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Pathfinder tug



Tug Pathfinder docked at Valdez. See story on page 5 of this issue.

Canada issues Mackenzie-Beaufort nominations call

Whether Canada's frontier explorers see the initial round of regulatory backing for the Mackenzie Gas Project as a shot in the arm for eventual development of Arctic oil and natural gas is being put to an early test.

The Canadian government has issued a call for nominations in both the Beaufort Sea-Mackenzie Delta and Central Mackenzie Valley regions, setting a Jan. 28 deadline for requests.

Based on the response, Indian Affairs and Northern Development Minister Chuck Strahl will decide whether to include postings in a call for bids which would be issued in February.

The postings range from a minimum 640 acres to 204,800 acres.

see NOMINATIONS page 17

Gazprom CEO: U.S. firms lack knowledge for Arctic projects

ALASKANS NEED HELP from Russians with projects in the Arctic, the CEO of Russian energy giant Gazprom, Alexei Miller, has told Russian President Dmitri Medvedev, Gazprom said in a release Dec. 25. Miller was sharply critical of U.S. technology in an address he gave at a meeting of the presidential commission for modernization and technological development of Russia's economy.



ALEXEI MILLER

"We held a workshop in Alaska for our foreign counterparts," Miller said. "I may say that they have neither the understanding of how to develop hydrocarbons under local conditions, nor the experience or knowledge. We have got something to offer to our American colleagues, if they want it, relevant to comprehensive hydrocarbon development in Alaska."

Miller led a delegation of Gazprom officials to Alaska in October 2008. A seminar took place with the participation of ConocoPhillips CEO Jim Mulva, the top management of Arctic Slope Regional Corp. — the Native corporation that owns a vast swathe of land on Alaska's North Slope — and Alaska's commissioner of Natural Resources and other representatives from the department. During the visit Miller also had lunch with former

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LAND & LEASING

Exxon's legal extra

Just ahead of Point Thomson ruling, firm touts drilling progress; state objects

By WESLEY LOY
For Petroleum News

With a judge on the brink of issuing a key ruling in the battle for control of the rich Point Thomson oil and gas field, ExxonMobil has filed a last-minute statement from its Alaska chief in hopes of boosting the company's chances of victory.

The move drew vigorous opposition from lawyers for the state, who argue ExxonMobil's "unorthodox" filing comes way too late and threatens to drag out the proceedings.

The case concerns the state's termination of the Point Thomson unit for failure to produce oil and gas from the remote field, located on state land

Although Irwin has cleared ExxonMobil to drill on two leases, the overarching question before Judge Gleason is whether the state was right in terminating the Point Thomson unit.

along the Beaufort Sea coastline some 60 miles east of Prudhoe Bay.

The major Point Thomson stakeholders including ExxonMobil, BP, Chevron and ConocoPhillips are appealing that decision, and the case is pending before state Superior Court Judge Sharon Gleason.

Lawyers for the two sides made their final writ-

see EXTRA page 17

GOVERNMENT

Assuring your approval

Modern permitting involves doing due diligence, proving sustainable benefits

By ALAN BAILEY
Petroleum News

There was a time when people tended to view permitting as simply a question of obtaining government agency approval for certain specific actions planned for a project.

But that's no longer a viable approach, Joseph Perkins, a member of Stoel Rives LLP and a lawyer with many years of experience in the permitting of resource extraction projects in Alaska, told the Law Seminars International Energy in Alaska Conference Dec. 8.

Nowadays people need to work on a much broader front, viewing the permitting process more in the light of demonstrating that a project is in

"What we're really talking about here in terms of decision making, when it comes to any of these big projects, is the best interest. Is it in the best interest of the neighborhood to have this project go forward? Is it a good thing?"

—Joseph Perkins, Stoel Rives LLP

everyone's best interest, and doing the same due diligence investigation as is required to persuade an investor to commit funding to the project, Perkins said.

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NATURAL GAS

Ho-ho-hold the holidays

Proponents of Mackenzie gas have tight deadline to respond to 679-page report

By GARY PARK
For Petroleum News

It landed Dec. 30 with a thud on desks in the high-rise petroleum towers of downtown Calgary, spoiling whatever hopes employees working on the Mackenzie Gas Project might have had to put their feet up in front of an open fire, watch a bit of hockey and football and sip on some left-over eggnog.

Years of hearings and study, thousands of pages of testimony and regulatory filings, were distilled into 176 recommendations at a cost of about C\$19 million to taxpayers by a federally-appointed Joint Review Panel, which evaluated the impact of the MGP on the environment and lives of northern residents.

"It is important to bear in mind while the JRP report is a positive step, it is only one of a number of steps. The report is significant and a necessary step, but it is certainly not a green light."

—Imperial spokesman Pius Rolheiser

Not that the document's arrival was unanticipated, nor is the knowledge that the industry partners — Imperial Oil, Shell Canada, ConocoPhillips Canada and ExxonMobil Canada — have until only Jan. 20 to interpret the nuanced meanings of a 679-page report before submitting a response to Canada's National Energy Board.

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• LAND & LEASING

Salazar launches 'major reforms' for onshore leasing program

Secretary of the Interior says reforms include new guidance to field managers, new reviews

By KRISTEN NELSON
Petroleum News

Citing pushback from the public on the level of onshore oil and gas leasing under the Bush administration, President Obama's Secretary of the Interior, Ken Salazar, said in a Jan. 6 press conference that the department is making "major reforms of the nation's onshore oil and gas leasing program."

The pushback is reflected in the number of onshore oil and gas leases issued by the Bureau of Land Management that are challenged.

In 1998, Salazar said, "a little over 1 percent of BLM's oil and gas leases were protested."

"Ten years later, in 2008, 40 percent of BLM's oil and gas leases were protested."

As a result, millions of dollars are being spent on litigation and resources are tied up.

"Almost nobody's happy with the status quo," the secretary said.

Industry faces uncertainty because of the number of BLM leases held up by litigation.

"States and local governments don't have the benefit of a clear federal policy on which federal lands are, and are not, appropriate for development."

The public often feels shut out of the process, he said.

Flaws in the current leasing process came "into sharp focus in Utah," where the Bush administration offered "several highly controversial parcels for lease" in late 2008, leasing which has been litigated.

Interior did a review of the Utah leasing, with each of the 77 parcels in question visited by an interdisciplinary team. A report submitted to the secretary in October recommended "BLM lead the development of a comprehensive interagency strategy to address energy leasing, development and related air quality concerns for Utah and other western states," Interior said in an Oct. 8 statement on the report. The report recommended leasing 17 of the parcels, deferring 52 parcels and withdrawing six parcels. The 52 deferred leases could be removed from



KEN SALAZAR



BOB ABBEY

leasing, but Interior said the recommendation to remove the six parcels "was the direct result of field reviews that found that leasing was inappropriate due to critical resource values and for the apparent lack of net benefit to be gained from leasing."

Shortcomings identified

Salazar said many of the reforms BLM announced Jan. 6 are in response to shortcomings found in the report on the Utah lease sale.

BLM Director Bob Abbey said there are a number of safeguards already in place "to limit the impact of oil and gas development on public land and resources" managed by BLM.

He said the agency will be focused on "doing a better job of assessing and analyzing potential impacts to natural resources at the leasing phase and prior to making irreversible commitments to develop an area."

Abbey said that under the new policy, "comprehensive reviews will be conducted that take into account site-specific considerations for individual lease parcels."

Resource management plans by BLM will continue to provide broad guidance, but "the individual parcels that are being considered for leasing will undergo increased internal and external coordination," and BLM will provide for further opportunities for public participation and comment. In addition to interdisciplinary review of available data, BLM employees will do "site visits to parcels to supplement and validate existing information."

There will be opportunities for "greater

public involvement in developing master leasing and development plans for areas where intensive oil and gas extraction is anticipated," Abbey said, allowing the public to share concerns about possible impacts on natural resource values in an area, prior to BLM offering parcels for lease.

He said BLM will "assume a leadership role in identifying where new oil and gas leasing will occur," and while the agency will continue to accept industry expressions of interest, "we're going to be placing emphasis in leasing in already developed areas or near areas that have been developed." BLM will, Abbey said, be planning "carefully for leasing and development in any new areas where the industry has identified potential sources of oil and natural gas."

Concern about Alaska

Sen. Lisa Murkowski, R-Alaska, was out of the country when Interior announced its changes, but Robert Dillon, spokesman for Murkowski, said the changes announced by Salazar will only provide certainty that "more production will be driven overseas."

"You don't get more production by restricting development to depleted fields and increasing regulation," Dillon said.

Sen. Mark Begich, D-Alaska, said it already can take up to 10 years in Alaska to "actually produce a drop of oil and most of that time is devoted to government permitting."

Begich said he was concerned that the new procedures "will further delay oil and gas development, especially in my state, where it is broadly supported and where we know how to develop in an environmentally responsible way."

The senator said he supports full public review, but said the new procedures announced Jan. 6 by Interior "appear to address some processes followed in the past that led to the Bureau of Land Management illegally approving leases in Utah." ●

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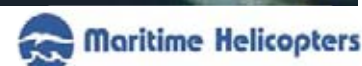
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• FINANCE & ECONOMY

Canadian companies weeding out the weak

New decade launched with flurry of M&A action as Suncor offloads unwanted Petro-Canada assets, PetroBakken adds tech-driver plays

By GARY PARK
For Petroleum News

Canadian-based companies have added early sizzle to the 2010 mergers and acquisitions market, led by Suncor Energy's swift action to weed out what Chief Executive Officer Rick George rates as weaker, noncore holdings inherited in the takeover of Petro-Canada.

Once-valued Petro-Canada natural gas assets in the U.S. Rockies have been tagged for sale to independent Noble Energy for US\$494 million, while Suncor has put Western Canadian production of 360 million cubic feet per day on the block, which analysts think could yield proceeds of C\$2 billion-C\$4 billion.

The U.S. upstream assets include proved reserves of 53 million barrels of oil equivalent, generating 46 million

cubic feet per day of gas output and 2,500 barrels per day of liquids, 80 percent within the Wattenberg field.

Included in the purchase, which is expected to close late in the first quarter, are 340,000 net acres, almost 200,000 located in the Greater DJ basin.

Noble said it has identified more than 2,000 drilling locations in Wattenberg, which it expects will grow the company's net production by about 20,000 barrels of oil equivalent per day.

Noble President David Stover said his company now controls more than 530,000 net acres in the region, with pro-



RICK GEORGE

duction close to 52,000 boe per day, and is eager to exploit its technical and operational expertise to unlock further potential.

Initial production decline

If buyers are found for Suncor's Western Canadian gas interests, that will trim about 10 percent off the company's total production — a loss George expects will be quickly replaced by new projects coming onstream.

He said completion of a gas divestment program will leave assets that are expected to provide a solid foundation to support long-term growth in the core oil sands business and enable Suncor to become one of the lowest-cost North American gas producers, with a new focus on unconventional gas.

The sales package, posted on the Web site of investment bank Macquarie Tristone, is divided among three regions and broken down into 15 bundles.

The regional breakdown includes 22,000 boe per day (or 132 million cubic feet per day of gas using the Canadian conversion rate) in the Alberta and British Columbia Foothills, 20,000 boe per day in the Alberta Deep basin and 18,000 boe per day in northeastern British Columbia.

Since concluding the Petro-Canada transaction, Suncor has indicated it plans to sell about one-third, or 400,000 million cubic feet per day, of its gas output.

George said in November that other holdings on the auction block would likely be interests in the North Sea and Trinidad and Tobago, as well as a corporate jet.

Assets widely scattered

In a report issued in late December, investment bank Peters & Co. estimated Western Canadian gas assets sold for an average C\$54,700 per flowing boe in the final quarter, up about 57 percent from the third quarter.

