Petroleum news

page 5 Drue Pearce out as coordinator; feds checking background on Larry Persily

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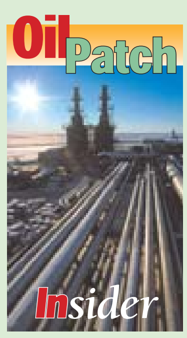
November Mining News inside

The November issue of North of 60 Mining News is enclosed

A Boone worth Pickin'? Shell denies asking for decision delay; Enstar still upbeat on bullet line



CANADIAN INVESTORS ARE BEING GIVEN a chance to find out just how shrewd T. Boone Pickens is in reading future trends in the energy industry.

The one-time corporate raider and promoter of an energy plan to wean the United States of foreign oil, has filed a prospectus, in conjunction with BMO Nesbitt Burns, for the T. Boone Pickens Energy Fund.

The closed-end fund will concentrate on high liquid energy stocks and commodities,

see **INSIDER** page 20

Statoil opening Alaska office, plans Chukchi seismic shoot

Statoil USA E&P is looking for office space in Anchorage to house the company's first Alaska-based employee, Carin Berentsen.

Berentsen, who will be moving to the state from Norway in January, is working on "stakeholder dialogue" about Statoil's tentative exploration plans for its Chukchi Sea leases offshore Alaska, company spokeswoman Kjersti Torgersen told Petroleum News Nov. 19.

Former Alaska Division of Oil and Gas Director Ken Boyd will continue to be Statoil's consultant in Alaska, Torgersen said.

The company is preparing to file permits to conduct a 2010 seismic program over its Chukchi leases, utilizing the techni-

see **STATOIL** page 18

EXPLORATION & PRODUCTION

Cosmo change OK

DOG approves well workover and new schedule for appraisal well drilling

By ALAN BAILEY
Petroleum News

On Nov. 10 the Alaska Division of Oil and Gas approved Pioneer Natural Resources' proposed changes to the fourth plan of exploration for the joint state-federal Cosmopolitan unit, offshore the southern Kenai Peninsula near Anchor Point. The unit contains a known oil pool, estimated at 30 million to 50 million barrels, which Pioneer hopes to develop, with the produced oil probably being trucked north to Tesoro's refinery at Nikiski. The approved plan changes include a workover of the Hansen 1A-L1 appraisal well and a delay in the drilling of another Cosmopolitan appraisal well.

In 2007 Pioneer drilled the Hansen 1A-L1 well as a sidetrack to an earlier Hansen well, and had planned to drill another appraisal well in 2009. But in response to the downturn of the U.S. economy in 2008 Pioneer made drastic cuts to its drilling program in the Lower 48 before deciding in late 2008 to defer the drilling of that second Cosmopolitan well.

Oooguruk production will probably increase by about 10 percent between the fourth quarter of 2009 and the fourth quarter of 2010, said Scott Sheffield, chairman and chief executive officer

Following a rebound in oil prices, the company's drilling program is starting to move ahead again. And, as reported in the Oct. 25 issue of Petroleum News, the company is about to start a workover of

see **COSMO** page 19

PIPELINES & DOWNSTREAM

Flint Hills production lags

Anchorage International air carriers scramble for jet fuel due to spike in demand

By STEFAN MILKOWSKI
For Petroleum News

A spike in demand for jet fuel at the Anchorage International Airport has led to fuel shortages and caused air carriers to dramatically increase the amount of fuel brought into the state.

Fuel demand among cargo carriers typically surges in October and for the first few weeks of November, according to Mike Whitlatch, chairman of the Anchorage Fueling and Service Co., a consortium of 16 global airlines responsible for about 90 percent of fuel used at the airport.

But this year, the surge was stronger than usual. "The demand kind of went from all-time low to basically near-record highs," Whitlatch said in an interview Nov. 18.

Division of Oil and Gas Director Kevin Banks said in an interview Nov. 18 that Flint Hills, which buys royalty oil from the state to make its products, is taking "a lot less oil" than it used to.

Despite increased fuel orders, airlines have struggled with fuel shortages since October, when AFSC first asked carriers to reduce the amount of fuel they draw in Anchorage.

"Airlines made operational adjustments, which included rerouting flights — bypassing Anchorage — or tankering in fuel," Whitlatch said, adding that carrying more fuel into Anchorage increases airli-

see **PRODUCTION** page 19

NATURAL GAS

Arctic gas on the menu

TransCan execs say Alaska, Mackenzie essential for NA energy supply

By GARY PARK
For Petroleum News

Alaska and Mackenzie Delta gas, along with shale volumes from the United States and Canada, could play an essential role within the next decade if North America is to meet the "big challenge" of offsetting a 20 percent annual decline in its supplies, TransCanada Chief Executive Officer Hal Kvisle said Nov. 18.

HAL KVISLE

He said the northern gas (4 billion cubic feet a day from Alaska and the 1 bcf a day from the Mackenzie Delta) would account for only one-third of the 15 bcf per day of new gas needed "just to maintain flat supply" in North America.

"That's where we see an easy niche for some of the northern gas projects to come on stream in the next 10 years," Kvisle said.

Chief Operating Officer Russ Girling, speaking to the same investor day seminar, said TransCanada believes that regardless of rapid growth in shale volumes, Arctic gas "is still going to be needed."

He said that in a "no-growth scenario" for North American demand, the continent must

see **ARCTIC GAS** page 17

contents

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● GOVERNMENT

Unifying the power grid

Plan for Alaska Railbelt power generation and transmission company takes shape

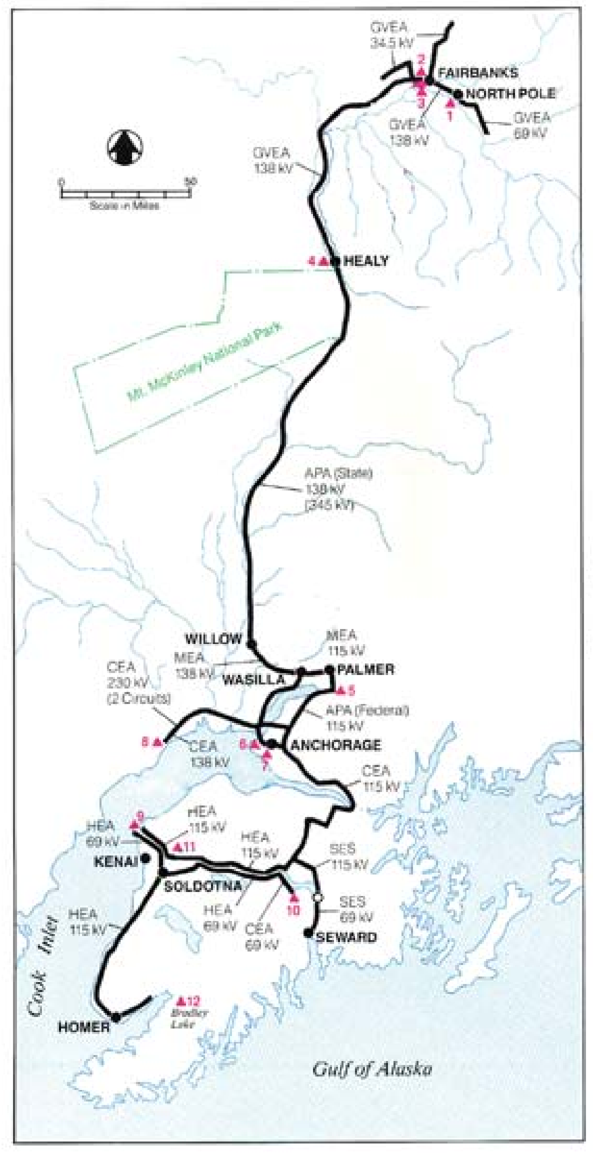
By ALAN BAILEY

Petroleum News

The tight energy supply situation in Southcentral Alaska is reaching a point where some major decisions need to be made, given the increasing threat of a shortfall in the rate at which Cook Inlet natural gas can be delivered to utility customers, and given the age of both the power transmission network and the predominantly gas-fired power stations of the region. A debate continues regarding how best to manage the Railbelt power grid that extends from the southern Kenai Peninsula, through Anchorage and the Matanuska-Susitna valleys, and up along the route of the Alaska Railroad to the city of Fairbanks.

"We have a generation and transmission infrastructure … that's relatively fragile. It has served its needs over a long period of time, but in many ways both the transmission lines and the power generation equipment have become old. … There's a need to renew it," Jim Strandberg from the Alaska Energy Authority told a meeting of the International Association for Energy Economics in Anchorage Nov. 9. Strandberg was talking about the business case for forming an entity called the Greater Railbelt Energy and Transmission Co., or GRETC, to eventually develop, maintain and operate all of the power generation and transmission in the grid, a grid currently operated by six independent utilities.

Under the GRETC arrangement, the existing utilities would purchase power from GRETC for distribution to local consumers.



ALASKA ENERGY AUTHORITY

The aging infrastructure of the Alaska Railbelt electrical grid, with single-line interties between major demand centers, needs expensive upgrades.

Collaborative process

"This process, the GRETC process, is a collaborative process between the Railbelt utilities and the state government, represented by my agency … to respond to changing times," Strandberg said.

The eventual objective is a single Railbelt economic unit with a single systemwide power rate and a single systemwide transmission rate, a unified arrangement suited to an energy future involving large capital investments, he said. But GRETC would likely also have the capability to purchase some power from an independent producer, were such an arrangement to prove advantageous.

In a separate but related initiative, AEA has commissioned the preparation of a regional integrated resource plan for the Railbelt, with a technical conference scheduled for Dec. 10 to roll out the plan results to the resource plan advisory board and to the public. The integrated resource plan will include recommendations for how to implement a future power generation and transmission network, including recommendations on the mix of energy sources, the power stations and the transmission network required for the next 50 years.

"AEA is creating an integrated plan which the GRETC will absorb and take as its own, as it begins operations," Strandberg said. "… We need to determine what to build."

The integrated resource plan includes topics such as a review of proposed Susitna and Chakachamna hydropower projects, as well as options such as wind power and the use of natural gas from various sources, including Cook Inlet and the North Slope. A decision tree analysis assesses the completion risk of all the various possible projects, Strandberg said.

AEA study

The GRETC proposal resulted from an earlier AEA-funded study into the relative benefits of different ways of managing and operating the Railbelt grid. That study, completed in 2008, found that economies of scale and the optimization of financing costs for new infrastructure developments favored the GRETC approach, in preference to the continued operation by six independent utilities of a power grid that is very small, in terms of its power capacity, by U.S. standards.

"The maximum (power cost) savings occur when we fully unify the Railbelt," Strandberg said. Major savings would occur, regardless of the mix of energy sources used for future power generation, he said.

It is also questionable whether the existing utilities have the necessary financial muscle to raise all of the capital that will be required to upgrade the grid in the future.

The cumulative capital requirements over the 30-year period studied could be as high as a figure approaching $9 billion, while the current utilities appear to only have the capability of borrowing less than $1 billion, Strandberg said.

"I think that the conclusion is that we face a substantial shortfall under the present structure," he said.

2009 bill

In March 2009 then Gov. Sarah Palin introduced a bill in the state Legislature to form GRETC but, with insufficient time

see **POWER** *page 5*

SAFETY & ENVIRONMENT

Copenhagen summit shrinks

Pacific Rim leaders give up on '09 climate-change treaty; 'rescue' effort under way; Canada insists on moving in lock-step with U.S.

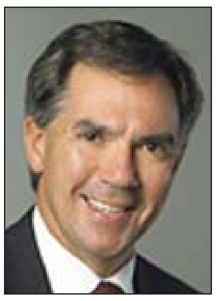
By GARY PARK
For Petroleum News

The Asia-Pacific Economic Cooperation countries met in Singapore on Nov. 15 to seek common ground on a new climate change treaty.

