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State-owned companies look to Canada to secure future supply of metals

Covers still the gold-rich Mount Spurr project of Kaminak Metals Corp.'s 11,000-acre mineral property in the southwestern Alaska Range. Whittier is one of several projects being evaluated this year at the Khatina Terrane, formed millions of years ago when an arc of islands known as the Khatina thrust up from the ocean floor and collided with the mainland of North America. Page 13

A special supplement to Petroleum News
WEEK OF
June 27, 2010

The June issue of North of 60 Mining News is enclosed

Ormat files for Mount Spurr geothermal exploration

There obviously must be heat under the ground somewhere near Mount Spurr, an active volcano on the west side of Alaska's Cook Inlet. But a viable geothermal power plant on the flanks of the mountain would require a suitable underground geothermal energy source in a location where adequate heat can be pumped to a surface facility.

No doubt with that in mind, Reno-based Ormat Nevada has filed with Alaska's Division of Oil and Gas a plan for a summer 2010 program of Mount Spurr geothermal exploration involving geophysical surveys and field mapping. If this initial work discovers a likely looking geothermal

see ORMAT page 19

Wild West turns friendly

Energy ministers from Canada's key petroleum provinces — Alberta, British Columbia and Saskatchewan — are talking harmonization to allow the oil and gas industry to operate more freely across their borders.

But that doesn't mean they're ready to give up competing.

As fast as they were discussing common permitting and regulatory rules, the three ministers were making it clear that their efforts to offer the most competitive royalty holidays and drilling incentives were not about to end.

The Alberta government established the tone by releasing a 90-day progress report on its regulatory review task force that claims the industry will save up to C\$170 million a year as a result of slashing regulatory red tape.

To lure more upstream activity, Alberta projected it will sacrifice C\$27 million in royalties in 2010-11, C\$311 million

see WILD WEST page 19

GOVERNMENT

BOP use up on Slope

Rig crews trip blowout preventers 12 times in 2010; regulators question BP

By WESLEY LOY
For Petroleum News

An unusually high incidence of rig crews engaging blowout preventers to control wells on Alaska's North Slope has drawn the attention of state oil and gas regulators.

Through the first half of the year, blowout preventers have been used 12 times, officials with the Alaska Oil and Gas Conservation Commission told Petroleum News.

Ten of these cases involved rigs working for BP. The other two were on rigs working for ConocoPhillips and Pioneer Natural Resources.

During all of 2009, Alaska drilling crews used



CATHY FOERSTER

JUDY PATRICK

blowout preventers 15 times, said Jim Regg, a petroleum engineer on the commission's staff.

The higher usage rate so far in 2010 prompted regulators to ask BP representatives to visit the commission's downtown Anchorage offices on June 21 to talk about it.

Cathy Foerster, a petroleum engineer who sits on the three-member commission, presided over the BP meeting. She said the purpose was to ask why BP rigs are engaging blowout preventers more often, and to make sure communication is open between field workers and the commission's inspectors.

One concern was that BP was reporting blowout

see BOP USE page 18

GOVERNMENT

Court halts moratorium

Administration will appeal court injunction against DOI deepwater drilling ban

By ALAN BAILEY
Petroleum News

As part of the ever-changing fallout from the Gulf of Mexico Deepwater Horizon disaster, a federal judge on June 22 issued an injunction stopping the U.S. Department of the Interior's recently imposed six-month moratorium on deepwater drilling on the U.S. outer continental shelf. A day later Interior Secretary Ken Salazar told a U.S. Senate committee that the administration would appeal the injunction while also preparing a new, refined version of the moratorium.

Interior issued the drilling ban at the end of May. But on June 7 oil services company Hornbeck Offshore Services appealed the morato-



KEN SALAZAR

ALAN BAILEY

rium in the U.S. District Court of the Eastern District of Louisiana, citing the impact of the moratorium on the company's business and on the general economy of the Gulf of Mexico region, and claiming that the government action was illegal. A long list of other service companies subsequently joined the court case, with a long list of environmental organizations pitching in on the side of the government.

"The court has found the plaintiffs would likely succeed in showing that the agency's decision was arbitrary and capricious," said District Court Judge Martin Feldman in granting the injunction on June

see MORATORIUM page 15

EXPLORATION & PRODUCTION

TG World likes North Tarn

Partner in North Slope JV says farm-in 'best' prospect it's seen in Alaska

By ERIC LIDJI
For Petroleum News

TG World Energy is showing increasing interest in the North Tarn prospect.

"North Tarn really, as far as we're concerned, is the best prospect that we've seen since we went up there," Clifford James, president and CEO, said at a June 17 annual meeting.

Calgary-based TG World holds a 20 percent working interest in the North Tarn prospect through its participation in a joint venture led by the Alaska Venture Capital Group, which operates in Alaska through its subsidiary Brooks Range Petroleum Corp.

The North Tarn prospect is a farm-in of six Eni

"Why is that significant for us? Because that's a Brookian play, and within this area we have the same type of play. So they're actually going to test the productivity."

—Clifford James, president of TG World Energy

Petroleum leases contiguous to the west side of the Kuparuk River unit, near the Colville River. The four-company joint venture announced the deal this past January and plans to drill at the prospect next year.

TG World is basing its optimistic assessment on

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• GOVERNMENT

Feds get 52,000 comments on ANWR future

Question of wilderness designation for coastal plain sparks spirited oil and gas debate, with wide range of interests weighing in

By WESLEY LOY
For Petroleum News

If anybody wonders whether the Arctic National Wildlife Refuge still matters to the American people, just ask the land-lord.

The U.S. Fish and Wildlife Service received an estimated 52,000-plus responses to its recent call for public comments on a pending update of ANWR's "comprehensive conservation plan."

The plan will help guide future management of the refuge in Alaska's extreme northeast corner. At more than 19 million acres, the refuge is about the size of South Carolina.

The Fish and Wildlife Service has said it might recommend additional acreage within the refuge for designation as wilderness, perhaps even the western coastal plain, or what's known as the 1002 area.

Congress would have to approve any new wilderness. And whether to allow oil and gas exploration on the coastal plain also is a congressional call.

Encompassing 1.5 million acres, the coastal plain has been the subject of an epic struggle between conservationists fighting to keep it closed to drillers, and industry and political leaders who want it opened.

Deferring to the exclusive authority of Congress, the Fish and Wildlife Service said it wouldn't consider or respond to comments for or against oil and gas activity in preparing the new comprehensive conservation plan.

But many people nevertheless dwell heavily on the oil and gas question in their public comments to the agency.

Sharon Seim, planning team leader for ANWR in Fairbanks, said a contractor is working on a summary of the outpouring of written comments, which were due by June 7.

Two organizations, Seim said, rallied thousands of form letters: The Wilderness Society, which supports wilderness designation for the coastal plain, and the Consumer Energy Alliance, which opposes it.

Petroleum News requested a sampling of the ANWR comments, including those from specific persons, companies and organizations. Seim noted the comments she provided "do not necessarily present a balanced view of all the comments we received."

Here are some excerpts:

**North Slope Borough
Mayor Edward Itta:**

"Among all of the concerned stakeholders, none understands better than the Borough the decades-old controversy surrounding the long-term management of ANWR. Lying as it does entirely within our borders, land that is seen as vast, remote, strange and somehow magical to others is simply home to our people."

"Beyond the oil and gas question, for our community of Kaktovik to find itself surrounded by designated wilderness would severely limit options for its future economic development."

"Onshore oil and gas development is a major economic opportunity for Kaktovik and the North Slope Borough."

"The FWS should keep in mind that while this area is sparsely populated, it is populated. The people living here should not be denied opportunities to improve their standard of living."

**The Episcopal Church, Office
of Government Relations:**

"The Episcopal Church has long opposed drilling in the Arctic National Wildlife Refuge not only because of our concern for and stewardship of God's creation, but because of our commitment to standing with the Gwich'in Nation, which represents one of the only native Anglican nations in the world. The exploitation of fossil fuels that contribute to global warming threatens both the subsistence rights of the Gwich'in people — more than 90 percent of whom are Episcopalian — and their culture as well. The calving grounds of the Porcupine Caribou in Alaska's North Slope are sacred to the Gwich'in people, and the Episcopal Church supports the Gwich'in in calling for full protection of the Arctic National Wildlife Refuge."

**Alaska Senate Minority Leader
Con Bunde, R-Anchorage:**

"The effort to block further domestic oil and gas development seems to be driven largely by those who feel we drive too many cars and burn too many fossil fuels. The reality is that petrochemicals provide

us with a dizzying array of commercial and household products — including plastics, paints, synthetic fibers, detergents, lubricants, and pharmaceuticals, just to name a few — that allow us the standards of safety, convenience, and variety that we all enjoy. Petrochemicals both figuratively and literally fuel our economy. To preclude the development of domestic feedstock for this import industry by closing off areas like ANWR is, at best, short-sighted public policy."

"Alaska does not need any more wildernesses. We already possess 58 million acres of federal wilderness lands, accounting for 53 percent of America's total federal wilderness areas. Enough!"

Bob Krear, wildlife biologist:

... also a friend of Olaus and Mardy Murie, wilderness advocates for land that would become ANWR:

"Of course there must never, never be any drilling for oil in the Beaufort Sea north of the Refuge! Oil spills would be inevitable, and the prevailing northerly winds would bring it all back to the Refuge coast. If such drill sites already exist in the Sea above and to the west of Prudhoe Bay, one wonders what that coastline looks like!"

**Richard Ranger, senior policy adviser,
upstream, American Petroleum
Institute:**

"Oil and gas operations are not unknown on wildlife refuge lands. About one-quarter, or 155, of the over 500 refuges, wetlands management districts and other lands administered by USFWS, have past or current oil and gas activities,

see ANWR COMMENTS page 17



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• LAND & LEASING

Trust Land Office offering UGC licenses

Proposed licensing program covers 190,000 acres across three boroughs, Land Office sees opportunity in declining gas production

By ERIC LIDJI
For Petroleum News

The Alaska Mental Health Trust Land Office plans to license a broad swath of land to exploration companies interested in producing natural gas from deep coal deposits.

The proposed licensing area would cover 190,000 onshore acres spread across the Denali Borough, the northern and western Cook Inlet basin and the northern Kenai Peninsula.

The Trust plans to spur development of the lands through a process similar to the one the state uses to promote oil and gas activity in remote and underexplored basins. Applicants pay a rental fee for a license to study all or some of the area. That license can eventually be converted into traditional exploration leases, and then development units in turn.

Rather than offer oil and gas leases, though, the Trust wants companies to pursue underground coal gasification. The process is a way to develop the energy potential of coal deposits too deep for mining by pumping air and water into underground coal seams that have been ignited. The heat and oxygen converts the solid coal into a gas.

The program would offer a seven-year license at \$1 per acre. If the licensing leads to leasing, the Trust is proposing to offer the land for an initial five-year term at \$4 per acre per year with a single five-year extension that could be extended further by production.

The Trust sees the land offering as a way to take advantage of concerns about declining natural gas production in Southcentral. "Given the current energy situation in the Cook Inlet, and the pro-

jected shortfall of natural gas supplies in the future, the possibility of producing energy supplies from the coal resources affected by this decision are "best market" resources that should be offered now rather than later," Marcie Menefee, acting executive director of the Trust Land Office, wrote in a June 17 best interest decision.

The Trust is taking comments on the proposal through July 20.

UGC interest on the rise

Although no underground coal gasification operations are currently under way in Alaska, local coal resources are increasingly capturing the imagination of exploration companies.

Cook Inlet Region Inc., an Alaska Native corporation, and Houston-based Laurus Energy are proposing 100-megawatt power plant north of Tyonek on the west side of Cook Inlet run on gas produced from underground coal deposits. The Australian exploration company Linc Energy recently acquired the Cook Inlet leases of GeoPetro with the stated goal of pursuing underground coal gasification opportunities across the Cook Inlet.

Currently, coal production in Alaska is limited to the Usibelli Coal Mine operations around the Healy area. PacRim Coal is proposing a large coal strip mine near Tyonek.

