## Mobile geothermal power

**United Technologies Corporation and Chena Hot Springs Resort teamed up to create a 280-kilowatt mobile geothermal power generator designed to make power from produced hot water and oil. The unit will be shipped to Quantum Resources in Jay, Fla., in May. The unit was on display as part of a geothermal conference held at the resort in April. For more on the event, see page 12.**

## Husky breaks industry leash

**HUSKY ENERGY HAS MARCHED to its own drummer for many years, ever since control of the company was taken over by Hong Kong’s wealthiest man, Li Ka-shing. Once a big community participant in its head office city of Calgary it has decisively thumbed its nose at that culture by not renewing its membership in the Canadian Association of Petroleum Producers, whose 130 member companies account for 95 percent of Canada’s oil and natural gas production.**

Although Husky offered no explanation for its pullout, a company spokesman said the move is a “deferral, not a cancellation. We’re looking at doing our own advocacy (with governments, stakeholders and special interest groups) and bringing it in-house.” He dismissed any suggestion that the decision stemmed from divisions within the industry’s main lobby group. CAPP could shed no light based on the letter it received from Husky, which was not signed by Chief Executive Officer John Lau, who has indicated he is personally close to retiring from the company. That left the field wide open to speculation, given that whatever rifts occur within CAPP they generally remain behind closed doors.

In fact, the Husky incident has no close parallel since CAPP refused to admit Petro-Canada while it was a state-owned company. But the timing is a setback for CAPP when it needs whole-

## Gloom over Mackenzie line

**Kvisle: project ‘may well not proceed,’ partly because of gas drilling in Alaska**

**By GARY PARK**

For Petroleum News

**F**altering progress through the regulatory thicket that has entangled the Mackenzie Gas Project is generating a grim message from Hal Kvisle, chief executive officer of TransCanada. Frustrated by the drawn-out approval phase — which he only half-jokingly told shareholders May 1 was “the greatest regulatory process that mankind has ever mounted” — he has made less and less effort to disguise his view that the MGP is in trouble.

“I confess to some pessimism on the Mackenzie project and it may well not proceed,” he told an industry conference in Houston three months ago. Kvisle raised that warning level on May 1 when he told TransCanada’s annual meeting that there is now a strong chance a gas pipeline from Alaska could overtake the MGP, while noting there is little downside to a pipeline that would generate jobs in Canada and support petrochemical projects in Alberta. “Five or six years ago, we were much more optimistic about the Mackenzie than about Alaska. … All the cards were stacked in Mackenzie’s favor at that point in time,” he said.

The regulatory process did not move ahead at

## Planning again on OCS

**Shell withdraws its Beaufort Sea exploration plan before submitting new plan**

**By ALAN BAILEY**

Petroleum News

A fter nearly two years in which, as a consequence of litigation in the U.S. Court of Appeals for the 9th Circuit, not a single Shell drill bit has ground its way into the Alaska Beaufort seafloor, the company notified the U.S. Minerals Management Service on May 6 that it was withdrawing its 2007 to 2009 Beaufort Sea exploration plan. The company says that it is about to submit a scaled-down plan for 2010, a plan that recognizes the concerns of North Slope stakeholders about the pace with which the company has been trying to pursue its drilling objectives.

“Over the last three years, Shell’s Beaufort Sea drilling objectives have become more focused with the acquisition and analysis of additional seismic data,” said Pete Shiahy, Shell’s Alaska general manager, in announcing the plan withdrawal. “As a result, the

## New finds in NPR-A

**Conoco reports Mooses Tooth oil; 5 other companies finish winter drilling**

**By ERIC UDRI**

Petroleum News

**“We are formulating plans to resume operations either this coming summer or next winter.”** — Savant executive Greg Vigil

**H**oonoPHillips on May 4 announced test results from two wells drilled in the National Petroleum Reserve-Alaska in recent winters: Pioneer No. 1 and the Rendezvous No. 2.

“Test production rates for these wells ranged from about 500 barrels of oil per day to as high as 1,300 barrels of oil per day of high API gravity oil” and gas production rates “averaged about 1.5 million cubic feet per day for each well,” the company said. ConocoPhillips drilled Pioneer No. 1 this past March. The company drilled Rendezvous No. 2 in early 2001 and returned to test the well last winter. The two wells are in the Greater Mooses Tooth unit, southwest of the Colville River unit and the Alpine field. ConocoPhillips isn’t planning to further delineate Pioneer or Rendezvous for the time being, the company said, adding that the two accumulations “will be pursued as possible satellite developments with processing at the Alpine facilities in the Colville River Unit.”

The Bureau of Land Management approved the

## Exploration & Production

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  - “We are formulating plans to resume operations either this coming summer or next winter.” — Savant executive Greg Vigil
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Brooks Range Petroleum applies to form Beechey Point unit

Unit would cover 25 leases in the Gwydyr Bay region north of Prudhoe Bay, site of previous oil discoveries hampered by economics; first oil from 52,877-acre area could be as early as 2013

By ERIC LIDJI
Petroleum News

A joint venture of independents is proposing to form a unit north of Prudhoe Bay.

Brooks Range Petroleum Corp., the local affiliate of Kansas-based Alaska Venture Capital Group, filed an application with the state Department of Natural Resources on April 27 to form the Beechey Point unit from 25 leases in the Gwydyr Bay region.

The proposed 52,877-acre unit would cover state land and water long known to hold several smaller oil deposits, but previously considered uneconomic because of high costs.

"Development of just one of these reservoirs would be uneconomic, however, developing more than one at the same time from the same pad and infrastructure offers synergies which allow a group of them to be developed economically," BRPC wrote in filings.

The company said it expects to recover between 5 million and 10 million barrels of oil from the various reservoirs, figures that could increase with future exploration success.

BRPC is asking the state to divide the proposed Beechey Point unit into five separate blocks. In a plan of exploration accompanying the unit application, the company is proposing to drill a well in each of the five blocks between July 2011 and July 2019.

The company anticipates first production could come as early as January 2013.

BRPC is still learning about the region.

The company is permitting the North Shore No. 3 exploration well, which it plans to drill in the winter of 2010. "If successful, the proposed North Shore Development Project can be sanctioned for development," BRPC wrote.

The company is currently involved in legal proceedings with a partner that could delay drilling and development work. The company wrote, "If working interest owner approval is not obtained for the drilling said well in 2010, then the well will be drilled in 2011."

Oil long known in region

Developing Gwydyr Bay means solving a riddle almost as old as North Slope production.

At least 15 wells have been drilled in the area around the proposed Beechey Point unit, starting with Point Storkersen No. 1, drilled in April 1969 by Hamilton Brothers, and ending with North Shore No. 1, drilled by BRPC in 2007 and tested in early 2008.

BRPC said previous wells tested at "respectable" rates up to 3,500 barrels per day, but "a cost structure founded on drill-sites capable of producing 100,000 bopd was not suitable for 'marginal' areas, particularly with commodity prices in the $20 to $30 price range."

"As a consequence, these accumulations lay dormant for many years."

The current attempt to develop Gwydyr Bay can be traced to 1995, when BP Exploration, ARCO Alaska and Exxon formed a partnership to explore the area north of Prudhoe Bay.

In 1997, BP drilled the Pete’s Wicked No. 1 well to the south of the proposed Beechey Point unit. The next year, BP and ARCO permitted a development plan for the region around Pete’s Wicked, but the companies canceled the effort after a drop in oil prices.

Pioneer Natural Resources picked up leases around Pete’s Wicked in 2003, and began permitting a development plan in 2004, but soon suspended the project. Last summer, Pioneer sold its three leases around Pete’s Wicked to the joint venture led by BRPC.

AVCG began looking at Gwydyr Bay soon after being founded in 1999. The company partnered with BP in 2001 to form the Sakonowyak River unit in Gwydyr Bay, but disbanded the unit in late 2003 before drilling an exploration well. At the time, the company said it couldn’t find partners to help it understand the unique prospect.

AVCG found the partners by mid 2006, creating Brooks Range Petroleum Corp. and hooking up with three other independents.
Differing views on clarity for RCA

Utilities, producers and the state weigh in on RCA proposal to develop a standard contract for Cook Inlet utility gas supplies

By ALAN BAILEY
Petroleum News

The big question is price when it comes to utility natural gas from Alaska’s Cook Inlet: High prices hit the pocketbooks of Southcentral Alaska consumers, while low prices deter gas producers from finding and developing new reserves.

And sitting in the middle of the tug-of-war between opposing gas supply perspectives, while faced with mounting concern over the ability of current gas production from the Cook Inlet to flow utility gas fast enough to meet consumer demand during the depths of the winter, the Regulatory Commission of Alaska has reached something of a gas price impasse, having rejected the pricing in all utility gas supply contracts presented for approval since 2005.

Although RCA does not regulate Cook Inlet gas production, commission approval of the supply contracts is required because gas pricing and other contract provisions become embedded in utility tariffs that RCA regulates; if the commission does not approve a contract, the relevant utility has to try to negotiate a more acceptable contract with the gas producers.

In the interests of some clarity that might resolve the pricing stalemate, the commission has proposed developing a standard utility gas supply contract that would set the expectations for RCA approval of new contracts. Essentially, RCA contract approval would be automatic if a contract were to conform to the RCA standard. And even if a utility and a Cook Inlet gas producer could not agree on terms that entirely meet the RCA stipulations, the standard contract would provide a basis for arguing the case for the noncompliant terms, some commission members have suggested.

RCA has asked for views on both the desirability and scope of the standard contract approach. And views have come aplenty.

Enstar

Enstar Natural Gas Co, the main Southcentral Alaska utility, whose new Cook Inlet gas producer, also questioned the advisability of opening an RCA docket to examine contract pricing and other contract terms, saying that reviewing the commission’s approval process and finding ways to support the Cook Inlet gas market would prove more productive.

“Marathon opposes price setting,” was the headline of an article published in Petroleum News on April 26, 2009, issue at www.petroleumnews.com/pnads/51300465.

On the Web


An article in the May 3, 2009 issue of Petroleum News titled “Chugach looking at backup contract” incorrectly listed the volume of a proposed contract between Chugach Electric Association and Aurora Gas. The contract would be for 700 thousand cubic feet, not 700 million cubic feet.

