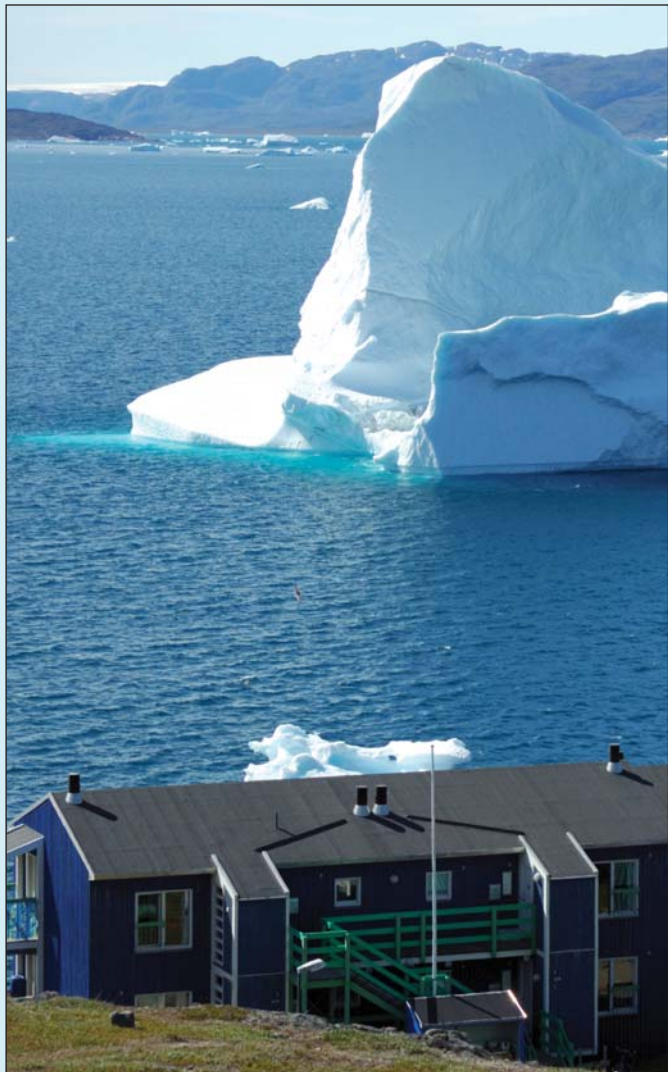




Race for Greenland oil and gas



ADRIAN BOLISTON

Icebergs seen from the town of Narsaq on the southwestern tip of Greenland. See Arctic Neighbors article on page 12 of this issue with the latest news about the hunt for oil and gas offshore western Greenland in the iceberg-filled stretch of water between Greenland and Canada's Nunavut.

Corps of Engineers permitting for Point Thomson lags 6 mos.

The U.S. Army Corps of Engineers is running six months behind schedule in completing the environmental impact statement, or EIS, for ExxonMobil's natural gas cycling development at Point Thomson on Alaska's eastern North Slope.

Just what this means for the company's high-profile pledge to start producing from the disputed field by the end of 2014 is unclear. ExxonMobil spokesmen in Houston and Anchorage failed to provide any comment on the matter. But Petroleum News sources said no additional drilling is likely to occur for at least a year.

The Corps, in charge of preparing the EIS, originally estimated it would sign a "record of decision" in July 2011 and publish it in August 2011. (The need for an EIS was triggered by Exxon's application for a Corps of Engineers wetlands permit.)

Now the target date is Jan. 19, 2012, the Corps says.

Corps representatives say their schedule, known as a "milestone tracker," is regularly revised according to progress on the EIS.

A delicate subject

ExxonMobil had hoped for a record of decision on the EIS

see POINT THOMSON page 20

NATURAL GAS

Gas line games continue

Amid glum mood, second open season closes Oct. 4; DOE expands work, one exec says

BY WESLEY LOY

For Petroleum News

Top executives for the two competing Alaska natural gas pipeline projects appeared Sept. 28 at an Anchorage oil industry conference and laid down a carpet of familiar themes.

The project is extraordinarily big and costly.

Building a pipeline will take all stakeholders — energy companies, governments, indigenous peoples — pulling together.

The old headache of fiscal terms — how much of the gas value the state takes — must be cured



BUD FACKRELL

eventually.

Yes, yes, yes.

So we've heard.

But amid the dog-eared remarks, a few bits of news fell onto the carpet for an audience eager for any signs the megaproject is actually making progress.

Bud Fackrell of Denali, the gas line partnership of BP and ConocoPhillips, predicted his venture's open season would succeed in attracting bids from potential gas shippers. The open season closes Oct. 4.

And Tony Palmer, Alaska point man for the



TONY PALMER

FORREST CRANE

see GAS LINE page 17

EXPLORATION & PRODUCTION

Road drives Umiat plans

Renaissance asks BLM to include Umiat road, project in upcoming NPR-A IAP

BY ERIC LIDJI

For Petroleum News

Renaissance Alaska believes modern technology can overcome almost all of the obstacles facing development of the Umiat prospect in the foothills of Alaska's Brooks Range.

But for one large obstacle, the company is depending on ancient technology.

Umiat is one of the oldest known oil fields in Alaska, but remains undeveloped 65 years after its discovery because of permafrost, low reservoir pressure and remoteness. The prospect dates back to U.S. Geological Survey and U.S. Navy wells from the 1940s.

Renaissance Alaska, a Houston-based inde-

pendent that operates under the subsidiary Renaissance Umiat, believes technology like multilateral horizontal drilling, electric submersible pumps and cold gas injection can handle the permafrost and pressure.

Road needed

For the remoteness, though, the company needs a road.

The state agrees and is wrapping up a second season of fieldwork on a potential road connecting the Dalton Highway to an airstrip at Umiat, along the Colville River.

Renaissance believes the state and federal governments can promote the development of Umiat

see UMIAT page 19

EXPLORATION & PRODUCTION

Alberta 'full speed ahead'

US senators praise government, industry, for handling environmental matters

BY GARY PARK

For Petroleum News

The oil sands showdown has no parallel in Canadian politics in more than half a century, not since construction of Canada's first major natural gas pipeline, with connections to the United States, brought about the defeat of a national government in 1957.

Just when it seems the Great Oilsands Debate (GOD for short) has worked itself into a frenzy, the pot boils over again.

The second half of September produced a daily flow of tit-for-tat exchanges that only widened the gulf between the warring factions. Consensus does not appear to be a viable prospect.

The pro-oil sands side, working on its charm

"Publicity stunts and name-calling are not what we need right now," he said. "We need an adult conversation about the benefits and risks associated with energy production ... and how we can maximize the former and minimize the latter."
—Rick George, CEO, Suncor Energy

offensive — with Alberta government cabinet ministers and industry leaders fanning out across North America — has tried selling the idea of a "progressive solution" to, or a "constructive conversation" around the most heated issues, mostly involving the environment.

see ALBERTA page 18

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North America's source for oil and gas news

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Alaska - Mackenzie Rig Report

Rig Owner/Rig Type Rig No. Rig Location/Activity Operator or Status

Alaska Rig Status

North Slope - Onshore

Doyon Drilling

Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay W-19BL1	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Stacked Doyon Yard	Available
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay Rig Maintenance	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD4-25	ConocoPhillips
OIME 2000	141 (SCR/TD)	Prudhoe Bay DS 13-37	BP
TSM 7000	Arctic Wolf #2	Stacked at Prudhoe Bay	FEX/Available

Nabors Alaska Drilling

Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
AC Coil Hybrid	CDR-2	Kuparuk 3A-17A	ConocoPhillips
Dreco 1000 UE	2-ES	Prudhoe Bay Stacked out	Available
Mid-Continental U36A	3-S	Prudhoe Bay Stacked out	Available
Oilwell 700 E	4-ES (SCR)	Milne Point MPF-13	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay S-41A	BP
Dreco 1000 UE	9-ES (SCR/TD)	Rig Stacked	Available
Oilwell 2000 Hercules	14-E (SCR)	Prudhoe Bay Stacked out	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Prudhoe Bay Stacked out	Available
Oilwell 2000	17-E (SCR/TD)	Prudhoe Bay Stacked out	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Canrig 1050E	27-E (SCR/TD)	Point Thompson PTU-15	ExxonMobil
Academy AC electric Canrig	105-E (SCR/TD)	Stacked at Deadhorse	Available
Academy AC electric Heli-Rig	106-E (SCR/TD)	Stacked at Deadhorse	Available
OIME 2000	245-E	Oliktok Point OI11-01	ENI

Nordic Calista Services

Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill 18-06b	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Well Drill Site X-19	BP
Ideco 900	3 (SCR/TD)	Kuparuk Well 2T-15	ConocoPhillips

North Slope - Offshore

BP (rig built & being assembled by Parker)

Top drive, supersized	Liberty rig	Endicott SDI for Liberty oil field	BP
-----------------------	-------------	------------------------------------	----

Nabors Alaska Drilling

OIME 1000	19-E (SCR)	Oooguruk ODSN-17	Pioneer Natural Resources
Oilwell 2000	33-E	Prudhoe Bay Stacked out	Available

Cook Inlet Basin - Onshore

Aurora Well Service

Franks 300 Srs. Explorer III	AWS 1	Stacked out on the west side of Cook Inlet near Tyonek	Available
------------------------------	-------	--	-----------

Doyon Drilling

TSM 7000	Arctic Fox #1	Beluga Stacked	Available
----------	---------------	----------------	-----------

Marathon Oil Co. (Inlet Drilling Alaska labor contractor)

Taylor	Glacier 1	North Fork Unit #14-25	Armstrong Cook Inlet LLC
--------	-----------	------------------------	--------------------------

Nabors Alaska Drilling

Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Rigmaster 850	129	Kenai Stacked out	Available

Rowan Companies

AC Electric	68AC (SCR/TD)	Stacked Kenai, Cosmopolitan	Pioneer Natural Resources
-------------	---------------	-----------------------------	---------------------------

Kuukpik

5		committed to drilling LEA #1 well in early October	Linc Energy
---	--	--	-------------

Cook Inlet Basin - Offshore

Chevron (Nabors Alaska Drilling labor contract)

428	M-29 Steelhead platform		Chevron
-----	-------------------------	--	---------

XTO Energy

National 1320	A	Coil tubing cleanout planned off Platform A in the near future	XTO
National 110	C (TD)	Idle	XTO

Mackenzie Rig Status

Canadian Beaufort Sea

SDC Drilling Inc.

SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available
---------------------------	-----	------------------------	-----------

Central Mackenzie Valley

Akita/SAHTU

Oilwell 500	51	Racked in Norman Wells, NT	Available
-------------	----	----------------------------	-----------

The Alaska - Mackenzie Rig Report as of October 1, 2010.
Active drilling companies only listed.

TD = rigs equipped with top drive units WO = workover operations
CT = coiled tubing operation SCR = electric rig

This rig report was prepared by Marti Reeve



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	Sept. 24	Sept. 17	Year Ago
US	1,650	1,661	1,017
Canada	282	333	228
Gulf	15	21	30

Highest/Lowest

US/Highest	4530	December 1981
US/Lowest	488	April 1999
Canada/Highest	558	January 2000
Canada/Lowest	29	April 1992

*Issued by Baker Hughes since 1944

The Alaska - Mackenzie Rig Report
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GOVERNMENT

Balancing risk & reward in Arctic OCS

Panelists at Alaska offshore drilling forum weigh the benefits of offshore oil development against the potential downsides

BY ALAN BAILEY

Petroleum News

With Alaska Arctic outer continental shelf drilling currently on hold following the Deepwater Horizon disaster, the University of Alaska Anchorage and the Anchorage chapter of the International Association for Energy Economics convened a forum on Sept. 22 to review the balance between risk and reward in Alaska offshore drilling.

Big bonanza

And in a video presentation to the forum, U.S. Sen. Mark Begich, D-Alaska, commented on the continuing need for oil and gas in the United States, saying that plentiful oil and gas resources beneath the Alaska outer continental shelf are the "big bonanza" in meeting that future

energy need.

"Each year this nation consumes about 7.5 billion barrels of petroleum and another 23 trillion cubic feet of natural gas, serving each of us towards the transition to renewable energy resources," Begich said, adding that a lot of that oil and gas comes from countries that are unfriendly towards the United States.

Begich said that he supports the safe and environmentally sensitive development of the huge oil and gas resources under the waters offshore Alaska and that he has been disappointed with the Obama administration's stance in its current ban on Alaska OCS drilling.

Going for the resources

Panelist Peter Slaiby, Alaska vice president for Shell, the company whose plans to drill in the Beaufort and Chukchi

Sea have remained stymied for several years in the face of vigorous opposition, said that Shell is intent on exploring in the Arctic Alaska OCS because that is where the needed oil resources are located. The Beaufort and Chukchi seas could become the next chapter in Alaska's economic story, with more jobs, more revenue and more oil to keep the trans-Alaska pipeline going, he said.

Shell has an exemplary record of safe drilling and seeks a safe way forward in which the environment is protected and in which offshore drilling can proceed, he said.

Asked about the challenges of recovering spilled oil from under ice in the middle of the Arctic winter, Slaiby responded that exploration drilling in the Arctic offshore ends by October and that Shell has the necessary assets to respond on-site within an hour in the unlikely event of an oil spill. Continuing Arctic oil spill research being conducted in Norway shows that responders can recover oil from the sea in ice conditions, he said.