They found it.

Leaders of the 21 Pacific Rim nations, including the United States and Canada, acknowledged there will be no final deal in Copenhagen in December at the United Nations Climate Change Conference.

Now world leaders are desperately trying to find a broad political agreement to avoid turning the Copenhagen summit into a total failure.


JIM PRENTICE

Leaders unlikely to show

But even those prospects are fading as the leaders themselves indicate they are unlikely to show up in Denmark for what environmentalists had portrayed as the last best chance to agree on a strategy for reducing greenhouse gas emissions.

Canada's Environment Minister Jim Prentice is now likely to lead the Canadian delegation to Copenhagen while Prime Minister Stephen Harper, along with other global leaders, passes up the chance to attend.

Prentice, before attending a two-day meeting in Denmark with other senior government officials from around the planet in a last-ditch attempt to develop a "rescue package" for the United Nations' summit, said Copenhagen was never likely to achieve more than a framework of agreement.

"The purpose of the conference is not for each country to table its domestic policies," he told the Globe and Mail. "What we are trying to do in Copenhagen is to try and replace (the Kyoto Protocol) with an overall international framework."

Prentice said the objective for Copenhagen is to reach an international consensus, not an international treaty.

U.S. decision needed

He said Canada cannot start regulating greenhouse gases until other countries, especially the United States, decide how they will tackle climate change.

"If the U.S. does not make a substantial effort going forward, there is nothing Canada can do. Our own mitigation efforts will be futile," he said.

"In the absence of an international understanding and in the absence of an international framework, it is difficult for any country to finalize domestic policies and put in place its domestic approach, whether that's regulatory or cap-and-trade, or something else," Prentice said.

"In the specific case of North America, there is no doubt that matters are complicated by the fact that there continues to be uncertainty about whether the United States Senate will pass a cap-and-trade system or not and, if they will, when they will.

"The challenge at this time (for Canada) is to harmonize on a continental basis with the United States and, to do that, we are clearly going to have to know where the United States is headed on those critical questions."

Prentice, in suggesting that Canada will also have to wait for a global climate-change deal to be brokered, said the "international policies, the North American policies and Canada's own policies have to all fit together in a coherent way if we are going to get the environmental outcome we want and protect the economy as well."

The looming deadlock forced APEC leaders to acknowledge that Copenhagen will result in little more than a "political agreement," but they insisted a binding treaty is still achievable by the end of 2010 and urged a timetable and deadline to keep negotiations moving ahead.

Danish Prime Minister Lars Lokke Rasmussen, in a desperate attempt to salvage something from the United Nations summit, is working on a "political accord" to keep a rise in global temperatures below 2 degrees Celsius, while giving lawyers more time to work on a complex international deal that could be advanced in upcoming United Nations meetings in Germany in June and Mexico in December.

"Given the time factor and the situation of individual countries, we must, in the coming weeks, focus on what is possible and not let ourselves be distracted by what is not possible," Rasmussen said,.

Based on discussions at the APEC summit, Harper said there is a "fair consensus … that a broader political agreement is still achievable in Copenhagen."

The APEC leaders — who gave greater priority to economic recovery and heading off protectionist trade measures — promised to "rationalize and phase out over the medium term fossil fuel subsidies, while providing those in need with essential energy services."

The Pembina Institute, an Alberta-based research and lobby organization, said that despite Prentice's emphasis on "harmonization," the United States is "quickly pulling ahead of Canada. While the U.S. is actively debating comprehensive climate change legislation, Prentice has yet to publish a cap-and-trade plan for Canada."

Although the Canadian government aims to lower greenhouse gases by 20 percent from 2006 levels by 2020, it has yet to introduce a start date or regulations. ●

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NATURAL GAS

Beaufort expedition studies methane

The U.S. Department of Energy's Office of Fossil Energy's National Energy Technology Laboratory completed a 12-day Beaufort Sea expedition Sept. 26 to gather data on changing concentrations of methane across the Beaufort and information to evaluate methane hydrate as an energy resource in the region.

NETL said in an Oct. 29 Fossil Energy Techline that the Beaufort Sea expedition included research partners from the U.S. Naval Research Laboratory and Royal Netherlands Institute for Sea Research and gathered data to help understand "fluxes" or changes in the concentration of methane within and across the Beaufort shelf as well as resource data.

"Although not as plentiful in the atmosphere as carbon dioxide, methane is about 10 times more potent as a greenhouse gas in terms of its potential contribution to global climate change," NETL said, leading to concerns that small global climate changes could result in increased methane released from subsurface accumulations on the Arctic shelf. But the methane hydrates, molecules of natural gas trapped in ice crystals, also "represent a potentially vast resource that may have as much energy as all the world's other fossil fuels combined."

NETL said the expedition was the first comprehensive and dedicated study of the continental shelf and slope under the Beaufort Sea.

The National Methane Hydrate R&D Act of 2000 mandated a study program to understand hydrate as a future energy resource and its role in the global climate cycle and the expedition was one of the first major field-based projects to place a dominant focus on the global climate aspects of this issue in the United States, NETL said.

—PETROLEUM NEWS

NATURAL GAS

Pearce steps down as gas line coordinator

President asked for resignation; legislative aide Persily says feds are checking his background for 'possible federal position'

By WESLEY LOY
For Petroleum News

Drue Pearce, the first and so far the only person to hold the position of federal coordinator for Alaska natural gas transportation projects, announced Nov. 16 she'll vacate the job at the request of President Obama.

Immediate speculation about her replacement centered on Larry Persily, a Juneau resident who has held several positions in state government and who has extensive journalistic experience, including a year writing for Petroleum News.


JUDY PATRICK
DRUE PEARCE


TOM KEARNEY
LARRY PERSILY

"I can confirm that I'm being vetted for a possible federal position," Persily told Petroleum News on Nov. 17. The FBI is doing a background check, calling past employers and associates, he said.

Changing of the guard

That Pearce announced her resignation from the coordinator's job, effective Jan. 3 of next year, wasn't entirely unexpected.

A Republican and former president of the Alaska State Senate, Pearce took the post during President George W. Bush's second term. After her Senate confirmation, Pearce was sworn in by Vice President Dick Cheney on Dec. 13, 2006.

As the inaugural coordinator, she assembled a small staff, established a headquarters in Washington, D.C., and opened a second office in Anchorage.

"It has been an honor to stand up a new federal agency and to serve as the first Federal Coordinator," Pearce said in a written statement. "I am a passionate supporter of the agency's mission to bring Alaska natural gas to North American markets. I leave an effective and efficient agency with a highly skilled team of professionals actively pursuing our mission. It has been a profound privilege to lead this innovative team."

In press interviews, Pearce said she didn't want to leave the position.

Indeed, the federal law that created the coordinator's office, the Alaska Natural Gas Pipeline Act of 2004, is somewhat vague on just how long a person can hold the job. It says the president shall appoint a coordinator, as head of an independent office in the executive branch, "to serve a term to last until one year following the completion of the project."

Congressional reaction

U.S. Sen. Mark Begich, Alaska's only Democrat in Congress, thanked and applauded Pearce for her service. But he supported the president, a fellow Democrat, in the move to replace her.

"I commend President Obama for bringing new energy to this office and for his commitment to building an Alaska natural gas pipeline which will deliver affordable, clean-burning energy to America's homes and industries. I will continue to work with him on the selection of a new pipeline coordinator."

Alaska's other senator, Republican Lisa Murkowski, was less enthusiastic about the change.

"Drue has long been a strong advocate for the gas pipeline and her commitment will be difficult to match," Murkowski said. "I regret the loss of Drue's experience and knowledge on this project, but I understand that it's the president's prerogative to appoint the person of his choosing."

Murkowski said she's pleased the Obama administration seems keen to develop the huge North Slope gas reserves, long one of the state's top economic goals.

"The Alaska natural gas pipeline project is important to the economic and energy security of the nation," Murkowski said. "I've discussed this issue with the White House and I'm encouraged by the president's level of interest in seeing this project succeed."

The coordinator's role

Congress created the Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects as a way to smooth the road toward construction of a pipeline which, by the latest estimates, could cost more than $30 billion.

The law says the coordinator's job is "coordinating the expeditious discharge

see COORDINATOR page 10

NATURAL GAS

Noah resigns from in-state gas line job

Harry Noah has resigned as in-state gas line project manager, the governor's office said Nov. 18.

In a statement Gov. Sean Parnell said he has accepted Noah's resignation. Noah will stay in the post until a replacement is named.

The statement said the governor "remains committed to pursuing an in-state gas line" and that considerable work has been done evaluating standalone gas pipelines from both the North Slope and from the Brooks Range foothills to Fairbanks and Southcentral, as well as a spur line to Southcentral from a major pipeline to the Lower 48.

"Harry has been a vital part of the team, and has laid a great foundation for in-state gas line options," Parnell said. "We will keep this work moving forward."

The in-state gas line project manager is charged with developing design and permitting data for a small-diameter natural gas pipeline from the North Slope to Cook Inlet. The data and permits would then be made available for private development of the project.

Noah will pursue a private-sector venture in Oregon. A search for Noah's replacement will begin immediately.

—PETROLEUM NEWS

continued from page 3

POWER

remaining in the 2009 legislative session to deal with the proposed legislation, the governor's bill was deferred to the 2010 session.

And discussions have continued on moving the GRETC legislation forward, with three utilities on board with the GRETC concept, and three utilities still considering the pros and cons of the proposal, Strandberg said.

"Our hope is that we can work over the next six weeks, perhaps two months, to bring everybody, all the Railbelt utilities, to a point where they can commence through a process," Strandberg said.

GRETC, as currently envisaged, would be a nonprofit, privately owned company, established under state statutes but using bonds to raise funds for infrastructure upgrades and developments, making its own economic decisions, controlling its costs, and providing business continuity, Strandberg said.

As far as the GRETC legislation is concerned, discussions in progress are focusing on two main areas: how to develop the new company and how to transition from the existing utility arrangements into that new company, Strandberg said. AEA is likely to play a nurturing role in moving the GRETC concept forward, while Joe Balash, Gov. Parnell's special staff assistant, is the point person in the governor's office for the GRETC initiative, he said.

Regulation

The way in which GRETC is regulated will also prove critical to success: Discussions with the Regulatory Commission of Alaska are focusing on how to tailor the RCA statutes to support the proposed entity, allowing for adequate regulatory review, while encouraging private investment that leads to power rate stabilization through large, long-lived development projects.

It has been a cooperative process between RCA, the utilities and AEA, Strandberg said.

Meantime, the GRETC proposal and the integrated resource plan will be heading to Juneau for the 2010 legislative session, with the legislators themselves having published in October a draft Alaska energy policy that envisages the passage of GRETC legislation.

"In the end we want to maintain our Alaska quality of life. And in the end I think we all want to achieve the long term goal … of a reliable and affordable power supply," Strandberg said. "… And we want to achieve, over a transition period, a new energy future." ●

● NATURAL GAS

No let-up in Canada's Horn River

By GARY PARK
For Petroleum News

What's good for EnCana is apparently just as good for the legion of smaller operators active in British Columbia's Horn River basin.

The big independent keeps making gains as it probes the shale gas play that it figures will unlock trillions of cubic feet of resources. And others are delivering similarly bullish results and forecasts.

EnCana executives said Horn River well costs have been trimmed by 25 percent over the past year to about $2.5 million-$3 million and drilled days have been almost halved to 16 to 30 days, with the number of fracture stages per well climbing to 20.