Barclays Capital analyst Paul Cheng said in a note he believes Suncor will be ready to sell for less than \$30,000 per flowing boe, given the quality of the assets, which are widely scattered.

He said the gas is in conventional fields, which suggests it will not fetch a "lot of money."

Macquarie Tristone describes the holdings as "high working interest, legacy gas reserves and production."

Data rooms will be opened in stages from early 2010 to spring, then fall.

Suncor has said it is not interested in unloading small packages, preferring to find buyers who are looking for a good

strategic fit from larger bundles.

A Suncor spokesman said the offering is "not a fire sale," but transactions are scheduled for completion before the end of 2010.

PetroBakken purchase

Also quick out of the starting gate in 2010, PetroBakken, a spin out from last year's C\$2.24 billion merger of Petrobank Energy and Resources and TriStar Oil & Gas, has agreed to buy junior oil and gas producer Berens Energy for C\$336 million, including C\$65 million of assumed debt.

Berens has current production of 3,650 boe per day, 78 percent in the West Pembina area of central Alberta, but Chief Operating Officer Gregg Smith said the major draw was the chance for PetroBakken to gain entry to Alberta's Cardium oil play, currently rated as the largest onshore light oil pool in North America.

A trailblazer in the use of horizontal drilling and rock-fracturing technology, PetroBakken wants to apply those skills in the Cardium, having established their success in the Bakken formation of Saskatchewan.

Berens' proved-plus-probable reserves of more than 11 million boe works out at C\$92,000 per boe of production and C\$30 per barrel of reserves.

But UBS Securities analyst Andrew Potter suggested in a research note that 17.5 million barrels of unbooked Cardium potential makes the cost look more reasonable.

Brian Kristjansen, an analyst with Genuity Capital Markets, said the legacy Cardium field is being revived with the use of multistage wells and is "going to be even better than the Bakken" given Alberta royalty incentives which cover drilling to March 2011.

Berens has reported success from two of three wells in the Cardium, which has been limited by uneven reservoir qualities in a sandstone deposit.

PetroBakken said it plans to ramp up drilling activity through a multirig program this year, working on 26,500 net acres and 100 identified drilling locations.

Although PetroBakken is working on the sale of 6,000 boe per day of noncore production, it still aims to hike production from a current 37,000 boe per day (excluding six Bakken wells that came onstream in December) to 46,000 boe per day at the end of 2010. ●




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CORRECTION

A photo on page 1 of the Jan. 3 issue incorrectly described the location of the tug Pathfinder, which is shown in the photo at the dock in Valdez.

The photo was also incorrectly credited; it was provided by the Prince William Sound Regional Citizens' Advisory Council.

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Crowley issues Pathfinder spill estimate

Valdez-based tugboat hit infamous Bligh Reef two days before Christmas; plans made to tow craft to shipyard for repairs

By WESLEY LOY
For Petroleum News

Crowley Maritime Corp. was continuing work to patch up its damaged tugboat Pathfinder for towing from Valdez to a still undetermined shipyard for permanent repairs.

Meantime, the company released an estimate of the total volume of diesel fuel that spilled into Prince William Sound after the tug hit infamous Bligh Reef on Dec. 23.

The estimate was 6,410 gallons based on an assessment of the vessel's damaged fuel tanks.

"We are of the opinion that it represents a 'worst case' estimate of the fuel release," said Stephen Wilson, Crowley director of environmental, safety and quality assurance.

The U.S. Coast Guard as well as state officials continue to investigate the grounding on Bligh Reef, the same well-marked marine hazard the tanker Exxon Valdez struck in 1989.

No injuries were reported from the mishap. Crowley has relieved the captain and second mate pending the outcome of the investigation.

The probe involves interviewing the tug's six-member crew and analyzing data on the path of the tug prior to the ground-

ing, said Coast Guard Petty Officer David Mosley. The Coast Guard also is reviewing the performance of its vessel tracking center in Valdez.

The 136-foot Pathfinder is an older tug used mainly for helping oil tankers berth at the Alyeska Pipeline Service Co. terminal. Several more powerful and more modern tugs are used for tanker escort.

The Pathfinder also was used for jobs such as scouting for dangerous ice in the Prince William Sound shipping lanes. It had just completed a scouting run and was headed back to port when it hit the reef, the Coast Guard said.

The tug sustained severe keel damage in the collision with the rock.

Crowley has sent a replacement tug, the Guardian, to replace the Pathfinder, which remains moored at the Valdez Container Terminal under 24-hour watch. ●

Contact Wesley Loy
at wloy@petroleumnews.com



Pathfinder docked at Valdez

ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION

E&P

EPA proposes approving Shell air permit

The U.S. Environmental Protection Agency proposes to approve an air quality permit for Shell's planned exploration drilling operations in the Chukchi Sea, the Alaska Department of Environmental Conservation announced Jan. 7. The permit has been modified to address issues raised by comments on an initial version of the permit, and also incorporates changes requested by Shell, ADEC said.

Changes to the earlier permit version would result in a reduction in emissions, ADEC said.

"The permit would allow Shell to operate the Frontier Discoverer drillship and support fleet for multiyear exploratory oil and gas drilling within Shell's current lease blocks on the Chukchi Sea outer continental shelf, 25 miles beyond Alaska's seaward boundary," ADEC said.

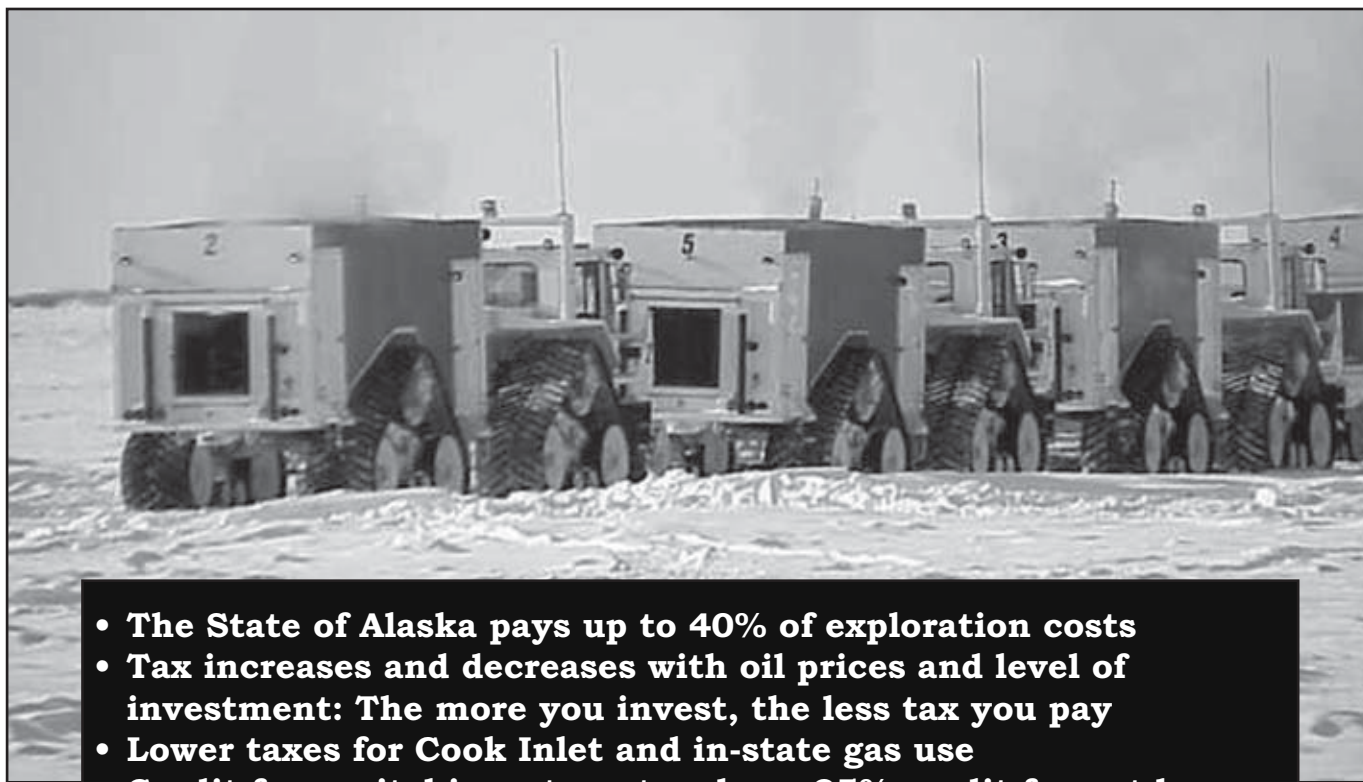
Shell plans to drill up to three exploration wells in the Chukchi Sea during the 2010 open water season, and the company has applied for a major prevention of significant deterioration air quality permit, rather than a minor permit, for the drilling. The approval of an air quality permit is a critical requirement for Shell's planned operations.

EPA has scheduled a public hearing in Barrow on Feb. 16, to receive public comments on the new proposed permit, with teleconferencing from the villages of Wainwright, Point Lay, Point Hope and Atkasuk. Public comments by mail, e-mail or audio recording must be submitted by Feb. 17, ADEC said.

—ALAN BAILEY

"For someone new to the state or for a company that does not already have a large production base ... credits for capital investment and the credit for net operating losses are very advantageous."

Savant Resources, 2009



- The State of Alaska pays up to 40% of exploration costs
- Tax increases and decreases with oil prices and level of investment: The more you invest, the less tax you pay
- Lower taxes for Cook Inlet and in-state gas use
- Credit for capital investments, plus a 25% credit for net losses

Alaska is successfully encouraging investment from companies that are new to the state, with the number of petroleum companies doing business in the state almost doubling between 2006 and 2008.

Legacy producers on the North Slope are investing in their own assets, leaving room for new players, as evidenced by Pioneer's Oooguruk (production started in 2008) and ENI's Nikaitchuq (expected to start production in 2010).

The past two years of lease sales on the North Slope successfully leased a total of 1,276,207 acres, all to smaller companies.

"[T]he state has been a good partner for new explorers."

(Brooks Petroleum Corporation, 2008)

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Canada clears Chinese oil sands purchase

Applies stiff conditions to large stake by state-run PetroChina; makes clear Canada eager to allow 2-way trade, resource investment

By GARY PARK
For Petroleum News

The Canadian government is opening the door to investment in its energy and mining sector by Asia's resource-hungry, state-run companies, but has left no doubt that the welcome mat does not constitute a free pass.

In approving PetroChina's offer of C\$1.9 billion for a 60 percent share of two Alberta oil sands properties, federal Industry Minister Tony Clement attached some stiff conditions to the deal with privately held Athabasca Oil Sands Corp.

AOSC has a networking interest in about 1.55 million acres of oil sands leases, including 100 percent of a core holding in the McMurray formation, and has estimated it could eventually turn these properties into developments yielding 500,000 barrels per day.

Clement said in a statement he was "satisfied that the investment is likely to be of net benefit to Canada."

"Our future prosperity relies on open markets and two-way trade and investment flows that will benefit Canada and Canadians."

Four months after PetroChina announced its offer, marking the largest direct investment in Canada's oil patch by one of China's state-run companies, Clement issued his approval of the purchase, which is now required, under recently introduced legislation, anytime a Canadian company with assets valued at more than C\$312 million is purchased by a foreign entity.