Previous attempts to promote coal gasification in Alaska involved building a plant where mined coal could be converted to natural gas or liquid fuel through a similar process. •

Contact Eric Lidji
at ericlidji@mac.com

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Dee Cashman	CIRCULATION REPRESENTATIVE

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

NEWS
907.522.9469
publisher@petroleumnews.com

CIRCULATION
907.522.9469
circulation@petroleumnews.com

ADVERTISING
Susan Crane • 907.770.5592
scrane@petroleumnews.com

Bonnie Yonker • 425.483.9705
byonker@petroleumnews.com

FAX FOR ALL DEPARTMENTS
907.522.9583

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Oil sands juniors on a roll

By GARY PARK
For Petroleum News

Assuming final regulatory approval and financing are in place, Southern Pacific Resource expects to start production at a C\$430 million thermal oil sands project by mid-2012 and sustain output of 10,000-12,000 barrels per day for at least 30 years.

The Calgary-based junior is poised to start construction this fall, after putting a number of key pieces in place, including acquiring the 19 percent it did not already own of leases covering 193,000 acres; hiring Ron Clarke, a former key manager at Suncor Energy, as its chief operating officer; occupying a trading spot on the Toronto Stock Exchange; and recently concluding a bought deal financing that raised C\$101 million.

Once regulatory clearance is received from the Alberta Energy Resources Conservation Board and the Alberta Environment Department, the company expects to fund the remaining portion of the project through public and private market debt.

Southern Pacific's Chief Executive Officer Byron Lutes said the McKay project "is just around the corner," now that a front-end engineering and design study has been completed and a detailed wellbore design and budget is on budget and on time.

The company reported it completed a successful 31 core hole exploration program over the past winter and identified exploitable bitumen resources to support an additional 24,000 bpd of incremental bitumen processing capacity on the McKay block.

Analysts expects approval

Randy Ollenberger, an analyst at BMO Capital Markets, is counting on regulatory approval for Southern Pacific, allowing the company to raise the additional C\$300 million of financing that it needs.

He said the startup is distinct from its peers because of its cash flow from almost 4,500 bpd of thermal heavy oil production at its Senlac project in west-central Saskatchewan, after buying Senlac last fall for C\$90 million and using techniques that underpin Alberta operations by oil sands major Cenovus Energy.

Lutes said Southern Pacific has no intention of using untried technology at the McKay project.

"We're too small," he told an investment symposium. "We'll let the big guys test the new technology."

He said the company plans to fund a

Southern Pacific's CEO Byron Lutes said the McKay project "is just around the corner," now that a front-end engineering and design study has been completed and a detailed wellbore design and budget is on budget and on time.

C\$505 million capital budget over the next 18 months, using C\$60 million in cash, C\$90 million from Senlac cash flow, a C\$55 million existing bank line and C\$300 million in a new debt facility.

Richard Wyman, an analyst at Canaccord Genuity, said debt markets are breaking out of the deep freeze that hit them in late 2008 and early 2009, giving him confidence that Southern Pacific will secure its debt facilities.

Petrobank also moving ahead

Also moving ahead with its four-year-

old plans for commercial oil sands production, using a proprietary in-situ combustion process, is Petrobank Energy and Resources.

The bitumen recovery process, dubbed THAI, or toe-to-heel-air-injection, lights a fire in the reservoir to melt the bitumen and let it flow to production wells.

McDaniel and Associates Consultants, Petrobank's reserves evaluator, issued an engineering report earlier this year that concluded the THAI process is working, noting that more than 250 bpd of production had been sustained at the Conklin site for at least three months.

Chris Bloom, Petrobank's senior vice president, said he is confident that sustained commercial volumes will be achieved this year at Conklin and at a 50-50 heavy oil joint venture at Kerrobert in southern Saskatchewan, where the THAI technology is being applied.

Using fire rather than steam to heat the reservoir is seen by Petrobank as a way to eliminate some of the costly surface infrastructure needed to purify, boil and recycle water, lowering the cost of purchasing natural gas to fuel steam boilers, the biggest single cost element of thermal projects.

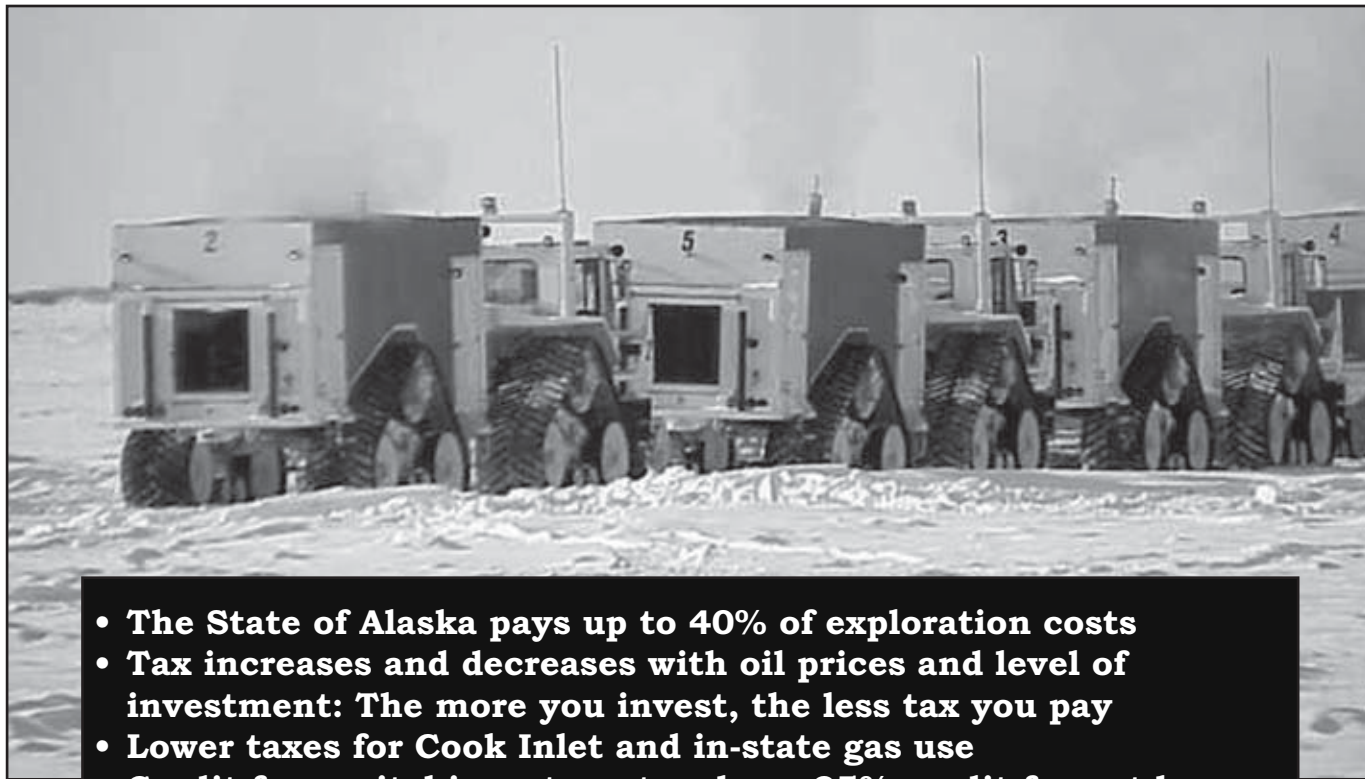
Although delayed by some production problems over the past two years, Petrobank is now targeting rates at its three Conklin wells of 1,500 bpd, expects Kerrobert to achieve commercial output in the next few weeks and is pressing ahead with plans for a 10,000 bpd expansion at the Conklin operation once it receives regulatory approval.

The company also plans to test THAI in the Bluesky formation bitumen through a 50-50 joint-venture at Dawson in northwestern Alberta. ●

Contact Gary Park through publisher@petroleumnews.com

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

Savant Resources, 2009



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

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

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

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

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

(Brooks Petroleum Corporation, 2008)

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• EXPLORATION & PRODUCTION

State wants some answers from Escopeta

DO&G wants more information from company before it decides whether to extend the work commitment deadlines at Kitchen Lights

By ERIC LIDJI
For Petroleum News

State officials are leaving the door open just a crack to extending the deadlines for work commitments at the Kitchen Lights unit in the Cook Inlet basin, but first they want some answers from the unit operator, Houston-based independent Escopeta Oil and Gas.

In a June 18 letter, Alaska Division of Oil and Gas Director Kevin Banks asked Escopeta President Danny Davis for seven pieces of information the division wants

to have in hand before it decides whether to grant Escopeta's request for six additional months at the unit.

That information includes:

- An itemized list of expenses to back up the claim that Escopeta and its partners have spent \$32.5 million on the Kitchen Lights unit, as well as a detailed account of which expenses came after the division approved the formation of the unit last summer;
- An account of Escopeta's efforts and negotiations to get a jack-up rig to Alaska;
- A detailed list of the "critical steps,

Escopeta believes it can get back on the original timetable set out in the June 2009 plan of exploration by the end of 2011, or the second year of required work commitments.

contracts, or agreements" Escopeta needs to have in hand in order to meet the work commitments it proposed to the DOG at the end of May;

- A list of the permits Escopeta has in hand, and a list of the permits and bonds it still needs to get, as well as its anticipated timeline for getting those additional permits;

- An account of Escopeta's efforts to address its concerns about offshore drilling in the wake of a moratorium imposed by the federal government in response to an ongoing oil spill in the Gulf of Mexico. While the moratorium does not include state waters, Escopeta worried that the ruling would make it more difficult and more expensive to get insurance;

- An account of Escopeta's attempts to find alternative ways to meet its commitments; and

- A status update, including documentation, for offers to buy the Kitchen Lights leases.

The division wants the information by June 28, and plans to meet with Escopeta soon after.

Another chance? Last chance?

Escopeta came to Alaska a decade ago, buying up offshore leases in the Cook Inlet basin. The company formed the Kitchen unit in early 2007, but continually failed to line up all the pieces needed for an offshore exploration campaign in the shallow waters of the region.

The state put the unit in default in late 2007, giving Escopeta a year to bring the unit back into compliance, primarily by arranging for a jack-up rig to come to Alaska. A jack-up, a mobile drilling platform used in shallow waters, is crucial for exploring the prospect.

By the end of 2008, though, Escopeta still didn't have the rig. The company asked the state to extend the drilling deadline until December 2010. Following various appeals and a somewhat heated legislative hearing, the two sides reached an agreement. The state combined three neighboring offshore units — Kitchen,

Corsair and Northern Lights — into one super unit called Kitchen Lights to be owned and operated by Escopeta. In return for this consolidation, designed to improve the odds of exploration at multiple areas of an anticline running northeast to southwest beneath the three old units, the state extended the work commitments over the leases. Escopeta currently has until June 30, 2010, to have a jack-up rig headed for Alaska and until Dec. 31, 2010, to spud a well at Kitchen Lights.

Just a little more time

On May 30, 2010, though, Escopeta asked the state for an additional 180 days to meet the work commitments set out in the first Kitchen Lights plan of exploration from June 2009.

Escopeta said the extension would give it enough time to finalize a contract for a jack-up rig, outfit the rig for sub-Arctic conditions and get the rig on a ship bound for Alaska.

Aside from those permits related specifically to the drilling rig, Escopeta said it has all other permits either in hand or pending, including a waiver of the federal Jones Act that restricts access to domestic ports to ships built, owned and manned domestically. That waiver is crucial because of the scarcity of domestic ships able to bring a jack-up north.

Davis recently confirmed rumors that Houston-based Apache Corp. made an offer on some of Escopeta's leases, an offer contingent on the division granting the time extension.


Escopeta is negotiating with offshore drilling contractor Pride International Inc. to build a jack-up that can be used in the Cook Inlet, but doesn't believe the rig will be ready to deploy to Alaska before early 2011, making April 2011 the earliest realistic spud date.

Escopeta believes it can get back on the original timetable set out in the June 2009 plan of exploration by the end of 2011, or the second year of required work commitments.

Escopeta has signaled that it would appeal an unsatisfactory ruling.

A satisfactory ruling, though, might allow Escopeta to take advantage of the incentives of Senate Bill 309, which commits significant state funds to pay for jack-up rig exploration drilling. ●

Contact Eric Lidji
at ericlidji@mac.com



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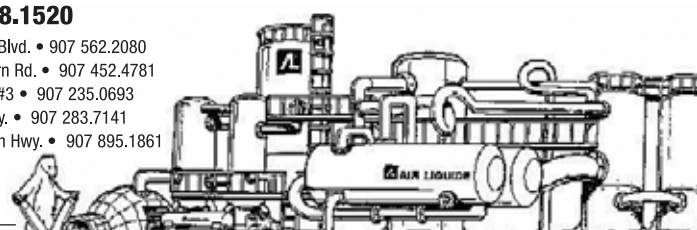
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• EXPLORATION & PRODUCTION

Cenovus Energy raises oil sands bar

By GARY PARK
For Petroleum News

Oil sands power Cenovus Energy has set its sights on a five-fold hike in production over the next 10 years to 300,000 barrels per day (net of its joint venture with ConocoPhillips), drawing on an updated “best estimate” of bitumen initially in place of 137 billion barrels.