"We have recognized from the very beginning ... that there may be an issue with a low probability, high impact event," Slaiby said. Shell has spent hundreds of millions of dollars in acquiring and deploying the assets to be able to respond to that possibility, he said.

Slaiby said that Shell focuses on oil spill prevention through a tiered approach to well planning, personnel training, the remote monitoring of drilling operations and well blowout prevention. However, the company has very robust oil spill contingency plans that do not require 5,000 to 7,000 vessels of opportunity, as in the Gulf of Mexico, he said. And Slaiby downplayed concerns about limited U.S. Coast Guard capabilities in the Arctic, saying that the USCG role in a spill response is to participate in the management of the response, not to pick up oil.

Insufficient knowledge

John Schoen, Audubon Alaska's senior science advisor, said that, with the Arctic being ground zero for the impacts of climate change and with the Arctic Ocean being the least understood of any of the world's oceans, the risks involved in Arctic offshore development currently outweigh the benefits. Offshore leasing should be deferred until industry can demonstrate its ability to respond to an Arctic offshore oil spill, he said.

"Uncertainty over climate change and

lack of scientific data increase the risk of offshore drilling," he said. "... We know that major accidents happen."

Schoen said that he applauds the Arctic oil spill response research being done in Norway but that the ability to scale up the techniques tested in research, to use those techniques on a major oil spill perhaps in darkness and at a remote location, has yet to be demonstrated.

"We don't want to bet on the fact that we can do it. We want ... some high probability of assurance," Schoen said.

Harold Curran, the North Slope Borough chief administrative officer, representing borough Mayor Edward Itta, said that Itta applauds the Norway-based research but regrets that the data supporting the research results have not been released to the public. And there are some conditions, such as slush ice, that require further investigation, he said.

Responsible approach

Curran said that the Native people of the North Slope, inhabitants of the region for 10,000 years, know how to manage the Arctic environment and insist that any outer continental shelf industrial activity be done appropriately. The North Slope Borough favors onshore oil and gas development but understands that the federal government will ultimately make decisions on whether to allow OCS drilling to proceed. So, Mayor Itta is working with Shell and government regulators to push stipulations that he views as essential to a responsible approach to offshore development, Curran said.

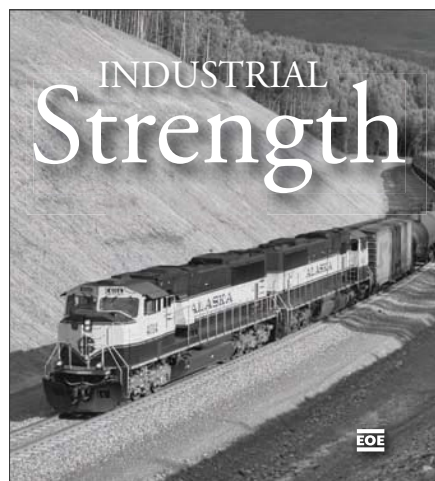
North Slope communities depend on offshore marine resources that would be impacted by an oil spill and by industrial noise, Curran said. And spilled oil would be difficult to clean up in the Arctic, so that fail-safe systems to prevent oil spills are critical, he said.

However, both Shell and the government regulators have improved their approach to addressing the unique concerns of the North Slope communities, Curran said.

Regulation

Schoen slammed the MMS record in regulating the oil industry, saying that the regulators had become too close to the regulated and citing sloppy Gulf of Mexico oil spill response plans as evidence of slack industry oversight.

see OCS page 15



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● LAND & LEASING

FEX drops last onshore state acreage

Chevron drops more leases in the White Hills area and Anadarko drops more leases in the remote corners of the Brook Range foothills

BY ERIC LIDJI

For Petroleum News

FEX relinquished its last onshore state acreage in Alaska in late July, 11 leases covering 63,110 acres some 50 miles east of Umiat, according to recent state lease records.

The acreage is spread over two clusters.

The local subsidiary of the Canadian company Talisman Energy dropped seven leases picked up in an October 2006 lease sale for \$410,054.40, the first onshore state acreage in the company's portfolio. The leases include the Atlantic Richfield Susie 1 well.

Those leases would have expired on Aug. 31, 2014.

FEX picked up the remaining four leases in an October 2007 North Slope lease sale for \$298,828.80. The leases include BP's 1 Itkillik U. well and expire on July 31, 2015.

FEX appears to be pulling out of Alaska, or at least severely consolidating its holdings.

FEX announced in March 2010 that it wanted to sell more than 1 million net acres in the National Petroleum Reserve-Alaska and the Brooks Range foothills. In May, the company dropped considerable onshore state acreage in the central North Slope and in July relinquished more than 94,000 offshore state acres in the waters of Harrison

Bay.

FEX still holds some 108,000 acres in the state waters of Smith Bay.

Chevron refining White Hills

Chevron continued paring down its central North Slope holdings. Through its affiliate Union Oil Co. of California, the company relinquished 12,795 acres in early August.

The five leases are at the northern tip of the White Hills prospect, an oil and natural gas play that signaled Chevron's return to North Slope exploration several years ago.

Chevron acquired the acreage in an October 2007 North Slope lease sale for \$327,603.20. The leases were part of the former Whiskey Gulch unit operated by Brooks Range Petroleum Corp. The leases include ARCO's 2 Winter Trail and 1 Ravik State wells.

The five leases would have expired on July 31, 2013. Chevron chose to stop rental payments.

Chevron drilled five exploration wells at White Hills in 2008 and 2009, but this year began relinquishing acreage at the prospect south of the Kuparuk River unit. After permitting additional well locations in the northern end of the prospect, Chevron relinquished the southern two-thirds of the play. Chevron now holds 12 leases in the area.

Chevron operates the White Hills exploration program and holds a 70 percent interest in the leases. A subsidiary of the French major Total holds the remaining 30 percent.

Anadarko refines foothills

Anadarko relinquished four leases covering 19,796 acres in the foothills.

In July, Anadarko dropped 61 leases covering 296,375 acres in the foothills, north of the Gates of the Arctic National Park. The most recent relinquishment is farther southeast.

Anadarko picked up the leases in a May 2004 sale. The leases would have expired in May 2014.

Anadarko said in August that it relinquished acreage in the southern foothills because it couldn't arrange a drilling program in the remote area before the leases expired.

In 2008 and 2009, Anadarko and its partners drilled four foothills exploration wells, the first wells in northern Alaska specifically targeting natural gas instead of oil. Those wells all sat farther north in the foothills, in an area Anadarko calls the Gubik Complex.

Leasing odds and ends

In other leasing news, 70 & 148 LLC, the North Slope-focused subsidiary of Denver-based Armstrong Oil and Gas, transferred a small royalty interest, some

see FEX page 7

● LAND & LEASING

MHT planning to extend lease terms

Cook Inlet Energy promises two-well program on two leases on the west side of Cook Inlet in return for an extra two years on terms; one well required by end of 2011, 2nd by end of 2012

BY ERIC LIDJI

For Petroleum News

The Alaska Mental Health Trust Authority plans to give Cook Inlet Energy another two years to explore a pair of onshore leases on the west side of Alaska's Cook Inlet basin.

Under the deal, Cook Inlet Energy is committing to drill an exploration well on one of the leases by the end of 2011 and a second exploration well on the other lease by the end of 2012. If Cook Inlet Energy misses the first deadline, it would lose one of the leases and if it misses the second deadline it would owe the Trust \$250,000 as a penalty.

Cook Inlet Energy, the local subsidiary of Tennessee-based Miller Petroleum, picked up the leases late last year when it acquired the liquidated assets of Pacific Energy. Pacific Energy, in turn, picked up the leases in 2007

when it acquired the assets of Forest Oil.

North of Tyonek

The leases sit on undeveloped land about 10 miles north of Tyonek. They are adjacent to the former Three Mile Creek unit, where natural gas production is ongoing, and south of an underground coal gasification pilot project owned in part by Cook Inlet Region Inc.

The two leases comprise some 9,389 acres, but Cook Inlet Energy also wants the Trust to add 626 acres of adjacent Trust land to one of the acres. That additional acreage was only recently conveyed to the Trust, which is why it wasn't included in previous sales.

The Trust called the lands "highly prospective" for oil and natural gas, but said the possibility exists for exploration of deep coal, possibly through under-

The Trust called the lands "highly prospective" for oil and natural gas, but said the possibility exists for exploration of deep coal, possibly through underground gasification.

see MHT page 6

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GOVERNMENT

State looking at preparedness changes

Alaska resource agencies tell Senate Resources Committee changes may be recommended to governor for next legislative session

BY KRISTEN NELSON

Petroleum News

Industry is encouraging the State of Alaska to wait for results of reports on the Gulf of Mexico Macondo disaster before making any changes in the state's oil spill prevention and response requirements (see story in Sept. 26 issue).

Environmental groups want improvements in Alaska's oil spill preparedness and response, as do coastal communities (see story in this issue).

State resource agencies — individually and collectively — have been discussing what changes the state might need to make over the summer.

Senate Resource Committee co-chairs Lesil McGuire, R-Anchorage, and Bill Wielechowski, D-Anchorage, heard an overview from state resource agencies Sept. 21 at a Senate Resources Committee hearing.

C-plans required

Commissioner Larry Hartig of the Alaska Department of Environmental Conservation acknowledged concerns raised by the Gulf of Mexico blowout, but said laws and regulations in place to “prevent and respond to marine spills in Alaska have been developed over decades by people with Alaska experience and expertise” and cautioned care in making sure “that what we enforce will work here and not compromise the system that we already have.”

Work is under way “by some of the best experts in the nation” on oil spill and response, he said, but “as we proceed here in Alaska, we must take into account ... which lessons apply here and the best ways to incorporate them into what we have.”

Many facilities in Alaska, including oil terminals, exploration and production facilities, pipelines, tank vessels, non-tank vessels and even the railroad are required to have oil discharge prevention and contingency plans, commonly referred to as C-plans, he said, and are required to meet financial responsibility standards.

The C-plans detail spill prevention measures and equipment the plan holder

must have in place: “And I stress ‘have in place’ — this is not theoretical,” Hartig said.

Prevention and preparedness

Hartig said DEC tries to reduce the risk of a spill “by identifying and developing technical standards and other requirements to assure the integrity of critical equipment used in the storage and transport of crude oil;” by incorporating the requirements into regulations and C-plan approvals; by checking and inspecting records, operations and equipment to assure compliance; and by enforcement actions as needed.

Response preparedness activities are included in C-plan requirements, Hartig said, and facilities with C-plans are subject to inspections, drills, exercises and tabletop drills.

Over the years since the Exxon Valdez oil spill the state has been strengthening C-plan requirements, he said.

There “may be some areas of disagreement as to what needs to be strengthened further and where we’re at in our progress, but there has been progress in many areas in the last 20 years.” DEC continues to evaluate general response procedures, deployment strategy and tactics and to evaluate technologies and determine their applicability.

Well control in a blowout

DEC requires that an operator must

have a plan in place to regain control of a well within 15 days of loss of well control.

Hartig said DEC may recommend a change there because while there is a requirement that the operator have a plan to regain well control, there is no review process for that plan.

DEC would refer to the Alaska Oil and Gas Conservation Commission on that plan review, he said, and could either get AOGCC's opinion on the plan or transfer that authority to them.

Other areas DEC is focusing on for possible recommendations for changes include: the accuracy and methods it uses for estimating crude oil flows; technology for regaining control in the event of a blowout; planning and resource requirements to respond to a worst-case spill scenario; and evaluation of mechanical and nonmechanical technologies for oil recovery and dispersion.

DEC will be focusing on the reports due out over the next couple of months from national panels “and internally we’ve had a lot of discussions with all the agencies; I anticipate ... going into the session that you’ll be getting recommendations from all the state agencies,” Hartig told the committee.

Well operation oversight

Alaska Oil and Gas Conservation Commission Chair Dan Seamont said the commission has no authority over oil spill cleanup, but “would have oversight over well operations and relief well drilling in order to solve the blowout.”

On the prevention side, Seamont said AOGCC staff thoroughly review drilling permit applications to ensure “that the well plan includes adequate mud weight, which is the first line of defense; proper casing and cement design, which is the second line of defense; and properly working

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MHT

ground gasification.

Under the terms of the deal, Cook Inlet Energy would pay \$3 per acre per year on the lease extensions and a \$15,525 bonus payment for the 626 additional acres to be added.

The royalty rate on any resources produced would be 12.5 percent.

The Trust will take comments on the proposed extension and expansion through Oct. 25.

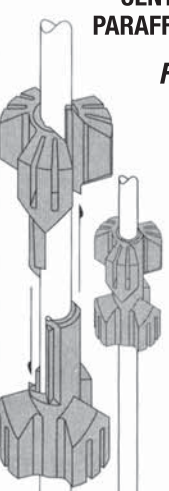
MHT and CIE busy this year

The Trust Land Office has been busy this summer. In June it began taking offers for underground coal gasification exploration licenses over 190,000 acres in three boroughs. In September, it proposed to lease Kenai Peninsula acreage north of the Cannery Loop unit to Buccaneer Alaska, which in turn promised to drill in 2011.