Careful consideration

He said PetroChina's plans, undertak-

Weran Jiang, who is director of the University of Alberta's China Institute, told the Calgary Herald that the PetroChina-AOSC transaction marks a turnaround in dealings between Ottawa and Beijing, regardless of Harper's refusal to back down in his criticism of China's human rights record.

ings and other information submitted by the company were carefully considered. That list included:

- A pledge to make capital expenditures in excess of C\$250 million for PetroChina's share of development expenses for the MacKay and Dover oil sands projects over the next three years.
- Increased employment in Canada for development of the two leases over the next three years.
- Maintaining a head office in Alberta for the operating companies associated with the projects for the next five years.
- Following AOSC's term as contract operator for the MacKay and Dover projects, PetroChina will ensure a majority of Canadians hold the senior management positions of the operating companies and will ensure those companies remain organized under the laws of Canada or the laws of a Canadian province.
- The investor will work with AOSC to identify opportunities to apply PetroChina's technological expertise to enhance the productivity and efficiency of the projects and to optimize the field development of the projects.
- PetroChina will not voluntarily delist

from the New York Stock Exchange or the Stock Exchange of Hong Kong without a substituted listing on another designed major stock exchange during the period when it controls the projects.

2007 guidelines

Clement's department, under guidelines issued in 2007, examines the "nature and extent" of control by the Chinese government, PetroChina's corporate governance and reporting practices, and whether acquired projects will function on a "commercial" basis.

Clement said that to "successfully compete in a globalized economy, (Canada needs) to attract international investment, which can create jobs, raise our level of competition and develop Canada's long-term economic prospects."

"Our future relies on open markets and two-way trade and investment flows."

Completion of Canada's foreign investment review process is seen as clear proof that a prolonged chilly period in Canada-China relations is thawing, helped by Prime Minister Stephen Harper's message to the Chinese in December that Canada believes the Asia-Pacific region is more important to its economic well-being than the traditional ties with the United States and Europe.

Transaction seen as turnaround

Weran Jiang, who is director of the University of Alberta's China Institute, told the Calgary Herald that the PetroChina-AOSC transaction marks a turnaround in dealings between Ottawa and Beijing, regardless of Harper's refusal to back down in his criticism of China's human rights record.

Jiang said that while the dollar figure associated with the AOSC purchase is "very small," it shows the Chinese recognize there has been a major policy shift that will lead to more resource and energy investment.

Clearing this major hurdle raises the prospect of other potential foreign buyers launching bids for small oil sands companies, such as OPTI Canada, UTS Energy and Ivanhoe Energy, which often struggle to meet their financial commitments in the absence of cash flow.

William Lacey, an analyst with FirstEnergy Capital, has said the interest demonstrated by PetroChina and the

Alain Auclair, head of investment banking for UBS Securities, said the C\$1.8 billion takeover of Harvest Energy Trust by state-owned Korea National Oil Corp. is further proof that Canada's resource and energy sectors are the "most susceptible" to merger and acquisition activity.

high price it offered for the AOSC stakes is stirring activity among investors.

He said the oil sands are the "domain of large companies," which can support the capital-intensive, long-term and high-cost needs associated with development. Phil Skolnick, an analyst at Genuity Capital Markets, said the PetroChina entry into the oil sands has made people realize that China does care about the resource and legitimizes the future of the vast deposits.

But Lacey noted that consolidation among oil sands companies has placed the best prospects in the hands of large, well-financed companies, significantly shrinking the number of opportunities.

He said China is not troubled by its near-term position when it is looking at the next 10 or 20 years to meet its demands.

Alain Auclair, head of investment banking for UBS Securities, said the C\$1.8 billion takeover of Harvest Energy Trust by state-owned Korea National Oil Corp. is further proof that Canada's resource and energy sectors are the "most susceptible" to merger and acquisition activity.

"Asian countries with access to capital or strong balance sheets can deploy cash quickly to seize opportunities," he said. "It's a trend we're going to keep seeing, especially for companies that might be under pressure from a balance sheet perspective."

Bob Schulz, a professor at the University of Calgary Haskayne School of Business, said he expects deals in Canada's oil patch will be more in the C\$1 billion-C\$2 billion range rather than blockbuster deals, giving new companies a foothold in long-term projects, but not enough to cause alarm in the United States. ●



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• EXPLORATION & PRODUCTION

December production down from November

Alaska North Slope production drops 1.6%, month to month; Endicott, Milne, Alpine, Prudhoe Bay all have reduced volumes

By KRISTEN NELSON
Petroleum News

Alaska North Slope crude oil production dropped 1.56 percent in December, averaging 688,765 barrels per day compared to the November average of 699,675 bpd. ANS crude oil production peaked in 1988 at some 2 million bpd.

The Department of Revenue said in its fall revenue forecast that for fiscal year 2009, which ended June 30, 2009, ANS production averaged 692,127 bpd. The department forecast an average of 658,762 bpd for FY 2010, which ends June 30, and 622,879 bpd for FY 2011, which begins July 1.

The department expects ANS production to stay above a 600,000-bpd average through FY 2016.

The BP Exploration (Alaska)-operated Prudhoe Bay field, the largest on the North Slope, had the biggest per-barrel drop, almost 7,700 bpd, and averaged 352,529 bpd in December, compared to 360,195 bpd in November, down 2.13 percent. Prudhoe Bay production includes the field's satellites: Aurora, Borealis, Midnight Sun, Orion and Polaris.

Department of Revenue figures show that as recently as FY 2000, Prudhoe Bay production averaged 571,000 bpd, with another 5,000 bpd from satellites. The department is projecting that by FY 2019 Prudhoe Bay production will average 198,000 bpd, with an additional 28,000 bpd from the field's satellites.

Production from the ConocoPhillips Alaska-operated Kuparuk River field, the second largest on the North Slope, was up slightly in December, averaging 145,167 bpd compared to 144,617 bpd in November, a 0.38 percent increase. Kuparuk production includes Tabasco, Tarn, Meltwater and West Sak, as well as production from the Pioneer Natural Resources Ooguruk field, which Revenue figures show averaged some 4,000 bpd in FY 2009. The most recent monthly data available for Ooguruk from the Alaska Oil and Gas Conservation Commission show total October production from the field of 265,829, an average of about 8,575 bpd.

Production at the ConocoPhillips

Alaska-operated Alpine field averaged 92,026 bpd in December, down almost 3,200 bpd from a November average of 95,213 bpd, a 3.35 percent decline. Alpine includes satellite production from Fiord, Nanuq and Qannik.

Production at Alpine began in 2000, and Revenue figures show it peaked at some 123,000 bpd in 2006 and averaged 106,000 bpd in FY 2009 — 63,000 bpd from the main field, 21,000 bpd from Fiord and 22,000 bpd from Nanuq. Qannik, a satellite accessed from the main field, is included in the Alpine production numbers.

The BP-operated Lisburne field averaged 35,564 bpd in December, up 10.3 percent from a November average of 32,236 bpd. Lisburne production includes Point McIntyre and Niakuk. In its fall forecast Revenue estimates some 36,000 bpd from these fields in FY 2010, declining to 15,000 bpd by FY 2019.

BP's Milne Point field averaged 27,895 bpd in December, down 5.21 percent from a November average of 29,427 bpd. AOGCC figures for October show about a third of Milne production coming from Schrader Bluff. Revenue's fall forecast projects that the field will average 29,000 bpd in FY 2010 and some 22,000 bpd in FY 2019.

The BP-operated Northstar field averaged 22,500 bpd in December, up 0.3 percent from a November average of 22,433 bpd. Revenue's fall forecast shows an estimated 20,000 bpd for the field in FY 2010, declining to 6,000 bpd in FY 2019.

The BP-operated Endicott field averaged 13,084 bpd in December, down 15.88 percent from a November average of 15,554 bpd. Revenue's fall forecast estimates Endicott production at 14,000 bpd in FY 2010, and 13,000 bpd in FY 2019.

The temperature at Pump Station 1 on the North Slope averaged minus 0.45 degrees F in December, compared to 0.31 F in November.

Cook Inlet production averaged 9,512 bpd in December, up 0.89 percent from a November average of 9,428 bpd. Cook Inlet crude oil production peaked in 1970 at more than 227,000 bpd ●

Contact Kristen Nelson
at knelson@petroleumnews.com

NATURAL GAS

FERC sets Alaska open season workshop

Staff of the Federal Energy Regulatory Commission will hold an open season pre-filing workshop at the Dena'ina Civic and Convention Center in Anchorage Jan. 12 from 1-5 p.m.

FERC said the workshop will provide interested parties an opportunity to learn about and discuss the procedures and process for commenting on and holding an open season. The workshop will include an explanation of FERC open season policy and Alaska open season rules by Richard Foley of the FERC staff, the lead certificate manager for Alaska projects.

Todd Ruhkamp, senior certificate analyst on the FERC staff, will provide an explanation of FERC's electronic records and filing system.

Questions and discussion will begin at 3 p.m.

FERC said the workshop will be hosted by the Alaska Department of Natural Resources and the Regulatory Commission of Alaska.

FERC enacted regulations for an open season for an Alaska gas pipeline project in 2005. Both Denali - The Alaska Pipeline LLC and TransCanada Alaska Co. LLC have said they intend to hold open seasons in 2010.

FERC open season regulations require each project sponsor to submit a detailed open season plan to FERC prior to conducting an open season for an Alaska natural gas transportation project. FERC said that after receiving a sponsor's open season plan it will issue a notice requesting public comments on the open season plan and explain the procedure for submitting such comments.

"Absent unusual circumstances, FERC will act on the open season plan within 60 days" of its submission, the agency said.

The pre-filing process, which has been initiated by both sponsors, is typically focused on FERC's environmental review, but "in this instance, the pre-filing process also includes FERC's review, approval and oversight of the project sponsors' open season."

—PETROLEUM NEWS

FERC said the workshop will provide interested parties an opportunity to learn about and discuss the procedures and process for commenting on and holding an open season. The workshop will include an explanation of FERC open season policy and Alaska open season rules by Richard Foley of the FERC staff, the lead certificate manager for Alaska projects.



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• EXPLORATION & PRODUCTION

New Nicolai Creek gas well goes on line

Aurora Gas has brought no. 11 well into operation and company applies for new PA and unit expansion at west Cook Inlet gas field