EnCana's latest wells, with 12 to 14 fractures, are testing at about 10 million cubic feet per day.

And, as the skill level builds, the horizontal length of its Horn River wells is stretching to 2,500 meters from 1,000 meters.

To date, EnCana (in partnership with Apache) has drilled 47 gross wells in the basin and the performance from 13 wells is "very positive."

However, only about four of the 21 wells EnCana expects to complete this year are actually producing, said Mike Graham, executive vice president of the Canadian Foothills division, adding: "This year we actually spent a lot more money just drilling wells."

The budget allocation for Horn River in 2010 will be about $350 million and commercial development is also scheduled for next year, but Chief Executive Officer Randy Eresman said construction capital is earmarked more for 2011.

Other plans

Other Horn River plans and reports unveiled this month include:

• Quicksilver Resources said it plans to invest $50 million in the basin next year, including infrastructure costs and two wells.

Discussions have also taken place in recent months with possible joint-venture partners.

"We're not in a big hurry," said Chief Executive Officer Glen Darden. "The more we learn about Horn River, the more we like it. Obviously, a lot of activity is happening around us, which makes us even prouder of our position.

"If we can get the right structure and the right price, we'd be willing to do something (on the joint-venture front), but at this point there's no big hurry."

Quicksilver has 127,000 net acres in Horn River, "surrounded by significant production from other producers," Darden said.

It has to drill eight wells over the next three years to convert exploratory licenses to leases and then has 10 to 12 years to develop the entire acreage.

Transportation agreements are in place to ramp up volumes over the next five years, Darden said.

He said Horn River could be "several times larger than our current reserve base. We can grow production organically at 20 percent over the next several years and stay well within cash flows. We will keep pushing."

• TAQA North, the subsidiary of state-owned Abu Dhabi National Energy Co., said it will drill three exploration shale wells this winter on its newly acquired Horn River holdings.

The company invested C$63.3 million earlier this year to secure 32,000 acres on two blocks north of Fort Nelson.

Carl Sheldon, recently appointed general manager, said Horn River is one of many global organic growth prospects for the parent company as it concentrates more on exploration than mergers and acquisitions.

"We will continue to look to acquisitions to enhance our portfolio where that makes sense, (but) tight cost control remains the focus of our leadership," he said.

• EOG Resources said it expects to drill 12 wells in Horn River this winter, having completed seven wells last winter in a program focused on improving operations and completion techniques along with determining optimum spacing between wells, Chief Executive Officer Mark Papa said.

He said three wells in one pattern tested at 17.2 million to 23.4 million cubic feet per day, while four wells in the second pattern tested at rates of 16 million to 18 million cubic feet per day. EOG will now produce the wells this winter to evaluate the ability of each pattern to achieve the desired result.

"We believe the three high-rate wells are among the best in the play, topping our 16 million cubic feet per day well completed last year," Papa said.

He said EOG was also able to reduce its drilling days by 42 percent and well costs by 35 percent over 2008 results.

Horn River is the underpinning of EOG's memorandum of understanding to supply 200 million cubic feet per day of gas to Kitimat LNG for its proposed LNG export terminal at Kitimat, on the northern British Columbia coast.

Papa said that each year between 2010 and 2013, EOG plans a slow ramp up of production with the aim of reaching 200 million cubic feet per day by the planned terminal startup date.

He said EOG's strategy for Horn River involves "slowly increasing our activity and really not just get in a big hurry on this asset, similar to what we are talking about in the Marcellus shale (in Pennsylvania) … particularly in a gas market that is uncertain for us right now." ●

NATURAL GAS

Denali sends 2nd report to legislators

BP-ConocoPhillips JV has spent $120 million in advance of 2010 open season; has nearly completed cost estimates for pipeline, GTP

By KRISTEN NELSON

Petroleum News

Bud Fackrell, president of Denali, told legislators in a Nov. 11 letter that the BP-ConocoPhillips-owned project has spent $120 million to date in advancing the gas pipeline project from the North Slope to market toward a 2010 open season.

He said work to estimate the cost of the pipeline and the gas treatment plant is "nearing completion," with Denali's own expertise augmented by a Flour-WorleyParsons joint venture on the GTP and Bechtel on the gas pipeline.

Denali's focus is on "preparing a credible cost estimate" as the basis for the company's open season commercial offering. And Fackrell said the company has "initiated pre-open season discussions with potential anchor shippers and is formatting its open season plans."

BUD FACKRELL

Both in Fackrell's cover letter and in the report Denali noted that it is moving forward outside of the Alaska Gasline Inducement Act and without monetary assistance from the State of Alaska, with investment in the project 100 percent funded by the company's owners, BP and ConocoPhillips.

A report on the AGIA-licensed project, being developed by TransCanada and ExxonMobil, was sent to legislators at the end of October; see story in Nov. 15 issue.

Denali said it continues to work closely with federal and Alaska agencies "to ensure a common understanding of the framework for the required regulatory approvals" and has made significant progress in Canada "to advance and coordinate the regulatory review framework."

Most field work done

Denali said it completed a full season of field data acquisition in 2008 between Delta Junction and the Canadian border.

"Because of the significant amount of data collected in 2008, Denali was able to collect much of the information it requires to advance the pipeline design in preparation for open season. Consequently, field data collection in 2009 has been on an as-needed basis," the company said.

Denali's engineering work started with work done by BP, ConocoPhillips and ExxonMobil during the companies' joint work in 2001 and 2002; the company said that work has been augmented with later studies by BP and ConocoPhillips, historical data from owner companies, new data gathered in field programs, input from company experts, services of engineering firms and input of expert contractors.

Gas treatment plant

The multibillion-dollar gas treatment plant will be at

Denali said that one of the few publicly available long-range natural gas price forecasts, that from the U.S. Department of Energy's Energy Information Administration, "does not represent a consensus view of the market."

Prudhoe Bay.

"It will be more complex and much larger than any oil and gas facility in Alaska and the largest plant of its kind in the world," Denali said, designed to process in excess of 4.5 billion cubic feet per day of natural gas.

In addition to professionals seconded to Denali from BP and ConocoPhillips, Arctic Solutions — a joint venture between Fluor and WorleyParsons — is supporting the GTP engineering work, along with CH2MHill's Anchorage office for assistance with Alaska construction issues.

The GTP will consist of several dozen modules preassembled at fabrication yards and brought to the North Slope by sealift, Denali said, with the largest of the modules to be the largest module ever sealifted to Prudhoe Bay.

The company said the plant will require multiple sealifts and will comprise the largest sealift effort in Alaska history.

Among the specific GTP tasks completed that Denali listed: major GTP equipment and costs identified and logistical costs and sequences estimated; on-site surveys of fabrication yards completed; module layouts and site plot plans developed; and camp, warehouse and office requirements defined.

Pipeline and compressor stations

On the pipeline side of the project Bechtel has been brought in to support the efforts of experts seconded from BP and ConocoPhillips.

A multiterabyte technical geospatial information system, tGIS, is being used in the analysis of the pipeline route and in preparation of cost estimates. The database for the tGIS includes aerial photography, satellite imagery, base maps, topographic information, fault data, digital elevation models, borehole data, terrain analysis, engineering information, land ownership data, archaeological features, wetlands data, stream crossing data, contaminated site information, existing infrastructure data, historical pipeline routes, wildlife observations and other information required for engineering of the pipeline and compressor stations.

Denali said it has "developed its own thermal-hydraulics software for modeling flow through the pipeline," and has used the model to locate compressor stations and predict pipeline pressures and temperatures along the route.

All major equipment and buildings have been identified and a study identified "spacing requirements for all equipment and buildings within the compressor stations, including building blast requirements, setbacks from process units and fencing criteria."

Denali said it has also developed an operations and maintenance strategy, "a comprehensive document outlining how the project will be operated and maintained throughout its life."

"Denali has developed an operational philosophy for remote operations bases … required to support the pipeline. Each ROB will likely be located in or near communities along the pipeline route," the company said.

Market updates

Denali said that emergence of new sources of unconventional gas and the potential for import of large volumes of liquefied natural gas have "the potential to change the perception of the long-term market for North American natural gas. The combination of reduced demand and growth in supply from shale gas and LNG imports raises questions about the competitiveness of natural gas delivered from North Slope sources over the life of the project."

Denali said that one of the few publicly available long-range natural gas price forecasts, that from the U.S. Department of Energy's Energy Information Administration, "does not represent a consensus view of the market. Ultimately, it is the shippers who will assess the economic viability of the pipeline based upon their own proprietary market perspectives as they determine whether or not they are willing to make the multibillion dollar, multiyear commitments that will be required to finance and construct the project."

Denali said the EIA long-range market price forecast has not changed significantly over the last six months.

"However, the recent natural gas price volatility combined with the potential for new supplies of natural gas to compete with Alaska natural gas has highlighted the market risk potential shippers face."

Denali also said it has nearly completed its work to revise the cost estimate and schedule for the project.

"The revised cost estimate and schedule will represent a substantial advancement over prior work and will form the basis of Denali's commercial terms," the company said.

That work will be available to prospective shippers during the company's 2010 open season.

Plans for coming months

Denali said it will be completing its project cost estimate over the coming months, as well as advancing regulatory planning with state, federal and Canadian agencies.

The company will continue its engagement with key stakeholders, including communities, governments, Alaska Natives and Canadian Aboriginal groups.

It will continue to discuss pre-open season needs with potential shippers and will advance commercial and regulatory preparations for open seasons in Alaska and Canada. ●

OUR ARCTIC NEIGHBORS

Statoil renews leases for two offshore rigs

Norway's Statoil has signed new contracts for the continued lease of two rigs for offshore use, Statoil said in a release Nov. 11. The contracts are with Houston-based Diamond Offshore for the lease of Ocean Vanguard and with Saipem, a subsidiary of Italy's Eni, for the lease of Scarabeo 5.

"In December last year we announced that we expected the market to revert to the lower 2006 level and now it has responded to our expectations," said Anders Opedal, Statoil's senior vice president for procurement. "We are pleased to have gained more reasonably priced rig capacity so that we can further develop the shelf."

The Ocean Vanguard deal is valued at $382 million, while the Scarabeo 5 deal is worth $437 million. Both have three-year durations, Statoil said.

"The two rigs are well known for their contributions to our operations on the shelf," said Oystein Michelsen, Statoil's vice president for exploration and production Norway. "The flexibility provided by these rigs in terms of conventional drilling, completion, high pressure, high temperatures and deep water are in line with our plans for exploration and production in the future."

Scarabeo 5 is a fourth-generation semi-submersible rig capable of operating in water depths of up to 6,560 feet and drilling to depths of up to 29,520 feet, Saipem said in a release Nov. 11.

"(The rig) has been working continuously since 1990 in the Norwegian sector of the North Sea, one of the most demanding areas due to strict environmental regulations and harsh weather conditions," the company said.

—SARAH HURST

Norway seeks industry's offshore preferences

The Norwegian government has invited oil companies to nominate blocks that ought to be included in the 21st licensing round on the Norwegian continental shelf, the Ministry of Petroleum and Energy said in a release Nov. 5. The invitations have been sent to all licensees on the shelf and prequalified companies. Numbered licensing rounds include mainly frontier areas of the Norwegian continental shelf with potential for large discoveries, the ministry noted.

"With the 21st licensing round I seek to give the oil industry access to attractive areas which are less explored," said Terje Riis-Johansen, the petroleum and energy minister. "It is important to provide the industry access to frontier areas through predictable licensing rounds. This contributes to maintaining the activity level on the Norwegian continental shelf and securing the shelf's attractiveness. The nominated areas will hopefully contribute to long-term value creation in the petroleum industry."