In releasing an independent evaluation by McDaniel & Associates Consultants, Cenovus said its average finding and development costs are now C\$8 per barrel.

The increase will primarily come from its Foster Creek and Christina Lake in-situ operations along with new projects at Narrows Lake and Grand Rapids.

Of the new bitumen initially in place estimate, 56 billion barrels are rated as “discovered,” which means at least one well has been drilled per section of land.

McDaniel believes much of the bitumen initially in place deposits are unrecoverable using current technologies because their bitumen concentration is too low, or other geological characteristics are considered unfavorable.

Those deposits that McDaniel lists as “exploitable” with current technologies are calculated at 14 billion barrels (before royalties at U.S. reserve pricing).

The company has undiscovered bitumen initially-in-place of 82 billion barrels.

Further assessment has boosted expected gross production capacity at Foster Creek to 235,000 bpd and Christina Lake to 258,000 bpd, a combined 15 percent increase over the previous target.

Narrows Lake next

Narrows Lake, located near Christina Lake, is next on the Cenovus schedule for development, with the filing of a regulatory application expected shortly, including the possibility of deploying a solvent-added process along with steam injection.

Grand Rapids is scheduled for the test

of a steam-injection well pair this fall, with a regulatory filing possible by late 2011.

The region includes the current Pelican Lake polymer flood operation and a potential future exploitation of the Grosmont carbonate formation.

Evaluation work is proceeding for a number of other projects that could come onstream after 2019 and there are plans to collect seismic data and drill stratigraphic wells on seven more promising oil sands assets over coming years.

Cenovus told an investor day June 17 that its objective is to have commercial projects approved by regulators with total capacity of 400,000-500,000 bpd net by the end of 2015.

Cenovus said that applying a manufacturing approach for project development by expanding in phases, approves the efficiency of each new stage and allows Cenovus to learn from the previous phase.

The company is budgeting C\$40 million a year for research and development, doubling its previous spending. It currently has about 50 R&D projects under way and expects to introduce at least one new commercial technology each year, aiming to improve oil recovery, lower operating costs and shrinking the impact on the environment. It said that about 75 percent of these projects have environmental improvement as their primary goal. ●

Contact Gary Park through
publisher@petroleumnews.com

NATURAL GAS

BP in clash over coalbed methane well

BP is locking horns with residents of southeastern British Columbia over its plans to drill a coalbed methane well, despite what it says have been three years of open houses and meetings with various groups.

But residents of the East Kootenay region claim they have been caught off guard by the start of preparation work for the first test well in BP Canada Energy’s Mist Mountain Coalbed Gas Project that could lead to major investment in an area covering about 123 square miles.

However, BP spokeswoman Hejdi Feick told the Vancouver Sun that a date has yet to be set to start drilling because of rainy weather.

She said a detailed media advisory will be released once a decision has been made.

Feick said the company has been “very forthcoming and open with our plans and ... that’s how we will be in the future.”

Ryland Nelson, program coordinator with an environmental group known as Wildsight, said site preparation has been under way for two weeks in advance of what his organization said will be summer drilling.

He said BP has gained regulatory approval to drill the single well and the well’s coordinates have been obtained from the British Columbia Oil and Gas Commission.

Nelson said there was no announcement in the local newspaper at Fernie and the Fernie city council had not been notified.

He said environmentalists are opposed to BP’s plans within an area known as Crowsnest Coalfield.

Nelson said that is the narrowest portion of the Canadian Rocky Mountains and could disrupt the travel patterns of animals entering national parks.

There is also concern over the volumes of contaminated water that might be pumped from coalbed methane wells and which must be re-injected below ground.

—GARY PARK



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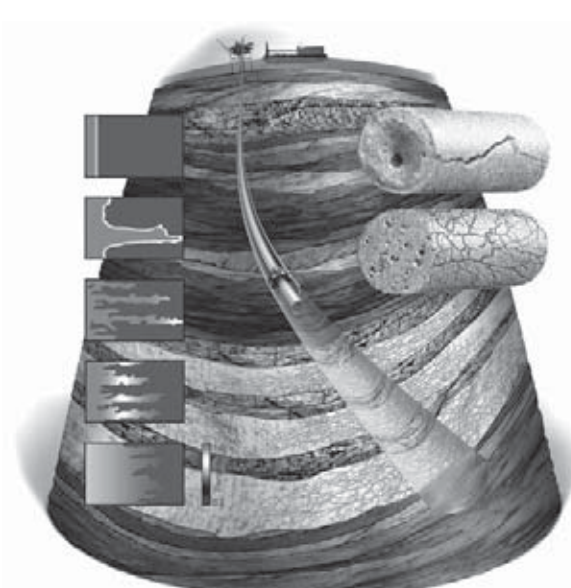


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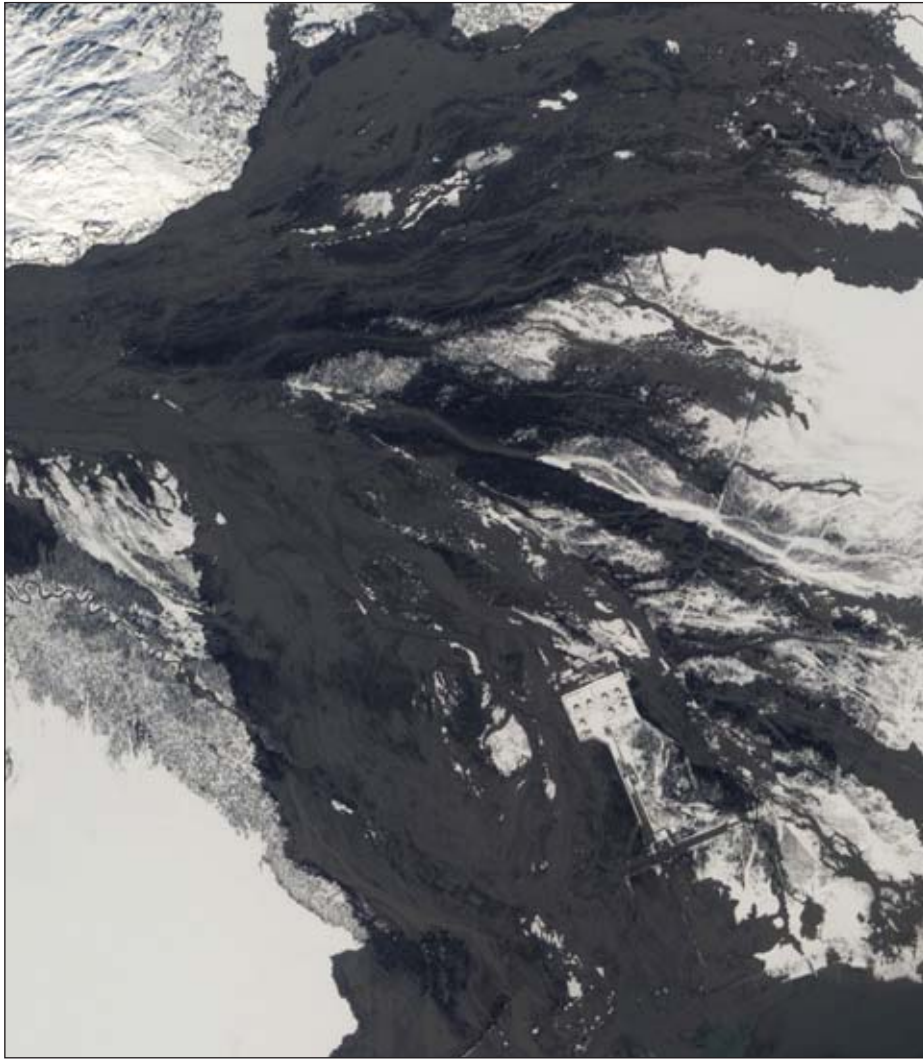
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Report highlights need for response info

Says earlier formation of formal response team would have reduced public concern about Drift River status during Redoubt eruption

NASA



No oil was spilled when mud flows from the erupting Redoubt Volcano surrounded the Drift River Oil Terminal on the west side of Alaska's Cook Inlet.

By ALAN BAILEY
Petroleum News

When the Redoubt Volcano on the west side of Alaska's Cook Inlet started erupting in March 2009, the threat of damage to the Drift River Oil Terminal on the Cook Inlet coast at the base of the volcano, and the possibility of an ensuing oil spill from the oil storage tanks at the terminal, became an issue of significant concern to both the oil industry and the general public.

But, although no oil was eventually spilled from the terminal as a result of the eruption, better dissemination of information, especially early on in the Redoubt response, could have avoided some significant public concern about the conduct of the response, according to a retrospective review prepared by Pearson Consulting for Cook Inlet Regional Citizens Advisory Council, the organization that enables citizen oversight of oil spill prevention and response arrangements in the Cook Inlet region.

CIRCAC published Pearson Consulting's review report on June 21.

Improved defenses

Following an earlier Redoubt eruption in 1989-90, Cook Inlet Pipe Line Co., the Drift River terminal operator, had implemented major modifications at the terminal, including the construction of a huge dike to protect the terminal's tank farm from flooding from the neighboring Drift River — probably the biggest threat to the terminal comes when the erupting volcano melts ice in the Drift Glacier, the Drift River's source at the edge of the volcano's crater, sending a torrent of mud-laden water down the river and out across the low land where the terminal is situated.

Following communication in the late fall and early winter of 2008 from the Alaska Volcano Observatory about potential eruptive activity in volcano, Cook Inlet Pipe Line took immediate action to anticipate the various issues that an eruption would cause, the new report says. Then, in January and February 2009, with increasing indications of the volcano springing into life, the U.S. Coast Guard, the U.S. Environmental Protection Agency and CIRCAC became involved in working with Cook Inlet Pipe Line to gain a better understanding of how best to respond to an eruption and what the

consequences of that eruption might be.

No volumetric data

But, in the first of the communication issues that the report cites, Cook Inlet Pipe Line's security plan under the Maritime Security Act precluded the company from divulging to the general public the volume of oil being stored in the Drift River tank farm, although the company did provide an indication of how much of the tank storage capacity was being used, the report says.

"The amount of oil stored at the DROT (Drift River Oil Terminal), and which tanks were storing the oil, was a key piece of information in understanding the risk posed by the DROT," the report says.

In November 2008 Cook Inlet Pipe Line did request a security waiver from the USCG, to release the data, but the USCG eventually denied this request in April 2009, the report says.

By the time that Redoubt started erupting in mid-March, Cook Inlet Pipe Line had already taken actions to secure the terminal and had removed all non-essential personnel from the facility. But only after two large eruptions on March 25 did USCG, ADEC and Cook Inlet Pipe Line decide to establish a formal unified command structure for responding to the eruption — up to that point, the coordination of the response between the various organizations involved had taken place on an informal basis, the report says.

A formal unified command brings an emergency response under the joint management of the major industry and government entities involved in the response.

Better communication

The fact that the unified command did not form until sometime after the eruption started led to communication issues and public misconceptions about what was happening — only after the unified command was put into operation did the communication of information to the public become fully transparent "with the use of a unified command website, posting of daily situation reports, incident action plans, press releases, fact sheets and other public information releases," the report says.

Following an eruption event on April 4 Cook Inlet Pipe Line shut down the Drift River Oil Terminal indefinitely, evacuating

see REPORT page 17

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GOVERNMENT

Bromwich wants new culture for oversight of Outer Continental Shelf

Michael Bromwich has wasted no time in setting the tone for the direction he intends to take as the director of the Bureau of Ocean Energy Management, Regulation and Enforcement, the new agency for regulatory oversight of industrial activities on the U.S. outer continental shelf.

Just two days after being sworn in to his new job, Bromwich appeared in front of the U.S. Senate Appropriations Subcommittee on Interior, Environment and Related Agencies on June 23 to announce the immediate formation of an investigation and review unit within his agency.

The new unit will have the capability to investigate any allegations of misconduct by agency staff, and to pursue any allegations that companies have violated the terms of their federal oil and gas leases or engaged in deception to acquire leases.

"I think it's a very important capability and I feel proud to have created it," Bromwich said.



