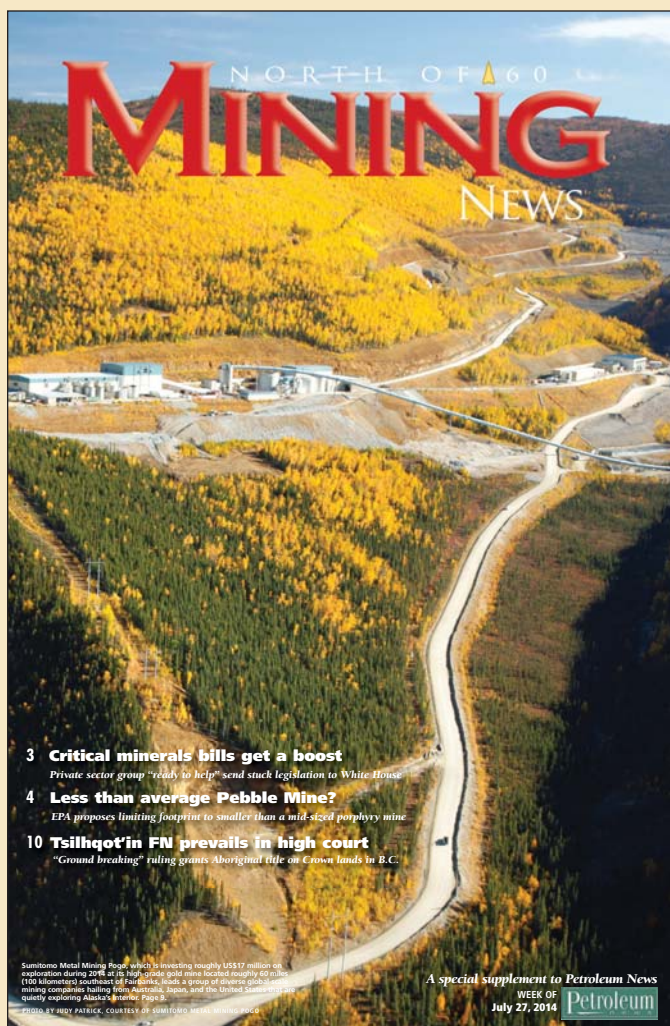




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"Ground breaking" ruling grants Aboriginal title on Crown lands in B.C.

Alaska LNG project files with DOE to export LNG for 30 years

The Alaska LNG project said July 21 that it has filed an application with the U.S. Department of Energy to export liquefied natural gas.

The application is for up to 20 million metric tons of LNG per year for 30 years to countries with existing free trade agreements with the United States, as well as non-free trade agreement countries.

The project would include North Slope processing facilities, a pipeline to take North Slope natural gas to tidewater and a liquefaction plant to turn the natural gas into liquefied natural gas for export.

"This is a significant milestone for the Alaska LNG project and demonstrates continued progress toward developing

see **LNG** page 17

BOEM expects to publish new draft SEIS for Chukchi this fall

The Bureau of Ocean Energy Management, or BOEM, has told the federal District Court in Alaska that it is continuing to rework a supplementary environmental impact statement, or SEIS, for the 2008 Chukchi Sea lease sale and that it anticipates publishing a draft SEIS in early October.

The District Court had ordered a rework of the lease sale EIS following a January 2014 decision by the U.S. Court of Appeals for the 9th Circuit upholding an appeal against the validity of the document. The 9th Circuit judges ruled that, when the U.S. Minerals Management Service, BOEM's precursor organization, prepared the EIS it had arbitrarily, without explanation, assumed that potential oil development in the Chukchi Sea would only amount to a single oil field, with an

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PIPELINES & DOWNSTREAM

17 billion barrels

Iconic Alaska pipeline hits milestone as operator looks to extend its life

BY WESLEY LOY

For Petroleum News

The trans-Alaska pipeline system has now moved a staggering 17 billion barrels of North Slope crude oil.

It might move billions more, provided operator Alyeska Pipeline Service Co. can overcome serious technical challenges.

Alyeska is conducting vital tests at an Oklahoma university to help TAPS deal with problems associated with declining throughput. The company also is trying robots to combat corrosion, a constant threat to the pipeline.

Meantime, Alyeska is close to finishing what has been a lengthy, expensive and somewhat trou-

bled effort to modernize pipeline pump stations.

TAPS has been moving oil from Prudhoe Bay and other North Slope fields for 37 years, since 1977.

The 17 billionth barrel started down the 800-mile pipeline on July 19, Alyeska said.

"This is an operational milestone and legacy that we are all proud of," said Tom Barrett, company president.

Since the beginning, some 21,300 tankers have loaded oil at Valdez, the pipeline's southern terminus.

The last major milestone for TAPS was in October 2009, when throughput reached 16 billion barrels.

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NATURAL GAS

Usibelli exploring gas

Coal producer moving ahead with plan to search for coalbed methane near Healy

BY ERIC LIDJI

For Petroleum News

Usibelli Coal Mine Inc. is permitting a coalbed methane exploration program near Healy.

The Interior coal company is looking to drill as many as four wells along an abandoned airstrip seven miles east of Healy to explore shallow natural gas prospects in the region.

Usibelli holds a state exploration license over some 200,000 acres between Healy and Nenana, east of Denali National Park and Preserve. Earlier this year, the Alaska Supreme Court rejected an

appeal against the license, allowing exploration work to proceed.

The work would begin this summer, with additional testing planning in 2015 if warranted by the results of initial testing. The goal of the

program is to discover a nearby source of coalbed methane to power Usibelli mining operations in the area. The company has said it would consider exporting supplies for in-state use if it found large enough volumes.

A coalbed methane exploration program involves pumping water from relatively shallow coal seams to reduce pressure and

see **USIBELLI** page 18

GOVERNMENT

Caught in a legal mesh

Canadian court aboriginal land title verdicts spur first wave of court action

BY GARY PARK

For Petroleum News

While governments, resource-sector leaders and lawyers grapple with the meaning of historic court judgments on aboriginal land rights in Canada, First Nations are wasting no time launching a flurry of legal and regulatory actions that threaten to stall progress on a number of projects.

In the wake of two rulings over the past month by the Supreme Court of Canada, one of which awarded title to a chunk of land in central British Columbia to the 3,000-member Tsilhqot'in First Nation, initial government and industry reaction portrayed the decision as a simple clarification of previous lower-court decisions.

But Gwyn Morgan, former chief executive

officer of Encana, said the 37-page decision has "exceeded the worst-case scenario of both governments and industry."

Writing in the Globe and Mail he said the court has "established a separate legal structure for aboriginals and non-aboriginals that has implications far beyond land entitlements."

In Morgan's view the interpretation of "existing treaty and aboriginal rights" in the Canadian Constitution of 1982 is "a recipe for investment-killing litigation. A windfall for lawyers, but economic poison for the country."

Aboriginal title issue

The Supreme Court decision said that if a gov-

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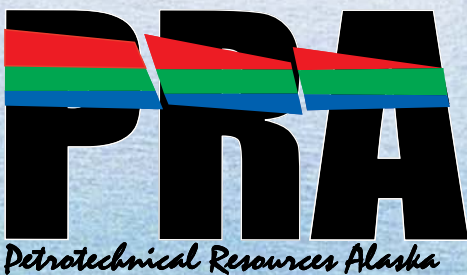
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GOVERNMENT

Fauske discusses AGDC's two projects

Organization working both an in-state natural gas line, ASAP, and the proposed Alaska LNG project to ship gas to Far East as LNG

BY STEVE QUINN

For Petroleum News

Dan Fauske and his team at the Alaska Gasline Development Corp. are plenty busy representing the state's interest in a prospective LNG export project during a pre-front end engineering and design phase these next 18 months.

But the organization's president doesn't want the public to forget that AGDC remains immersed in pursuing a \$7.7 billion, 727-mile, 36-inch, in-state line designed to serve Alaska markets.

Recently AGDC announced that it is working exclusively with Calgary-based Enbridge on a prospective partnership.

Fauske recently spoke to Petroleum News about progress being made on the smaller line and the corporation's role under the recent joint venture agreement between the state, North Slope leaseholders ExxonMobil, ConocoPhillips and BP.

Petroleum News: The public mostly sees you and your staff at committee hearings testifying, without necessarily gaining headlines. What can you tell people about AGDC's mission and how it's developed over the last few years?

Fauske: Our mission is pretty much the same as it's been, and that's to provide gas to Alaskans at the lowest possible cost. That's been our mission statement since this whole thing rolled out when we were originally under HB 369, which was a plan to create a team. I was the team leader and our job was to write a report, which we delivered to the governor in July 2011 to show the feasibility of a smaller-diameter, lower-volume pipe to sustain Alaska hopefully with a commercial application at the end of it. The fact is there are not many Alaskans, not a great population base so that huge volumes of gas could be utilized. Also we were limited under AGIA (the Alaska Gasline Development Act).

So our mission has stayed pretty much the same. It's morphed somewhat now with the passage of SB 138, which now brought us into the AKLNG project. Our piece of the AKLNG, of course, will be downstream and we will represent the state's equity share position on that phase of a larger 42-inch, LNG project from Point Thomson/Prudhoe Bay to Nikiski. In the interim during the pre-FEED process, we will continue to develop our ASAP project in line with working on the AKLNG and eventually I think you will see an alignment of the two in bringing them together. I don't believe you will see two projects. Hopefully the large LNG project proves to be successful through pre-FEED and then they move on into FEED because it can do greater things for the state than our line in the sense that it has large commercial application with the ability to pull gas off for in-state use. So, ideally that would be the way you go. During the interim we will keep working on our project until we've determined that it's no longer necessary or that it no longer makes sense.

Petroleum News: The work that you speak of. How can you make sure that it's of value to the state if the direction changes and the focus is entirely on the LNG export project?

Fauske: The work that we are doing — geotechnical, environmental, cultural, air

quality — is all work that can be used on the other line as well. It's all worthwhile engineering data. The state is developing assets. It now owns things of value that bring value to the bargaining table. We are going to be careful that we don't duplicate work, that we are not producing the same kind of data gathering the producers and other are doing and that we protect the people's money by not duplicating work, and also with the idea that work further down the road has value for the state.

Petroleum News: The public and some lawmakers endorsed SB 138 but with some skepticism or cautious optimism. Not so much based on the current statue as previous efforts to come up short. How do you feel about that?

Fauske: Absolutely. When you consider that we have a poster here in our office that announces first gas to Fairbanks and it's from the 1954 Daily News-Miner. This debate has been going on for 50 years. It's a difficult project to pull off because of distances. We have a huge resource in the amount of gas the state and producers have, but it's a long ways from the market.

I think this is probably the most progressive attempt. With the signing of the JVA, the producers on board and the state as an equity partner, I believe in the sincerity of the industry with an honest attempt to see if we can commercialize this huge world-class asset that resides in Prudhoe Bay and other points within the state. I think that's the significant change.

I think AGIA was a significant change



DAN FAUSKE

as well but market conditions changed dramatically with the development of shale gas in the Lower 48. That blew the doors off that project. When I worked on AGIA under Gov. Palin, her people asked me to work on the financing side, you were looking at \$10 gas (per mcf) at that time. Of course the price crashed after that. Combined that with shale gas, the project no longer made economic sense. But I think the work going forward is worthy. It's expensive. There is no getting around it. It's an expensive game to play in, but if we are successful, it will have huge benefits not only economically for the state coffers but also for the security of the majority of the state's residents with a long-term dependable source of energy at a good price.

Petroleum News: When HB 4 passed and you were entrusted with advancing the state's interest within the parameters of AGIA, did you ever envision your role would change and responsibilities grow to this level?

Fauske: I can't say that I thought about that at the time. As it started to develop and as people started to witness the success AGDC has had in terms of compiling

an incredible team and delivering a good work product. The intent of the authors of the bill was to create a pipeline company that would last long into the future, to have an entity with a business mentality, like AHFC when I was there for many

years. This was a business that we ran. This too is a business. I can't say that I was "Carnac" (the fictional sage soothsayer once portrayed by "Tonight Show" host Johnny Carson) who could look into the future. It makes sense now the state owning an equity share and that it's worked out that we've been asked to take a piece of it. I'm proud of that. It's a lot of work. I won't deny that this is a busy

place.