By ALAN BAILEY
Petroleum News

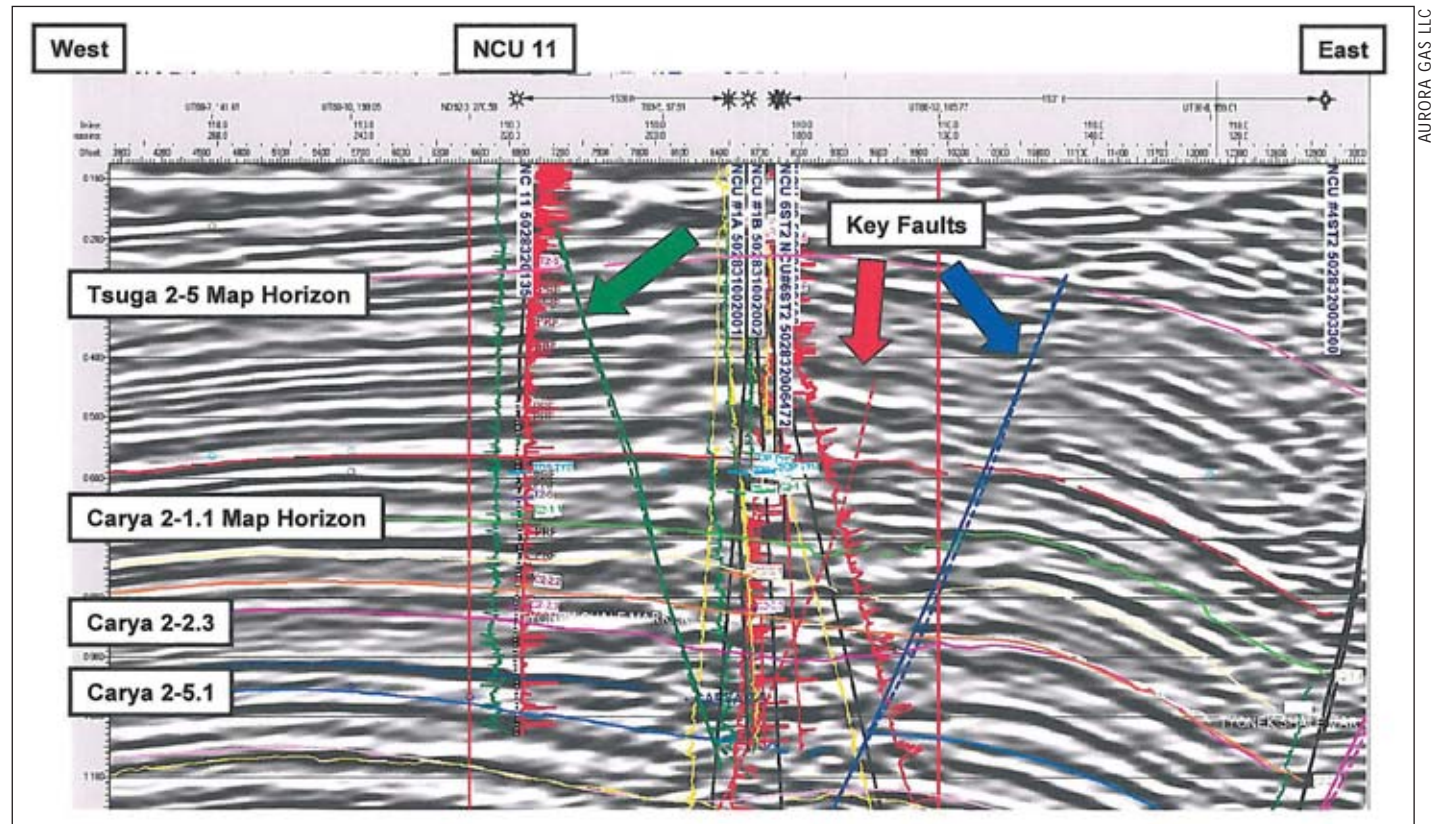
Independent gas producer Aurora Gas has brought on line a new well, the Nicolai Creek No. 11, in its Nicolai Creek gas field, at the northern end of Trading Bay, on the western coast of Alaska's Cook Inlet. The company has applied to the Alaska Department of Natural Resources to form a new west participating area for new gas pools accessed by the well, and has also applied to expand the Nicolai Creek unit to encompass the proposed new participating area. The No. 11 well and the gas pools that the well penetrates lie on the west side of the Nicolai Creek field, with the proposed participating area straddling the Trading Bay shoreline.

November startup

According to the application for unit expansion, Aurora drilled and tested the new well in the fall of 2009, with the well starting to supply gas into the Cook Inlet basin gas market on the afternoon of Nov. 27. The new gas pools are in sands of the Beluga and Tyonek formations and add 2.08 billion cubic feet of proved reserves and 568 million cubic feet of probable reserves to the Nicolai Creek field, Aurora said.

Bruce Webb, Aurora Gas manager of land and regulatory affairs, told Petroleum News Jan. 5 that the well was currently producing from a completion in the Tyonek, and that Aurora had just upped the production from 1.5 million to 2 million cubic feet per day. The well could produce at a rate of 5 million to 6 million cubic feet per day, were all producing horizons to be opened up, Webb said.

Aurora has applied to the Alaska Oil and Gas Conservation Commission to comingle production from both the Beluga and Tyonek formations in the new well, to achieve maximum recovery of gas from the Tyonek. The company told the commission that the Tyonek produces at a low rate that would likely, by itself, become uneconomic quite quickly. But, when comingled with Beluga production, the



A section from a 3-D seismic survey in the Nicolai Creek field shows the new Nicolai Creek No. 11 to the west and a cluster of older wells to the east. According to Aurora Gas, geologic faulting is a factor in isolating gas pools penetrated by the No. 11 well from gas pools to the east, in the older part of the field.

Tyonek production ought to remain viable for much longer.

Formed 1968

Texaco originally formed the Nicolai Creek unit back in 1968 and produced gas from the field from 1969 to 1977. Unocal and Marathon took over the field in 1988, but Aurora subsequently acquired a 100 percent working interest in 2000, re-starting production from the field in 2001 as part of a company strategy to develop known but non-producing Cook Inlet basin gas accumulations. Aurora said that a state royalty reduction program, introduced in 1998, was a major factor in the move to re-start the field.

The 2001 re-start used one of Texaco's original wells, but Aurora subsequently drilled and tested a sidetrack and a new well, and re-completed a second of the three original wells in the field.

In 2005, following two and a half years

of negotiations with Alaska's Division of Oil and Gas, the U.S. Bureau of Land Management and the Alaska Mental Health Trust Land Office, all of which had land and mineral rights in the Nicolai Creek area, Aurora obtained approval for unit expansion. In that expansion, the two discontinuous participating areas that the unit had originally encompassed were renamed as the north participating area and the south participating area. A third participating area, the Beluga participating area, was added to the unit. The Beluga participating area overlapped the south participating area but encompassed gas pools at shallower depths.

Transfer to state

The unit expansion also involved the addition of a federal BLM lease, AA-8426, to the unit. However, in 2008 BLM transferred that lease and an adjacent lease, AA-85789, to the state, with the state tak-

On the Web



See previous Petroleum News coverage:

"Aurora plans new well at Nicolai Creek," in June 7, 2009, issue at www.petroleumnews.com/pnads/971815424.shtml

"Alaska approves Beluga PA at Nicolai Creek," in March 27, 2005, issue at www.petroleumnews.com/pnads/87470311.shtml

ing over administration of those leases, as state leases ADL 391471 and ADL 391472, in June 2009.

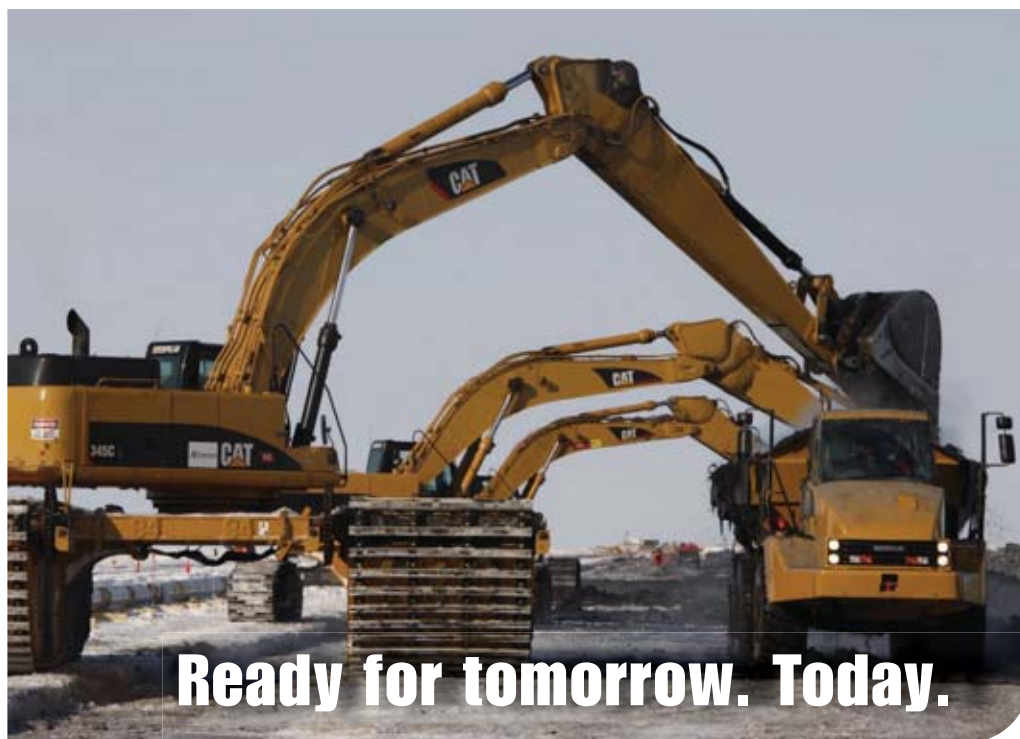
The south participating area includes land within the first of those transferred leases, with the proposed new west participating area including land within the second of the leases. And the entire unit now lies within state land.

In its latest application for a further Nicolai Creek unit expansion, Aurora said that the proposed west participating area contains gas pools in a combination structural and stratigraphic trap, in which stacked sandstone units of the lower Beluga and upper Tyonek are draped over a four-way closure anticline, on the west side of a major geologic fault.

3,509 feet

The Nicolai Creek No. 11 well was completed vertically to a depth of 3,509 feet, penetrating multiple gas-bearing Beluga sands at depths between 920 feet and 2,099 feet, and penetrating Tyonek sands at depths between 2,260 feet and 2,362 feet.

Seismic data and reservoir pressure data indicate that a geologic fault isolates the Beluga reservoir sands in the proposed new participating area from the equivalent reservoir sands in the adjacent, existing participating areas. And reservoir pressure data from the Tyonek sands of the proposed west participating area also indicate that these sands contain isolated gas, Aurora said. ●



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Time to take a stand on climate change?

Alaska legislators want information to determine a strategy on responding to climate change actions and the use of the ESA in AK

By ALAN BAILEY
Petroleum News

The stakes are high and the rhetoric climbing in the debate between those who want to apply the Endangered Species Act for the protection of wildlife potentially threatened by a warming climate, and those who question this type of protection as inappropriate and a threat to legitimate economic activity.

And in the latest twist in this particular issue, the Alaska Legislature is planning to schedule a conference that will enable the state to determine how to respond to attempts to list as threatened or endangered an increasing number of sea-ice-dependent Arctic species, and to help establish a policy position for the state's response to the climate change debate.

The Legislative Council, the legislature's administrative body, has issued a request for proposal, seeking a firm or individual to coordinate the conference and then steer a public relations campaign designed to follow up on the conference results, with funding coming from two separate \$750,000 state budget appropriations, both related to in-state climate change impacts, John Bitney, aide to Sen. John Harris, the chairman of the Legislative Council, told Petroleum News Jan. 4. The council anticipates holding the conference in March or April.

The RFP gives only very general guidance on the objectives of the conference, with the intention that the Legislative Council will evaluate what the different bidders propose, Bitney said.

Different perspectives

The concept of the conference is that experts with different perspectives on the climate change question will provide information to legislators about the facts relating to the climate-change debate, Eddie Grasser, staff to Rep. Harris and organizer of the conference initiative, told Petroleum News Jan. 5.

"I think it behooves the legislative process for legislators to hear from both sides and then determine for themselves on public policy issues which side is telling the truth," Grasser said.

The Earth's climate continuously changes and a number of scientists say that factors other than human activity are involved in current climate trends — one group of scientists has obtained data suggesting that global warming relates to changes in solar activity, Grasser said. And the listing of the polar bear as threatened under the terms of the Endangered Species Act, on the basis that receding Arctic Sea ice threatens the bear's future, flies in the face of data indicating that polar bear populations across the Arctic are higher now than they were 30 years ago, thus raising the specter of listing any species anywhere that might be adversely impacted by a warming climate, Grasser said.

Inappropriate tool

Some Alaska legislators think that the Endangered Species Act is an inappropriate tool to address climate change and that the ESA needs some restructuring to ensure that it "does something for endangered species" and is not just being used on speculation that an animal is under a climate-change threat, Grasser said. In fact a prime purpose of the proposed conference will be to help develop a strategy



U.S. FISH & WILDLIFE SERVICE

in support of the Alaska Department of Fish and Game officials who want to work with their counterparts in other states on the ESA question, he said.

