Petroleum news

page 5 Lawmakers hear First Nations issues on Alaska gas line, no showstoppers

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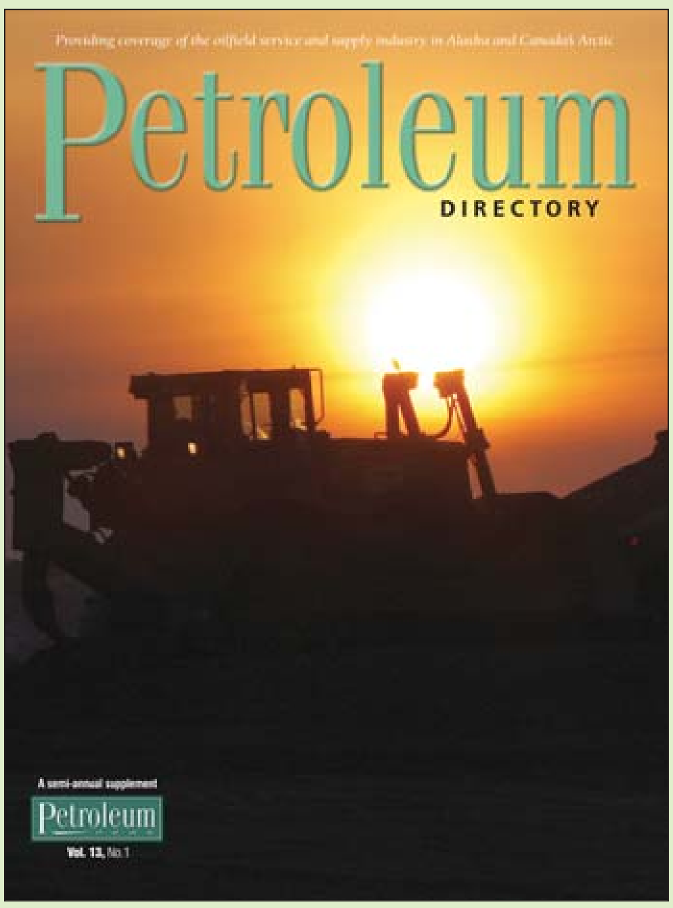


The latest semi-annual Petroleum Directory is online now at www.petroleumnews.com The printed directory will be mailed July 25 to subscribers.

EXPLORATION & PRODUCTION

Going for Liberty

BP board gives green light for field development; rig being constructed

By ALAN BAILEY
Petroleum News

After years of debate about how and whether to develop the Liberty oil field in the Beaufort Sea, five or so miles offshore Alaska's North Slope, the BP board has finally given the go ahead to bring the field into production. In a July 14 announcement the company said that it is proceeding with full development of the field, using ultra extended reach drilling from the Endicott field satellite drilling island.

Doug Suttles, president, BP Exploration (Alaska) Inc.

"Liberty is an important project for the nation, for Alaska and for BP. It demonstrates that new sources of domestic energy can be developed and produced responsibly," said Robert Malone, chairman of BP America.

"We're moving forward with the Liberty project and that's really exciting for us," Doug Suttles, president of BP Exploration (Alaska) told a July 14 Anchorage press conference. "… Our ultimate investment in Liberty will probably approach $1.5 billion."

Suttles characterized the Liberty development as an example of "exploring through technology," in which investment is put at risk to use new technologies to develop known oil pools.

see **LIBERTY** page 22

FINANCE & ECONOMY

Canadians hanging tough

Going global not for faint-hearted; 84 Canadian firms have international stakes

By GARY PARK
For Petroleum News

No matter how uneasy they might feel about the misadventures of EnCana in Ecuador, Talisman Energy in Sudan, PetroKazakhstan in Kazakhstan and First Calgary Petroleums in Algeria, Canadian-based energy companies are not ready to walk away from global gambles.

Regardless of the high price some have paid for entering politically volatile regions, the potential prize is too great to ignore, especially for companies whose sole fortunes are tied to one particular region.

While EnCana and Talisman have pulled back from their worst trouble spots, there's no shortage of Canadian companies willing to take a chance in foreign fields.

EnCana, bolstered by its gas plays in the U.S., topped the list of Canadian companies with external reserves, posting 952 million boe.

The most authoritative guide to Canadian companies operating abroad is compiled by Calgary analyst Ian Doig.

His 14th annual edition in 2007 listed the holdings of 84 Canadian E&P companies in 69 countries, 47 of them producing almost 781,000 barrels per day of oil and natural gas liquids in 32 countries, down 54,575

see **GLOBAL** page 19

NATURAL GAS

Massey: Cycling won't work

Exxon exec says Point Thomson development plan would settle issues

By KRISTEN NELSON
Petroleum News

Point Thomson gas is necessary to make a North-Slope-to-market natural gas pipeline viable, Martin Massey told Alaska legislators July 10.

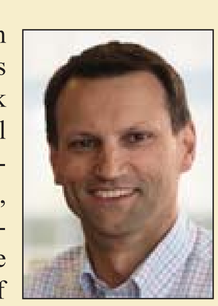
Massey, ExxonMobil's U.S. joint interest manager, and the company's lead negotiator on Alaska gas pipeline issues, said the 1 billion cubic feet a day of gas the eastern North Slope field could provide for a proposed gas pipeline is critical.

Without Point Thomson gas, firm transportation commitments may not be sufficient to support the project, he said in a hearing on TransCanada Alaska's application for a license under the Alaska Gasline Inducement Act.

see **CYCLING** page 20

Ice road contracts issued

ExxonMobil Production Co. said July 14 that it has awarded contracts for work in support of the first well in a multi-well drilling program at Point Thomson, part of the plan of development submitted to the Alaska Department of Natural Resources in February.



JUDY PATRICK

CRAIG HAYMES

A contract has been issued to Nanuq Inc. and Alaska Frontier Constructors Inc., both of

see **CONTRACTS** page 20

BLM sets fall NPR-A lease sale; 10-year deferral for Teshekpuk

On July 16 the U.S. Department of the Interior's Bureau of Land Management announced the record of decision on the National Petroleum Reserve-Alaska northeast supplemental final plan, released in mid-May. BLM will proceed with an oil and gas lease sale in northeast NPR-A.

See map, page 24

"The rapid increase in energy costs facing our nation is driven by a worldwide imbalance in energy supply and demand," Secretary of the Interior Dirk Kempthorne said. "Developing the NPR-A in an environmentally sound manner will contribute to our domestic oil and natural gas supplies. Together with proposed new production from other offshore and onshore areas, these increased supplies will help to stabilize energy costs."

BLM anticipates holding the sale in the fall.

"This action sets the stage for a major lease sale this fall. This is welcome news at a time when Americans are paying record prices at the pump," said C. Stephen Allred, Assistant Secretary for Land and Minerals.

BLM has not yet determined an exact sale date, said BLM

see **LEASE SALE** page 21

BREAKING NEWS

10 Pacific sells Calif. assets for $101M: Sale money to finance projects in California, Alaska; second part of deal still to close

12 Parker Drilling returns to Alaska: Husband to head up Alaska unit for Houston-based firm, opening office under consideration

13 Alberta firm plans CCS line: Industrial carbon emissions eyed to enhance oil recovery; government unveils C$2B for CCS projects

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17 Oil industry looks to fill more jobs

Alaska - Mackenzie Rig Report

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay DS L3-23	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Kuparuk 3C-15A	ConocoPhillips
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay DS 05-08	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD2-463	ConocoPhillips
OIME 2000	141 (SCR/TD)	Kuparuk warm stack	ConocoPhillips
TSM 7000	Arctic Fox #1	Stacked in Yard	Pioneer Natural Resources
	Arctic Wolf #2	Stacked in yard	FEX
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES	Prudhoe Bay DS 02-40	BP
Mid-Continental U36A	3-S	Milne Point MPF-18	BP
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay GPB E-23B	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay DS 06-19	BP
Dreco 1000 UE	9-ES (SCR/TD)	Orion V-207	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked	Available
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	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
OIME 2000	245-E	Oliktok Point OPi2	Anadarko
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Stacked	Brooks Range Petroleum
Academy AC electric Canrig	105-E (SCR-TD)	Stacked on ice pad at Chandler #1	Anadarko
Academy AC electric Canrig	106-E (SCR/TD)	Stacked	Chevron
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site 13-30b	BP
Superior 700 UE	2 (SCR/CTD)	Kuparuk well 1D-12	BP
Ideco 900	3 (SCR/TD)	Kuparuk well 2A-05	ConocoPhillips

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
OIME 1000	19-E (SCR)	Oooguruk ODSN-40	Pioneer Natural Resources
Oilwell 2000	33-E	Stacked	BP

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	North Fork Unit #34-26	Armstrong Cook Inlet
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	KDU 9	Marathon
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	Beluga River Unit 243-34	ConocoPhillips
Rowan Companies			
AC Electric	68AC (SCR/TD)	On site at Cosmopolitan	Pioneer Natural Resources

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Chevron (Nabors Alaska Drilling labor contract)			
	428	AN-24 Anna platform	Chevron
XTO Energy			
National 1320	A	Platform A no drilling or workovers at present	XTO
National 110	C (TD)	Idle	XTO
Kuukpik	5	About to spud well A-16 Tyonek platform	ConocoPhillips

Mackenzie Rig Status

Canadian Beaufort Sea

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

Mackenzie Delta-Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA Equtak			
Dreco 1250 UE	62 (SCR/TD)	Rig Racked in Inuvik, NT	Available
Modified National 370	64 (TD)	Rig racked in Inuvik, NT	Available

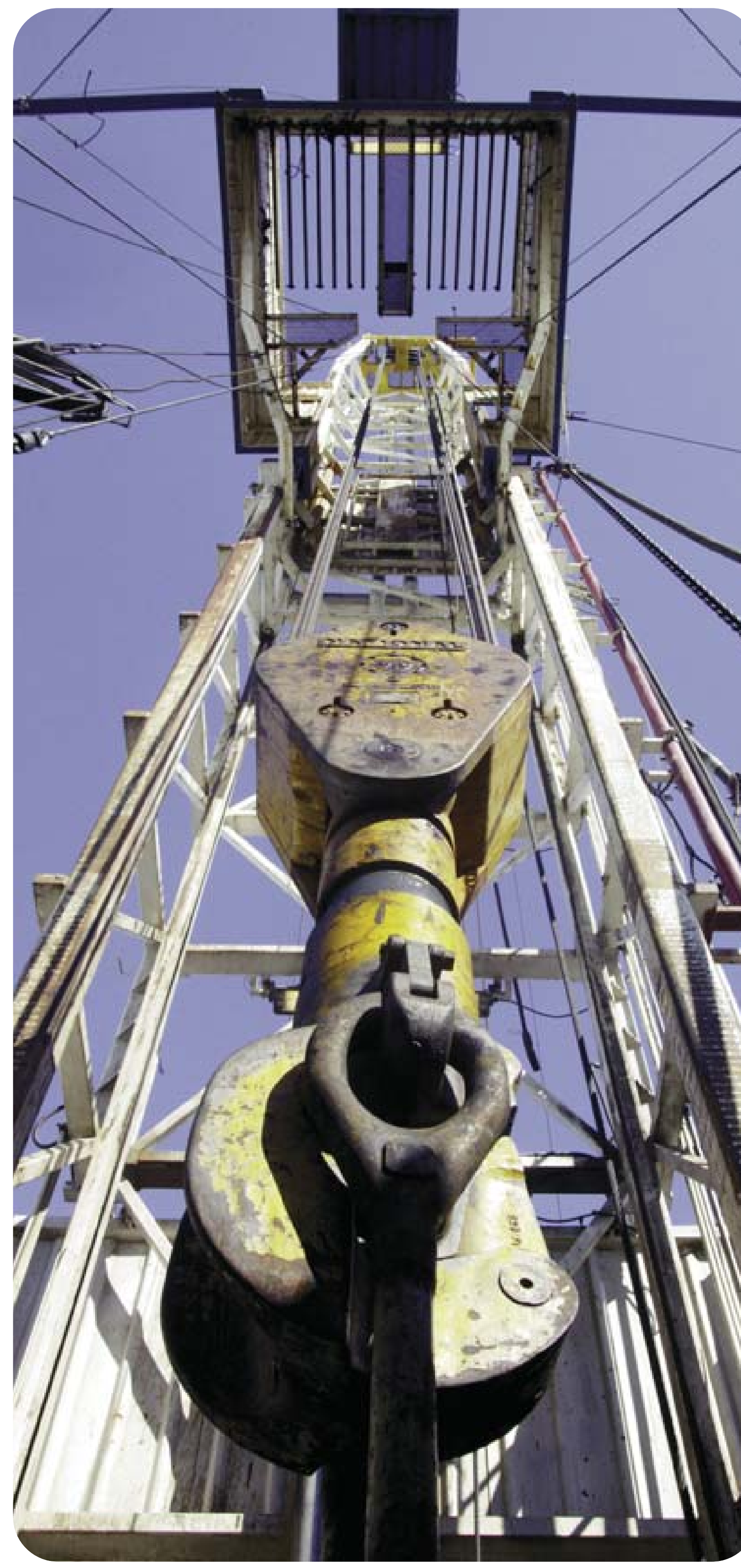
Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Akita/SAHTU			
Oilwell 500	51	Drilling; Bear Island, Norman Wells NT	Imperial Oil

The Alaska - Mackenzie Rig Report as of July 17, 2008.
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 Alan Bailey



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	July 11	July 4	Year Ago
US	1,922	1,921	1,791
Canada	414	388	360
Gulf	67	63	75

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

FINANCE & ECONOMY

Shell Canada offers to buy Duvernay Oil

Royal Dutch Shell PLC on July 14 offered to buy Canada's Duvernay Oil Corp. for $C5.19 billion in cash, in a move to nearly double its North American natural gas production. Shell is offering $C83 per share for Alberta-based Duvernay Oil, which plans to triple its natural gas production of about 25,000 barrels of oil equivalent per day to about 70,000 boe by 2012.

Based on Duverney's 62.5 million shares outstanding, according to Capital IQ, the transaction is valued at $5.16 billion. Including assumed debt, Royal Dutch Shell says the acquisition is worth $5.9 billion.

Royal Dutch Shell said Duvernay's board recommends the deal to shareholders, and directors and officers holding a combined 18.1 percent stake have agreed to vote in favor of the bid. Duvernay has agreed to pay a fee of $119.4 million dollars in the event the deal doesn't go through.

Shell has about 80,000 boe per day of tight gas production in North America, and has been building its acreage positions for future growth. Duvernay holds about 450,000 acres of land in the western Canadian sedimentary basin.

—THE ASSOCIATED PRESS

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● NATURAL GAS

House AGIA vote likely week of July 21

Wielechowski asks if bill to OK Trans-Canada application could be made effective at a later date, could MOU be added

By KRISTEN NELSON
Petroleum News

The Alaska House of Representatives looks likely to vote on granting an AGIA license to TransCanada Alaska the week of July 21.

