov told the newspaper. "If we're talking about drilling, then these could be Halliburton, Schlumberger or Baker Hughes. If we're going to form consortiums, the experience of Total or Norsk Hydro

could be used," Alexandrov said.

Risks in Russia for foreign companies include the lack of transparency in legislation relating to the energy sector, possible problems with Russian partners, the Russian government's slowness in awarding licenses and delays with subcontractors, the newspaper said.

—SARAH HURST

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Crowley names Tessier VP of sales, chartering

Crowley Maritime Corp. said Dec. 9 that Dorine Tessier has been named vice president of sales and chartering for its petroleum transportation group. In her new role, she will report to John Douglass, senior vice president and general manager of Crowley's Gulf and Atlantic region and will relocate from Anchorage to Jacksonville. As vice president of sales and chartering, Tessier is responsible for the planning and direction of the group's sales and chartering initiatives, overseeing development of policies and procedures; coordinating and negotiating customer contracts and developing business relations, specifically in the company's articulated tug barge program. "I am very happy to be joining such a highly skilled team and look forward to the opportunities and challenges chartering, sales and marketing represents," said Tessier.



DORINE TESSIER

ognized project management structure for heavy civil construction projects. The certifications were issued by SRI Quality System Registrar, an internationally-accredited, Pittsburg-based firm that evaluates and audits management system standards. The recognition highlights AFC and Nanuq's dedication to good environmental practices, as well as a commitment to customers, established clear policy and planning and good community relations. AFC is an Alaska owned and operated civil engineer construction contractor and its affiliate, Nanuq is owned by Kuukpik Corp. from the village of Nuiqsut. The two firms have over 400 employees working throughout Alaska.

Alaska Frontier Constructors receives certificates

Alaska Frontier Constructors Inc. said Dec. 15 that it, along with Nanuq Inc. of Anchorage and Prudhoe Bay have achieved an ISO 14001 Environmental Management System certificate, an AHSAS 18001 Health and Safety Management System certificate and ISO 9001:2008 Quality Management System certificate for its development and implementation of an internationally rec-

Air Liquide completes project for Shell Hydrogen

Air Liquide said Dec. 16 that it has completed the installation of a fueling system for Shell Hydrogen in Bronx, N.Y. In addition to the fueling equipment, Air Liquide is also supplying the hydrogen gas and liquid nitrogen required for operations. The station will provide fueling capability in support of General Motor's Project Driveway vehicles and serve as another site in the network being developed in New York in anticipation of other auto manufacturers introducing fuel cell vehicles to the area. Air Liquide's technology is also used at a station in Ardsley, N.Y. Using hydrogen as energy for transportation is a promising solution for sustainable mobility. Air Liquide has also provided fueling systems in California, Delaware and in many countries around the world. The fueling systems are built in the U.S. with proprietary engineering designs from Air Liquide Advanced Technologies U.S. LLC, and are capable of filling a car at 700 bar pressure in less than five minutes. For more information visit www.hydrogen-planet.com.

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

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STOWAWAYS

contaminated ballast into Prince William Sound waters when crude oil is loaded at the Valdez Marine Terminal," the council said.

Anil Mathur, president of Alaska Tanker Co., which carries oil for BP, told Petroleum News his ships already do ballast exchange.

Ballast exchange is when tankers pump out port ballast and take on fresh seawater

while sailing north to Valdez. This can flush out living organisms, though it's not a fail-safe measure, the RCAC contends.

Mathur questioned the need for an onshore plant to rid ballast water of potential pests. "I'm not sure there's any evidence that would be of any value," Mathur said. He said he's unaware of any "critters from the south" riding in on tankers and taking hold in the cold waters at Valdez. ●

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RECOVERY ACT

Commission of Alaska.)

"The Cook Inlet Recovery Act is consumer-security legislation to help ensure Southcentral Alaskans have enough natural gas to keep their homes and businesses warm and their lights on every day of the year," Hawker said.

"The economy of the Kenai Peninsula has been economically devastated by declining natural gas exploration and production," Chenault said. "The lack of sufficient natural gas now threatens the safety of everyone

in Southcentral Alaska and we need to do something about it."