"They're trying to get all 50 fish and wildlife agencies in each state to sign on to an agreement to recommend some technical changes to the Endangered Species Act," Grasser said.

see STAND page 11

Anchorage to assess Beluga whale listing

The Municipality of Anchorage has hired attorney William Stelle of law firm K&L Gates LLP to coordinate the municipality's response to the National Marine Fisheries Service designation of critical habitat for the Cook Inlet beluga whale, the beluga whale sub-species that NMFS listed in 2008 as endangered under the Endangered Species Act.

With the critical habitat area lapping against the Anchorage shoreline, the municipality has some concerns about the impact of the Beluga whale listing on a number of municipal activities, Municipal Manager George Vakalis told Petroleum News Jan. 6.

"The problem that we have is that we have so many different entities within the government itself that have permits to operate and discharge, that actually conduct operations in the water, that we wanted someone with expertise to assist us through the (critical habitat) comment period," Vakalis said.

Stelle, who has already been assisting the Anchorage Water and Waste Water Utility with its water discharge permitting, will now assist the municipality with storm drain permitting and with any issues that arise from ship movements, dredging and construction activities at the Port of Anchorage. He will make sure that the municipality's comments on the critical habitat designation address appropri-

see RESPONSE page 11

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OUR ARCTIC NEIGHBORS

Statoil drilling new well in Norwegian Sea

Statoil has received consent for exploration drilling in the Norwegian Sea with the mobile facility Ocean Vanguard, the Petroleum Safety Authority Norway said in a release Dec. 30. The Norwegian company plans to drill an exploration well 102 miles west of the island of Vega at 66 degrees north latitude. The water depth at the site is 1,155 feet. Startup is scheduled for the end of January, and the operation has an estimated duration of 47 days.

Ocean Vanguard (formerly West Vanguard) is a semisubmersible, third-generation drilling facility of the Bingo 3000 type, built in 1982. It is operated by Houston, Texas-based Diamond Offshore, which has an operations office in Stavanger, and receives technical and operational support from the company's office in Aberdeen.

—SARAH HURST

The Norwegian company plans to drill an exploration well 102 miles west of the island of Vega at 66 degrees north latitude.

Russian shipping company focusing on Arctic

Russia's largest shipping company, state-owned Sovcomflot, plans to start delivering oil and gas via the eastern route of its Arctic shipping lane in the summer, Sovcomflot's president and CEO, Sergey Frank, told Russian Prime Minister Vladimir Putin at a working meeting Dec. 26. The shipping will be arranged jointly with Russian nuclear icebreaker operator Atomflot, according to a release from Sovcomflot.

"The work is being carried out in cooperation with oil and gas companies which find the markets of the Asia-Pacific region to be most attractive," the release said. "Such voyages will contribute to gaining necessary experience in operating large tankers of the Arctic ice class along the Northern Sea Route with a view to arranging future regular marine transportation of hydrocarbons from the Yamal Peninsula and other offshore fields of the Arctic region."

Sovcomflot is positioning itself to be a national provider for the complex servicing of Russia's offshore oil and gas fields, specializing in operating in the harsh ice conditions of the Russian Far Eastern and Arctic seas, according to the release. More than 30 percent of the company's \$5.5 billion investment program for 2010-15 will be allocated to the servicing of Russia's oil and gas production. Sovcomflot intends to broaden the line of ships being built at the national shipyards by constructing large Suezmax-type tankers, Arctic ice-class LNG carriers and a supply fleet for servicing offshore oil and gas production.

—SARAH HURST



Gazprom CEO Alexei Miller at the new bridge crossing for the Obskaya-Bovanenkovo railroad.

OUR ARCTIC NEIGHBORS

Russian president hears from Gazprom

CEO of energy giant tells Dmitri Medvedev company's technology is innovative, especially on Yamal Peninsula in Arctic

By SARAH HURST
For Petroleum News

Reporting to Russian President Dmitri Medvedev, Gazprom CEO Alexei Miller was effusive about the state-owned company's technological successes. In his speech to the presidential commission for modernization and technological development of Russia's economy, Miller drew particular attention to Gazprom's projects on the Yamal Peninsula, the company said in a release Dec. 25.

"A vivid example of innovative approaches and unique technologies and equipment application is Gazprom's activities on Yamal, where a totally new giant gas production center for Russia is being constructed and equipped according to the latest achievements in science and technology," Miller said. "As part of the Yamal project innovative developments are being applied across the entire gas chain — from upstream to downstream," he said.

"In particular, to secure delivery of Yamal gas into the Unified Gas Supply System of Russia, the construction of the new-generation Bovanenkovskoe-Ukhta gas transmission is under way," Miller said. "This system, unparalleled in the world, is really a frontier gas project. To construct the system we are utilizing unique second-tone pipes of domestic origin that were manufactured to Gazprom's specifications. The pipes can resist pressure of up to 120 ata (atmospheres absolute) and can be operated in the harsh natural and climatic conditions of the far north."

Longest bridge above Arctic Circle

Another of Gazprom's achievements in Yamal was the construction of the bridge crossing for the Obskaya-Bovanenkovo railroad, Miller noted. "This is the world's longest bridge located above the Arctic Circle and has no analogues in bridge-building practice for the specifics of its structure or the conditions of its construction and operation," he said. "The bridge was installed over a very short period of time in the severe climate on the permafrost and marshlands."

Gazprom is innovative in the way it ensures the safe and efficient operation of the company's existing facilities, according to Miller. "A focus is placed on advanced methods of diagnostics and forecasting of technical conditions," he said. "Pursuant to Gazprom's order, pipeline diagnostic pigs and external automated scanners have been developed and are applied. Remotely controlled diagnostic tools are installed at compressor stations. These hi-tech items of equipment help us to determine the size of a defect in the most exact and prompt way, thus making a considerable contribution in enhancing the reliability of our gas transmission system."

The company has also developed and applied nanotechnologies for water purification and decontamination at the molecular level as part of its clean water environmental program, Miller said. Innovative technology for treating the gas pumping units' exhaust gases reduces their nitrogen oxide content as well as treatment costs, he said. ●

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continued from page 9

STAND

And another outcome of the conference may be a legislative recommendation for action by the governor, together with a proposed appropriation for that action, he said.

The state administration, concerned about the possible impact of the polar bear listing on economic activity in the state, has already sued the U.S. Department of the Interior over the listing — in a lawsuit filed in 2008 the state contended that, overall, the polar bear population is healthy and that federal officials have not considered the scientific evidence regarding the bears' ability to survive and adapt to changing climate conditions.

Strong objections

And on Dec. 30 the state filed strong objections to Interior's designation of most of the Chukchi and Beaufort seas, together with barrier islands and much Beaufort Sea coastal land, as polar bear critical habitat, a designation issued as a follow-up to the listing of the bear.

"By law, a critical habitat designation should balance the concern for the species with consideration for economic impacts," said Attorney General Dan Sullivan. "That has not been done here. Moreover, the designation should cover only those areas actually necessary for special protection."

"While the service has yet to provide an economic study of the impacts from its proposed decision, major oil and gas exploration and development efforts will, at best, be delayed by this designation," said Gov. Sean Parnell. "The service's overly broad critical habitat designation simply means more projects must jump through more regulatory hoops. Neither Alaska nor our nation can afford these job

continued from page 9

RESPONSE

ate topics and will also guide the municipality through the process of dealing with the beluga whale listing, while also developing a strategy for the municipality as the situation moves forward, Vakalis said.

The municipality has also requested that the public comment period for the critical habitat designation be extended

and that hearings on the critical habitat be held in Anchorage, Vakalis said.

But the real issue is the Beluga whale listing itself, rather than the critical habitat, he said.

"The thing that is really most substantial is the endangered species classification, because regardless of where the critical habitat is, you're still going to have to mitigate, whatever it is that you do, so it does not harm the beluga whale," Vakalis said.

—ALAN BAILEY

killing moves, nor can we remain so dependent on other nations for our energy supplies."

Need for protection

But the Center for Biological Diversity, the environmental organization at the center of moves to apply the Endangered Species Act to species perceived to be under threat from climate change, remains adamant that protection of biological diversity can be reconciled with economic well-being. Rebecca Noblin, a staff attorney with the center, told Petroleum News Jan. 6 that the move

by the state Legislature to question climate change science and the related use of the Endangered Species Act, and actions by the state administration against the polar bear listing, are wasting the state's money.

The impacts of climate change are already apparent in Alaska, she said.

"It certainly would be a wiser use of our money to figure out how we're going to address that, rather than fighting the science. I'd say it's a losing battle," Noblin said.

Referencing U.S. Fish and Wildlife Service reports issued in December,

Noblin said that the science indicates that polar bear populations are in decline (those reports say that the southern Beaufort Sea polar bear population is in decline and that the Chukchi Sea-Bering Sea population is believed to be following a similar trend).

Although it is important to tackle climate change on several fronts, it is also necessary to use the Endangered Species Act for its prime purpose, the protection of imperiled species from whatever threatens them, Noblin said.

And there is really no disagreement in the scientific community about greenhouse gas emissions being the root cause of global warming, she said.

But what about the economic consequences of environmental protection?

"People are trying to sort of create a false dichotomy between environmental health and economic health," Noblin said. "We are going to have to move away from fossil fuels. Now is the time to look at other options. There are certainly a lot of ways to both stimulate the economy and produce clean energy, and we should be looking in that direction." ●

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EXPLORATION & PRODUCTION



This winter's ice road to Badami follows an inland route that has enabled faster construction than last year's sea ice route.

Savant completes ice road to Badami

Savant Alaska has completed its 27.5-mile ice road from the eastern end of the North Slope road system to the Badami field, in preparation for the company's winter drilling program at Badami, Savant executive Greg Vigil told Petroleum News Jan. 6.

The company is planning to use Doyon rig 15 to complete the drilling of well B1-38, to test the Red Wolf prospect, an oil prospect in the middle Ellesmerian Kekiktuk formation, a rock unit equivalent to the oil reservoir in BP's Endicott field. Savant also plans to drill a horizontal sidetrack into younger and shallower Brookian rocks from the Badami B1-18 well, to evaluate the use of horizontal wells for oil production from the challenging Brookian reservoir of the Badami field.

The ice road, completed on Jan. 4, followed an inland route that enabled road construction to be finished 70 days earlier than the road on sea ice that Savant constructed in 2009, thus substantially increasing the length of the winter drilling window, Vigil said.

"One significant factor that contributed to our early, safe and environmentally compliant completion of the tundra winter road was the professionalism, responsiveness and cooperation of the various regulatory personnel at the Alaska Department of Natural Resources and the North Slope Borough in their review, processing and authorizations of the numerous permits, amendments and administrative approvals necessary to conduct the work," Vigil said. "Our contractors, CH2M Hill and Cruz Construction, also did an excellent job in constructing the road ahead of schedule and on budget."

Vigil said that Savant is keen to ensure that capital expenditure credits and net operating loss credits available under the state's ACES production tax are maintained or improved — the company views these credits as critical to the economics of its Badami project. However, the progressive tax rates under ACES would render the Badami work uneconomic, were it not for the fact that the Badami field infrastructure and export pipeline are already in place, Savant said.

—ALAN BAILEY

The ice road, completed on Jan. 4, followed an inland route that enabled road construction to be finished 70 days earlier than the road on sea ice that Savant constructed in 2009, thus substantially increasing the length of the winter drilling window, Vigil said.

EXPLORATION & PRODUCTION

Olgoonik, UIC to support Shell operations

Shell is partnering with Olgoonik Corp., the Native village corporation for the Chukchi Sea coast village of Wainwright, and Ukpeagvik Inupiat Corp., the Native village corporation for Barrow, to operate logistics bases in Wainwright and Barrow for Shell's offshore exploration operations in the open water season of 2010, Shell spokesman Curtis Smith told Petroleum News Jan. 4.

Shell plans to drill two wells in the Beaufort Sea and up to three wells in the Chukchi Sea in 2010.