Extensive legislative hearings on the Alaska Gasline Inducement Act license began in June during the first special session of the summer and continued into the second special session, which convened July 9. Joint House-Senate hearings wrapped up July 14.

House Majority Leader Ralph Samuels, R-Anchorage, said at that time that the bill approving the AGIA license, House Bill 3001, would be taken up in House Rules July 21 and would then move to the House floor.

AGIA gives legislators 60 days to approve an AGIA license, once the governor recommends issuance; that window closes Aug. 2.

Senate Rules Chairman Gary Stevens, R-Kodiak, told The Associated Press the Senate will let the House vote first, and said he believes that if the House passes the bill, there are enough votes in the Senate to pass it.

House Speaker John Harris, R-Valdez, told the Anchorage Daily News that while he is likely to vote no, he believes there are 25 to 26 votes in the House in favor of the TransCanada license.

Continuing legal questions

At one of the last joint hearings, July 13, Don Bullock of Legislative Legal Services, and Bonnie Harris, senior assistant Attorney General for oil, gas and mining, responded to questions about changes that could be made to the bill approving the AGIA license.

Sen. Bill Wielechowski, D-Anchorage, asked if the Legislature amended AGIA or changed the effective date, would the state have to go out with a new request for applications.

Bullock said one of the first steps in the AGIA process was for the commissioners to certify that an application was complete. "If the requirements are changed then the application is not complete and we'd have to start over."

"It would effectively void where we are today" if the commissioners no longer have a complete application because applicants didn't address requirements that previously didn't exist, Bullock said. Not only would TransCanada be affected, but so would companies that decided whether to apply based on the original request for applications, he said.

Could effective date change?

Wielechowski asked what would happen if the Legislature changed the effective date, for instance saying the TransCanada license was approved, but the license wasn't effective until Jan. 1.

Bullock said part of the expectation in the existing requirement of legislative action within 60 days of receipt of the license is that the applicant would know within a certain period of time whether or not they had the license.

Harris said the bill is effective immediately.

If the effective date were changed to Jan. 1, then there would be issues with the TransCanada application, since the company committed that the application would be good for nine months from the due date, Nov. 30. If the effective date were changed to Jan. 1, she said, it would be up to TransCanada whether to continue with the process if issuance of the license was delayed beyond the nine months.

Bullock said there is no effective date required in the statute. "I think the intent was to avoid the issue of an insufficient vote to make the bill effective immediately," he said.

The legislative action of passing the bill by both houses within 60 days satisfies the 60-day requirement; when the bill becomes law the commissioners are authorized to issue the license.

> *"If the requirements are changed then the application is not complete and we'd have to start over."* **—Don Bullock, Legislative Legal Services**

Letter of intent?

Wielechowski asked if the Legislature could add a letter of intent to the bill.

And could the Legislature add a memorandum of understanding it agreed to with TransCanada to clear up ambiguities?

Bullock said a letter of intent is not law, although it may help interpret the law by expressing a hope, as the Legislature did with an uncodified section of AGIA which says it is the Legislature's intent that the courts give expedited consideration to anything related to AGIA. "But it's not binding on the courts; it's no more than a hope," Bullock said.

As for ambiguities within AGIA or within the request for applications, he said there is probably room for the administration and TransCanada to clarify any ambiguities that didn't change the fundamental terms of AGIA.

Because of separation of powers, the MOU would be between the executive branch — which will issue the contract — and TransCanada, should the license be approved, Bullock said. ●

● NATURAL GAS

Legislature hears First Nations issues

Duty to consult a potential challenge for a pipeline builder in Canada, as is Canadian regulatory system, a Mackenzie holdup

By KRISTEN NELSON
Petroleum News

AGIA hearings to date have focused largely on Alaska issues, since the Alaska Gasline Inducement Act is the State of Alaska's attempt to encourage a North-Slope-to-market gas pipeline.

A July 13 AGIA hearing targeted Canadian issues: How will the regulatory climate in Canada impact an Alaska natural gas pipeline going through that country to U.S. markets? And would the impact be different for a TransCanada gas pipeline than for the BP-ConocoPhillips Denali project?

Alaska legislators got answers to some cross-the-border questions from Canadian attorneys, who provided an overview of Canadian regulatory and First Nations issues.

Below is a summary of Canadian issues addressed by the attorneys, and a sampling of legislators' questions.

Three legal regimes

There are three legal regimes related to First Nations in Canada, said Keith Bergner, a partner in the Vancouver, B.C., law firm of Lawson Lundell: areas with no settled claims; those with settled claims from the late 1800s or early 1900s; and areas with modern settlements reached since the 1970s.

In areas with no settled claims, the Supreme Court of Canada said in 2004 that when the crown — the Canadian government — has knowledge of the potential existence of aboriginal rights and contemplates action it has a duty to consult with the relevant First Nation. That duty applies to federal, provincial and territorial governments, but does not extend to third parties such as project proponents, Bergner said.

But while the legal duty belongs to the crown, it can delegate procedural aspects of consultation and Bergner said that in practice proponents have been carrying the lion's share of the burden because governments haven't established processes to deal with the duty comprehensively.

Historic settled claims

In areas with historic treaties, numbered treaties dating from 1871 through 1923, the government of Canada struck a bargain with First Nations. The language of Treaty No. 8, for example, allows Indians in the treaty area the "right to pursue their usual vocations of hunting, trapping and fishing throughout the tract surrendered ... saving and excepting such tracts as may be required or taken up from time to time for settlement, mining, lumbering, trading or other purposes." Oil and gas, Bergner said, falls under "other purposes."

While the crown has the treaty right to take up land, the Canadian Supreme Court said in 2005 that it has the legal obligation to consult before exercising that treaty right because of potential adverse impact on First Nation rights.

Modern land claims settlements are the third legal regime. Bergner said these are agreements reached since the 1970s, most successfully north of the 60th parallel, where there are 16 settled claims in Yukon, the Northwest Territories and Nunavut. South of the 60th parallel there are only four settled claims, with a fifth under way.

Unlike earlier treaties — Treaty 8 is a couple of pages — modern treaty settlements are thick detailed documents covering rights and obligations of First Nations and government, with extensive discussion of consultation, Bergner said.

Sen. Charlie Huggins, R-Wasilla, chaired the hearing

Proponents doing deals

In Canada the government hasn't quite figured out how to discharge these new legal obligations of consultation, so project proponents are going out and doing deals, Bergner said.

Proponents aren't required to consult, but it's awfully nice to have consent and things go quicker and smoother, he said. So to blow away legal uncertainty, proponents have negotiated access or benefit agreements. While not a legal requirement, this makes project approvals go faster and eliminates a source of challenge.

While there is no formula for such agreements, Bergner said common elements on the First Nations side are jobs, contracting opportunities and financial considerations, while project proponents get legal certainty. Such agreements also typically contain ongoing formalized communication that keeps the First Nation and the project proponent — and sometimes government as well — at the table discussing issues as they arise.

The alternatives — judicial reviews, appeal, judicial injunctions and potential delays — are not pretty, Bergner said.

Any project will face First Nations consultation challenge

Sen. Hollis French, D-Anchorage, chair of the Senate Judiciary Committee, brought Bergner to the table, based, French said, on the fact that Bergner wasn't aligned with either side and has written on the crown's duty to consult.

Asked by French if TransCanada is in any better position than any other potential pipeline builder in the Yukon and British Columbia, Bergner said any project using land in Canada is going to face the consultation challenge. He did say authorizations TransCanada has in place "arguably" give it a few steps down the path.

As for TransCanada's ability to negotiate with First Nations Bergner said he's never acted for TransCanada, so has no inside information. They're a pipeline company; they build pipelines; and they get it done in Canada, so to date TransCanada has met this challenge, he said.

Alaska Revenue Commissioner Pat Galvin

Schedule aggressive

Loyola Keough, a partner in the Calgary law firm of Bennett Jones, retained by the administration to look at issues that could impact TransCanada's proposed timeline, said they looked at challenges the TransCanada project would likely encounter based on the firm's experience with pipeline projects over the last 10 years.

Keough said they concluded the TransCanada timeline is an aggressive one at 5.5 years for the regulatory process, and they leaned more toward seven years. There are challenges in Canada, he said, in addition to First Nations.

Asked by Sen. Charlie Huggins, R-Wasilla, the chair of the hearing, what number the administration used, Revenue Commissioner Pat Galvin said TransCanada showed first gas in 2018, but factoring in a range of probabilities and working with Keough, the administration thought 2020 was more likely for first gas. Galvin said TransCanada's timing is realistic, but on the aggressive side of the curve, which is appropriate for a project proponent's planning purposes.

If the project could take seven years instead of five to get permitted, could it take forever? Rep. Carl Gatto, R-Palmer, asked Keough.

see **FIRST NATIONS** *page 6*

LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
DNR	Mount Spurr Geothermal	Sept. 10, 2008
DNR	Beaufort Sea Areawide	October 2008
DNR	North Slope Areawide	October 2008
BLM	NE NPR-A	October 2008
BLM	NW NPR-A	October 2008
DNR	Alaska Peninsula Areawide	February 2009
DNR	North Slope Foothills Areawide	February 2009
DNR	Cook Inlet Areawide	May 2009
DNR	Beaufort Sea Areawide	October 2009
DNR	North Slope Areawide	October 2009
MMS	Sale 209 Beaufort Sea	2009
MMS	Sale 211 Cook Inlet	2009
DNR	Alaska Peninsula Areawide	February 2010
DNR	North Slope Foothills Areawide	February 2010
DNR	Cook Inlet Areawide	May 2010
DNR	Beaufort Sea Areawide	October 2010
DNR	North Slope Areawide	October 2010
MMS	Sale 212 Chukchi Sea	2010
MMS	Sale 217 Beaufort Sea	2011
MMS	Sale 214 North Aleutian basin	2011
MMS	Sale 219 Cook Inlet	2011
MMS	Sale 221 Chukchi Sea	2012

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

continued from page 5

FIRST NATIONS

Keough said they had that in mind during the analysis and did not see any show-stoppers. He said they looked in detail for anything on the regulatory approval side that could be a project killer but didn't find anything. Commodity economics are another issue he said, and are probably always a risk, but they didn't identify any issues that would prevent TransCanada from getting approvals.

A 5.5-year timeline for those approvals is possible, he said, but would need a lot of things to go right. He said in his firm's experience, things tend to slip and they believe realistically approvals could take 18 months beyond the TransCanada projection.

Some advantages

Gatto asked if any other company could succeed in getting Canadian approvals on a better time scale and Keough said that TransCanada has some advantages going into the process because of the Northern Pipeline Act and the unique agreement between the Canadian and U.S. governments dating back 30 years. Keough said he'd never seen this type of arrangement before.

The NPA was enacted during the first effort to move North Slope gas to market beginning in the late 1970s. That effort was killed by dropping commodity prices in the early 1980s.

TransCanada has a certificate and rights of way in the Yukon.

Keough echoed Bergner's comments, noting that TransCanada is the largest pipeline company in Canada and has a track record of getting projects done.

Socioeconomic issues

Asked by Rep. Sharon Cissna, D-Anchorage, about socioeconomic impacts being negotiated in agreements with First Nations, Bergner said socioeconomic issues play a role in both negotiations between government and First Nations and in negotiations between project proponents and First Nations.

In negotiations with project proponents, First Nations can include not just jobs and contracting but such things as scholarship opportunities. In one recent negotiation a community wanted a new soccer field — a way to provide more things for youth in an isolated community. A regulator wouldn't argue you to do that, he said, but the First Nation and the project proponent agreed on it.

Keough said this has evolved: First Nations used to want short-term benefits, now in infrastructure projects First Nation groups want longer-lasting socioeconomic impacts.

Huggins asked if an equity position came up in negotiations and Keough said yes, they were seeing more and more of that. Bergner noted that while an interest in equity ownership was an increasingly common request, there aren't many agreements that ultimately provide for that because an equity interest is essentially an investment and for many First Nations, which are relatively small, such an investment would mean they would have a lot of eggs in a single basket.

New proponents

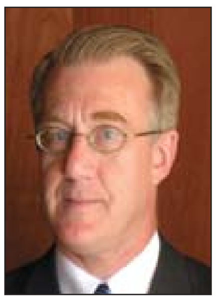
Sen. Joe Thomas, D-Fairbanks, asked about the status of TransCanada's rights of way as land claims are settled. Bergner said existing third party rights are not on the table in settling land claims. Private land, easements or other interests have been identified and exempted in settlements.

TransCanada's existing easements are identified and are not part of settlement lands, he said.

Thomas asked if a new proponent would have to start from scratch and Bergner said if a new proponent was crossing settlement land they would have to deal with First Nations.

Sen. Bill Wielechowski, D-Anchorage, asked about possible parallels between delays in the Mackenzie Valley project and an Alaska project.

Bergner said Mackenzie has faced numerous challenges — regulatory, First Nations and financial terms with the Canadian government and any project proponent of a similar or larger-scale project across Canada is going to be compelled to look at the Mackenzie project and learn some lessons.



FORREST CRANE

Tony Palmer, TransCanada vice president for Alaska gas pipeline development

He said the regulatory process for the Mackenzie Valley project tried to incorporate a number of different regimes: Environmental assessments were combined into a joint review panel created for that project. This is not something an Alaska pipeline project would have to face. The joint review panel has been the slowest moving part of the project, he said.

Keough said there have been delays due to many agencies involved in the Mackenzie project and the separation into two separate tracts, environmental issues being dealt with by the joint review panel and the separate National Energy Board process got unwieldy. At some point the two tracts have to come together, he said, but it took a long time for them to even get close.

There were also delays because of changes in the project resulting in six rounds of information requests.

Under the Northern Pipeline Act the Northern Pipeline Agency would act as a single window for consideration of all needed federal approvals, so the model likely to apply to an Alaska Highway pipeline would "differ materially" from the one used for Mackenzie.

The TransCanada view

Tony Palmer, TransCanada vice president for Alaska gas pipeline development, said he agrees in the main with both Keough and Bergner, but with some differences — from a businessman's view.

Mackenzie began from ground zero, Palmer said, while TransCanada holds certificates for the Alaska project.

see **FIRST NATIONS** *page 7*

continued from page 6

FIRST NATIONS

Mackenzie has a plethora of regional boards with regulation by NEB, he said; TransCanada has a single-window regulatory agency.

Much of the land through which the Mackenzie pipeline would run is owned by First Nations, while the TransCanada route is over crown or private land, Palmer said.

Mackenzie had no pre-existing land rights while TransCanada holds an existing easement through the Yukon.

And, Palmer said, Mackenzie has no underlying legislative authority for coordinated decision making, while TransCanada has the Northern Pipeline Act.

The Canada threat

Wielechowski asked if Canada could shut the Alaska project down.

Bergner said he agreed with Keough, that there are regulatory challenges, not showstoppers, and those challenges are not fatal to the project.

