Petroleum news

page 5 Q&A: Meyer says budget big issue; LNG plan allows state to partner

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Critical habitat proposed

NATIONAL MARINE FISHERIES SERVICE

The Arctic ringed seal, listed as threatened under the Endangered Species Act, has a life style dependent on sea ice. See story on page 13.

FNG signs up with Hilcorp for Fairbanks gas demand

As part of the sale of its liquefied natural gas terminal to Hilcorp Alaska LLC, Fairbanks Natural Gas LLC is entering a supply contract with a Hilcorp midstream subsidiary.

The Regulatory Commission of Alaska initially rejected the gas sales agreement between Fairbanks Natural Gas and the Hilcorp-subsidiary Harvest Alaska LLC on technical grounds. Specifically, Fairbanks Natural Gas forgot to list which customers would be impacted by the deal. After Fairbanks Natural Gas clarified that the deal would impact all 1,120 of its customers, regulators released the gas sales agreement for public comment.

*"FNG feels confident that expansion of LNG capacity at Point MacKenzie will happen faster with Harvest." **—Fairbanks Natural Gas attorney Mark Figura***

The 10-year contract would start at a delivered price of $15 per thousand cubic feet. The price would increase annually by 2 percent starting in the third year and would be adjusted to the lowest price available in the Fairbanks market starting in the

see **SUPPLY CONTRACT** page 18

Yukon dealt setback by Supreme Court; back to Peel River start

First Nations and environmentalists are celebrating a historic Yukon Supreme Court ruling that the territorial government did not respect an agreed-on planning process in revising the proposed land use for 26,000 square miles of wilderness.

The impacts on the natural resource development future of the Yukon are unclear, while the government ponders an appeal.

In a written verdict, Justice Ron Veale rebuked the Yukon government for its decision almost four years ago to slash the amount of protected land to 29 percent from 80 percent, with existing mineral claims remaining valid.

Under the revisions, 27 percent of the Peel River watershed area — which has a drainage basin fed by many rivers — would be open to most types of development, while 44 percent would be available for limited mining.

Yukon Environment Minister Currie Dixon said at the time that beyond the protected area, the government would introduce a new regime that would allow "very limited development."

Kate White, an opposition member in the territorial legislature, accused the government of turning its back on Yukoners by choosing a "path of confrontation and litigation as opposed to planning an economic future for the territory."

see **COURT RULING** page 18

EXPLORATION & PRODUCTION

Trucking Cosmo oil

Fort Worth company planning 33-well onshore program to target offshore oil

By ERIC LIDJI
For Petroleum News

BlueCrest Energy Inc. is permitting a 33-well program to develop the offshore Cosmopolitan field from an existing onshore drilling pad near the community of Anchor Point.

A local subsidiary of the Fort Worth, Texas-based independent would begin drilling this coming March at the Cook Inlet oil and gas field in the southern Kenai Peninsula.

An initial five-year development program calls for drilling 20 directional production wells into various oil-bearing formations, 10 directional water injection wells and as many as three onshore disposal wells. The company would use Parker rig 267 or an equivalent rig for drilling operations. BlueCrest expects initial production of 5,000 barrels per day in early 2016, increasing to 17,000 bpd by the fifth year of operations.

Should BlueCrest ever decide to produce natural gas at Cosmopolitan, it would likely reverse the proposed Enstar line.

The expected commercial life of the project is currently 30 years.

The program calls for trucking oil to the Tesoro

see **COSMO OIL** page 19

FINANCE & ECONOMY

Some big challenges

ASRC CEO: communities intent on developing economy and preserving culture

By ALAN BAILEY
Petroleum News

While benefiting financially from the bounty of the oil industry, the Native people of Alaska's North Slope hold proudly to their traditional culture and their subsistence way of life. However, the North Slope communities face challenges from people who do not live in the Arctic but who covet the Arctic, either as part of some organizational agenda or some national agenda, Rex Rock, president of ASRC, Arctic Slope Regional Corp., told the Resource Development Council's annual conference on Nov. 19. ASRC is the Native regional corporation for the North Slope.

Rock said that challenges are coming from environmental organizations "and their never-ending lawsuits," from the federal government "and its never-ending overreach," and from the development of Arctic policies without the involvement of Arctic residents.

The challenges

Rock said that challenges are coming from environmental organizations "and their never-ending lawsuits," from the federal government "and

see **BIG CHALLENGES** page 20

FINANCE & ECONOMY

Jittery mood in Canada

All sectors brace for prolonged oil slump; one voice suggests US$30 oil possible

By GARY PARK
For Petroleum News

The easy part of the debate over the future of oil prices seems to have been resolved in Canada.

From all angles — producers, governments and analysts — there is a strong consensus that the slump will be lengthy.

What they can't agree on is how low prices will slide and what the impact will be on upstream operations and public revenues.

But one of the most trusted voices in the Canadian oil patch has caused a stir by forecasting that the industry faces a year of "tough sloughing," with many projects postponed, as prices spiral down to US$30 per barrel, then working their way back to stabilizing around US$70-US$75.

*"Right now we have more supply than we have demand. The market now is going to find a price which best reflects what it costs to produce a barrel of oil ... nothing solves low prices like low prices." **—Murray Edwards, Canadian Natural Resources***

Murray Edwards, who has joined the ranks of billionaires through his astute investments and guidance of companies, including in his role as chairman of Canadian Natural Resources, said that even if prices drop below the US$35 level that was

see **JITTERY MOOD** page 19

contents

Petroleum News *North America's source for oil and gas news*

Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of December 4, 2014. Active drilling companies only listed.

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

This rig report was prepared by Marti Reeve

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 Y-14C	BP
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay MPI-12	BP
Dreco D2000 Uebd	19 (SCR/TD)	Alpine CD4-213	ConocoPhillips
AC Mobile	25	Kuparuk 2M-36	ConocoPhillips
OIME 2000	141 (SCR/TD)	Kuparuk 2F-21	ConocoPhillips
Kuukpik	5	Prudhoe Bay	Available
Nabors Alaska Drilling			
AC Coil Hybrid	CDR-2	Kuparuk 2F-18	ConocoPhillips
Dreco 1000 UE	2-ES (SCR-TD)	Deadhorse, under contract to Repsol for winter exploration	Repsol
Mid-Continental U36A	3-S	Prudhoe Bay	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay	Available
Dreco 1000 UE	7-ES (SCR/TD)	Kuparuk	ConocoPhillips
Dreco 1000 UE	9-ES (SCR/TD)	Kuparuk	ConocoPhillips
Oilwell 2000 Hercules	14-E (SCR)	Prudhoe Bay	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Deadhorse, under contract to Brooks Range Petroleum at Mustang	Brooks Range Petroleum
Emsco Electro-hoist-2	18-E (SCR)	Prudhoe Bay	Stacked
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Prudhoe Bay	Stacked
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Deadhorse, under contract to ExxonMobil for 2015	
Emsco Electro-hoist	28-E (SCR)	Prudhoe Bay	Stacked
Oilwell 2000	33-E	Prudhoe Bay	Available
Academy AC Electric CANRIG	99AC (AC-TD)	Deadhorse , under contract to Repsol for winter exploration	Repsol
OIME 2000	245-E (SCR-ACTD)	Oliktok Point	ENI
Academy AC electric CANRIG	105AC (AC-TD)	Deadhorse, under contract to Repsol for winter exploration	Repsol
Academy AC electric Heli-Rig	106-E (AC-TD)	Deadhorse, under contract to Great Bear for winter drilling	Great Bear Petroleum
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Well Drill Site W-26	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Well Drill Site F-28	BP
Ideco 900	3 (SCR/TD)	Kuparuk Well 3-O-13	ConocoPhillips
Parker Drilling Arctic Operating Inc.			
NOV ADS-10SD	272	Prudhoe Bay DS 18	BP
NOV ADS-10SD	273	Prudhoe Bay DS W-59	BP

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
BP			
Top Drive, supersized	Liberty rig	Inactive	BP
Doyon Drilling			
Sky top Brewster NE-12	15 (SCR/TD)	Spy Island S126-NW2	ENI
Nabors Alaska Drilling			
OIME 1000	19AC (AC-TD)	Oooguruk ODSN-02	Caelus Alaska

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Miller Energy Resources			
Mesa 1000	Rig 37	Mobilized to North Fork to begin drilling this winter	Miller Energy Resources
All American Oilfield Associates			
IDECO H-37	AAO 111	In All American Oilfield's yard in Kenai, Alaska	Available
Aurora Well Services			
Franks 300 Srs. Explorer III	AWS 1	Sterling, Stacked out at D&D yard	Available
Doyon Drilling			
TSM 7000	Arctic Fox #1	North Kenai, stacked	Nordaq
Nabors Alaska Drilling			
Continental Emsco E3000	273E	Kenai	Available
Franks	26	Kenai	Stacked
IDECO 2100 E	429E (SCR)	Kenai	Stacked
Saxon			
TSM-850	147	Ninilchik Unit, Bartolowits pad drilling Frances #1	Hilcorp Alaska
TSM-850	169	Swanson River	Hilcorp Alaska

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
XTO Energy			
National 110	C (TD)	Idle	XTO
Spartan Drilling			
Baker Marine ILC-Skidoff, jack-up		Spartan 151 Upper Cook Inlet KLU#1	Furie
Cook Inlet Energy			
National 1320	35	Osprey Platform RU-1, workover	Cook Inlet Energy
Hilcorp Alaska LLC (Kuukpik Drilling, management contract)		Monopod Platform, Workovers	Hilcorp Alaska LLC
Patterson UTI Drilling Co LLC	191	West McArthur River Unit #8	Cook Inlet Energy
Kenai Offshore Ventures			
LeTourneau Class 116-C, jack-up	Endeavor	Port Graham	Buccaneer Energy Ltd.

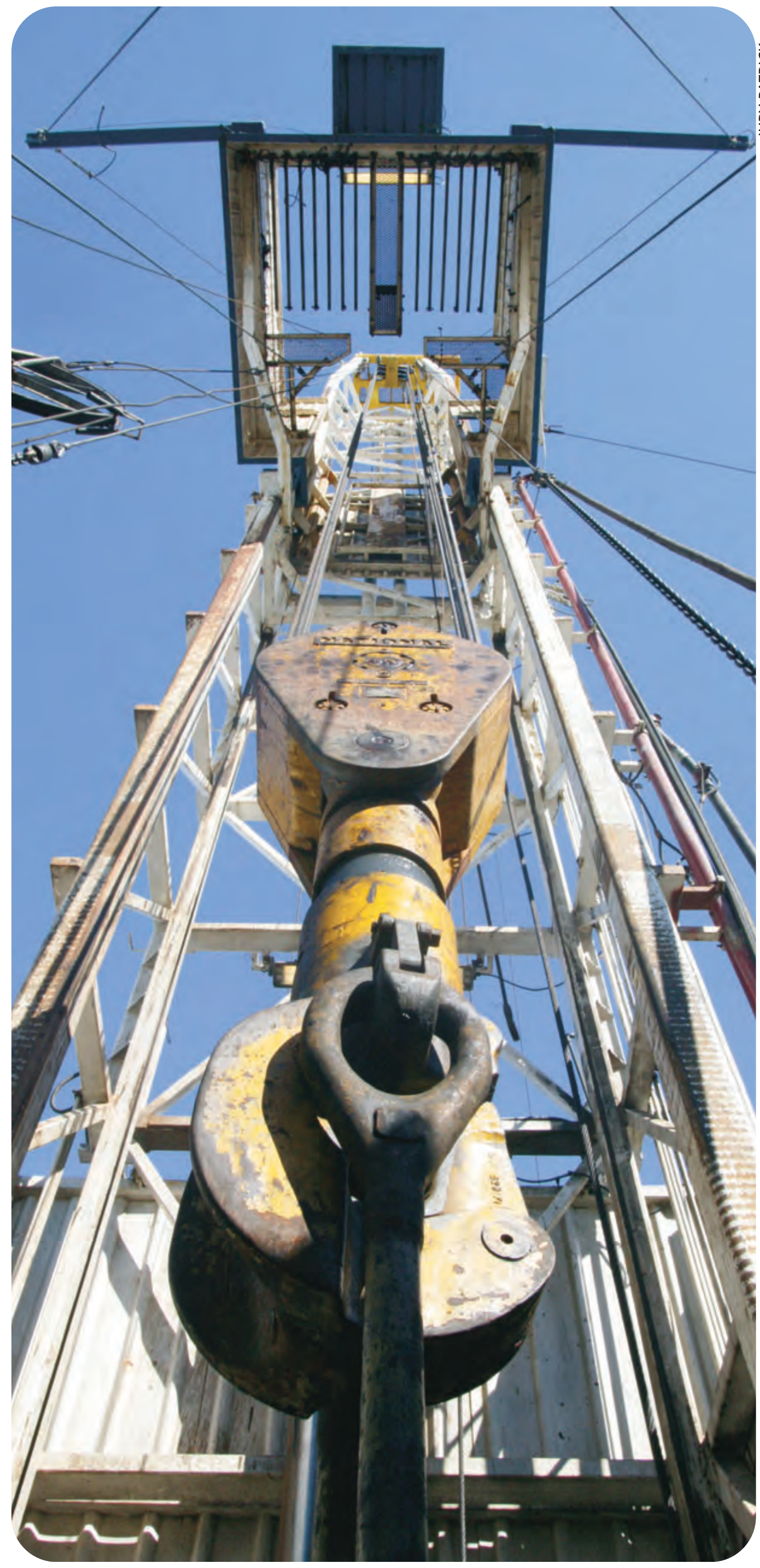
Mackenzie Rig Status

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

Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Akita			
TSM-7000	37	Racked in Norman Well, NT	Available



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	Nov. 26	Nov. 21	Year Ago
US	1,917	1, 929	1,763
Canada	438	434	385
Gulf	52	51	55

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

NATURAL GAS

First Nations eager to take LNG role

BC Nisga'a Nation, Haisla First Nation, want economic benefits; Nisga'a allowing pipeline; Haisla want to acquire floating terminals

By GARY PARK
For Petroleum News

Two aboriginal communities in northwestern British Columbia are positioning themselves to take advantage of any economic benefits from LNG development in their region.