Since arriving in Alaska, Cook Inlet Energy has been one of the busier companies in the Cook Inlet region, ramping up production at the West McArthur River unit and drawing up an investment wish list that currently depends on raising \$75 million to \$100 million. ●

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● FINANCE & ECONOMY

Pacific Energy, state seek bankruptcy deal

As former player in Alaska's Cook Inlet liquidates, a settlement is reached on state's \$40M claim to cover abandonment costs

BY WESLEY LOY

For Petroleum News

The State of Alaska is looking to settle huge claims lodged against Pacific Energy Resources Ltd., which is liquidating through a Delaware bankruptcy court.

Papers filed Sept. 21 say the state asserted claims exceeding \$200 million against Pacific Energy, which formerly operated or owned stakes in a variety of oil and gas assets around Cook Inlet. The California-based company filed for bankruptcy on March 9, 2009.

The state's claims concern the Chevron-operated Trading Bay unit and field, and the Marathon-operated Spurr offshore platform. Pacific Energy abandoned its interests in all the properties.

The posted claims of more than \$200 million are "associated with, among other things, plugging, abandonment, and decommissioning obligations," court papers say.

Pacific Energy disputes the claims. But now the company and the state have a settlement pending.

Terms of settlement

Under terms of the settlement, Pacific Energy would allow one of the state's claims, for \$40 million, as a "general unsecured claim" against its subsidiary, Pacific Energy Alaska Operating LLC, which had entered into numerous state oil and gas leases. The sum is "solely on account of PEAO's share of plugging, abandonment, and decommissioning obligations" for Trading Bay and the Spurr platform, court papers say.

The state's remaining \$160 million in claims would fall away under the proposed settlement.

"The agreement to reduce the amount of Alaska's claim is the result of a compromise and settlement, as Alaska believes that PEAO's share of plugging, abandonment and decommissioning obligations relating to the Spurr Platform Interests and the Trading Bay Interests is significantly greater than \$40,000,000," the settlement says.

Pacific Energy, in turn, pledges under the deal to drop its pursuit of \$5.7 million in production tax credits from the state plus \$2.9 million in royalty overpayments.

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FEX

3.33 percent, in 19 Beaufort Sea leases and 75 North Slope leases to CEO Bill Armstrong.

70 & 148 also gave independent GMT Exploration Co. a 25 percent working interest in 41 leases in the central North Slope. GMT and Armstrong are partners in Cook Inlet.

Independent investor J. Andrew Bachner relinquished 16 leases covering some 35,980 acres in the state waters of the Beaufort Sea, north of Gwydyr Bay and Milne Point.

Bachner picked up the leases in an October 2007 sale. The leases had an expiration date of July 31, 2013.

Cook Inlet Energy, a subsidiary of Tennessee-based Miller Petroleum, transferred portions of four offshore Cook Inlet leases to fellow independent Buccaneer Alaska.

Stellar Oil and Gas, the sister company to Renaissance Alaska, finalized the transfer of 17 Cook Inlet leases to Buccaneer Alaska, a subsidiary of Australian Buccaneer Resources.

The executive team behind Stellar and Renaissance runs Buccaneer Alaska.

The transfer includes a small royalty share, less than 1 percent, given to a Houston-based independent called Woodstone Resources LLC that currently owns no leases in Alaska.

Finally, a group of independent investors led by Daniel K. Donkel and Samuel H. Cade completed their transfer of nearly 200,000 Cook Inlet acres to Apache Alaska.

A copyrighted oil and gas lease map from Mapmakers Alaska (www.mapmakersalaska.com/) was a research tool used in preparing this story.

Contact Eric Lidji at ericlidji@mac.com

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CHANGES

blowout preventers, which is the third line of defense."

After a well is completed, AOGCC oversees other elements of well integrity, he said.

The commission has "a robust field well inspection program" to ensure regulatory and permit compliance. There are five inspectors now, Seamount said, and the commission is trying to get two more.

"And the five that we have now have an average of 30 years oil and gas experience each. They witness critical tests of equipment used in the drilling, production and measurement of hydrocarbons and the proper abandonment of wells," he said.

"In essence every rig, every active rig in Alaska, is inspected by the AOGCC at least once every 60 days," Seamount said, and blowout preventer tests are reviewed by the commission's engineers and inspectors to ensure tests have been done properly and that all components of the equipment function properly.

Once a well is in production, he said, the safety valve system provides the function of a blowout preventer when a well is being drilled — "if there is a release it will shut the well in immediately."

Seamount said that as far as he knows there's never been a failed safety valve system in Alaska that's resulted in a loss of well control."

Regulatory review

The commission recently revised its blowout prevention equipment, well safety valve systems and suspended well regulations, he said.

As for changes AOGCC would recommend to improve preparedness and response capability, the commission has been working on its regulations to make them tighter, and has provided a notice of inquiry of possible changes to well control in offshore and ultra-extended reach wells. Seamount said the commission has announced a public meeting on possible changes to be held 30 days after the public report is issued by the national committee investigating the Deepwater Horizon blowout.

Offshore production success

Kevin Banks, director of DNR's Division of Oil and Gas, emphasized the importance of outer continental shelf pro-

duction to the state "because of the impact it will have on the facilities on the North Slope and especially TAPS in adding to the longevity of those facilities." By keeping North Slope production facilities and the trans-Alaska oil pipeline running, more of the state's lands can be developed, Banks said.

Alaska has experience in offshore development from nearshore state lands — from Endicott in 1987, through Northstar and more recently Oooguruk — all with

offshore drilling. Nikaitchuq, the newest offshore project, is slated to begin production soon, he said.

State production is in shallower waters than deepwater Gulf of Mexico projects, and that

means there's better access to the sea floor and the equipment is different, with exploration done from bottom-founded structures or ice or gravel islands.

Offshore oversight team

Banks said that the dialogue about a broader role for AOGCC "was conducted in part under an offshore oversight team that the governor established earlier in the summer." That team "involves members of state agencies involved in oil and gas development, including DEC, AOGCC and the Department of Natural Resources," he said, has "met numerous times over the summer and they're developing recommendations for the governor's consideration."

Within DNR, the Petroleum Systems Integrity Office is working on a gap analysis to identify changes that would improve the integrity of facilities, operations and methodology of oil development in the state.

PSIO is also working on a quality management assessment program which would examine and oversee industry's quality management programs, Banks said.

He said that while the Deepwater Horizon blowout and explosion was a serious event, "it is something of a rare event," and in considering changes to the state's statutory or regulatory oversight of oil and gas operations, "we need to keep in mind that those changes are reasonable and that they are efficient."

Recommended changes need to be "things that will actually work and that are not a response to or a reaction to an event that is highly unlikely to occur again," Banks said. ●

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● ENVIRONMENT & SAFETY

Improvements asked in spill preparedness

Environmental groups, citizens' advisory councils, North Slope Borough, recommend enhancements to prevention, response in state

BY KRISTEN NELSON
Petroleum News

Environmental groups want improvements in Alaska's oil spill preparedness and response, as do coastal communities.

That was the message co-chairs Lesil McGuire, R-Anchorage, and Bill Wielechowski, D-Anchorage, heard Sept. 21 at a Senate Resources Committee hearing.

The hearing was motivated by concerns raised by the Macondo Gulf of Mexico well blowout in April. The senators asked what was being done now and what changes were recommended to improve the state's preparedness and response programs.

A panel from industry (see story in Sept. 26 issue) recommended waiting for results of investigations into the Macondo well blowout before the state moved with any changes, and reviewed plans for oil spill prevention and response for planned work in the Beaufort and Chukchi seas.

State officials responded to concerns expressed at the hearing and talked about recommendations for changes the administration is likely to present in the next legislative session (see related story in this issue).

Not if, but when

A panel representing the environmental community — Oceana, The Wilderness Society and Trustees for Alaska — told the committee that while the state and industry have made strides in offshore oil spill prevention and response, there are no guarantees that a spill won't happen or that oil in Arctic waters can be contained.

Jeffrey Short, Ph.D., Pacific science director for Oceana, an international marine conservation organization, said he recognizes and applauds all that industry has done to ensure safe oil operations in Alaska.

But, "we're on the cusp of major decisions regarding the environmental fate of the northern coast of our state," he said, and while recognizing all that industry has done, "there is one large fact that I think we all have to soberly recognize, and it is this — every major marine-dependent oil region in the United States has had at least one major unanticipated oil spill associated with it."

Once development begins, projects run for decades, he said, and "it is prudent to expect that if we are going to launch into major development on the North coast of Alaska offshore that we will very likely experience another unanticipated major spill."

These events are not anticipated, Short said, because "they they almost always are unique and they're the result of human error that combines with an unfortunate set of circumstances that are impossible to predict."

He said it's not a question of if, but when, a major spill will occur.

The Deepwater Horizon was the combination of lax regulatory oversight, response performance plans based on ideal test conditions but have to be applied under conditions that are almost always less than ideal. "In the Arctic, it

will often be far from less than ideal."

And most often overlooked are the challenges posed by differences in scale. Tests of oil spill response preparedness are typically done under ideal conditions but they're also small. "And there are big challenges that come into play when the size of the spill escalates," creating logistical challenges that Short called "overwhelming."



There is scant evidence of adequate technology in place for marine spill response on the North Slope, he said.

Short also said "we have very little idea of what we're risking on the North Slope." A lot more science is needed on the environmental side, including knowledge of what all the major species are; enough science is needed to be able to construct a quantitative food web model as a basis for an environmental risk assessment. More

research is also needed to identify important ecological areas and habitats are so they can be prioritized for protection.

The coast has been inhabited for 8,000 years, and Natives have an intimate relationship with the marine environment that is threatened by an offshore oil spill because when a spill happens "people become terrified that the seafood is no longer safe," and for coastal Natives this "severs the generational link between the young and the old because they no longer trust the food supply," severing the transmission of culture from one generation to another, "and you end up with a problem that money can't fix."

If exploration goes forward, Short said he implored legislators to at least do three things: increase funding for science; require realistic response and rescue capabilities and demonstrate technology under realistic conditions; and "allow for meaningful community

involvement."

Problems with implementation

Lois Epstein, Arctic program director for The Wilderness Society, told the committee she thinks there are good components to the Department of Environmental Conservation's regulations for pipelines and contingency plans, and to Alaska Oil and Gas Conservation Commission regulations for wells.

She said the key problem, as she sees it, lies "in regulatory implementation. We all know that even the best regulations are not valuable unless they are enforced effectively. This is the number one problem with the state's oil spill prevention and response program."

She said it became clear to most Americans this summer that the Minerals Management Service "was dysfunction-

see SPILL page 10



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SPILL

al. One of its biggest problems was a conflict of interest the agency had in regulating offshore drilling while simultaneously collecting federal leasing and royalty income.”

Without enforcement, “what you have is self-regulation which could lead to worst-case scenarios as it did this summer in the case of BP’s Deepwater Horizon tragedy.”

“Unfortunately the State of Alaska has the same conflict of interest in that the state seeks to increase its revenue by maximizing leasing and production and that means that in certain instances enforcement might not be pursued because that would change the revenue picture.”

She said some state leaders fear that if there is strong effective regulatory enforcement some oil and gas companies will relocate to areas with looser enforcement.

She said another way to look at this is that “industry leaders do not need to worry about enforcement, while ... industry laggards might chose not to operate in Alaska.”

The 2006 leaks from transit lines at the BP-operated Prudhoe Bay oil field, she said, which resulted in revenue loss to the state, “could have been prevented with an effective state enforcement program.”

“Fair, clear, visible and consistent enforcement, including criminal enforcement in egregious instances, is critical to a well functioning regulatory system,” Epstein said.

Trustees concerned about BAT

Nancy Wainwright, senior staff attorney, Trustees for Alaska, told the committee that “the best guarantee for not

sustaining future oil spills is vigilance every year to ensure that our standards are met and that we take advantage of lessons learned from other spills or other near misses in the state,” and recommended that the committee review oil spill prevention and response issues on an annual or biannual basis.

That, she said, would ensure that the state is getting the best available technology.

Wainwright reviewed the state’s requirements for best available technology for prevention and response and said that a change the Legislature made in 1997, allowing DEC to make findings and a list of technologies considered best available, “has proven to be somewhat problematic,” because DEC held no BAT conferences for many years. Results of a 2004 conference were not released until 2006, so “the technologies that were evaluated in 2004 were already outdated by the time that the findings were released.”

She said DEC is under budgetary constraints, “but unless the Legislature mandates that this is a priority and mandates that DEC evaluate BAT in all aspect of prevention and response every five years and issue a timely report, we will forever be left behind with outdated technologies.”

After the Gulf blowout, the state should also require BAT for blowout prevention, and more frequent testing and inspection, she said.

She said Trustees is recommending that no offshore exploration allowed “until there is a drill rig present and under contract to drill a relief well.” The Wilderness Society also wanted a requirement for relief well drilling capability during offshore drilling.

The Legislature should also consider whether statutory changes are needed to require better coordination between AOGCC blowout preventer regulations

with DEC’s contingency plan oversight rules.

Trustees (along with The Wilderness Society) also said the Drift River Terminal in Cook Inlet should not be allowed to reopen because of the continued threat of volcanic activity, and said the terminal should be replaced with a pipeline.

North Slope Borough

The North Slope Borough, Cook Inlet Regional Citizens’ Advisory Council and Prince William Sound Regional Citizens’ Advisory Council presented local concerns to the committee.

“It’s cold here; it’s dark here; there’s ice here — and those three things really impact the ability to function outside,” Harold Curran, chief administrative officer, North Slope Borough, told the committee.