MICHAEL BROMWICH

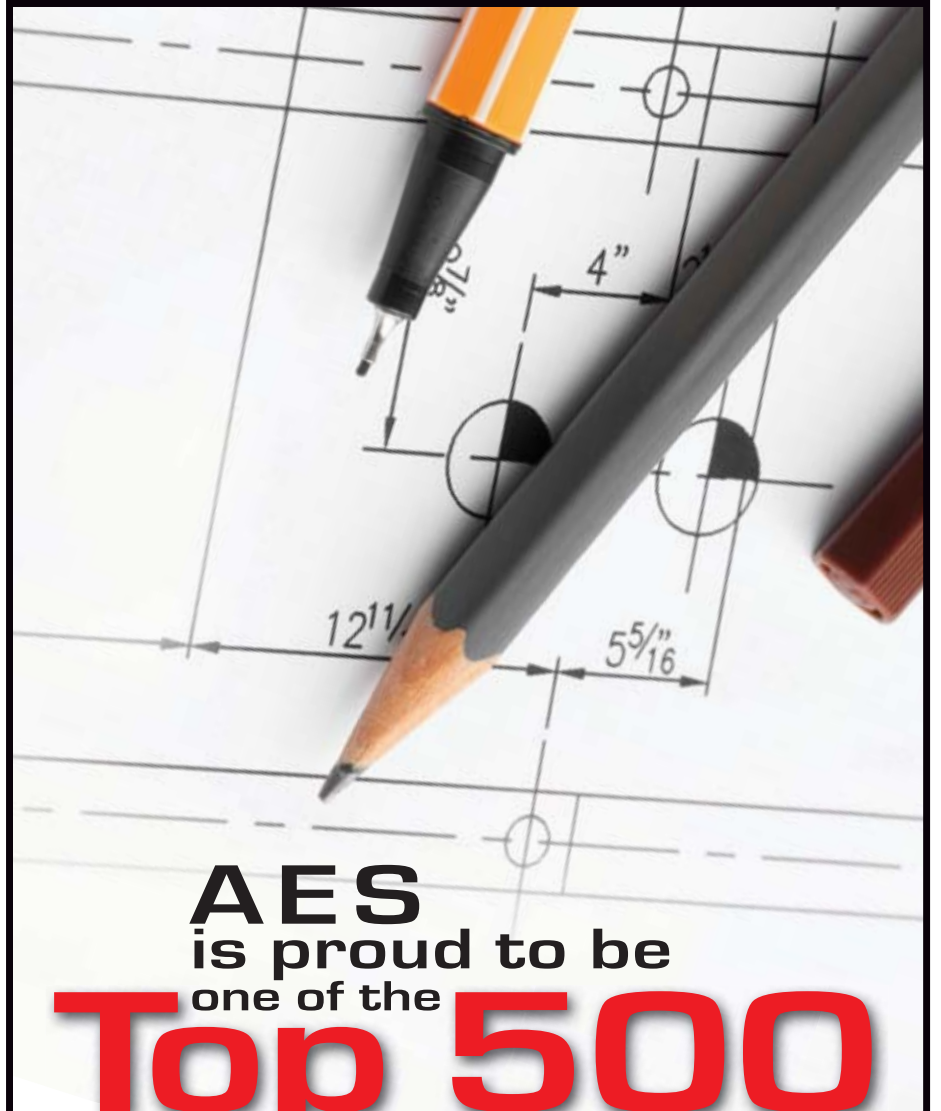
Interior Secretary Ken Salazar has formed the Bureau of Ocean Management as part of the breakup of the U.S. Minerals Management Service into three new agencies, to separate the functions of oil and gas leasing and revenue collection from the function of regulatory oversight and enforcement within the Department of the Interior. There has been suspicion that a potential conflict of interests between the desire for resource development and the need for regulatory oversight within MMS has led to alleged lax oversight of the oil industry, perhaps contributing to the events leading to the Deepwater Horizon disaster in the Gulf of Mexico.

Some people have accused MMS staff of being too "cozy" with oil industry officials, thus compromising the agency's OCS oversight role, and there have been instances of MMS employees receiving excessive gifts and other favors from oil companies. Bromwich wants to see a new culture in the new agency, with a clear agency mission and no tolerance for a cozy relationship with industry.

"If I find out about people who are not doing their job aggressively, there are consequences to that," Bromwich said. "I have already started to send that message, but it's not going to happen overnight. ... It will take some instances of my making clear that I mean business for the culture to start to change."

Salazar also told the Senate committee that the new bureau, to fulfill its function, will need a more than 200 new people with inspection and regulatory enforcement roles. Interior will prepare a funding request for the additional staff, he said.

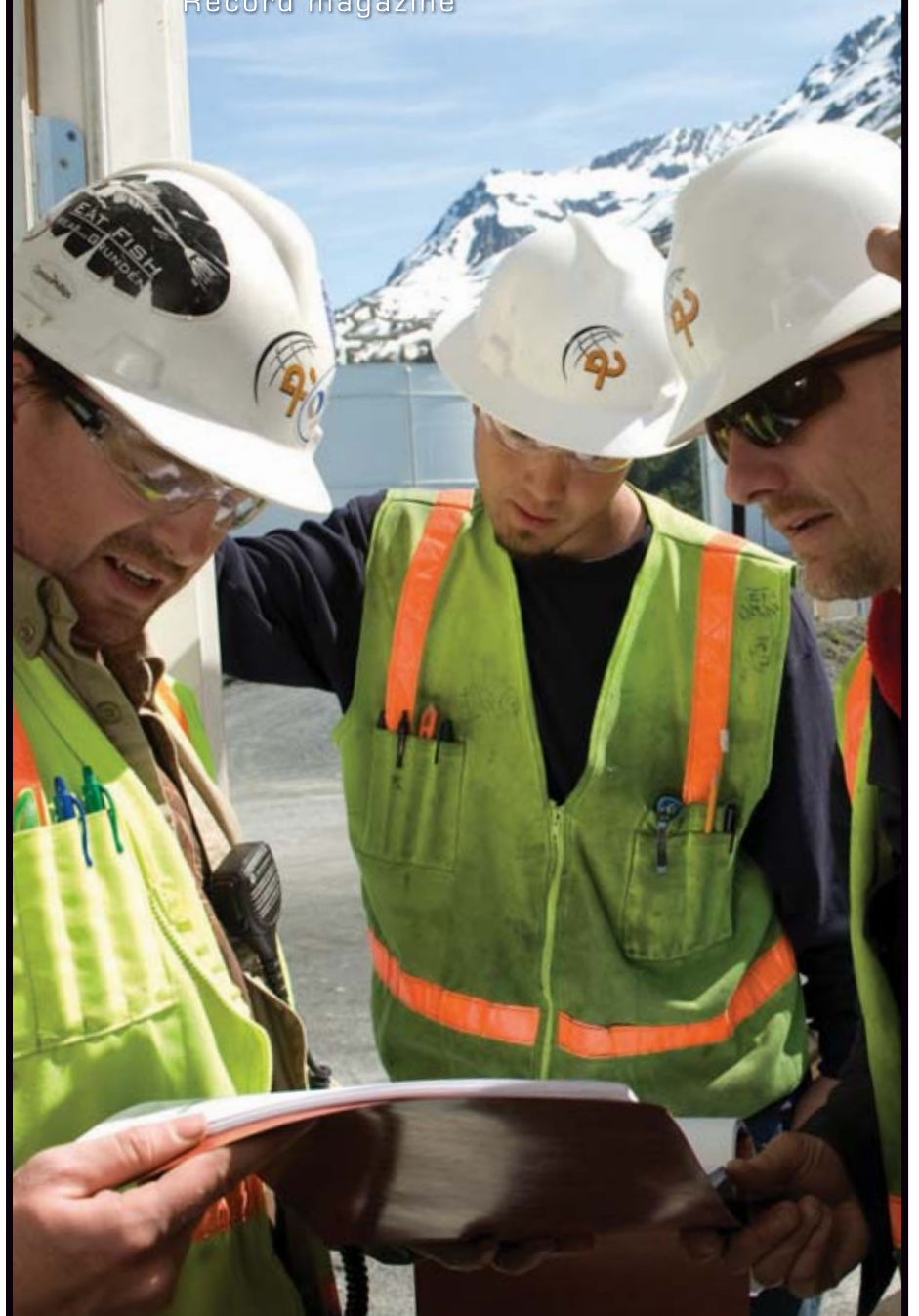
—ALAN BAILEY



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• NATURAL GAS

ANGDA works on open season gas line bid

Alaska Natural Gas Development Authority steps away from EIS, rights of way, for Beluga to Fairbanks gas line; hands over to AGDC

By KRISTEN NELSON
Petroleum News

The Alaska Natural Gas Development Authority board took two significant votes at its June 23 meeting in Fairbanks: It authorized Chief Executive Officer Harold Heinze to bid for natural gas capacity in the Alaska Pipeline Project (TransCanada and ExxonMobil) and Denali (BP and ConocoPhillips) open seasons; and it voted to withdraw its application for an environmental impact statement for the Beluga to Fairbanks natural gas pipeline.

The board discussed withdrawal of the B2F EIS and permit applications at its May meeting and according to minutes of that meeting Heinze said then that the National Environmental Policy Act process was more difficult than ANGDA had thought going in and that the authority was running out of resources to pursue

the B2F project.

The Beluga to Fairbanks project was begun under former Gov. Sarah Palin, with the initial goal of encouraging further exploration and development of Cook Inlet natural gas for shipment to Fairbanks. The line would carry Cook Inlet natural gas from the area of the Beluga gas field on the west side of Cook Inlet north to Fairbanks.

Once a main line bringing natural gas from the North Slope was in place, flow on the B2F line could be reversed and it would serve as a spur line, bringing North Slope natural gas to Southcentral Alaska; the line was also designed to provide storage for Southcentral, which experiences spikes in natural gas use during the winter.



HAROLD HEINZE

Agency issues

Issues between ANGDA and federal agencies surfaced last year, with the U.S. Army Corps of Engineers, the lead agency for the EIS, and the Bureau of Land Management, which issues rights of way across federal lands. The corps was concerned about what the project really was, a standalone pipeline or a spur line, and BLM questioned whether ANGDA had legal authority to permit rights of way for the project.

After meetings and discussions at board meetings near the end of the year, ANGDA and the federal agencies appeared to have come to an agreement on a project description for B2F and on ANGDA's authority to permit rights of way.

ANGDA provided a revised project description after workshops with ANGDA board members, staff, contractors and the federal agencies.

Withdrawal of B2F EIS

In discussing withdrawal of the B2F EIS and permit applications at the June 23 board meeting, Heinze said it had become clear that finishing the process would require more time and more resources. But no additional funds were appropriated for the project in the last legislative session. Heinze said ANGDA was tapped out. "We're down to small change," he said.

Some of the issues the agencies want addressed are technical issues that would require a higher level of engineering than ANGDA is prepared to do at this point, he said.

Heinze said he didn't see the end of the pathway and doesn't see that ANGDA has the funds.

But there is an opportunity, he said.

House Bill 369 provided an opportunity to take what has been completed and pass it along to the Alaska Gasline Development Corp. established under that legislation. That process is fully funded, he said.

Heinze said he told the board at the May meeting that he would talk with URS, ANGDA's contractor for the EIS, to make sure they could package the work and pass it along to AGDC and that discussion had been held. He said he also talked with the federal agencies.

A motion to withdraw the B2F EIS and permit applications passed unanimously.

Open season bid

The board also passed unanimously a motion to authorize Heinze to participate in open seasons for North Slope to market gas line projects by submitting non-binding precedent agreements, a move which would allow ANGDA a seat at the table beyond the close of open seasons on the lines.

Participation in an initial open season provides an opportunity for a 30-40 percent discount for in-state shippers, Heinze told the board. By participating in the Federal Energy Regulatory Commission-sponsored open season, ANGDA can lock up the ability to take gas off the line in-state, he said.

But to continue to work with the gas line sponsors beyond the end of open season, ANGDA has to bid in the open season, he said.

An open season bid would reserve transportation rights for a volume of gas consistent with the in-state gas demand study and would be subject to final approval by the board in December.

In a description prepared for the board Heinze said following a successful open season for the main line, ANGDA could take gas deliveries in Delta or Glennallen and pursue a spur line which would deliver gas to Southcentral. Treatment and transportation costs are estimated to be between \$5 and \$7 per million British thermal units. The description noted that various spur line options and estimates have been evaluated for throughputs ranging from 200 million to 500 million standard cubic feet per day.