The Nisga'a Nation, in a rare example of Native cooperation on resource projects, has signed a C$6 million pact with the British Columbia government to allow a pipeline to cross a provincial park that the community co-manages with the province.

Separately, the Haisla First Nation has demonstrated its desire to participate in LNG exports by seeking to acquire up to five floating LNG terminals at the same site Enbridge hopes to use for its Northern Gateway crude bitumen terminal.

Nisga'a President Mitchell Stevens told reporters his community is now seeking a partner to build its own LNG facility, having selected four possible locations within its own lands near Prince Rupert.

Nisga'a President Mitchell Stevens told reporters his community is now seeking a partner to build its own LNG facility, having selected four possible locations within its own lands near Prince Rupert.

He said the Nisga'a people are "not interested in a pipe that comes from the northeast and brings resources to the coast. What we are interested in is a pipe that gives us an opportunity to provide for an economic base for our citizens."

Stevens, while acknowledging there is some resistance within the community to LNG development, said the hereditary chiefs gave their blessing to the proposal at a special session of the community's legislature.

Almost 60 miles of the 560-mile pipeline from the natural gas fields of northeastern British Columbia would cross Nisga'a lands, paralleling an existing highway and transmission line that would reduce the level of intrusion.

The Nisga'a had previously signed a deal with TransCanada on the Prince Rupert Gas Transmission line, which received an environmental assessment certificate from the British Columbia government on Nov. 26 to build a line that would deliver gas to the C$11 billion terminal planned for the Pacific NorthWest project, operated by Malaysia's Petronas.

First benefit-sharing deal

The Nisga'a agreement should be the first of several benefit-sharing deals with First Nations that will include skills training and environmental projects, said British Columbia's Aboriginal Affairs Minister John Rustad, who hopes that four aboriginal communities opposed to the Pacific NorthWest terminal location will be persuaded to take a role in the project.

The province has adopted legislation that allows the Nisga'a to levy and collect property taxes from non-Nisga'a residents and companies and their installations including LNG pipelines that operate on treaty lands.

Stevens said his people are embracing the prospect of "becoming an active player in the LNG industry (which is the) kind of opportunity for which our elders struggled to achieve for over a century. Our elders have told us now is the time to be bold and move forward."

Rustad said the Nisga'a agreement is a "significant step for both us and the Nisga'a Nation and also for First Nations across the north in terms of the LNG opportunity."

Haisla involved for some years

The Haisla have been involved for some years in laying the groundwork for participation in the LNG industry, which chief councillor Ellis Ross said is a better option than allowing the export of heavy crude down the sensitive Douglas Channel from Kitimat.

He said the Haisla have rights and title attached to the site as well as political and corporate interests in the land that the community has tried to wrest away from Enbridge.

"Enbridge doesn't have tenure on the land," said Dave LaVallie, manager of Haisla business opportunities as well as chief executive officer of Haisla-owned Cedar LNG Export Development. "They don't have exclusive rights to use and occupy that land."

Enbridge said it has an appropriate "map reserve designation" from the British Columbia government to develop the site, but would be open to discussions with Ellis regarding Haisla-supported LNG projects, having already agreed to its land interest from 1,150 acres to 964 acres to create room for LNG operations. ●

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NATURAL GAS

ASAP public scoping report released

The U.S. Army Corps of Engineers and contractor ERM Alaska Inc. have released the public scoping report for the state's proposed Alaska Stand Alone Pipeline, ASAP, project.

In a Nov. 25 statement the Alaska Gasline Development Corp. said the report is a summary of scoping activities for the supplemental environmental impact statement for the project which occurred between Aug. 1 and Oct. 14.

The report summarizes substantive comments received by the Corps during the public scoping period, but does not include responses to the comments. Responses will be part of the draft supplemental environmental impact statement.

ASAP, the state's backup plan should the large Alaska LNG project fail to progress, would deliver utility grade natural gas from the North Slope to Fairbanks, Anchorage and other communities. The project includes a gas conditioning facility at Prudhoe Bay, a 727-mile 36-inch diameter pipeline and a 29-mile, 12-inch lateral to Fairbanks.

The report is available online at the Corps' SEIS website www.asapeis.com.

—PETROLEUM NEWS

● GOVERNMENT

New Senate president: Budget big issue

Meyer says budgeting done on $105 oil, cuts will need to come faster; LNG plan puts state further along, allows it to partner

By STEVE QUINN

For Petroleum News

Sen. Kevin Meyer has held his share of leadership posts within the Alaska Legislature. On the House side, he served as House Finance Committee co-chair. On the Senate side he oversaw the Legislative Budget & Audit Committee then returned to share duties on Senate Finance with Sen. Pete Kelly.

But most recently, Meyer's peers named him Senate president, a post he'll hold for at least for the next two years.

SEN. KEVIN MEYER

During his 14 years in the Legislature he's constantly fended off criticism of professional conflicts for his work with ConocoPhillips when bills affecting the industry come to his committee or the Senate floor for a vote.

The Anchorage Republican says he's accustomed to the push-back he and other colleagues have received.

As the new Legislature takes shape with its assignments and as the state welcomes a new administration, Meyer's majority caucus has already said resource development, especially the advancement of a natural gas export line, is a priority.

Meyer spoke to Petroleum News about what lies ahead in coming sessions and special sessions.

Petroleum News: One of the state priorities the new caucus announced was resource development, or oil and gas. Talk about that a little, please.

Meyer: Those are preliminary priorities of ours. We will finalize those out at a retreat coming up in the middle of December. The governor will have to release his budget by then. Obviously the budget is a big issue for us this year. As you know we budgeted at about $105 this year and we are about $80. When I was the co-chair of Finance — and I guess technically I still am — we had a plan for declining revenues. Of course key to that was the passage of SB 21 so we could get more production.

We don't hear much about it today, but thank goodness we have SB 21 at these low oil prices. Our plan was to winnow back on the state's spending. At the same time the private sector would pick up spending, so you wouldn't see much of an impact, if any to your economy.

Then we would keep using our reserves to keep basic government services like education and health and social services. We felt like we had enough savings or reserves that, along with reducing the budget, we could last 10 years until we saw first revenue from gas and the gas pipeline. That was our plan, but with oil now at $75 and not $105, we will have to expedite the reduction process.

Petroleum News: Still on the topic of oil taxes, this debate lasted nearly eight years when you folks began debating a change under the Murkowski administration. The voters seemed to have the final say whether to uphold SB 21 or reject. With the decision made, can that help the Legislature move forward without having it hanging over their heads?

Meyer: Yeah, I think so — definitely. As far as the Legislature is concerned, we are done with it. The public verified that with the vote no on 1 campaign. There are going to be people out there saying they like ACES better or they like something else better. There will be rumblings and discussions about it, but like I said, SB 21 works so much better under low oil prices. I just don't anticipate hearing much about it. Even Governor Walker said he's done with it. I hope it's a dead issue and that we can focus on gas right now.

Petroleum News: Are there any particular developments on the oil front that have pleased you and supported your position?

Meyer: I think the private sector has done what they said they would do. They said the passage of SB 21, which basically allows them to have more predictability in what the tax is going to be at whatever price, would change things. As you know the problem with ACES, at high prices it took a disproportionate amount of money in taxes, and at low prices it took less. Right now the oil companies would be much better off at ACES, but what they wanted and what SB 21 did was give them was predictability and stability so they could do some long-range planning. We are seeing projects come on line at Kuparuk and West Sak, especially ConocoPhillips coming through with brining up new drill rigs. You don't bring up new rigs unless you are committed to doing more work.

We heard from Great Bear who was pretty quiet during the oil tax debate, saying they are going forward with their work, more non-traditional type drilling. Then you've got Brooks Range moving forward with the Mustang project. Now we are hearing how Caelus is being much more aggressive with their work. I haven't heard much from BP, but I know they are moving forward within the Prudhoe Bay reservoir and Exxon is still going forward with Point Thomson. I think the oil industry is doing exactly what they said they were going to do. That gives us the Legislature more credibility in what we did. We are counting on that to help us offset the reductions we are going to have to make in state spending, and federal spending, which we don't have much control over that.

Petroleum News: There is obviously a new administration coming. Do you expect anything to change from the work you've started?

Meyer: I think the wild card there is going to be gas and the gas pipeline. I'm not sure we know which way he wants to go with the pipeline. I've heard different stories. I know when we were taking action on the current project, the large one, anyway, he actually testified against it.

He's also learned more about the merits of what we did. Hopefully he's not going to abandon that idea. We are so much further along on a gas pipeline than we've ever been. Certainly, this plan works with the industry rather than against the industry. In my 35 years in Alaska, I've never seen anything good come out of trying to force the private sector to do something that may or may not be economical for them to do it.

They are just not going to do it. It will just lead to more lawsuits and delays. I really like the current plan. It's got us further along than we've ever been. It takes a lot of risk away from the state. We are not having to front the entire $65 billion and we couldn't afford to even if we wanted to.

It does allow us to be partners and be at the table with the industry. We know what they are thinking; we know what they are doing. We know what their economics are. We may need to make some minor tweaks here and there, but hopefully we don't abandon the current plan.

Q AND A

You know (pending four-term House Speaker Mike) Chenault been pushing that in-state line. That is our backup plan in case the economics didn't work with the big line or the market crashes. We still wanted to have a bullet line to take care of in-state needs. I hope that advances as well because even if we don't get the big line and the revenue from the export, at least we will have affordable gas for our own people, Alaskans.

Petroleum News: Let's go back to your newly appointed post. You seen bills from the post of co-chair in Finance — both House and Senate — as LB&A chair, how do you think your view of any resource legislation will differ?

Meyer: I think it's too early to say. We've seen different perspectives, approaches and bills dating back to Gov. Murkowski, who was pretty serious about getting a gas pipeline. We had special sessions that lasted several weeks in Juneau. He proposed to keep the tax rate on gas over 20 to 30 years. That got people upset. He's the one who brought up the oil taxes and that got the discussion started.

Then Gov. Palin came in. She had her ideas and a whole different approach with AGIA. She actually introduced ACES. Her initial idea of ACES wasn't too bad. I blame the Legislature for letting that one get out of control, especially the progressivity part.

Then we tried HB 110, which was a pretty good approach as well, but it wasn't going to pass a bi-partisan Senate. Finally, SB 21 we were able to get it passed. We've seen a lot of different bills, a lot of dif-

see MEYER Q&A page 17

● GOVERNMENT

Alaska and the global Arctic agenda

Drue Pearce questions whether Alaskans have enough influence in major international decisions impacting the state's future

By ALAN BAILEY
Petroleum News

In the global debate over the value of Arctic economic development and the need to protect the region's spectacular environment is Alaska missing out in decisions that could have far-reaching consequences for the state's future? And are the tradeoffs involved in that debate moving too far in the direction of environmental conservation?