The article also erroneously referenced comments from Enstar. Enstar said the contract should be able to cover volumes between 34 million and 46 million cubic feet, not volumes between 34 billion and 46 billion cubic feet, as reported. Petroleum News regrets the errors.
Imperial Oil and TransCanada, key players in the Mackenzie Gas Project, are also emerging as key proponents of future oil sands development. Imperial Chief Executive Officer Bruce March has dropped the clearest hint yet that his company is on the verge of announcing corporate approval of the 300,000-barrel-per-day Kearl venture (a joint undertaking with sister company ExxonMobil Canada). Additionally, TransCanada CEO Hal Kvale told reporters May 1 that his company, which has already entered the realm of nuclear, thermal and wind power generation — is ready, willing and able to extend its reach beyond its traditional business, Canada’s largest regulated natural gas pipeline operator into delivering production from the Alberta oil sands to North American markets.

For March, a decision to proceed with Kearl would fly in the face of those who believe U.S. President Barack Obama is about to lead the charge on climate change and greenhouse gas emissions measures that could undermine imports of Canada’s oil sands crude. But March draws optimism from Obama’s visit to Ottawa in February. It is in the process of being acquired by Bow Valley Alaska Corp., which is in the process of being acquired by Dana Petroleum. Imperial’s board of directors, likely with-held company, said North West has “money in the bank and has been working away,” including hiring some quality employees. He said the key is the Alberta government’s planned bitumen royalty-in-kind program that will make the province’s share of raw bitumen available to any companies building upgraders in the province. "If we can provide the option for the province to make a lot more money (from the value-added end of the oil sands business) and we get a good contract, we’ll be able to finance off it,” he said.

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Companies take bold view of oil sands, while others rescope plans, rethink strategies; not fazed by Obama's environmental policies

By GARY PARK

Petroleum News

Imperial and TransCanada leading the charge

By GARY PARK

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Remediation money for Drew Point well

Dry hole drilled by federal government in 1978 on Beaufort Sea coast; bottom plug set, but diesel left in top 2,000 feet of hole

By KRISTEN NELSON

The Alaska office of the Bureau of Land Management will receive $37.4 million under the American Recovery and Reinvestment Act of 2009 for 30 projects in the state, and will use a portion of those funds to plug an abandoned well drilled by the federal government on the shore of the Beaufort Sea.

Overall, the Department of the Interior will invest more than $3 billion through President Obama’s economic recovery plan, the agency said, with $305 million dedicated to more than 650 BLM projects, most in the western states and Alaska.

Alaska’s share of the recovery funds will go toward habitat restoration; remediation of old oil well and mining sites; maintenance and upgrade of roads and recreation trails and facilities; and capital improvement projects including renewable energy upgrades, the agency said May 4.

BLM Alaska State Director Tom Lonnie said in a statement that much of the Alaska funding “will be spent in rural communities, which will help our state’s economy while we improve facilities, including recreation facilities, used by the public. These Recovery Act funds will also help us launch much-needed habitat restoration projects and remediate old wells and mining sites.”

Lonnie said BLM would start on the projects as soon as possible, with some project work beginning this summer after the competitive bid, grant or agreement processes are complete.

He said more specific project information would be added to the recovery.gov Web site as it becomes available.

Drew Point on coast

The Drew Point well on Alaska’s North Slope is on the list because of rapid shoreline erosion on the Beaufort Sea coast.

“If not remediated, this unplugged well threatens to contaminate subsistence resources, such as the bowhead whale, seal, walrus and fish, and threatened and endangered species, such as the polar bear,” BLM said on the Department of the Interior recovery investments Web page.

BLM said the Drew Point well is one of 136 exploratory wells drilled by the federal government from 1944 to 1982, the so-called “legacy wells,” many of which were left unplugged or partially plugged. BLM now has responsibility for the so-called “legacy wells,” many of which were left unplugged or partially plugged.

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Drew Point was drilled for the government by Husky Oil in 1978. The well, a vertical hole with a measured depth of 7,948 feet, is on the shore of the Beaufort Sea.

On the Web

BLM starts work on Atigurr Point well,” in March 20, 2008, issue at www.petroleumnews.com/pnads/29401299.0.shtml

“BLM wraps up work on East Teshekpuk,” in April 20, 2008, issue at www.petroleumnews.com/pnads/23333601.7.shtml


“BLM starts work on Atigaru Point well,” in March 22, 2009, issue at www.petroleumnews.com/pnads/23329864.10.shtml

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www.petroleumnews.com/pnads/2332864
than opening a docket to assess areas that are arguable outside of its jurisdiction and unlikely to result in useful precedent,” said David Riser, Marathon’s manager, North American natural gas marketing.

“…History has also taught us that regulation of natural gas pricing has had a disastrous effect on natural gas exploration and development — producers cannot make efficient economic decisions under threat of price controls or utility-type regulation.”

Moreover, it is impossible in the current volatile gas market to establish pricing that would necessarily be applicable in the future, a problem compounded by the differing service level requirements and differing demand levels of different utilities, Riser said.

**Conoco favors market dynamics**

Cook Inlet gas producer ConocoPhillips expressed similar views to Marathon.

“ConocoPhillips urges the commission to refrain from opening a regulations docket addressing natural gas pricing issues in a prescriptive manner that would inhibit investment,” said Dan Clark, ConocoPhillips manager of Cook Inlet assets “…The end goal of any regulatory endeavor should be one that enhances the development of indigenous resources, provides security of supply to Cook Inlet end-users and reliability of deliverability. ConocoPhillips believes that free market dynamics should be the first and primary control for the price of natural gas and regulation is generally inappropriate when alternative free market choices exist…Well meaning attempts at regulation often lack the flexibility to accommodate the shifting risks and rewards characteristic of complex multiparty agreements.”

**Armstrong needs viable prices**

Armstrong Cook Inlet LLC, a newcomer to the Cook Inlet gas industry, recently drilled a delineation well in the North Fork gas accumulation in the southern Kenai Peninsula and is now looking for a market for the North Fork gas, which is said to be the biggest problem of would-be independent gas producers in the Cook Inlet basin is market access with viable gas prices, especially given high swings in gas demand, high operational costs, low volumes of drilling and the lack of gas storage facilities in the Cook Inlet region, Ed Kerr, vice president of land and business development for Armstrong, told RCA.

“The best moving forward business plan is for utilities to become proactive in entering into gas contracts on terms that are acceptable to producers, in order to spur the development of gas reserves within the region,” Kerr said. “The RCA should approve gas contracts that have passed the scrutiny of the utilities, as the consequences of not doing so will soon have a devastating negative effect on the citizenry of Alaska, both in their ability to heat their homes with gas and in the cost of such a limited supply of gas.”

**Power utilities**

Chugach Electric Association, a major Alaska utility, has expressed its views about possible rate hikes for its customers.

“Chugach appreciates the commission’s effort to improve contract approval certainty for public utilities and gas suppliers in Cook Inlet,” Suzanne Gibson, CEA director for energy resources, told RCA. “We are in favor of the commission opening a regulations docket to address pricing issues and hope for wide participation by parties willing to articulate their views.

In addition to proposing regulation changes, the RCA docket might provide a basis for recommending changes to Alaska statutes, Gibson said. Any proposals coming from the docket need to be based on an analysis of the relationship between gas prices and factors such as contract duration, gas production availability, market availability and gas deliverability, she said.

A standard gas sales contract published by the North American Energy Standards Board could form the basis of an RCA standard contract, Gibson suggested.

Homer Electric Association, a Kenai Peninsula utility that expects to need its own natural-gas-fired power generation after 2014, also expressed support for the standard contract concept.

“HEA supports the commission’s vision of developing standard contract language or standard contract forms for use with natural gas supply contracts,” said C.R. Baldwin, attorney for HEA. “The proposed docket would appear to be an effective vehicle for developing such contracts, so long as the participants in the docket are fully representative of the suppliers and purchasers of Cook Inlet natural gas, and the contract language reflected a consensus of their views.”

**State of Alaska**

The State of Alaska submitted comments both from the perspective of the attorney general, as an advocate for the state’s residents, and from the perspective of the Department of Natural Resources, a landowner with an interest in maximizing the value of the state’s natural resources.

The attorney general’s office, while not opposing the concept of developing a standard gas supply contract, questioned whether the development of such a contract would necessarily resolve the core problems that surround the regulation of utility gas supplies in Southcentral Alaska, especially given the recent experience of RCA trying to impose a gas price cap and the complexity of essential contract features such as the payment of production taxes.

“A rulemaking proceeding may result in streamlined GSA (gas supply agreement) reviews. However, rulemaking proceedings will not displace the commission’s responsibility for adjudication of filed GSA proposals, nor does a rulemaking endeavor realistically promise resolution of the core difficulties experienced with Cook Inlet gas pricing issues,” said Chief Assistant Attorney General Patrick O’Tierney.

Marty Rutherford, deputy commissioner of DNR, voiced DNR’s concern about the decline in Cook Inlet gas deliverability. In the absence of a functioning market “in which the dynamics of supply and demand form the foundation of a liquid market,” gas pricing needs to take into account the cost to explore and produce new resources, Rutherford said.

Rutherford expressed her department’s willingness to participate in the development of a standard gas supply contract and set out a list of DNR gas contract expectations, including pricing indexed to current market prices in gas production basins; pricing that recognizes different service levels; and the avoidance of long-term, full requirements contracts.
FERC acts on 2009 rates for TAPS

Federal regulator orders public hearing on state, shipper protests once earlier challenge to 2008 interstate tariffs is resolved

By ROSE RAGSDALE
For Petroleum News

The Federal Energy Regulatory Commission has ordered an administrative law judge to help trans-Alaska oil pipeline carriers and shippers resolve a new dispute that is brewing over interstate shipping rates for 2009.

In an order issued April 29, the commission responded to a March 31 filing by ExxonMobil Pipeline Co. in which the carrier proposed to change its 2009 interstate shipping rate for its share of capacity on the 800-mile pipeline from Alaska’s North Slope to tidewater in Valdez to $4.01 per barrel, effective May 1. The change reflected an 86-cent-per-barrel reduction from the $4.87 per-barrel rate that ExxonMobil proposed for the 2008 calendar year on Jan. 1, 2008.

The commission ruled last year in a June 2008 order known as Opinion No. 502 that interstate shipping rates calculated using a method established in a 1985 court settlement were “unjust and unreasonable” and directed the pipeline’s carriers to use actual costs to determine interstate shipping rates for the years 2005-08.

On Jan. 28, 2009, the pipeline’s owners — BP Pipelines (Alaska) Inc., ConocoPhillips Alaska, Uteocal Pipeline Co. and ExxonMobil — filed a new interstate rate of $3.45 per barrel for calendar year 2008 in compliance with Opinion No. 502. But the State of Alaska and shipper Anadarko Petroleum Corp. protested the rate, claiming for various reasons that the rate was discriminatory or unjust and unreasonable.