This won't be the only bill in next year's Legislature promoting natural gas storage.

Sen. Hollis French, D-Anchorage, said in early November that he plans to introduce legislation to provide tax incentives for development of natural gas storage capacity in Cook Inlet, and also cited concern with potential winter gas supply shortages for homes and businesses in Southcentral Alaska.

Prefiled bills will be released Jan. 8 and Jan. 15; the session begins Jan. 19.

—KRISTEN NELSON

continued from page 11

ENERGY BILLS

dation of energy.

The committee heard a lot of compelling reasons for establishing a Department of Energy, Edgmon said. There should at least be a seat for energy at the cabinet table, he said.

Edgmon said tribal groups told the committee it was important to have a centralized entity the federal government can work with.

Stakeholder advisory panel

The committee heard from Bill Popp of the Anchorage Economic Development Corp. and Caitlin Higgins of the Alaska Conservation Alliance on behalf of the House Energy Policy Stakeholders Advisory Panel which worked on developing a statewide energy policy. The group adopted as a starting point for a state policy the Tri-Borough Commission Energy Policy adopted by the Matanuska-Susitna Borough, the Municipality of Anchorage and the Kenai Peninsula Borough in early 2008.

That policy was developed by a 13-member task force which was established in October 2007.

The stakeholders advisory panel, which included Millett, Edgmon, legislative staff, and representatives of a broad range of organizations agreed to fundamentals for a

state energy policy:

- Promotes energy efficiency and conservation;
- Promotes development of renewable and nonrenewable energy resources;
- Promotes economic development through cost-effective, long-term sources of energy for communities statewide;
- Supports energy research, education and workforce development; and
- Supports coordination of governmental functions and promotes streamlining of regulatory processes, avoiding duplication of effort, and overall coordination of effort by all levels of government. ●

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ANGDA

2008 FNG contracted with ExxonMobil for up to 10 billion cubic feet of natural gas a year from the North Slope.

In April FNG President Dan Britton told the ANGDA board that its plans for a propane facility on the North Slope were undercutting FNG's attempts to sell North Slope LNG to Interior markets.

Both FNG and ANGDA have looked to Golden Valley Electric Association as a customer — for LNG in the case of FNG and for propane in the case of ANGDA.

Heinze told the board that if ANGDA was in the past creating a problem for the port authority and FNG with GVEA, "we've backed away from that."

He said he was unable to define any advantage of putting the project together — probably it would be the reverse.

Heinze and Mary Ann Pease, ANGDA's propane consultant, participated in the Nov. 10 meeting, as did Therriault, Walker and Britton, along with other port authority representatives.

Propane partner sought

The board passed a resolution authorizing competitive solicitation of a private sector partner, or team of partners, to develop a North Slope propane extraction facility. The board said ANGDA may commit to an exclusive relationship with the private partner during the pre-final development and operations contract phase of the propane extraction project, not to last longer than 18 months.

The resolution states that ANGDA may negotiate exclusively with the competitively selected private partner to reach agreement on the terms of a development and operations contract.

The expectation, the resolution said, is that the 18-month period will result in a development and operations contract between ANGDA and private partners to advance the propane extraction beyond the

contract phase and into the next step.

The board retained authority to review and approve any final contract prior to execution.

Assistant Attorney General Jim Cantor said the resolution allows ANGDA to deal with one private party exclusively, reassuring that party that if it spends money moving to the next step ANGDA won't go deal with other entities.

Optimization of offtake

ANGDA has been looking at a facility which would produce 2,500 barrels per day of propane and Pease said a reduction of 2,000 bpd has a potential to increase costs by 12 percent or more. (The 500-bpd difference is the amount of propane FNG said it could produce as a byproduct of its proposed LNG facility.)

The cost of the facility could be reduced significantly by finding a more optimal location, Pease said.

Heinze said discussions have centered on taking gas from the discharge side of the Prudhoe Bay Central Gas Facility, where the gas stream is the leanest. The input stream, by comparison, has almost twice the propane and there are streams where the amount of propane would be 10 times as high. He said the comparison is 2 percent propane in the stream coming out of the plant; 3.5 to 4 percent in the input stream; and more than 20 percent propane in the miscible injection stream.