He said the borough has focused on broken ice, fall slush ice and solid ice conditions, and its first recommendation is to upgrade blowout preventer and well pressure control devices to assure the best technology and practices are used.

It’s pretty obvious, Curran said, that “you can’t just assume that these systems are in place and functioning.”

He said the borough is asking that blowout preventers have two sets of blind shear rams.

The backup system ensures a failsafe system, he said.

The borough also wants blowout preventers to be tested every seven days instead of the 14-day testing interval normal in the outer continental shelf, and wants BOPs to have “reliable emergency backup control systems.”

If a subsea BOP is used, the borough recommends that a second redundant BOP be available on the floating drilling rig.

The borough also wants seasonal drilling and a requirement for offshore

pipelines as the transportation means; that, he said, is based on the fact that so many major spills come from tankers.

Canadians require a same-season relief well plan. Shell has it in their plan, Curran said, and the borough thinks it should be required.

The borough would also like to see worst-case spill response planning.

Curran said Norway has some better standards and asked that the state look to other Arctic countries for standards and consider whether they should be adopted.

CIRCAC doing review

Mike Munger, executive director, Cook Inlet Regional Citizens Advisory Council, said the council “has just undertaken a project to review Alaska’s oil spill statutes and regulations and develop recommendations for possible changes.”

He said because of laws passed after the Exxon Valdez oil spill, “Alaska is one of the best prepared states in the nation.” While Alaska has some of the toughest regulations in the nation, we “recognize there’s still room for improvement.”

He said the state has four “very capable primary response action contractors,” with an “impressive array of equipment and highly trained responders.”

But, Munger said, no matter how much response equipment and how many responders, “there will never be an adequate response to a catastrophic spill like we just witnessed in the Gulf of Mexico.”

And with Alaska’s harsh environment, “the basic physics of oil on water, means it’s not possible to put the genie back in the bottle.”

That means the primary focus must be on preventing a major spill for occurring, Munger said.

As for changes in state laws and regulations to improve spill prevention and response, the council will provide a detailed answer once its detailed review is complete, but initial thoughts include continuous improvement, and current laws and regulations “do not adequately force continuous improvement on oil spill response technology,” and recommended incentives for developing better response technology.

With some exceptions, the spill response technology in use today has not changed in 20 years, Munger said.

There is one exception, he said: The fuzzy disk skimmer system which was recently brought to Alaska through the efforts of Tesoro has a high-volume recovery capability, “but its greatest feature is virtually no water is recovered during the operation.”

Munger also said the council recommends transferring oversight and approval responsibility for well control blowout planning from DEC to AOGCC, which approves normal drilling operations. AOGCC has drilling engineers on staff, he said, and DEC does not.

He said the council also strongly recommends more funding for DEC’s spill response division.

PWSRCAC focused on BAT

Mark Swanson, executive director, Prince William Sound Regional Citizens’ Advisory Council, told the committee that Alaska’s requirements for best available technology assessment and implementation for oil spill prevention have resulted in a number of improvements, notably tug escorts in Prince William Sound.

The same can’t be said for BAT requirements for oil spill response, he said, because 2002 statutory and 2004 regulatory amendments “eliminated the requirement to conduct a rigorous technical and economic assessment of best available technology for most mechanical

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ENVIRONMENT & SAFETY

Groups threaten boycott over Shavelson

BY ELIZABETH BLUEMINK
Anchorage Daily News

Five conservation groups said Sept. 24 they will boycott the citizen group created by Congress to watch over Cook Inlet's oil and gas industry.

The groups are displeased with the watchdog group's recent decision to dismiss environmentalist Bob Shavelson from its board.

In a letter to the Kenai-based Cook Inlet Regional Citizens Advisory Council on Sept. 24, the groups said they will end the boycott if the council undertakes reforms. But for now, the groups said the council isn't living up to its mission to work on behalf of citizens to promote safe oil industry operations in the region.

Until he was dismissed earlier in September, Shavelson had sat on the council for more than six years. But Shavelson became increasingly critical of the group over the last few years after several close calls, including

a runaway oil tanker that grounded near Nikiski in 2006, spilling gasoline, and last year's Redoubt volcanic flows that threatened the Drift River Oil Terminal.

Among the reforms the council needs to consider, the groups said, is removing a provision in its bylaws that allows it to remove a director who says anything negative about the council.

The council — one of two citizen groups mandated by Congress after the Exxon Oil spill in 1989, one in Cook Inlet and one in Prince William Sound — declined to comment on the boycott. When it booted Shavelson, the group said his "conduct violated the Cook Inlet RCAC policies."

Among the reforms the council needs to consider, the groups said, is removing a provision in its bylaws that allows it to remove a director who says anything negative about the council.

Different views

After listening to public criticism of the council at a meeting in Homer on Sept. 24, council President Grace Merkes pointed out that the Coast Guard gave the council an award for its cooperation during the Redoubt erup-

tion. She said many people don't see the work that the council does.

But Frank Mullen, a commercial salmon fisherman from Homer who worked with Alaska's Congressional delegation on the language creating the Cook Inlet council, said Sept. 24 that the council has been a big disappointment since its inception.

"The organization seems to be more of a lapdog than a watchdog," Mullen said, during the council meeting.

"You just kicked off the best watchdog you ever had," he added.

Mullen said he thinks it might make sense to fold the Cook Inlet council into the Prince William Sound council, creating one entity to monitor oil and gas activities along the Southcentral Alaska coastline.

The environmental groups delivered their letter to the council during its regular board meeting Sept. 24. Toby Smith, executive director of the Anchorage-based Alaska Center for the Environment, signed the letter on behalf of the Alaska Marine Conservation Council, the Alaska Community Action on Toxics, Cook Inletkeeper, Kachemak Bay Conservation Society and the Oil Spill Region Environmental Coalition. ●

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SPILL

oil spill response equipment," affecting skimmers, booms and other mechanical oil spill response equipment.

Rigorous BAT assessments are now limited to communications; source control procedures; trajectory analysis and forecasting; and wildlife capture, treatment and release programs.

Swanson said the Department of Environmental Conservation's 2004 regulatory amendments "weakened oil spill response requirements by allowing operators to substitute non-mechanical response techniques for mechanical response during severe weather," changes opposed by the Prince William Sound RCAC and others.

"Additionally, dispersants and in-situ burning, another common non-mechanical response technique involving the burning of spilled oil while still in the water, suffer from the same limitations as mechanical response equipment in severe weather — they don't work as well."

Swanson said that over the past 16 years the erosion of BAT requirements has "left Alaska with an arsenal of oil spill response equipment based largely on late-1990s technology."

While minor improvements have been made by some contingency plan holders, Swanson said DEC "has not compelled or alternatively provided adequate incentives to tanker operators and other contingency plan holders to drive more significant and much needed updates and changes."

The council submitted a number of recommendations, with a requirement that all components of recovery systems undergo a BAT review, and including required inspection for equipment more than 20 years of age.

While Alaska's standards are much higher than anywhere else in the U.S., there are holes, Swanson said, such as while the state has "tremendously good spill response equipment ... they only really work in nice weather, and in easy weather and perhaps not so well in ice." ●

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Two green lights for Shtokman plans

Two government approvals came through in late September for the Shtokman field in Russia's part of the Barents Sea, which is estimated to hold 130 trillion cubic feet of natural gas and 31 million tons of condensate.

The first was from the Russian Federal Service for Environmental Supervision, which approved conclusions in an ecological survey for the two first stages of the development plan by operator Shtokman Development Co., a Swiss-registered joint venture of Gazprom (51 percent), Total (25 percent) and Statoil (24 percent).

RIA Novosti reported Sept. 23 that project documentation for phase 1A and 1B had been approved, which include underwater installations and connection to the floating production unit, a double underwater gas pipeline and a fiber-optic communication line.

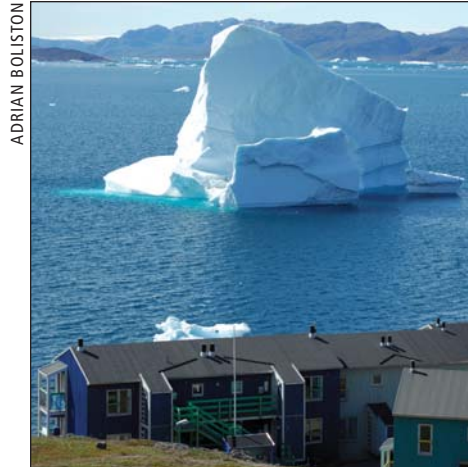
The second authorization came Sept. 28 from the Russian Technical Control Agency, which approved Shtokman's underwater production complex.

The Shtokman gas and condensate field — one of the biggest offshore fields of its kind — was discovered in 1988. The field is about 373 miles northeast of the city of

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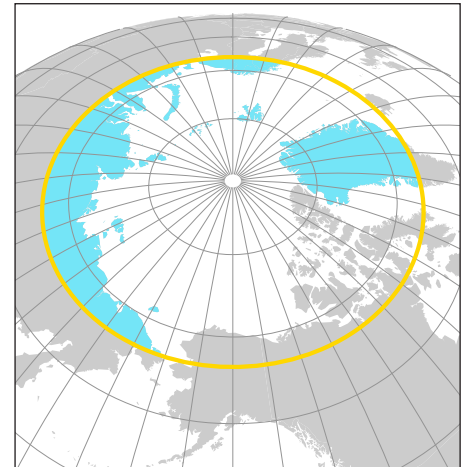
• **ARCTIC NEIGHBORS**

Race on for Greenland oil and gas



ADRIAN BOLISTON

Icebergs seen from the town of Narsaq on the southwestern tip of Greenland.



between Greenland and Canada's Nunavut.

Cairn's second exploration well encounters oil in 1,312-foot section, confirms active, working hydrocarbon system in Baffin Bay

BY KAY CASHMAN

Petroleum News

The race for oil and gas offshore western Greenland is off to a good start with the first explorer in three decades finding gas shows in its first two wells, and oil "intermittently" in a 1,312-foot section of the second well. The wells are in the iceberg-filled stretch of water

"The presence of both oil and gas confirms an active, working petroleum system in the basin and is extremely encouraging at this very early stage of our exploration campaign for the Sigguk block and the entire area," said Bill Gammell, chief executive of Cairn Energy PLC, in a Sept. 21 press release from the Edinburgh-based company.

The second well — the Alpha-1S1, with the oil show — in Baffin Bay had been drilled to 14,298 feet, but Cairn said it was continuing to drill, going deeper.

"Initial geochemical analysis of various hydrocarbon samples recovered from the well ... confirms the presence of two oil types which have different origins and levels of maturity and are the first oils encountered in the current exploration campaign. Further geochemical analyses are ongoing on a number of oil samples," Cairn said in its press release.

First well plugged and abandoned

The announcement spurred a 3 percent increase in Cairn's share price, which had fallen by 8 percent since August when the company said its first offshore western Greenland well, T8-1, showed only small quantities of gas.

Cairn has since plugged and abandoned that well, booking an \$84.2 million write-off.

"I see this as a positive result in the context of the longer-term exploration story offshore Greenland and I think the ... share price before this morning did not actually reflect any of that upside," Phil Corbett, an analyst with the Royal Bank of Scotland and Cairn's house broker, was quoted as saying in a Sept. 21 Reuters report out of London.

According to consultancy Wood Mackenzie, Greenland, a self-governing territory of Denmark, is one of the world's largest under-explored frontier areas. Wood Mackenzie estimates there could be more than 20 billion barrels of oil equivalent in the country.

Energy consultancy IHS Cera has put Greenland's technically recoverable undiscovered resources as high as 50 billion boe.

Cairn selling India unit to raise funds

Cairn is in the process of selling a majority stake in its Cairn India unit to Vedanta Resources for about \$8.5 billion. Some of the funds from the sale, which is waiting on approval from India regulators, will be spent on Greenland explo-

see **GREENLAND** page 14

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ARCTIC NEIGHBORS

Murmansk at sea depths varying from 1,050-1,116 feet.

Sevmorneftegaz, a 100 percent Gazprom subsidiary, holds the license to the project.

Shtokman gas will be shipped partly by pipeline, partly as liquefied natural gas, or LNG.

According to plans, the field will go into production in 2016.

The village of Teriberka, northeast of Murmansk, is the main hub for Shtokman operations.

Inuit plan Arctic summit; say Greenland needs to learn from Alaska

The Inuit Circumpolar Council is planning a summit to discuss the challenges of Arctic oil, gas and mineral development for the Inuit people, Nunatsiaq News reported Sept. 22.

The summit will either be held in Nuuk, Greenland or Iqaluit, Nunavut, Aqqaluk Lyngne, president of ICC, said the day after Cairn Energy announced its second well had oil and gas shows, indicating the presence of "an active, working petroleum system in the basin."

Lyngne, who Nunatsiaq News reported has expressed grave reservations about oil and gas development, said the Inuit people from the circumpolar countries urgently needed to discuss their experiences with resource development with each other.

The date and location of the summit will be set the week of Sept. 26, Lyngne said.

The idea of an Inuit oil-and-gas summit, Nunatsiaq News said, was first brought up at ICC's general assembly in July.

"All eyes are on Greenland right now," Lyngne said. "It is a big challenge to deal with."

Nunavut, which shares the waters of Davis Strait and Baffin Bay with Greenland, where Cairn is drilling, also has a direct interest in the issue.