On April 16, the commission issued an order in which it accepted the 2008 rate on an interim basis, subject to refund, and directed a FERC administrative law judge to hold a public hearing on most of the issues raised and to correctly calculate a 2008 interstate tariff for the pipeline.

The commission’s rulings will result in an estimated $640 million in additional oil production and tax and royalty payments flowing to Alaska coffers, according to state officials.

The carriers have appealed the commission’s April 16 ruling.

New issues in 2009 rate protests

Meanwhile, ExxonMobil in its March 31 filing proposed a rate change for 2009 that it contends complies with the commission’s directions in Opinion 502.

The state and shipper Anadarko protested the change, raising a number of issues, including some of the same concerns that they expressed about the carriers’ 2008 rates. The issues include whether the carriers used the appropriate depreciation period to reflect the remaining useful life of the pipeline; the costs of the carriers’ Strategic Reconfiguration Program, including its impact on rate of return which includes proxy group and capital structure issues; costs for dismantling and removal of the pipeline along with restoration of the pipeline right of way; operating expenses; throughput; and the uniform rate.

Anadarko also asked the commission to consolidate ExxonMobil’s filing with the pending 2008 compliance rate filing hearing. The state requested consolidation of the issues regarding the Strategic Reconfiguration Program and DR&R claims with Alaska’s protests of the 2008 tariffs on those same grounds and held an abeyance.

In response, ExxonMobil said complete consolidation of the two hearings is not appropriate because the 2008 compliance filing was based on actual costs for calendar year 2008, “the locked in period,” whereas its proposed 2009 rate is based on a 2008 base period, adjusted for known and measurable changes in the nine-month period ending Sept. 30.

Though Anadarko and the State of Alaska’s protests raised many of the same issues cited in the 2008 compliance rate proceeding, the commission concluded that there were different issues also to be determined in the 2009 tariff.

“We adhere to the (earlier) ruling on the life of the line, and set the other issues in this proceeding for hearing,” FERC said. “With respect to issues that overlap between the 2008 rate proceeding and this proceeding, we find that the hearing on the 2009 rate should await the determinations in the 2008 compliance rate proceeding, and the (administrative law judge’s) rulings in the aforementioned 2008 compliance rate proceeding shall apply here as well.”

Outcome hinges on 2008 rates

In the April 29 order, FERC accepted and suspended ExxonMobil’s proposed 2009 rate to become effective May 1, subject to refund, and ordered a public hearing to resolve the aspects of the protests that did not overlap concerns about the 2008 rates and to determine correct interstate shipping rates for 2009.

Because of new issues raised regarding the 2009 rate, the commission did not formally consolidate the proceeding with the 2008 rate proceeding. Instead, it directed that the administrative law judge who hears the case determine the best procedures for addressing the non-overlapping issues and how those issues should be resolved in light of findings with respect to the overlapping issues.

The commission also said it may be advisable for the presiding judge in the 2008 rate proceeding to be designated the presiding judge in the 2009 proceeding as well.

The commission’s rulings will result in an estimated $640 million in additional oil production tax and royalty payments flowing to Alaska coffers, according to state officials.
Decline in throughput on pipeline leads one owner to offer discount to shippers willing to commit to move 5,000 barrels per day

Unocal: Ship more with us and pay less

By ERIC UDJI

Petroleum News

The company is asking regulators for permission to cut shipping rates by around 38 percent to any company that commits to ship at least 5,000 barrels of oil per day. The move is Unocal’s attempt to compete for customers at a time of declining throughput on the 800-mile pipeline running from the North Slope of Alaska to tidewater at Valdez.

The pipeline can move some 2.1 million barrels of oil per day at maximum capacity, but hasn’t hit that peak since 1988. Current throughput is below 700,000 barrels per day. That spare capacity, combined with recent rate increases by four of the five owners of the pipeline, has put Unocal at a competitive disadvantage, the company said in filings.

Late last year and early this year, the Regulatory Commission of Alaska let four of the five pipeline owners increase in-state shipping rates by 57 percent on a temporary basis. The move created a rare disparity in shipping rates among the owners of the pipeline.

BP, which owns the largest share of the pipeline, decided not to request a rate increase.

For example, a company taking advantage of the discount would pay $1.90 to ship a barrel of oil from Prudhoe Bay to the Valdez Marine Terminal, rather than $3.05, the temporary rate approved earlier this year for Unocal and the three other owners. The previous rate, and the one still used by BP, was $1.96 per barrel.

Unocal proposes to offer the discount to customers on a month-to-month basis.

BP has lowest rates

BP, which owns the largest share of the pipeline, decided not to request a rate increase.

The move created a rare disparity in shipping rates among the owners of the pipeline. BP now has the lowest in-state shipping rate of the five companies, and also has plenty of capacity to spare. The company owns nearly 47 percent of the pipeline, or around 965,000 barrels per day of capacity, more than the entire daily North Slope production.

BP, ConocoPhillips and ExxonMobil are the largest North Slope producers and also own the largest shares of the pipeline. But two other North Slope producers, Anadarko and Pioneer Natural Resources, don’t own any stake in the pipeline and must rent space.

Unocal Pipeline Co. owns 1.36 percent of the pipeline. Since the rate increases took effect, Unocal has seen a drop in shipping volumes, which the company attributed to the “availability of the significantly lower” rates from BP.

The discount, called a “volume incentive rate,” is meant to make Unocal competitive. For example, a company taking advantage of the discount would pay $1.90 to ship a barrel of oil from Prudhoe Bay to the Valdez Marine Terminal, rather than $3.05, the temporary rate approved earlier this year for Unocal and the three other owners.

The state is among a group of parties arguing that the shipping rates on the pipeline have been and continue to be too high.

In regulatory filings, Unocal insisted the discounted rate isn’t high enough for the company to recover its cost for providing services, and “given the current competitive environment, (Unocal) is willing to offer service at these non-compensatory rates in an effort to recover some portion of its costs from incremental shippers.”

Unocal made similar requests from both RCA and the Federal Energy Regulatory Commission, which regulates shipping rates on oil headed to markets outside Alaska.

The State of Alaska protested the request before FERC, saying the incentive proposed by Unocal is too small to make it competitive. The state is among a group of parties arguing that the shipping rates on the pipeline have been and continue to be too high.

FERC approved Unocal’s request for the discounted rate, but acknowledged the company could be required to refund shippers depending on the results of other ongoing rate cases.

Unocal is asking for the discount to become available on June 1.

Unocal proposes to offer the discount to customers on a month-to-month basis.

Discount has a precedent

Volumetric incentives are relatively common in the Lower 48, where shippers can often choose between competing pipelines, but less common on the North Slope, where there is only one pipeline taking oil to markets.

The Unocal request is not unprecedented in Alaska, though.

State regulators approved a similar incentive rate for Mobil Alaska Pipeline Co. in 1997, but raised concerns about the company offering the incentive to only some customers.

The Unocal proposal is the same discount rate for all potential customers.

The five owners of the pipeline are BP Pipelines (Alaska) Inc., ConocoPhillips Alaska, ExxonMobil Production Co., Unocal Pipeline Co. and Koch Pipelines (Alaska) LLC.

Each company owns an undivided share of the pipeline.
Grim Canadian upstream outlook worsens

By GARY PARK
For Petroleum News

With producer cash flows evaporating, the bad news is coming in tidal waves for Canada’s upstream.

About 25 percent of energy service company employees have been laid off since the end of 2008, prompting the Petroleum Services Association of Canada to lower its 2009 well completion forecast for the third time to 10,000, down 41 percent from last year’s tally of 16,940 and the lowest level since the 9,744 completions in 1998 when oil dipped to US$10 per barrel. For 2009, FirstEnergy estimates U.S. gas drilling will drop under 5,000 wells, compared with 9,700 in 2008 and 11,200 in 2007.

Gas well completions in Canada and the U.S. have been in a tailspin since the Canadian Association of Oilwell Drilling Contractors, about 25,000 people who were once working in the Canadian oil patch are now hunting for jobs elsewhere. The Alberta government’s latest budget calculates the province alone will lose 15,000 jobs overall this year due to the economic slump. Soncy said a PSAC survey conducted in mid-April got a response from 23 percent of PSAC members indicating they lost an average 22 percent of their workforce since December. The drilling downturn will “yield production that starts falling off pretty quick,” he said. “That’s the good news,” said Bradford. “However, production will be higher year-over-year until June or maybe even July, so we have to accommodate that.” Bradford said it will require production to wane and U.S. storage to level off before the industry can start looking for better times. It is targeting 11,720 completions this year, 40 percent from last year’s 19,700. Saskatchewan is expected to drop 43 percent from last year’s 11,720. Saskatchewan is expected to drop 43 percent from last year’s 11,720.

Raymond James, said most of the problems stem from a natural gas glut, especially in the key U.S. consumer market. The firm expects Canadian well completions this year to drop 25 percent from 2008’s 14,000. Gas drilling this year is expected by PSAC to dip under 5,000 wells, compared with 9,700 in 2008 and 11,200 in 2007.

PSAC is basing its new estimates on crude oil prices of US$50 per barrel for West Texas Intermediate and natural gas prices of US$4.10 per thousand cubic feet at the AECO hub. Raymond James is calling for gas to average US$3.75 per thousand cubic feet on the New York Mercantile Exchange, rebounding to US$10 in 2010 and WTI to average US$43 this year and US$65 in 2010. The firm expects Canadian well completions will ease in coming months, setting price expectations as opposed to political objectives.” The province must position itself in the best possible way to take advantage of an economic turnaround when it presents itself,” he said.

Raymond James, said most of the problems stem from a natural gas glut, especially in the key U.S. consumer market. It is targeting 11,400 well completions this year, 63 percent off last year’s 11,720. Saskatchewan is expected to drop 43 percent from last year’s 11,720.

Many fewer gas wells

Gas drilling this year is expected by PSAC to dip under 5,000 wells, compared with 9,700 in 2008 and 11,200 in 2007. PSAC is basing its new estimates on crude oil prices of US$50 per barrel for West Texas Intermediate and natural gas prices of US$4.10 per thousand cubic feet at the AECO hub. Raymond James is calling for gas to average US$3.75 per thousand cubic feet on the New York Mercantile Exchange, rebounding to US$10 in 2010 and WTI to average US$43 this year and US$65 in 2010. The firm expects Canadian well completions will ease in coming months, setting price expectations as opposed to political objectives.” The province must position itself in the best possible way to take advantage of an economic turnaround when it presents itself,” he said.