ANGDA is working with its producer at Prudhoe Bay on taking gas from a location with a higher concentration of propane.

The cost numbers for the facility have gone up since ANGDA started working on the concept in June, Heinze said. But what's occurring now is the other side of the curve, where you drive cost down by optimization, he said: That stream, with 10 times the propane, would drive the cost down significantly. ●

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EXPLORATION & PRODUCTION

State intervenes in Beaufort Sea litigation

The State of Alaska has filed a motion to intervene in an appeal in the U.S. Court of Appeals for the 9th Circuit by the Alaska Eskimo Whaling Commission and the Inupiat Community of the Arctic Slope against the U.S. Minerals Management Service approval of Shell's plan to drill two exploration wells in the Beaufort Sea during the 2010 open water season.

"The state is uniquely positioned to intervene in such cases, in which our economic future is at stake," said Gov. Sean Parnell on Dec. 18. "Outer Continental Shelf development is critical to the state's economic future. The state will not sit idly by when responsible attempts to explore and develop these resources are challenged."

The 9th Circuit lawsuit claims that MMS has not considered the cumulative effects of outer continental shelf drilling in the Beaufort and Chukchi seas on bowhead whales, a key subsistence resource for the Native communities of northern Alaska.

But the state says that Shell's plan includes extensive mitigation measures to avoid any interference with subsistence hunting and to protect whales and the Arctic environment. And huge estimated oil and gas resources on the northern Alaska outer continental shelf are of immense value to the United States, as well as presenting economic opportunities in Alaska, the state said.

"The state filed this motion to intervene because it has a duty to develop its natural resources, promote economic development and make economic opportunities available to its citizens," said Attorney General Dan Sullivan. "This balance of interests is unique to the state, and will not be adequately represented by any other party in this appeal."

Shell also plans to drill up to three wells in the Chukchi Sea in 2010, under a separate exploration plan that has received conditional approval from MMS.

—ALAN BAILEY

LAND & LEASING

New briefing schedule for Chukchi lawsuit

Plaintiffs and defendants in an appeal in U.S. District Court for the District of Alaska against the February 2008 Chukchi Sea outer continental shelf oil and gas lease sale have agreed to establish a new briefing schedule, according to a status report filed with the court Dec. 18. The briefing schedule has been on hold since March pending issuance by the Minerals Management Service of an amended lease sale environmental assessment, required by the U.S. Court of Appeals for the District of Columbia in connection with a ruling by that court in an appeal against the MMS 2007 to 2012 OCS lease sale program. Plaintiffs in the district court case are concerned that, with MMS having conditionally approved Shell's 2010 Chukchi Sea drilling plan, drilling may proceed before the appeal in district court is resolved.

"The plaintiffs' goal is to arrive at a schedule that affords the court an opportunity to adjudicate their claims before drilling is scheduled to occur on Lease Sale 193 (Chukchi Sea) leases," the status report says. "A proposed briefing schedule has been circulated, to which the plaintiffs and the federal defendants have agreed. ... Once the schedule is finalized, an appropriate stipulation and proposed order will be submitted for the court's consideration."

—ALAN BAILEY

continued from page 1

ENBRIDGE

rival a fresh prod by suggesting that TransCanada's proposal for a 500,000-barrel-per-day Keystone XL line from Alberta to U.S. Gulf Coast refineries will create pipeline overcapacity from the oil sands.

He said there is already "more capacity than we need for some time and XL would add incremental capacity. I just don't know where the volume is going to come from based on current production forecasts."

Enbridge is already mounting a regulatory challenge to XL, arguing it isn't needed and that its construction would increase pipeline tolls on exports from the oil sands.

TransCanada has countered, telling the National Energy Board that producers want XL, based on the contracts they have signed.

Gulf expansion on hold

Daniel said his company has given up for now on expansion to the Gulf Coast to focus on "regional growth" projects, such as connections from the Alberta oil sands region to Edmonton, the transport of oil from the Bakken play that crosses the border from Saskatchewan into North Dakota and Montana and addition to its natural gas pipelines to new discoveries in the Gulf of Mexico.