Keough noted that the Canadian government committed to the Alaska project some 30 years ago, agreeing with the United States on principles. Canada then took "unprecedented" action and passed the Northern Pipeline Act and granted a certificate.

Foothills used those approvals to build additional facilities in the late 1980s, so they've been used and honored and are valid today, he said.

Wielechowski said there has been the suggestion that Canada might hold an Alaska gas pipeline hostage in exchange for continued export to the U.S. of oil from the tar sands, and asked Keough if political issues had been evaluated.

Keough said they'd not done a detailed evaluation of political games and said he's not aware of any parties who think a political oil-vs.-gas game would be a good idea. The reaction of Canadian industry to oil sands concerns, he said, has been to start an educational program because there is a lot of misinformation out there.

He also noted that Canada is a close trading partner of the U.S. and a transit pipeline treaty has been in use for decades allowing Canadian oil and gas to move from Canada into the U.S. and back into eastern Canada. It has been used primarily to Canada's advantage, but would apply to an Alaska project, Keough said.

Denali quicker, cheaper?

Rep. Mike Kelly, R-Fairbanks, asked if there would be any advantages for Denali in getting through Canada.

There are potential delays associated with right of way for any company, Keough said, including work remaining for TransCanada in the Yukon, and rights of way it has yet to acquire in B.C. and Alberta.

In Canada the government hasn't quite figured out how to discharge these new legal obligations of consultation, so project proponents are going out and doing deals, Bergner said.

Whether another party would have a timing advantage, he said it could avoid some issues TransCanada would face under the Northern Pipeline Act because a number of parties have questioned whether TransCanada's current proposal fits squarely within the project contemplated by the Northern Pipeline Act.

Whether someone succeeded with arguments about the Northern Pipeline Act, those arguments could take time, Keough said.

A new proponent would go directly to the National Energy Board, use the Canadian Environmental Assessment Act and work with the Yukon. Some things would have more clarity, but it may take time to draw those bodies together.

Keough said he'd be hard pressed to suggest a Greenfield project would have an advantage in time.

Palmer said he's knocked down a number of these straw men associated with the Northern Pipeline Act in the past: The route isn't different, he said, it's the same as originally contemplated. And on issues of size of pipe or volumes the language in the act is permissive, he said, noting he has yet to hear the substantive argument behind any of these suggestions.

As to requirements, Keough said if TransCanada is proactive and meets modern standards even under the umbrella of the Northern Pipeline Act, the substantive issue at the end of the day will be whether you meet modern standards — that's what people will focus on, he said. ●

GOVERNMENT

Senate Republicans table ANWR drilling

Senate Republicans are dropping the oil drilling issue in the Arctic National Wildlife Refuge this year.

A spokesman says Democratic opposition is too strong, and the caucus would rather focus on offshore drilling.

Alaska Senator Ted Stevens says he doesn't agree with the party leaders, saying any energy plan without ANWR is a "non-solution."

Republican leaders on the house side still favor ANWR as part of an energy strategy. A spokesman for House Minority Leader John Boehner says the goal is to at least have a vote on the record.

—THE ASSOCIATED PRESS

FINANCE & ECONOMY

Exxon Valdez plaintiffs want interest on court-ordered payments

Fishermen and other plaintiffs in a lawsuit over the Exxon Valdez oil spill were dismayed in June when the U.S. Supreme Court reduced the amount Exxon Mobil Corp. owes them by $2 billion, or about 80 percent.

Now, they are asking the court to tack interest payments on to the remaining $507 million in punitive damages owed by Exxon for the 11-million gallon spill in Prince William Sound. Lawyers for the fishermen and other plaintiffs in the case have calculated that interest will add up to about $488 million, bringing the total amount owed by ExxonMobil from the 1989 oil spill to nearly $1 billion.

Lawyers for the plaintiffs said they believe the interest will be included in the payment but want to make sure nothing falls through the cracks.

"It's to make sure that we don't make a technical mistake," said Brian O'Neill, a Minnesota lawyer who represents the plaintiffs. "It's just to make sure that we are clearly entitled to the interest ... and that we don't waive it. With this amount of money at stake, you use a belt and suspenders." The punitive damages were originally awarded in 1994 as punishment for Exxon's role in the spill. A spokesman for the company wouldn't say whether Exxon plans to fight the interest payments.

Company lawyers are reading what the plaintiffs just filed and waiting for the case to be sent back to the appellate court in San Francisco, and, finally, to the U.S. District Court in Anchorage where it was first heard, said Exxon spokesman Tony Cudmore.

"I think we need to understand what the court will order on that question," Cudmore said. "We need to understand what the plaintiffs have asked for in their submission, we need to review that, and we need to understand the court's views. We will certainly comply with the final order."

—THE ASSOCIATED PRESS

● FINANCE & ECONOMY

OPEC: supplies will keep up with demand

Cartel's secretary general says it couldn't make up shortfalls in crude if Iran's supplies cut by U.S. or Israeli military strike

By GEORGE JAHN
Associated Press Writer

World energy needs will spike by more than 50 percent by 2030 but adequate oil reserves, conservation and new methods of recovery mean supply will keep pace with demand, the Organization of Petroleum Exporting Countries said July 10.

Still, OPEC's secretary general acknowledged that dangers to steady supply exist. Addressing one — the threat of a U.S. or Israeli attack on Iran because of its nuclear defiance — he warned that his organization was unprepared — and unable — to make up for resulting oil shortfalls.

"It is impossible to replace the production of Iran," OPEC's No. 2 producer, Abdalla Salem El-Badri told reporters at the presentation of the organization's long term oil market outlook.

The United States and Israel have not ruled out a military strike on Iran as a last option if it does not give up uranium enrichment and heed other U.N. Security Council demands meant to dispel the fear Tehran wants to make nuclear arms.

Tehran produced just over 4 million barrels of crude a day last year — more than 10 percent of OPEC's total production.

OPEC blames weak dollar

In its report, "World Look Outlook for 2008," OPEC took issue with critics blaming present skyrocketing prices on the refusal of the organization to increase output, asserting that the weak U.S. dollar and market speculators were at least partly to blame.

And it suggested that decades of low prices led to under-investment, leaving the industry ill-prepared to sate the increased hunger for crude generated by strong economic growth.

Past "low prices were bad for the oil industry, and in the longer term they were also bad for consumer," said the summary of the 214-page report. At the same time, despite delivery bottlenecks, "there is enough oil to meet the world's needs for the foreseeable future," it added.

El-Badri made the same point.

"Today, what is apparent is that oil supply and demand fundamentals are healthy," he wrote. "There is, and has been, more than enough supply to meet demand, and oil stocks in major consuming countries are at comfortable levels," he said, in a foreword to the report. "This should point away from the direction of current price levels."

Later, he said there was no reason for present prices because there was "plenty of oil in the market (and) plenty of oil in ... stocks."

The report projected oil demand to rise by 29 million barrels a day from 2006 through 2030 to reach a daily 113 million barrels a day — a drop of 4 million barrels a day over its predictions last year, "due in part to the higher oil price assumption" — expectations that pricey petroleum is here to stay.

A large part of that projected demand will be met by new recovery and production procedures, meaning total demand for "conventional crude" — oil pumped from wells and other methods using present day technology — will not exceed 82 million barrels a day by 2030, said OPEC.

In comparison OPEC in June said it expects oil consumption this year to amount to an average of 86.9 million barrels per day.

"Oil has been in the leading position in supplying the world's growing energy needs for the past four decades, and there is a clear expectation that this will continue," said the report, estimating that crude and other fossil fuels will make up 85 percent of the world's energy mix in 2030. "Gas is expected to grow at fast rates, while coal retains its importance in the energy mix."

IEA not so optimistic

The generally optimistic tone of the report contrasted sharply with forecasts published in early July by the International Energy Agency.

That report by the energy watchdog of the world's top industrialized nations predicted that oil supplies will remain tight at least for the next five years, despite record prices that have reduced demand. And IEA Executive Director Nobuo Tanaka said the world was in the grip of an "oil shock," similar to once in the 1970s and then the 1980s — but with no simple fix this time.

In its monthly forecast July 10, the IEA slightly raised its forecast for global oil demand this year and said growth would continue in 2009 thanks to demand in developing countries.

Light, sweet crude for August delivery rose $1.80 to $137.85 on the New York Mercantile Exchange. That is still below last week's record high of almost $146 a barrel.

Part of the OPEC report's upbeat tone appeared to be based on the belief that new discoveries will make up for increased demand.

"The level of ultimately recoverable reserves is clearly more than sufficient to supply the amount of crude oil and NGLs (natural gas liquids) that will be needed," it said, saying new estimates of additional reserves make figures on which present estimates are based outdated.

Publicly, Western leaders and the Organization of Petroleum Exporting Countries are split over the cause of record oil prices. OPEC blames the weak U.S. currency and speculators. The West says it is a supply issue.

Trade in paper barrels up

In the report, OPEC again blamed "the fall in the value of the dollar in relation to other currencies" for driving investors to buy oil every time the dollar falters.

And it noted the trade in "paper barrels" — oil futures that are bought and then quickly sold to lock in profits on each price spike — has risen to more than 18 barrels to each "physical barrel" traded, a threefold increase to just five years ago.

"Many believe that the proper functioning of futures markets has been altered by the various loopholes that effectively allow unlimited and undetected speculation, far beyond the limits of healthy liquidity-providing levels towards damaging price-distorting ones," said the report.

Booming economic growth in China, India and other developing nations has added to the demand that has seen prices triple over the past three years, and the OPEC report said that trend will continue into its forecast period — even though per capita consumption will remain substantially below that of the United States and other industrialized countries.

Citizens of developing nations "will consume, on average, approximately five times less oil per person" than their counterparts in developed nations, it said. ●

● FINANCE & ECONOMY

Pacific sells Calif. assets for $101M

Company will use money to pay down debt, finance capital projects in California and Alaska; second part of deal still to close

By ERIC LIDJI
Petroleum News

Clearing a hurdle toward paying down its debt, and setting the gears in motion to direct more money toward Alaska, Pacific Energy Resources Ltd. successfully sold the first of two pieces of its onshore California asset base, the company announced July 10.

The California-based independent brought in $101 million by selling its assets in the Los Angeles basin. Pacific Energy hopes to close the remaining piece of the deal before the end of the month by selling its assets in the San Joaquin basin for $34 million.

Pacific Energy announced the sale to an unnamed company on May 21.

The influx of cash not only allows Pacific Energy to pay down between 20 and 30 percent of its debt by the end of the year, but also sets up a new pool of money the company will use toward projects in California and Alaska.

The company is also involved with a participation agreement on a prospect in Wyoming.

The sale positions Pacific Energy to go after its goal of producing 20,000 barrels of oil per day within three years from its core assets in California and Alaska, as well as run a vigorous exploration program based around the Corsair unit in the Cook Inlet.

Pacific Energy produced around 4,000 barrels of oil equivalent per day in 2007, but expects that to more than double this year with the inclusion of its assets in Alaska.


COURTESY BLAKE OFFSHORE

The Blake jack-up 151 Pacific Energy is planning to bring to Alaska's Cook Inlet.

Alaska operations in '07

Pacific Energy bought the Alaska assets of Forest Oil Corp. in August 2007, becoming the operator of several units and the owner of non-unitized acreage around the state, a stake in the Cook Inlet Pipeline Co. and around 5,900 boe of net daily production.

That transition has been quick, but not always smooth for Pacific Energy.

The company has spent much of the past year wrangling with the state over timelines and work commitments, and trying to get a long-elusive jack-up rig to Alaska.

The company believes that this is the year for moving forward, according to Chief Financial Officer Jared Creed.

"Our goal is essentially to have a very comprehensive drilling program for all of our assets," Creed said.

How those drilling programs unfold depends on money, though.

While some of the proceeds from the Los Angeles basin sale will go toward working capital, most will help pay down the company's debts. The $34 million expected from the sale of the San Joaquin basin assets will go toward capital projects like those planned for Alaska.

The Alaska work program for the coming year is focused around developing and exploring the company's offshore assets in the Cook Inlet.

Return to Redoubt Shoal

Pacific Energy hopes to start development work at the offshore Redoubt unit from the existing Osprey platform this year.

"We're doing the upfront planning work to drill this year," Creed said.

Previously, Pacific Energy announced a five-well program to further develop the Redoubt Shoal field. Creed said permitting for the wells is under way, but the bigger hurdle is planning the best spot and the best time to drill.

The Redoubt Shoal field was discovered in 1968, but didn't go into production in the early part of this decade. Through the end of 2006, the Redoubt unit produced about 2 million barrels of oil and nearly 1 billion cubic feet of natural gas, according to 2007 figures from the state Division of Oil and Gas.

The state believes the field could be a small, but steady producer for the next 20 years.

Getting a jack-up to Alaska

Pacific Energy is also faced with the major task of getting a jack-up rig to Cook Inlet.

The company signed a three-year contract with Blake Offshore to bring the highly sought after rig to northern waters, but now needs to arrange to actually get the big piece of machinery to Alaska from its current location working in the Gulf of Mexico.

A jack-up rig is a mobile unit well suited for shallower offshore drilling, and is seen by many companies as the lynchpin of several proposed exploration ventures in Alaska. Without the rig, many previous ventures have been delayed or abandoned.

Should Pacific Energy successfully get a jack-up rig to Alaska, the rig will most likely be used to drill several different leases and units in the area.

"Essentially, everyone up there needs a jack-up rig," Creed said.

But the rig will start its Alaska stint at Corsair, the prospective offshore unit owned and operated by Pacific Energy. The company is currently working to hold on to a series of leases around the unit, which the state has decided to take back because of disuse.

Originally, Pacific Energy suggested that Corsair might not be economic without the expansion acreage, but Creed said a jack-up would make the unit viable.

The issue now is about objective: the company believes the leases within the unit could be used to drill for gas, while the leases outside the unit could be used to drill for oil.

If Pacific Energy fails to convince the state, the leases will go up for bid again next year, but, Creed said, no one would be able to drill on the leases without a jack-up rig.

"Who's going to buy (the leases) without access to a jack-up rig?" Creed said.

Benefiting from Chevron work

Pacific Energy will also benefit from a multi-year development program Chevron plans to start soon on acreage partly owned by Pacific Energy in Cook Inlet.

The work involves upgrading platforms and rigs and drilling new wells either late this year or early next year.

"Conservatively, it's going to be the first quarter of next year," Creed said.

Pacific Energy maintains a 46.8 percent working interest in the McArthur River field and the Trading Bay field, both operated by Chevron. ●

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PIPELINES & DOWNSTREAM

TransCanada doubles Keystone capacity

TransCanada Corp. says it will nearly double the capacity of a pipeline it's building to transport Canadian crude to Gulf Coast refineries.

The $7 billion expansion will add a capacity of 500,000 barrels a day to the Keystone Pipeline, a partnership between Alberta, Canada-based TransCanada and Houston-based ConocoPhillips.