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UN approves Norway's offshore borders

Norway has made certain that its claims to oil and gas resources in the Arctic are not going to disappear down the Loop Hole or the Banana Hole. The Loop Hole in the Barents Sea, the Banana Hole in the Norwegian and Greenland Seas, and the Western Nansen basin in the Arctic Ocean are the areas analyzed by the U.N.’s Commission on the Limits of the Continental Shelf in a set of recommendations March 27, making Norway the first Arctic nation to establish such limits.

“This establishes a clear division of responsibility and creates predictable conditions for activities in the High North,” said Norway’s foreign minister, Jonas Gahr Store. “It confirms that Norway has substantial rights and responsibilities in maritime areas of some 235,000 square kilometers (90,734 square miles). The recommendation is therefore of historic significance for Norway.

The commission made its recommendations based on documents submitted by Norway in 2006. The recommendations have no effect on unresolved issues concerning delimitation between Norway and neighboring states, such as Russia. Approval of Norway’s claim is “a precondition for future resource management, creates a firmer basis for investments and is an effective implementation in the High North of the legal order for the oceans,” Store said.

According to the U.N. Law of the Sea Convention a coastal nation can extend its offshore jurisdiction beyond the customary 200-mile limit of the nation’s economic exclusion zone by presenting for U.N approval evidence that the nation’s continental shelf extends beyond the 200-mile limit. Many countries, including Norway, have continental shelves that do extend more than 200 miles out. The Commission on the Limits of the Continental Shelf adjudicates over applications for extended offshore jurisdiction.

— SARAH HURST

Russians unhappy with Total in Nenets region

Russian authorities are dissatisfied with the consortium that is developing the Kharyaga oil field in the Nenets Autonomous Okrug — operator Total, StatoilHydro and the Nenets Oil Co. Total announced that there would be no profits from the field this year, according to a release from the Nenets administration April 29.

“The representatives of the Russian side are not happy with the work of French oil company Total, which is the operator of the Kharyaga PSA (Production Sharing Agreement),” Nenets Gov. Igor Fyodorov said. The issue was discussed recently in a meeting at the Russian Energy Ministry, he added. The governor’s office plans to form an inspection team that will conduct monthly monitoring of the volumes of oil produced at Kharyaga. It will also assess operating costs and the work of contractors hired by Total, the release said.

The Russian government is also pushing for a cut in 2009 spending on the Kharyaga project, according to Oilru.com. The Kharyaga consortium has adopted a budget of $403.6 million for this year. The terms of the production sharing agreement stipulate that Russian federal authorities must partly reimburse the field partners’ spending.

Meanwhile, in late April Lukoil-ConocoPhillips joint venture Naryanmarmeftegaz and Russian oil company Eurasia Drilling announced that they were laying off 1,000 of their employees in the Nenets region, news agency Regnum reported. Eurasia Drilling is moving its regional headquarters from Nenets to Ustinsk in Russia’s Komi Republic.

— SARAH HURST

see ARCTIC NEIGHBORS page 13
Chena geothermal conference takes stock

By STEFAN MILKOWSKI
For Petroleum News

To get a sense of how things look for geothermal energy in Alaska, consider the title of the conference held April 28-30 at the Chena Hot Springs Resort near Fairbanks — “Risks, Barriers, and Opportunities.”

“I guess I wanted to be as realistic as I could about where things are with geothermal energy,” explained David Lockard, geothermal program manager for the Alaska Energy Authority. “There’s tremendous excitement and opportunities, but it’s not necessarily easy.”

About 90 people from around the state and as far away as Iceland attended the conference, representing electric utilities, independent power producers, the University of Alaska, and state and federal agencies. Presentations focused on current projects, technological advances, and potential uses of geothermal energy.

Opportunities to grow

For now, geothermal energy makes up a tiny fraction of overall power production in Alaska and the U.S. as a whole, with about 3,000 megawatts of installed U.S. geothermal capacity of a total of 1.1 million megawatts, according to the U.S. Department of Energy.

But the federal government has committed significant funding to research and project development, including $400 million in federal stimulus funds, and the Geothermal Energy Association projects that geothermal power production will double over the next five years.

For now, most geothermal production relies on high-temperature geothermal resources with naturally occurring hot water and steam. But plants using lower-temperature water and secondary fluids with low boiling points (called “binary systems”) and systems that involve artificially fracturing hot, dry rock and cycling liquid through it (called “enhanced geothermal systems,” or EGS) are expected to dramatically expand the potential of geothermal energy.

“If we could solve the technological challenges of EGS, it would solve our energy crisis,” said Lorie Dilley, an engineer with the firm Hattenburg Dilley & Linnell.

According to Dilley, several countries are currently exploring the technology with varying levels of success.

“We’re probably 10 to 20 years out from making these commercially viable types of resources,” she said.

The Department of Energy’s Geothermal Technologies Program has a goal of demonstrating EGS technology by 2015.

Geothermal energy also fits into a larger goal promoted by Gov. Sarah Palin and others of dramatically boosting the state’s production of renewable energy.

Steve Haagenson, executive director of AEA and the state’s energy coordinator, encouraged conference goers to think broadly about the use of geothermal energy for power production and for direct uses like space heating. Haagenson promoted geothermal and other renewable forms of energy as promising ways to keep money in the state, but also mentioned its limitations.

“Geothermal energy is a lot like gold,” he said. “It is where you find it.”

Technical, economic challenges

Volcanoes and hot springs are good indicators of geothermal resources, but don’t ensure viable projects.

Developers are often forced to take risky and expensive bets more typical of oil and gas explorers than electric utilities.

Prime resources are often located in remote areas, where development costs are high, and the viability of geothermal power projects, like that of other forms of renewable power, is subject to fluctuations in the cost of energy from fossil fuels.

Even proven geothermal resources like that near the Makushin volcano on Unalaska Island have remained undeveloped because of economic hurdles. Other projects require government support, which has not always been available.

On top of that, regulatory and fiscal terms for geothermal leasing and development may need some tweaking, according to Bruce Burzy, a natural resource specialist at the Division of Oil and Gas.

Lease terms, for instance, offer land at $3 an acre.

“We recognize that these terms may be a little dated,” he said.

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GEOTHERMAL

Buzby said, adding that the division is currently reviewing all laws and regulations dealing with geothermal development. “We’re really looking for input.”

Bernie Karl, proprietor of the Chena Hot Springs Resort, which uses geothermal energy for heating, electricity, and even to produce hydrogen for a resort truck, focused on the opportunities. “The only really, really good thing the governor’s said, I think of is ‘Drill, baby, drill.’” he said. “And that’s drilling for geothermal as far as I’m concerned. I say drill anywhere and everywhere. If you look at the energy cost in America today, if you look at the highest energy cost in the world in Alaska, you would have to be insane not to drill.”

The conference included updates on several projects, some of which are described below.

Naknek to drill this summer

Despite being turned down for funding through the state’s renewable energy fund, Naknek Electric Association plans to spend $12 million this summer drilling a full-diameter exploratory well near the neighboring village of King Salmon in Southwest Alaska. A DOE grant secured by former Alaska Sen. Ted Stevens and other members of Alaska’s congressional delegation will provide $2.9 million; the rest will come from NEA directly, according to NEA general manager Donna Vukich.

Vukich said the utility has done extensive geophysical work up to 400 feet. The well drilled this summer will reach 9,000 to 12,000 feet and will be used as a production well should the resource prove viable.

Phase 1 of NEA’s plan involves producing 25 megawatts of power for Naknek, Dillingham and a half-dozen other villages, which would be connected by 157 miles of new transmission lines. The project would also provide district heating for Naknek and King Salmon.

Vukich said she hopes to begin production within 18 to 24 months and produce power in Naknek for 14 cents per kilowatt-hour and slightly more in surrounding locations—seven times less than current prices.

Phase 2 involves producing up to 50 megawatts of power and connecting Naknek to additional villages.

Gary Friedmann, a geologist with Alaska Earth Sciences and project manager, said securing a drilling rig will cost significantly less than it would have last year because of the current low demand for rigs.

Akutan looking at volcano

With a state loan of nearly $800,000 and a pending grant of almost $3 million from the renewable energy fund, the City of Akutan is pushing ahead with plans to develop a 50-megawatt plant on the shoulder of Mount Spurr west of Anchorage.

Policy and business development director Paul Thomsen said his company hopes to initiate surface work this summer with the long-term goal of supplying backstop power to the Railbelt grid by 2014 or 2015.

“We think the Spurr project can be a real shining star for projects of its kind, not only in Alaska but (around) the Ring of Fire,” he said.

In September 2008, Ormat Nevada Inc., an Ormat subsidiary, paid $3.5 million for leases on Mount Spurr in the first state lease sale for geothermal energy at the site in more than 20 years.

But Thomsen warned that development costs at the remote site are expected to be three times as high as at other sites Ormat has developed, and he said how the site is developed will depend on whether Ormat receives state support for the project.

Ormat Nevada applied for a $4.5 million grant from the renewable energy fund to conduct a resource assessment, but the project was not recommended for funding.

Well planned at Chena

Building on the success of two low-temperature geothermal units installed at Chena Hot Springs in 2006, United Technologies Corp. and Chena Hot Springs Resort-Chena Power have developed a 280-kilowatt mobile geothermal power generator designed to produce power from combined hot water and oil produced from oil wells.

The prototype, installed on two flatbed trailers, will be shipped in May to Quantum Resources in Jay, Fla., and should be in operation by June, according to Ian-Michael Hebert, vice president of project management at the resort.

The unit will be tested with the output from a well producing 5 percent oil and 95 percent hot water. After cycling through the plant, the hot water and oil will be returned to the oil processing facilities.

The resort also plans to drill a 3,000- to 4,000-foot well this summer with the goal of expanding its generating capacity, according to Hebert.

A proposed $198,000 reservoir-modeling project for the Chena geothermal resource was recommended for funding under the renewable energy fund, but was not funded.

Cable would connect Iceland

Former Alaska governor Steve Cowper is also getting into geothermal. Cowper, who now lives in Texas, is working with Emererald Network Computing and international partners to lay an underwater fiber-optic cable from Iceland to the northeast coast of the U.S.

Cowper said the cable would allow major data managers like Google and Microsoft to create data centers in Iceland, where they could take advantage of low-cost, clean geothermal power.

The project would create a new market for geothermal energy in Iceland, Cowper said, adding that Emerald Network Computing would likely be involved in energy generation as well as operation of the cable.

Cowper said the company is still seeking financing and commitments from customers, but expects to know in a few months whether the project will proceed.

“I pay attention to green when it’s profitable,” he said.
By ALLEN BAKER
For Petroleum News

Chevron Corp. has received approval from Western Australia’s Environmental Protection Authority to expand its Gorgon LNG project on Barrow Island. The approval came April 29.