Enbridge is currently spending C\$300 million expanding its pipeline network to the Bakken formation and is discussing with Canadian and U.S. producers the investment of another C\$100 million-C\$300 million.

But Enbridge is no longer counting on grand-scale pipeline connections from the

oil sands, suggesting new capacity will occur in increments of 20,000-30,000 bpd.

Daniel said there have been four or five major discoveries close to his company's infrastructure in the Gulf of Mexico, and Enbridge believes it has a good chance of securing some of the business.

"We're aggressively trying to figure out where the big demand is going to be for natural gas," he said. "We think Florida, the U.S. southeast and to a certain extent the southwest, where the air conditioning load is quite high and there's going to be growth in demand for electricity," he said.

Setback with LaCrosse

Enbridge took a setback when its planned LaCrosse pipeline from the Haynesville shale gas region in Texas and Louisiana failed to achieve the necessary producer backing.

Daniel said Haynesville producers simply weren't ready to make 20-year shipping commitments.

Also stalled is a proposal to develop the Rockies Alliance pipeline, which would have delivered gas from the U.S. Rocky Mountain region to Chicago.

The largest candidate on Enbridge's books right now is the planned 525,000 bpd Northern Gateway pipeline from the oil sands to Kitimat on the British Columbia coast, the bulk tagged for export to Asia.

Daniel reiterated that a regulatory application is planned for the first quarter of 2010, launching a two-year regulatory process that will likely be "noisy and contentious," but should be outweighed by the world's need for energy and the strategic importance of Northern Gateway for Canada. ●

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INSIDER

Ready to drill

According to Davis, the company was ready to "execute contracts with the jack-up rig contractor ... and a heavylift contractor, to have the jack-up on location in mid to late April 2010," but on Dec. 15 Vetra asked him to get "at least" a 12-month extension from the state on the drilling obligation, until the beluga issue can be "resolved."



DANNY DAVIS

Banks reply in a nutshell

In addition to making it clear that the State of Alaska cannot "speak on behalf of the federal government regarding actions a federal agency may, or may not, take regarding matters within their jurisdiction," in his reply Banks remind-

In his letter Banks listed several important points in the federal proposal, including the fact that Kitchen Lights is in Area 2, where "whales typically occur in smaller densities or deeper waters," versus Area 1, which has "the most stringent proposed restrictions."

ed Davis that the beluga whale endangered species listing was first proposed in April 2007, and the final determination was made in October 2008, "well in advance of the negotiation and acceptance of the final KLU agreement."

In light of the fact a "final critical habitat designation" for Cook Inlet's beluga whales would be issued no later than June 30 by the feds, he also said "Escopeta would be well advised to move immediately to acquire all of the necessary permits needed to execute" its exploration program.

Banks gave Davis a link to the Federal Register notice regarding the proposed critical habitat — <http://edocket.access.gpo.gov/2009/pdf/E9-28760.pdf> — and a link to an estimate of the economic impacts that might result from the designation — http://www.fakr.noaa.gov/analyses/cook_inlet/draft_ririrfa111709.pdf.

In his letter Banks listed several important points in the federal proposal, including the fact that Kitchen Lights is in Area 2, where "whales typically occur in smaller densities or deeper waters," versus Area 1, which has "the most stringent proposed restrictions."

—KAY CASHMAN

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MOTION

pipelines.

The state's lawyer, Louisiana Cutler of Anchorage, told the judge the state is seeking at least \$1 billion in lost revenue to the state treasury and the Alaska Permanent Fund as a result of the 2006 leaks and the production shut-ins that followed as BP replaced or repaired pipes.

The arguments were centered around BP's motion to dismiss parts of the state's suit against the company, which operates the nation's largest oil field on behalf of itself and other owners ConocoPhillips, ExxonMobil and Chevron. If granted, the motion would effectively gut the state's case.

The judge made no immediate ruling after the hearing, which attracted more than a dozen lawyers to a downtown Anchorage courtroom.