When completed, the $12.2 billion project will transport 1.1 million barrels of oil per day.

The 36-inch pipeline will bring tar sands oil from Hardisty, Alberta, down a 1,980-mile route to a delivery point near existing terminals in Port Arthur, Texas. Plans also call for an additional 50-mile pipeline lateral to the Houston area.

The Keystone Pipeline will run through eight eastern North Dakota counties on its way from Canada south.

—THE ASSOCIATED PRESS

ALTERNATIVE ENERGY

Fairbanks considers coal-to-gas plant

Federal and state officials will gather in Fairbanks to plan a gasification plant that could turn coal and biomass into power and fuel for interior Alaska.

The meeting will be hosted by Fairbanks North Star Borough Mayor Jim Whitaker and U.S. Sen. Ted Stevens.

Whitaker said he hopes the summit will solidify federal and state support for an energy plan developed by the borough and the Fairbanks Economic Development Corp. as heating and fuel costs have increased sharply.

Local proponents hope the military will agree to allow a plant to be built at Eielson Air Force Base and to purchase fuel, which would help bring a plant on line quickly, Whitaker said.

Experts in resources, transportation and technology will speak at the meeting July 18. Discussions continue July 19, and Whitaker is looking for support.

"We recognize that it will take a bit of time, but not much, in order for the participants of this summit to be fully authorized (to act)," Whitaker said. "The intent is to fast-track this."

Local proponents hope the military will agree to allow a plant to be built at Eielson Air Force Base and to purchase fuel, which would help bring a plant on line quickly, Whitaker said.

Alaska's congressional delegation will be joined at the meeting by U.S. Department of Energy Undersecretary Bud Albright Jr. and Kevin Billings, deputy assistant secretary of the Air Force for Energy and Environment.

State House Speaker John Harris, R-Valdez, is expected to attend. Gov. Sarah Palin has been invited.

The Fairbanks Economic Development Corp. and the borough expect a report this fall by Toronto-based consultant Hatch Ltd. that should identify the best options and costs for building a gasification plant.

A plant would turn coal and biomass into gas, then use the Fischer-Tropsch process to turn gas into liquid fuel for space heating and transportation. Additional gas would be used to power turbines to generate electricity.

Coal and biomass also could also be gasified as synthetic fuels. The Air Force could be a critical market for those synthetic fuels.

The Fischer-Tropsch process was developed in Germany in the 1920s. The process has been used for several decades to fuel vehicles in South Africa.

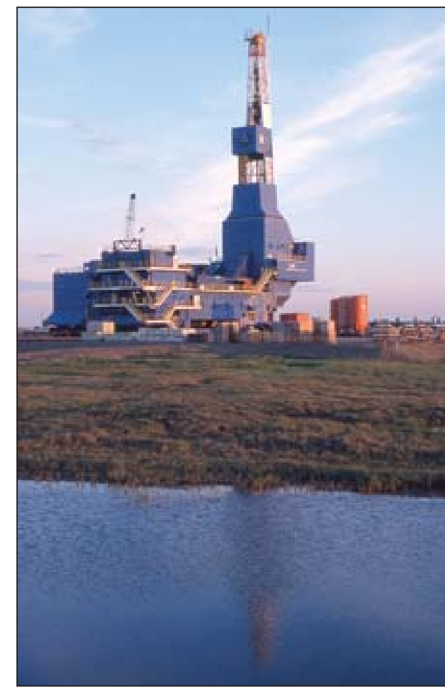
—THE ASSOCIATED PRESS

● FINANCE & ECONOMY

Parker Drilling returns to Alaska

Joey Husband to head up Alaska unit for Houston-based firm

By ERIC LIDJI
Petroleum News



JUDY PATRICK

Former Parker Rig 245 wearing Nabors colors. Photo taken on North Slope.

With two major Alaska projects in the works, Parker Drilling Co. is planning a return to the state it left nearly a decade ago during leaner times for the oil industry.

The Houston-based drilling company with decades of history in Alaska said July 15 it is looking into opening an office in Alaska to support two drilling projects for BP, including a contract for what could be one of the most powerful rigs in the world to help develop the offshore Liberty prospect in federal waters off the North Slope.

A Petroleum News source said Parker is looking at space for a training center in Anchorage, but whether or not the company opens an Alaska office, Joey Husband will serve as the general manager of the Alaska business unit for Parker.

Husband began working for Parker in 2004, coming from Schlumberger, where he spent eight years working as a field engineer in Alaska early in his career. He is currently based out of company headquarters in Houston and the company isn't sure whether or when he might come to Alaska.

"We haven't made final arrangements yet," said spokeswoman Rose Maltby.

Three rigs in the works

Because BP plans to develop Liberty from existing offshore facilities six miles to the west of the reservoir, Parker will play an important role in one of the most ambitious drilling projects in the history of oil development in Alaska.

BP first contracted with Parker on the project back in August 2006, hiring the company to start conceptual design work on a rig capable of drilling an ultra extended-reach well to hit underground targets as far as eight-miles out and two miles down.

With the project now ready to begin, Parker will build that huge rig in time for BP to start drilling around 2010. BP will own the rig once Parker finishes building it.

The Liberty contract follows news in May of a five-year contract with BP for Parker to build, deliver and operate two rigs for development drilling on the North Slope.

Parker around at the start

Those rigs will be the first in Alaska in nearly eight years to bear the Parker logo.

After winning a contract with the U.S. Atomic Energy Commission in the late 1960s, Parker came to Alaska to drill exceptionally large and deep holes to contain the blast from a nuclear test.

Despite the oddity of the job, Parker transitioned back into oil work soon after, bringing several of the earliest drilling rigs to Prudhoe Bay following its discovery in 1968.

Over the following three decades, Parker operated as many as 10 to 12 rigs in Alaska, both on the North Slope and in Cook Inlet, but during a stretch of low oil prices in the late 1990s, the company began scaling back its operations in the state.

Parker sent its local project manager, Chuck Sullivan, back to company headquarters in the Lower 48 in the fall of 1998.

As drilling rigs stopped across the North Slope the following spring, Parker stacked Rig 245, its last land-based rig in the United States. Rig 245 remained inactive for nearly two years until Parker sold it to Nabors Alaska Drilling Co. for $20 million in late 2000.

As the demand for drilling increased with rising oil prices in the middle of this decade, Parker began to expand its operations once again, taking technology from its days in Alaska and applying it to other parts of the world.

Earlier this year, Parker helped break drilling records by operating the 230-foot Yastreb rig for ExxonMobil at the Sakhalin-1 oil project along the east coast of Russia. The companies used the onshore rig to hit a target located nearly seven miles offshore.●

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● PIPELINES & DOWNSTREAM

Alberta company moving on CCS pipeline

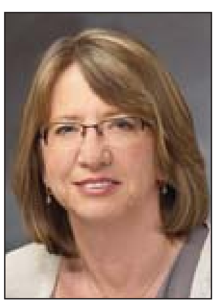
Project to use industrial carbon emissions to enhance oil recovery; comes as government unveils C$2 billion fund for CCS projects

By ERIC LIDJI
Petroleum News

A Canadian company recently announced plans to build a system for capturing carbon dioxide emissions and storing them underground.

Alberta-based Enhance Energy Inc. said the Enhance CO2 Pipeline System would be able to move more than 27,500 tons of carbon dioxide every day from industrial facilities to aging oil and gas fields, where it would be used to increase production.

In addition to the increased recovery of oil and gas, Enhance believes the pipeline system will cause a significant reduction in greenhouse gas emissions in Alberta.



Susan Cole, president of Enhance Energy

The pipeline system would initially pick up carbon dioxide produced at Agrium and North West Upgrading facilities north of Edmonton and process it in new facilities east of Fort Saskatchewan.

From there, the gas would be shipped south along a high vapor pressure pipeline to conventional oil and gas fields around the city of Clive.

Enhance Energy hopes to finish regulatory work on the project by next spring and start construction by the end of 2009, with the goal of starting the project up in 2011.

COURTESY ENHANCE ENERGY

The Enhance CO2 Pipeline System would run from Agrium and North West Upgrading facilities north of Edmonton to conventional oil and gas fields near Clive.

CCS key to Alberta plan

This kind of carbon capture and storage, or CCS, technology has become a centerpiece of Canadian efforts to regulate the carbon emissions from oil sands development and other fossil fuel production in the Western part of the country.

Alberta Premier Ed Stelmach favors CCS over government set limits and allowances on carbon emissions, known as cap-and-trade, which he believes would push businesses out of the province to areas with looser regulations.

Just days before Enhance Energy announced its new pipeline system, Stelmach and the Alberta government unveiled a C$2-billion fund to promote several CCS projects, which Enhance sees as an accelerating factor.

"This week's climate change announcement to support Carbon Capture and Storage will provide tremendous momentum for this project," Susan Cole, president of Enhance Energy, said in a statement.

The fund is one part of a larger plan to cut greenhouse gas emissions in half by 2050, and the Alberta government believes CCS could account for 70 percent of those reductions.

The money would not only go toward enhanced oil recovery operations, like the Enhance Energy system, but also toward storage projects where carbon dioxide is pumped into empty reservoirs nearly a mile underground and permanently sealed off.

Through the new fund, the Alberta government hopes to store more than 5.5 million tons of carbon dioxide each year by 2015, the equivalent of taking 1 million cars off the road.

The pipeline system would initially pick up carbon dioxide produced at Agrium and North West Upgrading facilities north of Edmonton and process it in new facilities east of Fort Saskatchewan.

Limited large-scale tests

Although the various and complex pieces of technology required for CCS have been proven, large-scale applications have been rare to date.

One of the oldest and largest test projects for CCS began at a depleted oil field near Weyburn, Saskatchewan, in 2000, when EnCana began injecting 5,500 tons of nearly pure carbon dioxide a day into an empty reservoir.

As that test approaches the end of its final phase, nearly 8 million tons of carbon dioxide have been injected into the field to date without major adverse effects, and the information gathered about the project will likely serve as the model for future projects.

While CCS is generally seen in a positive light, some wonder if the technology is cost efficient, while others have expressed concern about possible leaks that could make storage irrelevant in the best case, or contaminate drinking water in the worst.

Because similar procedures are used for enhanced oil recovery today, information exists about carbon storage, and the International Panel on Climate Change estimated storage should be more than 99 percent reliable over 1,000 years.

While carbon dioxide isn't currently regulated in the United States, the U.S. Environmental Protection Agency on July 15 proposed a rule governing wells used for carbon storage. The rule would regulate how well sites are chosen, as well as set out guidelines for testing, monitoring and operating those injection wells. ●

● NATURAL GAS

Alaskans looking for gas pipeline jobs

Denali's president says work now with contractors; legislators say constituents reacting to ads, want to know where to apply

By KRISTEN NELSON
Petroleum News

It has a big advertising campaign, but is it real? Where can people apply for work on the project? Can the project get rights of way through Canada? Can the producers do a better job than they did building the trans-Alaska oil pipeline? Will there be open access to this pipeline for new gas as it is discovered? Will the owners commit to the 20 must haves in the Alaska Gasline Inducement Act?

Those were among the questions Bud Fackrell, president of Denali — the Alaska Gas Pipeline, got from legislators in Juneau July 10.

The issue of whether Denali, the BP-ConocoPhillips gas pipeline project from the North Slope to Lower 48 markets, announced in early April, is a real project topped the list.

A parent trying to find summer work for his son concluded Denali is merely a sham after he was unable to connect his son with a job on the project. He wrote Sen. Hollis French, D-Anchorage, about his experience; French asked Fackrell.

French wasn't the only legislator with questions about jobs on the project.

Rep. Carl Gatto, R-Palmer, said he wanted to see information in the company's ads about where people can apply for work.

Legislators wanted to be able to tell constituents where they could walk in and drop off an application.

Fackrell referred legislators to information on the company's Web site, and said Denali has moved out of BP into temporary office space in Anchorage, and is in the process of contracting for 28,000 square feet of office space, with an announcement on the space expected by September.

At this point work is with contractors in the field, he said, although as the project moves along the company itself will expand; but that ramping up will occur over time.

Only a fraud?

Rep. Mike Hawker, R-Anchorage, said he's heard it alleged that Denali is nothing more than a fraud intended to mislead Alaskans and legislators — just a political ploy. Is it or is it not a fraud, he

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JUDY PATRICK

● PIPELINES & DOWNSTREAM

Begich proposes new utility structure

Plan would rearrange Chugach, ML&P operations, create new power authority, prompt construction of natural gas-fired power plant

By ERIC LIDJI
Petroleum News

Anchorage Mayor Mark Begich and the leaders of two area electric utilities unveiled a plan on July 11 to restructure the way power is created and delivered to the residents, businesses and industries of the largest city in Alaska.

Rather than pursue a merger of the electric cooperative Chugach Electric Association and city-owned Municipal Light and Power, as had been proposed last year, the new plan would instead rearrange the responsibilities of the two utilities to take advantage of tax-exempt financing and economies of scale that Begich said should save ratepayers money.


MARK BEGICH

Both companies currently provide identical services to different parts of the city.

Under the proposed plan presented to members of the Anchorage Assembly during a work session, ML&P would take over ownership and operations of all generation and transmission for the area, while Chugach would become solely a distribution cooperative.

The plan would also create an Anchorage Power Authority with a seven-member board to manage ML&P. Begich said that structure, modeled after one created to run the city-owned Anchorage Water and Wastewater Utility, would give ML&P more independence.

Finally, the plan calls for building a new, jointly owned, natural gas-fired power plant next to the Chugach headquarters to replace aging infrastructure.

Bypass traditional merger

The proposal builds on, but does not directly follow, a Navigant Consulting report commissioned by the two utilities last year. That report followed years of discussions on whether merging the two utilities would best serve a city the size of Anchorage.

"Essentially, as part of the discussion of how to streamline things, both Chugach and ML&P concluded that one of the ways to do it was not the merger concepts discussed in Navigant, not one entity taking over the other," said Fred Boness, a city consultant, "but rather, realigning the two utilities, restructuring the two utilities in a way that would take the greatest benefit with respect to operations."

Begich and the two utilities will use the rest of the year to present proposed ordinances to the Anchorage Assembly and hold public hearings on the various pieces of the plan.

The news was treated cautiously by the Matanuska Electric Association, the member-owned cooperative that buys most of its power from Chugach, but is currently proposing to build a new natural gas-fired power plant of its own.

"It definitely looks very interesting. We're interested in learning more about it," said spokeswoman Lorali Carter.

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DENALI

asked Fackrell.

Fackrell said he believes it is real. He said he's been in the business for more than 30 years and can work anywhere, but took this job. There are 75 people in the field and the organization is being staffed. The goal is a successful open season, he said.

"I'm not asking you to trust us; I've been asking you to watch us," he said.

In addition to beginning summer field work, the company has pre-filed with the Federal Energy Regulatory Commission, is taking the FERC chairman to the North Slope later in July and meeting with Drue Pearce, the federal coordinator for Alaska gas pipeline projects.