The huge project — now expected to cost about $25 billion (U.S.) — would draw gas from the offshore Gorgon and Jansz fields, which hold an estimated 22 trillion cubic feet of gas. Liquefaction and loading facilities would be located off Barrow Island, a wildlife sanctuary where Chevron has had oil facilities for four decades.

The latest approval allows Chevron and its partners to add a third train producing 5 million metric tonnes of LNG annually. That means the plant could ship out the LNG equivalent of about 2 billion cubic feet of natural gas a day.

Chevron welcomed the EPA decision as “an important step in the regulatory process,” but wasn’t ready to write a check for the long-delayed project just yet. “Chevron can now continue to assess the conditions as it works toward a final investment decision in the second half of this year,” the company said.

Chevron is the operator and holds a 50 percent interest. Partners Shell and ExxonMobil have 25 percent each. If Gorgon goes ahead, it will be Australia’s largest single resource project, according to Chevron.

Sunrise roadmap?

Another major LNG project off Australia is running into difficulty. After operator Woodside said May 1 it was considering a pipeline to Australia or a floating LNG liquefaction plant for the Sunrise field in the Timor Sea, the government of East Timor said it wanted the plant on its soil. The field straddles waters of both nations.

“The fact that one pipeline has gone already to Australia, we feel that it’s only fair that the other one comes to Timor-Leste,” East Timor Secretary of State for Natural Resources Alfredo Pires told Bloomberg in a May 6 interview. “We also have studies that confirm that the Timor-Leste option is much more viable than we had been led to believe.”

Woodside holds a 33 percent interest in Sunrise. ConocoPhillips has 30, Shell 27 percent and Osaka Gas 10 percent. The field about 360 miles northwest of Darwin holds more than 5 trillion cubic feet of gas as well as significant amounts of condensates.

Woodside had said the partners were planning to market LNG from the project to Asian buyers later this year.

Chevron is busy these days locking up natural resources around the globe while prices are attractive. LNG appears to be on the shopping list.

China on LNG trail

China reportedly has agreed to buy a third of the production from a proposed $11 billion ExxonMobil-operated project in Papua New Guinea. In addition, China’s Sinopec is looking at a 20 percent stake in an Iranian LNG project, according to an official of Iran’s national gas export company. The Iranian project would tap the South Pars gas field, the world’s largest, for two LNG trains producing the LNG equivalent of 2.1 billion cubic feet of gas daily.

The future of the LNG market is still looking tentative with the collapse of prices late last year and the prospect of huge supplies coming from Qatar in the next year or so. But suppliers are beginning to show some confidence that demand from Asia, particularly China, will grow in the next few years.

China is building new LNG import terminals along the east coast and expects to have the capacity to import the equivalent of nearly 5 billion cubic feet a day by 2015.

FERC approval for Oregon project

The Federal Energy Regulatory Commission says the proposed Jordan Cove LNG terminal at Coos Bay, Ore., and an associated 234-mile pipeline won’t cause significant environmental damage.

The agency issued its final environmental impact statement on the project May 1. Developers of the terminal are Fort Chicago Energy Partners LP and Energy Projects Development LLC.

FERC last fall approved the proposed Bradwood Landing LNG terminal on the Columbia River, and is considering another proposal for a second terminal on that river. An attempt to restrict LNG terminal development appears to have founndered in the Oregon Legislature this spring.

Meanwhile, Sempra Energy reported May 5 that its first-quarter profits rose 40 percent as the cost for natural gas dropped to $540 million from $1.2 billion a year earlier at its San Diego Gas & Electric subsidiary. The Sempra LNG subsidiary, however, posted a loss of $7 million in the quarter. Sempra LNG operates the West Coast’s only operating LNG import terminal at Etiwanda, Mexico.

And on the East Coast, the new offshore LNG terminal near Boston finally got its first cargo in late April. Exelon Energy LLC uses onboard re-gasification on its ships, then pipes gas to shore from an offshore site. But glitches in the system left the company’s Explorer vessel waiting for three months for repair of a pipeline blockage.
Cook Inlet oil production down 50%-plus

Inlet oil production coming only from east side; North Slope down 9.7% March to April due to maintenance, proration, temperatures

By KRISTEN NELSON
Petroleum News

Alaska North Slope crude oil production dropped 9.7 percent from March to April as a result of maintenance on about 72,000 barrels per day, driven by a 14.8 percent drop in Prudhoe Bay production, 320,120 bpd on average compared to 375,748 bpd in March.

The drop at Lisburne was proportionately greater — 30.8 percent — although far fewer barrels, from an average of 33,849 bpd in March down to 23,421 bpd in April.

BP Exploration (Alaska) operates both the fields.

Prudhoe Bay production includes satellite production from Aurora, Borealis, Midnight Sun, Orion and Polaris; Lisburne includes production from Point McIntyre and Niaukak.

North Slope production averaged 670,000 bpd in April, down from a May average of 742,001.

BP Exploration (Alaska) spokesman Steve Rinehart told Petroleum News that there was proration on the trans-Alaska oil pipeline early in April that affected Prudhoe Bay production.

Proration — producers being asked to cut back on the volume of oil they deliver to the line — occurs when the pipeline is tight on storage space at the terminus of the line at the Valdez Marine Terminal or when maintenance is occurring on the pipeline.

Michelle Egan, spokeswoman for pipeline owner Alyeska Pipeline Service Co., said in an e-mail that the proration in early April was related to the tanker schedule.

Rinehart also said there was “a couple of weeks’ worth of preventative maintenance” on a section of gas line between Gathering Center 1 and Gathering Center 2 which provides gas lift to some wells in the western operating area.

“That line was put back in service about April 25.”

He also said there was maintenance at Lisburne during April. The temperature was also a factor, averaging 6.9 degrees Fahrenheit at Pump Station No. 1 in April compared to minus 17.6 degrees F in March. Gas compressors operate less efficiently at warmer temperatures, and North Slope production requires compressing and reinjecting large volumes of natural gas produced with the oil.

Big dip in Cook Inlet

The percentage drop in both North Slope cases was dwarfed by that for the state’s smallest producing area, Cook Inlet. The drop, down at least 53 percent, although the drop may be steeper when the state gets final April production figures later in May.

Because the Drift River Terminal has been shut down due to eruptions at Mount Redoubt, oil production from the western side of Cook Inlet has been shut in. The oil from west-side production moves by pipeline to the Drift River Terminal for tanker shipment to the Tesoro refinery on the Kenai Peninsula and there are no alternative methods in place for moving that oil.

Cook Inlet started the month at 11,634 bpd, but on April 5 it dropped to an estimated 4,134 bpd, for an average of 5,134 bpd for the month.

Oil fields remaining in production are two onshore fields on the Kenai Peninsula, Marathon-operated Beaver Creek and Chevron-operated Swanson River, and the only offshore field which pipes oil directly to the Kenai Peninsula, XTO Energy’s Middle Ground Shoal.

Based on Alaska Oil and Gas Conservation Commission figures for March, the most current the commission is reporting, Middle Ground Shoal produced a total of 85,793 barrels in March; Beaver Creek produced 5,034; and Swanson River produced 12,615. That’s an average of some 3,300 bpd for March.

Most North Slope production down

In addition to Prudhoe Bay and Lisburne, April production dropped from May levels at all North Slope fields except BP’s Milne Point, which averaged 29,990 bpd in April, up 0.7 percent from a March average of 29,784 bpd.

The ConocoPhillips Alaska-operated

see PRODUCTION page 17
R

recent work to bring North Slope gas to Alaska markets has focused on “either/or” decisions. The Alaska Natural Gas Development Authority wants those to be “and/until.”

The “either/or” questions cover both which project to build and what route it should take.

The project could either be a spur coming off a larger mainline built to serve markets outside Alaska, or an independent “bul-

let” line linking some northern gas field to local markets. Once the decision is made between those two options, the pipeline could be routed either down the Parks Highway or down the Richardson and Glenn highways.

During a board meeting on May 6, ANGDA approved a resolution suggesting all parties involved should consider both projects and both routes until enough information is collected about the economics of the various options for a commercial decision to appear.

Legislative consultant Steve Porter made a similar recommendation to the Legislative Budget and Audit committee in an April 10 letter, saying the state should allow work to continue on all options until the economics clearly favored one over all the others.

“Enstar and ANGDA proceed ahead with their independent engineering analysis in preparation for their separate pipeline projects, they will come up with differing tariffs. Only the market economics of the project will proceed. The state does not need to choose a winner at this point, nor does it need to interfere with either project moving forward,” Porter wrote.

For much of last year, the question of how to bring northern gas supplies to Alaska communities focused on work by ANGDA to build a spur line down the Richardson Highway and work by Enstar Natural Gas to build a bullet line down the Parks Highway.

Choosing a route

The resolution arose because the Palin administration said ANGDA would ultimately be responsible for choosing the route for a gas pipeline to Alaska markets, a decision that made some board members, especially Vice Chair Don Benson, uncomfortable.

At the May 6 board meeting, ANGDA Chief Executive Officer Harold Heinze said each potential pipeline project and each of the two routes had benefits and drawbacks.

A spur line could take advantage of the scale of a mainline to lower the cost of gas to consumers. But by definition, a spur line depends on both the construction and the timing of a mainline. A bullet line doesn’t depend on a mainline, but also can’t reap its benefits.

Likewise, a route down the Richardson Highway would likely hit a larger percentage of the population as well as several military bases, but a route down the Parks Highway could end up being shorter in an industry where project costs are measured by the mile.

Heinze said various open seasons in 2010 would answer many of the questions.

The state became more involved in late February, hiring former Department of Natural Resources Commissioner Harry Noah to coordinate the various projects on the table.

Since the appointment, Noah and ANGDA have had several public debates as they try to come to terms on the role each side will play as the state works to coordinate the effort. In the resolution, ANGDA said it would support Noah as he works to secure commercial aspects of the pipeline, like finding adequate gas supplies as well as sufficient demand.

What about Valdez LNG?

The state recently began looking for a contractor to compare four potential options for the in-state gas, a bullet line and a spur line going down the Parks and Richardson Highways.

Those scenarios, though, leave out an LNG project out of Valdez, the “all-Alaska line.”

The Alaska Gasline Port Authority, the main proponent of such an LNG project, believes the oversight is not only ill advised, but also in contradiction with recent state policy.

Bill Walker, general counsel and project manager for the Port Authority, believes the emergence of shale gas plays across North America have jeopardized the economics of an overland natural gas pipeline running from the North Slope through Canada. The Palin administration challenges that claim, saying North Slope gas will come to market first.