Origins of lawsuit

The state sued BP's local operator, BP Exploration (Alaska) Inc., on March 31 seeking to collect compensatory and punitive damages as well as "lost" taxes and royalties for production shut-ins related to the 2006 pipeline spills.

The spills were from corrosion-damaged transit lines that carry sales-grade crude oil out of the Prudhoe Bay field and feed it into the trans-Alaska oil pipeline.

The suit cites a total production shortfall of at least 35 million barrels of oil and natural gas liquids from the Prudhoe Bay and Milne Point fields from 2006 through 2008.

The state's lawyers accuse BP of knowingly neglecting corroded pipelines in the interest of cutting costs, and the suit seeks punitive damages for "outrageous" or "reckless" conduct.

Apart from the state suit, BP also is defending a federal lawsuit the Environmental Protection Agency and pipeline regulators filed against the company on the same day the state sued. The federal suit seeks millions of dollars in fines for alleged water and air pollution violations, as well as failure to meet deadlines in a corrective action order from U.S. Department of Transportation pipeline regulators.

The state and federal suits are civil actions. Criminal prosecution of BP for the 2006 spills wrapped up for both governments in November 2007, when BP Alaska pleaded guilty to a federal environmental misdemeanor.

Legal arguments

BP's attorney argued in court on Dec. 21 that the state is improperly pursuing tort claims beyond merely claims under the relevant contracts, chiefly the oil field leases. A tort is a wrongful act committed against a person or property for which the injured party is entitled to compensation.

Feldman also questioned the state's

The judge made no immediate ruling after the hearing, which attracted more than a dozen lawyers to a downtown Anchorage courtroom.

demand for punitive damages. He likened it to the state suing a store owner who pays less taxes as a result of his furnace failing, his pipes freezing and his business making less money.

The state has never followed through on a punitive damages claim in court, he said.

Barring dismissal of the state's claim that oil waste occurred as a consequence of the spill and ensuing shut-ins, that aspect of the case at least should be referred to the AOGCC for a determination if waste really did occur, Feldman added, noting: "Oil didn't disappear. It's still in the reservoir."

Cutler, in her argument, reminded the judge that one of the 2006 leaks was the largest oil spill in the history of North Slope oil production — 212,252 gallons, released slowly through an almond-sized hole onto the frozen tundra. The leak came from one of Prudhoe's oil transit lines, which Cutler said BP nicknamed the "money lines."

She acknowledged the state seldom seeks punitive damages, but said it's doing so right now in a pending lawsuit against Mercer, a giant human resources consulting firm accused of making sloppy actuarial estimates of state pension plan liabilities.

As for the tort claims, the state is entirely within legal precedent to seek such claims alongside contract claims, Cutler said. Further, she said the state leases contain no exculpatory clause limiting tort claims. An exculpatory clause relieves one party of liability as a result of actions, or inactions, while executing the terms of a contract.

"There's no limiting language whatsoever in the leases," Cutler told the judge.

She also argued the AOGCC need not be involved with the case, as it lacks pipeline expertise.

Feldman, in a rebuttal, called the point about the exculpatory clause "a complete red herring."

Judge asks questions

Cutler argued the state's case isn't about recouping revenue. It's about BP violating its duty to operate properly and without negligence, which damaged the state.

Michalski at one point interrupted Cutler's argument to ask her some questions.

Judge: What is the duty of BP other than the contract?

Cutler: The duty is to operate the pipeline as a reasonable operator should.

Judge: And could someone other than the state sue for negligent operation of a pipeline?

Cutler: Yes, a field partner could or a landowner who suffered some form of damage.

Later, Cutler said BP's motion to dismiss should be denied, as the company is

only looking to avoid trial "regardless of how substandard" its pipeline corrosion control might be.

But Feldman noted the state — as a state — has "multiple means" of fining or otherwise punishing BP without pressing improper tort and punitive damages claims. ●

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LAND & LEASING

State Beaufort Sea sale set for Feb. 24

The Alaska Division of Oil and Gas said Dec. 20 that it will hold a Beaufort Sea areawide oil and gas lease sale Feb. 24. Bid opening will begin at 9 a.m. in Suite 240 at the Atwood Building, 550 W. 7th Ave., Anchorage.