It would severely damage the owners if we suddenly pulled back on the project, he said.

As to how real the company is, Fackrell said in response to questions from Sen. Bill Wielechowski, D-Anchorage, that the company was formed by two of the state's major producers and will spend $40 million this summer, and $600 million to get to a successful open season. The organization is real, he said, and will employ 150 people by the end of the year, close to 300 by the end of next year.

Gas vs. rights of way

Your owners have the gas, but TransCanada Corp. has the rights of way through Canada, said Sen. Con Bunde, R-Anchorage: How does Denali propose to get rights of way through Canada?

Fackrell said permitting a pipeline is problematic and difficult, but both BP and Conoco have large companies operating in Canada and the companies think they have the people and expertise in Canada to help with Canadian issues.

Rep. Mike Doogan, D-Anchorage, said the experience with the producers owning and building the trans-Alaska oil pipeline didn't give him much comfort and asked about the companies' ability to build a major project at anything like the initial cost estimates.

Fackrell said the companies learned a lot from building the trans-Alaska oil pipeline, are in the business of building projects, have experts in project management and will use contractors with experience. Another advantage BP and ConocoPhillips have is that they know how to operate on the North Slope and have an Alaska workforce.

He acknowledged that a trans-Alaska gas pipeline won't be an easy project: It if was an easy project it would have been done already, Fackrell said.

Doogan asked what projects BP has done that would compare to a trans-Alaska gas pipeline and Fackrell cited pipelines in the Caspian and the Gulf of Mexico.

Access a concern

Rep. Reggie Joule, D-Kotzebue, asked Fackrell for assurances that explorers — companies without gas to nominate at an initial open season — would have reasonable access to a producer-owned line. Joule said he was concerned about 30 years of monopoly on the trans-Alaska oil pipeline.

Fackrell said the gas pipeline will be open access, open to all parties who wish to nominate gas, with FERC controlling access.

He said Denali wants to fill the pipeline and doesn't want just two companies to nominate gas. Denali envisions that every two years after FERC approval the pipeline will solicit interest in expansion, and thinks the line will open up the North Slope for gas exploration, Fackrell said.

Rep. Les Gara, D-Anchorage, asked if Denali would commit to the rolled-in rates for expansions included in the Alaska Gasline Inducement Act.

Fackrell said the pipeline needs initial customers because there will be no pipeline without them, but also wants to be able to expand. A balance is needed, he said, and if you burden initial shippers with rolled-in rates you don't have initial shippers. He said the assumption of rolled-in rates means that initial shippers would subsidize expansion shippers.

Gara also asked Fackrell if he would guarantee that the Denali owners wouldn't ask for more than $500 million in tax breaks, referring to the $500 million in state matching funds offered in AGIA.

Fackrell said the pipeline company won't be asking for conditions, but expects customers will want to have fiscal terms settled before they sign up to take firm transportation commitments. He noted that in TransCanada's application it said it would rely on the state to take actions on fiscal terms.

The AGIA must haves

Sen. Charlie Huggins, R-Wasilla, who has chaired most of the AGIA hearings for the Legislature, asked Fackrell which of the 20 must haves under AGIA Denali would comply with or support.

Fackrell said the Denali proposal addresses a lot of the 20. The line will be open access; there will be distance-sensitive tariffs for in-state gas; there will be at least five Alaska offtake points including Fairbanks; the design will provide for efficient expandability; and the pipeline expects to have an expansion solicitation every two years.

Fackrell said he would reply in writing to the entire list of 20.

Asked by Sen. Lyman Hoffman, D-Bethel, if Denali had a specific debt-to-equity ratio for the financing, Fackrell said Denali was not committing to the debt-equity ratio specified in AGIA (70-30). The company would be going to the financial community to see what the best financing would be, he said, noting that the biggest element in the tariff is the cost of the pipeline, not the debt-equity proportion.

French asked when a determination would be made on the debt-equity ratio.

Fackrell said Denali will work with the financial markets to get the lowest tariff. The tariff and financing proposal would have to be determined in order to have a successful open season, a process which Fackrell said would begin by year-end 2010.

Detailed information in Fackrell's slide presentation showed a plan to apply for approval of an open season bid package by year-end 2010, followed by 60 days of public comments and 30 days for FERC approval of the bid package.

The open season would last 90 days. Signing agreements with shippers and posting results of the open season would occur over the next one to two months. Copies of the agreements would then be filed with FERC and the pipeline would begin to secure financing.

Based on beginning the open-season process by year-end 2010, the process to secure financing would begin in the third quarter of 2011.

How LLC would operate

Sen. Gene Therriault, R-North Pole, noted that the Denali limited liability company was formed under Delaware laws. The difference between Delaware LLC law and Alaska LLC law was a concern during the Stranded Gas Development Act contract discussions, he said, because under Delaware law the owners of the LLC can act in their own interests, even if those interests are adverse to those of the pipeline company. Alaska LLC law has a higher standard, he said, arguing that a parent com-

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BEGICH

Carter said MEA has proposed a generation and transmission cooperative for regional electric utilities for decades, but also needs to take care of its own needs.

"We have to continue moving forward with our own plans, but that doesn't preclude us from working with other utilities," she said.

Begich said the proposal would not prevent Chugach or ML&P from taking part in any of the regional electricity plans currently in the works, like the ongoing work of the Alaska Railbelt Energy Grid Authority.

"The goal of this is to always leave those doors open," Begich said.

Although the plan grew out of discussions and meetings held over the past year by a special committee, Assemblyman Chris Birch felt the final announcement came as a surprise and lacked "competition."

> *"Essentially, as part of the discussion of how to streamline things, both Chugach and ML&P concluded that one of the ways to do it was not the merger concepts discussed in Navigant, not one entity taking over the other, but rather, realigning the two utilities, restructuring the two utilities in a way that would take the greatest benefit with respect to operations."*
> **—Fred Boness, city consultant**

"This has been pulled together in secret and I have a real, fundamental problem with springing this on the Assembly at this late state in the game. ... I'm going to be looking at this with a very critical eye," Birch said.

Begich disagreed, saying the committee was charged with analyzing topics "around" the issue of energy and that the proposal is the result of that analysis. ●

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DENALI

pany could block an expansion. He asked Fackrell if the LLC agreement was available; Fackrell said he would check and see if it was a public document.

Rep. Harry Crawford, D-Anchorage, asked Fackrell why, on a list of Denali terms of service in his presentation, the word "plans" was used for soliciting interest in expansion every two years, as opposed to the word "will" in front of open access pipeline, distance-sensitive rates and project design for efficient expandability?

Fackrell said he was not wedded to the word "plan"; it is the plan now to have solicitation every two years, he said, and is not a stretch to go to the word "will."

Sen. Kim Elton, D-Juneau, asked Fackrell if when he responded to the company's commitment to the 20 AGIA must haves, he would also try to give an idea of the depth of commitment. Plans evolve, Elton said, and he was concerned that commitments can devolve as plans evolve.

The state is contracting with TransCanada Elton said, and while Denali isn't seeking a contract, perhaps the company could commit to incorporating what it commits to into its advertising campaign.

Fackrell said he would clarify Denali's terms in relation to the 20 must haves — what's in the Denali plan and what isn't.

The pipeline competition

Bunde asked if approval of AGIA would hurt Denali, or hurt the chances of Alaska getting a gas pipeline.

Fackrell said that no matter what the Legislature decides on the TransCanada application, Denali is moving forward, focused on having a successful open season.

He said he was concerned about a level playing field: Both projects will need applications, he said, and if Denali's are slowed down in favor of TransCanada's applications that would not be fair.

The other thing that could slow Denali down is fiscal concerns: We need to have customers and they need to have fiscal terms, Fackrell said.

Rep. Paul Seaton, R-Homer, asked how much of the $600 million proposed to get to an open season would be spent in Canada, and Fackrell said while he didn't have a breakdown, and they were starting in Alaska, a good percentage would be spent in Canada. As for exactly how much, he said once the Denali leadership team was in place they would make that determination.

AGIA requires expansions in reasonable engineering increments, Seaton said, and asked Fackrell if Denali would commit to go forward with voluntary expansions and not require mandatory expansions through FERC.

Fackrell said Denali wouldn't commit to go ahead to an expansion the pipeline doesn't know is viable, but will solicit for expansion interest every two years. He said the pipeline's owners will have to decide on expansions because capital investment will be required for expansion. The pipeline would evaluate expansion requests and take recommendations to the owners. ●

● LAND & LEASING

Bush lifts OCS ban but Congress balks

Executive ban lifted on offshore drilling; for practical effect Congress must also act; Democratic leaders call plan a sham

By BEN FELLER
Associated Press Writer

U.S. President George W. Bush lifted an executive ban on offshore oil drilling July 14 and challenged Congress to do the same, a gambit to turn the enormous public frustration about gasoline prices into political leverage.

Democratic lawmakers rejected Bush's plan as a symbolic stunt.


President George W. Bush

With gas prices topping $4.10 a gallon nationally, Bush made his most assertive move to extend oil exploration, an energy priority of his presidency. By lifting the executive prohibition against coastal drilling, Bush rescinded a White House policy that his father, President George H.W. Bush, put in place in 1990.

The move will have no practical effect unless Congress acts, too. Both executive and legislative bans must be lifted before offshore exploration could happen.

Bush had urged Congress a month ago to go first, then reversed himself. He said the country could no longer afford to wait.

"Democratic leaders can show that they have finally heard the frustrations of the American people by matching the action I've taken today, repealing the congressional ban, and passing legislation to facilitate responsible offshore exploration," Bush said in an event held in the White House's Rose Garden.

No quick fix

The president's direct link between record gas prices and offshore drilling glossed over a key point. Even if Congress agreed, the exploration for oil would take a decade or more to produce real results. It is not projected to reduce gas prices in the short term. Even the White House routinely emphasizes there is no quick fix.

Both presidential campaigns weighed in on the hot political topic.

Sen. John McCain, the presumptive Republican presidential nominee, called

> *By lifting the executive prohibition against coastal drilling, Bush rescinded a White House policy that his father, President George H.W. Bush, put in place in 1990.*

Bush's move "a very important signal" and prodded his Democratic rival, Sen. Barack Obama, to drop his opposition to offshore drilling.

"If offshore drilling would provide short-term relief at the pump or a long-term strategy for energy independence, it would be worthy of our consideration, regardless of the risks," Obama spokesman Bill Burton said in a statement. "But most experts, even within the Bush administration, concede it would do neither."

Democrats pan plan

Other Democrats also were unmoved by the presidential action.

"The Bush plan is a hoax," responded House Speaker Nancy Pelosi. "It will neither reduce gas prices nor increase energy independence."

None of that stopped the president from building his case around today's prices at the gasoline pump.

He said every extra dollar that families have to spend on gas is one they could be using to put food on their tables or to send children to school. The American people, he said, are now "waiting to see what the Congress will do."

The White House says that acting now on a long-term solution would send a serious signal to the market that more oil supply will be coming on line. That, in turn, could ease oil prices, advocates say. Business groups and many Republican lawmakers praised the move to expand the energy supply in the United States.

Several Democratic leaders in Congress said oil companies already are sitting on millions of acres of public and coastal lands where drilling could be undertaken.

A proposal by Democrats to release oil from an emergency reserve has been rejected by the White House as a gimmick that would not reduce prices. ●

● FINANCE & ECONOMY

Oil falls further, dropping for 3rd day

U.S. oil supplies up, evidence U.S. inflation rage quickening, help pull price down from $147 record; range now $135-$145

By GEORGE JAHN
Associated Press Writer

Crude prices fell for a third consecutive day July 17 amid evidence that the high cost of oil and gasoline was slowing U.S. demand.

Crude prices have plummeted more than $10 a barrel over the previous two sessions, and were down nearly $1 in electronic trading July 17. But prices are still well above year-ago levels.

Higher U.S. oil supplies, along with evidence of quickening inflation and slowing economic activity in the world's largest economy, have helped pull prices down from a July 11 record above $147 a barrel, said Victor Shum, an oil analyst with consulting firm Purvin & Gertz in Singapore.

"We've had a run of bearish news the last few days," he said. "This roller-coaster volatility has left us in a near-term trading range of between about $130 and $145."

Light, sweet crude for August delivery was down 93 cents at $133.67 a barrel by midday in European electronic trading on the New York Mercantile Exchange.

Crude fell $4.14 in the previous session to settle at $134.60 a barrel, after earlier sinking as low as $132. The drop followed a US$6.44 sell-off July 15, crude's biggest since the Gulf War.

Crude prices still up 80% over last year, 40% from January

Despite the two-day slide of $10.58 a barrel in floor trade, prices remain about 80 percent above where they were a year ago and up about 40 percent from the start of the year.

The Energy Information Administration reported July 16 that U.S. crude supplies rose 3 million barrels the week ending July 11. That was opposite the 3 million barrel draw analysts surveyed by energy research firm Platts had expected. Gasoline supplies also leapt higher unexpectedly.

The rise in crude and gasoline supplies shows how high motor fuel prices are starting to weaken demand from U.S. consumers in the middle of America's summer driving season, analysts said.

"As of July 11, total stocks of crude oil and petroleum products rose for the seventh time in the last two months and for the eleventh time in the last three months, up 0.5 percent to 1.69 billion barrels, a year-to-date high," wrote analyst and trader Stephen Schork in a research note.

June consumer prices up 1.1%

The Labor Department also said July 16 that consumer prices shot up 1.1 percent in June, the second fastest pace in 26 years. Rising energy prices accounted for two-thirds of that increase, which was far worse than expected.

Testifying before Congress for a second day on July 16, U.S. Federal Reserve Chairman Ben Bernanke said central bank policymakers are facing "significant challenges" in stabilizing a U.S. economy troubled by weak growth and inflation.

Oil demand in developing nations, however, continues to rise and keep global crude supplies tight, Shum said.

"Only in the U.S. are we seeing significant demand erosion," Shum said. "Supplies are still struggling, and there's a reasonable chance for a resurgence in oil prices."

Brent crude futures were fetching $135.43, down 38 cents on the ICE futures exchange.

In other Nymex trade, heating oil and gasoline futures were essentially steady at $3.84 and $3.2790 a gallon. Natural gas futures rose 7.2 cents to $11.47 per 1,000 cubic feet. ●

LAND & LEASING

Geothermal competitive lease sale set

The Alaska Division of Oil and Gas has set a date for a competitive geothermal lease sale along the southern flanks of Mount Spurr.

The division said July 17 that bids are due Sept. 8; bid opening will be Sept. 10 at 9 a.m. in suite 240 at the Atwood Building in downtown Anchorage.

The geothermal sale area encompasses 36,057 acres of state land in 16 tracts ranging from 250 to 2,560 acres. The area lies some 40 miles west of the village of Tyonek, northwest of Trading Bay along the southern flanks of Mount Spurr and includes the east end of Chakachamna Lake and a portion of the Chakachatna River.