Petroleum News: You've noted AGIA. As you are working now under the JVA and HB 4's original mission, is there any value left over from AGIA?

Fauske: I think a lot of the data that's been compiled and the engineering that's been going on, it can certainly be utilized. There were monies expended but there is also useful engineering data compiled. So it wasn't a total bust. There was work going on, I think worthwhile work.

Petroleum News: You've said you're looking at this from a corporate side not so much a government side. What have you learned in all of this, maybe about the market or about building a team you noted?

Fauske: I learned that you have to be patient. I learned that as you manage and develop mega projects, that's a strategy employed around the world by the industry and by us as to how you proceed. I learned that you don't change dates on the calendar, that you develop good, solid information. I learned that you are making a business decision, not an emotional one. That is, if this makes business sense, it will happen. If it doesn't, it means it didn't make good business sense. We as Alaskans can't anticipate or expect firms that will invest money because that's what Alaskans want.

I've heard that debate before. That's more in line with if you do a smaller line for in-state use, then you can then factor in the intrinsic value toward society and what you are trying to do. You want it to be a business decision as well, but there's a different motive or goal than an LNG project.

If you go back and look at the history of the last five years, a lot of this was triggered by the fact that Mayor Sullivan held brownout practices. There were real concerns that there was not going to be enough gas to supply the Railbelt on the coldest days. A bill was passed to get a storage facility built to help forgo that.

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FAUSKE

What it did was it woke people up to the fact that Cook Inlet and some of these gas resources are not necessarily good forever. There has to be future development and exploration and sources of gas. That's been a learning process in reference to keeping an eye on the prize and figuring out what you are trying to do.

Now the mixed bag of HB 4/ASAP/AGDC in conjunction with SB 138/large liquefaction, those are two different animals that are working toward the same purpose in a limited way. The missions are somewhat different, but they are mutually beneficial to each other at this stage going forward.

Petroleum News: You are under a mandate to maximize the value of the state's gas, but that value could make it out of reach for the public, but you are still maximizing the value. How do you reconcile that?

Fauske: The maximizing the value is a section of the state's constitution. SB 138, that's a large commercial application with off takes for in-state use. HB 4 is specifically directed at providing gas to Alaskans at the lowest possible cost. I

don't want to be misunderstood here. It is premature at this point. I've said this to legislators and others. It's not an either-or decision yet. We don't know enough. We will know more over the next year or 18 months as data is collected. I also know the market is volatile as we've always known.

The LNG market is changing on a daily basis and that to consider doing a project that ranges in cost from \$45 billion to \$65 billion, this is a major, major undertaking that we hope to be successful on, but there are a lot of things that come into play, particularly world markets. Now you are trading into a world market and you're trading into the forces that are out there.

Petroleum News: How far have you progressed with the in-state developments? You've got a pretty formidable staff in numbers.

Fauske: We've made a great deal of progress. There are a lot of people working, if you will, on the consultant side. That was always part of our deal in that we were not going to create this bureaucracy that had to be fed on an annual basis. These are project driven. Take for instance, a great deal of work we are doing is with a group called Arctic

“The LNG market is changing on a daily basis and that to consider doing a project that ranges in cost from \$45 billion to \$65 billion, this is a major, major undertaking that we hope to be successful on, but there are a lot of things that come into play, particularly world markets.”

—AGDC CEO Dan Fauske

Solutions, which is a joint venture between Fluor and WorleyParsons, who are huge engineering firms who have a great history for a lot of great work here in Alaska. The main effort there is the gas treatment facility in Prudhoe and the design and continued work on the pipeline engineering. There is a great deal of work and several hundred people involved across the country.

We've got a fairly large shop here in Anchorage but a vast majority are project based. They come and go. They have certain pieces of the project they do and then their end of it is done. As we've progressed this thing, that's how this is going to work. It's project-based staffing requirements and benchmarks with work to be completed within certain timeframes.

Petroleum news: How do you sustain that momentum while also working under the guidance of the JVA?

Fauske: As we progress both projects in the interim, we learn more about the market conditions and the success of the pre-FEED if you will on the AKLNG side will have a great deal to do with impacting AGDC. I think there is a strong sense that people don't want to give up one in terms of the other at this juncture. People want to be cautious so we aren't standing there saying oh jeez we did it to ourselves again. I think that there is a real positive to take away in that we have potential for a large commercial operation; we have potential for a smaller version to sustain ourselves with some commercial activity. But we have to be patient and do good work pushing it forward. Even the AGDC-ASAP line is a major project. I joke that only Alaskans would call a 36-inch, 800-mile pipeline little.

Petroleum News: Speaking of the size of the line, you are no longer restricted to have the line at 500 mcf or less capacity. If this were the project that prevails, are you able to go beyond that if the market is there?

Fauske: Certainly. We've always said that we will design this for 500 mcf per day but through looping and compression, we can go that route. If the other project failed or just stopped, I would imagine there would be a great deal of pressure for the ASAP line to reconfigure itself and in conducting an open season see what kind of bids you have out there or interest you have from commercial activities from various entities around the state, like Agrium or the mining industry.

Petroleum News: You talk about the desire for the project. Are you still on track to conduct an open season in the second quarter of next year?

Fauske: It's kind of a moving target. We are evaluating in conjunction with the other project. The last thing you want to do is have a non successful open season where nobody comes. We are progressing on that schedule. Unless something changes over the next few months, we are going to continue with that. We haven't carved it out in granite yet as far as a date. You have to have an awful lot of stuff that has to come together before you file with the RCA.

Petroleum News: Would it hurt the project if you waited another year until the administration comes back to the Legislature with its project development contract at the end of 2015?

Fauske: It could hurt it from the aspect of cost. Time is money. There could also be advantages to waiting. What you would weigh against it is potential for additional business, more refined numbers and a better open season going forward. You would weigh all of those things. There is a potential for that to happen as we weigh the market conditions and other things going forward.

It goes back to my point about being a business decision and you don't chase calendars with these things. That's where people make mistakes. They try to alter

see **FAUSKE** page 5

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

OWNER: Petroleum Newspapers of Alaska LLC (PNA)
Petroleum News (ISSN 1544-3612) • Vol. 19, No. 30 • Week of July 27, 2014
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518

(Please mail ALL correspondence to:
P.O. Box 231647 Anchorage, AK 99523-1647)
Subscription prices in U.S. — \$98.00 1 year, \$176.00 2 years
Canada — \$185.95 1 year, \$334.95 2 years
Overseas (sent air mail) — \$220.00 1 year, \$396.00 2 years
“Periodicals postage paid at Anchorage, AK 99502-9986.”

POSTMASTER: Send address changes to Petroleum News, P.O. Box 231647 Anchorage, AK 99523-1647.

CORRECTION

Miles Baker incorrectly identified

Miles Baker was incorrectly identified as Miles Barker in a story on the Alaska Gasline Development Corp. in the July 20 issue. Petroleum News apologizes for the error.

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GOVERNMENT

Cenovus boss goes political

Brian Ferguson takes issue with promises of opposition candidates to reverse Harper administration's approval of Northern Gateway

BY GARY PARK

For Petroleum News

One of Canada's top petroleum industry executives has taken the unusual step of going head-to-head with the two national political leaders who are both hoping to form the next federal government by ending the nine-year rule of Prime Minister Stephen Harper in an election next year.

"We should be outraged by the misinformation about our industry and our country," Cenovus Energy Chief Executive Officer Brian Ferguson told a Calgary energy conference earlier in July.

And he pointed an accusing finger at the Liberal's Justin Trudeau and the New Democratic Party's Thomas Mulcair for seeking pure "political gain" by opposing Enbridge's Northern Gateway pipeline project.

"I was discouraged to see the political leaders of Canada's two federal opposition parties contributing to a polarized debate," he said. "They said that if they were elected they would do what they could to stop the recently approved Northern Gateway project."

"My concern is what they are basically saying is ... they would choose to ignore a very stringent regulatory process for what I think is really their own political gain," Ferguson said, describing Northern Gateway as the "most scrutinized" application to ever come before the National Energy Board.

"To me that just doesn't feel right as a Canadian, that people who aspire to become prime minister of the country would say that they would just abandon and make a mockery of our regulatory system. I don't think that's the approach for them to take as potential leaders," he said, offering to meet with both Trudeau and Mulcair and explain the importance of Northern Gateway to Canada's economy.

"My concern is what they are basically saying is ... they would choose to ignore a very stringent regulatory process for what I think is really their own political gain."

—Cenovus Energy CEO Brian Ferguson

Candidates promise reversal

Trudeau and Mulcair have both said they would reverse the NEB and Canadian government's approval of the project, while requiring Enbridge to meet 209 conditions.

Ferguson, whose company is one of Northern Gateway's funding partners, said the committed shippers remain supportive of the venture to export 525,000 barrels per day of oil sands bitumen to Pacific Rim markets and plan to release more specific commitments in the near future.

He said the Supreme Court's rulings will impact the project, but agreed that commercial negotiations can still ensure that aboriginal communities, like other stakeholders, can get a "reasonable sharing of the economic rent" collected by the pipeline.

Poll shows continued hesitation

Separately, a new poll by Vancouver-based Insights West shows continued hesitation among British Columbians in their view of Northern Gateway.

The polling firm started tracking the public mood in January 2013, when a survey showed 35 percent of British Columbians supported the pipeline, climbing to 42 percent in November 2013, then slipping back to 38 percent in June. The same poll in Alberta recorded 65 percent backing, down from 75 percent in January 2013, but outright opposition has increased only slightly to 19

percent from 18 percent over the 18 months.

Concern about the increase in tanker traffic off the British Columbia coast was registered by 85 percent in British Columbia and 73 percent in Alberta, while unease about the risk of an oil spill was endorsed by 83 percent of British Columbians and 66 percent of Albertans.

Asked if Northern Gateway would create new jobs, 80 percent of British Columbians and 88 percent of Albertans agreed.

Insights West Vice President Mario Canseco said strong opposition in British Columbia stands at 29 percent, compared with strong support at 14 percent.

Impact on First Nations concern

He said a key issue to emerge from the poll is that 68 percent of British Columbians are concerned about the project's impact on First Nations.

The poll showed that if a plebiscite among registered voters was to take place, 48 percent of British Columbians would vote to turn down Northern Gateway, even though 63 percent view the project as a good idea.

Enbridge's Chief Executive Officer Al Monaco told the same Calgary conference said the Supreme Court has credited his company with taking the right approach by reaching out to First Nations along the pipeline right of way by persuading 26 to sign up as prospective equity partners.

Russ Girling, chief executive officer of TransCanada, told the conference that opponents of his firm's plan to build the Energy East pipeline to deliver 1.1 million barrels per day of bitumen to Ontario, Quebec and Atlantic Canada are trying to whip up a "frenzy of fear. The notion that we are trying to muzzle people is ludicrous. We have nothing to hide." ●

Contact Gary Park through publisher@petroleumnews.com

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FAUSKE

the calendar, speed things up and that's where mistakes were made worldwide. You've got to stay the course. The numbers will speak for themselves as you move this project along.

What I'm getting at, is if you focus on a date on a calendar as a must have but you don't have the supporting data going forward, that's what I'm talking about. What's more important? A date or having good data going forward? What's more important? Political pressure getting something done quicker when you're not ready or being patient? You try to move as quickly as possible, but you need to be cognizant that to move forward you really need to have your ducks lined up.

By the time you go to Wall Street to secure long-term financing one of the greatest things under discussion is what's the risk? Risk equates to interest rates, which equates to money. All of that stuff has to line up so you hit your targets of what you want: your numbers; your interest rates; your cost of capital; your cost of construction. Risk mitigation is huge on something like this. That's where other projects get into trouble.

This is a tough place to build anything: unbelievable terrain; huge distances. You try to get it down to as risk free as possible. You still have those risks, of course. You just have to be careful. You have to trust your engineers and trust your instincts. Work with the board, the legislators and the governor's office, and others. I don't take this lightly at all. This is a major deal going on here. I take a great deal of pride in a lot of the work I did at AHFC, billions of dollars in bond deals we put together. We can account for every

nickel of it. I suppose there is a little bit of luck in it, but we understood the rules going in and the amount of risks.