In a speech on Nov. 19 at the Resource Development Council's annual conference, Drue Pearce, senior policy advisor for Crowell and Moring LLP, warned that Alaskans might want to be aware of some dynamics in the international Arctic agenda that could have far-reaching consequences in Alaska both for business and for the state's residents.

The Arctic Council

Pearce's speech particularly focused on the organization and activities of the Arctic Council, the intergovernmental forum that performs an important role as a venue for the eight Arctic nations to discuss and pursue issues of mutual interest. In 2015 the United States takes over the chairmanship of the council from Canada, the current chair. That change of chair gives the United States an opportunity to set the agenda for Arctic Council actions.

But there seems to have been a drift in the focus of government policy, away from Arctic economic development and towards environmental conservation, Pearce warned. By way of illustration, Pearce commented that, while President Bush's U.S. Arctic policy, published in 2009, had supported both environmental protection and the promotion of economic and energy issues, President Obama's strategy for the Arctic, released in 2013, said nothing about economic development.

"That's the sea change that we're dealing with," Pearce said. "We now protect and conserve. We don't develop."

And commending the efforts of the Alaska Arctic Policy Commission and the Alaska Federation of Natives in promoting Alaska's interests, Pearce emphasized the importance of having Alaskans involved in decision making over Arctic policies.

"It takes all of us working together to make sure that the people of Alaska, the people who live and work in the United States Arctic, actually have a place, and have an opportunity to explain to the folks inside the beltway what needs to happen and why we need to be there as decisions are taken," Pearce said.

Canadian agenda

The recent agenda for the Arctic Council, agreed at national government ministerial level and set during the current Canadian chairmanship, has revolved around development for the people of the north, with a focus on responsible Arctic resource development, safe Arctic shipping and sustainable circumpolar communities, Pearce said. The council has formed the Arctic Economic Council, a forum for Arctic business development, and has established guidelines for sustainable tourism and cruise ship operations. The council has also promoted the development of the polar code, a set of standards for vessels plying Arctic waters.

The Arctic Economic Council has already identified some initial projects addressing questions such as stewardship of the Arctic and responsible resource development, Pearce said.

And, while ministers and senior Arctic officials from the Arctic nations govern the council, the indigenous people of the Arctic have a say in council policies through the permanent participation of six groups representing indigenous communities around the region.

Environmentalist involvement

But Pearce expressed concern about what appears to the over-weighted influence of environmental organizations in decision-making at the working-group level within the Arctic Council as a whole. Currently there are 11 nongovernmental organizations but no business organizations with Arctic Council observer status, she said. And, with funding being an issue for the council's work, environmental organizations are happy to underwrite projects with environmental perspectives, she said.

Pearce described one project that an Arctic Council working group is conducting to identify areas of the Arctic offshore and coastline that may require environmental protection. That group has produced a draft map of proposed protected areas, including the entire Bering Strait, much of the Aleutian Islands, and much of the Chukchi and Beaufort seas, Pearce said. But, apart from a representative from the Inuit Circumpolar Council-Alaska, there are no Alaskans involved in this working group. The working group includes people from U.S. federal agencies, but has no representation from Alaska local government; from state or provincial governments; from the people who manage coastal infrastructure development; from people who manage local permitting; or from people who manage opportunities for subsistence hunting and fishing, Pearce said.

"The people who work on these maps are the people who covet the Arctic and they don't covet it for the reasons we do," Pearce said. "They'd like the whole Arctic off limits. And, if that doesn't work, they'll draw maps like this, which we will see in litigation."

U.S. chairmanship

When the United States becomes chair of the Arctic Council in April, the U.S. plans extensive public outreach, raising the level of Arctic and climate change awareness, and addressing themes such the impacts of climate change in the Arctic; stewardship of the Arctic Ocean; and improving Arctic economic and living conditions, Pearce said.

But none of the projects proposed thus far under the U.S. chairmanship will help build sustainable Arctic economies, she said. And some will actually undermine the region's economic health, she suggested, citing one study calling for the elimination of emissions in the Arctic, including a ban on all gas flaring.

"The state would be devastated by a decision like that," she said. ●

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● GOVERNMENT

Walker, Mallott inaugurated in Juneau

Governor names Rutherford deputy DNR commissioner; Murkowski adds Pawlowski to staff for Energy and Natural Resources

By KRISTEN NELSON
Petroleum News

The Walker-Mallott administration took office Dec. 1, with Gov. Bill Walker declaring that Alaska doesn't have a resource problem, it has a distribution problem, and pledging to work to get North Slope natural gas to Alaskans and to global markets.

Commissioner appointments of particular significance to the oil and gas industry include Mark Myers at the Department of Natural Resources and Randall Hoffbeck at Revenue — announced in November and previously reported in Petroleum News — and the recent announcement of Craig Richards as attorney general and Marty Rutherford as deputy DNR commissioner.

Myers, formerly director of the Division of Oil and Gas, served as national director of the U.S. Geological Survey from 2006-09, from 2009-10 was the state's first natural gas inducement act coordinator and for the past four years has been vice chancellor of research at the University of Alaska Fairbanks.

Hoffbeck has 30 years of tax administration experience, including petroleum property assessor for the state 2001-06. Recently he served as the North Slope Borough's chief financial officer from 2006-11 and as chief of staff to Mayor Charlotte Brower in 2012.

Richards has been Walker's law partner. A lifelong Alaskan, he holds a juris doctorate from Washington and Lee University, an MBA from Duke University and a finance degree from the University of Virginia. The governor's office said Richards' law practice centered on areas critical to the state, including natural gas project development, finance, taxation and oil and gas leasing.

"I have worked alongside Craig Richards for more than a decade. I trust his judgment and admire his ability to quickly and thoroughly analyze complex legal issues. He will be a strong addition to my administration," Walker said.

Rutherford has 19 years of state government experience, including as DNR deputy commissioner in the Palin administration, and most recently has been special projects manager for Linc Energy. Rutherford is acting commissioner until Myers wraps up work at UAF.

Walker said "Marty is a natural fit for this position. I know and trust Marty. She will hit the ground running and do an outstanding job," he said.

Pawlowski headed to DC

One note of interest from the outgoing Parnell administration is that Mike Pawlowski, most recently deputy commissioner of Revenue, is making the move to Washington, D.C.

Sen. Lisa Murkowski, R-Alaska, said Dec. 3 that Pawlowski will join the Republican staff of the Senate Energy and Natural Resources Committee. Pawlowski is a graduate of Alaska Pacific University.

"Mike has extensive expertise on our state's oil and gas issues," Murkowski said. "I can think of no one better than a lifelong Alaskan with considerable policy experience to add to our team as we make the case for greater access to our federal lands and waters."

House congrats, issues

The House majority and its Democratic caucus both

see **NEW ADMINISTRATION** *page 17*

● FINANCE & ECONOMY

Miller's new well falls short of hopes

RU-9 drilled from Osprey platform in Alaska's Cook Inlet; company reports closing sale of legacy assets in home state of Tennessee

By WESLEY LOY
For Petroleum News

Miller Energy Resources Inc. is reporting somewhat disappointing results from a new well drilled off its Osprey platform in Alaska's Cook Inlet.

On another front, the company recently wrapped up the sale of its legacy oil and gas assets in Tennessee. That makes Alaska nearly the sole concern for Miller.

"Tennessee is where our company got its start, and we think our buyer will have great success there," Carl Giesler, Miller's chief executive, said in a Nov. 21 press release. "At the same time, this sale was the right strategic move for us. It allows us to focus our efforts as well as the market's attention on our substantial Alaskan oil and gas resources and related infrastructure."

$3.3 million sale

Miller didn't name the buyer of its Tennessee assets. The deal closed on Nov. 20.

The sale price was about $3.3 million in cash, the company said.

"Miller expects the sale of its Tennessee operations will reduce costs and increase the company's cash flow by approximately $800,000 per year," Miller said.

Miller is based in Knoxville, Tennessee, and trades on the New York Stock Exchange.

It operates in Alaska via its Anchorage-based subsidiary, Cook Inlet Energy LLC. The company's producing properties in Alaska include the Osprey platform in the offshore Redoubt unit, the West McArthur River oil field and the North Fork natural gas field. The company also is in the process of acquiring Savant Alaska LLC, which will give Miller control of the small Badami oil field on Alaska's North Slope.

Miller said its overall production is currently about 4,200 barrels of oil equivalent per day net.

The company is awaiting final regulatory approval for the Savant acquisition, which is expected to boost Miller's net production by about 600 barrels of oil per day.

RU-9 well disappoints

In the Nov. 21 press release, Miller announced its new Osprey platform well, known as RU-9, had entered production.

Output from the well reached about 100 barrels of oil per day prior to an electrical failure, Miller said.

Production to date from RU-9 "has not met our expectations given earlier tests," Giesler said. "Going forward, we will refocus our drilling program on lower-risk development opportunities at our North Fork, Redoubt and, after the closing of our Savant acquisition, Badami fields in order to grow steadily our production and cash flow."

Miller had high hopes for RU-9. In February, prior to drilling, the company said the well was "intended to capture oil reserves from a large four-way structure located approximately 2.5 miles southwest of the Osprey platform."

Impact of oil price decline

With lower oil prices, Miller's stock has tumbled. The shares closed Dec. 2 at $1.62, down 50 percent from the Nov. 24 close of $3.24 and 75 percent off the July 3 close of $6.40.

The company on Dec. 1 issued a press release reminding investors that Miller has hedged more than 90 percent of its current oil production.

"Miller has approximately 390 MBbls hedged at $98.71 for the remainder of fiscal 2015, approximately 788 MBbls at $95.36 for fiscal 2016 and approximately 233 MBbls at $93.97 from May 2016 through December 2016," the press release said. "The company also notes that it sells the majority of its gas under long-term contracts priced at approximately $7 per Mcf."

Miller has scheduled a Dec. 10 conference call to discuss quarterly financial results and plans for a "lower-risk, more gas-focused" drilling program.

"Based on its oil hedge profile, long-term gas contracts and lower-risk, more gas-focused drilling plan, the company believes it has sufficient liquidity if oil prices remain at current levels for the foreseeable future," Miller said. ●

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● FINANCE & ECONOMY

OPEC keeps output on hold despite prices

Saudis hope to put economic pressure on rival producers in US; poorer members have to meet budgetary needs, can't cut production

By GEORGE JAHN
Associated Press

Reflecting its lessening oil clout, OPEC decided Nov. 27 to keep its output target on hold and sit out falling crude prices that will likely spiral even lower as a result.

Oil prices fell sharply on the news. Even though the decision was largely expected, it showed the once-powerful cartel is losing the power to push up markets to its own advantage.

OPEC has traditionally relied on output cuts to regulate supply and prices. But it appeared to realize Nov. 27 that with cheap crude in oversupply, a reduction would only cut into OPEC's share of the market without a lasting boost in prices and with others outside the cartel making up the difference.

Instead, the move to maintain a production target of 30 million barrels a day appeared to reflect acceptance of the Saudi view within OPEC that short-term pain had to be accepted for later gain.

The Saudis and their Gulf allies hope to put economic pressure on rival producers in the U.S., which need higher prices to break even. In the long term, that could help reaffirm OPEC's dominance of the oil market.

It would also be good news for consumers and oil-importing nations.

The global price plunged $5 to a four-year low of $72.76 a barrel. As recently as June it was around $115.

Oil ministers had come to the Nov. 27 meeting facing two unpalatable choices: Cut their production from 30 million barrels a day in an effort to boost prices and see OPEC's market share fall, or do nothing in hopes of riding out the crisis.

Paring output may not have been very effective because supply from non-OPEC countries, like the U.S., remains high. Also, discipline within the 12-member organization is lax and overproduction by some members would have cut into the effectiveness of any production cut.

In any case, OPEC could have not afforded to scale back production by more than 1 million barrels a day — too little to make a sizable dent in supply.

OPEC Secretary General Abdullah Al-Badry suggested all members were on board with the decision to stick to the present output level, telling reporters "the ministers are happy."

"I see no nagging from consumers, no nagging from producers," he told reporters.

In fact, the decision once again appeared to reflect Saudi Arabia's clout over less powerful OPEC rivals.

By opposing an output cut, Saudi Arabia appears to be hoping to drive prices below the level at which shale oil production is economical. Experts say shale oil production turns too costly at the $60 a barrel level.

"When it comes to the raw decision-making, that is left to the unofficial leader, Saudi Arabia," said Alfa Energy chairman John Hall.