Sale information is available on the division's Web site at www.dog.dnr.state.ak.us, along with the best interest finding for the sale.

—PETROLEUM NEWS

WORKFORCE DEVELOPMENT

Oil industry looks to fill more jobs

Oil industry officials in Alaska said they need to fill hundreds of jobs in preparation for more development on the North Slope and the Arctic Ocean and because of the aging of the current workforce.

A proposed natural gas pipeline, which could be the largest-ever construction project in North America, would place heavy demands on the oil industry's work force. Plus, existing infrastructure on the North Slope needs maintenance, said Mike Utsler, a senior vice president for BP who oversees the company's operations at Prudhoe Bay.

The oil and gas work force is also aging, with an estimated 40 percent of those in professional occupations eligible for retirement in the next seven years.

Utsler said the North Slope has a slightly younger work force, where those in mechanical and technical trades average between 48 and 51 years, and professional employees average 43 to 44 years.

BP Alaska has hired 600 people in the last 2 1/2 years, many of whom are recent graduates who could help offset anticipated retirements, Utsler said.

"There is a vast array of opportunities to pursue," Utsler said. "When you look at the next 50 years in Alaska — what an incredible period of opportunity."

Fresh out of four years in the Air Force, Christy Cadle is hoping an oil and gas job will offer the chance to apply her engineering skills and to stay in Alaska.

She attended an industry career fair July 9 at the University of Alaska Fairbanks Carlson Center sponsored by BP. About two dozen other companies, unions and training programs had booths hoping to attract potential employees.

Ryan Smith, recruiting coordinator for UAF's College of Engineering and Mines, said enrollment is up even over last year's high numbers.

"There's a huge market in need of engineers, and there aren't that many engineers out there," Smith said.

—THE ASSOCIATED PRESS

Petroleum news

Business Spotlight

Usibelli Coal Mine Inc.

COURTESY PHOTO

Scott Stowell
Assistant Maintenance Manager

Usibelli Coal Mine, Alaska's only operating coal mine, produced some 1.5 million tons per year in 2004 and 2005 to supply coal to six Alaska power plants and for export to South Korea and Chile. Its corporate goals are to deliver a quality product on time and provide a safe, secure environment for all Usibelli employees.

Scott Stowell joined Usibelli over 30 years ago and well knows the equipment, mine, shop and warehouse. He's taken on environmental compliance work and often filled in for the maintenance manager. Scott's recent promotion to assistant maintenance manager recognizes his expertise and professionalism. Born in Alaska, Scott is married, and loves to cook and restore classic cars.

—PAULA EASLEY

Rain for Rent

FORREST CRANE

Randy Harris, Branch Manager

Since 1934, customers from oil fields, refineries, municipalities, mines, quarries, construction, agriculture and the military have counted on Rain for Rent's ability to provide economic solutions for their liquid-handling problems. No single liquid handling company in America has Rain for Rent's breadth of experience. This nationwide family-owned company with more than 50 branches and 1,000 employees has been in Alaska since 2002. It's the place to go for portable pumps, filtration equipment and temporary storage tanks.

Randy Harris is a life-long Alaskan who grew up an Anchorage and has been with Rain for Rent since July of 2003. Randy and wife Sheila have two daughters. Ever since school days at Anchorage's East High, Randy can be found at tracks around the state during the summer racing his "Glacier Shaker" funny car.

—PAULA EASLEY

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

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All of the companies listed above advertise on a regular basis with Petroleum News

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GLOBAL

bpd from 2005, while 35 companies produced 2.54 billion cubic feet per day of gas in 22 countries, a gain of 292 million cubic feet per day.

Doig's initial report in 1993 showed international output of 135,890 bpd of oil and 328 million cubic feet per day of gas.

The offshore oil and NGL volumes were 20 percent of what the companies produced in Canada, accounted for 16 percent of their capital budgets and claimed 15 percent of Alberta's petroleum workforce.

U.S., Indonesia, UK top list

The largest producing regions were the United States, Indonesia, the United Kingdom North Sea, Egypt and Malaysia-Vietnam.

The leading players were Talisman (with operations in the North Sea, Malaysia/Vietnam, Indonesia, North Africa, Trinidad and Tobago, Peru, Columbia and Qatar), Nexen (the Gulf of Mexico, Colombia, North Sea, West Africa and Yemen), Canadian Natural Resources (North Sea and West Africa), Petro-Canada (Netherlands, Norway, Denmark, Trinidad and Tobago, Venezuela, Syria, Libya, Algeria, Morocco and Tunisia) and Addax Petroleum, which acquired Pan-Ocean Energy in 2006 (Nigeria, Cameroon, Gabon and the Kurdistan region of Iraq).

EnCana, bolstered by its gas plays in the U.S., topped the list of Canadian companies with external reserves, posting 952 million boe. It was trailed by Talisman at 870 million, Canadian Natural 444 million, Petro-Canada 337 million, Nexen 318 million, Addax 149 million, Tanganyika Oil Company 92 million, Niko Resources 82 million and First Calgary Petroleums 52 million.

Others topping 30 million were Vermilion Energy Trust, Bankers Petroleum, Rally Energy and Arawak Energy.

Addax has been typical of those taking a chance in foreign fields and paying a high price. Its Nigerian operations have come under attack by militants and in early June one contract worker was killed and four others were injured.

But the independent is pressing ahead, taking a 40 percent interest in an offshore oil license along with two Nigerian partners and funding 80 percent of the program.

New report out in August

Although Doig will not release his 2007 report until August, one of those that will feature on the list is TransGlobe Energy, which has made its mark in Yemen over the past decade and has expanded in Egypt by signing a binding sale and purchase agreement for the shares of privately held Dublin International Petroleum and Drucker Petroleum to acquire interests in eight development leases in the West Gharib Concession of Egypt. The working interests include 1,500 bpd of crude production and proved plus probable reserves of 6.3 million barrels. The eight leases cover 44,000 acres and have seven oil fields producing from 24 wells.

A different ploy is being tried by Bankers, taking a lead from the EnCana playbook and splitting itself into two distinct companies by separating its Albanian heavy oil assets from its United States shale gas properties.

The spinout's principal U.S. asset is an interest in Oklahoma's Tsihomino gas field, which produces about 3 million cubic feet per day.

In Albania, first-quarter production averaged 5,218 bpd of heavy oil, up 19 percent from a year earlier, from resources of 2.5 billion barrels.

Bankers Chairman Bob Cross said the distinct risk profiles of the two bases appeal to different types of investors and he believes overall value will be enhanced by allowing each company to develop its own shareholder base through the execution of distinct business plans.

Mark Heim, an analyst with Macquarie Capital Markets, said the strategy has the same rationale as the blockbuster separation of EnCana's assets.

But James Somerville, an analyst with Genuity Capital Markets, doubts other juniors will follow suit, largely because they tend to be narrowly focused.

Negative attention a problem

Whether larger companies may see value in rationalizing their global assets is another matter.

The bigger challenges accompanying international forays have, as they often do, gained more negative attention than positive in recent times, dominated by an upheaval at First Calgary with its chief executive officer being hounded from his post by a group of Russian-led investors, who had grown frustrated with a decline in market capitalization from C$5 billion to under C$600 million and a nosedive in share prices, despite unlocking what could be a mother lode of oil and gas resources.

For a decade ousted CEO Richard Anderson, who has garnered considerable respect among his colleagues, campaigned without much success for investor support in North America.

He struggled to make a case for First Calgary's operations base in the Sahara Desert of Algeria, 1,200 miles from the Mediterranean Ocean in his search for $2 billion to fund his company's portion of a production agreement with state-owned Sonatrach.

The plans called for the Menzel Ledjmet East field, with gross proved plus probable reserves of 1.76 trillion cubic feet of gas (with upper estimates at 12 tcf) and 292 million barrels of liquids, to come on stream in 2010 at 260 million cubic feet per day of gas and 20,000 bpd of oil and liquids.

First Calgary estimated that output, without even touching other highly prospective plays, would yield cash flow of C$450 million a year for eight years.

Regardless of that potential, Anderson, who took over First Calgary in 1997 when it was a shell company with no business, finally had to place his future in the hands of Russian investors, led by former Russian oil minister Yuri Shafranic.

In fall 2004, First Calgary tried to attract a partner or a buyer, driving its shares to C$24 in the process on the London Stock Exchange's junior arm, the Alternative Investment Market.

The process yielded a bid for only C$8.50 per share, forcing Anderson to pursue other options, including a tentative joint venture partnership with Spain's Repsol that also fell through.

By now, the Russians, operating through London-based Waterford Finance and Investment, which owns 9.4 percent of First Calgary, and another dissident group Midocean Holdings, were losing patience as they watched their investment flounder, putting Anderson under increasing attack.

Waterford founder Michael Kroupeev said that while his private equity group was certain about the size of First Calgary's assets, the company "needs strategic guidance" on how to bring those into production.

"I'm a long-standing investor who is not happy with what (Anderson) is doing," he said. "I'm not willing to pay for his learning curve."

CEO of First Calgary quit under pressure from shareholders

The fight moved to the brink of a showdown in late March when Anderson, despite a high-profile, five-month campaign to save his job, decided to quit after conceding shareholders wanted him to back off.

He said the dispute had disrupted the morale of staff and the stability of First Calgary's shares and expressed the hope that First Calgary would be able to resume its focus on building a business and closing the gap between its real value and prevailing share price.

Whatever the engineers of Anderson's downfall had anticipated, First Calgary shares have remained in a funk.

In the view of some analysts that reflects disquiet over the constant internal tensions within Algeria, First Calgary's dependence on Sonatrach and the Algerian government to bring its assets to production and a feeling that Russia itself may be pulling strings in First Calgary, with plans to turn Algeria into an LNG exporter to Europe.

How the next chapter for First Calgary unfolds, or unravels, could be a matter of special interest in small-time Canadian companies with dreams of playing in worldwide leagues. ●

Canadian juniors in cross-hairs

There's not a Canadian-owned junior active in foreign fields that isn't takeover fodder and many of them, like those who stay at home, hope for nothing less.

Three that have figured in recent speculation are InterOil, Tanganyika Oil and Pear Exploration & Production.

Short of cash and surviving on lines of credit, InterOil has its legal headquarters in the Yukon, executive offices in Australia, is run by two Texans and counts the famous investor T. Boone Pickens among its investors.

Even though it produces no oil or gas, the company runs a fuel distribution network in Papua New Guinea and an oil refinery with capacity of 32,500 barrels per day and is pinning its major hopes on future gas production from two Papua New Guinea fields to underpin a planned $6 billion liquefied natural gas plant to start exports in 2012.

The question is whether it can hang on, having secured US$95 million by selling convertible debentures to fully repay a $70 million credit line with Merrill Lynch. Another credit line of $60 million is held by Swiss bank Clarion Finanzis.

Raymond James analyst Wayne Andrews said the private placement was "very positive for InterOil, as it completes the restructuring of (its) balance sheet."

He said future key developments for the company include an independent assessment of the reserve potential from a gas discovery announced in May and the prospect of InterOil farming out equity in one of its gas fields to strategic partners.

Tanganyika has been identified as the likely target of a possible takeover bid by India's ONGC Videsh, although Pearl also resembled the description of a mid-sized Canadian firm listed on the TSX Venture Exchange.

Tanganyika produces 4,000 bpd from its heavy oil fields in Syria, while Pearl produces about 10,500 boe per day of heavy oil and gas in Canada and the U.S.

A spokeswoman for both Vancouver-based companies denied that either had been approached by ONGC Videsh, but said both were open to any options that could maximize shareholder value.

ONGC Videsh is the wholly owned exploration arm of India's largest petroleum company and operates in 17 countries.

It has already expressed a desire to make acquisitions in the billions of dollars in the Alberta oil sands, but has concentrated on expanding in Venezuela's heavy oil plays.

—GARY PARK

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CYCLING

There is ongoing litigation between the Alaska Department of Natural Resources and ExxonMobil — and the other Point Thomson unit owners (ExxonMobil, BP, Chevron and ConocoPhillips hold the largest positions in the unit) — over the timing of Point Thomson development. The unit has been in existence since the late 1970s and the state has grown increasingly impatient with lack of production from the high-pressure condensate reservoir, which includes an oil rim of disputed quality and quantity, liquids which could be produced from the condensate and natural gas.

Because of the volume of liquids in the condensate, the Alaska Oil and Gas Conservation Commission classifies Point Thomson as an oil field, which means commission approval is required for gas offtake from the field.

DNR terminated the Point Thomson unit and rejected a plan of development proposed by Exxon and the other Point Thomson unit owners as a remedy.

Massey said Exxon is ready to talk to DNR, but understand the state doesn't want to talk until the administrative issue is final. He said Exxon has work under way at Point Thomson, with a rig being torn apart for mud pump upgrading, and plans to drill this winter. He said a land use permit has been issued so that Exxon can stage equipment.

Initial production at Point Thomson would provide information

The initial production project for Point Thomson, proposed by the company in February in a plan of development provided as a remedy in lieu of DNR's termination of the unit, would provide information on how best to produce the field. Massey said he believes, based on information to date, that gas sales is the best way to go, but recognizes there is some doubt about that and with the gas pipeline years away, the companies can do some cycling.

The $1.3 billion plan calls for 10,000 barrels per day of production and Massey said he doesn't think it will take long to get information indicating which of two paths to take — either expanding the cycling project or finding that the oil in condensate recovery was not adequate. A third option could lead to some additional cycling and gas sales, but the data from the proposed cycling pilot will provide the answer, he said.

Timeline for AOGCC to evaluate Point Thomson gas offtake?

AOGCC Commissioner Cathy Foerster, participating on a July 12 panel at the hearings, was asked how long it would take the commission to evaluate whether Point Thomson gas would be available for gas offtake.

Foerster said there are three ways the evaluation could go.

DNR and Exxon could continue the dispute and Exxon could stop sharing confidential information on Point Thomson with the commission. There is no timeline in that event, she said, because the commission would have no ability to evaluate.

If the dispute continues and Exxon continues to share data with the commission, Forester said the target to complete data exchanges is the end of 2008 or early 2009. Then the commission's consultants would take three to six months to complete their work, and a complete evaluation should be available by mid-2009.

The study could have two outcomes: Exxon is correct in believing Point Thomson should be developed as a gas field, and the ball would then be back in the company's court to come to the commission for pool rules to develop Point Thomson as a gas field. Foerster said the commission should be able to respond within a month of a hearing on the request.

If the commission and Exxon don't agree and the DNR-Exxon Point Thomson dispute continues, the timeline ends there.

But if Exxon has reached an agreement with DNR, the proposed small-scale cycling and horizontal wells into the oil rim would provide information required to answer questions.

Under a scenario where the commission wants more data from Exxon, and the small-scale cycling project moves forward, data should be available from Exxon in 2013 or 2014 on both the oil rim and liquids from condensate.