The Beaufort sale, typically held in the fall with the North Slope and North Slope Foothills sales, was postponed due to an administrative error. Division Director Kevin Banks said at the fall sale that the state was doing a new best interest finding and failed to advertise it in a statewide newspaper.

The best interest finding was issued Nov. 9.

Banks said in late October at the bid opening for the other sales that the Beaufort sale would be held in either February or March, with another Beaufort Sea sale in 2010 in the normal fall timeframe.

The minimum bonus bid is \$10 per acre for all tracts. Tracts 1 through 26 have a fixed royalty rate of 12.5 percent; all other tracts have a fixed royalty rate of 16.66667 percent.

Tracts 1 through 26, 40 through 77, 500 through 554 and 556 have lease terms of 10 years; all other tracts have terms of seven years.

Complete details on the lease sale are available on the division's Web site at www.dog.dnr.alaska.gov.

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CI GAS

supplies has originated from a DNR plot of projected Cook Inlet gas production that has been around for several years and is variously referred to as the gas cliff or gas waterfall. But this plot, which shows Cook Inlet gas production declining precipitously after the mid-2000s, has been based on projected production from existing Cook Inlet wells: people have speculated about what additional gas reserves might come on line as new drilling taps into gas not already accessed.

And the new report sheds much light on this question of establishing more reserves from more drilling.

Simply projecting forward the current, declining well production rates for the 28 existing Cook Inlet gas fields results in an estimate of 863 billion cubic feet of remaining Cook Inlet natural gas reserves, with annual gas production sinking below projected annual gas demand somewhere around 2011, the report says. But the scientists conducting the study found that a more comprehensive projection technique that takes into account reservoir pressures, temperatures and the engineering characteristics of the gas fields results in a reserves estimate of 1,142 billion cubic feet, a reserves figure that would meet supply needs until around 2015.

Then, to look at the increase in potential reserves from the drilling of new wells, the scientists homed in on the four largest Cook Inlet gas fields — the Kenai field, the Beluga River field, the North Cook Inlet field and the Grayling gas sands — to use geologic techniques to assess likely gas volumes in sands fairly certain to contain untapped gas in and around the fields.

There is the possibility of drilling in less prolific field areas that have not yet been accessed, and the possibility of perforating existing wells, to access sands known to contain gas but so far unused, perhaps with gas at somewhat lower pressure than the sands that have been targets for gas production to date, Banks said. And many of the gas reservoir horizons in Cook Inlet gas fields are known to consist of multiple, small sand bodies, deposited from ancient, meandering river systems and often containing isolated gas pools.

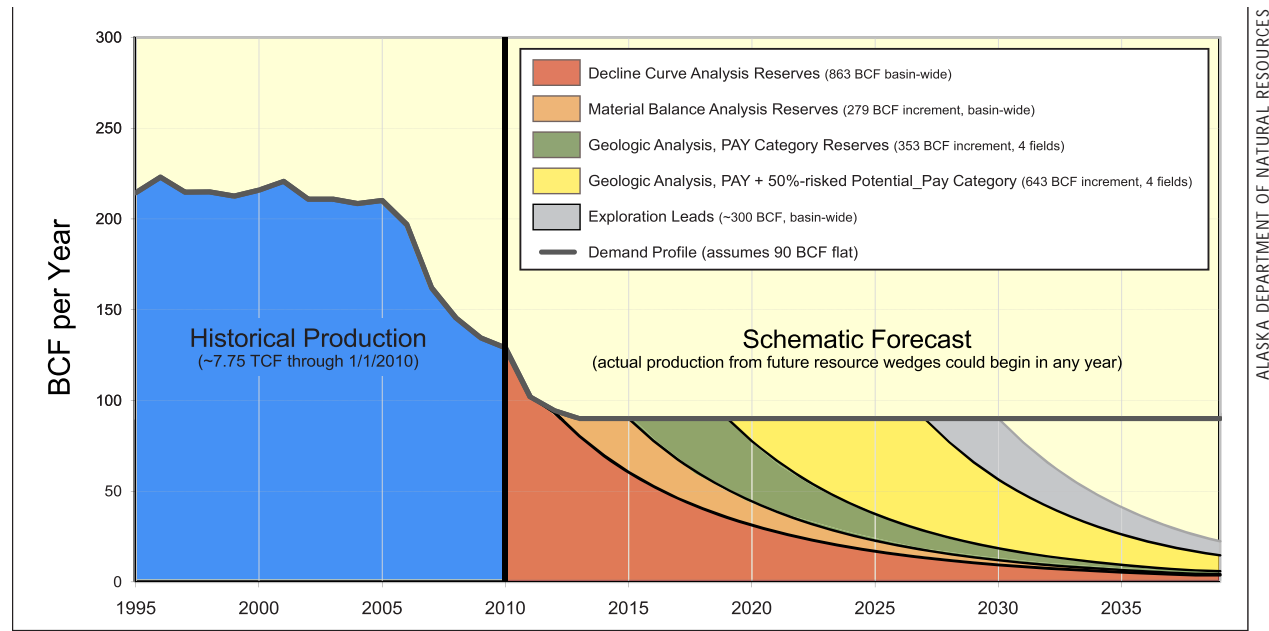
“Some of these wells in those four fields, they penetrate 60 different lenses of gas,” Banks said.