The companies' nominations will be an important factor in the government's decisions on the 21st licensing round, the ministry said. The announcement is scheduled to take place before summer 2010 and awards of new production licenses are planned for spring 2011. The deadline for submitting nominations is Jan. 13, 2010.

In April 2009 the government awarded 21 new production licenses in the 20th licensing round, including nine in the Barents Sea and 12 in the Norwegian Sea. Thirty-four companies were offered participating interests in production licenses and 15 were offered operatorships. The government has recently been increasing public participation in the offshore licensing process.

—SARAH HURST

Nexans to make cables for Barents Sea rig

Russia's largest shipbuilding company, Sevmash, has awarded a contract worth about $9 million to Paris-based Nexans to develop, manufacture and supply 528 miles of low-temperature and ice-resistant control, instrumentation and power cables for the marine ice-protected Prirazlomnaya stationary drilling rig in the Barents Sea, Nexans said in a release Oct. 28. The cables will be manufactured at the facilities of Nexans Kukdong Electric Wire Co. in Korea. Production has already started and deliveries will continue until the end of 2011. The Prirazlomnaya rig has been constructed for use in the Prirazlomnoye oil field in the Pechora Sea, which is to be operated by a subsidiary of Russia's Gazprom. It will be Russia's first offshore Arctic oil project.

"The severe climate and harsh operating conditions presented by the high ice loads require unique marine cable technologies to provide the optimum combination of low-temperature resistance and fire-resistant, low-smoke, halogen-free properties," Nexans said.

—SARAH HURST

COURTESY STATOIL

More than 600,000 hours were worked in connection with the shutdown at the Melkoya plant.

● OUR ARCTIC NEIGHBORS

Statoil upgrades LNG plant

Three-month shutdown goes as planned, but technical problems prevent on-schedule startup

By SARAH HURST

For Petroleum News

Production was due to resume in early November at the Snohvit project's Melkoya liquefied natural gas plant in northern Norway after a three-month planned shutdown for upgrading and maintenance, operator Statoil said in a release Nov. 9. However, there was a technical fault during the running-in process that caused the company to shut the plant down again for repairs.

"The initial technical fault which occurred during startup is fixed, but we are still struggling with another electrical problem which has to be solved before we can start the run-in process in a safe manner," Statoil spokesman Sverre Kojedal told Petroleum News in an e-mail Nov. 17. "We hope to be on-stream before the end of this week," he added.

Heat exchangers replaced

Among the jobs undertaken during the shutdown was the replacement of 15 heat exchangers, which form the core of the liquefaction process for the gas from the Snohvit field in the Barents Sea.

"We replaced two of seven seawater exchangers, which have caused problems with leaks, as early as last autumn," said Statoil's vice president for operations, Knut Henrik Dalland.

During this year's shutdown, four more of these units were swapped for a more robust type, the company said. The seventh could be replaced during the planned turnaround in 2010.

"With pre- and post-shutdown activities, more than 600,000 hours have been worked in connection with this turnaround," Dalland said in reference to the latest shutdown. "That means the operation at Hammerfest LNG has been as big as all the turnarounds on the Norwegian continental shelf put together," he said.

A total of 1,550 people were engaged at the plant during the shutdown. ●

FINANCE & ECONOMY

Canadian oil and gas giants tread warily

New-look Suncor and EnCana roll out disciplined 2010 spending plans, leaving flexibility to boost budgets if commodity prices rise

By GARY PARK

For Petroleum News

While trading places as Canada's dominant oil and natural company, Suncor Energy and EnCana are both delivering a similar refrain for 2010 — steady as it goes.

Suncor is the new king of the hill after its takeover of Petro-Canada, aided by EnCana's decision to relinquish its once-treasured No. 1 spot in production and market value to create two independent publicly traded entities (a new EnCana to focus on natural gas and Cenovus, to run an integrated oil business) that are expected to take flight Nov. 30.

In rolling out their capital budgets for next year, they set the stage for a new generation of upstream growth that tries to avoid a repetition of what Suncor Chief Executive Officer Rick George describes as the "firestorm of inflation" that crippled many oil sands projects earlier this decade.

Suncor: Focus on Firebag

For Suncor, that means a heavy concentration on its existing in-situ Firebag operation by restarting Firebag 3 and a kick start for Firebag 4 to introduce another 136,000 barrels per day of production by the end of 2012.

Those are the key underpinnings of Suncor's commitment when it swallowed Petro-Canada to become a company dominated by the oil sands.

George, in declaring that Suncor has officially "restarted growth in the oil sands," said the company's goal is 10 percent to 12 percent average annual growth in output over the next decade, starting with 350,000 bpd at the end of 2010.

Suncor's overall capital spending for the period will average about C$6 billion a year, kicking off at C$5.5 billion in 2010, which George estimates is about C$2.5 billion lower than if the merged companies had remained separate entities.

EnCana boosting gas output

For its post-split existence, the new EnCana expects to spend $3.6 billion to $3.9 billion in 2010 to boost gas output by about 10 percent to 3.64 billion cubic feet per day, while Cenovus has a budget of $2 billion-$2.3 billion, concentrated on increased development at its in-situ Foster Creek and Christina Lake oil sands operations, where 2010 production growth is targeted at 15 percent to 20 percent. (Figures for both companies are in U.S. dollars.)

For Cenovus that translates into 42,000-44,000 bpd at Foster Creek and 7,000-7,500 bpd at Christina Lake, which is expected to add another 40,000 bpd after it comes on stream in late 2011.

In addition, regulatory applications have been filed for three more Christina Lake phases of 40,000 bpd each to reach an eventual goal of 200,000 bpd.

Randy Eresman, who will remain chief executive officer of EnCana, said the goal is to remain the lowest-cost gas producer in North America, but the two new executive teams are poised to "respond quickly to changing economic and investment circumstances" by working a high level of flexibility into their budgets.

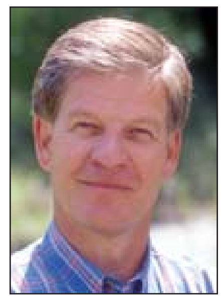
He said the spending plans will be further updated once the new entities are able to refine their strategies.

Firebag re-booted

In re-booting Firebag, Suncor has made it clear that operation is where its current focus lies.

To set the ball rolling again on Firebag 3, after calling a halt in 2008 when the economic downturn struck, Suncor has budgeted C$900 million for 2010 to complete the C$3 billion phase, and will invest C$50 million on Firebag 4, which has a price tag of about C$2 billion.

George forecast that, following expected asset sales of C$2 billion to C$4 billion next year, 65 percent of Suncor's cash flow will come from the oil sands and 35 percent from other operations (predominantly those inherited from Petro-Canada), compared with the current 50-50 split.



RICK GEORGE

He emphasized that the oil sands account for 22 billion of Suncor's total resources of 26 billion barrels, which is "very different from the rest of the industry," and underpins the corporate goal of "execution rather than exploration."

No timetable for expansion

George conceded there would be disappointment that Suncor is not prepared to set a timetable for reviving the C$26 billion expansion of Voyageur to handle 200,000 bpd of bitumen and the C$23 billion Fort Hills mine, designed to produce 140,000 bpd, with Teck Cominco and UTS Energy each holding 20 percent.

He said the prevailing light-heavy oil price differentials "do not support growing our Voyageur upgrader. So our plan is to (concentrate on bitumen production)."

"But I do see the upgrader as a great option for us down the road, at some point."

To that end, he indicated, Suncor might be open to taking on a partner for Voyageur, without dropping its share of capacity below 100,000 bpd.

He said about C$3 billion has so far been spent on Voyageur and the project can be kept in a "safe mode" for another two or three years. If work is resumed it would take about 30 months to complete, he said.

Fort Hills dialogue

Adamant that Suncor is not abandoning Fort Hills, George said "it's hard for us to see project economics beating Firebag 3 or 4 or other projects that we have in the near term."

He said Suncor is keeping an "open

see **GIANTS** *page 10*

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COORDINATOR

of all activities by federal agencies with respect to an Alaska natural gas transportation project.” More than 20 agencies are expected to have some say over the project. Many state and Canadian agencies also would be involved.

The law also gives the coordinator some power to block agency requirements that might “prevent or impair in any significant respect the expeditious construction and operation, or an expansion, of the Alaska natural gas transportation project.”

So far, the coordinator’s office has been in something of a holding pattern as gas pipeline plans take shape.

Two major projects are progressing, one involving a partnership of TransCanada and ExxonMobil and the other teaming BP and ConocoPhillips. Each partnership says it plans to hold an open season for gas shippers to secure capacity on their respective lines from the North Slope into Canada.

The law says the coordinator’s job is “coordinating the expeditious discharge of all activities by federal agencies with respect to an Alaska natural gas transportation project.”

Following the open season, a builder might then apply for a certificate from the Federal Energy Regulatory Commission and permits from the various government agencies.

At that point, the federal coordinator could become a very busy person.

Persily’s outlook

Persily said the FBI in recent weeks has contacted several people about his background. They include state Rep. Mike Hawker, an Anchorage Republican for whom Persily now works as a legislative aide.

Persily, 58, previously worked from May 2007 to June 2008 in the Alaska governor’s Washington, D.C., office during Sarah Palin’s administration, concentrating on oil and gas and other policy issues.

Previously, he was editorial page editor for the state’s largest newspaper, the Anchorage Daily News, and he was deputy state revenue commissioner under Democratic Gov. Tony Knowles.

And for a few months in 2005, when Begich was mayor of Anchorage, Persily was projects coordinator in the city finance department.

Persily has a journalism degree from Purdue University.

He told Petroleum News he’s currently registered as a Democrat, but has voted at times for Republicans and given them campaign contributions. He said he made no donations to the Obama campaign.

Persily said he learned about Pearce’s resignation on the same day everyone else did, and that he hadn’t formally applied or lobbied for the coordinator’s job.

“I’ve always been interested in the gas line,” he said, though in his view the project might face greater hurdles now than it did a couple of years ago — challenges such as the rise of shale gas, and the recession crimping gas demand.

As it stands, Persily said, Alaska gas is “a commodity that nobody needs right now.”

Still, the coordinator’s job would be exciting, he said.

“But the public’s expectation of immediacy probably can’t be met. Hopefully in 10 or 15 more years, if the world needs more gas we’ll be ready.”

Asked whether the White House perhaps intends to elevate the coordinator’s profile, Persily said: “I can’t say what this administration is thinking about.”

He added: “Could the role be expanded to help the state and nation get a natural gas pipeline? I’d like to think so.” ●

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GIANTS

dialogue with Teck and UTS,” but was not aware of any plans Teck might have to independently move ahead on Fort Hills.

“What I will promise you is we will be very focused on doing what is right for our shareholders, not for every shareholder out there,” he said.

UTS Chief Executive Officer Will Roach said Fort Hills, although left in the uncertain category, is “absolutely essential” if Suncor is to hit its production targets by 2020.

If work does resume on Voyageur or Fort Hills, that spending would be additional to the average C$6 billion annual budget for the next decade, John Rogers, vice president of investor relations, told analysts.

In the current environment, George said the capital savings resulting from the merger should be greater than the anticipated C$1 billion a year.

But, even if oil prices rise above Suncor’s mid-cycle range of $70 per barrel, Suncor will not “go back to the world where we were making C$10 billion project commitments upfront, then having to pull back,” George said.

Water intake to be reduced

Always mindful of its pledge to improve its environmental performance, Suncor said it aims by 2015 to reduce water intake at the oil sands by 12 percent, increase land reclamations by 100 percent, improve energy efficiency per barrel produced by 10 percent and reduce current air emissions of sulfur, nitrogen and volatile organic compounds by 10 percent.