Wainwright will act as a shallow-water logistics hub, serving Shell vessels involved in the company's offshore activities, while Barrow will be an aviation base, acting as a primary flight-crew change hub and as a base for Shell's search-and-rescue aircraft. Shell says that its Cougar helicopter can provide search-and-rescue capability from Barrow in both the Chukchi and Beaufort Seas.

"Local content is critical to our success in the Arctic," said Pete Slaiby, Shell Alaska vice president. "We have utilized the assets and expertise in these two villages

see SUPPORT page 13

• PIPELINES & DOWNSTREAM

ExxonMobil joins critics of tariff hike

By WESLEY LOY
For Petroleum News

ExxonMobil is among parties lodging concerns about Cook Inlet Pipe Line Co.'s steep tariff hike.

Steven Serpati, on behalf of ExxonMobil, filed a brief public comment with the Regulatory Commission of Alaska on Dec. 18, the RCA Web site shows.

"ExxonMobil objects to the proposed tariff increase," the comment said. "We request that the RCA review the justification, and the impact of the proposed 350% increase to the tariff. As a shipper on the line we need additional time and information to determine the validity of the increase."

ExxonMobil holds a 75 percent working interest in the Chevron-operated South Granite Point unit, according to the latest Alaska Division of Oil and Gas annual report.

RCA approves hike

The RCA, in a 12-page order issued Dec. 28, approved CIPL's rate increase, at

least temporarily, and invited oil producers or others to challenge it and possibly win refunds.

The order allowed the operator to start collecting \$14.57 per barrel of oil effective Jan. 1. It's a 259 percent increase over the previous rate of \$4.06.

Petroleum News asked ExxonMobil's Alaska spokesman, Bill Brackin, for an explanation of how his company put the rate hike at 350 percent as opposed to 259 percent. He was not able to reply by press time.

The RCA said that although the rate hike is "significant," it appears CIPL calculated it "in accordance with" a methodology established in a 2001 state settlement the commission accepted.

Texas-based CIPL operates a 20-inch pipeline that runs 42 miles from Granite Point southwest along the western shore of Cook Inlet to the Drift River Oil Terminal, which also belongs to CIPL. The pipeline was installed in 1966.

Chevron subsidiary Unocal owns half of CIPL, while Pacific Energy Resources Ltd. holds the other half.

Others complain

The RCA has received at least two other public comments critical of CIPL's rate hike.

Cook Inlet Energy, which recently bought oil and gas assets on the west side of Cook Inlet from Pacific Energy, questioned how CIPL calculated the tariff increase and accused it of "unduly speedy recovery of expenses."

Dan Donkel, an overriding royalty interest owner in Cook Inlet, also complained, noting among other things that he believes CIPL had insurance to cover the impact of last year's volcanic eruptions at Mount Redoubt. If so, that should temper the tariff hike, he said.

CIPL attributes much of its rate increase to the eruptions, saying they caused extensive damage, idled the pipeline for much of 2009, and forced costly measures to protect the Drift River Oil Terminal and the crude oil that was stored there.

J. Patrick Nevins, a lawyer for CIPL, told the commission: "The proposed rate simply provides CIPL the opportunity to recover its actual costs and a reasonable return." ●

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• GOVERNMENT

Salazar ends first year vowing reforms

US Interior Secretary says he'll announce reforms in how energy leases issued on federal lands, how endangered species protected

By JUDITH KOHLER
Associated Press Writer

Interior Secretary Ken Salazar started on the job a year ago pledging to clean up an agency hit by scandals and assailed by critics as under the sway of the oil and gas industry.

Starting his second year as head of the nation's biggest landowner, Salazar said he will announce reforms in how energy leases are issued on federal lands and changes in how endangered species are protected.

The Colorado rancher and former U.S. senator's actions on energy and endangered species won him praise and denunciation. The oil and gas industry has accused him of discouraging development on public lands, while conservationists see his second look at leases approved under President George W. Bush as a swing toward balance.

Environmentalists are suing to overturn Salazar's decision to remove wolves in the northern Rockies from the endangered species list, a decision proponents believe was warranted as the population grew to an estimated 1,600.

"It's been a tough year," Salazar said in a New Year's Eve interview with The Associated Press.

But, he said he feels good about the progress on the task he took on.

"What President Obama asked me to do when he brought me there was to reform the department and fix problems," Salazar said.

MMS: new ethics code

He started last January with a visit to the Colorado office of the Minerals Management Service where more than a half dozen workers were disciplined or fired in 2008 after being accused of using drugs, having sex with oil and gas industry representatives and accepting gifts. Wearing cowboy boots and a hat, Salazar introduced a new ethics code discouraging "even the appearance of impropriety."

"There's a new sheriff in town," Salazar said during a news conference near the wind-whipped foothills of Colorado's Front Range.

Part of the new agenda has been to move quickly to develop renewable energy on public lands while making sure the public gets a fair return on current mineral extraction. Salazar suspended most of the 77 oil and gas leases sold in a highly contested auction in the Bush administration's last days.

He first rescinded, then scaled back a lease offer for more research, development and demonstration oil shale projects in Wyoming, Utah and Colorado. In October, he announced an investigation into last-minute changes made by the Bush adminis-

tration that locked in royalty rates on thousands of acres of previously issued oil shale research leases on federal land.

But while Interior moves quickly to develop renewable energy on public lands, Salazar has insisted that natural gas is an important part of the country's energy mix.

Industry concerned

Industry groups claim the decisions are impeding domestic energy production. Jon Bargas of the Denver-based Independent Petroleum Association of Mountain States said about \$100 million worth of leases are on hold in Wyoming, Utah and Colorado because of formal protests and legal challenges.

"When Salazar was appointed, we issued a statement congratulating him because we knew he understood the importance of oil and gas development in the West," Bargas said. "We were somewhat surprised when we started hearing from some of our members about the slowdown."

Bargas acknowledged the backlog started building under Bush. Low natural gas prices and recession also have slowed drilling, he added.

So many oil and gas leases were challenged during the Bush administration because the emphasis was energy development at the expense of everything else, said Steve Torbit, a former federal wildlife biologist now with the National Wildlife Federation.

"Secretary Salazar is working hard to strike a balance to benefit all aspects," Torbit said.

Leasing reforms

In January, the Interior Department plans to unveil leasing reforms aimed at restoring confidence in the process for everyone, including the industry, Salazar said.

"I think the uncertainty that has been pervasive over the last several years on oil and gas leasing has been brought about because there's been a rush to lease," Salazar said. "We are not just about the business of letting the oil and gas industry run the Department of Interior."

Salazar said he hopes to make changes in the next several months that streamline the

endangered species process. He believes the Endangered Species Act gives federal officials enough flexibility to make it work better.

One wildlife advocate, though, said Salazar could help endangered species simply by following the law and relying on sound science. Nicole Rosmarino of WildEarth Guardians said with only two additions to the endangered species list the last year, Salazar is on pace to compile a worse record than his predecessors.

Decline in listings

"There are about 337 species that are candidates or have been proposed for listing," Rosmarino said.

Salazar's decision to uphold the Bush administration's decision removing the gray wolf in the northern Rockies from the endangered species list ignores concerns that the population hasn't recovered to the point that its survival is ensured, Rosmarino said.

The wolf was removed from protection in Montana and Idaho, where a total of at least 200 wolves were killed by hunters this fall.

Federal officials still manage wolves in Wyoming because they say the state's plan wouldn't adequately protect the animals.

"We were one of the most vocal critics of his appointment because of his spotty record on endangered species as senator and Colorado's attorney general," Rosmarino said.

Salazar said he is proud of his record in Colorado, where he also served as the state's

natural resources chief. He cited an agreement among Colorado, Nebraska, Wyoming and the federal government on use of the Platte River that protects endangered species.

And he believes the science on the gray wolf supported its delisting. His staff is working on ways to protect habitats and study the effects of warming temperatures on wildlife along with other issues of climate change. The goal is to go beyond "the number counting of how many species have we listed and how many have we not," Salazar said.

Lawsuit settled

The department will also introduce new initiatives with American Indians, Salazar said. In December, he joined Attorney General Eric Holder to announce a \$1.4 billion settlement of a long-running lawsuit over money owed to American Indians for leases overseen by the agency and a \$2 billion fund to settle other claims.

Salazar also said he wants to see the Statue of Liberty's crown reopened to visitors to show that the Interior Department, which manages the monument, is a department of all Americans. The crown was closed after the Sept. 11 terrorist attacks due to security concerns.

"I think there's a sense that somehow because we have a significant presence in the West, that we're only the department of the West," Salazar said. "The role the department plays touches everything that is the United States of America." ●

continued from page 12

SUPPORT

to support our Beaufort and Chukchi operations and both have proven excellent partners as we attempt to grow our Alaska operations."

In addition, UIC subsidiary Umiaq will provide onshore contingency services, under a \$15 million, five-year contract, while Shell is also continuing its 10-year contract with ASRC Energy

Services – Response Operations for offshore oil spill response. Umiaq will work in partnership with Alaska Clean Seas, the North Slope oil spill cooperative.

ConocoPhillips anticipates using Wainwright both as a base for small vessels and as a helicopter base in its early exploration of the Chukchi Sea, a ConocoPhillips spokeswoman told Petroleum News Jan. 6. ConocoPhillips plans to drill in the Chukchi in 2012.

—ALAN BAILEY



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continued from page 1

INSIDER

Alaska Gov. Wally Hickel.

—SARAH HURST

A view from Alaska

PETROLEUM NEWS ASKED state officials for responses to Miller's comments.

"Mr. Miller was speaking before a Russian audience and he is obviously proud of his company's accomplishments," said Kevin Banks, director of the Division of Oil and Gas within Alaska Department of Natural Resources.

"I attended the workshop in Alaska that Mr. Miller refers to in his remarks in which he shared some of those accomplishments," Banks said. "In his assessment of the Alaska experience in that workshop, I think he was unfamiliar with the advanced scope and extent of the cutting-edge Arctic technology employed by Alaska's oil and gas developers on the North Slope."

Deputy Commissioner of Natural



KEVIN BANKS

Resources Marty Rutherford suggested Miller didn't spend enough time in Alaska to become knowledgeable about Arctic development in the state.

"I had the privilege of meeting and visiting with Alexei Miller and other Gazprom board members when they visited Alaska in October of 2008. It was a very congenial and valuable discussion and I personally enjoyed it greatly, having spent time in the USSR in my youth," Rutherford said.

"However I find Mr. Miller's recent comments on our oil and gas producers' ability to develop Arctic projects inexplicable. The oil and gas companies working in Alaska are among the finest in the world, employing some of the best, and latest, technology," she said.

"Mr. Miller's visit to Alaska was somewhat brief and perhaps he didn't have the opportunity to become familiar with the technology employed in Alaska's Arctic. I'm sure any of our companies would be pleased to acquaint him with their practices if he chooses to visit Alaska again."

—KRISTEN NELSON



MARTY RUTHERFORD

PIPELINES & DOWNSTREAM

Alaska approves spill plan for BP tankers

Prevention and response outline covers backup tankers chartered to haul North Slope crude; state officials can't promise it'll work

By WESLEY LOY
For Petroleum News

Alaska officials have approved an oil spill prevention and response plan for extra tankers BP might charter to help haul North Slope crude out of the port of Valdez.

The approval from the Department of Environmental Conservation is good through mid-November 2014.

The spill prevention and response plan, commonly known as a contingency or C-plan, lays out how a company will act if a tanker leaks oil or experiences some other emergency. The plan outlines a chain of command and typically includes details on each covered ship.

BP Oil Shipping Co. USA had submitted its C-plan in late August.

Backup tankers

BP, which operates the nation's largest oil field at Prudhoe Bay and owns the largest stake in the trans-Alaska oil pipeline, normally moves its crude to West Coast refineries aboard ships operated by Alaska Tanker Co. of Portland, Ore.