It said ANGDA's open season bid would be for transportation rights for a volume of natural gas consistent with the in-state demand study.

No gas yet

Heinze said a lot of the bid is clear to ANGDA at this point, but it doesn't yet have a source of gas. He said there have been active discussions with three suppliers, all of whom are deciding whether they will tender their gas. Heinze said ANGDA wouldn't bid for pipeline capacity in an open season without some encouragement that it had a gas source.

"We don't have that today," he said.

But the suppliers may wait until the last minute to tell ANGDA they will supply gas, and a judgment will have to be made in the last week when it could be very tough to round up the board and make business decisions, he said, in explaining the request that the board authorize him to submit a bid.

see ANGDA page 20

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• ALTERNATIVE ENERGY

Wind power takes off; GVEA gets on board

Golden Valley Electric Association revisits large-scale project near Healy, prompted by federal incentive to reduce financing costs

By **STEFAN MILKOWSKI**
For *Petroleum News*

Thanks to a strong wind resource, favorable economics, and government support, wind power has become a growth industry in Alaska. “More and more communities spread across the state are starting to install wind into their communities,” Alaska Center for Energy and Power wind-diesel coordinator Katherine Keith said at a June 22 talk in Fairbanks.

The first commercial-scale wind turbine was installed in Kotzebue in 1997, according to Keith. Now there are 19 wind systems across the state, and by next year, there will likely be 25 or 30. “It’s kind of astronomical,” she said.

Early users of wind turbines, such as Kotzebue Electrical Association, had to develop the equipment needed to keep turbines running in extreme cold. Now local utilities and groups like the University of Alaska Fairbanks’ ACEP are developing techniques to make the most of wind power on small electric grids.

The variability of wind and resulting fluctuations in power can be moderated with a diesel generator when wind makes up a small fraction of a utility’s overall power, Keith explained. But when wind makes up a large fraction of the power, specialized equipment is needed, such as battery banks, flywheels and advanced inverters.

ISER: Most installations meet expectations

A recent study done with the University of Alaska Anchorage’s Institute for Social and Economic Research found that most wind power installations in the state are meeting expectations, Keith said. In instances where they aren’t, problems with equipment were a major factor. Developers of a project in Nome, for instance, struggled to find replacement parts when their turbine manufacturer went bankrupt.

The cost of installing turbines in Alaska is high. Compared to \$2,000 per kilowatt of installed capacity in the Lower 48, Keith estimated capital costs of \$4,700 per kilowatt for large rural communities and \$10,700 for small ones. Manufacturers of smaller turbines have courted the new Alaska market, attracted by the state’s investment in a renewable energy fund and grant program, she said. But makers of medium-size turbines that could improve economics have been reluctant to make a similar investment.

Despite the challenges, utilities are finding ways to make wind work. The Alaska Village Electric Cooperative, which serves 53 villages in Interior and western Alaska, has installed turbines in several villages, developed a method of storing excess energy from the wind and trained local technicians to work on the new technology, according to Keith. “They’re at the point now where they have a cookie-cutter approach,” she said.

GVEA eyes 24-megawatt farm

Golden Valley Electric Association is revisiting a large-scale wind power project near Healy after a new federal incentive has promised to dramatically reduce the cost of financing the project.

The utility has studied the wind resource at Eva Creek for seven years, said Kate Lamal, GVEA’s vice president for power supply. GVEA sought bids from private developers last fall, but the bids came in higher than expected and the utility board



KATHERINE KEITH



KATE LAMAL

STEFAN MILKOWSKI PHOTOS

rejected the project, which would have increased power costs. “There are some people that would be willing to pay more for renewable energy, but there are also a lot of people that do not want to,” Lamal explained.

A big break came earlier this year in the form of a modification to the federal Clean Renewable Energy Bond program that would lower GVEA’s cost of borrowing to just 1.9 percent. Lamal said the project, which is expected to cost \$93 million, would

produce power for roughly 9 cents per kilowatt hour, more than a penny less than the utility’s current wholesale avoided cost of 10.6 cents per kilowatt hour.

The 24-megawatt project, which would use 1.5- or 2-megawatt turbines, would be several times larger than any existing wind farm in the state. (A subsidiary of the Native corporation CIRI is developing an even larger project — 54-megawatts — on Fire Island near Anchorage.)

Access sizeable challenge

Lamal described access as a sizeable challenge. An engineering firm hired by GVEA concluded that the industrial-scale turbines could be transported to the site using a railroad bridge over the Nenana River. But Lamal added that there is not a crane large enough in Alaska to erect the towers; one would have to be shipped up.

Installation costs are expected to be nearly \$4,000 per kilowatt of rated capacity, but

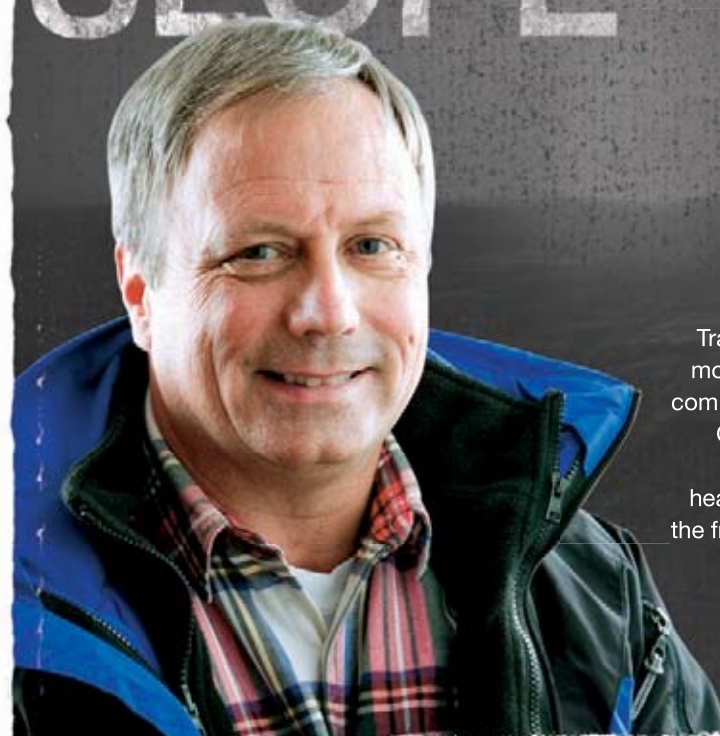


because the wind doesn’t blow all the time, the utility expects to get an average of just 9 megawatts from the project. “It’s a little bit daunting when you think of it that way,” Lamal said, “but that being said, the savings in wind is avoided fuel.”

GVEA has used grants from the state’s renewable energy fund for engineering work and to study how wind power can best be integrated into its grid.

Lamal said the utility will solicit bids this fall and could have a board vote by the end of the year. If the project proves viable, GVEA will continue engineering work over the winter, complete roads and foundation work next summer, and begin producing power in 2012.

Lamal said Healy residents generally support the project as long as it doesn’t restrict access. GVEA does not anticipate problems associated with nearby mining operations or with migrating birds, she added: “So far, no glaring problems.” ●

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• ALTERNATIVE ENERGY

Wind power comes into its own in Alaska

Kodiak Pillar Mountain project adds wind to hydro; contractor STG says foundation work costly part of remote wind projects

By KRISTEN NELSON
Petroleum News

Alaska had hundreds of small wind turbines in the 1980s because of the oil crisis and federal incentives for renewable energy, but “the technology was relatively immature and was not adapted to Alaska’s extreme climatic and geographic conditions.”

As a result, Alaska Village Electric Cooperative President and CEO Meera Kohler said, most of those 1980s wind projects were offline within a year — many, in fact, never started up.

But the technology matured, she told the second annual “Business of Clean Energy in Alaska” conference in Anchorage June 18, and in the 1990s Kotzebue decided it was time to try the technology again.

When the Kotzebue wind farm started up in the late 1990s they were saving tens of thousands of gallons of diesel fuel, she said, and they now have more than a dozen machines running.

“They really have pioneered where we go in rural Alaska with wind energy,” she said.

Since the initial Kotzebue installation, 21 more communities have installed wind systems, with many more on the drawing board, Kohler said.

Systems combining wind and diesel power are replacing diesel systems “at a fairly rapid pace,” she said, as the price of diesel fuel has risen to become almost unaffordable at the same time that it is become less environmentally acceptable.

Wind plus hydro

Ron Acarregui, vice chairman of Kodiak Electric Association, talked about one of the state’s newest wind installations, KEA’s 4.5-megawatt wind project on Pillar

“Currently we’re about 88 to 89 percent renewables thanks to the addition of our wind.”

—Ron Acarregui, vice chairman of Kodiak Electric Association

Mountain, which was completed in July 2009.

Eighty percent of KEA’s electricity is generated by hydro at Terror Lake, Acarregui said.

Before Pillar Mountain started up, 20 percent of the utility’s power came from diesel but wind power now generates almost 9 percent of the utility’s power.

Acarregui said Kodiak’s large electric users are fish processing plants, the satellite launch facility and the Coast Guard base, the largest in the United States. Between the three, especially if there are launches going on or the cutters are in at the Coast Guard base, “the demands can be very high and we can have some pretty drastic spikes.”

Kodiak is a standalone grid, he said, and KEA does its own power generation, transportation and distribution.

The utility’s vision statement is to produce 95 percent of its energy sales from cost-effective renewable power by 2020.

“Currently we’re about 88 to 89 percent renewables thanks to the addition of our wind,” he said.

In addition to wind, KEA is looking at the potential of tidal, wave action and solar power and at the potential for electric cars on the island, which has only 40 miles of paved roads.

Terror Lake storage

Acarregui said the utility’s goals with wind power were to lower fuel costs, lower emissions, reduce power

cost volatility and use Terror Lake as a storage battery.

“The project has worked very well because when we have our wind on and we don’t have to use the water then that gives us additional potential for hydro and we don’t deplete the storage area,” he said.

Current savings are 830,000 gallons of fuel, a savings of more than \$2.2 million at a \$3 a gallon diesel price.

Each of the foundations for the three wind towers required 300 yards of concrete with 30 tons of rebar.

Overhead and underground lines were required, as was road work because of the requirement of getting the turbines into place.

The Pillow Mountain site is above the harbor and the turbines had to come through town, requiring removal of poles and light fixtures because of size of the pieces being moved.

“The community turned out and watched — it was like a big parade — and watched all of these work their way up the mountain,” he said.

The wind turbines came in on a barge and the transportation cost per unit was “tremendous,” Acarregui said.

The towers came in three sections, along with the blades and nacelle; assembly required a 440-ton crane which was brought in from Wyoming in boxcars and reassembled.

Three 1.5-megawatt wind towers were installed.

The blade length is 122 feet and startup speed is 8 miles per hour, with shutdown at 55 mph.

What does this mean for KEA rates? While residential rates in the United States have increased steadily since 2000 — a total increase of 41.75 percent — KEA’s rates have decreased by 4.75 percent.

And for the future, additional turbines are planned at

see WIND POWER page 17



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• GOVERNMENT

AOGCC rules to apply to shallow wells

Commission says wells deeper than 500 feet in broad area of Matanuska-Susitna, Kenai Peninsula boroughs subject to regulations

By KRISTEN NELSON
Petroleum News

As interest in underground coal gasification in Southcentral Alaska ramps up, agencies are stepping in to make acreage available (see story in this issue on Mental Health Trust lease sale) and to regulate drilling on such projects.

The Alaska Oil and Gas Conservation Commission has tentatively scheduled a hearing for July 27 to take comments on a proposal to designate areas where wells could potentially encounter unexpected oil or gas accumulations, and require drilling permits for wells deeper than 500 feet.

The commission took a similar approach to geothermal drilling, designating areas where wells could encounter oil or gas and requiring that those wells have AOGCC drilling permits and that operators follow the commission's regulations. Geothermal drilling had been under the authority of the Alaska Division of Oil and Gas. The Legislature put geothermal drilling under the commission's control earlier this year.

For underground coal gasification, the commission has designated areas within the Matanuska-Susitna and Kenai Peninsula boroughs where a drilling permit will be required for wells deeper than 500 feet.

CIRI project area included

A large portion of the area is outside the boundaries of the state's Cook Inlet areawide lease sale to the northwest, with the northern edge at township 18 north, ranges 8 west through 16 west (west of Houston), Seward Meridian. Within the boundaries of the Cook Inlet areawide lease sale the designated area runs as far south as township 10 north. This southern area picks up the former GeoPetro Cook Inlet acreage acquired by Linc Energy, which has a stated interest in underground coal gasification.