Petroleum News: You've noted some of the unique hurdles. Are there any advantages?

Fauske: One of the advantages we have as a state is that lot of the folks here were engineers on TAPS in the '60s and the early '70s. There are people here who worked on West Dock. Just getting it to Prudhoe Bay is a major undertaking. I remember in the earlier years in Barrow when the ice never went out. How do you get the barges in? We have a lot of people who have been doing this for many, many years. They can't control the weather, but they can certainly be in a position to recognize the risks that are out there and how to mitigate them. Think about it. It's not like I'm going to call up True Value and see what kind of pipe they have out in the yard. Placing that pipe order is huge — billions of dollars. But, it's all doable. All of this stuff is solvable when you've got real good professionals — our neighbors, people who have been here for decades doing this stuff. It's not like they are getting on a plane and going home. They live here and they want this to work.

Petroleum News: Let's talk about Enbridge. What do you like about Enbridge as far as a prospective builder?

Fauske: What I like is that they are interested in the project. When we started out, there were about 10 different firms. We narrowed the field. As we were down to the final two, they put together the best proposal moving forward. We haven't signed anything yet. We are still in the process of figuring out how this is going to go forward. They are an impressive firm and we are very pleased so far with

"Risk mitigation is huge on something like this. That's where other projects get into trouble."

—AGDC CEO Dan Fauske

our discussions with them.

Petroleum News: Is still to be determined how much the state would own?

Fauske: This started out as a process where we maintained we would be seeking a builder-owner-operator. So we haven't determined yet at what point that equity partnership would be. With financing, you're looking at 70-30 debt to equity. Their assessment of the project, that's another nice option, having another set of eyes looking at this. Don't forget, they are a pipeline company. That's what they do. None of these things are a done deal or a

given in reference to does the project make sense to them? Is it something they want to invest in? We anticipate they will. We are hopeful, but that will be analyzed over the next 18 months.

Petroleum News: How do you sell this as a viable project and investment to any pipeline company with AKLNG out there?

Fauske: It certainly makes it more difficult. You've asked a good question. I don't have a good answer for you at this point. We need to see how the two projects line up as AKLNG concludes its pre-FEED over these next 18 months. I'm always repeating it, but this is a critical time we are in. ●

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• FINANCE & ECONOMY

Buccaneer creditors want time

Believe disclosure of proposed distribution plan is premature and fails to meet the requirements of bankruptcy law

BY ERIC LIDJI

For Petroleum News

A group of creditors wants a bankruptcy court to reject part of the plan Buccaneer Energy Ltd. proposed for selling its assets and dispersing the funds among its many creditors.

The creditors believe a disclosure statement attached to the plan is premature and lacks all the information creditors need to make to decide whether to support the plan.

The statement is premature, according to the creditors, because certain “estate claims” and “causes of actions” are currently under way and have yet to be resolved.

And the statement is incomplete, according to the creditors, because Buccaneer needs to disclose precisely which assets are on the sale block and needs to propose “definitive deal terms” for the sale. They also believe Buccaneer must disclose the value of the properties being sold, which they claim the company can only determine by holding an actual sale.

The disclosure statement is meant to explain a proposed distribution plan to creditors, who must approve the plan through a vote. The court must approve the disclosure before creditors can vote on the plan. Buccaneer had submitted the disclosure alongside its proposed sale plan and asked the court for conditional approval of the disclosure.

Various objections

The objections to the disclosure came from the Official Committee of Unsecured Creditors, Cook Inlet

The Official Committee of Unsecured Creditors is also challenging a recent request from three Buccaneer Energy directors to provide upcoming depositions by videoconference.

Region Inc., and a joint filing from AIMM Technologies Inc. and All American Oilfield Associates LLC. The court-appointed official committee of unsecured creditors includes: Kenai Offshore Ventures LLC, Archer Drilling LLC, Teras Oilfield Support Ltd., Frank’s International LLC and AIMM Technologies Inc.

Should the court conditionally approve the disclosure statement, the Official Committee of Unsecured Creditors has asked for its comments to be appended to the document.

When Buccaneer filed the plan and disclosure statement, in late June, it conditioned the distribution plan on closing a sale of its producing Kenai Loop gas field, in Cook Inlet.

In justifying its objection, Cook Inlet Region Inc. pointed to its ongoing legal claims against Buccaneer over correlative rights and lease ownership at the Kenai Loop field.

AIMM Technologies had provided waste-disposal services for Buccaneer and All American Oilfield Associates had manned the onshore Glacier No. 1 drilling rig. The companies believe Buccaneer must provide a detailed list of assets proposed for sale, and specifically mentioned any tax credits the company has requested from the state.

The various objectors also pointed to a pending investigation to determine the relationship between AIX Energy Inc. and Meridian Capital International Fund.

AIX is Buccaneer’s largest secured lender and Meridian owns the largest stake in Buccaneer.

The court previously extended a deadline for Buccaneer to file its plan until Aug. 26.

Come to Houston

The Official Committee of Unsecured Creditors is also challenging a recent request from three Buccaneer Energy directors to provide upcoming depositions by videoconference.

The directors had argued they should be allowed to testify by videoconference to save the time and expense of traveling from England and Australia, respectively, to Texas.

By choosing to be directors of a company operating exclusively in the United States, the committee argued, the men should have expected to make the trip to Texas, when needed.

Buccaneer Energy is an Australian company, but its eight affiliated subsidiaries are American companies and conduct their business exclusively in the United States.

The committee also pointed to a recent ruling in Australia that designated the bankruptcy case as a “foreign main proceeding,” thus shifting the proceedings to the United States.

“It simply rings hollow that these directors are unduly burdened in being required to travel to the U.S.,” an attorney for the committee wrote in an objection. “One imagines that in the exercise of their duties to these companies, with assets and operations exclusively in the U.S., they have or reasonably anticipated having to travel to the U.S.” ●

Contact Eric Lidji at ericlidji@mac.com

• PIPELINES & DOWNSTREAM

State, Williams, Flint Hills agree

Will share \$1.75 million cost of study, construction schedule for water system extension to North Pole areas hit by sulfolane plume

BY KRISTEN NELSON

Petroleum News

The State of Alaska, Flint Hills Resources Alaska and Williams Alaska Petroleum have agreed to share equally in costs of preliminary engineering and survey work in North Pole.

The survey work would be to provide a water distribution utility service to homeowners and property affected by the sulfolane plume in North Pole, Alaska Attorney General Michael Geraghty said in a statement earlier in July.

“While none of the parties are committing at this point to the construction of

a new water system, this is an important step in potentially solving the long-term problem in North Pole and hopefully enabling the sale of the refinery to another operator,” Geraghty said.

Fairbanks Sewer & Water Inc. will develop the design, cost estimate and construction schedule for a water main extension from the Fairbanks Sewer & Water system and a local distribution system to serve parties affected by the sulfolane contamination.

Rep. Doug Isaacson, R-North Pole, said in a July 18 statement that he has had several lengthy discussions with the parties, and on July 17 took part in a meeting with members of the Interior delegation,

the Fairbanks North Star Borough, the City of North Pole, Utility Services of Alaska and Flint Hills to discuss the timeline and preliminary steps for the project.

Evaluating the cost

Isaacson said the parties have arranged to design a system to evaluate the cost and generate a construction schedule for a project estimated to reach approximately 330 customers outside of North Pole directly affected by the sulfolane plume. He said the system would have room for expansion to meet future needs.

The cost of the study is pegged at some \$1.75 million to be shared equally

by the state, Flint Hills and Williams, Isaacson said. He said the study will take six to nine months to complete, with legal, environmental and right-of-way issues expected to take longer.

“Our office is currently working with other legislators and the Administration to resolve those issues in manner that will be both safe for the residents and encourage a re-start of refinery operations,” Isaacson said.

Latest challenge lost

In related news the Associated Press is reporting that Flint Hills Resources has

see **AGREEMENT** page 7



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• FINANCE & ECONOMY

Furie gets financing for Kitchen Lights

BY KRISTEN NELSON

Petroleum News

Furie Operating Alaska has received an investment commitment of \$160 million from Energy Capital Partners Mezzanine Opportunities Fund for development at Kitchen Lights.

"The investment will fund the build-out of infrastructure for the installation of an offshore natural gas production platform, marine pipeline, and onshore production facilities to bring proven natural gas reserves to market from Furie's Kitchen Lights Unit in the Cook Inlet," Energy Capital Partners said in a July 18 release.

The platform, the first new Cook Inlet platform since Osprey was installed in 2000, will allow natural gas from Kitchen Lights to diversify supply for the Kenai Peninsula, Matanuska-Susitna and Anchorage areas, Energy Capital partners said.

More exploration, development

Furie said it plans to continue exploration and development at the 83,000-acre lease position at Kitchen Lights.

"We are thrilled to form a partnership with a highly experienced capital provider in Energy Capital Partners. Their financial strength, industry relationships and midstream experience cre-

ate a strong partnership," said Damon Kade, Furie's president.

Nazar Massouh, who leads Energy Capital's energy-focused mezzanine investment activities called the partnership "a great example of Energy Capital's collaborative approach of applying its energy industry knowledge and creative capital to partner with an experienced team to build much-needed midstream assets."

"We are excited to launch a partnership with a team that has a solid track record in Cook Inlet," Massouh said.

Latham & Watkins LLP acted as legal advisor to Energy Capital Partners. Stoel Rives LLP (Anchorage and Seattle offices) and Cogan & Partners LLP of Houston, acted as legal advisors to Furie Operating Alaska.

Cornucopia majority WIO

Furie's Kitchen Lights unit includes a number of oil and gas leases owned by majority working owner Cornucopia Oil & Gas Co.

Furie was formed in 2011 when Escopeta Oil, which formerly held the Kitchen Lights unit, was divided into Furie Operating Alaska and Cornucopia Oil and Gas Co.

Alaska Department of Natural Resources Division of Oil and Gas records show that Cornucopia holds



Monopod platform on a barge in Seattle; should be in Cook Inlet in early August.

82,108 acres of state oil and gas leases, while Furie Operating Alaska holds 884 acres.

Ownership of leases in the Kitchen Lights unit varies, but is generally held 79-80 percent by Cornucopia of League City, Texas, some 8 percent by A.L. Berry of Houston, some 7 percent by Danny Davis of Houston, some 5 percent by Taylor Minerals of Houston and 1 percent by Furie Operating Alaska of League

City, Texas.

Energy Capital Partners is an energy-focused private equity firm with more than \$13 billion in capital commitments and offices in Short Hills, Houston and San Diego. ●

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

• FACILITIES

Iqaluit panhandles for port money

BY GARY PARK

For Petroleum News

Iqaluit, capital of Canada's Nunavut Territory and an entry point to the High Arctic, is left casting an envious eye on marine terminals in Quebec and Greenland and puzzled by its failure to gain recognition from Prime Minister Stephen Harper's long-proclaimed priority to advance the economic wellbeing of the northern region.

Since being elected in 2006, Harper has trumpeted his desire to make the Arctic a home of resource development and a vital part of Canada's assertion of

its sovereign Arctic claims by making an annual trip to the area, hauling along a team of journalists and cameras in what is viewed as his only effort to make friends with the news media.

The Northwest Territories and Yukon have benefited in many tangible ways from these excursions.

Nunavut has been left on the sidelines, ignored in its constant lobbying efforts to obtain C\$56 million in federal money to build a deep-sea port at Iqaluit, where the waterfront has been virtually untouched in the 450 years since the English explorer Martin Frobisher sailed into the inlet now known as Frobisher Bay.

Meanwhile, the territorial government has watched as Denmark has asserted its claims to a chunk of the Arctic by investing heavily in a deep-sea port and paved roads in Greenland's town of Nuuk, while Nunavik, in Quebec's Arctic region, has benefited from provincial and federal money on marine facilities, aiding the delivery of vital supplies to its communities.

Facilities needed

With signs that oil and gas exploration in Canada's High Arctic is on the verge of a new life, residents, business owners and shipping companies are pleading with all levels of government to build the facilities that will cater to a rapidly-growing town of 7,000 and lay the foundations for resource development.