Foerster said if the oil rim is as viscous as the commission thinks it is, they should know within a month of oil rim wells coming online, and should also know fairly quickly what the results are from cycling.

Where it becomes problematic is if Exxon and the commission don't agree, and the commission requires more gas cycling before gas blowdown, Foerster said.

Neither project viable

On the subject of the gas pipeline, Massey said Exxon doesn't think either the TransCanada or the Denali gas pipeline proposals are viable because it will take agreement between the state and the producers for a project to move forward.

He said what the state proposed in AGIA in the way of financial incentives for producers to commit gas in an initial open season isn't binding on the state and Exxon needs to know what the state's take will be before it can run project economics.

On the economic picture the state's consultants provided for producer economics, Massey said that the treatment of firm transportation commitments provided an incorrect picture of producer economics.

Exxon believes that firm transportation commitments should be treated as long-term debt, which would reduce estimates of producer net present value in the study to zero, Massey said.

The choice for a shipper is to invest in the project through an affiliate or make long-term payments to a pipeline developer. Conceptually it's no different than looking at the true cost of leasing a car, he said.

The economics of long-term payments to a pipeline developer have to be worse for Exxon, Massey said, because the company would then be paying for actual costs plus profits and potentially higher financing costs.

Exxon wants to own a share in the pipeline commensurate with its shipping commitment he said. ●

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CONTRACTS

Anchorage, for construction and maintenance of nearly 50 miles of ice roads and an ice air strip needed to transport the drilling rig and associated materials, camps and personnel to the Point Thomson side.

The company said barges to move construction equipment to Point Thomson have already been contracted.

"The Point Thomson working interest owners are proceeding with the drilling plan and the project while we seek to resolve the dispute with the State (of Alaska) over the Point Thomson Unit," Craig Haymes, Alaska production manager for Exxon Mobil, said in the company's statement. Haymes said Exxon hopes issues can be resolved to the parties' mutual satisfaction.

"Even if we cannot do so quickly, we intend to carry out the drilling program as leaseholders," he said.

Alaskans have been hired, upgrades on the rig have begun and long-lead materials have been ordered in preparation for drilling this winter, he said.

—PETROLEUM NEWS

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LEASE SALE

Alaska State Director Tom Lonnie.

"We don't have a specific date yet, but we're anticipating it would be mid-October," Lonnie said. "There is a chance we could hold a sale September, depending on how quickly we can put it together, but it will be in September or October."

The sale will likely include areas within northwest NPR-A that are not already under lease.

"Our intention in the sale is to also offer tracts in northwest NPR-A," Lonnie said.

Both northwest and northeast NPR-A are particularly prospective for oil and gas — according to the supplemental final plan the mean estimate for conventionally recoverable oil in the northeast area is more than 5 billion barrels, with the estimate for conventionally recoverable natural gas coming in at 16 trillion cubic feet.

"It's also important to understand that NPR-A is extremely important for future gas resources," said BLM Deputy Director Henri Bisson, "It's probably going to be more important from a gas standpoint than for oil."

Lawsuit

Environmental groups brought suit against a 2006 northeast NPR-A lease sale which included a highly prospective but environmentally sensitive area north of Teshekpuk Lake. As a result of the suit, there was a court injunction on the sale and BLM only offered tracts in the northwest, returning unopened the bids it received for the northeast.

The development of the new supplemental final plan followed a court decision that BLM's 2005 Northeast NPR-A amended integrated activity plan/environmental impact statement failed to adequately address cumulative impacts.

The supplemental final plan defers leasing for 10 years in the 430,000-acre area north and east of Teshekpuk Lake. In addition, BLM will not offer leasing in the 219,000 acres of the lake itself, and its islands.

The entire northeast area of NPR-A amounts to 4.6 million acres, Lonnie said.

"We've worked closely with our concerned citizens in Alaska to reach a decision that we thought was very balanced and to try to meet the needs of the country by making these resources available for potential development," Bisson said. "… I think we have made the right decision in terms of deferring leasing for 10 years in the area north of the Teshekpuk Lake. There are many concerns about potential impacts on wildlife, particularly on caribou and on wild fowl."

The deferral will provide an opportunity to see how developments unfold elsewhere in NPR-A before making a final decision about leasing in the Teshekpuk Lake area, he said.

On the Web

The National Petroleum Reserve-Alaska supplemental final plan record of decision is on the U.S. Bureau of Land Management web site at www.blm.gov/ak/st/en.html

See previous Petroleum News coverage:

"Seeking balance at Teshekpuk Lake," in June 15, 2008, issue at www.petroleumnews.com/pnads/163916177.shtml

"BLM won't lease Teshekpuk Lake in NPR-A," in May 25, 2008, issue at www.petroleumnews.com/pnads/446556592.shtml

"Court injunction bans NE NPR-A sale," in Oct. 1, 2006, issue at www.petroleumnews.com/pnads/784810273.shtml

Resource value

The deferred area lies near the crest of a geologic feature known as the Barrow Arch that is associated with major North Slope oil fields such as Prudhoe Bay and Endicott.

However, in May Jim Ducker, BLM environmental program analyst and the agency's senior project lead on the plan, said the deferred lands have a great deal of wildlife resource value — they are an important waterfowl habitat for geese and the Teshekpuk Lake caribou herd calves there. These resources are also important for the subsistence way of life, he said.

The plan acknowledges the oil and gas value of the deferred area, he said, and commented that there is no particular hurry to lease those lands. The nearest infrastructure is 40 to 70 miles away, and even if BLM made the lands available immediately it seems very unlikely they would be developed immediately, he said.

Ducker said there are hundreds of thousands of acres to the east under lease or available for leasing, and while there has been exploration and some discoveries, development hasn't occurred, although ConocoPhillips is pursuing permits for development.

Performance based mitigation

The supplemental final plan also includes performance-based mitigation measures, in which industry has to meet specific requirements for environmental protection. For example, there would likely be a requirement to allow caribou access under pipelines, but developers would have to work with local stakeholders such as the North Slope Borough to determine the height specifications that would satisfy that requirement.

> *"It's also important to understand that NPR-A is extremely important for future gas resources. It's probably going to be more important from a gas standpoint than for oil."* **—BLM Deputy Director Henri Bisson**

"We had implemented those (performance based measures) in the northwest (NPR-A) EIS several years ago and this brings northeast in line with the northwest document," Lonnie said.

And the final plan that BLM has now signed off on has taken into account comments received on the version of the plan issued in May, including refinements to some of the required environmental mitigation measures.

In commenting on the record of decision, Allred also emphasized the challenges of oil and gas development in the remote NPR-A region.

"The decision requires state-of-the-art technology and methods to develop oil and gas while protecting other important values," Allred said. "… The companies that will undertake these activities after we conduct the sale must accept the challenges to develop these resources that are tremendous, that bring uncertainty and represent funding challenges in these frontier areas."

—ALAN BAILEY

INTERNATIONAL

Chavez again threatens to cut off oil to U.S.

President Hugo Chavez says if Exxon Mobil Corp. dares to freeze Venezuela's assets, he will not sell any more oil to the United States.

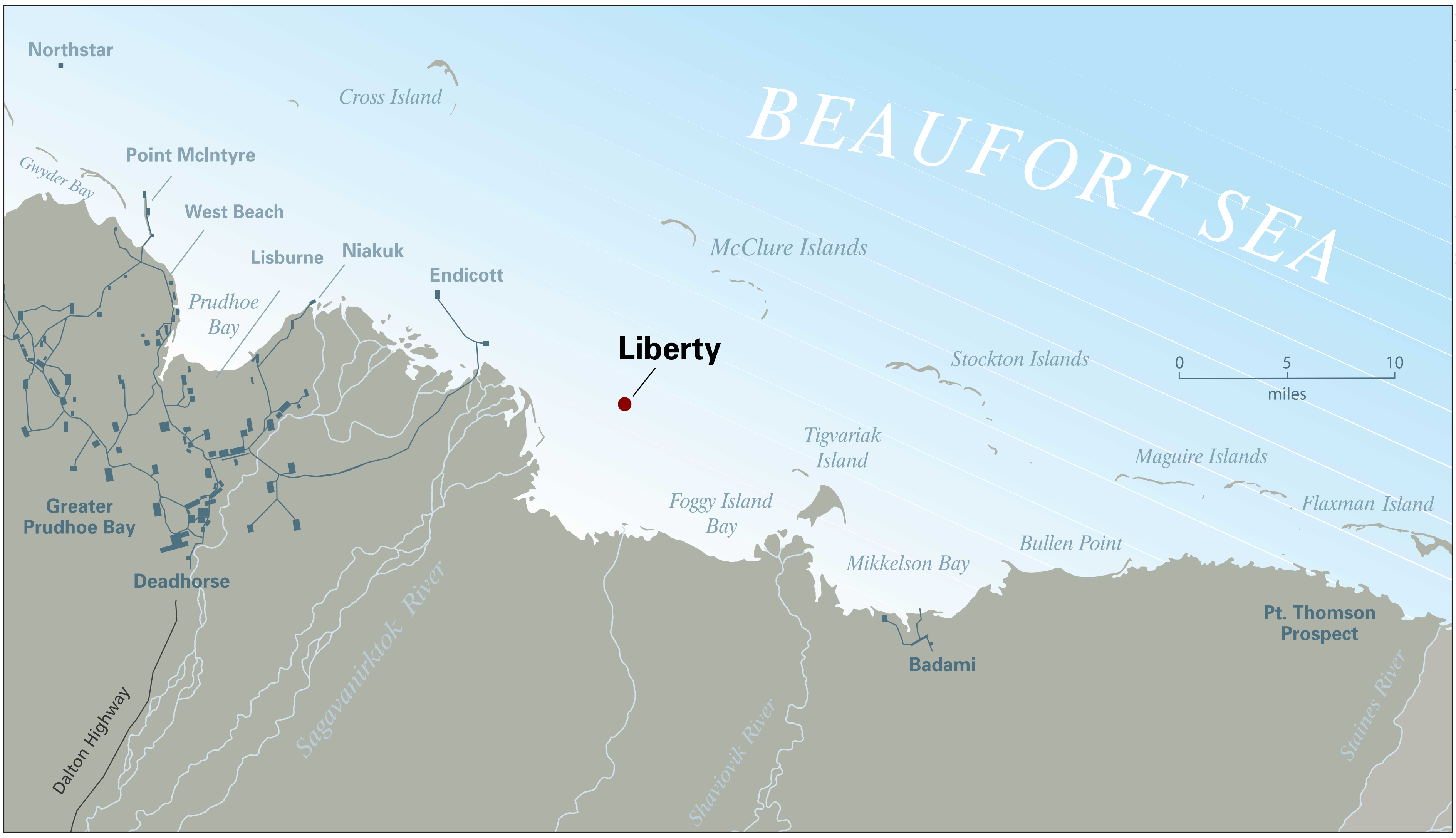
Chavez said July 13 that while the U.S. oil giant lost an international court case to freeze the assets in March, it is still trying.

He said that if ExxonMobil succeeds, oil prices will reach US$300. He also accused the company of stealing Venezuela's oil.

Venezuela took control of four major oil projects last year, prompting ExxonMobil to leave the country. They have since been battling over compensation.

Chavez also reiterated threats to cut off oil sales to the U.S. if Washington tries to oust him. Despite political tensions, the U.S. remains the top market for Venezuelan oil.

—THE ASSOCIATED PRESS



The Liberty oil field is located in the Beaufort Sea off Foggy Island Bay, east of the Endicott field.

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LIBERTY

"We'll be doing a number of things that have never been done before in our industry," Suttles said. "We'll be drilling the longest wells ever drilled."

Work has started

Work on the Liberty project has already been cranking into action. A high-resolution 3-D survey of the drilling corridor and construction of the massive drilling rig required for the project are both under way.

"We started fabricating the rig just a few weeks ago," Suttles said. "… Now we're actually moving. There are people at work."

BP is gearing up to do the civil construction work involved in expanding the Endicott satellite drilling island during the winter of 2008-09, ready to mobilize the rig to the drill site in the summer of 2009, said Darryl Luoma, Liberty project general manager. The site will be expanded from about 11 acres to about 30 acres to accommodate operating space for the rig, an extended pipe rack and a new camp for on-site workers, he said.

Following assembly of the rig on the drill site, the rig will be commissioned and handed over to the drilling operations team for the commencement of drilling in 2010. Following a three-month period of training and rig shake down, the first well will be a simple injection well for disposing drilling cuttings. That well will mark the start of a four to five-year drilling program, with first production slated for 2011, Luoma said.

Shallow water

The Beaufort Sea is about 20 feet deep in the area of Liberty and BP originally conceived a field development plan involving an offshore production island. The field would have become a look alike to the Northstar field, in the Beaufort Sea around 35 miles to the west, with a subsea pipeline carrying oil to the shore. But in 2002, following major cost and schedule overruns in the Northstar development, BP cancelled its plans for Liberty.

In 2005 the company came up with an alternative plan to develop the field using extended reach drilling from a shore location, perhaps at Point Brower, on the west side of Foggy Island Bay, or at another location further east. The company had already successfully used extended reach wells with horizontal departures of 25,000 feet and more to tap oil from an undersea reservoir in its Wytch Farm field in southern England.

Early extended reach drilling concepts for Liberty involved piping the production from a remote drill site to either the Endicott or Badami facilities for processing, Luoma said.

But, rather than embarking on a significant North Slope infrastructure extension to a remote location, in addition to dealing with some major drilling challenges, BP eventually elected to drill extended reach wells from the Endicott satellite island. The island is already connected to the North Slope road system and the wells could easily hook into the Endicott production infrastructure, Luoma explained.

The Liberty drilling pad and associated facilities will require an extension to the existing Endicott satellite drilling island. But by simply bolting Liberty onto the existing Endicott infrastructure, the surface impact of the new field will be minimized.

"What in effect we're doing is using world-class wells, world-class drilling technology to significantly reduce … the footprint of development," Luoma said.

And, by operating from an existing field infrastructure, BP will be able to use an amended version of the Endicott oil spill contingency plan, rather than have to develop a completely new plan for Liberty, he said.

Up to six wells

The development plan that BP has now put into operation involves drilling up to six ultra extended reach wells to hit targets two miles underground, anywhere from six to eight miles from the surface well location at Endicott. The drilling plans involve drilling downwards from the Endicott drill pad and then deviating the wells to the east into near horizontal configurations. Then, as the drill bits grind their way close to the Liberty field location, the drillers will deviate the wells down into the reservoir, Luoma said.

The required horizontal departures of

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LIBERTY

34,000 to 44,000 feet from the surface wellheads would establish new world records.

"We see Liberty as really the next step, the next progression out, for extended reach drilling," Luoma said.

BP has already conducted extended reach drilling with horizontal departures up to about 20,000 feet in the Milne Point, Niakuk and Northstar fields on the North Slope and in the Beaufort Sea. But rotating the drill string in an exceptionally long well requires an especially powerful rig. The lack of suitably powerful drilling rigs on the North Slope has proved an obstacle to pushing the extended reach drilling envelope in northern Alaska, Luoma said.