Walker asked the state to include LNG in its contract, citing previous policy directives.

Following the vote last August to give TransCanada Corp. a state license under the Alaska Gasline Inducement Act to move forward on a mainline, lawmakers added language saying the state should also “enable and encourage” an all-Alaska line.

Gov. Sarah Palin made a similar move in late August, signing Administrative Order 242, which directed her cabinet to help out anyone pursuing a feasible LNG project.

“Everything comes back to the market conditions,” Tom Irwin, commissioner of the state Department of Natural Resources, said during the announcement of the administrative order. “If you a market for LNG only, we agree that will be built. If there’s only a market for the U.S through Canada, that will be built. If for both, both can get built.”

Funding only for in-state

Noah said the Palin administration still considers the all-Alaska line to be an option for a bigger pipeline to deliver North Slope natural gas to Outside markets. But he said current funding, a $57 million legislative appropriation, only covers in-state projects, not exports.

“The purpose of this work is to get gas to Alaskans. And that’s it,” Noah told the ANGDA board on April 30. “The pur-

pose of this is not to look at an export project.”

Several members of ANGDA and AGPA feel the administration isn’t judging the all-Alaska line by the same criteria as the various bullet line and spur line possibiliti-

es.

At a board meeting on April 10, Heinze said every option involves exports to some degree. A spur requires a mainline destined for out of state markets, while a bullet line needs an industrial anchor like the Nikiski LNG facility to keep tariffs manageable.

On May 6, ANGDA and AGPA agreed to share information about project engi-

neering and cost estimates “to allow interested parties to participate” in the 2010 open season.

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Administration provides first biannual AGIA report

NATURAL GAS

Revenue, DNR, conclude long-term economic outlook for TransCanada gas pipeline project ‘remains strong’, despite short-term price drops

By KRISTEN NELSON

The administration told Alaska legislators at the end of April that “the AGIA-licensed project remains on track and on schedule.”

“The economic outlook for the project remains strong despite the recent market volatility and short-term drop in natural gas prices. The combination of stable long-term price expectations and the reduction in project cost indicators keep the project on solid economic footing,” the Department of Revenue and the Department of Natural Resources — who jointly share responsibility under the Alaska Gasline Inducement Act — said at the conclusion of an April 30 report.

The 20-page “AGIA Gas Pipeline Project Report,” the first of what will be biannual reports, was issued in response to resolutions introduced in the House last session by Reps. Jay Ramras, R-Fairbanks, and Craig Johnson, R-Anchorage.

AGIA, passed in 2007, is intended to kick start construction of a gas pipeline from the North Slope to market. It requires an annual report to the Legislature on reimbursements under the act.

In addition to the information required under AGIA, the departments said, “...this report includes information related to the progress of the pipeline project, and updates on natural gas markets and capital cost expectations.”

The first resolution Ramras and Johnson sponsored — which died in the House Special Committee on Energy — would have required a re-evaluation of the economic viability of the AGIA-licensed TransCanada Alaska project, calling on the administration and the state attorney general to determine whether the project was still in the best interests of the state.

Another resolution, introduced by Ramras and Johnson near the end of the session, called for a detailed report, dropping the re-evaluation.

The administration and the legislators ultimately reached an agreement, the second resolution was withdrawn, and on April 30 the departments issued the first of what will be bi-annual reports.

Recent gas prices volatile

The departments reviewed the natural gas market, noting that prices were “exceptionally volatile” in 2008, reaching “unprecedented summer highs,” with prices during the year between 16 percent and 29 percent higher than in 2007, peaking at $13.31 per million British thermal units at Henry Hub in early July, but falling to $5.71 by the end of 2008.

“At the time of this report, the average spot price during April is $3.59,” the departments said in the April 30 report.

Weather, import levels, gas storage and the economic downturn have all impacted market volatility, the report said, but “are unexceptional” and do not explain “exceptionally high and sustained (2008) summer gas prices.”

The U.S. financial crisis limited availability of credit and raised borrowing costs, the report said, likely contributing — along with lower natural gas prices — to reduced natural gas drilling.

Financial distress also reduced trade in financial energy products, which “combined with the reduced gas demand of the economic slowdown helped accelerate the downward trend in gas prices.”

Other factors shaping market

But new pipeline infrastructure, alternative gas supplies and changes in government energy policies are also factors reshaping the domestic gas market and impacting the long-term market.

see AGIA REPORT page 18

BY KRISTEN NELSON

Barrett named deputy federal coordinator

Federal Coordinator Drue Pearce, Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects, said May 6 that Vice Admiral Thomas Barrett, USCGR (Ret.), currently deputy secretary of the Department of Transportation, has been named deputy federal coordinator.

Barrett lived in Alaska for 14 years, including from 1999-2002 when he was Alaska Coast Guard Commander. As deputy, Barrett will work with Pearce to direct OFC activities and will also manage the Alaska field office.

Pearce said in a statement that she has worked with Barrett for almost 20 years, in Alaska and in the Lower 48.

“Vice Admiral Barrett brings leadership, experience, and incredible energy to this new challenge which is so crucial to the long-term energy security of the United States and to the State of Alaska. I greatly admire his ability to unite diverse agency and civilian personnel to pursue a common goal,” she said.

Barrett joins OFC May 26.

Barrett has been deputy secretary of Transportation since August 8, 2007, prior to that he was the first administrator of the Pipeline and Hazardous Materials Safety Administration.

“The Alaska natural gas pipeline is a project that has been 30 years in the making,” Barrett said in a statement.

“This pipeline is not just an Alaska project but is a vital national infrastructure project,” he said.

The OFC has also hired an environmental engineer, Christa Gunn, who works in the Alaska field office. Gunn has 10 years experience in the energy and environment sectors, and worked most recently as natural resources and asset optimization flight chief at Nellis Air Force Base in Nevada.

OFC also said it will be moving in the fall to new Alaska quarters in the 188 Northern Lights Building, the new Midtown building where the Denali project has its offices. The OFC Alaska office currently rents space from the Joint Pipeline Office at 411 W. 4th Avenue in Anchorage.

PETROLEUM NEWS * WEEK OF MAY 10, 2009

PRODUCTION

Kuparuk River field averaged 149,556 bpd in April, down 2.8 percent from a March average of 153,655 bpd. Kuparuk includes production from satellite fields at Tabasco, Tarn, Meltwater and West Sak, as well as production from Pioneer Natural Resources’ Oooguruk field.

The BP-operated Endicott field averaged 12,618 bpd, down 2.7 percent from a March average of 12,970 bpd.

The ConocoPhillips-operated Alpine field averaged 110,554 bpd in April, down 1.2 percent from a March average of 111,900 bpd. Alpine production includes satellite production from Ford, Namuq and Nunak.

The BP-operated Northstar field averaged 23,969 bpd, down 0.5 percent from a March average of 24,098 bpd. 1

continued from page 15

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## OIL COMPANY EARNINGS

### Earnings from Petroleum News top companies

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### Liquids production in barrels per day, including all sands.

For companies using US dollars, in millions of US gallons per day.

*Includes Lukoil investment.

Liquids production in barrels per day, including all sands.

### Natural gas production first quarter 2009

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For companies using Canadian dollars, in millions of cubic feet per day.

### AGIA REPORT

**Unconventional gas grows**

The report said unconventional gas supplies are continuing to grow — up 14 percent in 2008 compared to a 3 percent drop in conventional U.S. gas supplies, and accounting for 51 percent of domestic production.

continued from page 17

The report said unconventional gas supplies are continuing to grow — up 14 percent in 2008 compared to a 3 percent drop in conventional U.S. gas supplies, and accounting for 51 percent of domestic production.

**FERC accepts TC pre-file application**

The Federal Energy Regulatory Commission has granted an April 23 request by TransCanada for pre-file status for the company’s Alaska gas pipeline project. Denali, the BP-ConocoPhillips Alaska pipeline project, was granted pre-filing status last June, FERC said.

The docket for the TransCanada project is PF09-11-000.

In a May 1 letter, the FERC’s director of the Office of Energy Projects, Mark Robinson, told TransCanada that his staff will notify the company when it requires the assistance of a third-party contractor. TransCanada has committed to fund a third-party contractor to assist FERC in development of an environmental impact statement for the project.

Robinson said the complexity of the Alaska pipeline project calls for initiating the pre-filing process “as early in the development of the application as possible.” TransCanada plans to apply for a FERC certificate in October 2012.

TransCanada’s Tony Palmer, head of the company’s Alaska project, has told Alaska legislators the company is worried that pre-filing early, rather than after a successful open season as is normally done, could increase costs for the project. Palmer also said, however, that TransCanada was aware of the FERC’s desire to have the company pre-file early, and was working with the regulator on a resolution satisfactory to both.

— KRISTEN NELSON

The report said unconventional gas supplies are continuing to grow — up 14 percent in 2008 compared to a 3 percent drop in conventional U.S. gas supplies, and accounting for 51 percent of domestic production.

While unconventional resources are more expensive to develop, “economics have improved considerably in recent years due to positive long-term natural gas price forecasts, and through improvements in horizontal drilling and hydraulic fracturing technology.”

The report said there is limited production-cost information available, but low-end break-even price estimates for unconventional gas range from $3.30 to $5 per million Btu, with high-end price estimates from $5 to $7 per million Btu.

That range of break-even prices indicates that current natural gas prices “are somewhat below the price needed to sustain drilling activity in most unconventional basins,” the report said.

“Evidence of this can be seen in the dramatic plunge in the rig count in these basins during the fourth quarter of 2008,” a decline from a peak of more than 1,600 in early September to fewer than 800 at the end of April, the report said.

While there are many variables contributing to uncertainty in short-term energy markets, “long-term gas price forecasts remain supportive of the project, with stable or increasing price expectations.”

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Continued from page 1

**SHELL**

the 2007-2009 plan no longer represents Shell’s current drilling approach... We have listened closely to stakeholders and particularly the concerns around the size and pace of exploration plans, and we have adjusted our plans accordingly.

**Reduced scope**

The new plan will include a one-year drilling program, rather than a three-year program; will involve the use of one drilling rig, rather than two; and will envisage the drilling of two wells rather than four. The Frontier Discoverer drillship that Shell plans to use for the drilling will be fitted with new air emissions technology.

“It’s my hope this new program will further prove to North Slope stakeholders that Shell values their feedback and respects their ideas and concerns,” Staley said. “Our new plan of exploration makes every effort to address North Slope concerns and we are looking for support on this approach.”