Suzanne Paquin, president of Nunavut Eastern Arctic Shipping, told The Canadian Press that economic development in the North will be stalled unless Nunavut has proper marine infrastructure, otherwise the costs of shipping materials and food amount to a "hidden tax."

Those costs were blamed in 2011 by the National Aboriginal Health Council for Iqaluit's high housing costs.

In 2009, the Harper government provided the financial help to establish a small craft harbor at Pangnirtung, farther north on Baffin Island, causing head-scratching within northern circles, which have seen an infusion of money to build community centers and hockey rinks.

A spokesman for federal Infrastructure

see **IQALUIT** page 8

continued from page 6

AGREEMENT

lost its latest challenge in an attempt to get Williams Alaska Petroleum to pay for the North Pole groundwater contamination. Flint Hills acquired the refinery from Williams in 2004.

Superior Court Judge Michael P. McConahy ruled in November that the statute of limitations had expired by the time Flint Hills filed a lawsuit against Williams. McConahy made the same

ruling earlier in July, AP said, citing a report in the Fairbanks Daily News-Miner, which reported that Flint Hills was aware of the contamination, but initially thought it was confined to ground beneath the refinery.

Flint Hills shut down operations at the refinery in May, citing the cost of cleanup and mitigation efforts as a factor in the closure. ●

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● PIPELINES & DOWNSTREAM

Kinder Morgan unfazed by delay

Trans Mountain expansion review rolled into 2016 to allow time for assessment of proposal to change routing through City of Burnaby

BY GARY PARK

For Petroleum News

Kinder Morgan has agreed to a seven-month delay in a scheduled public review of its application to triple capacity on the Trans Mountain pipeline, saying the extra wait will not affect the commercial viability of the C\$5.4 billion adding of 590,000 barrels per day of capacity to the system.

Ian Anderson, president of the company's Canadian unit, told reporters that "politics are going to be politics. We will always be in some form of political cycle and we can't avoid that. We are proceeding to deal with the National Energy Board."

He said in a statement that the additional time "provides interveners and others more time to review our proposal and ensures we can fully explore the route we are proposing after listening to the people of Burnaby," while conducting the necessary engineering and environmental stud-

ies.

The NEB's decision to extend its deadline for sending a final recommendation to the Canadian government cabinet to Jan. 25, 2016, was made to allow time for an assessment of Kinder Morgan's proposal to change the pipeline routing through the City of Burnaby in Metro Vancouver.

Bitumen exports the goal

Canada's hopes of embarking on oil sands bitumen exports to Pacific Rim markets are pinned on the Trans Mountain expansion and Enbridge's Northern Gateway proposal.

Under the revised timetable, oral hearings that were scheduled to have started in January 2015 will be delayed until July.

The Westridge Marine tanker-loading

terminal is within Burnaby's boundaries, along with the controversial expansion of the Trans Mountain pipeline. The city has been unflinching in its opposition to the project.

A spokesman for the NEB said the federal regulator requires a "number of different studies" to assess the revised application, including plans to drive the pipeline through a mountain within the city and reroute the pipeline by less than three miles.

The company said in documents filed with the NEB that its attempts over the past year to participate with the City of Burnaby to collect information on the rerouting have failed, with the city stating "it will not provide Trans Mountain with access or permits."

If Burnaby continues to be uncoopera-

tive, the company said it will apply to the NEB for an order granting access to the information.

In documents filed with the NEB, the city said "the 'engagement' that Trans Mountain is requesting appears in some cases to constitute support or pre-approval by Burnaby," while in other cases, city staff would effectively be helping the company meet its obligations to the NEB.

"Burnaby takes the position that now the hearing process is underway for the project, communications with Trans Mountain should take place transparently on the hearing record," the filing said, adding Burnaby "is open to engagement with Trans Mountain through the NEB process. ..."

Burnaby cites route changes

Earlier, Burnaby Mayor Derek Corrigan said Kinder Morgan had made four changes to the pipeline's proposed

see **DELAY** page 13

● EXPLORATION & PRODUCTION

Hilcorp applies for Ninilchik pool rules

Company asks AOGCC for changes to allow gas development flexibility within unit, also requests Beluga, Tyonek formation commingling

BY KRISTEN NELSON

Petroleum News

In a July 22 hearing representatives of Hilcorp Alaska told the Alaska Oil and Gas Conservation Commission that establishing pool rules for the Ninilchik gas field would allow the company to develop gas resources with less administrative work than is now required. The commission would still have to issue spacing exceptions for gas wells drilled within 1,500 feet of a unit boundary where ownership changed.

Hilcorp also requested permission to commingle natural gas from the Beluga and Tyonek formations, which, the company said, would allow for more complete production of the resource at the field.

The pool rules request is the result of work Hilcorp has been doing at the Ninilchik gas field on the Kenai Peninsula. The field, largely offshore but also with some onshore acreage, was unitized by Marathon Oil and Union Oil Company of California in 2001, with Marathon as operator.

Hilcorp Alaska landman David Duffy told the commission Hilcorp acquired Chevron's working interest Jan. 1, 2012 (Chevron had earlier acquired Union

Hilcorp said that by eliminating intra-pool spacing rules it will be able "to target smaller, un-drained portions of isolated fault blocks that cannot be reached by wells conforming to current spacing restrictions," helping maximize recovery from bypassed pay while allowing continued production from established wells.

Oil), and Marathon's share Feb. 1, 2013, and now holds 100 percent of the working interest at Ninilchik.

Complex ownership

Alaska Division of Oil and Gas geologist Julie Houle told the commission that the division requested a hearing on the pool rules request because of "diverse mineral ownership of the Ninilchik unit and the surrounding acreage to the east of the unit." She said the reservoir is also complex making Ninilchik "one of the more complex units in Alaska" from both reservoir and mineral ownership perspectives.

Duffy told the commission the Ninilchik unit includes some 25,819 acres, 9 percent of which is federal, 77.5

percent state, 2.56 University of Alaska, 5.88 percent Cook Inlet Region Inc. and 13.12 patented fee lands. The fee lands are onshore on either side of the Sterling Highway, Duffy said, and are the result of early homesteads on the Kenai Peninsula which included mineral rights. As those homestead lands have been subdivided some of the mineral rights were sold with the lands. Patented fee lands include tracts as small as an acre, Duffy said.

Three participating areas

Hilcorp senior geologist David Buthman said the requirement for spacing exceptions for so many of the Ninilchik wells has been an administrative headache.

The requested pool rules would permit Hilcorp to drill closer than 1,500 feet to another well within the unit, without having to request a spacing exception. In its application to the commission Hilcorp said it "cannot efficiently produce remaining reserves under AOGCC's current well spacing rules. While existing rules and procedures may have adequately protected correlative rights and prevented waste (two of the commission's charges) during the field's initial development, they are not applicable to the effort necessary to explore and produce remaining hydrocarbon reserves."

The company said the spacing exception requests "are administratively burdensome and are unnecessary to protect correlative rights, particularly ... in cases

where a well is simply being optimized or reactivated within the same pool."

Hilcorp said that by eliminating intra-pool spacing rules it will be able "to target smaller, un-drained portions of isolated fault blocks that cannot be reached by wells conforming to current spacing restrictions," helping maximize recovery from bypassed pay while allowing continued production from established wells.

Recent drilling; new wells planned

Buthman said five wells were drilled in 2013-14 and four wells recompleted or perforated. Six wells are in the planning stages.

With every well drilled Hilcorp learns more, he said, and data indicate the reservoir extends to the east beyond existing boundaries. That is true both in the Falls Creek participating area in the north and in the Susan Dionne-Paxton participating area in the south.

The company's materials for the hearing noted that some of the 3,000-foot radii around gas productive or recognized potential gas zones extend beyond the participating areas and unit border, and said it plans to reconfigure the participating areas and unit after the 2014-15 drilling season.

Hilcorp hasn't concentrated on the middle participating area, Grassim Oskolkoff, and doesn't have new wells there, Buthman said.

On the issue of commingling Beluga

see **HILCORP** page 12



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IQALUIT

Minister Denis Lebel argued Iqaluit's waterfront is a municipal matter, suggesting that the responsibilities lie with the town council to seek funding.

Whether Harper is open to a pitch for help to build a deep-sea port may come into focus when he makes his annual excursion north this year, likely in August. ●

Contact Gary Park through
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● LAND & LEASING

The allure of the Alaska Peninsula

With intriguing petroleum geology in this remote, underexplored region, the state continues to offer land for oil and gas leasing

BY ALAN BAILEY
Petroleum News

With known oil and gas seeps and with geology broadly similar to that of the prolific Cook Inlet basin, the Alaska Peninsula has intrigued oil and gas explorers since the early days of Alaska hydrocarbon exploration. The peninsula lies along the southern side of the North Aleutian basin, a geologic basin with clear hydrocarbon potential in the southern part of the Bering Sea shelf.

Areawide lease sales

In the interests of encouraging exploration in extensive state lands along the peninsula, Alaska's Division of Oil and Gas has been conducting areawide lease sales for the peninsula since 2005. Although, as these lease sales got under way, some companies purchased leases, the state did not sell any leases in sales held from 2008 to 2013. In the 2014 lease sale two companies purchased leases on a total of three land tracts.

Some people view the possibility of exploration of the North Aleutian basin, in offshore federal land, as providing an essential underpinning to exploration along the neighboring peninsula. But those federal waters were closed to exploration between 1989 and 2007, following the Exxon Valdez oil spill in Prince William Sound. And in 2010, following a brief re-opening of the area, the Obama administration withdrew the Bristol Bay area, including the North Aleutian basin, from future federal oil and gas leasing.

But what is the potential for a commercial oil or gas find in state land on the peninsula?

Sparsely explored

A total of 26 wells have been drilled in the Alaska Peninsula region at various times between 1900 and 1985. Of these wells, 19 encountered oil shows and 13 encountered gas shows, but no commercial discoveries have been made. Only one well has been drilled in the offshore North Aleutian basin, the remainder being onshore. Given the scale of the region, this intensity of drilling can be viewed as sparse in terms of oil and gas exploration.

As in the Cook Inlet basin, the peninsula has a thick succession of Tertiary-age sedimentary rocks, primarily formed on

land, rather than under the sea, and containing coals seams. These Tertiary rocks lie in juxtaposition with a sequence of older Mesozoic rocks, formed in a marine environment — equivalent rocks lying under the Tertiary sequence of the Cook Inlet basin include the rocks that sourced the oil in the Cook Inlet oil fields.

DGGS research

In support of the program of state areawide lease sales, a team led by Alaska's Division of Geological and Geophysical Services conducted a research program on the Alaska Peninsula between 2004 and 2007, doing fieldwork and placing data from earlier exploration programs into a modern petroleum geology context.

Sampling spectacular exposures of Mesozoic strata in cliffs along the southeast coast of the peninsula, around Puale Bay, the DGGS-led team confirmed the presence of excellent potential source rocks, both in the Kialagvik formation, equivalent to source rocks from the Cook Inlet basin, and in the older Kamishak

However, regardless of what does lie under the Tertiary, the Tertiary rocks themselves, with potential hydrocarbon sources, hydrocarbon seals and hydrocarbon traps, can form a complete petroleum system, the DGGS-led team has reported.

formation, a rock unit equivalent to the prolific Shublik source rock of Alaska's North Slope. The team determined that these source rocks have thermal maturities in the low end of the oil-generating thermal window, with a long-known surface oil seep in Mesozoic rocks at Oil Creek, about 30 miles southwest of Puale Bay, confirming the presence of an oil source in the region.

A chemical analysis of oil from the seep has confirmed a Mesozoic source for the oil.

The DGGS-led team also conducted a carbon isotope analysis of gas from a gas seep from Mesozoic rocks south of Port Moller. This analysis indicated that the gas originated from the thermal decom-

position of organic material, rather than from bacterial action, almost certainly from a Mesozoic source rock. There are extensive surface exposures of Mesozoic rocks across the Alaska Peninsula southwest of Port Moller, near and around Herendeen Bay.

Tertiary sequence

The sequence of Tertiary rocks known to lie in the offshore North Aleutian basin can be observed onshore, in juxtaposition with the Mesozoic rocks near Port Moller. The Tertiary rocks seen onshore in this area represent the steep southern flank of the Tertiary basin, most of which lies offshore. However, Tertiary rocks forming the southeastern margin of the basin extend onshore northeast from the Port Moller area, up the western side of the peninsula.