Accounting for about a third of OPEC output, the Saudis can weather lower prices because their coffers are well-padded and its production costs are relatively low.

But poorer OPEC members like Venezuela and Nigeria need levels close to $100 or above to fund national budgets. Saudi rival Iran is suffering, too, with the price drop adding to huge revenue losses due to sanctions on its crude sales imposed over its nuclear program.

If sanctions were to be lifted as part of a nuclear agreement next year, Iran still would need prices close to $140 a barrel to finance the government budget. Crude export revenues finance more than 50 percent of the government's outlays.

In the case of Venezuela, the International Monetary Fund says it needs to sell oil at around $120 a barrel to avoid the threat of national bankruptcy. Bank of America estimates that for every dollar that oil prices drop, the state loses $770 million in net revenue over a year. That puts revenue $12 billion a year below peak levels even if current prices don't fall further.

Nigeria also needs a stronger market to flourish. Analysts say the government has organized its 2015 budget around an oil price of $78 a barrel based on production of 2.4 million barrels a day — but the country is pumping only about 2 million barrels a day.

Angola, Ecuador and other OPEC members with limited production may also suffer — but not so Saudi Arabia's wealthy allies Qatar, the United Arab Emirates and Kuwait.

Iranian oil minister Bijan Namdar Zangeneh said the "OPEC decision was not entirely what we wanted," and analysts suggested that others share that view.

"I think you're going to see additional tension between the OPEC ranks," said Jamie Webster, senior director of crude oil markets at IHS consultants. ●

—Margaret Childs contributed to this report.

GOVERNMENT

Changes to GHG reporting for industry

The EPA, or Environmental Protection Agency, is proposing to add some new requirements for the oil and gas industry to the agency's regulations for greenhouse gas reporting in the United States. The agency wants to include within the reporting program some new rules that would require the reporting of emissions from gas gathering and boosting facilities; from well completions and workovers involving hydraulic fracturing; and from the pressure blowdowns of natural gas transmission pipelines. The agency also proposes mandating the reporting of well identification information.

The greenhouse gas reporting program was mandated by Congress in 2008 and first implemented in 2009, requiring reporting by facilities that emit more than the equivalent of 25,000 metric tons of carbon dioxide per year. Certain systems operated by the oil and gas industry were included in the program in 2010, but EPA now wants more systems included. The proposed additions to the regulations would primarily target the emission of methane, a particularly potent greenhouse gas.

The overall objective of the program is to gain insights into the sources of greenhouse gases, as a guide to future emissions reductions and programs, EPA has said. The proposed revisions to the program reflect rapid changes in the petroleum industry since 2010 and address current gaps in the data coverage, the agency says. In some cases, the proposed new regulations would aggregate emissions for a facility with individually small emitters that would previously have fallen below the size limit for mandatory reporting.

EPA is also seeking innovative new ways, such as remote sensing, for identifying and calculating greenhouse gas emissions, the agency says.

The agency says that, following a public comment period and subsequent changes to the proposed rules, it anticipates publishing a final version of the regulation amendments by the end of 2015, so that the changes will go into effect on Jan. 1, 2016.

—ALAN BAILEY

● PIPELINES & DOWNSTREAM

Kinder Morgan red faced

Company loses legal fight, retreats early from exploration of alternate route for Trans Mountain expansion; GPS coordinates wrong

By GARY PARK

For Petroleum News

Losing a legal fight can be costly, annoying and even embarrassing for a corporation.

Getting ridiculed in the process, with no place to hide, is not an experience that Kinder Morgan will soon forget.

The giant energy firm went through that humiliation at the end of November in British Columbia Supreme Court, leaving it with no option but to retreat early from its attempt to explore an alternative route for expansion of its Trans Mountain crude oil pipeline system in Metro Vancouver.

It has now halted drilling to test the viability of tunneling through Burnaby Mountain and pulled all of its equipment and crews out of the area after facing an anti-pipeline protest that garnered international attention because of the focus on plans to increase shipments of crude bitumen to 890,000 barrels per day from the current 300,000 bpd to refineries and tanker terminals in British Columbia and Washington state for export to Asia-Pacific markets.

A spokeswoman for Kinder Morgan said the crews finished drilling down to about 500 feet and issued a preliminary finding that the area appears stable enough for a pipeline.

She said the indications are that the pipeline extension could be built with a tunnel or directional drilling.

The samples collected will provide the necessary information for Kinder Morgan to submit as part of its application to Canada's National Energy Board to proceed with the $5.4 billion project.

A Supreme Court judge refused to extend a court injunction against protesters for another 12 days to Dec. 12, forcing Kinder Morgan to pack up before completing its work.

Contempt charges dismissed

But, more humbling still was the judge's decision to dismiss all civil contempt charges against more than 100 protesters because of GPS errors by Kinder Morgan in specifying the exact location of its requested "no-go" zone.

The company conceded that it provided incorrect GPS coordinates when it initially requested a court injunction, with some of the data so inaccurate that the actual work site was completely outside the area covered by the injunction.

The company conceded that it provided incorrect GPS coordinates when it initially requested a court injunction, with some of the data so inaccurate that the actual work site was completely outside the area covered by the injunction.

Because of the GPS errors, Kinder Morgan applied — at the judge's invitation — to drop the civil contempt proceedings.

In a possible face-saving move, Kinder Morgan — in response to a suggestion by Burnaby Mayor Derek Corrigan, one of the most outspoken pipeline opponents — said it has not ruled out paying the costs of policing by the Royal Canadian Mounted Police.

However, a company spokeswoman told the Globe and Mail that an official request has yet to be made. "If (Corrigan) sends us a bill, we'll assess it then," she said.

The RCMP estimated that scores of officers were involved in round-the-clock duty at a cost of about C$100 an hour.

The spokeswoman said the company expects further activism as work proceeds on the project — one of the few times Corrigan agrees with Kinder Morgan, having alerted protesters to prepare for on-going battles as part of the widening campaign across Canada to block work on fossil-fuel pipelines, especially those sourced by crude bitumen from the Alberta oil sands. ●

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● NATURAL GAS

Legislators get Parnell admin LNG update

By KRISTEN NELSON

Petroleum News

Alaska legislators got an update on the Alaska LNG project from outgoing Parnell administration officials Nov. 28. While most of the Joint Legislative Budget and Audit Committee hearing was in executive session, overheads provided for the public portion of the hearing provided an overview of where the project is and what state officials expect to happen next.

On the issue of holding most of the hearing in executive session, Sen. Anna Fairclough, R-Eagle River, LB&A chair, said in a statement issued after the hearing that when the Legislature passed Senate Bill 138, legislators anticipated "that the Legislature would need to be briefed on sensitive information to protect Alaska's interest in the LNG project on behalf of the people of our state."

JOE BALASH

ANGELA RODELL

"It is critical that this information remain confidential so we, as the State participant in the project, aren't tipping our hand to the producers and other partners on our strategy and therefore undermine the State's interest."

She said it is also the job of the "Legislature to be informed and understand why certain decisions and commitments have been made, understand the work that has been done to date for the future development of the LNG project, as well as provide input on the process and decision making."

To participate in the executive session legislators and staff were required to sign confidentiality agreements.

Rep. Mike Hawker, R-Anchorage, LB&A vice chair, said that in passing SB 138 the Legislature "mandated confidential legislative briefings on the AKLNG project. It is right and appropriate that we receive a status briefing in accordance with the rules we established as part of the transition of administrations."

In the public briefing, by outgoing Natural Resources Commissioner Joe Balash and outgoing Revenue Commissioner Angela Rodell, the commissioners said the state believes the pre-FEED, preliminary front end engineering and design, phase, requires "term sheets for key project terms" by the second quarter of 2015, with a royalty in kind decision in April, final fiscal agreement and potentially other key agreements by August, a special session of the Legislature in the fall of 2015 and final enabling agreement to move into FEED in the first quarter of 2016.

The public release of agreements would occur in August 2015, followed by the special session in October and a FEED decision in the first quarter of 2016. ●

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● ALTERNATIVE ENERGY

Canada turning green

Survey shows renewable energy employs more than oil sands, but GHG emissions still rising; think tank calls for government support

By GARY PARK

For Petroleum News

Canada's renewable energy sector employs more people than the oil sands, with C$25 billion invested in green energy projects over the last five years, peaking at C$6.5 billion in 2013.

The investment spurt has moved Canada to seventh place among the Group of 20 industrialized nations from 12th spot a year ago.

On the downside, greenhouse gas emissions are on the rise according to Environment Canada, meaning the country is not even close to meeting its 2020 international target for curbing emissions under the 2009 Copenhagen Accord — and that ensures that Canada will again have to deal with global finger-pointing as it enters two weeks of meetings in Lima, Peru, on the United Nations framework convention on climate change.

But there was still much to inspire hope for Clean Energy Canada, which released these results Dec. 2 in its first annual survey of Canada's clean energy performance.

The independent think tank said that "while pipelines grab more headlines, clean energy is grabbing growth," crediting policy leadership in the British Columbia, Ontario and Quebec governments with helping to drive renewable energy investment and a 37 percent increase in full-time employment since 2009 to 23,700, outnumbering the 22,340 direct employees in the oil sands.

"Clean energy has moved from being a small niche or boutique industry to a really big business in Canada." —Merran Smith, director, Clean Energy Canada

Big business

"Clean energy has moved from being a small niche or boutique industry to a really big business in Canada," said Merran Smith, director of the think tank.

She said investment in the sector over the past five years is about the same as agriculture, fishing and forestry combined and the industry will "continue to show huge growth potential."

But Smith said Canadian government backing is crucial for clean energy in the same way that federal money has helped every major industrial sector — from the oil sands to the aerospace industry — get off the ground.

The study showed that leading fossil fuel players, notably the highly criticized pipeline companies Enbridge and TransCanada, are among the top five producers of renewable energy.

Of the combined 4,090 megawatts of power generated by those companies n 2013, TransAlta accounted for 1,510 MW, Enbridge 890 MW and TransCanada 650 MW.

On the flip side, Alberta — which relies on fossil fuels for 85 percent of its generated power — need to get into the renewable energy game, Smith said.

But she did concede there is a glimmer of hope, with Alberta Finance Minister Robin Campbell declaring that her province has to "get off the oil train."

China leader in both

Globally, the study said China is now the world leader as a carbon polluter and clean energy producer, with the United States second in both categories.

But Clean Energy Canada said U.S. clean energy companies are hungrily eying investment beyond their domestic borders, with the U.S. International Trade Administration flagging Canada as the top market for renewable energy and energy efficiency exports in keeping with President Barack Osama's goal of doubling those exports in the 2010-2015 period. ●

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● FINANCE & ECONOMY

Royalty relief used sparingly in Alaska

A proposal to lower Nuna royalty rates is only the seventh request over the past 18 years; would be third approval

By ERIC LIDJI
For Petroleum News

With the Walker administration facing a decision to maintain, revise or reject a Parnell administration recommendation to offer royalty relief for the Nuna development, it is be helpful to consider the nearly 20-year history of the royalty relief program in Alaska.

Since 1996, the Alaska Department of Natural Resources has only received seven requests for royalty reduction. Prior the current case, the state had only approved two.

On Dec. 2, the state Legislative Budget and Audit Committee reviewed a state plan to reduce the royalty rates on five leases at the proposed satellite of the Oooguruk unit.

If operator Caelus Natural Resources Alaska LLC sanctions the project by the end of the year and meets spending and development targets through early 2017, the Alaska Department of Natural Resources would lower its royalty rate to 5 percent on the leases.

The existing royalty rates on those fives leases are either 12.5 percent or 16.667 percent.

The reduced royalty would remain in effect until Caelus earns $1.25 billion in revenue.

Relief requested for 11 leases

In its application, Caelus requested royalty relief on 11 leases associated with the development. The company said the development would be uneconomic without relief.

The bulk of the application — the section laying out the case for reduction — is proprietary. However, the state claimed to have run independent models before making its recommendation. The state will rule after the comment period ends on Dec. 12.

In documents shown at the hearing, state and company officials claimed that the Nuna development is “high risk, high reward.” The accumulation is thought to contain 1 billion barrels of oil in place, but the reservoir has low porosity, low permeability, high oil viscosity and high initial water cut. Those conditions will require large hydraulic fracturing operations on producers (which is common) and injectors (which is not).

Privately held independent

Additionally, Caelus is a small privately held independent without the financial muscle to fund projects internally or the financial options available to a publically traded company.

That said, earlier this year Caelus announced a partnership with the investment firm Apollo Global Management. The deal gave Caelus access to nearly $1 billion in capital.