Shell spokesman Curtis Smith told Petroleum News May 6 that Shell would be submitting its new plan to MMS within the next 48 hours and that the two wells that the company hopes to drill in 2010 would be in the area of the Sivulliq prospect, on the west side of Camden Bay, offshore the eastern end of the North Slope. Sivulliq (formerly known as Hammerhead) is a known oil pool containing perhaps 100 million to 200 million barrels of oil and had been a primary target of Shell’s withdrawn exploration plan, although that plan had proposed the drilling of more wells and the targeting of a second prospect in the Camden Bay area.

Smith said that Shell also plans to drill in the Chukchi Sea in 2010, but that the company will submit a separate exploration plan for that project. Staley has said previously that Shell plans to use the Frontier Discoverer for both Beaufort Sea and Chukchi Sea drilling in 2010.

By scaling down its offshore exploration drilling program Shell is addressing the issue of the cumulative impact of offshore operations, a major focus of the concerns relating to the withdrawn plan, Smith said.

There will be less activity on the water and less fuel on the water, and the scaled-down operation will demonstrate Shell’s capability to safely conduct offshore drilling, he said.

However, Shell also said that the reduced exploration program would result in fewer jobs and fewer contracting opportunities than had previously been anticipated.

Harold Curran, chief administrative officer for the North Slope Borough, told Petroleum News May 7 that, although the borough opposes oil and gas exploration and development on the outer continental shelf, the borough welcomes the fact that, in response to the concerns of North Slope communities, Shell is scaling back its plans for offshore operations and is planning to use improved emissions technology. And the borough is pleased that Shell has withdrawn its 2007 to 2009 exploration plan, an outcome that the borough sees as a vindication of concerns about MMS approval of that plan.

On the other hand, the borough wants to see the 2010 plan before coming to any final conclusions about it.

“We’re pleased with what we know,” Curran said. “We’re going to have to take a hard look at that (plan) application to see that it meets all of our concerns.”

Approved 2007

Shell’s 2007 to 2009 exploration plan, approved by MMS in February 2007, originally proposed the use of two drilling vessels.

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**GOVERNMENT**

**Porchot named Alaska special assistant**

Secretary of the Interior Ken Salazar has named Pat Porchot to be his special assistant for Alaska affairs, based in Anchorage. Interior said Porchot will work closely with Interior’s senior management in Alaska, the department’s major Alaska constituent and the secretary’s D.C.-based director of Alaska affairs, Kim Elton.

Most recently Porchot has been with the Audubon Society, but he began his career with the Department of the Interior as an outdoor recreation planner and was working with the Bureau of Land Management on environmental issues associated with moving Alaska oil to U.S. markets when he left the department to work on Capitol Hill, where he helped to fashion the Alaska Native Claims Settlement Act.

Porchot worked as a land manager for the Alaska Federation of Natives and as a resource manager for one of the Alaska Native regional corporations in the 1980s. He was elected to the Alaska House and Senate, and served as executive director for Commonwealth North after leaving the Legislature.

He was legislative director and then commissioner of the Department of Natural Resources for Gov. Tony Knowles. Since 2005, Porchot has been working with nonprofits.

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**PETROLEUM NEWS  •  WEEK OF MAY 10, 2009**

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**The Nature Conservancy in Alaska**

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3M Company

3M is a Fortune 500 global business comprising six market-leading business sectors: consumer and office, display and graphics; electro and communications; health care; industrial transportation; and safety, security and protection services. 3M Alaska is a sales and distribution branch office serving all of Alaska.

Relocating to the Alaska office in 2008, Julie Morman has been with 3M for 14 years in a variety of functions, divisions and locations. Julie has a bachelor’s degree in chemical engineering from Montana State University, a master’s in business administration from the University of Minnesota and was recently asked to speak at MSU’s National Engineering Week 2009. She is married with one son and in her time off enjoys hiking, biking, cooking and travel.

— MARTI REEVE

Unique Machine

Unique Machine, a Sumitomo Corporation of America subsidiary, is Alaska’s largest machine shop and has served the fishing, mining, construction, government and oilfield industries for more than 30 years. It was the first manufacturing facility to be ISO certified and is licensed to thread all major API and proprietary oilfield threads.

Rick Elsik, a Texas emigrant, moved to Alaska 12 years ago and has been with Unique Machine for 11. Rick brought with him experience in the oilfield industry, as well as 10 years in law enforcement. He enjoys a challenge and the satisfaction of a job well done. Rick’s hobbies are currently on hold while he and his wife Sandra are busy raising 5-year-old triplets.

— MARTI REEVE

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

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**Oil Patch Bits**

Nabors appoints John V. Lombardi as director

Nabors said April 27 that its board of directors appointed John V. Lombardi to fill the newly created vacancy. Dr. Lombardi will join the board as the class I director, with a term through the company’s 2020 annual general meeting of shareholders. He also appointed to each of the audit, compensation, governance and nominating committees of the board. Dr. Lombardi has been the president of the Louisiana State University system, where he also serves as a professor of history, since 2007. Prior to joining LSU, Dr. Lombardi served as chancellor and professor of history of the University of Massachusetts Amherst from 2002 until 2007.

The Nabors companies own and operate approximately 534 assets, including drilling and approximately 763 land, workover and well servicing rings in North America.

**MSI Communications unveils new name, services**

MSI said April 28 that the full service advertising and public relations firm formerly known as Marketing Solutions Inc. is now MSI Communications. After 12 years of steady growth in client-based and industry experience, MSi updated the symbols of its brand to better match the firm’s current area of expertise.

“After more than a decade of unparalleled growth and expansion services, we’ve outgrown our name” said Laurie Fagnani, company founder and president. “Our services changed dramatically from the traditional marketing mix to include campaign, strategy, issue management, web development, and local media, that we needed to reinvent our identity.”

Fagnani said that the firm retained the acronym from its original name, MSI Marketing Solutions Inc., but the letters more closely represent the firm’s core services and capabilities: marketing, strategy and interactive. The company’s new Web site is www.msisalka.com.

**Duoline GRE lined tubing a proven alternative**

Duoline Technologies said April 24 that its glass-reinforced-epoxy or GRE lined tubing has proven to be an alternative to conventional aluminum. Since 1986, more than 80 million feet of Duoline GRE lined tubing has been successfully installed worldwide, the company said.

However, with more customers moving into deeperwater drilling, which is a very harsh environment, the industry requires different kinds of product-based solutions, Duoline said.

“I think we are closer in deepwater, the use of unmodified premium connections was key and testing had not been done. GRE technology has been tested and qualifies as a cost-effective alternative to CRA tubing. On a project scope the cost savings per SF is high enough for GRE is now used in many deepwater projects for a variety of operators. For more information visit www.duoline.com.

continued from page 1

**MAC LINE**

the expected pace and now, in 2009, “it’s almost been held up,” the quandaries that we continue to work through,” he said.

**Mackenzie fields not developed**

Kvisle said it doesn’t help that the major natural gas fields backing the MGP have not been developed.

“The fields need to be completely defined (up and) all of the production facilities need to be constructed,” he said. “Obviously, all of the regulatory permits (which number in the hundreds) need to be received to do that kind of work.”

In contrast, Kvisle noted that AEG was “actively drilling in ExxonMobil and ConocoPhillips have been drilling on the North Slope for years, advancing that resource to a state of maturity where it’s time to go ahead with the gas pipeline and the predictions by people like ExxonMobil have always been 2016-2018 we will bite the right time from a reservoir engineering point of view to bring that gas on production.”

Kvisle is more strongly placed than anyone to offer a candid assessment of both projects — close enough to the action to have a clear sense of what is happening and what is needed, yet not restricted by having a direct ownership stake.

Although TransCanada has no current stake in the MGP, it can acquire 5 percent through its ongoing commitment to fund the work of the Aboriginal Pipeline Group, which can own one-third of the pipeline on behalf of aboriginal communities along the pipeline route.

It also holds an exclusive Alaska licence that is the state’s propositional line and has just received a green light from the U.S. Federal Energy Regulatory Commission to join the Val Denali project in entering the pre-filing phase.

Imperial hasn’t wavered

Imperial Oil, the lead partner in the MGP (along with ExxonMobil Canada, ConocoPhillips Canada and Royal Dutch Shell), has 6.8 percent owned by ExxonMobil, has never openly wavered from its “commitment” to the MGP and opening up Canada’s Arctic gas, despite regulatory setbacks that have now stretched to years, rising costs and growing pessimism among analysts, politicians and others that if the MGP trails behind its initial schedule, then the project will be shelved indefinitely.

Imperial Chief Executive Officer Bruce March said he would make a presentation card at his company’s annual meeting March 30.

He said spending has been slowed while the emphasis has shifted to striking a fiscal agreement with the Canadian government and negotiating terms and agreements with First Nations — three of which have been concluded, one is close to a deal and, the toughest of all, with the Deh Cho First Nations is still being negotiated.

March said discussions are still under way with federal Environment Minister Jim Prentice and provincial government departments to settle on a fiscal regime that will allow the partners “to go forward to invest and develop the property and get a pipeline built.”

Gas bubble not an obstacle

While reiterating Imperial’s commitment, March said “the focus is on the last remaining aboriginal agreements and the fiscal framework.” We’re confident we’re working hard to achieve that agreement and, like everyone else, we’re anxiously awaiting the Joint Review Panel’s report” on the environmental and socioeconomic issues, now expected late this year, after four years behind the original schedule.

March does not believe that the current North American gas bubble poses an obstacle to the MGP over the long term.

He said that as governments in Canada scale back coal-fired power generation, the need for alternative, cleaner energy sources will grow.

“There’s not enough gas in North America to make the conversion (from coal-fired to gas-fired plants) if you went 100 percent,” he said. “We still feel pretty good about gas being well in the energy mix, but it has a price environment that’s gone up and down.”

**MGM defers Arctic programs**

MGM Energy, the last active explorer in Canada’s Mackenzie Delta, has vented its feelings about the drawn-out regulatory phase of the Mackenzie Gas Project in the most telling fashion.

The Calgary-based junior said it will not do any more drilling or seismic work until the project, last estimated to cost C$16.2 billion, clears the official hurdles. MGM said it will defer three final wells and remaining seismic work covered by its revised farmout agreement pending a decision by the Imperial Oil-led Mackenzie consortium to go ahead with a pipeline.

MGM President Henry Sykes said in a statement May 5 that the actions, facilitated by a restructured exploration agreement with Chevron and BP, are in the best interests of MGM shareholders “given the complete lack of progress on the regulatory process.”

In particular, he blamed delays by the Joint Review Panel, charged with making recommendations on environmental and socioeconomic matters, and the failure by the pipeline proponents and the Canadian government to reach a fiscal agreement.