Analyses of the Tertiary rocks by the DGGS-led team indicated that the majority of potential hydrocarbon sources in the Tertiary are more likely to have generated natural gas than to have generated

see **PENINSULA** page 10

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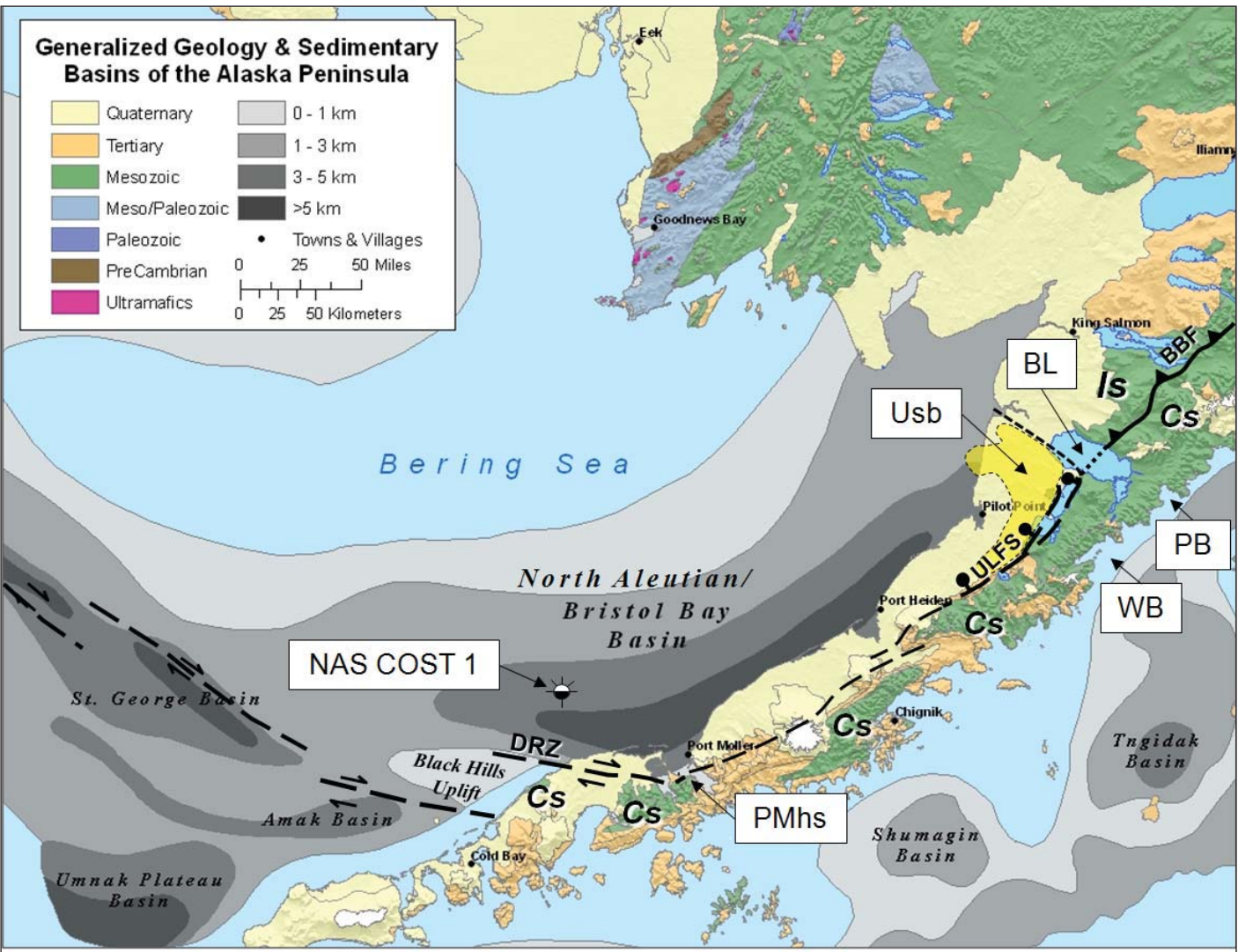




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ALASKA DEPARTMENT OF NATURAL RESOURCE DIVISION OF GEOLOGICAL AND GEOPHYSICAL SERVICES



The Alaska Peninsula and the North Aleutian basin. PB = Puale Bay, WB = Wide Bay, NAS COST 1 = COST No. 1 well, PMhs = location of Port Moller gas seep, BBF = Bruin Bay fault, Usb = Ugashik sub-basin, ULFS = Ugashik Lakes fault system, DRZ = David River zone, marking southern margin of basin, Is = Iliamna sub-terrane with metamorphic and igneous rocks, Cs = Chignik sub-terrane with Mesozoic sedimentary rocks

with hydrocarbon reservoir potential. The Alaska Peninsula region also exhibits many geologic structures that could trap oil and gas. And the DGGs-led team identified rocks fine-grained enough to seal hydrocarbon traps, with some of these seal rocks extensive enough to capture a commercial-sized oil or gas pool.

Mesozoic underneath?

A key issue relating to the petroleum system of the Alaska Peninsula is the question of the extent to which the oil and gas prone Mesozoic rocks extend under the Tertiary rock sequence of the North Aleutian basin — in the Cook Inlet basin the Mesozoic sequence, including the regional oil sources, extends continuously under the Tertiary, even in the deepest parts of the basin.

To the immediate northeast of the Alaska Peninsula a major geologic fault, the Bruin Bay fault, separates metamorphic and igneous rocks, with no petroleum potential, to the northwest from the Mesozoic rocks, with petroleum potential, to the southeast. The fault runs through the northeastern end of the peninsula, but because of a lack of surface exposed rock, cannot be traced south of Becharof Lake, near Puale Bay. A continuation of the fault down the length of the peninsula would presumably place igneous and metamorphic rocks under the Tertiary of the North Aleutian basin, thus making it highly unlikely that Mesozoic oil would have flowed into Tertiary reservoirs, as in Cook Inlet. If, however, the fault veers to the west, heading out under Bristol Bay, those oil and gas prone Mesozoic sediments would be placed under the Tertiary of the basin.

The DGGs-led team identified a major structural dislocation trending southwest from the known southerly limit of the Bruin Bay fault. Should that dislocation represent the continuation of the fault, Mesozoic rocks are likely to be absent under the basin. But, with insufficient evidence to substantiate the fault's route, no one knows for sure what lies under the deeply buried Tertiary strata of the basin. However, regardless of what does lie under the Tertiary, the Tertiary rocks themselves, with potential hydrocarbon sources, hydrocarbon seals and hydrocarbon traps, can form a complete petroleum system, the DGGs-led team has reported. ●

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DRIVEN TO PERFORM

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PENINSULA

oil, confirming a widely held view that the North Aleutian basin is likely to be gas prone rather than oil prone. However, one rock unit, the Tolstoi formation, contains material that could generate liquid hydrocarbons. And evidence from a stratigraphic test well, the COST No. 1 well, drilled offshore in the basin in 1982-83, indicates that in that part of the basin the Tolstoi had been buried to depths about 5,000 feet below the depth at which subsurface temperatures would have reached temperatures conducive to oil formation, the DGGs-led team reported.

As with the Tertiary rocks of the Cook Inlet basin, the Tertiary sequence along the northwestern side of the Alaska Peninsula contains a range of rock units

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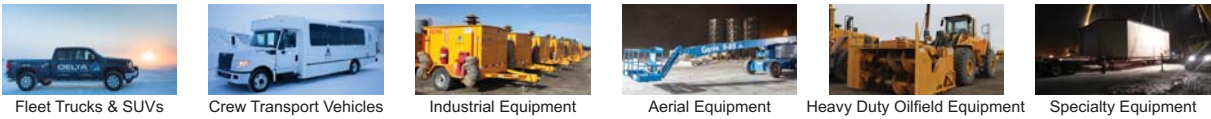
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● GOVERNMENT

Not so fast on that national monument!

Alaska Sen. Murkowski's bill would require congressional approval before a president could 'lock up' public lands and waters

BY WESLEY LOY

For Petroleum News

U.S. Sen. Lisa Murkowski, R-Alaska, has introduced legislation to make it tougher for presidents to designate new national monuments.

The bill, titled the Improved National Monument Designation Process Act (S. 2608), would "block the Obama administration from unilaterally using the Antiquities Act to lock up millions of acres of public lands and waters," Murkowski said in a July 17 press release.

"Alaskans know what happens when the president unilaterally closes millions of acres of public lands — it means a loss of jobs and a hit to the economy," Murkowski said.

Presidents, under the Antiquities Act of 1906, have the power to declare public sites as national monuments. Such a designation can put the sites off-limits to such activities as oil and gas development.

Some environmentalists have urged President Obama to designate the Arctic National Wildlife Refuge as a national monument.

Obama already has established sever-



LISA MURKOWSKI

al national monuments during his time as president.

Controversial marine monument

Murkowski's four-page bill would require a president proposing a national monument to first obtain congressional approval, and to certify compliance with the National Environmental Policy Act.

The bill also addresses requirements for marine national monuments. It says the president may not declare any area of the exclusive economic zone to be a national monument without congressional authorization as well as the approval of nearby states or territories.

Murkowski's bill appeared to be inspired by a White House announcement on June 17 that the Pacific Remote Islands Marine National Monument in the central Pacific Ocean might be expanded. This has upset commercial fishing interests.

President George W. Bush established the nearly 87,000-square-mile Pacific Remote Islands monument in 2009 under authority of the Antiquities Act. A federal website says the June 17 announcement indicated Obama's intent to "make a broad swath of the central Pacific Ocean off-limits to fishing, energy exploration and other activities."

Support for bill

Murkowski is the senior Republican on the Senate Energy and Natural Resources Committee and co-chair of

"My legislation is designed to ensure that our oceans are not locked away with a stroke of the president's pen."

—U.S. Sen. Lisa Murkowski, R-Alaska

the Senate Oceans Caucus.

"My legislation is designed to ensure that our oceans are not locked away with a stroke of the president's pen," she said. "The continued foreclosure of our lands and waters threatens economic activities from fishing to exploration for oil and natural gas."

Murkowski's bill found favor with Alaska resource industry players.

"We applaud Sen. Murkowski's lead-

ership in introducing legislation that places reasonable limits on the president's power to make far-reaching conservation land withdrawals in all 50 states, both onshore and off," said Rick Rogers, executive director of the Resource Development Council for Alaska.

One problem today is that "decisions under the Antiquities Act are made behind closed doors," said Joe Plesha, general counsel for one of the nation's top fish processors, Seattle-based Trident Seafoods Corp. ●

Contact Wesley Loy
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HILCORP

and Tyonek production, Hilcorp Alaska reservoir engineer Christopher Kanyer said Hilcorp has seen good results from commingling in the nearby Deep Creek unit.

Hilcorp doesn't want to leave resources unproduced, he said, and wants to commingle Beluga and Tyonek production so they don't "abandon the Tyonek reservoir prematurely leaving reserves" from small accumulations behind in order to move onto

Beluga production.

"We're asking for the commingling so we can keep the wells flowing ... and add to ultimate recovery of the reserves," he said.

In its application to the commission Hilcorp said there are 28 wells at the Ninilchik field, 21 currently online and seven shut-in. The company's plans include returning shut-in wells to service; optimizing existing wells completions; pursuing stimulation opportunities; and identifying and then executing new drilling project. ●

Contact Kristen Nelson
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• NATURAL GAS

Cold climate could give Alaska LNG edge

Lower ambient temperatures let liquefaction process run more efficiently, an advantage of some 10% over facilities in Middle East

BY STAN JONES

Researcher/writer for the Office of the Federal Coordinator

What is it that brings misery, numb toes and frozen pipes to Alaska residents but warms the hearts of people designing a liquefaction plant?

The state's cold weather.

Low temperatures would make the natural gas liquefaction process and related systems more energy-efficient for the Alaska LNG project. Higher efficiency and lower operating costs are an important advantage in an intensively price-competitive global market for liquefied natural gas sales.

Besides reducing fuel costs, the improved efficiency can cut capital costs as some of the equipment doesn't need to be as big and powerful.