Since oil and gas development looks more and more likely in Greenland, the conference will give the people there ways to cope with the changes sure to come with it, Lyngne said.

"We cannot move forward without cooperating and learning from each other. And Greenland needs to learn from Alaska — maybe how not to do it."

To better manage a possible "black rush" on Arctic oil and gas resources, Lyngne said he wants to be sure developers respect the rights of the Inuit.

He acknowledged that the people of Greenland are looking forward to the economic rewards that come with oil and gas development.

But according to the news report, Lyngne isn't convinced that industrialization will improve the lives of Greenlanders.

"I don't see any happy people around the world who are living on the riches of oil, that is a fact. Why should oil give us happiness in life? Only the prospect of money is

a blessing — the worst nightmare is the scenarios that we have to look into," he said.

Lyngne favors a cautious, careful approach to development that "includes the human dimension," Nunatsiaq News reported.

The publication said he'd also like to see a closer look at the kind of technology used in offshore oil exploration in the Arctic, in order to avoid disasters like the April blowout at BP's Macondo well in the Gulf of Mexico.

Forty-one bid in Norway's latest license round

Forty-one companies applied for acreage under Norway's 2010 Awards in Predefined Area licensing round, three less than for APA 2009, according to the Norwegian Petroleum Directorate, or NPD.

According to a Sept. 17 report in Offshore, pre-defined areas in the North, Norwegian and Barents seas were part of the offering, which closed on Sept. 15.

Offshore quoted Sissel Eriksen, NPD's director for exploration, as saying, "Mature areas on the Norwegian shelf are interesting, particularly for the smaller oil companies. Proximity to existing facilities allows faster and more profitable development of small discoveries compared with developments in less mature areas of the shelf. The high price of oil in recent years is also a major contributing factor to the high level of exploration activity."

Applicants were invited to bid for acreage totaling 31,467 square miles, spread over 302 blocks, a significant increase over APA 2009, Offshore reported, which was due to expansion of the pre-defined areas in the Barents and Norwegian seas by more than 8,726 square miles across a total of 63 blocks or part-blocks. Also, large tracts of acreage were relinquished within the APA 2009 area, which were re-offered in this year's round.

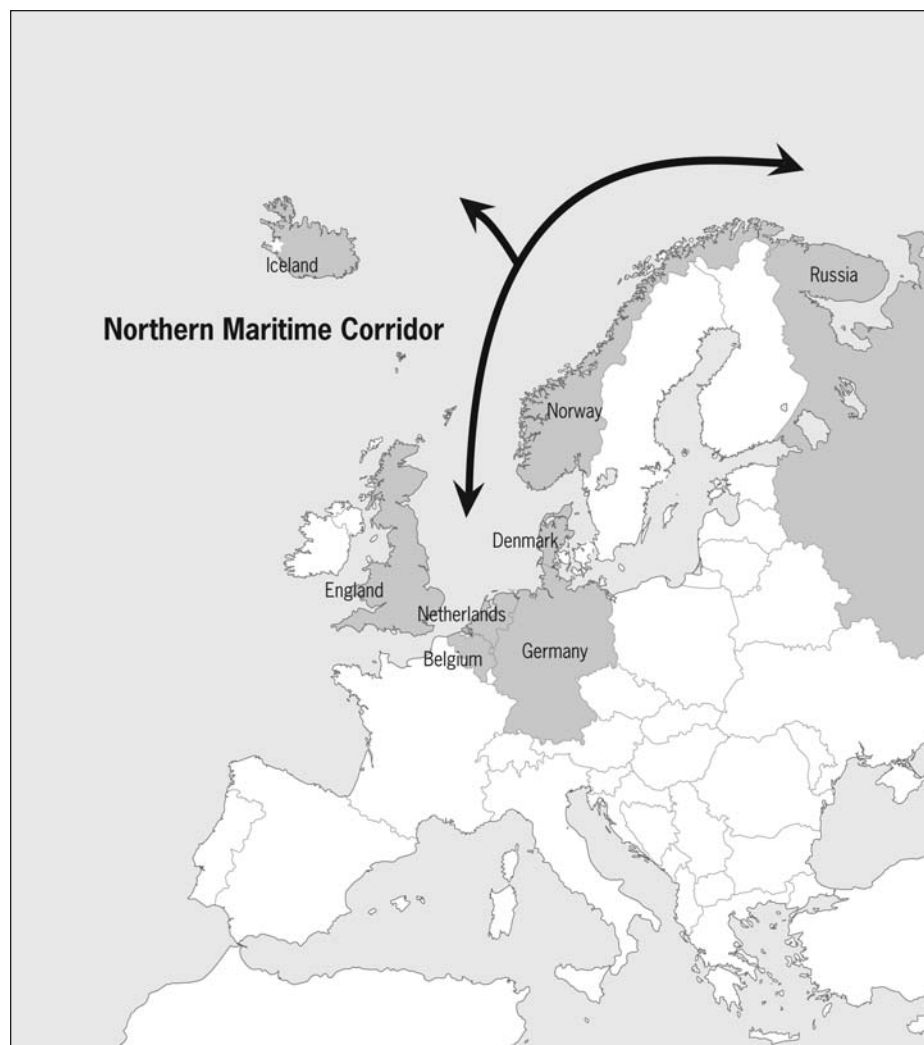
The APA offerings are "designed to improve and speed up exploration of mature areas on the Norwegian shelf, to ensure that the industry has regular access to prospective acreage, and that acreage is turned over more quickly for potential new players. The government is also keen for resources discovered in these permits to be developed before existing production infrastructure is abandoned," Offshore reported.

ENI gets approval to drill Barents well

The Petroleum Safety Authority Norway cleared the Transocean semisubmersible Polar Pioneer to drill an exploratory well in the Barents Sea for Eni Norge, Offshore reported Sept. 22.

Well 7120/12-5, in license PL 489, will be spud in late September about 50 miles northwest of Hammerfest, in a water depth of 613 feet.

Offshore said Polar Pioneer has drilled production wells in the Barents Sea for Statoil on the Snohvit field, as well as exploration wells in the region for Statoil, Hydro and Eni.



In the North Sea, the Norwegian Petroleum Directorate has issued a permit to RWE Dea Norge to drill the wildcat 35/9-6 S in PL 420, 15 kilometers (9.3 miles) west of the Gjoa field.

The semisubmersible Bredford Dolphin will drill the well after completing another wildcat, 6507/7-14 S, for RWE in PL 435, Offshore reported. PL 420 will be the first well drilled on the license, which was awarded in Norway's APA 2006 licensing round.

Four rigs ready for Barents Sea drilling

According to a Sept. 15 report in the BarentsObserver, 2011 will be the "all-time-high" for "test-drilling" in Norway's part of the Barents Sea.

The four rigs are Aker Barents, Polar Pioneer, West Phoenix and Scarabeo 8, per Petroarctic, the network of suppliers for petroleum projects in the Far North.

The Polar Pioneer, old-timer in the Barents Sea, will drill for Statoil and Eni near the Snohvit field.

West Phoenix will come to the Barents Sea in the spring and drill at the Norvargdomen field for Total.

Scarabeo 8 will drill at the Goliat oil field for Eni, while Aker Barents will work at the Helio field for Gdf Suez and likely also other fields in the Barents Sea, the Barents Observer reported.

Russian aircraft buzz Navy ship twice in Arctic

Pentagon officials say two Russian aircraft buzzed a U.S. Navy warship in the Arctic's Barents Sea in early September, each coming within about 50 yards of the frigate, which had just completed a port visit to Murmansk to honor World War II veterans of both countries.

Flybys of Navy ships in international waters are not unheard of. But the Cold War-style incident was unusual enough to raise eyebrows.

Pentagon spokesman Col. Dave Lapan said Navy personnel aboard the ship did not believe the actions were hostile. He told reporters that the U.S. was still trying to determine whether either side broke protocol.

Lapan said a Russian maritime patrol aircraft on Sept. 10 flew about 50 yards off the Navy frigate's side, as low as 100 feet. Lapan said a Russian helicopter did the same thing the next day.

"Both sides are in discussions now to determine whether the proper protocols were followed," Lapan said. "This is a fairly rare occurrence."

A year ago, two nuclear-powered Russian submarines patrolled off the Eastern Seaboard in what U.S. officials

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ARCTIC NEIGHBORS

speculated was an effort by Moscow to show a greater military presence.

—THE ASSOCIATED PRESS

First non-Russian ship sails Northern Sea Route

The ice-class bulk carrier MV Nordic Barents sailed across the Arctic, loaded with iron-ore concentrate, from Kirkenes, Norway to China, in just 12 days in September, the first non-Russian flag bulk carrier to use the Northern Sea Route, which is also called the Northwest Passage.

The bulk carrier left the northern Norway harbor on Sept. 4, turning 180 degrees south at the Bering Strait on Sept. 15, the BarentsObserver reported.

The 12-day trip was faster than expected, Felix H. Tschudi told the Observer.

Tschudi is both a shipping company owner and the largest shareholder in Northern Iron, the mining company that operates in Kirkenes, the publication reported. MV Nordic Barents belongs to Nordic Bulk Carriers, a Danish shipping company.

The retreating sea ice in the Arctic makes the northern shortcut valuable for the world's shippers because it saves time (thus money) compared to traditional shipping routes, such as the Suez channel or around the southern tip of Africa.

Eco insurance a possibility for Russian offshore projects

Russia is considering an eco insurance program for shelf developments, the BarentsObserver reported in mid-September.

"It is absolutely clear that the accident in the Gulf of Mexico necessitates a number of measures," Minister of Natural Resources Yuri Trutnev was quoted as saying in a RIA Novosti report.

He confirmed that his ministry is currently studying the possible introduction of a special insurance system for shelf operations that includes coverage for ecological risks.

Alternatives to insurance are bank guarantees or the creation of special liquidation funds, the BarentsObserver reported.

Russia ready to loosen Arctic offshore restrictions

Russian authorities will make it easier for foreign companies to operate on the Russian Arctic shelf, Minister of Natural Resources Yuri Trutnev indicated at a Sept. 16 press briefing that followed the signing of the maritime boundary agreement with Norway.

Trutnev, who was accompanying President Dmitry Medvedev to Murmansk for the signing, told reporters that the number of companies allowed to operate on the country's shelf will be expanded, Reuters reported.

"We need investment and technology. We need to attract business there," Trutnev said.

He also said that Russia's law regulating foreign investments should be amended to relax restrictions on foreign companies doing business in the country.

• ARCTIC NEIGHBORS

Accord paves way for Barents development

Resolution of maritime border dispute between Norway and Russia bodes well for increased Western involvement in Russian projects

BY KAY CASHMAN

Petroleum News

It is not unusual for petroleum deposits in remote areas of the world to be brought into production a decade or more after their discovery, especially when exploration and delineation of those hydrocarbons are delayed for political reasons, such as the boundary dispute between Norway and Russia for the energy-rich Barents Sea.

After 40 years of talks the two countries signed a maritime border treaty on Sept. 15 that, among other things, gives each a new hydrocarbon base and outlines how exploration, development and production will proceed in their new, 196-kilometer (122-mile) shared boundary. The agreement also opens the way for increased cooperation on the development of oil and gas deposits farther east on Russia's Yamal Peninsula.

"We'd like our Norwegian friends to use their best technology and their best

projects for the modernization of our oil and gas industry," Russia's President Dmitry Medvedev told reporters at a Sept. 15 press conference with Norway's Prime Minister Jens Stoltenberg. "We're already in talks about how to work on Yamal, so I hope that there are good prospects for this cooperation."

State-owned Statoil to be Russia's partner on border

The accord gives Statoil, Norway's state-owned oil company, exclusive rights as Russia's Norwegian partner in all the trans-border projects. Other foreign companies will have to negotiate with the partners to get a stake in a project.

But development is not going to happen overnight.

A 2008 Arctic strategy paper signed by Medvedev said the polar region must become Russia's top strategic resource base by 2020.

Russia's Minister of Natural Resources Yuri Trutnev said Sept. 21 that the 2020 goal is not feasible, although two Barents Sea fields are already under development — the Shtokman natural gas field, being developed by Gazprom in conjunction with Statoil and France's Total, and the Prirazlomnoye oil field being developed by Gazprom subsidiary Sevmorneftegaz — plus Statoil brought its Snoehvit gas field on line in 2007.

see ACCORD page 15

continued from page 12

GREENLAND

ration.

Cairn is currently drilling a third well, T4-1, in Baffin Bay.

The company's offshore leases cover approximately 72,000 square kilometers with water depths ranging from 164 feet to 1.4 miles.

Keen interest from majors

As the world's largest island, with a population of just 56,000, Greenland is emerging as a potential petroleum giant with competition between oil companies for its resources intensifying.

Although Cairn's discovery does not appear to be commercially viable, it strengthens the belief that offshore western Greenland has oil and gas potential. Until Cairn's wells, there had only been seven exploration wells in the region and they were all dry.

Ove Karl Berthelsen, Greenland's minister for industry and mineral resources, described Cairn's results to date as encouraging, saying they support

"earlier indications of the existence of an active hydrocarbon system in the region."

The three wells are the first of four the small Scotland-based producer was scheduled to drill this summer as part of a multiyear exploration campaign that in May Bloomberg reported would be closely watched by producers such as ExxonMobil, Shell and Chevron, which also hold rights offshore western Greenland.

ExxonMobil and Chevron are currently interpreting seismic data to identify potential drilling locations.