The state stands to lose some $44 million in revenue by approving the reduction and stands to gain between $1 billion and $1.75 billion in revenue should to project move forward, according to Department of Natural Resources estimates offered at the hearing.

The deal also requires Caelus to give the state a public account of its development work — including costs, facilities design and forecasts — after two years of production. The state believes that information will be useful to future operators on the North Slope.

Even so, Rep. Les Gara, D-Anchorage, is challenging the recommendation.

Because the “gross value reduction” provision of the More Alaska Production Act, also known as Senate Bill 21, “already produces a negative or near zero production tax worth for post-2003 fields like Nuna,” Gara wrote in a public letter to Parnell administration officials several days before the hearing, “reducing the separate ‘royalty’ Alaskans receive from this field by over 50 percent might leave Alaskans with very little worth for our oil, and that may not be justified under a fair review of the facts.”

Two reduced, two sanctioned

Of the six previous requests for royalty relief received since 1996, the Alaska Department of Natural Resources has approved two: for the Oooguruk unit in 2005 and for the Nikaitchuq unit in 2008. Those two fields have a lot in common. They are the two newest producing fields on the North Slope, and they are the first North Slope fields developed by companies other than BP Exploration (Alaska) Inc. or ConocoPhillips Alaska Inc.

Before Pioneer Natural Resources Alaska Inc. requested royalty relief for the Oooguruk unit in 2005, the three previous requests all came from multinational companies.

First, BP requested relief for the Milne Point unit. The company withdrew the application before the state issued a ruling. BP later developed North Slope field without relief.

Next, Union Oil Company of California requested royalty relief on production from all their Cook Inlet platforms. Concluding that some of the platforms were beyond help and others were economic under existing conditions, the Department of Natural Resources offered to reduce the royalty rate on production from some of the platforms. Unocal instead pursued a legislative solution, successfully lobbying for a law that automatically reduces royalty rates when production from a platform drops below a certain level.

Then, Phillips sought royalty relief for its Tyonek Deep prospect in Cook Inlet. The company later withdrew the application, in part because of complications arising from its subsequent merger with Conoco and in part because the state needed more information.

The Tyonek Deep prospect remained undeveloped.

Oooguruk in 2005

Those requests all came before 2003, when the state made two major changes to the royalty relief process: allowing relief to be granted for an uneconomic portion of an otherwise economic field and allowing regulators to offer royalty relief on a sliding scale taking into account various factors such as oil prices, development costs and total recovery.

In all four cases since that change, including the current case at Nuna, the state has either rejected the request or provided a more limited form of relief than the company wanted.

In 2005, Pioneer Natural Resources wanted a royalty reduction on nine leases at Oooguruk — four at the unit with a 12.5 percent royalty rate and a 30 percent net profit sharing provision and five in a proposed expansion area with a 16.6667 percent royalty.

Pioneer wanted the royalty rate on all nine leases reduced to 5 percent. Without the change, the company told the said it could not “vigorously pursue” development.

The unit included 18 leases, altogether.

The state agreed to modify all nine leases but also made all nine leases net profit sharing, which required Pioneer to share 30 percent of its profits from those leases with the state.

The ruling was the first time the state had used its authority to grant royalty relief to an undeveloped field. Pioneer bought the Oooguruk unit into production in mid-2008.

Nikaitchuq in 2006 and 2008

In 2006, Kerr-McGee Corp. wanted a reduction on 14 leases around its Nikaitchuq prospect — 12 leases with a 16.6667 percent royalty rate and two leases with 12.5 percent royalty rates and 30 percent net profit sharing. The request covered four leases at the Nikaitchuq unit, six at the neighboring Tuvaaq unit, one in the Kuparuk River unit, one in the Milne Point unit and two leases just outside the

see ROYALTY RELIEF page 15

ENVIRONMENT & SAFETY

Ringed seal critical habitat proposed

NMFS wants to designate the entire U.S. Beaufort and Chukchi seas and the northern Bering Sea as critical to the species' survival

By ALAN BAILEY
Petroleum News

Following the 2012 listing of the Arctic ringed seal as threatened under the Endangered Species Act, the National Marine Fisheries Service has now proposed a designation of critical habitat for the animals. The proposed critical habitat region encompasses the entirety of the U.S. Beaufort and Chukchi seas, and the northern part of the Bering Sea. Critical habitat features include the sea-ice habitat that the seals use for lairs, and for activities such as basking and molting; critical features also include the seals' primary prey: Arctic cod, saffron cod, shrimps and amphipods.

Assuming that the critical habitat designation is finalized, any activity in the impacted region involving federal government actions such as federal permitting will trigger a consultation with the Fisheries Service to assess whether the activity may damage any of the critical habitat features. If a likely adverse impact is anticipated, the Fisheries Service will impose mitigation requirements to prevent the damage.

"After reviewing the best available information, our scientists identified the habitat features that are essential for sustaining Arctic ringed seals — a species that is likely to become endangered in the foreseeable future due to climate change," said NMFS Alaska Regional Administrator James Balsiger, when announcing the proposed designation on Dec. 2. "We look forward to hearing from members of the public on this proposal."

Public comments on the proposed designation must be filed with the Fisheries Service by March 3.

NATIONAL MARINE FISHERIES SERVICE

The proposed region of critical habitat for the Arctic ringed seal includes the entire U.S. economic zone in the Beaufort Sea, the Chukchi Sea and the northern part of the Bering Sea.

NATIONAL MARINE FISHERIES SERVICE

The Arctic ringed seal, listed as threatened under the Endangered Species Act, has a life style dependent on sea ice.

Shrinking sea ice

The ringed seal is one of a series of animal species that have been listed or considered for listing, not because of a current shortfall in their numbers, but because of a perceived threat from the impacts of global warming on the sea ice on which the animals depend.

Ringed seals nurse and protect their pups in snow caves, which are threatened by the late formation of ice in the fall, by rain in the late winter and by the early breakup of sea ice in the spring, the Fisheries Service says. A decline in snow depths is projected to result by the end of the century in depths that are too shallow for cave formation, the agency says.

Accordingly, the Fisheries Service's proposed critical habitat region encompasses the entire area of ocean within the U.S. economic zone that can be covered with winter sea ice and where the ringed seals are found. Critical habitat within that region consists of sea ice appropriate for use by the seals for shelter and other activities, with the seals' primary prey also seen as critical to the seals' survival.

Economic impacts

Under the terms of the Endangered Species Act the Fisheries Service must conduct an analysis of the economic impacts of its critical habitat designation. And, as in the habitat designation for the polar bear, another species listed under similar circumstances, the agency has claimed that the only cost of the habitat designation would consist of the cost of agency consultations that the designation would trigger. For the oil and gas industry, for example, the agency says that the critical habitat designation, in itself, will not cause any project modifications beyond those already required to mitigate adverse impacts on the seals.

The agency estimates the total cost of the critical habitat designation over 10 years as $1.3 million in 2012 dollars, with $356,000 of that cost to be carried by the Fisheries Service, $968,000 by private entities and $3,000 by local governments.

Concerns in Alaska

Climate change related Endangered Species Act listings such as those of the polar bear and the ringed seal, with vast areas of critical habitat, have caused concern in Alaska because of worries about potential impacts on economic activities around the coast and offshore. Justifications of the listings depend on climate models that predict climate trends many years into the future.

"This is an unprecedented attempt to place restrictions on a larger than Texas-sized area of water surrounding our state," said Sen. Lisa Murkowski, R-Alaska, in response to the announcement of the proposed ringed seal critical habitat. "I remain skeptical that the listing of ringed seals based on a 100-year weather projection was justified, and I am concerned that this designation would severely impact any economic development from Northwest all the way to our border with Canada." ●

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● LAND & LEASING

State issues Peninsula sale final BIF

Decision covers 10 years of areawide oil and gas lease sales, includes significant new information based on field, subsurface work

By KRISTEN NELSON

Petroleum News

The Alaska Department of Natural Resources Division of Oil and Gas has issued a final best interest finding for Alaska Peninsula areawide oil and gas sales from 2015-24.

In a Nov. 26 finding Bill Barron, division director, said potential benefits of sales in the area outweigh possible inverse impacts and that the sales will best serve the interests of the state.

The sale area is some 4 million gross acres onshore and 1.75 million gross acres offshore in state waters, with 1,047 tracts ranging from 640 to 5,760 acres on the north side of the Alaska Peninsula. The annual Alaska Peninsula areawide sale is held in the spring in conjunction with the Cook Inlet areawide sale.

The state said significant new information about the petroleum resource potential of the area has been found since the last best interest finding was issued in 2005, "the result of several years of integrated field and subsurface research led by DNR geologists" (see "The allure of the Alaska Peninsula" in July 27, 2014, issue of Petroleum News).

Reasonable hydrocarbon potential

Since 2005, results have become available from several years of "integrated field and subsurface research led by DNR geologists" from the Division of Geological and Geophysical Surveys and the Division of Oil and Gas, the decision said.

Past exploration has not yielded commercial production, but "there are indications that the necessary components of active petroleum systems may be present."

DNR said it anticipates that with "a robust, regionally extensive grid of modern scientific data that will be developed through this phased leasing process" and based on that work "much higher estimates of undiscovered oil and gas will likely result, than previously estimated by the U.S. Geological Survey."

DNR said 35 exploration wells have been drilled in the Alaska Peninsula area since 1902, 11 within the boundaries of the sale area.

USGS estimated mean undiscovered, technically recoverable onshore Alaska Peninsula reserves at 9 million stock tank barrels and 188 billion cubic feet of natural gas in 1996, and assigned a 32 percent chance that the area is capable of producing at least one technically recoverable accumulation, with technically recoverable not considering economic factors.

Based on recent field and subsurface research, DNR "staff are of the opinion that future resource assessments, if informed by a robust, regionally extensive grid of modern seismic data, would likely result in much higher estimates of undiscovered oil and gas."

DNR also noted that because the Alaska Peninsula is remote, the area "presents logistical and economic challenges for exploration and development operations." ●

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● EXPLORATION & PRODUCTION

ANS production up 3% month over month

North Slope crude oil averages 537,644 bpd in November; Cook Inlet crude averages 18,836 bpd in October, up 2.3% from September

By KRISTEN NELSON

Petroleum News

Alaska North Slope crude oil production averaged 537,644 barrels per day in November, up 2.98 percent from an October average of 522,094 bpd, but down 3.38 percent year-over-year from 556,470 bpd in November 2013.

The largest month-over-month change was at the BP Exploration (Alaska)-operated Lisburne field, which averaged 23,155 bpd in November, up 214 percent from an October average of 7,363 bpd. The field was completely offline for almost two weeks in October as planned maintenance was wrapped up before the onset of winter. The field was still ramping up at the beginning of November, but after the first two days of the month production was consistently more than 20,000 bpd. Lisburne production includes Point McIntyre, Niakuk and Raven.

Information for November comes from the Alaska Department of Revenue's Tax Division which reports North Slope oil production consolidated by major production centers and provides daily production and monthly averages.

The BP-operated Prudhoe Bay field, the Slope's largest, averaged 313,705 bpd in November, up 0.9 percent from an October average of 310,950 bpd, but down 2.3 percent year-over-year from a November 2013 average of 321,125 bpd.

More detailed data, including Cook Inlet and individual North Slope fields and pools, is reported by the Alaska Oil and Gas Conservation Commission on a month-delay basis.

Most other fields up

The BP-operated Prudhoe Bay field, the Slope's largest, averaged 313,705 bpd in November, up 0.9 percent from an October average of 310,950 bpd, but down 2.3 percent year-over-year from a November 2013 average of 321,125 bpd. Prudhoe volumes include satellite production from Aurora, Borealis, Midnight Sun, Orion, Polaris, Sag River and Schrader Bluff, as well as the Milne Point and Northstar fields. Hilcorp Alaska took over operation of Milne Point and Northstar from BP in November.

AOGCC data shows Milne Point averaged 18,177 bpd in October, down 6.76 percent from a September average of 19,494 bpd. Northstar averaged 8,735 bpd in October, down 0.6 percent from a September average of 8,787 bpd.

The BP-operated Endicott field averaged 9,098 bpd in November, up 5.73 percent from an October average of 8,605 and up 10.2 percent from 8,255 bpd in November 2013. Endicott includes Sag Delta, Eider, Minke and the Savant Alaska-operated Badami field.

AOGCC data for October shows that the Badami field averaged 1,036 bpd, basically level with September production of 1,037 bpd.