Alaska Tanker has a fleet of four double-hull ships, each with a carrying capacity of 1.3 million barrels. But sometimes one or more of these ships is unavailable due to maintenance or other reasons.

That's why BP submitted the C-plan covering additional ships "for the rare event that ATC ships are not available to carry all of BP's Alaska oil," BP told Petroleum News in October.

Some people who commented on BP's C-plan told DEC they wanted details about the tankers BP might hire, including the names of the ships.

But the plan as initially approved covers no ships, so none are listed by name.

If and when BP spot charters a tanker, it must submit an amendment to the C-plan to cover that vessel, DEC said. All tankers must meet the same requirements such as crew training, on-board response equipment and towing gear.

The C-plan amendment must be approved "prior to the vessel entering state waters," DEC said.

No guarantees

Responding to public comments on the C-plan, DEC said its approval was "based upon the reasonableness of assertions and evidence that certain essential resources and practices are securely in place."

However, that doesn't mean the C-plan will work.

While DEC determined that BP's C-plan satisfied minimum requirements, the department said it "does not warrant" that the plan, even if fully implemented, "will result in complete containment, control or cleanup of any given oil spill."

DEC noted BP is subject to inspections and drills with or without prior notice to ensure spill response and equipment are prepared, and the department has the right to board chartered ships. ●

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ALASKA



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Stoel Rives expands corporate services in Alaska

Stoel Rives LLP said Dec. 14 that corporate attorneys William H. Timme and John D. Kauffman have joined the firm's Anchorage office. Timme has spent more than 35 years counseling mostly Alaska Native corporation clients. Over the years, Timme has helped his clients address a broad gamut of issues, from initially implementing ANCSA, to negotiating oil and gas and mineral exploration programs, handling net operating loss sales, advising clients regarding EVOS Trustee Council acquisitions and handling general corporate and transactional matters. Kauffman makes the move from the Stoel Rives Seattle office, where he has represented corporate management, investors and entrepreneurs on a variety of business and strategic issues over the last 10 years. Established in October 2008, the Stoel Rives Anchorage office provides local solutions for Alaska-based clients with interests in Alaska on corporate, energy, environmental, labor and employment, commercial litigation, intellectual property and white collar criminal defense matters. For more information visit www.stoel.com.



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Rain for Rent's PWQMS designed to be versatile

Rain for Rent said Dec. 30 that its Portable Water Quality Monitoring System is designed to help keep remote watch over discharge flow, and to ensure that the flow meets discharge requirements. The compact turnkey system within the PWQMS is capable of handling flow up to 1,000 GPM while simultaneously monitoring, data logging, and injecting chemicals or polymer as needed to adjust conditions in the flow. The PWQMS is designed with versatility in mind; the most common parameters monitored are pH and turbidity, but the system can be designed to monitor many constituents, like DO and ORP, by changing the input sensors. All information is recorded and can be sent to your PDA or computer for remote notification, allowing you to verify flow is meeting discharge requirements at all times. For more information visit www.rainforrent.com.



ExxonMobil contributes \$1.8 million to schools

ExxonMobil said Dec. 30 that through its Educational Alliance Program it has awarded \$1.8 million to schools. *see OIL PATCH BITS page 17*

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

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continued from page 1

EXTRA

ten and oral arguments months ago, and they have been awaiting a decision since Gleason took the matter “under advisement” last July.

Close observers of the case predicted a decision would come by the middle of January — that is, right about now.

‘High-level summary’

But two days before Christmas, lawyers for ExxonMobil dropped a surprise in the case file, which otherwise hadn’t stirred for months.

It was a motion to “supplement” the record on appeal with some late-breaking news of ExxonMobil’s progress on its limited development project at Point Thomson.

The filing included a five-page affidavit from ExxonMobil’s Alaska production manager, Dale Pittman.

Although state Natural Resources Commissioner Tom Irwin, in April 2008, issued a decision terminating the unit and rejecting ExxonMobil’s latest plan of development, the following January he allowed the company to keep two of the 31 expired leases on its promise to drill a pair of wells.

ExxonMobil’s lawyers as well as Pittman, in his affidavit, assert that Irwin’s principal basis for his April decision was that the company and its partners “could not be trusted” to carry out the plan of development, which involves cycling natural gas to produce condensates.

But over the past year, ExxonMobil has shown “we are willing to and, in fact, are fulfilling the commitments” made in that plan, Pittman’s affidavit says.

He goes on to sketch out a “high-level summary” of recent drilling and other activity aimed at bringing Point Thomson on production by the end of 2014, Pittman said.

Some of his major points:

- Early in 2009, more than 60 miles of ice road was constructed, and a drilling rig was moved from Deadhorse to Point Thomson in April. The company has completed partial drilling of two wells — a producer and an injector — and is on schedule to complete and test both holes by year’s end.
- Between July and October of last year, contractors completed 120 barge runs from the Prudhoe Bay West Dock to

the Point Thomson central pad, delivering more than 30,000 tons of fuel, equipment and supplies to support the drilling. In addition, 14,000 barrels of drilling waste was hauled away.

- The U.S. Army Corps of Engineers has begun work on an environmental impact statement for the Point Thomson development.

- ExxonMobil has conducted “significant engineering work” for production facilities to be installed at Point Thomson.

- The company is on schedule to drill a minimum of five wells and commence production by year-end 2014.

- The project owners have invested more than \$300 million to date.

‘Trickle of production’

ExxonMobil’s lawyer on the Point Thomson case, Doug Serdahely of Anchorage, put in the motion to add Pittman’s affidavit to the record for the judge’s consideration.

Serdahely should know something about the thinking of a Superior Court judge, having once been one himself during the 1980s.

He cited court rules that allow adding materials to the record “for good cause.”

Lawyers for the state, however, urged Gleason to disallow the Pittman progress report on the “alleged” development activities at Point Thomson.

“This case has now been ripe for decision for over five months. It would be extraordinary to supplement the record with new factual materials at this time,” the state’s lawyers said in a Jan. 4 filing.

They dispute ExxonMobil’s contention that lack of trust was why Irwin rejected the plan of development as a cure for breach of the Point Thomson unit agreement.

Irwin indeed was concerned the oil companies “would pull the plug on their proposed development plan at some future date, as they had done repeatedly in the past,” the state lawyers wrote.

But ultimately, he rejected the plan “because it was not in the public interest,” they said.

ExxonMobil has said its plan will achieve 10,000 barrels a day of production.

The commissioner was concerned about whether the companies would keep a commitment to increase output “as opposed to sitting on a minimal trickle of production in order to hold leases,” the state lawyers wrote.

Even if taken as entirely true, the Pittman affidavit “only demonstrates one year of progress,” with drilling begun — but not finished — on just one producer well, the lawyers argued.

“The affidavit does not definitively demonstrate” that the oil companies will finish drilling all wells, build production facilities and a pipeline, or begin production in 2014, they said.

If the Pittman affidavit is added to the record, the state deserves a chance to counter because “there is significantly more to the story of recent events,” the state lawyers add.

For example, they cite contradictory statements from ExxonMobil as to whether it intends a five-well or a nine-well drilling program.

And the state lawyers cite “significant doubt” as to whether the oil companies will actually expand production. Their proposed production facilities “could not be scaled to handle increased production of fluids much beyond 10,000 barrels a day,” the lawyers said, noting expensive new compressors would need to be installed.

Because of the potential for time-gobbling back-and-forth arguments, the judge should avoid “opening this can of worms,” the state lawyers argued.

High-stakes case

Development of Point Thomson long has been a goal of frustrated Alaska politicians, and for good reason. The field

holds an estimated 8 trillion cubic feet of natural gas — nearly a quarter of all the known gas reserves on the North Slope — plus hundreds of millions of barrels of oil.

Production of such resources would mean potentially billions of dollars in tax and royalty revenue for the state, plus a substantial number of jobs.

But ExxonMobil and other stakeholders at Point Thomson have pointed to the lack of a gas pipeline and the extreme technical challenges of tapping the high-pressure reservoir as reasons why one of North America’s richest undeveloped fields hasn’t produced since its discovery in 1977.

Although Irwin has cleared ExxonMobil to drill on two leases, the overarching question before Judge Gleason is whether the state was right in terminating the Point Thomson unit.

The unit designation is extremely important. Unitization is the glue that binds together leases with different owners, ensuring orderly and efficient field development. Significantly in this case, it allows companies to retain otherwise expired leases.

If ExxonMobil, BP, Chevron and ConocoPhillips win their appeal and defeat the state’s unit termination, it would give them a huge boost toward hanging onto Point Thomson and controlling its development.

A state victory, however, would affirm its power, potentially clearing the way for a resale of Point Thomson acreage.

An even bigger consideration for the state is its relationship with industry and its ability to call the shots on development of Alaska’s natural resources.

A defeat in the Point Thomson case would suggest state officials must demand much stronger development commitments from companies before approving oil and gas units. ●

Contact Wesley Loy
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NOMINATIONS

On heels of JRP report

The call was issued right on the heels of the Joint Review Panel report that gave solid backing to Mackenzie Gas Project plans to develop Mackenzie Delta gas reserves, seen by many as the essential first step toward opening a new energy basin.

The three-year delay in the JRP’s work has been blamed by many industry leaders for causing a virtual shutdown of northern exploration activity in recent years and only limited interest in securing exploration licenses in the region.

Although the MGP has still to clear other approval phases before the partners decide whether to proceed with construction, the JRP report is reason to believe the project is still drawing breath.

Whether that translates into an industry desire to make fresh work commitments to Canada’s North is another matter.

—GARY PARK

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OIL PATCH BITS

ed \$1.8 million in grants this year to 2,400 schools to enhance math and science programs across the United States. It is the 10th consecutive year for the program, which has provided grants to K-12 educational institutions in 42 states and the District of Columbia. Local schools are eligible to apply for Educational Alliance grants by partnering with their nearby Exxon or Mobil branded retailer, the vast majority of which are independently owned and operated. Since 2000, the program has contributed

more than \$18 million to local schools through Exxon and Mobil retailers. ExxonMobil is a long-standing supporter of math and science education, which includes a \$125 million commitment to the National Math and Science Initiative in the United States. For more information visit www.exxonmobil.com/community.

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



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The reaction

Reaction to the Joint Review Panel Report in statements or comments to Petroleum News, Reuters, the Globe and Mail and the Calgary Herald:

- Pius Rolheiser, spokesman for lead partner Imperial Oil:
“The proponents are pleased that the JRP has concluded that the project should be allowed to move forward with appropriate measures to mitigate the potential impact.”
- Michael Miltenberger, Northwest Territories Environment and Natural Resources Minister:
“The entire focus has been on the JRP getting that piece done and everything else was secondary until ... we knew which way they were going to go and if there was going to be clarity. I anticipate that work will begin anew to deal with that particular issue.”
He said there were no big surprises in the 679-page report.
The objective now is to “apply ourselves thoroughly over the next few months to keep this process moving at a much more timely pace,” Miltenberger said.
- Bob Reid, president of the Aboriginal Pipeline Group, which has an option to acquire a one-third equity stake in the pipeline:
He said that a JRP recommendation that the Canadian government steer natural gas to companies who want to use the fuel to replace dirty energy sources such as coal and away from the oil sands is “interfering in free-market principles.”
He said governments have “tried that in the past in other commodities and I don’t think it works. Let the free market prevail.”
Reid said the federal government’s offer of C\$500 million for a Social Economic Impact Fund and its willingness to help build infrastructure along the pipeline route, amounts to cash support, but insisted that would not be “unlike other large infrastructure projects in Canadian history.”
- Pat Boswell, president of International Frontier Resources, which has been active in the NWT over the past decade:
“The JRP report is an important step in opening the potential of Canada’s northern frontier hydrocarbon basins. However, there are still many hurdles to cross before construction of a pipeline begins.”
- Derek Evans, chief executive officer of Pengrowth Energy Trust:
If pipeline construction begins in the next couple of years, it could exacerbate the surplus of gas expected to hit North American markets, he warned, suggesting the MGP may not be needed for another decade.
- Kevin O’Reilly, director of Alternatives North, which has raised concerns about the impact on land and people:
“We didn’t get everything that we had wanted. The panel recommended that the full environmental management system for the Northwest Territories should be implemented as it was negotiated in land claims agreements and federal legislation. That’s something that people have been fighting for.”
- Lindsay Telfer, director of the Sierra Club of Canada’s Prairie region:
“The new federal laws and policies the JRP recommends would mean that Mackenzie gas would be used to transition to a low-carbon economy instead of fueling or augmenting dirty energy projects, such as coal and tar sands.”
- Steven Paget, an analyst with FirstEnergy Capital:
“It’s relatively straightforward and positive for the JRP to issue the go-ahead it did. I think the NEB is likely to give the 176 recommendations fair consideration. But the detailed cost analysis to implement the recommendations has yet to be determined.”
- Bob Hastings, an analyst with Canaccord Adams:
“Right now, unless there’s a significant change in the outlook on energy, I don’t see (the MGP) happening. I would not expect to see this pipeline constructed within the next decade.”