The bulk of the designated area is where Cook Inlet Region Inc. plans an underground coal gasification project, announced last year for the area north of the Beluga River.

In describing its resource last year, CIRI said it has a 55-foot coal seam at a depth of 1,850 feet. CIRI has thousands of acres in

On the Web



See previous Petroleum News coverage:

"Geothermal royalty reduced, new regs out," in June 6, 2010, issue at www.petroleumnews.com/pnads/550459850.shtml

"Rules for wells deeper than 1,000 feet," in Nov. 1, 2009, issue at www.petroleumnews.com/pnads/413608078.shtml

"CIRI plans coal to gas," in Oct. 18, 2009, issue at www.petroleumnews.com/pnads/430551754.shtml

the area.

The area designated by the commission includes a portion of the acreage which the Mental Health Trust is offering for lease, but does not include areas the Trust is offering on the southern Kenai Peninsula, including an area northwest of Soldotna, acreage in the Wasilla area and in the Denali Borough.

The commission is taking written comments on the proposal through July 21. Requests for the scheduled hearing must be received by July 8 and if there are no requests for a hearing, the commission may issue an order without a hearing. •

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

Contact Kristen Nelson
at knelson@petroleumnews.com

FINANCE & ECONOMY

Rules tighten for Native corp. contracting

Alaska Native corporations are bracing for changes in rules for federal contracts that fueled their growth.

The Anchorage Daily News reports one change in Defense Department spending restricts no-bid contracts above \$20 million.

Sarah Lukin of the Native American Contractors Association in Washington, D.C., says that change is already having a chilling effect.

Some of Alaska's largest Native corporations — NANA Development, Arctic Slope Regional, Chugach Alaska and Chenega — are defense contractors.

The Small Business Administration also is tightening rules for minority contracts to respond to critics who say they are bad deals for taxpayers.

One proposed change would require Native-owned companies to report each year how the federal contracts are benefiting their shareholders.

In an interview June 22, SBA administrator Karen Mills said that the Obama administration supports the minority contracting program but is tightening oversight.

Oversight tightening

Native-owned firms would still be able to win federal contracts without competition. In an interview June 22, SBA administrator Karen Mills said that the Obama administration supports the minority contracting program but is tightening oversight.

One of the major critics of the program, Sen. Claire McCaskill, D-Missouri, runs a Senate oversight committee that has been investigating Alaska Native corporation participation in the SBA program. McCaskill has said that she believes that a number of Native corporations are too big to qualify as small businesses.

McCaskill was responsible for the change in Defense Department contracting, which came in an amendment to a spending bill.

"This (amendment) came through at the 11th hour," said Clyde Gooden, vice president for business development at NANA Development Corp., the business arm of Kotzebue-based NANA Regional Corp.

Gooden remains unsure about the amendment's impact. The Defense Department has agreed to host tribal consultations before drafting new regulations.

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• GOVERNMENT

Parnell signs two energy policy bills

HB 306 sets out a broad "energy road map" for Alaska, while the omnibus SB 220 institutes several new energy-related programs

By ERIC LIDJI
For Petroleum News

No state in the country needs a tailor-made energy policy more than Alaska, and as a result, perhaps no state in the country has more tailor-made energy policies than Alaska.

On June 16, Gov. Sean Parnell signed two new ones into law. House Bill 306 creates a broad "road map" to guide the decisions of government, lawmakers, energy producers and the public. Senate

Bill 220, the Alaska Sustainable Energy Act, is an omnibus bill designed to make energy more affordable and reliable through a variety of programs.

HB 306, the smaller of the two bills, came from an advisory panel representing a broad spectrum of energy players in the state, from state and local government officials, to



SEAN PARNELL

JUDY PATRICK

various energy industry advocates, to researchers and academics. The resulting policy is just as broad, promoting both renewable and non-renewable forms of energy, conservation and efficiency, energy research and streamlined government involvement.

The bill also sets out goals to improve efficiency by 15 percent between 2010 and 2020, and to have half of all electricity in the state produced from renewable fuels by 2025.

SB 220 includes similar broad policy goals, and includes similar targets for efficiency and renewable power, but ultimately goes much further in making concrete prescriptions.

The bill, which grew out of a series of field hearings across the state in 2009 following the record high fuel prices in the summer of 2008, sets up near-, mid- and long-term goals.

The near-term goals are mostly policy guidelines and new funding programs. The Energy Efficiency Revolving Loan Fund will provide loans for improvements to public buildings like schools and city halls. A new supplement to the federal Low-Income Heating Assistance Program ties household energy subsidies to the price of oil. A proposed fuel cooperative would allow rural communities to coordinate bulk purchases at lower rates.

State buildings a near-term target

The largest near-term goals, though, look inward at state government itself.

Hoping to chisel into the \$55 million spent annually to heat and light state buildings, the bill gives the Department of Transportation and Public Facilities one year to prioritize inefficient state buildings with the goal of retrofitting 25 percent of them by 2020.

The bill directs the DOT&PF to look into converting state vehicles to compressed natural gas, a move that could

help anchor industrial demand from a major in-state or out-of-state natural gas pipeline, but would only stress declining supplies further without a pipeline.

The bill also asks the Parnell Administration to create a plan by November 2010 on ways to consolidate existing energy departments and programs to eliminate duplication.

The mid-term goals set up a tax credit for new renewable energy projects and loans of up to \$50,000 to help small businesses become more energy efficient. They also try to level the playing field for nuclear projects by allowing them to be considered among other alternative power projects, and by offer state funding to small-scale nuclear projects.

The long-term goals revolve around the Emerging Energy Technology Fund, a research and development program for emerging technologies to improve energy use across Alaska, technologies that could also be exported to rural communities around the world.

A mix of new and newish ideas

The two bills grew out of high energy prices in the summer of 2008 that swelled state coffers but put pressure on local communities, especially those dependent on diesel.

Some of the elements of the policies, though, predate the record prices from that summer.

The 50 percent goal for renewable energy in power production comes from the Palin administration, while elements of SB 220 date back to February 2008 recommendations of the Tri-Borough Commission, representing the mayors of the Municipality of Anchorage, the Matanuska-Susitna Borough and the Kenai Peninsula Borough. ●

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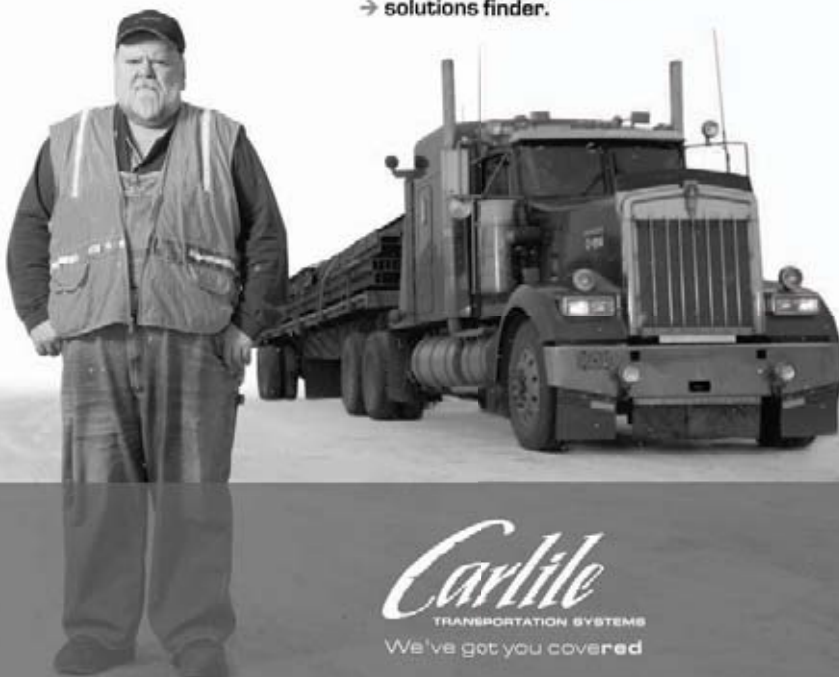
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continued from page 1
MORATORIUM

22. "An invalid agency decision to suspend drilling of wells in depths of over 500 feet simply cannot justify the immeasurable effect on the plaintiffs, the local economy, the Gulf region, and the critical present-day aspect of the availability of domestic energy in this country."

Some of those supporting the moratorium promptly cried foul, saying that the judge could not be impartial in the case because he owns stock in Transocean and other companies involved in the oil industry (Transocean owned the Deepwater Horizon rig that was destroyed in the Gulf of Mexico disaster).

New moratorium?

On June 23, in a hearing of the U.S. Senate Appropriations Subcommittee on Interior, Environment and Related Agencies, Sen. Lamar Alexander, R-Tenn., asked Salazar if Interior now plans to issue a new moratorium on deepwater drilling.

"The answer to that is 'yes,' Sen. Alexander," Salazar responded, adding that the administration's policy is to "press the pause button" rather than to let drilling continue as it was before, or alternatively to "press the stop button forever." Enforcing a pause in drilling will "allow us to learn the lessons from the Deepwater Horizon explosion and to deal with the issues of standards and enforcement, and also make sure that many measures that are supposedly in place to prevent this kind of thing from ever happening again are in fact in place," Salazar said.

In general, senators in the hearing sympathized with the concept of enforcing a pause in drilling while also expressing concern about the need to consider the economic ramifications of a drilling ban. Some senators questioned the need to ban all deepwater drilling, rather than consider the difference in risk profile between, for example, exploration drilling and field development drilling or the drilling of gas wells.

"We will in the weeks and months ahead take a look at how it is that the moratorium in place might be refined, and it may be that there are demarcations that can be made based on reservoirs where we actually know the pressures and

the risks associated with that, versus those reservoirs that are exploratory in nature where you don't know as a company what it is that you are drilling in," Salazar said. "So the moratorium order that we issue will include the criteria under which it is appropriate to take a look at the lifting of the moratorium."

Interior will also work with the president's Deepwater Horizon commission, to seek its views on an appropriate time to "lift the safety button," Salazar said.

Arctic drilling ban

As part of its safety measures in response to the Gulf of Mexico disaster, Interior has also put a hold on new drilling in the Arctic offshore, thus placing planned exploration drilling by Shell in the Beaufort and Chukchi Seas off limits in 2010. But the Arctic drilling ban was not mentioned in the MMS notice to lessees that officially implemented the deepwater drilling moratorium, nor was it referenced in the judge's findings in the Louisiana district court case.

And Shell's planned Arctic drilling would take place in water considered "shallow," under the terms of the moratorium.

"Why are we not allowing offshore (drilling) to proceed in the shallow waters in the north?" asked Sen. Lisa Murkowski, R-Alaska. "I'm still trying to determine whether or not the Alaska leases are technically under this same moratorium that relates to deepwater, or are they subject to a special delay of their own?"

Spill response concerns

"Our view is that there are a number of different issues that are important in addressing oil and gas development in the Arctic," Salazar responded. "The highest (issue) ... with respect to the exploration wells that you refer to is the question of whether or not there is the oil spill response capability that would be sufficient in the event that you would have some kind of unexpected disaster. ... So the pause button gives us an opportunity to look at the whole set of issues in the OCS and that will be one that we will be looking at."

"But how are you defining that pause?" Murkowski asked. Funding available from BP could assist people in the Gulf of Mexico impacted by a drilling

see MORATORIUM page 18

LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
BLM	NPR-A	Aug. 11, 2010
DNR	Beaufort Sea Areawide	October 2010
DNR	North Slope Areawide	October 2010
DNR	North Slope Foothills Areawide	October 2010
DNR	Alaska Peninsula Areawide	May 2011
DNR	Cook Inlet Areawide	May 2011
DNR	Beaufort Sea Areawide	October 2011
DNR	North Slope Areawide	October 2011
DNR	North Slope Foothills Areawide	October 2011
MMS	Sale 211 Cook Inlet	2010*
MMS	Sale 219 Cook Inlet	2011*

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

*The OCS Cook Inlet sales are subject to industry interest. All other remaining Alaska sales on the 2007-12 schedule were cancelled.

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Business Spotlight

Alliance posts result of annual golf tournament

The Alaska Support Industry Alliance said June 14 that it has posted the results of its annual Alliance Golf Tournament at Moose Run and the Calcutta that took place the evening prior at the Petroleum Club. The event is the fourth largest fundraising event for the Alliance and plays an important role in keeping the organization strong, as well as providing a great networking opportunity for those businesses that participate. For more information and posted results visit www.alaskaalliance.com.