The Alaska LNG project as currently

envisioned would include:

- A giant North Slope treatment plant to purify the gas as it comes out of the ground.
- 800 miles of pipeline and eight compressor stations to move the gas to Nikiski, on the Kenai Peninsula.
- An equally giant liquefaction plant at Nikiski to supercool the gas, along with storage tanks and marine shipping terminal.

Oil producers on the North Slope have long benefited from the same cold-weather phenomenon that would boost the bottom line of an LNG project. The huge compressors used at the oil production facilities are more efficient in cold weather, sending thousands of barrels of additional oil down the line each day during the winter.

The general colder-temperature-efficiency principles are the same throughout the LNG project, from the gas treatment plant to the pipeline compressor stations to the

LNG plant. But the liquefaction plant will cost the most to build of any of the project components and will benefit the most from Alaska's low temperatures.

Just like at home

A liquefaction plant works a lot like the refrigerator in your home, except on a vastly larger scale — imagine Godzilla versus a gecko. The plant's assignment is simple, but brutal: Take vaporous natural gas coming out of a pipeline at ambient temperatures — somewhere between 0 degrees and 100 degrees Fahrenheit over most of the Earth's surface — and chill it until it condenses and liquefies at minus 260 so it can be shipped on tankers to overseas customers.

In the end, the liquefaction plant and your refrigerator are both affected by the surrounding temperature. When it's cold in your house, the refrigerator doesn't use as much power to keep your lettuce crisp. Similarly, the lower

the temperature outside, the less power needed to run a liquefaction plant.

How much difference does temperature make?

Quite a bit, as it turns out. A detailed analysis of temperature effects on energy use was done in 2012 for Snohvit, an LNG plant in the Norwegian Arctic. The analysis ("Exergy Evaluation in the Arctic Snohvit Liquefied Natural Gas Processing Plant in Northern Norway — Significance of Ambient Temperature," by Anne Berit Rian and Ivar S. Ertesvag, Department of Energy and Process Engineering, Norwegian University of Science and Technology, 2012) concluded that Snohvit — operating in an ambient temperature of 39 degrees — was 11 percent more efficient than if the temperature had been 68, and 20 percent more efficient than if it had been 97.

"That heat removed from the natural gas has to go somewhere," said Jim Wilkins, a

see CLIMATE page 14



• PIPELINES & DOWNSTREAM

New ExxonMobil oil tanker expected soon

Double-hull Liberty Bay features advanced systems, capacity for 800,000 barrels; delivery of second tanker expected by year's end

BY WESLEY LOY

For Petroleum News

ExxonMobil is making good progress toward placing two new double-hull tankers into service hauling Alaska North Slope crude oil.

The first of the ships, the Liberty Bay, is expected to arrive in Prince William Sound in late September, an ExxonMobil spokesman told Petroleum News on July 23.

The second tanker remains under construction at Aker Philadelphia Shipyard in Pennsylvania.

The new ships will replace aging double-hull tankers operated by SeaRiver Maritime Inc., ExxonMobil's U.S. marine affiliate.

Propulsion defect fixed

SeaRiver signed a deal in 2011 for construction of the two tankers. The contract was valued at \$400 million.

The tankers are of a size known in the

shipping industry as "afamax."

The Liberty Bay is 820 feet long and can carry up to 800,000 barrels, considerably more than a full day's production from North Slope oil fields.

The shipyard delivered the Liberty Bay to SeaRiver on June 11.

Prior to delivery, during sea trials in March, a defect in the vessel's propulsion system was discovered, the shipyard disclosed.

"All remedial efforts to resolve this issue, in addition to owner requested change orders paid for by the customer, were completed as planned," the shipbuilder said in a July 17 financial report.

Aker Philadelphia Shipyard is listed on the Oslo Stock Exchange.

Redundant systems

The Liberty Bay incorporates the latest safety, navigation and engine room

technologies, ExxonMobil said in an April 25 press release.

"In addition to double hulls for all cargo and fuel tanks, the Liberty Bay is equipped with redundant components for key systems, including main engine components and controls as well as fuel, lube oil and electrical systems to deliver energy efficiencies and better performance," the company said.

"These features reflect the results of SeaRiver Maritime's consultation with independent specialists to complete an extensive evaluation of the vessel's design using Failure Mode and Effects Analysis, a methodology used by the aerospace industry and the U.S. Department of Defense. This study analyzed key operating systems under a variety of scenarios at sea. The ship's main engine and auxiliary systems will be energy efficient and generate lower air emissions than what regulatory standards

currently require."

Assigned officers and crew have engaged in extensive training such as control room and bridge simulations for the new class of tankers, ExxonMobil said.

Delivery of the Liberty Bay's twin, the Eagle Bay, is expected by year's end, the company said.

Photos of the Liberty Bay are available online at <http://exxonmobil.co/1pJM3RC>.

The tanker fleet hauling oil between Alaska's Valdez terminal and West Coast refineries has fully converted from single-hull to double-hull ships. This conversion came after reforms stemming from the Exxon Valdez oil spill in 1989.

ExxonMobil is the last of the North Slope's top three oil producers to build new double-hull tankers.

BP and ConocoPhillips each built several new tankers some years ago. ●

Contact Wesley Loy
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DELAY

route, but had refused to answer many of the 1,500 questions Burnaby has submitted to the regulator.

"They expect us to continually adjust to Kinder Morgan's proposals," he said. "We're saying 'enough is enough,'" he said.

Kinder Morgan has until Dec. 1 to submit the required studies to the NEB. Interveners will then have until Feb. 3, 2015, to review and respond to that information.

Kennedy Stewart, the Burnaby representative in the Canadian Parliament through the left-wing New Democratic Party, said the NEB has "allowed Kinder Morgan to play fast and loose with the process."

"My constituents have known for

months the company has at least three pipeline routes in play through Burnaby and it looked like the NEB was going to let them get away with not specifying whose homes and properties would be affected."

In the City of Vancouver, highly popular Mayor Gregor Robertson is facing a challenge this fall as he seeks a third term in office, which could turn the Trans Mountain project into a deciding campaign issue.

His opponent is career journalist and publisher Kirk LaPointe, who said that, if elected, he will take a "very responsible position" on the Trans Mountain plan that will "not preclude, as the mayor has, the process that is underway in order to identify and articulate the very necessary environmental and legal ramifications of the development." ●

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Oil Patch Bits

Hanley named couch of the year

The US Youth Soccer Association's Coach of the Year award was presented to Hanley, a 40-year-old coach of the 11U team at the US Youth Soccer National Championships in March. Hanley, who coached the team to a 10-1 record, was named the best coach in the country. He is the first coach to win the award twice. Hanley, who coached the team to a 10-1 record, was named the best coach in the country. He is the first coach to win the award twice.

RPO shows how industry plans

Reasonably prudent operator standard, widely used in industry, denied for Point Thomson

The operator's decision doesn't have to be perfect. It has to be reasonable in light of the circumstances. The RPO also "requires taking into account the interests of all the stakeholders," including, in this case, the State of Alaska.

NACLink goes independent, Holthaus named president

NACLink, a Northern California oil and gas company, has announced that it is going independent. Holthaus, who has been with the company for 10 years, has been named president. The company is currently in the process of being sold to a private equity firm.

BUSINESS SPOTLIGHT

Petroleum • WEEK OF MARCH 16, 2008

Business Spotlight

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Arctic Oil & Gas Directory • Vol. 15, No. 1

STANDLAONE PHOTOS

Alaska Steel's relationship with SSAB adds new plate

Alaska Steel, a leading provider of steel products, has announced a new partnership with SSAB. The partnership will allow Alaska Steel to provide a wider range of steel products to its customers. The partnership will allow Alaska Steel to provide a wider range of steel products to its customers.

Sullivan to participate in 2011 ExxonMobil

ExxonMobil has announced that it will be sponsoring a team to participate in the 2011 Arctic Challenge. The team, led by Sullivan, will be competing in a series of challenges designed to test the team's ability to survive in the Arctic. The team, led by Sullivan, will be competing in a series of challenges designed to test the team's ability to survive in the Arctic.

Global Diving & Salvage welcomes huller to Alaska

Global Diving & Salvage has announced that it has hired a new huller to work in Alaska. The huller, who has extensive experience in the field, will be working on a variety of projects. Global Diving & Salvage has announced that it has hired a new huller to work in Alaska. The huller, who has extensive experience in the field, will be working on a variety of projects.

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Colville providing decades of 'world class service at the top of the world'

Colville

Company's Ultra Low Sulphur Diesel tank farm keeps the oil industry running in the Arctic

Colville, a leading provider of oil and gas services, has announced that it has provided decades of 'world class service at the top of the world'. The company has a strong track record of providing high-quality services to its clients. Colville, a leading provider of oil and gas services, has announced that it has provided decades of 'world class service at the top of the world'. The company has a strong track record of providing high-quality services to its clients.

Q&A

Q: What do you most want people to know about your company?

A: Our operations center is at the top of the world. We have a strong track record of providing high-quality services to our clients. We have a strong track record of providing high-quality services to our clients.

Q: What year did the company founded and by whom?

A: The company was founded in 1968 by John Colville. The company has a strong track record of providing high-quality services to its clients. The company has a strong track record of providing high-quality services to its clients.

Q: What year did the company founded and by whom?

A: The company was founded in 1968 by John Colville. The company has a strong track record of providing high-quality services to its clients. The company has a strong track record of providing high-quality services to its clients.

COMPANY PROFILES

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FINANCE & ECONOMY

Schlumberger loses Alaska tax appeal

The Alaska Supreme Court has dealt oilfield services company Schlumberger a defeat in a tax dispute with the state.

The 17-page opinion released on July 18 says the dispute dates to September 2003, when the Alaska Department of Revenue issued Schlumberger a notice of assessment for additional corporate income taxes of \$429,739 plus interest.

Schlumberger fought the assessment administratively and in state Superior Court, which ruled against the company.

The complex case centered on the connection between Schlumberger Ltd., the multinational parent company, and Schlumberger Technology Corp., the subsidiary conducting business in Alaska.

A Department of Revenue auditor concluded that Schlumberger Ltd. was a “single unitary business” with Schlumberger Technology, and thus part of the parent company’s dividend income from its foreign subsidiaries was subject to state taxation, the Supreme Court opinion says.

Schlumberger Technology argued that foreign dividends paid to Schlumberger Ltd. should not have been included in its taxable income under ANITA, the Alaska Net Income Tax Act.

Company lawyers contended an Internal Revenue Code provision was applicable and barred the state’s additional tax levy.

Schlumberger Technology also claimed violations of the interstate commerce and foreign commerce clauses of the U.S. Constitution.

Ultimately, however, the Alaska Supreme Court held in favor of the Department of Revenue and against Schlumberger Technology.

Justice Joel Bolger wrote the high court opinion.

—WESLEY LOY

GOVERNMENT

BLM seeks fee to hire more inspectors

A proposed fee on oil and gas wells on federal land would allow the Bureau of Land Management to hire more than 60 inspectors, the agency said July 17.

The fee would be paid by well operators and would range from \$700 to \$9,800 annually per lease, depending on how many wells were on the lease. It would raise about \$48 million a year for onshore inspections, the federal agency said.

BLM Director Neil Kornze told a mineral law conference in Vail July 17 that the agency needs to step up its inspections.

The Associated Press reported in June that 40 percent of new wells on federal and Indian land with a higher pollution risk hadn’t been inspected from fiscal year 2009 to 2012.

Government data reviewed by the AP showed the BLM is so overwhelmed by the current oil and gas boom that it has been unable to keep up with inspections of some of the highest priority wells. The agency oversees oil and gas wells on public land.

Kornze blamed shrinking budgets, a shortage of inspectors and a record number of wells.

The fee is included in President Barack Obama’s fiscal 2015 budget. Congress rejected previous fee proposals, BLM spokeswoman Bev Winston said.

—ASSOCIATED PRESS

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CLIMATE

senior technical professional and process engineer with ExxonMobil in Houston. “And that typically goes into a heat sink, and ultimately the heat sink is ambient conditions.”