The geologic analysis of reasonably probable gas that could be drilled added another 353 billion cubic feet to the potential gas reserves estimate and moved the date for possible gas supply shortages out to nearly 2020. Then, doing a similar geologic analysis for more questionable gas sand possibilities around the four large fields, and factoring in a reduction of 50 percent in the resource estimates to allow for the significant discovery risk associated with these sands, the scientists were able to add another 643 billion cubic feet to the possible reserves, thus moving the gas supply shortfall projection to somewhere between 2025 and 2030.

Finally, the geologists assessed the possible gas resources in some known Cook Inlet gas prospects, both onshore and offshore, to estimate the gas volumes that might be added to Cook Inlet gas reserves from some future exploration in the region. That analysis added another 300 billion cubic feet to the resource estimates, a volume that could extend the viability of gas supplies out beyond 2030.

No LNG

The dates at which gas supplies are predicted to drop below gas demand all assume that the LNG export facility on the Kenai Peninsula, a major current consumer of Cook



Historic and forecast annual Cook Inlet natural gas production. The horizontal line under “Schematic Forecast” represents estimated future Southcentral Alaska gas demand, assuming that the Kenai Peninsula LNG plant closes in 2011. The new DNR evaluation of remaining Cook Inlet gas reserves has added wedges of potential reserves to the forecast, with those reserves becoming increasingly uncertain, left to right in the diagram.

Inlet gas, goes out of operation after the facility’s federal LNG export license expires in 2011. At that point gas demand, consisting essentially of utility gas, would stabilize at a level somewhat below 100 billion cubic feet per year, the projections assume.

And the DNR report points out that the estimates of increases in gas reserves do not take any account of the economic viability of the required drilling and field development to access the reserves: the report simply assesses future reserves that technically could be found and developed. But, while the economics of drilling new development wells by Cook Inlet gas producers are something of an unknown factor, the future pricing of utility gas in the Cook Inlet region has become uncertain amid consumer concerns about possible price hikes.

And if the gas producers move from drilling into known gas sands to drilling in less reliable field areas, and perhaps embark on new exploration, the costs and risks of drilling and development will rise. For example, exploration in the offshore prospects that the DNR geologists investigated would require the use of a jack-up rig, an item of kit that is very expensive to hire and operate.

It is also worth realizing that the exploration analysis presented in the DNR report relates only to certain specific, known prospects and is not a complete assessment of undiscovered natural gas resources in the Cook Inlet basin. The U.S. Geological Survey is currently doing a complete assessment of the basin, presumably considering a more complete range of gas prospects and perhaps coming up with yet higher undiscovered resource figures.

And geologists tend to view the Cook Inlet basin, with its relatively sparse scattering of exploration wells, as significantly underexplored, thus leaving the future possibility of more new gas discoveries.