He said the firm’s change means MGM is “no longer required to spend substantial amounts of money on the Chevron/BP farmout (apart from an obligation under the Inuvialuit Concessions) until a decision has been taken to build the Mackenzie Valley pipeline.”

**MGM now operator**

The changes to the farmout agreement transfer the operator’s role to MGM, allowing it to decide the drilling and seismic work until after “a decision to construct” has been made.

However, MGM said it will “immediately earn the maximum interest available to it under the farmout agreement, consisting of a 50 percent interest in the farmout lands as well as in the discoveries in the Mackenzie Delta previously made jointly by Chevron and BP Canada.”

As a result, MGM is now committed to drilling three wells within three winter drilling seasons after the decision to construct occurs, instead of drilling the wells by April 2010 at an estimated remaining cost of C$55 million-C$60 million. Those wells could be appraisal or development wells.

It will also be able to carry the joint account for the balance of the seismic commitment, about C$26 million, on development costs after the decision to construct occurs.

Under the original agreement it would have been required to spend that money by April 2012, or pay 50 percent of the unspent commitment as a cash penalty.

**Acquires concession areas**

In addition, MGM will acquire 100 percent of the Inuvialuit Concession Areas 1 and 2 and make all penalty payments due to the Inuvialuit Land Corp. — to a maximum of C$10 million for MGM — if no wells are drilled on those lands by April 2010.

MGM said it will now not complete a drilling program in the 2009-10 winter, but may complete one or two wells on the Inuvialuit lands to extinguish the C$310 million penalty.

It said that given the location and nature of the Inuvialuit Concession wells, the cost would be significantly less than what it has spent over the past three years.

The company is one of two remaining prospective capital of about C$18 million by June 30, which it believes will fund its existing obligations and commitments until the third quarter of 2010.

Under the restructured agreement, contingent resources in four areas (Umiak, Eclips J-27, Chevron-BP previous discoveries and Nogha) total 1.3 trillion cubic feet and prospective resources total 355 billion cubic feet, with the net to MGM standing at 703 billion cubic feet of contingent resources and 185 billion cubic feet of prospective resources.

Separately, MGM reported a net first-quarter loss of C$6.4 million, or C4 cents a share, tied largely to dry-hole costs from two wells of C$4.2 million.

Capital spending for the three months was C$45.19 million in drilling and logistical expenses for the three wells drilled and C$504,000 for geological and geophysical work.

**Energy Review Panel’s report**

While reiterating Imperial’s commitment, March said “the focus is on the last remaining aboriginal agreements and the fiscal framework.” We’re confident we’re working hard to achieve that agreement and, like everyone else, we’re anxiously awaiting the Joint Review Panel’s report” on the environmental and socioeconomic issues, now expected late this year, after four years behind the original schedule.

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**GARY FARK**
Majority of oil gone from Drift River terminal

By ALAN BAILEY
Petroleum News

In a second drawdown of the contents of the active storage tanks at the Drift River oil terminal, at the base of the erupting Redoubt Volcano on the west side of Alaska’s Cook Inlet, the Chevron-flagged tanker Mississippi Voyager has successfully removed about 5.4 million gallons of the 6.2 million gallons of crude oil that remained in the tanks. The tanker departed the terminal’s Christy Lee platform at 6:30 a.m. April 30, bound for a refinery in Hawaii, after ballasting the terminal tanks with more than 5 million gallons of freshwater that the tanker had carried from the Columbia River, the U.S. Coast Guard said.

In early April after explosions from the volcano had caused the Drift River adjacent the terminal to flood, carrying mudflows along the terminal’s protective dike and across the facility’s airstrip, the unified command for responding to the threat to the terminal decided to shut-in the terminal and unload as much oil as possible from the tanks, to prevent oil leaking into Cook Inlet were a tank to rupture.

“We have effectively removed the majority of the oil at the terminal,” said Shell, the company that it hoped to use the Kulluk to drill in the summer of 2009 at two specific Sivulliq sites, a plan that then sank in the aftermath of the November court order.

In a separate unresolved piece of litigation the North Slope Borough, the Alaska Eskimo Whaling Commission and several environmental organizations appealed the Environmental Protection Agency’s air quality permit for the Kulluk, issued in 2008 for Shell’s then-planned Beaufort Sea drilling operations.

But, although Shell has not been able to drill in the Beaufort Sea, the company has during the past two summers conducted shallow hazard surveys around potential drilling sites, as well as surveying a possible pipeline route from Sivulliq to the shore. In the summer of 2008 the company carried out 3-D seismic surveys in the Beaufort Sea.

And Shell has continued a dialogue with North Slope communities about how to address their concerns.

The company has established a subsea acoustic monitoring program to obtain data about the migration of marine mammals such as whales. And onshore the company has been operating communications centers during the summer in North Slope communities, to facilitate communications between offshore industrial activities and subsistence hunters.

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Building a better Alaska

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**DRIFT ROVER**

the facility,” said Gary Folley, state on-scene coordinator, following completion of the second drawdown operation on April 30. “Thus we have significantly reduced the potential threat to Cook Inlet.”

“Thus we have significantly reduced the potential threat to Cook Inlet.”

Continuing from the previous section, it was noted that the tanker was manned 24 hours a day and the engines remained on standby at all times during the transfer. An initial drawdown of oil by the tanker Seabulk Arctic on April 6 had removed as much oil as possible from the tanks, given the heights of the pump intakes above the tank bottoms. The tanker had then pumped seawater into the tanks as ballast. Removing more oil in the second drawdown involved using propellers to mix the remaining oil and sludge with the ballast water, and then pumping as much as possible of the resulting mixture out of the tanks. Removing any further oil and sludge will involve a lengthy cleaning process, said Rod Ficken, vice president Cook Inlet Pipe Line Co, the company that owns the terminal.

“Once the volcano is determined to be dormant and we can put people safely on the ground for an extended period of time we will use vacuum trucks and hand methods to thoroughly clean the tanks,” Ficken said.

Meantime teams have been cleaning and repairing the Drift River terminal facilities and have cleared about 3,000 feet of the aerial steel oil wells near the west side of the Cook Inlet. The oil wells have been shut-in since April 5 as a consequence of the terminal shutdown — Cook Inlet Pipe Line is working with the oil producers to assess options for future operation of the terminal, USCG said.

As of May 7, the Redoubt Volcano eruption continued, with the ongoing possibility of another explosion.

continued from page 1

**NEW FINDS**

Greater Mooses Tooth unit in early 2008, consolidating leases and prospects held by ConocoPhillips and Anadarko. ConocoPhillips holds a 78 percent interest in the unit and Anadarko holds the remaining 22 percent.

ConocoPhillips has been the most active explorer in NPR-A over the past decade, drilling 20 wells since the federal government reopened the reserve to leasing in 1999.

Discoveries announced in 2001

Phillips Petroleum, a predecessor to ConocoPhillips, and Anadarko announced their first NPR-A discoveries in May 2001. Over the previous two winters, the company ultimately drilled in its exploration venture in the White Hills prospect.

Rig reports through the winter suggested Chevron drilled at least two wells this year: Muskoxen 36-7-8 and Bluebuck 6-7-9, both located toward the northern end of prospect. White Hills is located south of the Kuparuk River unit, near the Dulton Highway.

Reports from the oil patch suggested Chevron might have suspended some winter work.

Chevron has previously declined to discuss White Hills, calling it a “tight” venture.

Savant suspends Badami well

Savant Alaska suspended operations on a well at the Badami unit in late April.

The independent company drilled the Badami B1-38 well to a measured depth of 12,874 feet. Savant drilled the well from an existing gravel pad at Badami using Doyon rig 16, which has since been sent back to Prudhoe Bay, where it is under contract to BP.

The company suspended drilling to comply with seasonal North Slope travel restrictions.

“We are formulating plans to resume operations either this coming summer or next winter,” Savant executive Greg Vigil told Petroleum News in an e-mail on May 1. Badami B1-38 is targeting the Red Wolf prospect in the Kekiktuk, a deeper and older geologic formation than the Brookian where previous Badami development occurred.

To access Badami, Savant partnered with ExxonMobil to build and maintain an ice road to the eastern North Slope. Exxon continued outward to reach facilities at Point Thomson.

Exxon mobilized Nabsors rig 27-E at Point Thomson this winter, part of a program to drill two wells there by the end of 2010 in order to start production from the field by 2014.

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The Pioneer well in the NPR-A was drilled by the Doyon Arctic Wolf rig for ConocoPhillips.

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ConocoPhillips to focus its attention on prospects closer to Alpine, drilling or re-entering five wells in the area over the past two exploration seasons. The company also applied to form Greater Mooses Tooth, the first federal unit in NPR-A. Pioneer No. 1 is in the southeast corner of the unit. Rendezvous No. 2 is six miles to the west. ConocoPhillips also drilled Grandview No. 1 this winter, six miles further west than Rendezvous No. 2, in the southwest corner of the Greater Mooses Tooth unit.

ConocoPhillips previously indicated Mooses Tooth could hold as many as five reservoirs.

**Anadarko drills three wells**

ConocoPhillips’ announcement is the first this year, but not the only winter drilling.

Anadarko drilled three wells this winter to look for natural gas in the foothills of the Brooks Range and “all encountered natural gas,” according to a partner in the program.

The Texas-based independent drilled the Chandler No. 1 well using Nabors rig 105-E and drilled the Wolf Creek No. 4 and Gubik No. 4 wells using the Doyon Arctic Fox rig.

“Drilling operations were completed for the Wolf Creek and Gubik wells so they were plugged and abandoned. The Chandler well was suspended for possible future testing,” Petro-Canada, a partner, wrote in its quarterly financial filings released April 28.

BG Group is also a partner in the multi-year effort to determine whether gas prospects across the foothills of the Brooks Range can be developed economically. The prospects cover an area of state, Native and federal land Anadarko calls “the Gubik Complex.”

**UltraStar finished drilling**

UltraStar appears to have completed the Dewline No. 1 well north of Prudhoe Bay.

Jim Weeks, managing member of UltraStar, previously said the well would be a tight venture. The company has not yet released results from the drilling program.

Weeks described Dewline No. 1 as a 9,900-foot well to target a prospect in the Ivishak formation and “secondary targets” in the shallow sag River and Kuparuk formations.

UltraStar used the Doyon Arctic Wolf rig for the project.

**Chevron wells in White Hills**

In the central North Slope, Chevron apparently finished drilling early in the season.

The Alaska Oil and Gas Conservation Commission began listing Chevron’s exploration season as “completed” as early as mid-March, but didn’t say how many wells the company ultimately drilled in its exploration venture in the White Hills prospect.

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