(A heat sink is an environment that absorbs heat from a higher-temperature source. In the case of a gas liquefaction plant, the receiving environment for the heat is normally air or water. The substance giving up heat is a liquid coolant the plant uses to chill natural gas until it liquefies. A device that actually transfers heat from a source to the heat sink is called a heat exchanger.)

How much of a break might a big liquefaction plant at Nikiski get from low-temperature energy efficiencies?

Steve Butt, an ExxonMobil employee managing the Alaska LNG team, has said that liquefaction equipment in Nikiski would be 10 percent to 15 percent more efficient than the same piece of equipment working in the Middle East. That means more LNG at a lower energy cost.

continued from page 1

BOEM

estimated 1 billion barrels of economically recoverable oil.

BOEM has to incorporate a better reasoned estimate of the scale of potential Chukchi Sea oil and gas development, taking into account the potential oil spill risk ramifications if the estimates of recoverable oil increase. And, under a District Court order, the agency must regularly report to the court on progress in making the SEIS modifications.

Continuing work

In a court filing dated July 18 BOEM said that it is continuing to draft portions of the SEIS chapters relating to the proposed agency action; to the action alternatives and potential mitigation; to the description of the environment; to the environmental consequences; and to cumulative environmental effects. The agency said that it has prepared a draft exploration and development scenario, with estimates of the levels and timing of potential exploration, development and

see BOEM page 17

Still, a lot of design and engineering work remains for Alaska LNG before selecting specific equipment for the plant, filing plans with regulatory agencies, pinning down costs and making a final investment decision to go ahead with construction.

There is a rule of thumb for energy efficiency based solely on temperature differences, Wilkins said. The improvement at an LNG plant ranges from 0.5 percent to 1 percent each time the ambient temperature drops by 1.8 degrees.

This makes it possible to form some estimate of how much edge an Alaska plant might have over a rival in a representative Middle East LNG port with an average year-round temperature — typical of the region — of 80 degrees. At Nikiski, the favored LNG plant site for the Alaska project, it’s 36 degrees.

That’s a difference of 44 degrees.

Thus, Alaska’s efficiency advantage over the Middle East could range from 12 percent to 24 percent, in the same ballpark as the figures from Butt and from the Norwegian analysis for Snohvit.

Why it’s cool to be cold

Some energy benefits arise inside the gas turbines that provide power to an LNG plant. These turbine engines draw in outside air to burn some of the incoming gas to pro-

duce heat. Then they convert the heat to either mechanical power or electric power, as needed. Using colder air makes any turbine a little more efficient.

The first step in running a gas turbine is to compress the incoming air so that it can be mixed with natural gas and burned in the combustion chamber. The hot combustion gases then expand through the turbine blades, spinning them to produce power. Because cold air starts out denser than warm air, less work is needed to compress the flow of cold air to the conditions required for combustion. That is, the turbine consumes less power doing its job, which translates into more power being available for useful work and higher efficiency.

However, the energy gain at this stage is not as pronounced as across the LNG plant as a whole — only 0.1 percent or so for every 1.8-degree drop in air temperature.

The big energy savings come at the heart of the plant, in the liquefaction process.

Because it takes less power to liquefy gas in cold weather, the turbines that drive the process don’t need to burn as much gas to produce LNG at minus 260 degrees. And that’s the definition of higher energy efficiency.

Details matter all through the process. The plant’s efficiency benefits from both the low temperature of the incoming gas and the low temperature of the surrounding air.

How cold would the incoming gas be at Nikiski?

The temperature of the gas in the buried pipeline from Prudhoe to Nikiski will be managed with one chief goal in mind: Making sure it is compatible with the temperature of the soil through which it passes. It’ll be kept below 32 in frozen soil and above 32 in non-frozen soil.

To do otherwise would invite disaster. In frozen soil, particularly permafrost, a warm pipeline would risk thawing the soil and causing the line to sag and possibly rupture. In unfrozen soil, a below-freezing pipeline would risk accumulating an ice bulb that could push it upward, possibly causing it to split or crack.

Thus, the gas is likely to show up at the Nikiski plant at a year-around average temperature in the neighborhood of 35 degrees, in sharp contrast to the Middle East, where soil temperatures can reach 86 degrees. So Nikiski could have something like a 50-degree head start in cooling its gas to minus 260. ●

Part 2 of this story will run in the Aug. 3 issue.

Editor’s note: This is a reprint from the Office of the Federal Coordinator, Alaska Natural Gas Transportation Projects, online at www.arcticgas.gov/alaska-frigid-climate-could-give-state-edge-lng-market



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BOEM

production activities.

BOEM also said that it has also been meeting with other agencies involved in the SEIS preparation.

A contractor is progressing with an oil spill risk assessment using a technique called a “fault tree methodology,” estimating the probability of one or more large oil spills happening over the life of possible exploration and development scenarios in the Chukchi Sea, BOEM said. BOEM has been preparing its computer model for oil spill risk analysis, creating map projections for the analysis and incorporating updated environmental information. And the agency has continued to conduct computer runs of its oil spill trajectory model, to assess the probability of an oil slick reaching specific segments of the coastline or mapped resource areas, BOEM said.

BOEM said that it anticipates comple-

tion of the fault-tree analysis and oil spill trajectory runs in August, together with a new assessment of oil trajectory probabilities. That would lead to the publication of a draft SEIS in early October, followed by a 45-day public comment period. A final version of the SEIS should be published in early February 2015, with a new record of decision for the lease sale following after a 30-day mandatory waiting period.

The agency said that it is committing maximum resources to the project, including the authorization of overtime, to ensure that the planned completion dates are achieved.

Leases suspended

As a consequence of the 9th Circuit decision and the continuation of the appeal

case in District Court BOEM has suspended all leases issued from the 2008 lease sale until the agency issues a new record of decision for the sale. Shell, one of the com-

panies that purchased leases in the 2008 sale, started drilling a well in its Chukchi Sea Burger prospect in 2012 but subsequently suspended the drilling pro-

gram following a series of problems, including the grounding of the company’s Kulluk floating drilling platform. The company has said that it hopes to restart its Chukchi Sea drilling program in the summer of 2015.

The District Court has given BOEM permission to work on documentation relating to Chukchi Sea exploration, but the

agency cannot make decisions such as exploration plan approvals unless there is a new record of decision affirming the lease sale.

More information needed

In its status report BOEM said that the Chukchi Sea lease suspensions remain in effect but that on May 2 Shell delivered a response to a request that BOEM had issued in January for additional information relating to the company’s Chukchi Sea exploration plan. On June 19 BOEM notified Shell about further information that the agency requires for completion of the plan. Based on the court’s instructions, however, the agency will not deem the plan complete until after the new record of decision for the lease sale has been issued, BOEM told the court.

—ALAN BAILEY

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LNG

Alaska’s resources,” Steve Butt of ExxonMobil, senior project manager, said in a statement, calling the application “a critical step in commercializing North Slope natural gas.”

Positive economic impacts

The release said a study by NERA Economic Consulting found the Alaska LNG project would have “unequivocally positive” economic impacts in Alaska and the United States, with an estimated 15,000 jobs during construction and some 1,000 for operation of the project.

Alaska LNG project participants include the Alaska Gasline Development Corp. and affiliates of TransCanada, BP, ConocoPhillips and ExxonMobil.

The project is in the pre-front-end-engineering and design phase. Pre-FEED is expected to be completed in 2016. Agreement by all parties would be required to move into the FEED phase, and again for a final invest-

ment decision at the end of FEED.

Governor lauds step

“We are building Alaska’s future with a gasline to heat our homes and fuel Alaska’s businesses,” Alaska Gov. Sean Parnell said in a statement.

He said the project will have “hundreds of Alaskans out in the field this summer working to secure permits and hundreds more working to refine the engineering and design challenges of the project.”

“We have seen steady movement forward on this project over the course of the past year, and today’s news is another milestone met,” Alaska House Speaker Mike Chenault, R-Nikiski, said in a statement.

He noted work in the 28th Legislature and by the administration and project sponsors “to keep the gasline momentum going.”

The Legislature passed enabling legislation for state equity participation in the project earlier this year. The state and project participants had negotiated a heads of agreement along with a memorandum of understanding between the state and TransCanada which was a step in

winding up the state’s contract with TransCanada under the Alaska Gasline Inducement Act.

Passage of the enabling legislation gave state approval to both the HOA and MOU; the AGIA contract has since been replaced with a commercial agreement between the state and TransCanada.

Nikiski leading contender

In related news, the Associated Press reports that Butt said recently that Nikiski remains the leading contender for the terminal site where gas would be liquefied for shipment to Asia, with project officials working with landowners on “fair and durable agreements.”

Butt said progress is being made, but if the needed land cannot be secured there are alternatives. AP said he declined to be more specific, except to say alternative sites would be at tidewater.

Butt also said the name “Alaska LNG” has been trademarked for the project.

—KRISTEN NELSON

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LEGAL

ernment “begins a project without consent prior to aboriginal title, it may be required to cancel the project upon establishment of the title. ...”

Morgan said that arriving at consent “might have to be settled by the courts, possibly undermining projects that could help First Nations lift themselves out of poverty.”

Bill Gallagher, a lawyer and former Canadian government treaty negotiator, wrote in a commentary that in the past seven months alone the British Columbia government has lost eight of 10 legal decisions affecting the resource sector.

He suggested nothing could be more harmful for the British Columbia economy than this losing streak “racked up in the normal course of resource sector business?”

Wider range of cases

Now, with First Nations emboldened by the Tsilhqot’in case, British Columbia seems to be getting pulled into an even wider and potentially destructive round of court cases, joined by Alberta.

Wasting no time to seize their opportunity to enforce claims to traditional lands, First Nations have:

*Served notice to CN Rail, logging companies and sport fishermen to pull out of almost 13,000 square miles along the Skeena River by Aug. 4 in a dispute with the federal and provincial governments over treaty talks.

• Claimed title to all lands associated with an abandoned hospital in Metro Vancouver.

• Laid claim to water on the proposed Pacific route where tankers could carry crude from the Northern Gateway pipeline.

• Launched a court challenge of the federal government’s decision to approve Northern Gateway.

The actions have also extended to Alberta, where a First Nation abruptly pulled out of regulatory hearings into TransCanada’s application to build a C\$3.2 billion, 900,000 barrels per day pipeline from the northern Alberta oil sands region to Edmonton.

Fraser Institute cites uncertainty

Amid this anticipated wave of legal intervention, the right-wing Fraser Institute said a cloud of uncertainty is building in British Columbia as a result of the Tsilhqot’in ruling.

“In provinces such as British Columbia, where over 100 percent of the land is under claim by First Nations (many of them engaged in overlapping claims), there is a possibility that already existing economic development projects may be suspended or shut down,” the think-tank said.

“A potential penalty for this infringement may be additional compensation to the First Nation group for continuation of the economic development project.

“Regardless, the result is increased

uncertainty and a potential increase in cost for economic development in British Columbia,” the institute said.

It said the extension of aboriginal territorial rights will force British Columbia to take a more active role in advancing oil and natural gas development.

If the two sides are unable to come to terms, governments will be forced to “justifiably infringe” on aboriginal title to defend projects that are deemed to be “of national importance,” the Fraser Institute said.

The court, while setting a “higher standard of engagement,” may end up causing more litigation than negotiation, it said.

The British Columbia government has confined itself to saying it takes the Supreme Court’s direction on consultation very seriously.

‘Strong message of Canada’

Clarence Innis, acting chief for the

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The Gitxaala Nation and seven other groups, including the Council of the Haida Nation, is seeking leave from the Federal Court of Appeal to overturn earlier federal cabinet decisions, including its endorsement of Northern Gateway, through a judicial review.

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LEGAL

Gitxaala First Nation, said the Tsilhqot'in case has "given as a bit of confidence that things are going our way. That is a very strong message to Canada ... not to ignore First Nations any more, but to consult."

Gwaans Bev Clifton Percival, chief negotiator for the Gitksan First Nations, said the Supreme Court has delivered a verdict "that advances our right and title (forcing) the government to abide by the laws" and start negotiations that British Columbia has stalled on since 1997.

"British Columbia has been silent yet they want to have (resource) activity on Gitksan land. So we need to get their attention," she said.

The Gitxaala Nation and seven other groups, including the Council of the Haida Nation, is seeking leave from the Federal Court of Appeal to overturn earlier federal cabinet

decisions, including its endorsement of Northern Gateway, through a judicial review.