The ConocoPhillips Alaska-operated Alpine field averaged 49,306 bpd in November, up 0.85 percent from an October average of 48,891, but down 17.6 percent year-over-year from a November 2013 average of 59,837 bpd. Alpine production includes satellite production from Fiord, Nanuq and Qannik.

The ConocoPhillips-operated Kuparuk River field averaged 142,400 bpd in November, down 2.66 from an October average of 146,285, but up 3.5 percent year-over-year from a November 2013 average of 137,555.

Kuparuk production includes satellite production from Meltwater, Northeast West Sak, Tabasco, Tarn and West Sak, as well as from the Eni-operated Nikaitchuq field and the Caelus Alaska-operated Oooguruk field.

October data from AOGCC shows that Kuparuk and its satellites averaged 108,923 bpd, while Nikaitchuq and Oooguruk combined averaged 38,493 bpd, accounting for 26 percent of the volume summed under Kuparuk in Department of Revenue figures.

Nikaitchuq averaged 24,163 bpd in October, down 3.86 percent from a September average of 25,133, but up 60.6 percent from an October 2013 average of 15,044 bpd, while Oooguruk averaged 14,330 bpd in October, up 14 percent from a September average of 12,568, but up 121.7 percent year-over-year from an October 2013 average of 6,463 bpd.

Cook Inlet up 2.3 percent

October crude oil production from Cook Inlet averaged 18,836 bpd, up 2.3 percent from a September average of 18,413 bpd. At 14,138 bpd, Hilcorp-operated fields account for the majority of Cook Inlet production, followed by Cook Inlet Energy at 2,693 bpd and ExxonMobil subsidiary XTO at 2,005.

AOGCC figures show the largest month-over-month increase at the Cook Inlet Energy-operated West McArthur River field, which averaged 1,662 bpd in October, up 21 percent from a September average of 1,373 bpd.

Hilcorp-operated Trading Bay field averaged 3,303 bpd in October, up 19.45 percent over September production averaging 2,765 bpd.

Cook Inlet Energy-operated Redoubt Shoal averaged 1,031 bpd in October, up 6.37 percent from a September average of 969 bpd, followed by XTO-operated Middle Ground Shoal, which averaged 2,005 bpd in October, up 4.68 percent from a September average of 1,916 bpd.

The Hilcorp-operated Granite Point field averaged 2,800 bpd in October, up 0.4 percent from a September average of 2,788 bpd.

The largest month-over-month decline was at the Hilcorp-operated Swanson River field, which averaged 2,300 bpd in October, down 11.6 percent from a September average of 2,602 bpd.

The Hilcorp-operated McArthur River field, Cook Inlet's largest, averaged 5,617 bpd in October, down 4.5 percent from 5,879 bpd in September, followed by the area's smallest field, Hilcorp's Beaver Creek, which averaged 118 bpd in October, down 2 percent from a September average of 120 bpd.

ANS crude oil production peaked in 1988 at 2.1 million bpd; Cook Inlet crude oil production peaked in 1970 at more than 227,000 bpd. ●

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● ENVIRONMENT & SAFETY

BSEE facility conducts response testing

Tests technology for detection of oil in sea ice, technology for monitoring of dispersed oil and two new oil skimming systems

By ALAN BAILEY
Petroleum News

With an offshore oil spill being a worst-case nightmare both for the oil industry and for anyone concerned about protecting the marine environment, research continues in how to most effectively deal with oil discharged into seawater. In its latest newsletter, Ohmsett, the Bureau of Safety and Environmental Enforcement's New Jersey test facility, has reported some recent testing of new response technologies, including new methods for the monitoring of spilled oil and new oil skimming systems.

The Ohmsett facility consists of a long pond-like tank that can simulate a variety of ocean conditions, for the testing of oil spill response equipment and technologies.

Measuring droplet size

One project conducted at Ohmsett this year involved the evaluation of a new acoustic technique for measuring oil droplet sizes, when crude oil released underwater is mixed with oil dispersant in the presence of methane gas, a situation which prevailed during the Gulf of Mexico Deepwater Horizon disaster. The testing formed part of a project funded by BSEE and conducted by Paul Panetta from Applied Research Associates Inc. and a team of researchers from Virginia Institute of Marine Science and College of William and Mary.

Laser-based optical systems which are used for measuring subsurface oil droplets run into problems when high concentrations of oil obstruct the passage of light through the fluids. The concept behind the new technology is, instead, to use a sonar system to generate an acoustic image of the oil plume, measuring the way in which the sound frequency responds to the scattering effect of the gas and oil.

"Acoustic measurements are needed because the current methods using the LISST (laser in-situ scattering transmissiometer) are not suitable for subsurface releases where the concentration of oil is too high for the LISST," Panetta explained. "The LISST also ceases to operate when its optical window becomes coated with oil."

Measuring the resonance

The Ohmsett testing involved fitting oil and dispersant nozzles, and a gas bubbler, onto a submersible frame placed in the facility's tank. Upon the subsurface release of oil, dispersant and methane, instruments used low-frequency sound to excite the acoustic resonance of gas bubbles and the acoustic response of both the oil and the gas, with high frequency sound also being used to measure the response of oil and gas to the acoustic signals.

LISST equipment was also used for measuring oil droplet and gas bubble volume and size distributions, presumably to verify and calibrate the results of using the acoustic technique.

Oil and ice coverage

Another project at Ohmsett this year involved improvements to the way in which the facility measures oil and ice coverage when testing spill response techniques in simulated sea-ice conditions — the facility has particular value in this type of testing, which can be difficult or impossible to conduct in the ocean itself.

Ohmsett uses photographic imagery for measuring the ice and oil, through a very time consuming process involving a pixel-by-pixel analysis of the imagery. A project funded by BSEE and conducted by MAR Inc. and Ocean Imaging of California involved the development of imaging technology that enables measurement at near real-time speeds, thus presumably improving the efficiency with which spill response tests can be conducted in ice-laden water.

The project employed existing technology to collect camera images and thermal data from the Ohmsett tank, using engineered saltwater ice. The researchers then used the collected data to calibrate and refine computer software used for image and data processing. The team returned to Ohmsett to test the results. The consequence was the construction of a compact device that can be deployed to map the extent of a simulated oil spill, differentiating between oil, ice and open water, and providing data about the thickness of oil between and around ice blocks.

Skimming systems

Also this year, Ohmsett has provided the venue for the testing of two new oil skimming systems.

One of these, developed by French company Ecoceane and called the Workglop 128, consists of a 40-foot, self-propelled skimming vessel, with integrated boom arms and an integrated skimming system that sucks oil from the water surface. The vessel was tested at speeds ranging from one to three knots in both calm and wave conditions, using a medium oil and then a heavy oil.

"We have worked for seven years on the research and development using advanced software simulations and prototypes to achieve the technology represented by the Workglop 128," said Benjamin Lerondeau, technical manager for Ecoceane. The system can collect oil in wave conditions and follow the movement of the oil, while also creating less emulsion when collecting fluids than other systems, Lerondeau said.

Potential future developments include fitting the technology to larger vessels, not specifically intended for oil spill response, and the development of a system for the recovery of oil in icy water, he said.

Oil shaving

Another skimming system tested at Ohmsett, the OilShaver system, developed by Norwegian company Husen AS, consists of a boom-like structure which is towed through the water and which shaves oil from the water surface. The recovered oil is directed into a containment area, from where it flows into a chamber with an oil skimmer and a hydraulic offload pump. Apparently, the system had been tested previously at Ohmsett but required some redesign following trials of the system during a Norwegian oil-on-water exercise.

Ingvar Huse, the system designer, said that the latest testing at Ohmsett demonstrated that system is now ready for the marketplace. ●

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ROYALTY RELIEF

Nikaitchuq unit boundary.

While the Department of Natural Resources initially signaled a willingness to extend relief, officials waited to issue a decision until after the state approved the Petroleum Profits Tax. Ultimately, the state decided that PPT "materially improved" the economics of the project — to the tune of $120 million fewer taxes — and rejected the application.

By 2007, Eni US Operating Co. had acquired the prospect. The American subsidiary of the Italian multinational merged Tuvaaq into the Nikaitchuq unit and asked for relief reduction on Schrader Bluff and Sag River production for 12 leases in the expanded 18-lease unit. Of the 12 leases, 11 had a 16.6667 percent royalty rate and one had a 12.5 percent royalty and 30 percent net profit share. Eni wanted a 5 percent royalty rate.

Ultimately, the state agreed to reduce the royalty rate on the 11 leases with the higher royalty rate. The state said the remaining lease did not appear to overlie an oil pool.

Conditions at Nikaitchuq

The state added various conditions, though, which proved prescient.

First, under the agreement, the reduction only goes into effect when the delivered price of Alaska North Slope crude oil falls below an inflation-adjusted price of $42.64. Using inflation figures from the U.S. Bureau of Labor Statistics, that threshold is currently about $47.02. Even with the dramatic declines in oil prices over the past six months, the spot price of ANS West Coast price has only recently dipped below $70 per barrel.

The reduction would also go into effect, regardless of prices, if production fell below 4,000 barrels per day during the first 10 years of production (barring initial ramp up).

Second, the reduction only covered production from the Schrader Bluff OA sands. To date, that interval has been the focus of development. But Nikaitchuq is currently appraising the economics of the Schrader Bluff N sand, which would not get relief.

Third, the reduction only lasts for the first 25 years of sustained development. Barring any major shutdowns at the field, that deadline would arrive sometime in early 2036.

The decision also required Eni to meet certain spending targets for the first six years and the first 11 years of development. While spending figures are proprietary, Eni sanctioned a $1.45 billion development program in 2008 and appears to be nearing the end of that initial program. The total 11-year spending requirement from the state was $1.398 billion. ●

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Petroleum news

Oil Patch Bits

Erin Gleason joins AECOM's Anchorage team

ERIN GLEASON

AECOM said it is pleased to announce the recent appointment of Erin Gleason as Scientist I, Air Quality, for its environmental business line in Anchorage, Alaska. Gleason will be working with Mark Hodges and Hannah Kroon as part of AECOM's Alaska based air quality practice. This fall Gleason completed her masters of environmental chemistry at University of Alaska Fairbanks. Previously, she was the intern at the Alaska Department of Natural Resources working with the Public Information Center and Division of Mining, Land and Water. Her areas of expertise include atmospheric chemistry, aquatic chemistry and chemistry of sea ice. Gleason was born and raised in Fairbanks.

89 Crowley vessels honored with environmental awards

Eighty-nine Crowley Maritime Corp.-owned and operated vessels were honored with Certificates of Environmental Achievement for years of safe operations during the 11th annual Chamber of Shipping of America awards ceremony Nov. 12. Crowley received an award for each vessel that worked at least two consecutive years without an environmental incident. The 89 vessels have logged a combined 968 years of service without incident, a true testament to Crowley's commitment to keeping harbors and oceans clean.

Each year, CSA invites all owners and operators of vessels that work on oceans or inland waterways to nominate their vessels for Environmental Achievement awards. Approximately 1,386 vessels from 58 companies, including Crowley, were recognized this year at the ceremony held in Washington, D.C. The honored vessels accumulated a total of 10,749 years of safe operations.

COURTESY CROWLEY

Left to right, first row: Francis Lamb, Donna Sears, Tara Weber; second row: Mike Lamb, Steve Sears, Tim Weber, Andy Legge; and third row: Kevin Cameron and Mark Richards

"Safety is the No. 1 core value at Crowley. This includes the safety of our people and those around them as well as the environment," said Mike Golonka, vice president, ship management. "These awards recognize the rigorous work of our crews, who ensure that our vessels operate safely and in an environmentally responsible manner." Forty-seven of Crowley's vessels have gone without incident for 10 or more consecutive years, including the following: Saturn, 45 years; Kuparuk River and Kavik River, each with 44 years; and Sag River, 39 years. Crowley has been honored with Environmental Achievement awards each year since at least 2005.

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MEYER Q&A

ferent approaches. I'm hoping we don't start over again on the gas pipeline.

Petroleum News: You've mentioned the need for not losing sight of the ASAP line and declining revenues, can the state afford stay on both paths?

Meyer: We can't afford both lines. We know that. The bullet line is our backup plan. We still want and need to have something in-state. The big line goes through — I understand there will be the off takes.

I think for sure what we can't afford is a Watana-Susitna Dam and I don't believe we would even need it if we had the bullet line or the big line. I think Gov. Parnell wanted to keep Susitna on the books just in case, but once we make a commitment to the gas line, the other smaller projects will fall off. s

I think we'll know on the big line later next year whether it's a go or no-go, and I don't think it will cost us much more to keep both on the table in the interim. We need to stay with the different gas pipelines until we know for sure which one is going to go or not going to go. That should be fairly soon.