ASRC announces North Slope Marketplace winners

Arctic Slope Regional Corp. said June 14 that it has selected the winners of the 2010 North Slope Marketplace, a competition for shareholders to compete for funding to start or expand North Slope based businesses. The competition, which took place from February to May, was designed to inspire new business opportunities for North Slope communities, challenging shareholders to compete for funding ranging from \$17,000 to \$25,000 and was open to all ASRC shareholders. "We received a great response from the North Slope communities, and are pleased that entrepreneurship among ASRC shareholders is building momentum," said Roberta Quintavell, president and CEO of ASRC. "In addition to the

financial award, winners are provided with support from business and financial mentors throughout the ASRC family of companies." ASRC is owned by and represents the business interests of the Arctic Slope Inupiat. Since opening enrollment in 1989 to Alaska Natives born after 1971, the corporation's shareholder base has nearly tripled, growing from the 3,700 original enrollees to 11,000 today.

Alaska Railroad adds 'Gravel Trains' to website

The Alaska Railroad said June 16 that to help drivers plan ahead to avoid delays at train-occupied crossings it has added a "Gravel Trains" page to its corporate website. The page includes information on road and rail crossing delays in Anchorage and Palmer along with alternate routes to avoid those delays. The section also includes background information about how and why gravel grains are scheduled, impact to specific road and rail crossings, and the economics of moving gravel. For more information visit www.alaskarailroad.com/corporate.

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

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WIND POWER

Terror Lake, which has two 10-megawatt turbines now, and then three more wind turbines.

Focus on foundations

Jim St. George, owner and founder of STG Inc., has been involved in heavy construction projects across Alaska for more than 30 years.

STG does infrastructure all over the state, St. George told the Clean Energy conference. Discussing costs on a typical wind project, he said “a large percentage of the cost goes into turbine procurement and things that are really out of our control.”

When it comes to wind projects, he said STG believes it’s “more about foundations and infrastructure interties” which account for about 90 percent of the work. The turbine install, the actually raising of the wind turbine, is a small percentage of the work, St. George said.

But of course what you see is pictures of the turbine being raised into place.

“People don’t want to look at pictures of guys digging holes in the ground and tying rebar — but the reality is that’s a huge part of that,” he said.

Illustrating with time lapse photography of one project, St. George said you see roads being built, and foundations being dug and eventually toward the end there’s a crane on site and then the turbine install right at the end.

Costs vary due to the machine installed, but also are based on a lot of other circumstances, he said, such as transportation.

Costs variable

Costs vary due to the machine installed, but also are based on a lot of other circumstances, he said, such as transportation.

“Keep in mind, there’s no roads anywhere we work — it’s all barge or it’s airplane supported.”

If other infrastructure is being built at the same time, some of the cost can be spread, he said.

STG can’t control costs such as turbine procurement and interconnect costs. St. George said STG feels it has some control over about 45 percent of the project cost.

And the biggest part of what the company has some control over is the foundation.

On different projects the foundations are controlled by ground conditions, which vary from permafrost to bog to unconsolidated overburden, he said.

There are a whole range of different foundations, St. George said, and foundations have evolved over time.

While costs vary with foundation conditions, in general foundation costs have been driven down about 50 percent over time, he said. ●

Contact Kristen Nelson
at knelson@petroleumnews.com

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REPORT

all personnel from the facility on April 6.

A tanker removed 60 percent of the oil in the active terminal tanks in early April, prior to the terminal shutdown. By early August tankers had removed all possible oil from the tanks and Cook Inlet Pipe Line had removed the tanks from service. Shortly thereafter, the Redoubt eruption having subsided, Cook Inlet Pipe Line restarted the terminal, bypassing the tank farm and transferring oil directly from the terminal’s feeder pipeline into oil tankers.

Tank farm protected

In the event, the 2009 Redoubt eruption did cause the Drift River to flood, with major mudflows lapping the top of the new dike that was constructed in the aftermath of the 1989-90 eruption. But although these mudflows encroached into some parts of the terminal, the dikes successfully protected the tank farm, as intended.

However, as lessons learned from the response to the eruption, the CIRCAC-sponsored review report recommends that in the event of a future eruption there needs to be a clear criterion for when a unified command should be formed. A unified command should be established as a matter of course whenever the Alaska Volcano Observatory raises the Redoubt Volcano alert level to yellow, warning of a possible eruption within a few weeks, the report recommends. The report also recommends the establishment of memoranda of understanding between CIRCAC and Cook Inlet oil facility operators, to specify how to make available “need to know information,” such as the volumes of stored oil at facilities. And the report recommends that government agencies prepare “after-action reports” following an incident, to identify what went

well and what lessons can be learned.

The report also makes recommendations for improved emergency response guidance for CIRCAC staff and for improved spill response communications within CIRCAC. And CIRCAC needs to review its “power to encourage and motivate action” to make spill response information available to the public, the report says.

CIPC response

Rodney Ficken, vice president of Cook Inlet Pipe Line, in a letter published along with the review report, commented on the overall success of the Drift River Oil Terminal response.

Thanks to improvements made at the terminal following the 1989-90 eruption, and to the planning and emergency response drilling by the company’s personnel, the 2009 eruption never developed into an oil spill incident, Ficken said.

“Not a drop of oil was spilled and no one was hurt. This was a success story by any objective measure,” he said.

And, while not disagreeing with the principle of setting a clear criterion for unified command formation in response to a future Redoubt eruption, Ficken said that an orange alert level — a warning of a pending eruption within a few days — would be a more appropriate criterion than the yellow level recommended in the report.

“We do agree that code yellow should set off a flurry of communications that include meetings with key parties, engaging stakeholders and keeping people informed of the situation,” Ficken said. “We did all that last year, sending out our first informational update on Feb. 9 and issuing daily updates by March 23 when volcanic activity was upgraded to code red.” ●

Contact Alan Bailey
at abailey@petroleumnews.com

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ANWR COMMENTS

some dating to at least the 1920s.”

“API believes that miles to the west of the Arctic NWR, the industry is demonstrating that responsible development of Alaska’s resources is an exercise in balance, involving production of vital national energy resources, protection of the environment and wildlife, coordination with residents of the North Slope Borough and its communities and respect for their subsistence way of life.”

Alaska House Speaker Mike Chenault, R-Nikiski:

“Alaska’s statehood compact rests on its ability to produce its own natural resources and share in the production of resource extraction from federal lands. With diminished Prudhoe Bay production, Alaska’s rural and urban citizens must rely for future jobs and government services on oil and gas production from federal, as well as state lands. The most prospective public land areas are ANWR and Alaska’s OCS (mostly shallow water) areas. To not responsibly pursue these economic lifelines will imperil the lifestyles, and even the existence, of most Alaskans.”

David Jenkins, VP for government and political affairs, Republicans for Environmental Protection:

“Republicans for Environmental Protection (REP) is a national grassroots organization that has been working for years to safeguard the Arctic Refuge. Unfortunately, much of that effort has been necessarily focused on preventing oil development on the Refuge’s coastal plain.

“We hope to see the day when the future of the Arctic Refuge as a wild and untrammelled landscape is secure. While

REP is involved in many important issues, none have generated the level of member engagement that our work related to the Arctic Refuge has.”

“While our members are dedicated conservationists, they also recognize that natural resource stewardship requires a balanced approach. ...They see the oil drilling in Prudhoe Bay and in other parts of Alaska’s North Slope, they know that vast expanses of Alaska’s Arctic have also been made available for development — and they come to the same conclusion the Eisenhower Administration came to 50 years ago — that protecting the Arctic Refuge represents balance.”

Marilyn Crockett, executive director, Alaska Oil and Gas Association:

...representing companies such as BP, Chevron, ExxonMobil and Shell:

AOGA notes the shrinking size of the oil and gas industry’s operational footprint.

“For example, the pad size for drilling operations on the North Slope has been reduced by over 90 percent. Wells used to require at least 120 feet between each other, where now the same well can be placed just 10 feet from the next one. Not only can wells be placed closer to each other, the depths and reach of the wells are enhanced by what is known as “extended reach” drilling. These extended reach wells target resources up to eight miles from the surface location of the drilling rig, which allows much more reservoir area to be drained from a single production pad on the surface.”

“Alaska continues to be a success story for the famed Central Arctic caribou herd. When oil and gas activities began in the 1970s, the herd consisted of approximately 5,000 animals. Almost 35 years later, the herd now numbers over 60,000.” ●

Contact Wesley Loy
at wloy@petroleumnews.com

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BOP USE

preventer engagements verbally, not in writing, Foerster said. Operators are required to notify regulators within 24 hours of activating a blowout preventer.

In each of the 12 cases, the blowout preventers worked and no oil was spilled, she said.

But using blowout preventers too often is a concern because they are the last line of defense in controlling a well, Foerster said. She likened them to a car's airbag — you don't want to routinely rely on it to get home safely.

After talking with the BP representatives, Foerster said she felt reassured.

"We're satisfied with their answers," she said. "We're done with this."

The Gulf calamity

Because of the Deepwater Horizon dis-

aster in the Gulf of Mexico, many Americans are now all too familiar with an otherwise obscure piece of oilfield equipment known as the blowout preventer, or BOP.

The blowout preventer on BP's Macondo exploratory well is believed to have failed, contributing to what has been a large and continuing oil spill.

BP operates Prudhoe Bay, the nation's largest oil field, and so is the top contractor for drilling rigs in Alaska.

During congressional testimony on June 17, BP's chief executive, Tony Hayward, seemed to indicate that the Gulf disaster had prompted changes with respect to blowout preventers and well control in Alaska and perhaps elsewhere.

U.S. Rep. Marsha Blackburn, a Tennessee Republican, asked Hayward if he had been briefed on "significant safety incidents" at BP's Alaska production facilities.

Here's more of the exchange:

Hayward: I have discussed those issues at the group operating risk committee.

Blackburn: As a result of these briefings, did you authorize any changes to BP policies and practices for dealing with the

safety incidences?

Hayward: We took actions in Alaska to change both the organization and some of the processes.

Blackburn: Thank you. Since the Deepwater Horizon incident have you made changes and what are those? Will you submit those to us for the record?

Hayward: We have made changes to our testing procedures on BOPs. We've made changes to the intensity with which wellsite leaders are aware of well control procedures and a variety of other interventions that are predicated on what we have learnt from the incident so far. And as we learn more we will make more changes as we deem appropriate. And I'd be very happy to submit to you, congresswoman, the details of the changes that we've made.

Blackburn: Thank you.

Petroleum News asked BP's Alaska spokesman, Steve Rinehart, to elaborate on Hayward's comments, but he had not replied by press time.

Four events on Nabors rig

The AOGCC provided Petroleum News

a summary of the 12 instances that rig operators activated blowout preventers on the North Slope.

The first engagement occurred on Jan. 26 and the most recent one on June 7.

None of the cases involved the drilling of an exploratory well. Rather, they predominantly involved workover activity or development drilling in the BP-operated Prudhoe Bay unit, the BP-operated Milne Point unit, the ConocoPhillips-operated Colville River unit, and Pioneer's offshore Oooguruk field.

In half of the 10 BP cases, rigs were involved in workovers, doing jobs such as changing out electric submersible pumps.

Four BP cases involved the same drilling rig — the Nabors 4ES rig, the AOGCC summary shows. The Nabors 9ES rig activated its blowout preventer three times.

Blowout preventers sit at the top of the well and work by closing off pathways for fluids or natural gas to travel up to the surface, typically through an outer space called an annulus. The preventers don't engage automatically; rather, rig operators must make a decision to trigger a BOP.

Foerster, the AOGCC commissioner, said rigs involved in workover operations can be especially prone to encountering conditions requiring activation of a blowout preventer. For example, she said, a gas "bubble" trapped at the bottom of a well can flow up when a rig pulls out tubing and packers — downhole devices that seal the wellbore.

Rig operators usually — and ideally — prevent dangerous upsurges by pumping heavy fluids such as drilling mud into the well.

State regulations require tests of blowout preventers every week or two, and AOGCC inspectors personally witness many of these tests, Foerster said.

The AOGCC summary indicates that blowout preventers used thus far in 2010 were tested between one and five days after the engagement. ●

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MORATORIUM

moratorium triggered by the Deepwater Horizon disaster, whereas the approximately 600 people who had planned to work in Shell's 2010 Arctic drilling program face an uncertain and confusing future.