The company said its oil sands carbon dioxide intensity has been reduced by almost half since 1990; water consumption by barrel has been lowered by 40 percent since 2002; 90 percent of water is recycled at its in-situ operations; and almost 2,500 acres of disturbed land have been reclaimed.

Andrew Potter, an analyst with UBS Securities, said Suncor appears to have dropped its economic threshold for oil sands expansion to oil prices of $50 per barrel from $80, in light of which the 2010 budget is “conservative,” given his expectation that Suncor might invest C$6.5 billion.

Justin Bouchard, an analyst with Raymond James, was expecting a clear direction on Voyageur and Fort Hills, although the company’s decision to slash spending in late 2008 and early 2009 likely prompted it to take a cautious line.

“On the flip side, they could always ramp spending up if oil prices stay where they are or rally higher,” he said.

Bouchard said that if oil prices were to reach $120 three months from now, he is not so certain that Suncor’s message of capital discipline would hold up.

EnCana focused on shale

The new EnCana is earmarking its major investments on early stage opportunities in the Haynesville shale of Texas and Louisiana, the Horn River shale play in British Columbia and completion of its Deep Panuke gas project offshore Nova Scotia, with other unspecified projects on the waiting list if gas prices improve.

It plans to spend $1.9 billion on its U.S. division, boosting output by 16 percent to 1.8 billion cubic feet per day, with close to 40 percent assigned to production growth and land retention at Haynesville.

The Canadian division will receive $1.6 billion, but production will remain largely unchanged because of sales this year of noncore assets and price-sensitive royalties in Alberta.

EnCana shut-in 500 million cubic feet per day of gas when prices dropped, lowering production through 2009 by an average 320 million cubic feet per day. Those volumes are scheduled to come back on stream this winter. ●

Putting makeup on the oil sands

To the critics, they are the tar sands. To proponents, they are the oil sands.

To EnCana, apparently unwilling to sully its public image with something as messy as bitumen, they have morphed into enhanced oil recovery projects.

Cenovus, the oil producing spin from EnCana, was asked during a conference call to explain why EnCana’s third-quarter report avoided any reference to oil sands, even though its big in-situ projects all occupy the same region of northeastern Alberta as all other companies exploiting the vast bitumen deposits.

“What we have done is had a look at the nature of the recovery techniques that we apply on EnCana’s bitumen production, which is 100 percent (steam injection to melt the bitumen to the point where it can flow to the surface),” said Brian Ferguson, EnCana’s chief financial officer and the designated chief executive officer of Cenovus, when it is officially launched Nov. 30.

“There are assets and properties that we drill and use drilling techniques to recover the oil, which is really a form of enhanced recovery.”

He said it was considered “more representative of the nature of Cenovus’ assets to describe them as (EOR) so that there was no confusion with mining projects.”

The assumption from the sidelines is that Cenovus would like to separate itself from the other key oil sands players who are engaged in a public relations battle to prove that their recovery and processing methods do not justify labeling oil sands output as “dirty oil.”

—GARY PARK

● NATURAL GAS

State of Alaska applies for FERC waiver

Change would permit state to negotiate link between royalty gas and shipping capacity, easing royalty in-value to in-kind switches

By KRISTEN NELSON

Petroleum News

State of Alaska oil and gas leases allow the state to take its royalty share — usually 12.5 percent — in-kind or in-value. Which means the producer can sell the oil or gas for the state and pay the state, or the state can take the oil or gas, something the state typically does when it wants to encourage in-state use.

The switching ability creates a potential glitch for producers-shippers on the proposed natural gas pipeline because shippers commit to volume capacity on the line and that capacity includes the royalty gas which they would typically sell for the state.


TOM IRWIN


PAT GALVIN

If the state decides to take the gas in-kind, current Federal Energy Regulatory Commission rules on pipeline capacity could end up stranding a shipper with unused space for royalty gas because FERC rules require space which becomes available on a gas pipeline to be put up for bid. A producer could end up with "stranded" capacity if the state royalty gas was shipped by another shipper, on a space-available basis or in expansion pipe.

The state, citing provisions of the Alaska Natural Gas Pipeline Act and previous FERC waivers for U.S. Minerals Management Service royalty gas, has asked the agency to allow it to link the royalty shipping capacity to the royalty gas, so that if the state changes from in-value to in-kind receipt of its royalty gas, the shipping capacity for that gas would remain with the gas, rather than reverting to the original shipper.

Petition to FERC

The state said Nov. 13 that it has petitioned FERC to waive a rule that could add risk to shippers when the state elects to receive its natural gas in kind for in-state use.

"The ability to receive gas for in-state use as our royalty payment is an important provision in all state oil and gas leases," Commissioner of Natural Resources Tom Irwin said in a statement. "However, the state's ability to switch to taking royalty in-kind gas creates additional financial risk for shippers producing gas from state lands," he said, and obtaining a FERC waiver will help minimize that risk.

It would benefit producer-shippers, the state said, to permit them to enter into a prearranged capacity release to the state of the capacity necessary to transport the in-kind volumes; that capacity would revert back to the producer-shipper when the state switched back to taking its gas in-value.

A shipper pays for transporting its gas through a pipeline, a cost typically referred to as a reservation charge. The state's royalty share is a percentage, typically 12.5 percent, of the capacity each shipper commits to transport.

When the state takes its royalty in-value it receives the price of the gas at the destination market less the cost of transporting it, commonly referred to as the netback wellhead value. The state said that under current FERC rules if it switches to royalty in-kind, the shipper may have to pay its full reservation charge, even though the state has pulled its royalty gas share from the shipper's capacity. The unused capacity, called "stranded capacity," would still be charged to the shipper.

Release to state

A FERC waiver would allow the state to offer to eliminate the risk by allowing shippers to release stranded capacity to the state when the state receives its royalty in-kind, an arrangement referred to as "capacity going with the gas."

The state said such an offer is being contemplated as part of the royalty regulations being developed for the upcoming open season for the project licensed under the Alaska Gasline Inducement Act. Obtaining the FERC waiver "could save the producers billions of dollars in stranded capacity costs" and remove a "significant impediment" for committing gas in an open season.

Department of Revenue Commissioner Pat Galvin said there is legal authority for such a waiver and the state is comfortable this is a reasonable request to present to FERC. Congress has recognized the Alaska project as "uniquely in the national interest," he said, and "… by moving now to obtain this waiver we have reduced risk and removed a potential commercial roadblock for producers evaluating the economics of committing gas to any upcoming open season."

The state has requested an expedited 75-day decision period so that a FERC waiver will be available for the upcoming open seasons, both for the AGIA-licensed TransCanada-ExxonMobil project and for the BP-ConocoPhillips Denali project.

The state also requested that the waiver apply to any project that is ultimately sanctioned for development.

Capacity would follow royalty gas

In its FERC petition the state said the purpose of the waiver "is to ensure that the necessary capacity 'follows' the royalty gas," as when the state selects the royalty in-kind option it will need to transport its gas on the line.

The state said it anticipates that initial producer-shippers will hold all or most of the pipeline's initial capacity, including capacity necessary to ship royalty gas, and when the state elects the in-kind option, the shipper will not need the portion of its capacity associated with royalty gas. It would benefit producer-shippers, the state said, to permit them to enter into a prearranged capacity release to the state of the capacity necessary to transport the in-kind volumes; that capacity would revert back to the producer-shipper when the state switched back to taking its gas in-value.

"Absent a waiver of those regulations to permit a prearranged release not subject to posting and bidding," producer-shippers "would bear a significant risk of stranded capacity," the state told FERC.

The waiver the state is requesting would allow it to obtain, on a prearranged basis, the capacity temporarily released by the producer-shipper that produced the in-kind gas, "without requiring the capacity to be posted for bidding by third parties." The state said the waiver would not compel producers-shippers to enter into such a prearranged deal, but would allow the state to "make a commercial offer to the lessees that reduces the stranded capacity risk that they would otherwise face."

The state would pay the same rate for the released space as the producer-shipper pays the pipeline.

The state also requested that the waiver apply to capacity releases to a state designee, allowing the state to transport in-kind gas itself or sell in-kind gas "at the wellhead with released capacity under this waiver going to the purchaser of the royalty gas" designated by the state.

While the state "does not currently plan to acquire short-haul firm capacity from the pipeline in the initial open season" to transport its royalty gas for in-state use, "and believes that is an unlikely scenario given commercial realities," the state also asked FERC to include a provision in its waiver that if the state decided to hold short-haul capacity for in-kind gas it could release that capacity to the affected producer when the state switched to taking its royalty gas in-value. ●

● SAFETY & ENVIRONMENT

Icy spill easier to clean, scientists say

Research funded by oil interests conflicts with conventional wisdom, based on research done in Barents Sea above northern Europe

By ELIZABETH BLUEMINK
Anchorage Daily News Writer

Scientists funded by Shell and six other oil companies say that cleaning up oil spills in Arctic ice is in many respects easier than cleaning it from open water.

The reason, they said Nov. 17, is that oil spilled in open water tends to spread out quickly over large areas and contaminate the shoreline. In contrast, recent testing in the Barents Sea above northern Europe has shown that ice can act as a natural blockade that traps the oil and gives responders more time to clean it up.

The researchers' preliminary findings conflict with the conventional wisdom about how spills in Arctic ice would be difficult, if not impossible, to clean up. Environmentalists cite botched spill cleanup experiments that occurred a decade ago in the Beaufort Sea. At the time, the state concluded that Prudhoe Bay oil field operator BP could not adequately clean spills in slushy water.

Shell says spill-response techniques have improved greatly since then and is trying to enlist Alaskans' support for offshore exploration in federal waters. The company spent more than $2 billion last year to acquire leases and is seeking state and federal permits to explore for oil next summer in the Beaufort and Chukchi seas, which geologists say may hold vast amounts of oil and natural gas.

But several conservation groups and Arctic village governments have sued to block Shell's drilling, saying it could result in pollution or interfere with subsistence whale hunts.

Shell brought the oil industry-funded researchers, from the Norwegian nonprofit research institute SINTEF, to Anchorage to present findings from experiments they ran in the Barents Sea in May, the final major tests in a $12 million, five-year research effort ending next year. Shell invited state regulators, the Coast Guard, advocacy groups, Arctic village officials and others to the briefing Nov. 17 in downtown Anchorage.

The researchers said they discharged crude oil in broken and slushy ice off the northern coast of Norway. Though it isn't illegal here, such experiments have never been approved in U.S. waters.

Cumulatively, the researchers spilled 5,944 gallons of oil on the ice, according to an interim report on the tests.

In the various spill experiments, the scientists tested several cleanup techniques, including scraping it up with mechanical skimmers, burning oil surrounded by fireproof booms, and using chemical dispersants to force the oil to dilute to the point it can be eaten by micro-organisms.

The tests showed that all three of those techniques effectively remove most of the spilled oil, according to Stein Sorstrom, SINTEF's program coordinator.

Though the experimental spills were small in comparison to actual catastrophic oil spills around the globe, Sorstrom said the test results provide reliable information that companies could use to estimate how much equipment is needed to clean up a larger spill. Other tests involved detecting oil in the ice using radar-equipped aircraft and satellites, and deploying an oil-sniffing, short-legged hound.

Trained dogs in Norway can detect oil 5 kilometers away on a small patch of ice, Sorstrom said.

Unlike the other tests, the satellite tests did not work well, according to Sorstrom.

The study didn't look at the environmental impact of spills in the Arctic. In other industry-funded studies, SINTEF and some researchers at the University of Alaska Fairbanks are still studying the potential toxic effects of oil on Arctic species.

Many people who attended the meeting said they feel the research is critical and were glad that Shell presented the meeting.