—GARY PARK

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MAC REPORT

Imperial not commenting

For now, lead partner Imperial is not prepared to comment on any of the specific recommendations.

“Given the length and detail of the report, it’s tough to comment in detail,” Imperial spokesman Pius Rolheiser told Petroleum News.

“We at Imperial will be working over hard over the next several weeks to assess in detail the impact of the (JRP’s recommended) measures on a potential project and provide comments to the NEB,” he said.

But Rolheiser did take issue with those who characterized the JRP’s conclusions as a green light for the MGP.

“It is important to bear in mind while the JRP report is a positive step, it is only one of a number of steps. The report is significant and a necessary step, but it is certainly not a green light,” he said.

Even if the NEB adds its backing to the application in September that “could theoretically give the proponents approval to build,” but neither would that amount to a green light, Rolheiser said.

However, he did concede that without NEB approval the MGP will not proceed.

Dialogue continuing

In addition to the work of regulatory agencies, the MGP partners are continuing a two-year “dialogue” with the Canadian government on government fiscal terms for a pipeline, which Rolheiser would only say is “ongoing.”

Imperial is also seeking access and benefits agreements with two holdout First Nations — the Sahtu and Deh Cho — whose territories cover more than 40 percent of the total pipeline route in the Northwest Territories.

Rolheiser said the goal is to have “fully signed, ratified agreements in place” with all of the aboriginal communities before a final corporate decision is made.

For now, Imperial will not be drawn into updating the MGP’s projected cost (last formally pegged at C\$16.2 billion in spring 2007), estimating how much the partners have spent on design, engineering and regulatory work (last put at about C\$500 million a year ago), or, least of all, speculate on when gas might ever flow from the Mackenzie Delta, if regulators,

governments and the partners do give a final “green light” (although the NEB has suggested that 2017 would be the earliest feasible startup date).

Report the immediate challenge

The immediate challenge for the MGP proponents is getting to grips with a JRP report that is sweeping in its scope and consequences.

There is some comfort to be drawn from the JRP’s bottom-line conclusion that the project “if built and operated with full implementation of the panel’s recommendations, would deliver valuable and lasting overall benefits and avoid significant adverse environmental impacts.”

“The proponents’ mitigations and enhancements, the measures governments would put in place, and the panel’s recommendations would, in combination, mitigate adverse impacts, reduce the risk and enhance the opportunities.

“The panel states that these three components would provide the foundation for a durable and sustainable future in the Mackenzie Valley and the Beaufort Delta regions, adding that this future would be a better one than a future without the project.”

Key conclusions, recommendations

Some of the key conclusions and recommendations in the JRP report covered:

- Future expansion of the Mackenzie Valley pipeline capacity:

The panel estimated that additional discoveries in Canada’s northern regions could see the pipeline expanded from its initial design capacity of 1.2 billion cubic feet per day to 1.8 bcf per day with the installation of 11 additional compressor stations and other facilities.

The JRP said the “common element” during its hearings was that the MGP would lead to further developments, which might “encompass the full development of a national gas exploration, development and production industry; for others, full exploitation of the oil and gas resources of the NWT, including the Beaufort Sea; and for yet others, the general industrialization of the North.”

But the JRP emphasized that moving beyond 1.2 bcf per day would require another round of regulatory review and approvals.

The current application involves a 30-inch mainline, stretching 720 miles from Inuvik into northern Alberta.

Future developments a concern

The JRP noted that many of the concerns it heard related to uncertainty “about future developments that might follow” from the existing project.

- Equity impacts:

If the MGP were not to proceed, the existing disparities between regional centers and small communities in the NWT would “continue and perhaps deepen.”

By applying the JRP recommendations, the MGP might “have a mixed impact on the reduction of territorial, regional and community disparities based on proponent commitments and certain established government measures.”

- Impact on the natural environment:

The JRP said the construction and operation of a “buried non-ambient temperature gas pipeline in a permafrost environment has no direct precedent in North America.”

“It could thaw frozen ground and freeze unfrozen ground, destabilizing terrain and disrupting water courses,” posing distinctive engineering and environmental challenges.

But the JRP said it was “largely confident in the proponents’ understanding of

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MAC REPORT

the engineering challenges related to the project and in their design approach to addressing these challenges.”

“Even if there were to be an accident or malfunction, such as a pipeline rupture or well blow-out, the environmental impacts would likely be localized and short-lived,” the report said.

Polar bear plan

- Marine and aquatic environments:

The JRP said it was concerned that expansions in throughput beyond the 830 million cubic feet per day which would flow from the three anchor fields posed an uncertain impact threat, which would increase with the pace and scale of future developments, particularly offshore.

As a result, the JRP recommended establishment of a range plan for southern Beaufort polar bears and a marine mammal protection plan.

It said no significant adverse impacts on fish and fish habitat were anticipated if the proponents’ proposed mitigation was implemented based on an agreement with Fisheries and Oceans Canada.

In the JRP’s view, if the MGP does not proceed it is “unlikely that either the conditions of social well-being or the provision of health and social services” in the project review area would improve.

- Greenhouse gases:

The JRP said it was confident that commitments made by the proponents along with its own recommendations could result in further GHG reductions during the construction and operation phases.

But it noted that upstream emissions represented only a small percentage of the total life-cycle emissions, acknowledging that some participants in the hearings were concerned that Arctic gas would be used as a fuel source in the Alberta oil sands, increasing global outputs of GHGs and contributing to climate change.

“The panel is not persuaded that gas from the MGP would in fact be used in the exploitation of the oil sands. Further, the panel sees no viable way by which specific end uses could be assigned to or excluded from project gas.”

The JRP chose not to recommend that

the MGP be required to offset its GHG emissions “at this stage,” although it has called for the development of national standards.

It also rejected any thought that mandating carbon neutrality or specifying preferred end uses for natural gas could be handled on a project-by-project basis.

The JRP argued that if the MGP were not to proceed it is likely that the foregone energy production “would be replaced by other energy sources to meet global demand” and there was no assurance that those sources would be less GHG-intensive than Mackenzie gas.

The panel said that for the NWT and the rest of Canada, the MGP is an opportunity and challenge to “achieve sustainability objectives associated with resource use efficiency and to enhance any future positive trends of emissions reductions directed at achieving international and national targets.”

Infrastructure long lasting

- Project legacy:

The JRP believes the long-term investment in MGP infrastructure would likely last much longer than the project itself, triggering more development of gas in the Mackenzie Delta and offshore, possibly the

Colville Hills area of the central NWT and the Eagle Plains and Peel Plateau areas of the Yukon.

The panel said “it is the pipeline infrastructure that holds the promise of continuing exploration and development and the possibility of sustained and durable economic activity throughout most of the project review area,” although it has called for ways to implement exploration and development “at an unrestrained pace.”

The operations phase of the MGP alone “would provide sustained benefits to the NWT for at least 20 years,” the JRP said.

- Social and cultural environment:

In the JRP’s view, if the MGP does not proceed it is “unlikely that either the conditions of social well-being or the provision of health and social services” in the project review area would improve.

It cautioned that the MGP could exacerbate current conditions without mitigation measures, but it credited the proponents with making “reasonable efforts to address these concerns.”

The JRP concluded that the MGP, over the longer run, would increase employment and personal income in the NWT and boost government revenues, contributing to personal, social and community well-being. ●

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PERMITTING

What makes sense?

“That concept of ‘best interest’ is now the way in which every agency goes about making its decisions,” Perkins said. “This permitting process is no longer just satisfying the procedural hoops, so that I can do what I want. It is the process of deciding what makes the most sense and convincing, not just the government agencies, but also your neighbors.”

Perkins cited a failed attempt at developing coalbed methane in the Matanuska and Susitna valleys in 2003-04 as an example of what can happen when a company does not pay sufficient attention to a project’s neighborhood — in that particular debacle community concerns about noise and the possibility of groundwater contamination nixed the coalbed methane development. Essentially the would-be developers had done the necessary permitting to address the legal property rights for the project without adequately considering the broader community perspectives regarding what was proposed, Perkins said.

“What we’re really talking about here

in terms of decision making, when it comes to any of these big projects, is the best interest,” Perkins said. “Is it in the best interest of the neighborhood to have this project go forward? Is it a good thing?”

Wide neighborhood

And the audience that a business needs to convince about the value of what it wants to do may turn out to be much wider than is immediately apparent. For example, as a place of national interest, Alaska has a “neighborhood” that extends far beyond its borders.

“Alaska’s resources draw attention and the decisions we make draw attention,” Perkins said. “And therefore we are part of a larger neighborhood.”

That means, for example, that every new project in Alaska is going to have to address the question of greenhouse gas emissions, in addition to the more local concerns such as any impacts on the livelihood of Native communities, or any interactions with endangered wildlife, he said.

And for resource extractive industries such as oil and gas, with those resources being finite, convincing a broad community that a project has sustainable value may prove challenging.

“We need to look at our projects making a positive impact that will continue beyond the life of those projects,” Perkins said. “We need to be able to convince our neighborhood that our project is sustainable in that way.”

Due diligence

With the task of persuading investors to put money into a project closely analogous to the task of persuading government regulators that a project is worthwhile, broadly similar due diligence is required for both tasks: A business that plans a project with a strong appeal to investors will likely find that it has done much of the spadework required for permitting, Perkins said.

“The manner in which anyone should approach permitting ... is to constantly be thinking about what is someone else going to be wanting to know about my project when it comes time for me to ask that someone else for money,” Perkins said. “It is actually a very easy way of thinking about permitting. ... Some of the projects that I’ve worked on in a variety of different ways have all confirmed this way of thinking for me.”

And a key issue both from an investment and a permitting point of view is the nature of the critical risks that a proj-

ect faces. Those risks need to be identified and addressed from a permitting perspective, while at the same time a prospective investor will need to be comfortable that any significant risks are being adequately managed.

Multidisciplinary team

The complex and far-reaching nature of today’s permitting, and the linkage between permitting and project due diligence, speak to the need for a multidisciplinary team that deals with both the due diligence and permitting aspects of a project, Perkins said. A team of this type can take a broad view of the project, rather than become too focused on the particular concerns of one or two specialists at the expense of perhaps missing some major project risk.

“It’s a task which is not just the environmental people dealing with ‘can this project be sited here?’ or ‘can this particular permit be acquired so that I can go across this salmon stream?’” Perkins said. “The due diligence task and the permit task that confronts almost any project now is much bigger than it was, much more complicated, much more iterative.” ●

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