Kerr says economic to develop at \$75 oil

Cairn's Sept. 21 announcement was made about two weeks before the government of Greenland was expected to announce the winners in its latest licensing round for 14 blocks spanning 58,301 square miles in Baffin Bay.

Greenland's Bureau of Minerals and Petroleum said it had received 17 bids from 12 international oil companies, including Shell and Statoil. (Cairn bid on six blocks, which vary in size from 3,088 square miles to 5,792 square miles.)

Another bidder, Scott Kerr, chief executive officer at the Norwegian Energy Co., said his company believed "with the estimated size of resources in Greenland it would be economic to develop at over \$75-a-barrel oil prices, but this depends on the reservoir quality, the field's size, and distance from shore. There are big differences in the size of resources because little exploration has been done."

The next oil and gas exploration leases will be offered in the Greenland Sea in 2012 and 2013. ●

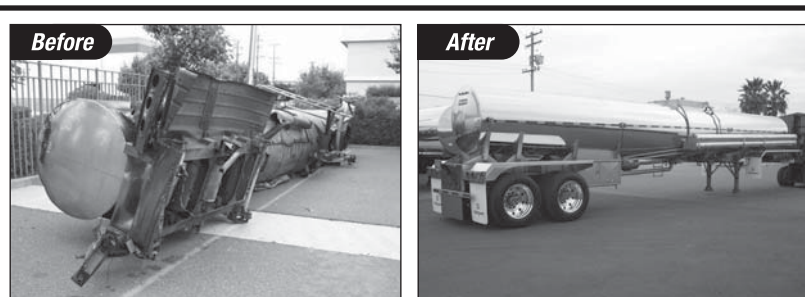
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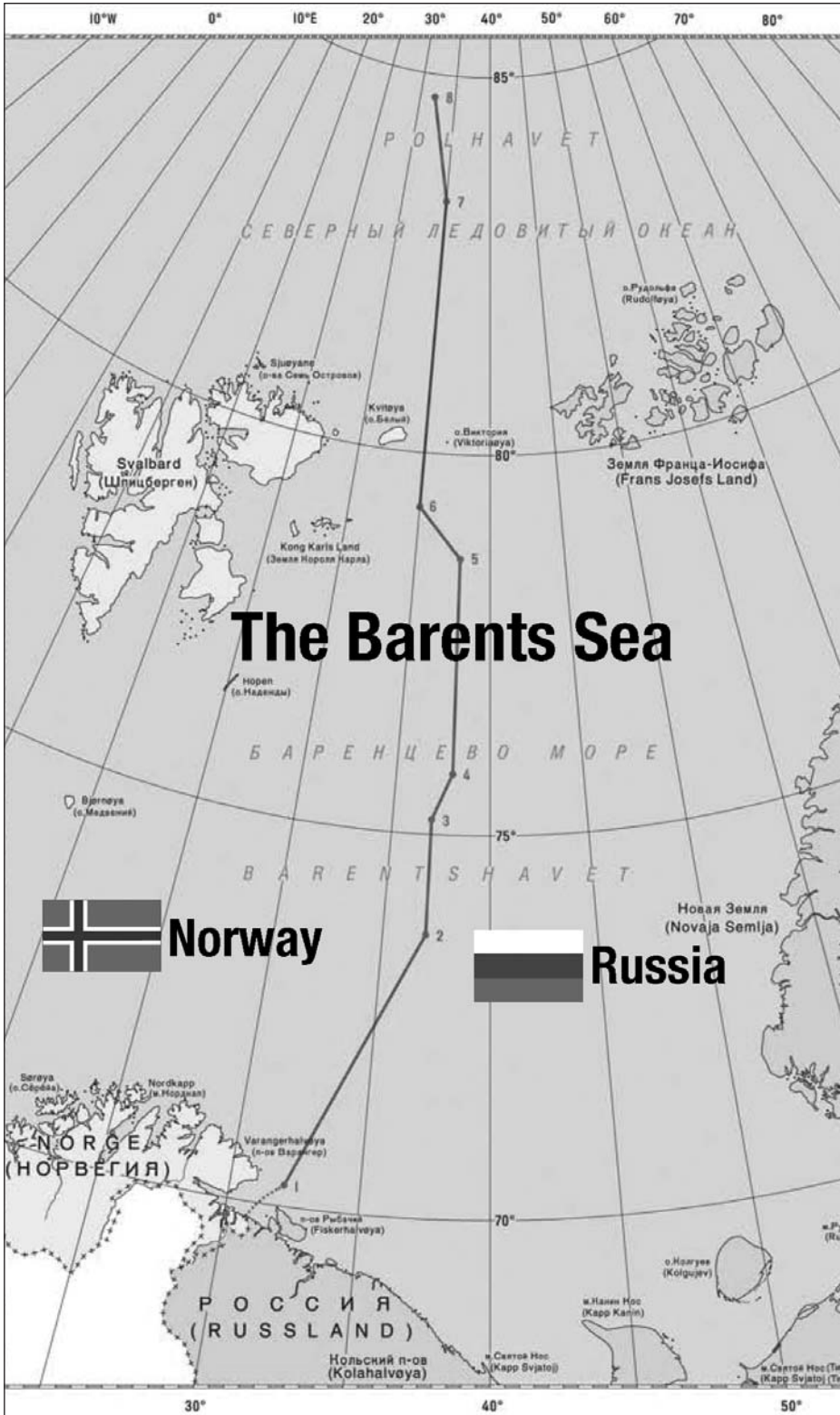
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opinion had swung against exploration of other major potential rival reserves, near the Lofoten Islands offshore Norway, following the Deepwater Horizon oil spill in the Gulf of Mexico,” Platts reported.

Bjorn Brunstad of Nordic economic consultancy Econ Poyry was quoted in Platts as saying, “I think this signing today is significant in the context of Norway’s declining crude reserves and the controversy surrounding the other main resource area there, the Lofoten and Vesteralen region off the Norwegian coast.”

Strong motivations for both countries

For Russia, the Barents Sea represents an opportunity to gain access to the Western expertise Russia needs to develop its Arctic offshore deposits. For Norway, the Barents is a way to find oil to offset its declining North Sea production.

The minister admitted Russia needed foreign partners for the development of large projects such as its giant Shtokman gas field and the 600-million-barrel Prirazlomnoye oil field, both in the Russian sector of the Barents Sea.

“Unfortunately, our offshore projects development is taking too long. ... That is why we should not (develop) them on our own, they should be developed using the experience available (on the global market),” Trutnev was quoted as saying by RIA Novosti.

Trutnev said that the Barents Sea could hold as much as “25 percent of hydrocarbon resources on Planet Earth” — specifically tens of billions of barrels of oil equivalent.

Revitalize Russia’s shipbuilding industry

He also said that Barents development would yield additional benefits for Russia, such as revitalizing its shipbuilding industry, a once vital part of the country’s economy.

As Arctic ice melts, it is expected that more and more international shippers, such as vessels carrying goods between Europe and China, will use the Arctic corridor. By sailing over the top of the world, the shippers save time (and thus money), since it is much shorter than traditional shipping routes, such as sailing around the southern tip of Africa or through the Suez channel. ●

Contact Kay Cashman at publisher@petroleumnews.com

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OCS

But Slaiby said that, while everyone in the industry has been horrified by events in the Gulf of Mexico, a single incident should not be reason “to throw the industry under the bus.” Until the Deepwater Horizon disaster, the drilling of 34,300 offshore wells since 1971 had only resulted in the spilling of 1,600 barrels of oil, he said.

Slaiby said that the approximately \$500 million that government and industry has already invested in the gathering of Arctic science have resulted in sufficient research to at least enable Arctic offshore exploration to proceed. Schoen disagreed, saying that, while he applauds Shell’s investment in Arctic research, there is still insufficient environmental information available to mitigate the risk.

David Ramseur, Begich’s chief of staff, representing Begich in the forum, argued for more Arctic research and the establishment of an Arctic USCG station, saying that a bill that Begich had introduced in Congress would levy a tax on oil of 3 cents to 7 cents per barrel to provide \$300 million in annual funding for Arctic science. ●

Contact Alan Bailey at abailey@petroleumnews.com

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PACIFIC ENERGY

The settlement is signed by Lorenzo Marinuzzi, a lawyer for the state, and Gerry Tywoniuk, acting chief executive for Pacific Energy.

Collection uncertain

Both sides have asked a judge in U.S. Bankruptcy Court in Wilmington, Del., to approve the settlement, and a hearing on the matter is scheduled for Oct. 12.

The settlement likely does not mean the state will collect the full \$40 million.

Rather, it is one in a pool of claims against Pacific Energy, which has filed a “plan of liquidation” with the court.

Chevron subsidiary Unocal, with its own multimillion-dollar claims against Pacific Energy, has raised objections to the liquidation plan. ●

continued from page 14

ACCORD

Trutnev said the 2020 polar objective is “unrealistic.”

The accord, signed on Sept. 15 for the 175,000-square kilometer (67,568-square mile) area of the Barents Sea and adjacent Arctic Ocean, gives both countries big prospects, Trutnev said, but “the most optimistic timeframe for the development is 12-15 years away,” he told reporters immediately after the signing in Murmansk, per a Platts Sept. 16 report.

“Once (the agreement) is made law, there would be exploration and geological studies for around 7-10 years before the development of reserves can begin,” he said, as reported by Russia’s news agency RIA Novosti.

The minister also said there were as many as 10 structures identified in Russia’s part of the Barents Sea, one or two of which could be giant deposits and five to seven major deposits.

When asked about a statement by a Norwegian official that his country had secured the most “delicious” blocks, Platts reported that Trutnev said: “It’s not necessary nor correct to discuss where the most interesting fields are at the moment,” noting that there had only been initial studies based on gravity satellite imagery done in most of the Barents Sea.

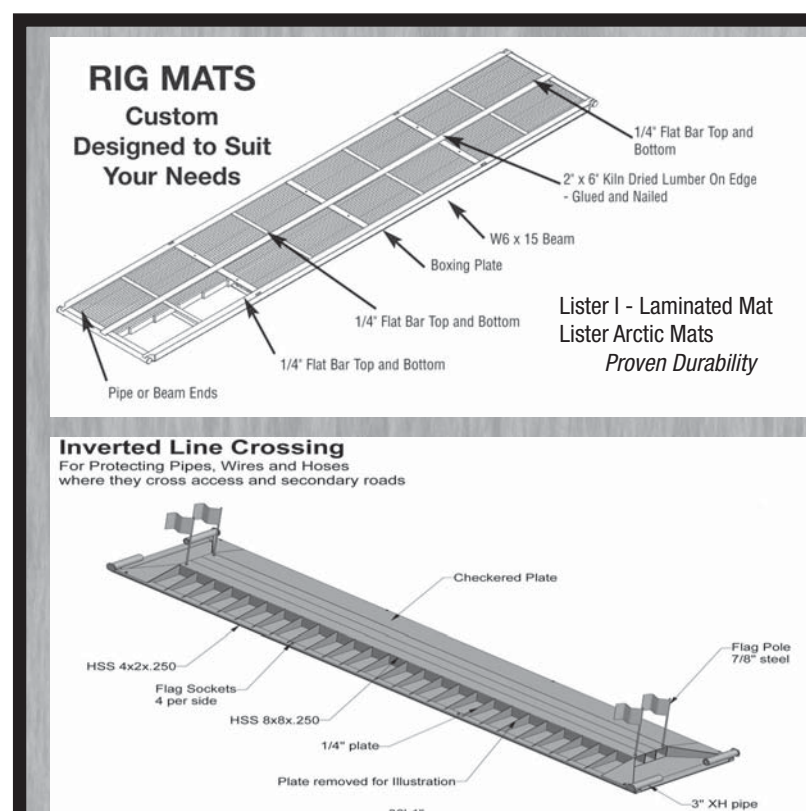
“Now we will begin work in this area and then we’ll get the answer as to who has more fields, who is to produce more oil, and so on. I think the prospects are very good for both sides,” Trutnev said.

According to the Sept. 16 Platts report, Norwegian media had widely quoted the country’s Prime Minister Stoltenberg as

saying his government was in no hurry to start exploration.

“I understand why you ask that (when mapping and exploration would begin), but I don’t want to answer that now. Not until the agreement has been finally approved (by Norway’s and Russia’s parliaments),” Stoltenberg was quoted by the Norwegian national wire service NTB.

But analysts have said the country was “in a big hurry” to extract gas and oil from below the Barents “because public



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Crowley Awards Scholarships to Two Academy Cadets



BRUCE BEEKER

Crowley Maritime Corp. said Sept. 24 that two cadets in the deck officer program at the Great Lakes Maritime Academy in Traverse City, Mich., were recently awarded Thomas B. Crowley Sr. Memorial scholarships. Bruce Beeker and Christopher Hyzy received the scholarships for the 2010-11 academic year. Both cadets were awarded scholarships based on their academic record and interest in the towing industry. Beeker, from Traverse City, received a bachelor's degree in telecommunications from Indiana University at Bloomington. He worked in law enforcement for 13 years before enrolling at GLMA and is scheduled to graduate in 2012 and then enter the towing industry. Hyzy, a native of Sycamore, Ill., has a bachelor's degree in aviation management from Southern Illinois University at Carbondale. He has operations man-



CHRISTOPHER HYZY

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

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● GOVERNMENT

Senators oppose ANWR wilderness review

Murkowski calls Fish & Wildlife action 'blatant political move' by Obama administration, Begich says 'colossal waste' of resources

BY DAN JOLING
The Associated Press

Alaska's U.S. senators say the U.S. Fish and Wildlife Service has no business conducting reviews of the Arctic National Wildlife Refuge to see if more areas should be designated as wilderness.