Deliverability

Apart from the question of ensuring that there is enough utility gas to supply Southcentral Alaska over the course of a complete year, the region faces the more immediate issue of ensuring that gas deliverability — the rate at which gas can be delivered from gas wells in the Cook Inlet basin to gas consumers — is adequate to meet peak demand for heating and lighting during the colder days of the Alaska winter. Deliverability has been declining steadily in recent years and

almost ran short during a severe cold snap in January 2009.

Scientists involved in the DNR study investigated gas deliverability from gas wells and fields by estimating daily production rates on a well-by-well basis using publicly available monthly production data. In the absence of available daily well data, this estimation method tended to smooth out the extremes of actual daily production peaks, but gave at least some insights into well performance during the huge swings in utility gas demand between summer and winter in Southcentral Alaska.

And an analysis of daily production in recent years confirmed that the storage of summer-produced gas in gas storage facilities for use in the winter is becoming an increasingly important factor in meeting deliverability needs.

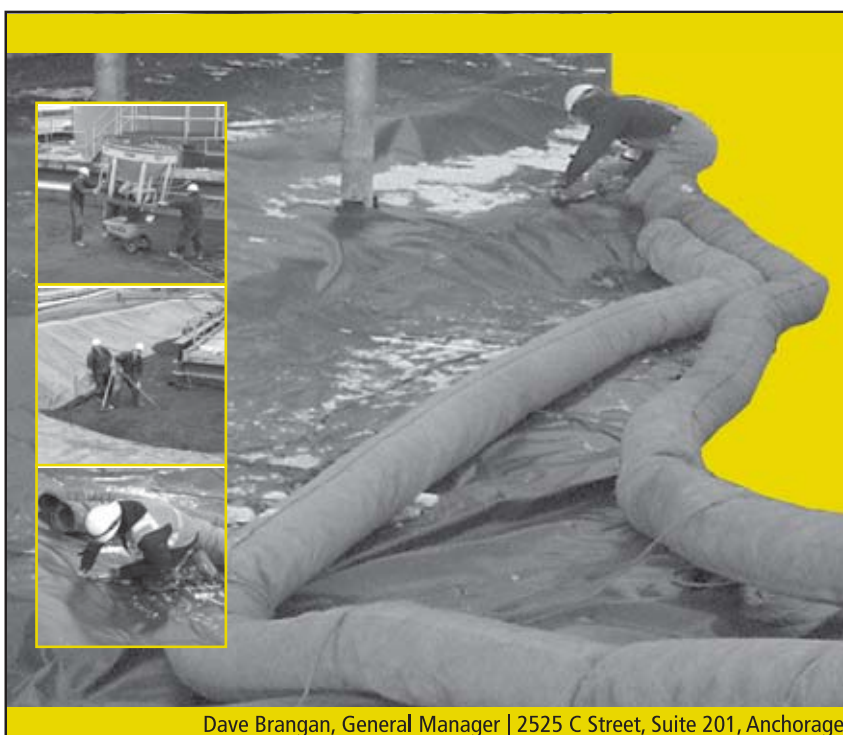
“The ability to meet peak demand with real-time production has significantly diminished in the last decade because reservoir pressure has declined, water influx has increased and not enough wells were drilled to replace reserves and maintain redundancy for peak rate capacity,” the DNR report says. Although the gas producers have drilled some new wells and installed some new gas compression to maintain winter deliverability, the economic challenges of taking these actions to serve relatively brief demand spikes will drive an increasing use of gas storage, the report says.

But complications such as the way in which the amount of gas stored in a gas storage facility impacts the rate at which the facility can deliver gas make the prediction of excess capacity in the gas delivery system rather difficult when gas storage comes into play.

However, the DNR scientists took their estimated daily well production data and extrapolated into the future daily production data from individual gas pools, to assess how gas deliverability may evolve. And a subsequent plot of estimated future daily production for the Cook Inlet basin as a whole indicates that gas storage will become increasingly vital, as peak deliverability from the gas field wells declines progressively further below peak winter demand.

On the other hand, new wells in the Cook Inlet’s often highly discontinuous gas reservoirs will also be needed to maintain adequate winter deliverability, while more detailed and up-to-date gas production data are needed to reduce some major uncertainties in deliverability forecasting, the report says. ●

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