Innis told reporters that his nation has "followed all the rules," but was ignored when it provided evidence and expressed concerns during the Northern Gateway review. "Canada has a duty to consult and it hasn't," he said.

Enbridge looks to resolution

Enbridge Chief Executive Officer Al Monaco argued that recognition of the Tsilhqot'in title claim won't affect Northern Gateway, despite being hailed by the aboriginal community as a potent new legal basis for derailing the project.

He said there are no aboriginal title claims along the pipeline corridor and, if some are filed, they will be dealt with at the time, adding that "consent in this context is driven by the fact that title would need to be proven."

Enbridge has said it is confident that a handful of anticipated lawsuits will be resolved before it is ready to start

construction.

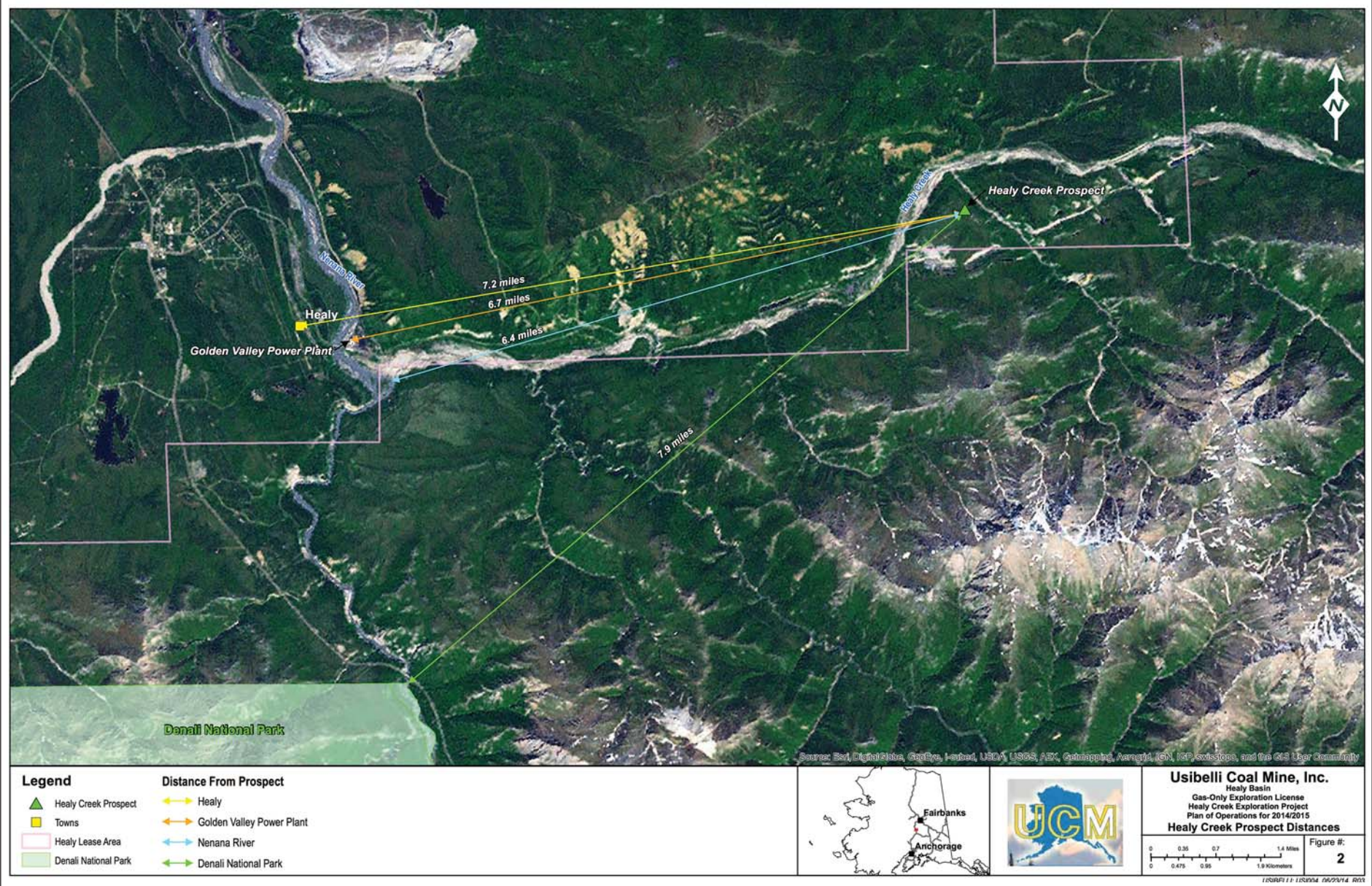
In the Grand Rapids case, TransCanada lawyer Lars Althous urged the Alberta Energy Regulator to endorse the pipeline, noting that only a handful of people along the 300 mile route have registered objections.

He said agreements have been reached with the vast majority of stakeholders and consultations have taken place with 40 First Nations.

Establishing a route is a "a balancing act" that was achieved with "very reasonable consideration," he said.

Athabasca Chipewyan First Nation, which is leading the fight, said the regulatory process is "fundamentally flawed," insisting the Supreme Court has established that the "rights of aboriginal people must be taken seriously" and First Nations no longer have to "simply do whatever government and industry want." ●

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USIBELLI

release methane trapped within the formation.

Work this summer

In a plan of operations filed in late June, Usibelli proposed drilling this summer.

The schedule calls for trail maintenance this spring, which would occur anyway in preparation for coal mining operations. The company would drill and test one well between early August and

October, and complete reclamation work by late October.

Depending on the results from the first well, Usibelli would return next summer to conduct additional testing of the initial well and drill as many as three delineation wells.

The program would require "no new ground disturbance," according to Usibelli, because operations would occur on lands mined in the 1950s and again in the 1970s and would utilize existing roads to reach the proposed drilling pad. The pad would be situated at least 500 feet from major creeks in the region. The program would use Healy Creek, Cripple Creek and the UCM Hangar Pond as primary water sources for operations.

Usibelli said it planned to construct the 150-foot by 150-foot Healy Creek Site No. 1 pad on an existing fill area previously used as an airstrip to support mining operations. The dimensions of the pad are smaller than usual for natural gas exploration in Alaska because coalbed methane exploration wells are typically shallower than conventional exploration wells and therefore require a smaller drilling rig, according to the company.

Usibelli plans to drill the wells using

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USIBELLI

either a 40,000 to 60,000-pound truck mounted rotary drill rig, or a 20,000 to 50,000-pound truck or skid-mounted diamond drill rig.

The wells would be vertical holes drilled to a total depth of approximately 1,500 feet. The company plans to drill to each coal seam and core through each seam to collect samples.

Energy markets

A local fuel supply could be a cost-saver for Usibelli. But the company also believes it would reduce demand on the electric intertie connecting the Southcentral and Interior.

The proposed well site is only 6.7 miles from a coal-fired Golden Valley Electric Association power plant in the region, one of the oldest plants in the GVEA system. The naphtha-fired North Pole Expansion Plant is capable of running on natural gas.

For both economic and environmental reasons, the Interior is eager for a reliable supply of natural gas to offset fuel oil. The Alaska Industrial Development and

Export Authority is leading a state-backed effort to truck North Slope liquefied natural gas to the region, and two local distribution companies are currently building out area infrastructure.

Emil Usibelli founded Usibelli Coal Mine in 1943. The company now employs about 130 people and produces more than 2 million tons of coal per year. As the only operational coal mine in the state, Usibelli has long been a key component of the local energy market and currently supplies six Interior power plants. But the company also exports coal to customers in Chile, South Korea and “several other Pacific Rim destinations.”

Opposition

Previous coalbed methane exploration programs in Alaska have yielded opposition and the current Usibelli program follows a decade of legal and regulatory wrangling.

The company applied for shallow gas leases in the region as early as April 2003 and submitted its proposal for an exploration license in the region in April 2004.

The Denali Citizens Council opposed a final interest finding that the Alaska Department of Natural Resources issued for the program in 2010, saying it “strongly believes that gas exploration and development are inap-

propriate in settled areas and areas important for tourism” and requesting “stringent mitigation measures” to protect people and animals.

The council appealed the ruling, but the Alaska Supreme Court rejected the appeal.

Among its requests, the Denali Citizens Council had wanted the exploration license area to be restricted to the area east of the Nenana River. While the state ignored that request, and gave Usibelli an exploration license including lands on both sides of the river, the proposed Healy Creek Site No. 1 drilling pad would be located east of the Nenana River.

The Alaska Supreme Court decision explicitly required the Department of Natural Resources and Usibelli to consider the public costs and benefits of proposed mitigation measures, as well as the private costs and benefits, a wording not specifically mentioned in the best interest finding, according to the council. As such, “the public will need to remain vigilant to make sure the decision sticks,” the council said in February 2014.

The state is taking comments on the plan through Aug. 18. ●

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BARRELS

Kudos for Alyeska

The news of 17 billion drew notice among elected officials and others.

“This is a big achievement and I want to congratulate the Alyeska Pipeline Service Co.,” said U.S. Sen. Mark Begich, D-Alaska. “Seventeen billion barrels of oil is the equivalent to all the energy Americans use in one year and 8 trillion driving miles in the average car. TAPS is an incredibly important asset for the economy in Alaska and the rest of the nation.”

“When we first envisioned a pipeline to connect our oil-rich North Slope to the rest of the world, and subsequently passed the Trans-Alaska Pipeline Authorization Act through Congress in 1973, we knew this vital piece of Alaskan infrastructure would provide for Alaskans then, now, and into the future,” said Alaska Republican Congressman Don Young.

Both lawmakers said it’s important to push for policies to allow increased oil production from the North Slope, including federal land and the offshore.

The Alaska Oil and Gas Association also saluted Alyeska.

“TAPS is our economic lifeline and a source of great pride for Alaskans,” said Kara Moriarty, AOGA’s president. She noted that billions of barrels of oil remain on the North Slope.

“Alaska’s economic future is under our feet, and with the right investment climate, we will bring that oil to market,” she said.

The Tulsa tests

Alyeska, based in Anchorage, operates the pipeline on behalf of owners including BP, ConocoPhillips and ExxonMobil.

The pipeline system represents a huge ongoing expense in producing North Slope oil. Over the years, the owners have sought to control costs as production has declined. Daily pipeline throughput peaked at more than 2.1 million barrels in 1988. Today, the stream is roughly 550,000 barrels per day.

The production decline is expected to continue, and this presents serious adversity for Alyeska. With lower throughput, the warm oil can cool during the long journey south, bringing potential problems such as freezing and wax deposits.

Alyeska has put a lot of thought into what happens should throughput drop below 350,000 barrels per day, company spokeswoman Michelle Egan told

Petroleum News.

As part of a recent study on low flow, Alyeska looked at alternatives for moving oil, including a shift to rail or ships or construction of a brand-new pipeline, Egan said.

For now, the path forward is to find solutions to keep TAPS running, she said.

Part of this effort involves testing at a University of Tulsa lab. Researchers are operating a “flow loop” to study variables such as oil temperature, velocity, water content and the formation of ice crystals. The experimental unit, three to four stories tall, functions essentially as a scale model of TAPS, Egan said.

Robots and reconfiguration

In other work, Alyeska is deploying “robotic pigs” at Pump Station 3, near the northern end of the pipeline. These devices can crawl through and inspect inaccessible piping at risk of corrosion and leaks.

“If it works for us, it’ll be a breakthrough technology,” Egan said.

Alyeska also is close to finishing an arduous, 10-year campaign of pump station renewal. Known originally as “strategic reconfiguration,” the program involves upgrading pumps, power systems and other equipment and reducing staff in favor of more automation.

Overhaul of three of the pipeline’s

main pump stations (3, 4 and 9) is complete.

Pump Station 1 at the start of the pipeline is the last to get a makeover.

“It is incredibly busy there,” Egan said, as crews work toward the finish.

Alyeska expects to begin “forward flow” with PS 1’s new pumps around the first of the year, she said. The station’s legacy pumps would then be idled.

The modernization project has taken much longer, and cost much more, than Alyeska and the owners expected. Expenditures have exceeded \$700 million. ●

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