But one participant said the fact that the study was industry-funded raised concerns.

Others said it would have been better if more Alaskans had been invited to monitor the experiments or watch them.

"It would have been an opportunity for people concerned about (offshore oil drilling) to see this," said Mead Treadwell, chairman of the U.S. Arctic Research Commission.

Shell's Alaska spokesman, Curtis Smith, said this study involved "international players," but if the company gets permission to do such tests in Alaska, "we would certainly touch base and use input from Alaskans."

The mayor of the North Slope Borough is in favor of spill testing off Alaska's coast, said Harold Curran, the borough's chief administrative officer.

He added that it's premature to make conclusions about SINTEF's findings until its final report is published next year.

Some who attended the meeting said they remain deeply skeptical.

"This (research) does nothing to reduce the likelihood of a catastrophic oil spill," said Whit Sheard of Pacific Environment, one of several groups that has sued to block Shell exploration in the Arctic.

The six other oil companies that funded the spill research are BP, Chevron, Conoco Phillips, Statoil of Norway, Eni of Italy and Total of France.

Others involved include the U.S. Minerals Management Service, which oversees oil development in Arctic waters; Alaska Clean Seas, which responds to spills at the North Slope oil fields; Arctic Slope Regional Corp.; the Oil Spill Recovery Institute; a Norwegian government agency and researchers from universities in the United States and Norway. ●

FINANCE & ECONOMY

Purchased credits not subject to audit

The Tax Division of the Alaska Department of Revenue said in a Nov. 13 advisory that third-party purchasers of oil and gas production tax credits are not subject to future audit adjustments.

The division said it received a request for the advisory from a representative of several oil and gas companies in Alaska.

The issue posed was whether third-party purchasers of AS 43.55.023 tax credits are subject to future audit adjustments resulting from Revenue audit-adjustment of the tax credit applications, or whether future adjustments were the responsibility of the original applicant for the tax credit certificate.

The division said third-party purchasers of AS 43.55.023 tax credits are not subject to future audit adjustments and may apply the full amount of the credit as shown on a certificate of taxes; any adjustments subsequent to issuance of the certificate are the responsibility of the original applicant.

"AS 43.55.023 allows producers and explorers to take an oil and gas production tax credit for qualified capital expenditures," the division said in advisory bulletin 2009-03.

Under that statute the person entitled to take the credit may apply to Revenue for transferable tax credit certificates for the unused portion of the credit and if Revenue is "reasonably satisfied that the applicant is entitled to a credit," the department will issue the certificates.

The statute provides that once certificates are issued, the applicant may transfer the certificates and the owner of the certificate may apply the credit irrespective of action Revenue may later take against the original applicant.

If Revenue determines that the applicant for the certificate was not entitled to the amount for which the certificate was issued, the tax liability of the original applicant will be increased by the amount in the credit that exceeded that to which the applicant was entitled.

The division said the advisory "does not apply to the transfer, re-assignment or acquisition of tax credit certificates pursuant to a bankruptcy proceeding or other court-ordered or court-supervised liquidation or reorganization."

—PETROLEUM NEWS

NATURAL GAS

RCA to hold Enstar gas storage workshop

Utility wants to ensure smooth process for certification of facility that is critical to meeting deliverability needs in 2011

By ALAN BAILEY

Petroleum News

The Regulatory Commission of Alaska has agreed to schedule a technical workshop in December to review plans being developed by Enstar Natural Gas Co. and Houston-based ANR Pipeline Co. for the development of a new gas storage facility in the Cook Inlet basin. ANR plans to operate the storage as a third-party facility, available to anyone who needs to store gas.


COLLEEN STARRING

Enstar, the main Southcentral Alaska gas utility, faces a winter 2011 shortfall in gas deliverability, the rate at which the utility can deliver gas to its customers, unless new gas supplies or storage facilities become available between now and then. At RCA's Nov. 12 public meeting, Enstar presented an overview of the proposed gas storage project and asked RCA to schedule the workshop, to help ensure efficient progress in certifying the storage facility — Enstar and ANR are fast-tracking the facility development to meet the winter 2011 deadline for storage operation.

Opportunity for questions

"The workshop would allow all of the interested parties and stakeholders an opportunity to express their questions and issues, as we move forward with this storage project," Colleen Starring, president of Enstar, told the commissioners. "… It's absolutely critical from Enstar's perspective that we have storage in place by the winter of 2011, and that would mean that we'd be injecting gas into this facility during the summer of 2011."

ANR may apply to RCA for a certificate of public convenience and necessity for the facility as soon as January 2010, and there could be additional filings consequent to that application being submitted, with the possibility of facility design changes to accommodate potential gas storage customers.

In fact, Enstar would encourage any utility with an interest in using the facility to attend the workshop. It would also be beneficial for gas producers to attend, if producers foresee any issues with the gas storage operation — operation of the new facility might, for example, impact the operation of existing producer-operated gas storage, Starring said.

Enstar hopes that an outcome of the workshop will be a clear understanding of how the utilities would recoup the cost of storage from their customers. The cost of current producer-operated storage is recovered within the prices that the producers charge Enstar for the supply of utility gas.

Multiple benefits

And Enstar sees access to third-party storage of the type that ANR intends to build as providing multiple benefits: The storage will be critical in helping Enstar meet peak demand during the winter; by enabling Enstar to buy gas during the summer to store for the winter, the utility's year-round gas purchasing requirements will be more appealing to producers; storage will provide a backup gas source, in the event of some gas supply problem; and the cost of gas storage will become more transparent to gas consumers.

> *"Storage is critical to Enstar's future. It's important to our customers. It will address the deliverability challenges that we've been facing … and it will also provide reliability insurance to our customers over a long term. Storage will become a permanently valuable resource to all of our customers."*
>
> **—Colleen Starring, president of Enstar Natural Gas**

"Storage is critical to Enstar's future," Starring said. "It's important to our customers. It will address the deliverability challenges that we've been facing … and it will also provide reliability insurance to our customers over a long term. Storage will become a permanently valuable resource to all of our customers."

Enstar and ANR have yet to establish which gas field ANR will use for the storage facility, but they anticipate achieving a storage capacity of up to 15 billion cubic feet, probably in a field that is somewhat depleted but which is still producing gas. Gas remaining in the field would form pad gas, the gas that maintains the reservoir pressure required to force stored gas out through production wells. The purchase of this pad gas would form a major component of the capital cost of the storage project. ●

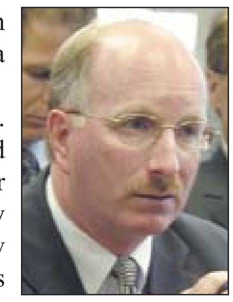
EXPLORATION & PRODUCTION

No foothills drilling for Anadarko

Anadarko Petroleum spokesman Mark Hanley confirmed Nov. 17 that his company will not drill in the Brooks Range foothills during the coming winter exploration season.

"We're probably not going to have a program this winter," Hanley said. "… We completed three wells last season. We're trying to evaluate those."

Earlier this year the company, with its partners Petro-Canada and BG, completed two years of foothills exploration drilling on a group of natural gas leases around Umiat, in a region that the company calls the Gubik Complex.


MARK HANLEY

In the winter of 2007-08 Anadarko drilled the Gubik No. 3 well in the known Gubik gas field near Umiat, and started drilling the Chandler No. 1 well, east of the Colville River near Umiat. During the following winter the company returned to complete the Chandler well and drill two new wells, Gubik No. 4 and Wolf Creek No. 4. Wolf Creek lies about 40 miles west of Umiat.

> *"What we'd like to do is drill a couple of wells and do the test in the same season, so we can share the ice roads and a lot of the infrastructure stuff."*
>
> **—Anadarko Petroleum spokesman Mark Hanley**

Suncor new partner

In August Suncor Energy took over Petro-Canada, but Suncor has not yet stated its intentions with regard to Alaska exploration, although the company is still a partner in the foothills exploration program.

Hanley said that Anadarko had planned to conduct a test in its Chandler well this winter, but that launching a winter exploration program just to test one well was not cost effective. Instead, the company hopes to conduct the test, along with the drilling of two more wells, during the winter of 2010-11.

"What we'd like to do is drill a couple of wells and do the test in the same season, so we can share the ice roads and a lot of the infrastructure stuff," Hanley said.

And the deferral of the well test should not have much impact on the time frame for Anadarko's overall foothills multiyear, multiwell exploration program, Hanley said.

State policymakers and the public have been closely following Anadarko's exploration program in the Gubik region, the first exploration program in northern Alaska to explicitly target natural gas. There has been speculation about whether any gas developed as a result of the program would be shipped to market through a future North Slope gas line, or by a "bullet line" direct into Southcentral Alaska.

—ALAN BAILEY

NATURAL GAS

ANGDA advancing propane, gas co-op

Alaska Natural Gas Development Authority asks for discussion of synergy with FNG, Alaska Gasline Port Authority LNG project

By KRISTEN NELSON
Petroleum News

The board of directors of the Alaska Natural Gas Development Authority got one meeting it's been asking for — a closed-door session with Gov. Sean Parnell — and asked for another, this one with the Corps of Engineers and the Bureau of Land Management to discuss the progress on the environmental impact statement for B2F. B2F is the Beluga to Fairbanks gas line that former Gov. Sarah Palin charged ANGDA with developing to carry Cook Inlet natural gas to Fairbanks, providing gas to the Interior in advance of a line off the North Slope and providing an incentive for more exploration in Cook Inlet to provide that gas.

ANGDA was created by a ballot initiative with the goal of moving North Slope natural gas to tidewater for liquefaction and sale, and to bring North Slope gas south for in-state use, and has focused on getting natural gas to Alaskans by building a spur line to serve Southcentral Alaska off a main gas line going to market.


HAROLD HEINZE

The meeting with the governor, an executive session attended by the board, the governor and ANGDA staff, was held Nov. 9 at the governor's office in Anchorage.

Board members have been asking for a meeting with Parnell since last summer when Palin resigned and Parnell, formerly the lieutenant governor, took over. Board member Kate Lamal raised the issue in July and again in September, saying she would like clarification on the view of the current governor and the new in-state energy coordinator, Gene Therriault. At the September meeting board member Dan Sullivan, the mayor of Anchorage, undertook to talk to the governor about meeting with the board.

The meeting to discuss progress on the B2F EIS is scheduled for Nov. 23 at 1 p.m. in ANGDA's Anchorage office.

The board also asked ANGDA Chief Executive Officer Harold Heinze to meet with Bill Walker, project manager for the Alaska Gasline Port Authority, to discuss how the two organizations might cooperate on a project to bring propane off the North Slope, a project ANGDA has been working on.

ANGDA and the port authority have a memorandum of understanding; both have been working on getting gas to Alaskans.

Walker, a candidate for governor, told the board at the Nov. 4 meeting that the port authority did not intend to be adversarial and said the port authority applauds what ANGDA is doing.

North Slope facilities

Asked by board member Brian Rogers about opportunities for collaboration, Walker said the obvious one to the port authority is propane, and noted that propane comes with liquefaction and is more user friendly for the small consumer.

The port authority got involved with North Slope facilities development earlier this year. On Sept. 29 it announced a letter of intent to buy Fairbanks Natural Gas and develop a North Slope liquefaction plant that would produce LNG to be trucked to Fairbanks. Fairbanks Natural Gas has been working on that project since 2006, when the utility acquired a land use permit from the North Slope Borough and began working on the lease of a pad from the Alaska Department of Natural Resources.

FNG trucks gas north from an LNG plant at Point MacKenzie on the west side of Cook Inlet, but in the fall of 2006 FNG started having trouble with its gas supply when Aurora Gas terminated a contract.