Petroleum News: Can the Legislature do anything during the upcoming session to assist itself to prepare for the end of 2015 when a contract is due? Perhaps updates from consultants or a symposium, which you've done before.

Meyer: I don't think enough is known yet. It's a bit too early for me to say on that one right now. I don't think any of us will be opposed to a special session if it advances the gas pipeline. I think what might slow us down a bit is the transition with the new administration.

Petroleum News: OK, let's talk about the new administration. What kind of relationship do you expect? The incoming chief of staff (Jim Whitaker) was critical of you, Mike Hawker and Mike Chenault of being too close to the industry during the oil tax debate in 2006.

Meyer: I can't speak for my other colleagues. Jim Whitaker and I served in the Legislature together. I always found him to be a nice guy. We always got along real well. We've always disagreed on oil and gas issues, and probably will continue to disagree. Yeah, some of the name calling in the past as far as I'm concerned is forgiven. It's hard to forget them. Again, it had to do with oil taxes and I don't just see oil taxes being an issue any more. So I'm not too concerned about it. I think Jim realizes that I represent a group of 35,000 people in my district.

The people in my district, at least a majority of them, agree with my position on oil taxes and oil and gas issues. The fact that I work part time for an oil company (ConocoPhillips) I think is irrelevant. For them to not have a say on a very important issue like oil taxes, I think Jim would agree it's not very fair to 35,000 people in my district. When you throw Peter Micciche (Kenai senator) in there too, that's 70,000. So now you've got a group people the size of Jim's city — Fairbanks — that would not have a say on oil and gas issues. I think Jim realizes that.

I can't really tell you that I've worked closely with any chief of staff. I didn't work with Jim Clark too much and I didn't work with (Mike) Nizich too much. I don't think it would be a problem at all. I think we are all trying to do what's best for the state of Alaska and we have different approaches on how to do that.

Petroleum News: Still on the topic of a new administration, the announced appointment for Department of Natural Resources commissioner is Mark Myers. He was among many who left DNR en masse during the Murkowski administration. What are your thoughts on his appointment?

Meyer: I actually knew Mark when he worked at ARCO and I worked at ARCO. He's got a Ph.D. in geology and is a smart guy. I know he was pretty upfront about the repeal of SB 21 as was Walker as was Whitaker as were pretty much all the people who seem to be making up the administration, so I'm truly glad that SB 21 is behind us. Again, I think a lot has been learned since we started this process under Murkowski.

That's the wild card: What is going to be the approach on the gas pipeline? Are we going to start new or are we going to start where we are at and move forward rather than recreate the wheel? If we start over, I'm afraid it's going to delay the project. I think we are all anxious to get a gas pipeline sooner rather than later. The state definitely needs the revenue. I think everyone is aware of the factors and concerns, and we are all going to work together and do what's best. Yeah, the gas pipeline, in my mind, is one big question mark.

Petroleum News: So what do you think you can do as Senate president to advance the project?

Meyer: Governor Walker and I have already talked a couple of times. I think it's good that he is willing and wants to work with the Legislature. I don't know if he's talked to the speaker yet. I do know the speaker and I have an appointment with him in the middle of December and Governor Walker is scheduled to talk to the entire majority caucus also in the middle of December.

I think as Senate president I will be able to advocate for all of the work that we have done on the gas pipeline, and that will be my role now. The funding will come from the new co-chairs in Finance. It will be a challenge because there isn't much money available.

So that's how I see my role now: work with the governor; let him know what our feelings are in the majority caucus as it pertains to the gas pipeline, try to keep the communication open between the executive branch and the appropriators in the legislative branch. We need each other. He needs us as the appropriators and we need him as the executive branch.

Also, we will be working closely with the House. I think you alluded to the fact that Chenault and I were co-chairs of Finance in the House. We served together. We had a good relationship. It's certainly my intent that we work well with the executive branch.

Petroleum News: Speaking of your relationship with the speaker and working with the executive branch, you and the speaker took a lot of heat separate from Jim Whitaker for connections to the industry. Now that you're Senate president, and the face of the Senate, do you see that happening further or are you accustomed to it by now?

Meyer: I'm accustomed to it. I just kind of let it go in one ear and out the other ear. I used to be concerned about it and again, we are citizen legislators, we are all going to have jobs and conflicts at one point or another. We have a lot of fishermen in the Legislature who will have fisheries conflicts.

But people know that when they vote for you and the people who have given you their trust and want them to represent them down in Juneau, if they are OK with that, then I'm OK with it as well. They keep asking me to go back and represent them and I'm honored to do so.

I know I'll do what's best not only for my district but also the state of Alaska. Where I work and who I work for on a part-time basis is kind of irrelevant to the whole process. If I don't represent the people who asked me and trust me to represent them, they simply aren't going to vote for me.

I've been fortunate to be voted into office for 22 years now, so no, I'm not worried about it anymore. There are obviously, especially when it comes to oil and gas issues because it's very emotional, are going to be people who are mad at me for voting the way I did. There are just some people who hate the oil companies, and there are going to be people who are mad at me for voting the way I did, and there's nothing I can do about that.

I will say though when we had taken up oil taxes during the bipartisan coalition, and I voted for the oil tax the bipartisan group brought forward, I never heard any concerns, so I think it's kind of partisan thing. It's really just the business we are in and I don't let it bother me anymore. ●

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NEW ADMINISTRATION

welcomed the new administration in press releases following the inauguration.

House Speaker Mike Chenault, R-Nikiski, congratulated the governor and lieutenant governor on their victory.

"Now the work of governing begins," he said. "We look forward to learning of the new administration's plans for the FY2016 state operating budget and the supplemental budget for the current fiscal year. The House is willing to work with the new administration to continue our record of lowering the operating budget, and prioritizing services for Alaskans."

Incoming House Majority Leader Charisse Millett, R-Anchorage, said Alaskans voted for the Walker-Mallott ticket "because they set aside their partisan differences and agreed to work together to move Alaska forward." She said the majority caucus has "partisan and regional diversity; it's something we've prided ourselves on since I've been in the Legislature, and I'm glad to see that spirit now on the Capitol's third floor."

The House majority press release noted crude oil prices are lower than forecast and said Walker promised in his campaign to expand Medicaid while cutting the budget 16 percent.

House Minority Leader Chris Tuck, D-Anchorage, said he has "high hopes that the House Democratic Caucus can help the new Governor and Lt. Governor identify how best to address a number of significant issues including expanding Medicare, advancing a natural gas pipeline and weathering the current fiscal crisis."

House Minority Whip Max Gruenberg, D-Anchorage, said: "Declining oil production coupled with the unanticipated low price for oil means less money for the state of Alaska and some tough decisions for the new administration."

"I supported the Unity Ticket of Walker and Mallott as did Democrats across the state," said Democratic Floor Leader Geran Tarr of Anchorage. "If they stay true to the people that voted them into office and work to protect the best interests of the State then the Walker-Mallott administration will be a success." ●

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COURT RULING

More consultation ordered

Veale quashed the revised land-use plan, ordering more consultations with First Nations and other affected communities.

The Na-Cho Nyak Dun and Tr'ondek Hwech'in First Nations, the Yukon chapter of the Canadian Parks and Wilderness Society and the Yukon Conservation Society launched a court challenge of the government's decision to modify seven years of research and consultation by a commission that called for most of the watershed to be protected.

Chief Roberta Joseph of the Tr'ondek Hwech'in said Veale's decision ensures the watershed will remain sacred "for our grandchildren."

The First Nations' lawyer, Thomas Berger, argued the land use changes had undermined the planning process for the Peel.

"This is a remarkable judgment," he said. "The land use planning process (signed by the Canadian and Yukon governments and Yukon First Nations in 1993) has been vindicated."

He said the "remarkable" judgment is a "great victory for the First Nations, the environmental organizations and all Yukoners. In the end, one of the world's last great wilderness areas will be protected."

Berger, who served on the Supreme Court of British Columbia for 11 years, has gained special recognition for his commitment to ensuring that industrial development on aboriginal land yields benefits to indigenous people.

He is best known for his role in 1977 as commissioner of an inquiry into the original plans for a Mackenzie Valley natural gas pipeline when he dealt a crushing blow to that project by suggesting a 10-year moratorium until Native land claims could be settled.

Government reviewing ruling

The Yukon government said it needs time to review Veale's ruling before deciding how it will move forward once it assesses the implications of the judgment on land-use planning and economic development.

"As we examine the court's opinion and the reasons given by the judge, we will continue to work with First Nations, consulting and engaging on any ongoing files, projects and activities," the government said.

The opposition New Democratic Party said the ruling underscored the government's neglect of its responsibilities under the final agreements of 1993.

NDP Leader Liz Hanson said it was time for Premier Darrell Pasloski to "admit he was wrong to impose unilateral changes to the Peel land-use plan and respect the spirit and intent" of the final agreements.

She described the ruling as a "testament to the importance of building, not sidestepping, government-to-government relationships. Instead of seeking leave to appeal this decision to the Supreme Court the premier should seize this opportunity for reconciliation with First Nation governments."

Government lawyer John Hunter argued before Veale that the agreement on which aboriginal land-claims settlements are based is clear that the government can ultimately approve, reject or modify a final recommended plan submitted by the Peel River watershed planning commission.

Drilling plans stalled

Separately, plans by Northern Cross (Yukon) to drill and test up to 20 exploratory wells over the next eight years on the Yukon's Eagle Plains area have been stalled by three First Nations who have gained an extension on the time they have been allocated to consider the company's plans.

The project also involves building about 50 miles of roads, starting with winter roads, then all-season roads if they are deemed necessary.

The area is about 18 miles south of Eagle Plains within the traditional territory of the Vuntut Gwitchin and Na-Cho Nyak Dun First Nations and the secondary use area of the Tetlit Gwich'in.

The Yukon Environmental and Socio-economic Assessment Board granted the extension, acknowledging the "complexity and size" of the project along with "concerns raised by elders that need to be addressed."

One resident, Don Roberts, told the board that Northern Cross has not done its homework, offering no recent baseline studies on the impact of the project on water, permafrost, caribou migration, or any kind of animal life.

—GARY PARK

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SUPPLY CONTRACT

sixth year.

Fairbanks Natural Gas would buy between 850 million and 950 million cubic feet each year and would provide Hilcorp with good faith estimates of its expected demand on both a monthly and annual basis. Hilcorp would be obligated to provide no more than 50,000 gallons of liquefied natural gas on any day. Those supplies would cover the existing customer base, not the additional customers Fairbanks Natural Gas intends to reach through an expansion of its distribution grid — 32 miles added this past summer and another 50 miles planned for next summer. Those customers must wait for additional supplies to become available to join the system. "FNG feels confident that expansion of LNG capacity at Point MacKenzie will happen faster with Harvest," Fairbanks Natural Gas attorney Mark Figura wrote in recent filings to the commission.

Titan currently owns LNG facility

Fairbanks Natural Gas affiliate Titan Alaska LLC currently owns the Point MacKenzie facility, which prepares Cook Inlet gas for delivery to Fairbanks markets by tanker trucks along the Parks Highway. The current Titan supply starts at a base rate of $15.06 per mcf. Titan purchases its gas supplies from Hilcorp. Those supplies are priced under the terms of consent decree that increases by 4 percent each year. As a result, Fairbanks Natural Gas would pay increasingly less, each year, under the proposed Hilcorp contract.

Another difference between the two contracts is the term. The proposed Hilcorp contract would run through 2025, while the existing Titan contract is set to expire in 2018.

Fairbanks Natural Gas also gets an interruptible supply of liquefied natural gas from ConocoPhillips Alaska Inc. The delivered price for that smaller contract is currently $17.35 per mcf. The price is set to increase to $17.85 per mcf this coming winter.

WesPac Midstream LLC recently offered to provide supplies at an estimated price of $14.57 per mcf starting 2017 from its proposed 250,000-gallon per day Cook Inlet liquefied natural gas facility. The proposal was "essentially a take-or-pay agreement" on a 20-year term, according to Fairbanks Natural Gas, which could have created potential liabilities should efforts to build a North Slope natural gas pipeline ultimately succeed.

Fairbanks Natural Gas also believes the proposed Hilcorp contract would provide a better deal than supplies purchased from a proposed North Slope liquefied natural gas terminal, although the utility acknowledges that the project is still being "studied and designed."