The service announced Sept. 27 it will review three areas of the refuge, including the coastal plain, or 1002 area, believed to contain an estimated 11 billion barrels of recoverable oil. Republican Sen. Lisa Murkowski reacted with an angry press statement, warning the agency not to trample on a promise of "no more wilderness" made to Alaska in the Alaska National Interest Lands Conservation Act.

"This is a blatant political move by the administration and clearly violates the promise of no more administrative wilderness designations in Alaska," Murkowski said.

A wilderness designation would preclude petroleum drilling. The agency lacks authority to conduct wilderness reviews in Alaska without consent of Congress, she said.

"Congress has given no such approval," Murkowski said. "This is a waste of time and taxpayer money and it's a proposed waste of the oil and natural gas resources that belong to all Americans."

Objections voiced in May

The Alaska congressional delegation — Murkowski, Democratic Sen. Mark Begich and Republican Rep. Don Young — wrote to Interior Secretary Ken Salazar in May, objecting to any additional wilderness reviews. About 8 million acres — or about 12,500 square miles — of the more than 19-million-acre refuge in northeast Alaska already is designated as wilderness.

Begich said Sept. 27 that he has long been opposed to more time or taxpayer money being spent on further wilderness reviews.

"This is a colossal waste of limited resources, and we should use those resources to develop the enormous oil and gas reserves believed to be beneath the coastal plain," he said.

A Fish and Wildlife Service

spokesman said the agency's decision is a response to public comment made as the agency updated its Comprehensive Conservation Plan.

Bruce Woods said his understanding of the "no more" promise was that no new conservation areas would be designated without approval of Congress. Designating wilderness within a conservation area, he said, was a management change.

"It would simply modify the management regime for a conservation area," he said.

Approvals required

He also noted that all the agency can do is study and make a recommendation. Any wilderness designation must be approved by the Fish and Wildlife Service director, the Interior secretary, the president and Congress itself.



SEN. LISA MURKOWSKI, R-ALASKA



SEN. MARK BEGICH, D-ALASKA

"We have no authority to either designate wilderness or open any part of the refuge to oil and gas development," he said.

Murkowski said Alaska already contains 58 million acres of federal land designated as

wilderness, an area larger than New York, New Jersey, Connecticut, Rhode Island, Massachusetts, Vermont and New Hampshire combined.

Murkowski, defeated in the Alaska GOP primary and now mounting a write-in campaign, pledged to "de-authorize and defund" any attempt to further restrict responsible development of Alaska's natural resources.

"Congress designated the coastal plain of ANWR for oil and gas exploration more than three decades ago, but we continue to have to be vigilant against bureaucratic attempts to lock up Alaska's resources," she said. ●

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GAS LINE

competing pipeline pairing of TransCanada and ExxonMobil, revealed the U.S. Department of Energy recently expanded its work on possible multibillion-dollar federal loan guarantees to support a gas line.

CEO's deflating comments

Palmer and Fackrell were among speakers at the 6th Annual Alaska Oil & Gas Congress, held at the Marriott hotel in downtown Anchorage. The conference attracted about 160 people, including representatives from the Federal Energy Regulatory Commission and its Canadian counterpart, the National Energy Board.

The gas line execs gave their talks on the very day a rather disconcerting story appeared in the Financial Times.

Jim Mulva, ConocoPhillips chief executive, reportedly indicated in an interview with the British newspaper that his company "would reassess the economics of its project with BP" to build a \$30 billion pipeline from Alaska's North Slope gas fields to the Lower 48.

The article talked of a gas glut, weak prices in the range of \$4 per million British thermal units, and surging production of shale gas.

All of this "creates more competitive concerns for Alaska natural gas," Mulva was quoted as saying. He added that due to abundant cheap gas, ConocoPhillips had shut-in some U.S. and Canadian pro-

duction, explaining: "We'd rather keep it in the ground for when it will have a greater financial impact."

Of course, keeping it in the ground is what Alaska politicians and industry boosters have decried for decades. North Slope gas production would mean enormous tax and royalty revenue for the state, not to mention a construction boom to lay a pipeline 1,700 miles from the Slope to Alberta.

If the Financial Times article was a signal the Denali project is going on the shelf, Fackrell didn't admit it.

Citing Mulva's comments regarding reassessment, Fackrell told the Oil & Gas Congress: "That's the reality of where we are today," with everybody looking at price and supply.

Fackrell spent most of his time talking up Denali's efforts to put together a viable project.

Second open season nearly done

Denali's open season opened three months ago, on July 6.

Now, on the eve of its closure, Fackrell expressed some confidence.

"We do expect to have bids, but we believe these bids will be heavily conditioned," he said.

That was the story when TransCanada and ExxonMobil announced the conclusion of their open season on July 30. Shippers always want a better deal, so it's common for them to attach conditions to bids, Palmer said.

Once Denali's open season closes,

negotiations will begin with the bidders to try to reach "precedent agreements," Fackrell said.

The state's online natural gas glossary defines a precedent agreement as "a contractual agreement signed between a pipeline sponsor and a shipper. Through this agreement, the prospective shipper agrees to underwrite a portion of the future design and permitting cost to move a pipeline project to construction."

Denali hopes to sign precedent agreements by Feb. 1, Fackrell said.

Both pipeline partnerships are holding their open season bids confidential.

In other remarks, Fackrell said a big concern is the fate of the Point Thomson field on the eastern North Slope. Point Thomson holds about a quarter of the Slope's known gas reserves, but its status is clouded as ExxonMobil and other leaseholders battle in court to keep a field the state has moved to reclaim for lack of timely development.

The conflict must be resolved, Fackrell said, because the gas line needs reserves from both Point Thomson and Prudhoe Bay.

Fackrell added that when he's in Washington, D.C., he hears negative remarks about Alaska achieving a gas

pipeline. "You guys don't look like you have your act together," people say, with two rival projects and division among the three top gas producers — BP, ConocoPhillips and ExxonMobil.

Of course, only one project can go forward in the end, he said.

Uncle Sam's helping hand

In his speech, TransCanada's Palmer emphasized federal loan guarantees as a vital part of securing gas line financing.

Congress in 2004 approved up to \$18 billion in loan guarantees, and in 2009 a Senate committee passed an energy bill that included a boost to \$30 billion plus access to a government corporation called the Federal Financing Bank.

But the legislation fizzled, and uncertainty hovers over the existing loan guarantees, Palmer said. Critical terms and conditions, such as the interest rate and repayment details, were never spelled out, he said.

The project TransCanada and ExxonMobil are proposing will require borrowing a staggering \$20 billion to \$30 billion, Palmer said.

The partnership has met with more

see **GAS LINE** page 18



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ALBERTA

Offering an olive branch, Marcel Coutu, chief executive officer of Canadian Oil Sands and chairman of Syncrude Canada, the world's largest producer of synthetic crude, held a meeting with David Suzuki, the patron saint of Canadian environmentalists.

He suggested trading a polarized discussion for an effort to find common ground "instead of wasting so many resources on both sides."

Coutu suggested Suzuki, because of his national and global profile, could serve as a catalyst in bringing others to the peace table.

"He declined to do that," said a chagrined Coutu.

However, Marlo Reynolds, executive director of the Alberta-based Pembina Institute and Greenpeace campaigner Mike Hudema said they're open to dialogue, provided the industry was prepared to agree on hard, science-based environmental limits on issues such as greenhouse gas emissions and the oil sands impact on air, land and water. At best a non-starter.

U.S. senators visit

While those two sides circled each other, the Alberta government gained some high-powered converts in U.S. Sens. Lindsey Graham, R-S.C., and Saxby Chambliss, R-Ga., who toured the oil sands at the invitation of Alberta Premier Ed Stelmach along with Democratic Sen. Kay Hagan of North Carolina on Sept. 17.

Their response to Stelmach's attempts to "refute myths" being spread about the oil sands and the environment likely surpassed Alberta's best hopes as they praised the government's "conscientious approach" to development of its vast bitumen resource.

"The actual (open pit) mining is a very

In a surprise gesture, the government asked University of Alberta ecologist David Schindler — who played a lead role in a recent report claiming toxins have entered the Athabasca River from shallow oil sands deposits — to help select the panel.

small part of the landscape up here, so when you fly over you see a lot of nature and rivers and wilderness," Graham said during a visit to Syncrude Canada. "From my point of view, the environmental issues are being addressed in a responsible way. I am for full speed ahead in terms of using Canadian oil sands oil in America."

Lining up the visit by the three senators was viewed by the government as a coup, given tensions over the future transportation and refining of bitumen in the U.S., with several states threatening to ban imports.

In addition, the Sierra Club has filed a lawsuit accusing the U.S. Defense Department of violating the U.S. Energy Dependency and Security Act 2007 for contracting fuel purchases that are linked to the oil sands.

Graham told reporters he is concerned the Sierra Club suit could lead to "over-reaching policies that would deny our military some energy sources that come from friendly areas," insisting the military "should be able to use Canadian oil."

Hagan said the senators opted to visit Alberta because of their concerns "about purchasing oil from some of the countries of the Middle East and we're very interested in talking to our Canadian partners."

Stelmach said the senators' visit was just part of his government's aggressive efforts to convey what is happening to reduce the environmental impact of oil sands development.

"We've come a long way, but we can and will do more," he said, noting that

cabinet ministers will be in Alaska and Mississippi and across Canada in the next few weeks to explain what progress is being made.

One review panel named

Canada's Environment Minister Jim Prentice, speaking to business leaders in Banff, Alberta, in mid-September, said Canada must improve its environmental record to ensure that exports of oil, natural gas and hydroelectricity to the U.S. — valued at C\$122 billion in 2008 — remain a "centerpiece" of the country's economic prosperity.

The Stelmach government followed that advice by naming a committee of independent scientists to review water-monitoring data collected from the oil sands region, saying an understanding of the industry's impact is "absolutely critical."

Alberta Environment Minister Rob Renner said there must be a "complete and total assurance in the data" in order to balance environmental protection with oil sands development.

In a surprise gesture, the government asked University of Alberta ecologist David Schindler — who played a lead role in a recent report claiming toxins have entered the Athabasca River from shallow oil sands deposits — to help select the panel.

Prentice has also said he will commission a Canada-wide panel of researchers to review whether the monitoring model used by the Schindler team is appropriate.

Industry fights back

The fight back against oil sands critics seized some of the spotlight at the World Energy Congress, which attracted 3,500 delegates to the Montreal event from Sept. 14-17.

Royal Dutch Shell Chief Executive Officer Peter Voser chastised the Canadian and Alberta governments for not doing enough to defend the oil sands

against global attacks.

He said the governments have been more proactive over the last 12 months, "but they could do more" to explain how the industry is cleaning up its record.

Voser called for new rules relating to fossil fuels in order for natural gas to flourish as a clean, efficient and plentiful energy source, but he noted that Shell's oil sands projects are expected to grow from 2.5 percent of his company's overall production to 4 percent based on projects now in the works.

Rick George, chief executive officer of oil sands giant Suncor Energy, took the offensive in Montreal, rejecting the "dirty oil" label attached to the oil sands at a time when the petroleum industry is an essential part of combating global poverty.

"Publicity stunts and name-calling are not what we need right now," he said. "We need an adult conversation about the benefits and risks associated with energy production ... and how we can maximize the former and minimize the latter."

Suncor begins reclamation

A week later George was at the center of a ceremony marking the first time an oil sands producer has transformed its toxic effluent into reclaimed land.

"Actions speak louder than words," George said, as he stood in front of what was once a toxic tailings pond and pledged to accelerate his company's plans to spend C\$1.2 billion over the next two years on technology to clean up effluent.

Suncor plans to plant 600,000 trees and shrubs at the site before the end of 2010 in a project the Pembina Institute said is a sign of progress, while noting that less than 0.2 percent of disturbed land has so far been reclaimed.

But it was sufficient for Stelmach to hail an "unbelievable accomplishment" and declare he was "damn proud to be an Albertan." ●

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GAS LINE

than a dozen financial institutions, and all indicate the financing is achievable but a Herculean task, he said.

The Office of Fossil Energy, part of the U.S. Department of Energy, is designated to set the terms of the loan guarantees, Palmer said.

But in the last month or so, another office within DOE, the Loan Guarantee Program, has gotten involved with the Alaska gas line, he said.

The Energy Policy Act of 2005 established the Loan Guarantee Program to bring "innovative" energy technologies to

market.

Bids received during the TransCanada-ExxonMobil open season came with "significant conditions attached," Palmer said.

Some shippers have fiscal issues to work out with the state, he said, but "I'm not here to tell you the status of those negotiations, because we're not involved."

Palmer acknowledged that some people seem "a little down" about the gas line's chances today. He said the current gas environment just emphasizes that gas is a fungible product, that gas from all regions is pretty much the same, and that Alaska gas will simply have to compete.

Beyond this, Palmer said, "All parties

need to achieve commercial and regulatory breakthroughs for this project to succeed."

Letter from Obama

Larry Persily, federal coordinator for Alaska natural gas transportation projects, delivered a letter from President Obama addressed to Oil & Gas Congress participants.