This is a dynamic crisis-control situation, Salazar said. Whereas the Gulf of Mexico currently has massive spill response capability, "we don't have that same oil spill response capability through the Coast Guard or anybody else in the Arctic, and so it's my view that the pause button is very appropriate for these wells," he said.

"(But) are we in a moratorium? Is it

a special delay of its own?" Murkowski pressed, expressing concern about the need for a process to deal with potential issues such as the lapse of oil and gas permits and leases, and commenting on the high level of scrutiny that, she said, Shell's plans had already received.

"The moratorium that is in place does in fact apply to the Alaska wells," Salazar said. "... We need to have a greater level of certainty that the kind of tragedy that is unfolding in the Gulf doesn't occur up there."

Salazar said that Interior would be working on the Alaska issues in the weeks and months ahead. ●

Contact Alan Bailey
at abailey@petroleumnews.com

Contact Wesley Loy
at wloy@petroleumnews.com



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ORMAT

prospect the company could follow up with some “slim-hole” drilling, to determine if a viable geothermal source exists in the subsurface.

New energy resources?

Ormat Nevada, a subsidiary of geothermal power company Ormat Technologies Inc., picked up 15 leases on the southern flanks of Mount Spurr in the State of Alaska’s September 2008 geothermal lease sale. Many people hope that a successful Mount Spurr geothermal project would help expand Southcentral Alaska’s energy supplies, currently heavily dependent on natural gas, into more a more diverse mix of energy resources.

The Mount Spurr geothermal leases are just 40 miles from Beluga, the nearest point on the Southcentral Alaska electricity grid. And in April the state Legislature passed a bill reducing royalty rates for geothermal energy and placing the regulation of geothermal drilling in the hands of the Alaska Oil and Gas Conservation Commission.

Ormat says that it will identify any potential geothermal drilling sites at Mount Spurr by analyzing and integrating several datasets collected during its summer 2010 exploration program.

But any drilling would require further regulatory authorization, Ormat said.

Airborne surveys

Ormat says that it will start its work program in June with airborne surveys consisting of high-resolution aerial photography of the exploration area, the acquisition of LIDAR data and the acquisition of hyperspectral data. LIDAR uses an aircraft-mounted laser system to make precision measurements of landforms, while hyperspectral data involves the imaging of terrain using a very wide electromagnetic spectrum.

To achieve the necessary precision for these surveys, Ormat will place a global positioning system base station as close as possible to Mount Spurr, the company said.

In early July another airborne survey, using a helicopter, will collect about

1,550-line-kilometers of magnetic data, Ormat said.

Ground surveying

A program of ground-based geophysical surveying will start July 1 and continue through August. This program will involve using 100 stations for the measurement of magneto-telluric data and up to 400 stations for making gravity measurements.

Magneto-tellurics involves the measurement of naturally occurring, ambient electric noise emanating from the ionosphere and from distant thunderstorms — buried electrodes measure electric fields while buried electric coils measure magnetic fields, Ormat explained.

A separate team will conduct the gravity survey using a small field gravimeter to measure variations in the Earth’s gravity across the exploration area, probably travelling to survey sites with the magneto-tellurics team by helicopter.

Another team, also transported to field locations by helicopter, will conduct geologic mapping and will sample water from creeks, springs and glacial outwash. This team will likely also carry out measurements of any flows of carbon dioxide from the soil.

Based locally

The ground mapping and survey work will be based out of either Beluga or Tyonek on the Cook Inlet coast, or from a temporary camp in the survey area, Ormat said. All company and contractor personnel will complete environmental and safety training. And the company has developed a plan for bear and wildlife interaction, including the use of dedicated bear monitors during field operations.

Ormat also said that it has been holding meetings with local community representatives, including the village of Tyonek, Cook Inlet Region Inc. and the Kenai Peninsula Borough, and with Cook Inlet Keeper and other environmental organizations. The company anticipates significant local hire opportunities, Ormat said.

—ALAN BAILEY

Contact Alan Bailey
at abailey@petroleumnews.com

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WILD WEST

in 2011-12 and C\$1.2 billion in 2012-13.

‘Significant opportunities’

However, despite the competition for investment, the three ministers agreed “there are some significant opportunities for us to collaborate,” said Alberta Deputy Energy Minister Peter Watson.

“There’s no question in my mind that in the natural gas environment we need to increase demand and markets in a number of areas, not only inside our own jurisdictions and across North America, but also export markets,” he said.

Paul Wieringa, British Columbia’s acting assistant deputy minister, said that establishing natural gas as an end-use fuel for transportation is a critical area of possible cooperation under the New West Partnership signed in April to eliminate trade barriers and boost economic activity.

“It would be really neat in the three provinces if we could try to promote more of that and be somewhat of a leader in that area,” he said.

Wieringa said the three provinces could learn from each other as they try “slightly different things to improve out regulatory atmosphere within each province.”

“Cooperation is going to be paramount,” said Saskatchewan Enterprise Minister Ken Cheveldayoff.

He said the premiers of the three provinces recently went on a mission to China and Japan and opened a joint trade office in Shanghai to promote their collective interests.

Alberta Premier Ed Stelmach said his counterparts plan to discuss whether they can increase the partnership — which has also involved discussions with Canada’s three territorial governments (Yukon, Northwest territories and Yukon) — to strengthen their competi-

tive position in a dramatically changing world.

Federal priorities also discussed

The premiers are also discussing federal government priorities in Canada and the United States on issues such as climate-change strategy, trade and agriculture.

Alberta Energy Minister Ron Liepert said the move toward oil and gas harmonization is intended to make sure “we do what we can to make sure the transitions from one province to another are as smooth as possible.”

He asked the industry to identify permitting or regulatory areas which are essentially the same in each province but which require separate applications.

Bill Bennett, newly appointed energy minister in British Columbia after the surprise resignation of Blair Lekstrom, who parted company with Premier Gordon Campbell over sales tax changes, said “one set of rules and regulations makes eminent sense. B.C. would definitely be interested in having that discussion.”

Saskatchewan Energy Minister Bill Boyd said his province and Alberta have had preliminary talks about harmonization, including streamlining environmental regulations.


David Collyer, president of the Canadian Association of Petroleum Producers, said there is scope in the regulatory policy area to establish consistency among the provinces.

He said that could extend to consultations with aboriginals in pipeline projects to the B.C. coast.

Liepert said Alberta is committed to opening new markets for its crude oil and natural gas and is ready to “take whatever action we feel is appropriate to get those markets opened up.”

—GARY PARK

Contact Gary Park through
publisher@petroleumnews.com



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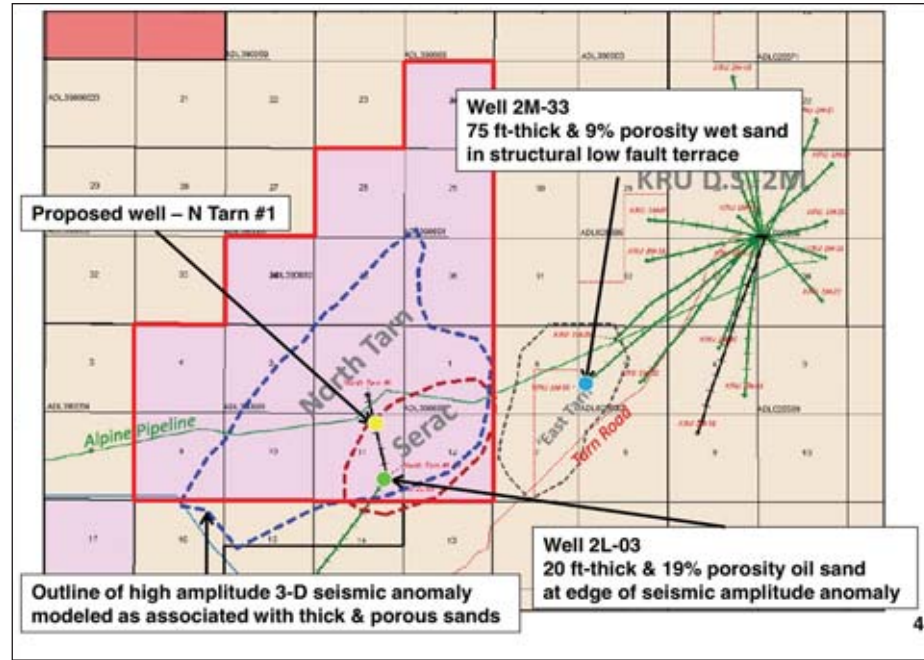
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NORTH TARN

the results of previous 3-D seismic shot over the area and a pair of nearby wells drilled at Kuparuk. The Kuparuk 2M-33 well, just east of the prospect, encountered 75 feet of low porosity sand, while the Kuparuk 2L-03 well, located within the seismic area, encountered 20 feet of more porous sands, some charged with oil. Based on modeling, TG World expects 60-foot sands in the location where the joint venture plans to drill North Tarn No. 1 early next year.

TG World said a 5,000-foot well would test both the Brookian sands and the deeper Kuparuk C sands, now known as the Serac prospect. The company estimates recoverable reserves between 21 million and 72 million barrels of oil from the Brookian, with the possibility of an additional 6 million barrels of recoverable oil from the Kuparuk C.

TG World also likes North Tarn because of its proximity to infrastruc-



ture. The Alpine Pipeline crosses through the prospect and piggybacking on that line in the future would cut down on transportation costs. However, James doesn't seem to think the joint venture would try to rent space at the existing

processing facilities at Alpine or Kuparuk.

"We're likely to develop our own processing unit," James said.

Still eyeing Slugger seismic

The joint venture, led by Brooks Range Petroleum Corp. and including Ramshorn Investments, holds more than 150,600 acres of leases across the North Slope.

This past winter, the group spent most of its time at the new Beechey Point unit in the Gwydyr Bay area north of the Prudhoe Bay unit. In recent winters, the group has also drilled at the Tofkat prospect, located between North Tarn and the Colville River.

The group also holds acreage in the eastern North Slope known as Slugger, or South Thomson. While there is no exploration drilling planned for the prospect, Slugger is in the eastern North Slope, a region of much activity in recent winters. Savant Alaska is drilling at the BP-operated Badami unit and ExxonMobil is drilling at Point Thomson.

TG World sees opportunity not only in being close to Point Thomson, known to contain significant natural gas reserves, but also in being close to Badami, an oil field with a decade of fitful starts and stops. Savant is drilling

both vertical and horizontal wells into various reservoirs at Badami to find a way to increase production rates.

"Why is that significant for us?" James said. "Because that's a Brookian play, and within this area we have the same type of play. So they're actually going to test the productivity."

The group is proposing to shoot 130 square miles of 3-D seismic over the western half of the prospect, near the Badami field and the Mikkelson Bay East No. 1 well from 1971.

Another step toward Alaska

The public pronouncement of faith in the opportunities at North Tarn shows TG World taking a step toward Alaska after taking several steps back over the past year and a half.

After commodity prices fell in late 2008, TG World announced plans to postpone exploration drilling in Alaska, leading to a lawsuit with program operator BRPC.

The companies resolved the dispute in time to conduct an exploration program this past winter, but after results from that drilling proved less than satisfactory for TG World, the company relinquished some of its interest in the Beechey Point unit.

TG World became a producer with a well in the Philippines that came online in June 2010. The company is also a partner on a well in Niger slated for drilling in 2011.

"We finally moved from an explorer to a producer and we're hopeful that as time goes on here we'll have a growing production profile," James said in opening the meeting.

Although TG World is not yet producing oil in Alaska, the company is earning income here through the tax credits offered to exploration companies. That money will come in handy this year until production revenues arrive. At the meeting, TG World announced a \$7 million capital program, but said it has only between \$3 million and \$4 million in hand. ●

Contact Eric Lidji
at ericlidji@mac.com

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ANGDA

Heinze said ANGDA won't have a gas supply contract when it submits a bid, but would be looking for some indication of intent from one of the suppliers that they would supply ANGDA, whose gas would be a very small volume in the big picture.

Asked about use of the state's royalty gas for in-state needs and as the basis of ANGDA's bid for pipeline space, he said ANGDA chose to deal with commercial

entities, but if there are three reject letters that would provide the basis to go back and petition the Department of Natural Resources for the state's royalty gas.

But Heinze said he wouldn't want to go to DNR without knowing that no commercial gas was available. He said his gut feeling was that somebody was going to be interested in being the in-state gas supplier. ●

Contact Kristen Nelson
at knelson@petroleumnews.com

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