The Alaska Industrial Development and Export Authority and the global infrastructure firm MWH Americas Inc. are jointly developing that project. The project is being funded, in part, through state bonds, loans and grants. "Without the large subsidies, the North Slope LNG plant could not even come close to matching the pricing under the (LNG Supply Agreement)," Figura wrote. The Fairbanks Natural Gas parent company Pentex Alaska Natural Gas Co. LLC unsuccessfully applied to be the private sector partner on the project.

The Regulatory Commission of Alaska is taking comments through Dec. 16.

New rates coming

When Fairbanks Natural Gas became a certificated utility in 1997, the Regulatory Commission of Alaska required it to its file gas supply agreements for approval.

The commission subsequently exempted Fairbanks Natural Gas from economic regulation in 2003. With the utility voluntarily re-entering rate regulation, and currently going through the ratemaking process, the status of that provision is now uncertain.

As part of its ratemaking process, Fairbanks Natural Gas wants regulators to include a gas cost adjustment mechanism in its tariff. The mechanism gives regulated utilities some leeway to change rates in response to changes in the cost of gas supplies (as opposed to a complete ratemaking case, which also considers operational costs and rate of return).

"In light of both the restarting of rate regulation and the proposed (gas cost adjustment), it seems appropriate for (Fairbanks Natural Gas) to begin filing new gas supply contracts, effective June 30, 2014, when FNG filed its rate case. This is the first new gas supply contract since that date," Figura wrote in his recent filings with the commission.

—ERIC LIDJI

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JITTERY MOOD

fleetingly experienced in 2008 they will not stay that low for long "because you will see increased demand and supply." He said OPEC's rejection of production cuts means "we're going to really have to find ways to redo our business if we're going to remain competitive in this low-price environment.

"In the short-term, what you're going to see is projects that are already underway ... move to completion, but in the current price environment ... you will see a real muting or reduction or deferment of future oil sands projects until you get more stability. And I think that may be what OPEC is wanting to achieve."

More supply than demand

He said that "right now we have more supply than we have demand. The market now is going to find a price which best reflects what it costs to produce a barrel of oil ... nothing solves low prices like low prices."

Edwards also said he expects there will be a slowdown among non-oil sands producers such as those in the United States and Canadian shale oil sectors.

However, he said Canadian Natural will continue with its four-month hiring freeze, but will not downsize "because loyalty and employees are very important."

Edwards also urged the Alberta government to avoid changing its regulatory framework by adding "unnecessary red tape or burdens that would make us more cost uncompetitive."

Capital budget based on US$81

In setting a capital budget of C$8.6 billion for 2015 based on oil averaging US$81 for West Texas Intermediate, Canadian Natural has listed C$2 billion of work as discretionary, although that will not affect work on key growth projects such as expansion of the company's Horizon oil sands mine, he said.

Despite a darkening mood within the Canadian industry, Edwards pointed to brighter long-term outlook by predicting that efforts to build new pipelines, such as TransCanada's Keystone XL and Energy East, will continue because they represents a 30- to 50-year opportunity.

Alberta looking at US$65-US$75

Alberta Premier Jim Prentice told a business luncheon that his government will base its spending for the rest of 2014 on oil prices of US$65-US$75.

That came two days after Alberta Finance Minister Robin Campbell said the province expects to post a C$933 million budget surplus for 2014-15, although Prentice warned there could be a period of belt tightening as he lowered Alberta's forecast oil price to US$65-US$75 for the remaining four months of the fiscal year from the earlier target of US$75 which he said could translate in cut in oil royalties of C$1 billion to C$4 billion.

He said that even if Alberta ended the budget year with a deficit of C$4 billion his government will protect core services.

"We could lay off every single member of the civil service and it wouldn't fix he deficit," he said.

For Prentice the most important goal is to "get (Alberta) off the oil train. We have to get to a position where we're not listening to OPEC to decide how many schools we're going to build."

Economist questions other sources

But Robert Kavic, senior economist at the Bank of Montreal, said Alberta will never find it easy to develop new sources of revenue.

"They've been talking about that as long as I can remember," he said. "It's just the nature of the game. It's an oil-driven economy."

Patricia Mohr, a commodities analyst at Scotiabank, said an analysis by her bank showed that oil plays in Western Canada "are on average lower-cost than in the United States, partly due to royalty credits and a more flexible royalty system."

"While several senior and integrated oil producers have indicated little scaling back in their capital spending intentions, junior oil producers face a tougher funding environment," she said, suggesting that drilling activity in Western Canada could drop by 15 percent in 2015.

Canada's Finance Minister Joe Oliver was quick to raise a warning flag, suggesting that the loss of revenues from oil exports, which account for 15 percent of Canada's trade, could mean planned tax cuts or new spending will be shelved. ●

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COSMO OIL

refinery in Nikiski, some 72 miles to the north along the Sterling Highway. BlueCrest would hire an outside trucking company.

The project would be powered with existing Homer Electric Association Inc. power lines and a new Enstar Natural Gas Co. distribution line. Should BlueCrest ever decide to produce natural gas at Cosmopolitan, it would likely reverse the proposed Enstar line.

The Alaska Department of Natural Resources is taking comments through Dec. 26.

Only oil for now

In June 2014, BlueCrest presented a two-pronged program for Cosmopolitan.

The program would have targeted gas accumulations using two new offshore platforms and oil accumulations using extended reach drilling from existing onshore facilities.

BlueCrest also said that it had greater short-term confidence in the oil development than about the gas development, which depended on "a suitable market for gas in the Cook Inlet basin, additional information gained from drilling the first offshore delineation wells, and receipt of all required governmental approvals from the offshore program."

By September 2014, BlueCrest was moving ahead on oil development using extended reach drilling. But the company reiterated that it would need greater commercial assurances before it would commit as much as $500 million to as gas development.

The earlier proposal made no mention of midstream considerations. The current plan to truck Cosmopolitan oil to market revives a pilot project started by an earlier operator.

Discovery in 1967

ARCO Alaska began sniffing around the Cosmopolitan prospect in the 1990s, interested in learning more about an offshore oil discovery Pennzoil made in 1967. Phillips Inc. continued the effort after acquiring ARCO's Alaska properties, forming the Cosmopolitan unit in 2001 and drilling the Hansen No. 1 well from an onshore pad.

Through a merger, ConocoPhillips took over the project in 2002. The company drilled and tested the Hansen No. 1A sidetrack in 2003. Pioneer Natural Resources Inc. came on as a minority partner in 2005 and helped fund a 3-D seismic program over the leases.

After drilling the Hansen No. 1A-L1 lateral sidetrack in 2007 and stimulating the well in 2010, Pioneer launched a pilot project to truck Cosmopolitan oil to market. Over several months, Pioneer trucked some 33,000 barrels of oil to the Tesoro refinery in Nikiski.

Eventually, Pioneer decided against continuing the project and sold the leases to the Australian independent Buccaneer Energy Ltd., which partnered with BlueCrest.

Jack-up may be used in 2015

The companies drilled the offshore Cosmopolitan No. 1 well using the Endeavour jack-up drilling rig and intended to drill a second well to appraise oil and gas discoveries.

Buccaneer ultimately sold its stake in the project to BlueCrest. Under the terms of the deal, BlueCrest agreed to use the Endeavour jack-up rig at Cosmopolitan for at least 50 working days each winter for the three upcoming winters — through April 15, 2016.

That provision recently became moot when the Alaska Industrial Development and Export Authority sold its stake in the jack-up rig to its common owners on the project.

AIDEA agreed to the sale after failing to secure a long-term charter for the rig in Cook Inlet. Once the sale closes, the common owners intend to take the rig to South Africa.

Earlier this year, BlueCrest began permitting the Cosmopolitan State B-1 and said it would drill the offshore well using the Endeavour jack-up rig or the similar Spartan 151 jack-up rig. At the time, BlueCrest said it might defer drilling plans to early 2015. ●

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BIG CHALLENGES

its never-ending overreach," and from the development of Arctic policies without the involvement of Arctic residents. These issues come in the context of a foundation for the prosperity of the communities, set in the past by North Slope community leaders, Rock said.

"All of this history provides a platform for the subsistence lifestyle that nourishes our people and our culture," he said. "The Arctic has always provided sustenance to the Inupiat. It always has, it still does and it always will."

Rock emphasized that regional corporations, including ASRC, had supported the defeat of a referendum designed to repeal the recent change to the Alaska oil production tax. The debate around the oil tax issue had improved people's understanding of how the North Slope Borough's tax base, derived primarily from the oil industry, had brought benefits such as improved health clinics; improved roads; improved water and sewer systems; and lower cost energy, Rock said.

But, as receding summer sea ice encourages more vessel traffic into the Arctic Ocean and more interest in Arctic resource development, why are the Arctic policy conversations not taking place near the communities in the Arctic, he asked. While the North Slope communities have been trying to keep abreast of what is happening, traveling to various meetings at considerable cost, they question why they need to travel around the world to talk about their own home.

A local voice

Rock said that the North Slope communities have formed a nonprofit group called the Voice of the Arctic Inupiat, to provide a unified voice for all North Slope Inupiat entities in confronting the Arctic ambitions of environmental nongovernment organizations. These organizations oppose Arctic development and have been using Native people as a face for raising money for a global campaign, he said. But those same organizations, whose people do not live in the Arctic, do not provide funding for tribal entities — they will next target the Native subsistence lifestyle, he said.

"The problem we face is they have infiltrated our communities and worked to divide those communities for their goals and fundraising agendas," Rock said. "Our region has had enough and we're fighting back."

Greater Mooses Tooth

In illustration of issues relating to the federal government, Rock cited ConocoPhillips' Greater Mooses Tooth development, an oilfield development in ASRC-owned subsurface estate accessed from federal surface land in the National Petroleum Reserve-Alaska. Despite completing an environmental impact statement in 2013, with a plan for the development, the Bureau of Land Management has proposed a permit with significant and costly environmental mitigation measures that may cause the project to become uneconomic, Rock said.

Despite ASRC's right to develop its lands, acquired from the federal government under the terms of the Alaska Native Claims Settlement Act, BLM is using a heavy-handed implementation of the National Environmental Policy Act to impair the Native corporation's land rights, Rock said. It appears that as a consequence of hypersensitivity to litigation by nongovernmental organizations the government is over thinking everything, he said.

"We would like to remind the government that GMT-1 (Greater Mooses Tooth) means the development of Native-owned resources, helping all Alaska Natives, and that any mitigation should be proportionate to the development involved," Rock said.

OCS development

Potential offshore oil development on the federal outer continental shelf of Arctic Alaska also provides an example of federal over thinking, Rock said. The Native communities have in the past opposed outer continental shelf development, because, while such development poses risks for offshore subsistence hunting, the communities have not seen themselves as gaining any compensating benefit — Alaska does not have a revenue sharing arrangement for the federal taxes and royalties that would arise from outer continental shelf oil development.

After the federal government issued outer continental shelf leases, despite Native objections, the communities came to a realization that they needed to align with the development, to impart an influence on what was happening and possibly gain some benefit from what was being done.

"To say 'no' was no longer a viable option and was not going to change anything," Rock said.

In the summer of 2014 ASRC and six village corporations formed an organization called Arctic Inupiat Offshore, to partner with Shell in the exploration and development of the company's Chukchi Sea leases. By sharing risks and benefits with Shell, ASRC and the village corporations will have "skin in the game," Rock said.

"I strongly believe this was the right thing to do," he said. "If Shell is successful we will have addressed all our shareholder dividend needs well into the future, just like our past leaders have done for my generation."

Arctic forums

In the context of the Native people having a voice at the Arctic table, Rock commented on the plethora of Arctic forums that are "popping up almost daily." And the U.S. government is engaged in Arctic policy building at every department level.

"It seems that everybody is on the Arctic policy bandwagon," Rock said.

But, as receding summer sea ice encourages more vessel traffic into the Arctic Ocean and more interest in Arctic resource development, why are the Arctic policy conversations not taking place near the communities in the Arctic, he asked. While the North Slope communities have been trying to keep abreast of what is happening, traveling to various meetings at considerable cost, they question why they need to travel around the world to talk about their own home.

With the United States taking over in 2015 the chairmanship of the Arctic Council, an international, intergovernmental forum, ASRC will need to be diligent in monitoring the development of new Arctic policies, the decision making of working groups and the issuing of guidelines. And, having formed the Voice of the Arctic Inupiat, the North Slope communities will have an entity for addressing policy issues from a local North Slope perspective, Rock said. ●

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