In 2008 FNG contracted with ExxonMobil for up to 10 billion cubic feet of natural gas a year from the North Slope.

Dan Britton, president of FNG, told the ANGDA board in April of this year that ANGDA's plans for a propane facility on the North Slope were undercutting FNG's attempts to sell North Slope LNG to Interior markets.

Both FNG and ANGDA were looking at Golden Valley Electric Association as a customer — FNG for LNG and ANGDA for propane.

FNG has signed a memorandum of understanding with GVEA related to the use of North Slope gas.

After the announcement that the port authority was in talks to buy FNG, GVEA said the port authority's ability to use tax-exempt revenue bonds made preliminary cost estimates for the North Slope LNG project promising, possibly comparable to $50- or $55-a-barrel oil.

Walker told the ANGDA board the port authority hopes to have financial closure on the FNG purchase by the end of the year and to be producing LNG at the North Slope within 24 months.

ANGDA's propane project

The ANGDA propane project would also be on the North Slope and would involve facilities "inside the fence" at the Prudhoe Bay unit to extract propane and facilities "outside the fence" to process propane for sale and shipment.

Mary Ann Pease, ANGDA's contract propane supply coordinator, said an industrial load will make propane economically viable. ANGDA has a contract with a producer company for North Slope natural gas and Pease said that in addition to looking at updated cost information for the project they are looking at expanding the contract from 10 years to 15 to enhance the economics; there would be a price reopener after 15 years.

They are also looking at optimizing the North Slope plant location; different venues have richer propane streams, she said, and the producer has been asked to discuss this with Prudhoe Bay owners.

ANGDA is seeking a private partner to

see ANGDA page 15

NATURAL GAS

Cook Inlet gas pricing heading for Juneau?

RCA responds to a legislators' state energy policy action that seeks regulatory clarity over the pricing of Cook Inlet utility gas

By ALAN BAILEY

Petroleum News

Could a hot potato in the form of guidelines for Cook Inlet utility natural gas pricing be heading for the Alaska Legislature?

During a public meeting of the Regulatory Commission of Alaska on Nov. 12, the commissioners reviewed a draft Alaska energy policy prepared by the Senate Resources and Energy committees. And the commissioners picked up on a statement in the policy requiring the Legislature to encourage RCA to come up with a predictable pricing methodology for Cook Inlet gas.

The policy proposes a legislative action to "consider legislation that would either establish a pricing methodology or require the RCA, in concert with stakeholders, to develop one."

> *"I would strongly encourage the legislators … that they consider legislation that would establish a pricing methodology."*
>
> —Commissioner Kate Giard

No market price

In the absence of a spot market for gas in the Cook Inlet, with utility gas prices being determined as part of negotiations over medium- and long-term gas supply contracts, and with Cook Inlet gas supplies dominated by a small number of gas producers, the question of "fair pricing" for utility gas has proved a major stumbling block in RCA approval of new Southcentral Alaska utility gas supply contracts in recent years: Although RCA does not regulate the gas producers, the commission does have a duty to review gas supply contracts as part of its regulation of gas and power utilities.

But challenges to gas prices in new gas supply contracts and the lack of a consistent method of determining whether those prices are reasonable, has resulted in lengthy and expensive RCA contract hearings; rejection of several contracts; and regulatory uncertainty in the process of establishing new gas supplies for the utilities.

see GAS PRICING *page 18*

continued from page 14

ANGDA

develop a North Slope processing plant and a distribution network to supply propane within Alaska.

Board member Bill Jeffress asked if there were synergies with the Fairbanks Natural Gas LNG project.

Heinze said he didn't know what FNG's plans were for facilities inside the fence — within the Prudhoe Bay field area — and said ANGDA's work may be useful to FNG. Heinze said the biggest issue is that propane is more flexible than LNG because it can serve many customers at many locations.

Lamal said she'd like to see a meeting with the port authority and an alternative plan for the North Slope facilities before a board meeting in mid-December.

Natural Gas Supply Co.

Another big project ANGDA has been working on is a natural gas supply co-op, a project which grew out of a program ANGDA put on for electric utilities to help bring the utilities up to speed on what they would need to know and do to participate in an open season for North Slope natural gas.

ANGDA originally said one role it might play was as an aggregator for natural gas purchases, and bidding for space on a gas pipeline, for utility gas.

Tony Izzo, ANGDA's contractor for the natural gas co-op, said there are three formal members of the Natural Gas Supply Co. — Homer Electric Association, Matanuska Electric Association and Golden Valley Electric Association — and there is interest from Municipal Light and Power, Chugach Electric Association and Homer Electric Association.

There is a structured offer in discussion stages with one Cook Inlet company to provide natural gas and discussions have been initiated with a second Cook Inlet producer, Izzo said.

A membership meeting for the Natural Gas Supply Co. will be held in November, he said, and the plan is to transition to a member-run co-op by the end of the year, with complete bylaws and transfer of control to the members. ANGDA then would become a member and provide whatever value it can.

Heinze said the co-op is starting to look at participation in an open season by electric utilities, which would take aggregation and money. He said school districts, the university and other large gas purchasers such as hospitals could gain by being members. ●

SAFETY & ENVIRONMENT

Melting of Greenland ice cap accelerating

Scientists have discovered an acceleration in the rate of melting of the Greenland ice cap since 2000, the BBC reported Nov. 12. According to a paper published in the journal Science, data from a variety of sources, including satellite measurements, show that the ice loss is resulting from a combination of surface melting and the increasingly rapid flow of glaciers into the ocean; the increased thinning of the faster moving glaciers provides evidence for the accelerating glacier flow, the BBC said.

The loss of ice from a land-based ice cap, such as exists in Greenland, is of particular importance because it results in a rise in global sea levels. The melting of sea ice, by comparison, does not impact sea levels because floating ice displaces an equal weight of seawater.

The melting of the entire Greenland ice cap would raise global sea levels by about 20 feet, the BBC said. However, it is unclear whether the accelerated rate of melting of the ice cap will continue, or whether it is a temporary phenomenon.

—ALAN BAILEY

LAND & LEASING

Plaintiffs eye Shell Chukchi drilling

The Native village of Point Hope, the Inupiat Community of the Arctic Slope and 12 environmental organizations, plaintiffs in an appeal in the U.S. District Court for the District of Alaska against the February 2008 Chukchi Sea outer continental shelf oil and gas lease sale, have expressed concern to the court about delays in resolving the appeal, given Shell's plan to drill in the Chukchi Sea in 2010 in leases issued in the lease sale.

The briefing schedule in the case is currently on hold, pending the issuance by the U.S. Minerals Management Service of an amended lease sale environmental assessment — the amended assessment could impact the district court case. MMS is preparing the amended assessment in response to a May 11 directive from the United States Court of Appeals for the District of Columbia, as a consequence of a ruling by that court over an appeal against the MMS 2007 to 2012 outer continental shelf lease sale program.

MMS says work not complete

In a status report filed Nov. 13 by both the plaintiffs and the defendants in the district court case, MMS said that it has made substantial progress in complying with the mandate of the D.C. Circuit court, but that the agency has not yet completed the required work.

"The government therefore proposes in this (District Court) case that the parties file a further status report or briefing schedule on or before Dec. 18, 2009," the Nov. 13 status report says.

But MMS intends to make a decision by Nov. 19 on whether to approve Shell's Chukchi Sea exploration plan, the plaintiffs responded.

"Plaintiffs believe that if the federal defendants continue to advance toward decisions to implement Sale 193 (Chukchi Sea) leases and authorize drilling in 2010, it may become necessary to lift the stay and reinitiate the briefing schedule soon, even if the Department of Interior has not completed its review of the five year leasing program, either by agreement with defendants or by motion," plaintiffs told the court in the Nov. 13 status report.

Shell has indicated that it needs to make a go-or-no-go decision on its 2010 Chukchi Sea drilling by early 2010.

—ALAN BAILEY

Petroleum news

Business Spotlight

Last Frontier Air Ventures

Last Frontier Air Ventures is owned and operated by President and CEO Dave King. Located in Sutton, Alaska, LFAV is a diversified Alaska helicopter company, offering support anywhere in the state and short- and long-term contract for mineral exploration; oilfield support; surveying; slung cargo; video and film projects; aerial photography; tours; and heli skiing. Operating Astar helicopters, the company's pilots are proficient with precision long line and mountain operations and are able to meet specific client needs.

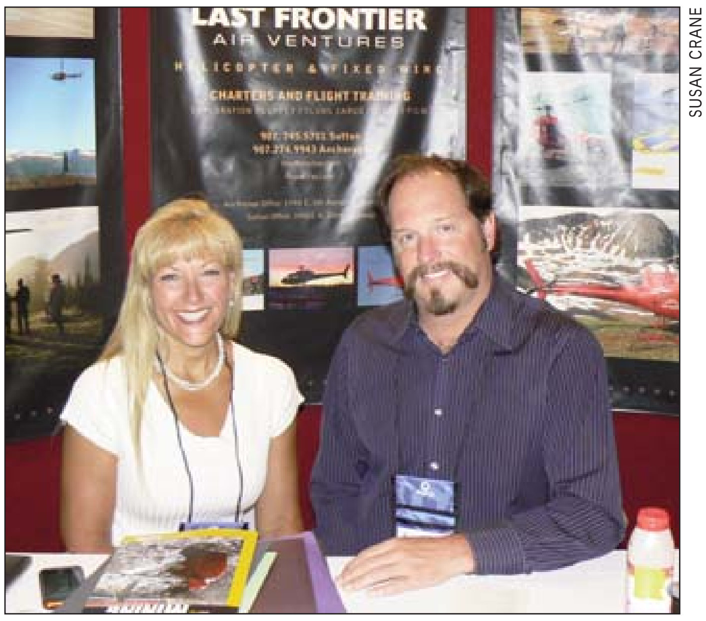
Dave King, Owner, Director of Operations

Dave King, a lifelong Alaskan, started LFAV in 1997, a company that offers his 25-plus years of experience and expertise as an Alaska pilot and good old fashioned customer service. King's diverse work background includes gold mining throughout his high school and college years, 20 years of commercial fishing in Bristol Bay, herring spotting, kelp ranching and recording a CD of original music in Nashville as a singer and songwriter. He is currently getting back into music and plays at various local venues.

Debbie Barnhardt, Office Manager, Marketing Director

Debbie Barnhardt was born and raised in Anchorage and the Matanuska Valley areas. Her grandparents homesteaded in Rabbit Creek, and Elmore Road is named after them. Barnhardt has held administrative positions in a variety of companies throughout the state from Cooperative Extension Services in Bethel to the Matanuska school district, and enjoyed a career in real estate in Southcentral Alaska before coming to work at LFAV. She and King are both dog lovers, and the "girls" spend work days at the hanger.

—MARTI REEVE



SUSAN CRANE

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

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Petroleum news Oil Patch Bits

Hawk awards $60,000 grant to support ANSEP


COURTESY HAWK CONSULTANTS

Hawk Consultants LLC said Oct. 28 that it has awarded a $60,000 grant to support the Alaska Native Science and Engineering Program at the University of Alaska Anchorage. The goal of ANSEP is to help change hiring patterns of Indigenous Americans in the fields of science, technology, engineering and mathematics by increasing the number of individuals on a career path to leadership in these fields. Hawk is a long-time supporter of ANSEP and seeks to develop Native Alaskan expertise in the fields of science, engineering and project management. The grant will help ensure that Alaska Natives are ready to build the state's future. Hawk Consultants LLC is an Alaskan-owned firm specializing in project management services supporting client organizations with people and resources to deliver project success.