Massive rig

So, for the Liberty drilling, BP has commissioned Parker Drilling Co. to design and build the world's most powerful land based drilling rig.

"We describe the rig as one of the enabling pieces of this project — we actually wouldn't do this project if we weren't bringing this special piece of equipment up here to Alaska," Luoma said. "… This piece of equipment delivers about two times the power requirement to turn the drill pipe as any other piece of equipment out there in the industry."

But with exceptional lengths of drill pipe subject to exceptional stresses, the weight and strength of the pipe material become critical to drilling success. BP has been developing lightweight steel alloy pipe designs for the Liberty drilling and may even use aluminum piping at the downhole ends of the wells.

"That pipe, 30-foot lengths of pipe screwed together, over nine miles long has to hold together under some extreme stresses and pressures," Luoma said. "We have a drill-pipe development program that's under way now that is producing Liberty-spec drill pipe … that's running through lab testing."

Field testing in Alaska of the Liberty-spec piping later in 2008 should enable BP to order the piping by the end of the year, he said.

The directional drilling will use state-of-the-art rotary steerable technology to steer a drill bit along a planned well path across several miles into a selected target in the oil reservoir. Mud pulse technology, in which sound signals are transmitted through the drilling mud in the well, will enable the drillers to communicate with equipment at the downhole end of the well, to determine the precise location of the drilling bit and to manipulate the steering technology.

COURTESY BP EXPLORATION (ALASKA) INC.

The Liberty wells will be drilled from this Endicott satellite drilling pad, expanded for the purpose. The pad is connected to the shore by a causeway.

Well casing

The placement of steel casing along the length of each well bore will also prove critical to success.

"Our biggest risk in drilling a well all the way out to the Liberty reservoir is having a weak zone … that caves in on us," Luoma said.

And the exceptional length of the Liberty wells will entail the use of four different casing diameters, two more diameter changes than in a conventional well. The casing diameter will become progressively smaller from the surface end of the well to the downhole end.

BP is also trying to minimize drilling problems by conducting the 3-D seismic survey that has just started in the waters east of Endicott. Rather than delineating the field reservoir, the survey is focusing on the drilling corridor between Liberty and Endicott. The current seismic data from the area isn't adequate for detailed well planning, Carl Lundgren, Liberty subsurface manager, explained.

"We're going to be able to precisely place different casing strings all the way down through the rock section into the reservoir," Lundgren said.

The use of 3-D visualization software will also enable the identification of potential hazards that might cause expensive drilling delays.

"We're able to … map certain features … look for different weaknesses in the rock and be able to angle the wells around different zones that we see a concern for," Lundgren said.

For example, the well planners want to precisely delineate a worrisome 2-mile by

see **LIBERTY** *page 24*

The world's most powerful drilling rig

In a press conference on July 14 announcing BP board approval of the development of the Beaufort Sea Liberty field, Liberty Project General Manager Darryl Luoma described some of the features of the custom rig that Parker Drilling Co. is constructing for the field. To handle the exceptional demands of rotating and moving a drill string in a well bore that may be anything up to nine miles in length, the rig has to be able to apply an exceptionally high turning force to the drill pipe.

Consequently a key component in the new rig will be the massive top drive, the device slung in the rig derrick to grip and rotate the drill pipe, Luoma explained. Although the drive will rotate the pipe at a conventional 130 revolutions per minute, the torque applied to the pipe will max out at 105,000 foot-pounds, compared with the 30,000 to 45,000 foot-pound torque of a typical North Slope rig.

In fact the power of the drive greatly exceeds that in any drill rig worldwide.

"This piece of equipment delivers two times the power requirement to turn the drill pipe as any other piece of equipment out there in the industry," Luoma said.

Parker factory tested a version of the top drive in late 2007 — BP has actually ordered the fifth version of the drive for use in the rig, Luoma said.

"In fact the Liberty top drive right now is under construction … and will be delivered to this rig early next year," he said.

BP is developing specially designed drill pipe that is relatively lightweight but can withstand the high torques that the top drive will be able to deliver.

Automatic pipe handling

And because an individual well might require 90,000 to 100,000 feet of drill pipe and casing, the new rig layout will include an especially large pipe barn. Equipment to automatically handle the assembly and positioning of the drill pipe will enhance rig safety, Luoma said.

"People won't have to physically screw the pipe lengths together," Luoma said. "There's equipment that picks it up, puts it together and makes it up, and then lifts into the drilling operation."

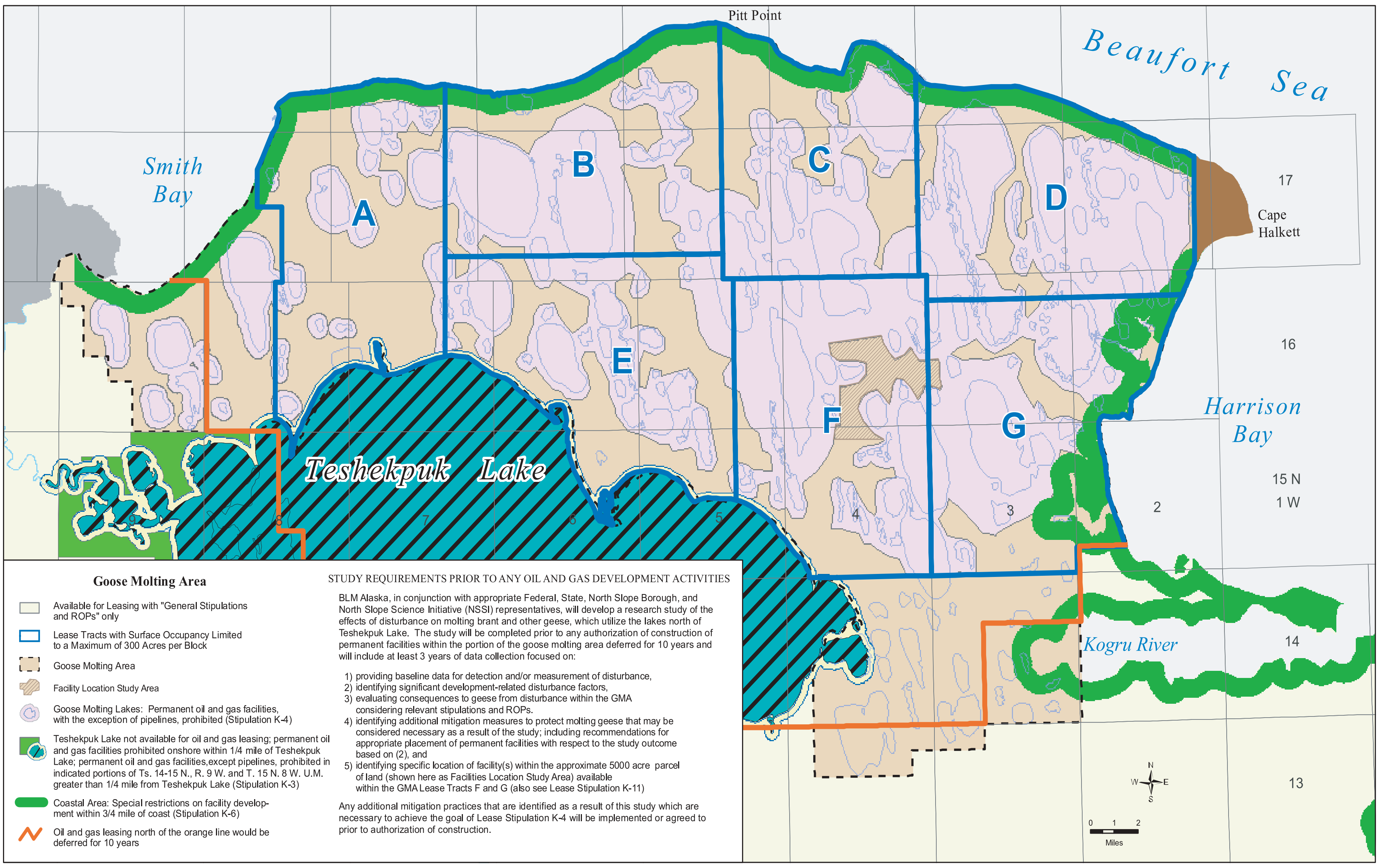
The long wells will also require fluid pressures up to 7,500 pounds per square inch, compared with the 3,500 to 4,500 pounds per square inch of a typical Prudhoe Bay drilling operation. And the volumes of fluid involved require an especially large drilling service module for fluid handling.

Natural gas will power the rig, while liquid cooling of the equipment will eliminate the need for noisy cooler fans and blowers.

"Folks working on this rig will be able to have a conversation on the rig floor," Luoma said.

—ALAN BAILEY

BLM sets fall NPR-A lease sale; 10-year deferral for Teshekpuk



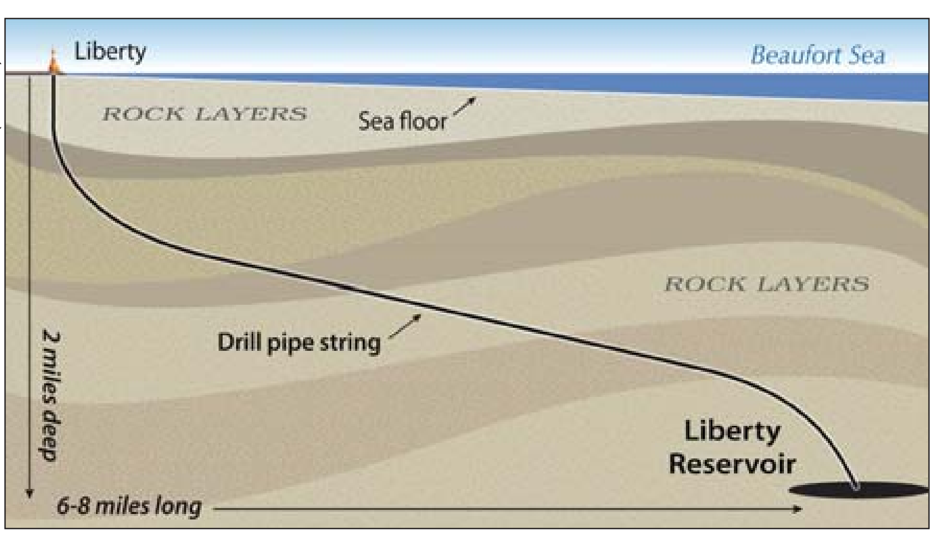
U.S. DEPARTMENT OF INTERIOR'S BUREAU OF LAND MANAGEMENT

Source: USDOI-BLM, 2007

Map 2. Northeast National Petroleum Reserve-Alaska Decision: Goose Molting Area

See story, page 1

The goose molting area of the northeast National Petroleum Reserve-Alaska. The U.S. Bureau of Land Management has deferred oil and gas leasing for 10 years in the area north and east of the red line. Leasing is banned within the perimeter of Teshekpuk Lake.



COURTESY BP EXPLORATION (ALASKA) INC.

The Liberty wells will be the world's longest, reaching the field reservoir at locations two miles deep and as much as eight miles away from the drilling rig.

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LIBERTY

12-mile canyon structure in the subsurface of the drilling corridor.

"We've never drilled something like that," Lundgren said.

Although there's always a risk of failure, BP is confident that it's done its homework in assessing the technical feasibility of the Liberty drilling.

"We've been working for the last three years and even beyond that identifying how to drill these wells," Luoma said. "We believe with the technical work that we've done we can deliver the wells at Liberty."

"What we've done is moved it from something we wanted to do three years ago but weren't willing to invest in yet," Suttles said. "… "You're never guaranteed but obviously we believe we're going to be successful."

Federal leases

Because Liberty lies in federal outer continental shelf leases, the field comes under the jurisdiction of the U.S. Minerals Management Service rather than the State of Alaska. And BP will not pay state ACES production tax on Liberty oil.

"This will be the first fully federal development in Alaska, the first field that lies completely in federal leases," Suttles said (the Beaufort Sea Northstar field straddles state and federal land).

But as well as generating revenues for the federal government, the field will generate revenues for the state and the North Slope Borough, Suttles said. Because the field is located less than 6 nautical miles offshore, the state will receive 27 percent of the federal royalties from field production. The new Liberty facilities will generate property taxes.

And the field will result in employment for Alaskans. Right now 250 Alaskans are working on the project and, at its peak, employment will increase to 500, Suttles said.

Liberty oil will also help keep the trans-Alaska pipeline in operation and, by improving the economics of the Endicott facilities, will extend the life of that field, he said.

But Suttles sees the challenges and risks involved in developing Liberty as part of a worldwide trend towards seeking oil in increasingly difficult situations.

"This is the sweet spot where a company like ours participates," Suttles said. "If you look around the world we're in the tough places doing the toughest stuff, because that's our niche. … That's why we're still bullish about the future for Alaska." ●

Fishing for seismic

The small fleet of vessels conducting a 3-D seismic survey along the drilling corridor for the Liberty field includes bowpicker fishing vessels from Cordova, Alaska, BP spokesman Steve Rinehart told Petroleum News July 15. The vessels were transported up the Haul Road to the North Slope, he said.

Rinehart said that the bowpickers are especially suitable for use at Liberty because they have shallow drafts. The normal bow wheels used for handling the fishing gear have been replaced by devices called "squirters" for deploying and retrieving seismic cables, he said.

CGGVeritas is conducting the survey as a joint venture operation with Kuukpik Corp., the village corporation for Nuiqsut. The survey objective is to obtain geologic information needed to plan the trajectories of the Liberty wells.

"The acquisition runs from July 14 through Aug. 25, and all cables and boats will leave the area by Aug. 28, consistent with the conflict avoidance agreement we have with the Alaska Eskimo Whaling Commission," Rinehart said. "… We have approximately 120 people working on the North Slope to conduct the seismic survey."

During the National Marine Fisheries Service's Arctic Open Water Peer Review Meeting in April, Bill Streever, environmental studies leader for BP Exploration (Alaska) Inc., explained that the Liberty survey would consist of what is termed a water-bottom cable survey, in which geophones attached to cables are strung along the seafloor to detect sound from air guns.

The survey would use two sound-source boats to individually tow air guns, while four bowpicker fishing boats would lay the cabling that carries the geophones. Another boat would house the equipment that records the signals from the geophones, while two other boats would provide general support for the operations, Streever said.

The surveying would involve laying three cables at a time, parallel to each other, across part of the survey area, Streever said. The sound-source boats would traverse backward and forward across the cables, shooting the air guns at intervals along paths at right angles to the cable runs. By progressively moving the cables from one location to the next after each shooting sequence, the survey team would hopscotch its way across the survey area.

Marine mammal observers on the sound source vessels watch for animals and record animal sightings. There is a standard protocol for powering down or suspending operations if an animal comes too close to an active airgun.

—ALAN BAILEY