"As part of Alaska's contribution to America's energy needs, I share with you the anticipation that a North Slope natural gas pipeline could finally be on its way south to serve North American markets," the letter said.

The letter added: "The Office of Federal Coordinator stands ready to help with permitting for the multibillion-dollar pipeline, and my Administration fully supports that office and its objective of coordinating Federal planning to help advance the project."

In his presentation, Persily said shale gas production is about 10 percent of U.S. supply. "But the truth is, much of shale goes toward replacing declining production from conventional gas wells."

Shale gas, he noted, also needs billions of dollars worth of new pipelines to reach markets.

As for the ConocoPhillips CEO's remarks, Persily took them in stride.

"Mr. Mulva said, 'Gee, today's market really stinks for gas with oversupply and low prices and shale.' I guess I just didn't see it as anything new or shocking." ●

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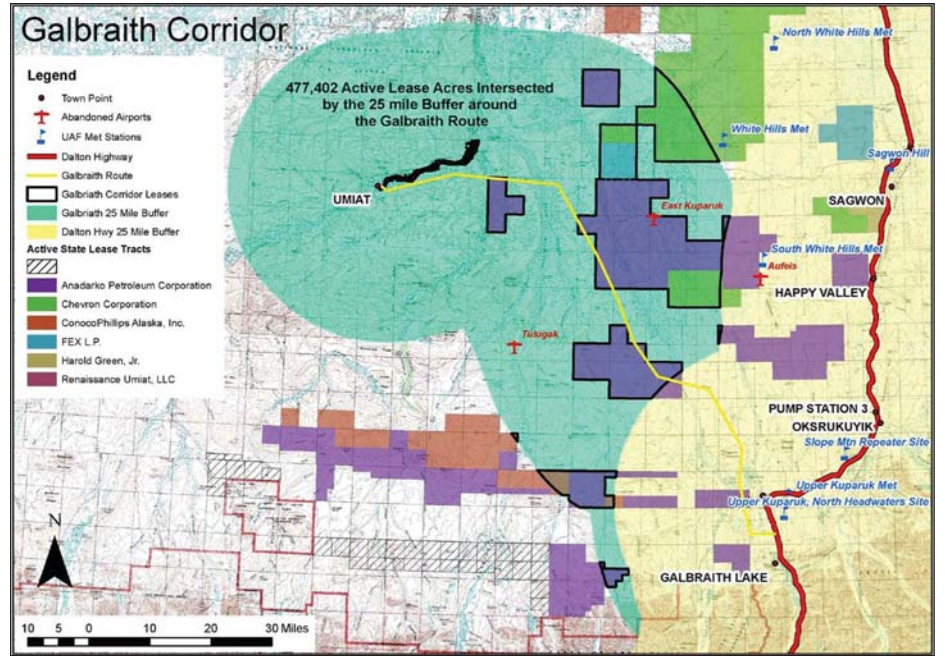
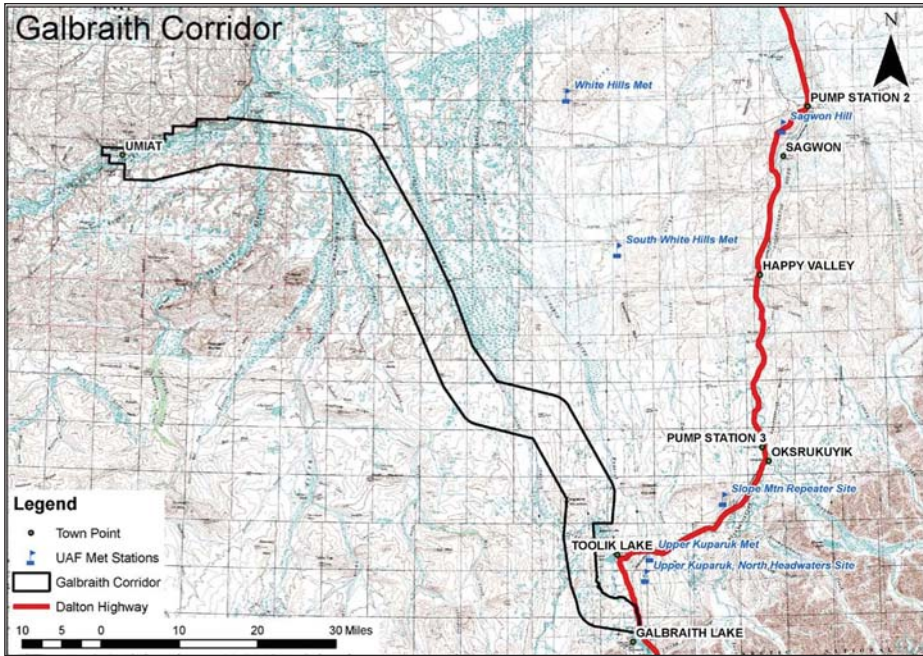


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		Franklin Bluffs	Pump Station 2	Pump Station 3	Galbraith	Galbraith West Alternate
Project Purpose	2.8	8.4	2.8	5.6	11.2	14
Construction Cost	1.8	5.4	3.6	1.8	9	7.2
Engineering Considerations	2.4	2.4	4.8	9.6	12	7.2
Hydrologic Considerations	2.4	2.4	4.8	7.2	12	9.6
Geologic and Geotechnical Considerations	2.4	2.4	4.8	7.2	12	9.6
Land Ownership	2.6	13	10.4	7.8	5.2	2.6
Environmental Considerations	2.8	2.8	5.6	8.4	14	11.2
Maintenance Costs	2.2	11	8.8	2.2	6.6	4.4
Subsistence	2.4	7.2	12	9.6	2.4	4.8
Totals		55.0	57.6	59.4	84.4	70.6

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UMIAT

— estimated to hold 250 million barrels of oil — over the next few years by taking the project into consideration as they craft new plans and studies in the region.

The U.S. Bureau of Land Management is concluding a scoping session for a new integrated activity plan for the National Petroleum Reserve-Alaska. At a Sept. 23 hearing, Mark Landt, executive vice president of land and administration for Renaissance, asked the federal agency to include an Umiat development scenario, along with accompanying transportation and infrastructure projects, in the plan as a way to avoid duplication.

Four Umiat leases

Renaissance holds four Umiat leases, two state and two federal. Because of a 3-D seismic shoot Renaissance undertook in 2008, BLM extended one of those leases until 2019. The other federal lease expires in 2012, but Landt said it is also eligible for extension. The two state leases don't expire until Jan. 31, 2014, and Jan. 31, 2016, respectively.

Renaissance still holds four federal drilling permits approved in early 2008. The BLM has extended those until 2010. That may not be long enough, but Landt said the permit comes with a relatively quick turnaround, usually less than 60 days.

As early as the winter of 2011-12, Renaissance plans to drill a shallow well at Umiat to test the deliverability of the field, currently estimated at about 50,000 barrels per day.

Renaissance arrived in Alaska in 2006, building up land positions both on the North Slope and in the Cook Inlet basin. In late 2009, Renaissance transferred its Cook Inlet acreage to a sister company called Stellar Oil and Gas as a way to focus fundraising and this past March the companies sold their Cook Inlet holdings to the Australian company Buccaneer Resources. Now the Renaissance-Stellar team runs Buccaneer Alaska, the local

subsidiary overseeing exploration, through a service contract. Through all that shuffling, though, Renaissance kept 19,348 acres of state and federal leases at Umiat.

Studying a \$357 million road

Renaissance got a boost earlier this year when the state got \$8 million for environmental studies on the Foothills West Transportation Access project, a road connecting the Dalton Highway to Umiat to increase access to remote resource sites in Western Alaska.

That road would create road access to Umiat, the Gubik Complex currently being explored by Anadarko Petroleum and partners, and other foothills oil and gas prospects.

After ranking five possible corridors based on nine weighted categories, the Alaska Department of Transportation and

Public Facilities is now focusing on one route in particular. Known as the Galbraith Route, it runs 102 miles from milepost 278 of the Dalton Highway to the Umiat airstrip. The route would be the cheapest and easiest to build, and present the fewest environmental concerns of the five options, but would cross the most subsistence areas and would fall in the middle of the five on maintenance costs.

The other routes are a Galbraith West alternative and three routes starting farther north on the haul road: from Franklin Bluffs, Pump Station 2 and Pump Station 3 respectively.

The Galbraith Route would cost some \$357 million to build and almost \$2.4 million each year

to maintain, according to current estimates, and would also require two maintenance camps costing \$20 million to \$30 million to build and some \$700,000 annually to maintain. One-third of the construction costs, or \$113 million, would go toward bridges over the Itkillik, the Anaktuvuk, the Chandler and the Colville Rivers.

This summer, the state began narrowing down the six-mile-wide Galbraith corridor.

Which is most resourceful?

A more complicated measurement is how well the route would serve the stated mission of the road: to increase access to resource plays in the foothills of the

Brooks Range.

A 25-mile buffer around the proposed Galbraith Route would include 108 leases totaling 477,402 acres. In similar measurements taken of the other four possible routes, two would include more leases and three would include a larger lease acreage area.

To quantify the value of that leased acreage, though, the state measured each route against the U.S. Geological Survey's 2005 assessment of the Central North Slope and found that only the two routes — Galbraith and Galbraith West — promised "high" potential for new discoveries, with the other routes ranked as "moderate" or "low."

A more complicated measurement is how well the route would serve the stated mission of the road: to increase access to resource plays in the foothills of the Brooks Range.

Galbraith and Galbraith West would also present the shortest driving distances from Fairbanks, the Interior Alaska hub where many

overland cargo trips would begin.

That said, though, while the oil or natural gas resource in the ground remains unchanged over time, though better understood, the lease ownerships on the surface do not. The report measures lease holdings from 2009, but in recent months many of those lease holders, including Anadarko, Chevron and FEX, have relinquished significant acreage.

A road, however, could make that remote land more attractive in future lease sales. ●

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POINT THOMSON

by mid-2011.

The company and its contractors need to get on with site work for the project at the field. One job is to develop a gravel mine, said Hank Baij, the Point Thomson EIS manager for the Corps.

Point Thomson is a delicate subject for

ExxonMobil, which is locked in a court battle with the state for control of the field. Alaska officials have moved to reclaim the state acreage, frustrated that rich reserves of gas and petroleum liquids have yet to be produced decades after their discovery.

ExxonMobil and other stakeholders including BP, Chevron and ConocoPhillips are fighting to keep their leases and preserve the Point Thomson unit.

The state action spurred the operator, ExxonMobil, to drill two wells at Point Thomson to kick off a promised \$1.3 billion project to cycle gas and collect condensates for shipment down the trans-Alaska oil pipeline.

ExxonMobil has said repeatedly it would begin production of 10,000 barrels a day of condensate by year-end 2014.

But it'll need federal permits to develop and operate the Point Thomson production facilities.

Reasons for delay

Part of the reason the Corps schedule has stretched is to allow more time for studies and analyses necessary to write sections of the EIS, Baij said. One study, for example, is looking at noise expected to come from Point Thomson construction and operations. Another study involves mapping wetlands.

The Corps of Engineers is the lead federal agency for the EIS, while the Environmental Protection Agency, the U.S. Fish and Wildlife Service and the Alaska Department of Natural Resources are "cooperating agencies."

Officials with DNR on Sept. 29 provided Petroleum News a summary of the EIS schedule.

The process began in October 2009 when ExxonMobil submitted its wetlands permit application and project description to the Corps.

The schedule slipped from the original

decision target of August 2011 for a variety of reasons, DNR said.

- Agencies needed extended time to finalize project alternatives, and extra time was needed to rewrite a baseline environmental report.

- The method to evaluate project noise expanded. In particular, some people raised concerns about the potential for noise in the Arctic National Wildlife Refuge just east of Point Thomson. The original proposal for six days of monitoring was expanded to 50 days — 25 in summer and 25 in winter.

"As of this date, the issue of noise and how to address it is still not fully defined," DNR said.

- The Corps changed Point Thomson EIS project managers, naming Baij to replace Julie McKim in June. The change resulted in additional delays, DNR said. (McKim took a new job in the Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects.)

- The Deepwater Horizon oil spill was a distraction as people involved with the Point Thomson EIS in cooperating agencies — the EPA and the Fish and Wildlife Service — were diverted to the Gulf of Mexico disaster.

—WESLEY LOY

Petroleum News Publisher and Executive Editor Kay Cashman contributed to this story.

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BITS

agement experience and plans to pursue a career in tug and barge handling. Over the years, Crowley Chairman, President and CEO Tom Crowley Jr., has continued to give scholarship dollars to deserving students at the maritime academies and other select institutions in the U.S., Puerto Rico and Central America in the name of his father Thomas B. Crowley Sr., who guided the company to extraordinary heights before passing away in 1994.

APICC announces membership meeting and conference

APICC said its 2011 annual membership meeting and conference is Nov. 1 from 9 a.m. to 4:30 p.m. at the Embassy Suites at 600 East Benson Blvd in Midtown Anchorage. A reception will immediately follow at the same location. This 2011 meeting and conference, "Think Global — Hire Local," will feature some of Alaska's premier workforce training programs. Meeting space is limited, so plan on registering early; cost is \$25 and covers refreshments, lunch, and the reception hors d'oeuvres. Rooms are available for those wishing to stay in the same location. To book a room with Embassy Suites, please call 907-332-7200. For registration and more information visit www.apicc.org.

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