ConocoPhillips Energy Prize winner announced


COURTESY CONOCOPHILLIPS

ConocoPhillips said Oct. 20 that it, along with Penn State, has awarded the 2009 ConocoPhillips Energy Prize to Scott Anderson and team for their innovation, the ECO-Auger, a hydrokinetic machine that converts moving water from river and ocean currents to renewable electric energy. Its hydraulic storage pressure compensation system guarantees constant energy output regardless of tidal current strength. The ConocoPhillips Energy Prize recognizes new ideas and original, actionable solutions that can help improve the way the U.S. develops and uses energy. The prize focuses on innovative ideas and solutions in three areas: developing new energy sources, improving energy efficiency and combating climate change. For more information about the ConocoPhillips Energy Prize and the finalists visit www.conocophillips.com/energyprize.

Duoline gives 'rules of thumb' with new literature


COURTESY DUOLINE

Duoline Technologies said Oct. 23 that it has released its new literature "Connection Options," giving customers general rules of thumb for choosing the best connection option, depending on the application. Duoline, an industry leader in solving oilfield corrosion problems through innovative products and services, said that the literature provides detailed information on five connection options it has available. Details on each connection include typical applications, liner dimensions, drift dimensions, pipe sizes and other unique features. Duoline is a unique insert liner process that secures a corrosion resistant material such as glass-reinforced epoxy or PVC inside the steel pipe, thereby protecting steel tubular, isolating corrosive oilfield fluids and gasses. Since 1964, more than 80 million feet of Duoline have been successfully installed worldwide. For more information visit www.duoline.com.

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

continued from page 1

ARCTIC GAS

replace 100 percent of its supplies every five years.

"A combination of Mackenzie and Alaska gas … is a critical component of North American energy supply and security," Girling said, noting that is why the resource is viewed by governments as "very important."

Pitching TransCanada

Making TransCanada's pitch as the best candidate to carry Arctic gas, the two executives said the company's network taps into "virtually every major North American natural gas supply basin and provides our customers with unparalleled access to premium markets."

They said TransCanada is also "very well positioned to connect new sources of supply such as shale gas and northern gas to growing markets."

Noting that TransCanada's mainline system is currently running at about 1 bcf per day below capacity, Kvisle said that unused space means TransCanada is "able to take shorter-term contracts and volumes that someone seeking to build a new pipeline to bypass our system."

But the TransCanada Web cast emphasized that moving ahead on Alaska will be tied to results of an initial open season, which should be concluded by July 2010, while the destiny of the Mackenzie Gas Project hinges on the expected release of a final report by the Joint Review Panel on environmental and socioeconomic issues in December and a deal between the Canadian government and project proponents on an acceptable fiscal framework.

Kvisle described the two projects as "very big stuff" and "long-term initiatives."

"Inevitably at the end of the day some of the producers will want to participate in the projects, so I don't expect TransCanada will have 100 percent of either one," he said.

Electricity biggest demand

Providing an outlook for North American gas, Kvisle said the demand for gas-fired electricity will be the largest source of growth in the 2009-20 period, while residential and commercial needs will remain "essentially flat" because of new efficiencies.

> *"Inevitably at the end of the day some of the producers will want to participate in the projects, so I don't expect TransCanada will have 100 percent of either one."*
> **—TransCanada CEO Hal Kvisle**

He said Mexico is expected to remain unchanged at 5-6 bcf per day, while the U.S. Gulf of Mexico will continue a very rapid decline that is now in the range of 30-50 percent a year for most fields and the U.S. Midcontinent has also been in rapid decline.

"The very best gas reservoirs in the U.S. were developed a long time ago," he said, adding the industry is moving to "smaller and smaller pools that are just not big enough to offset declines."

Kvisle said U.S. shale output, which ranges from 4-6 bcf per day currently, should grow to 12-15 bcf per day by 2020, "but like all other sources there is a pretty relentless decline in those wells from the day they come on stream."

He said significant growth in the U.S. Rockies region has slowed because "weak gas prices have dampened drilling activity."

Despite the frantic pace of activity, Kvisle said British Columbia's unconventional gas in the Horn River, Montney and other plays will "obviously not dominate the supply mix," but, along with northern gas, will help keep the TransCanada pipelines out of Western Canada operating at capacity.

He said major new infrastructure will be needed in North America because so many power plants built in the 1965-80 period will "reach end of life over the next decade and have to be replaced."

Kvisle said the "appetite for life extensions at old coal plants is diminishing more and more. We will likely see them shut down and probably converted to natural gas-fired plants," driven to a large extent by climate change and environmental policies, he said. ●

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STATOIL

cal expertise of ASRC Energy Services and LGL to help with permitting.

Torgersen, Boyd and other Statoil officials have been meeting with North Slope civic leaders and federal agencies, a process that will be expanded after Berentsen moves to Alaska.

A Petroleum News source at one of the agencies said Statoil is looking at drilling in the open water season of 2011 or 2012.

According to the North Slope Borough mayor's office, Statoil has already taken borough Mayor Edward Itta and key borough staff members for a tour of its offshore Norway oil and gas facilities — a trip that included meetings with fishing groups and government agencies, entities that occasionally clash with the oil and gas industry. The meetings included discussions about how such disputes are resolved in Norway.

Will conduct 3-D seismic in 2010

In addition to working with stakeholders and preparing seismic permit applications, Statoil has inked a $26 million deal with Fugro-Geoteam for the 2010 acqui-

COURTESY FUGRO-GEOTEAM

Fugro Class C vessel

sition and QC processing of 2,400 square kilometers of 3-D marine seismic over Statoil's leases in the Chukchi Sea.

The Dutch marine seismic data acquisition firm is part of the Amsterdam-based Fugro Group.

The three-month 3-D survey, 100 miles offshore Alaska's North Slope, will take place during the open water season, "from approximately early August into October," Fugro said in a Nov. 17 press release.

"The purpose of the seismic shoot is to get a better understanding of our leases," Torgersen said.

Due to the "challenging conditions" in the Chukchi and the "limited acquisition window," Fugro said it is using "one of

At the February 2008, federal Chukchi lease sale, Statoil bid nearly $57 million on 33 OCS leases, winning 16 of those tracts for $14 million.

the world's newest and most technologically advanced, 'C-class' vessels" for the seismic acquisition, noting Fugro's "large and modern C-Class vessels have a DNV ICE classification as well as the proven capability to tow an exceptionally high streamer count."

Picked up leases in 2008

At the February 2008, federal Chukchi lease sale, Statoil bid nearly $57 million on 33 OCS leases, winning 16 of those tracts for $14 million.

The 16 leases sit about 37 miles north of the Burger gas prospect.

Statoil partnered on 14 of its 16 high bids with ENI Petroleum USA, the U.S. subsidiary of Italian major Eni S.p.A. that is currently developing the Beaufort Sea Nikaitchuq prospect offshore Alaska.

Under the agreement with Eni, Statoil is lease operator and holds a 60 percent interest in the shared Chukchi acreage. Statoil has a 100 percent interest in the other two leases

"StatoilHydro sees this as an opportunity to achieve a competitive position in a new frontier basin with long-term growth potential, while also advancing the Arctic initiative," Halvore Engebretsen, vice president for Statoil's Arctic growth theme, told Petroleum News in an e-mail on Feb. 7, 2008, from his office in Norway.

Engebretsen said that Eni and Statoil make "a strong team."

Although he would not comment on "internal evaluations" used to justify the bids, Engebretsen did call the Chukchi Sea "an Arctic area with already proven hydrocarbons, in an open transparent bid round in a politically and fiscally stable regime."

Statoil USA is a subsidiary of Statoil ASA, a largely state-owned Norwegian oil and gas major, which produced 1.8 billion barrels of oil equivalent in 2008, operates in more than 40 countries, is a major player in offshore Norway and Newfoundland, and is gearing up for what Statoil's Russian subsidiary president describes as the "mother of all projects" — developing the Shtokman gas field in the Russian part of the Barents Sea.

—KAY CASHMAN

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GAS PRICING

The commission has been mulling over whether or how to come up with a methodology for utility gas pricing, to reduce the regulatory uncertainty and eliminate the logjam in gas supply contract approval. But after opening an informational docket on the gas pricing topic and holding a technical workshop, seeking views on how to resolve the gas pricing issue, the commission has still not resolved the problem.

And the commissioners seem happy to let the legislators have a go at coming up with a solution.

"I would strongly encourage the legislators … that they consider legislation that would establish a pricing methodology," said Commissioner Kate Giard during the Nov. 12 RCA meeting. RCA needs a strong statement on what the Legislature wants the commission to do, she said.

Thorny problem

Commissioner Tony Price said that he did not envy the task that legislators would face in trying to come up with an acceptable pricing formula.

If the legislators are serious about going in this direction "they'll experience what we experienced: a lot of pain and no answers," Price said.

The commissioners agreed that an appropriate response to the statements in the legislators' draft energy policy would be to deliver to the legislators the comments that the commission had received in its gas pricing informational docket, and the transcript from the gas pricing technical workshop.

"Clarity in the pricing of Cook Inlet gas would be most welcome, and we'll be very supportive whatever it is the Legislature decides to do," said RCA Chairman Robert Pickett. ●

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PRODUCTION

nes' costs and reduces cargo loads.

Fuel levels at AFSC's airport operations recently reached "critically low" levels. "We expect to see low levels probably through the 24th of November and potentially again at the end of December," he said. "We're not out of the woods yet."

One of largest air cargo stops

The Anchorage airport is one of the world's largest stops for air cargo. According to Energy Information Administration data, only four states had larger sales of jet fuel in 2008 than Alaska.

But cargo traffic — and sales of jet fuel — have varied widely in recent years. Sales of jet fuel in Alaska increased steadily from about 1.5 million gallons a day in the early 1990s to a high of 3.2 million gallons a day in 2005, according to the EIA. Volumes have fallen each year since then, and 2008 sales of 2.4 million gallons per day represent a 25 percent drop from 2005.

Sales continued to drop in early 2009, which Whitlatch blames on the weak economy and disruptions associated with eruptions at Mount Redoubt.

Jet fuel is supplied to the airport by a handful of refineries within Alaska and by deliveries from the U.S. West Coast and abroad.

Flint Hills state's largest

The Flint Hills Resources refinery in North Pole is the state's largest, and roughly 60 percent of its production is jet fuel.

Earlier this year, Flint Hills shut down one of its three crude oil processing units in response to the weakened demand for jet fuel. The company's director of external affairs, Jeff Cook, told state lawmakers in March that Flint Hills couldn't market the excess jet fuel and had no place to store it. (See "Refinery shuts unit on declines; Senate considers gouging bill," March 22, 2009.)

Cook said in an interview Nov. 19 that the unit remains shut down.

Production of jet fuel and other products was halted completely at the Petro Star Inc. refinery in Valdez after a fire there in December. Production returned to full capacity in October.

Tesoro Corp. also provides jet fuel to the airport from its refinery on the Kenai Peninsula and from refineries on the West Coast and abroad.

Outside sources

The recent surge in demand for jet fuel at the airport is largely being met by sources outside Alaska. Steve Ribuffo, deputy port director for the Port of Anchorage, said shipments of jet fuel coming into Anchorage jumped dramatically in November.

"We are probably going to receive over 900,000 barrels of jet fuel this month bound ultimately for Ted Stevens International Airport," he said. "It's probably at least twice as much as a normal month during the season when we get petroleum deliveries."

Cook said Flint Hills is meeting all of its customer demand and producing jet fuel beyond its contractual obligations. But he added that the refinery is producing slightly more than half as much jet fuel as it did two years ago.

Cook said the company has no plans to restart its third processing unit in response to the uptick in demand. "You need to have a long-term sustained demand to justify doing that," he said.

Flint Hills taking less oil

Division of Oil and Gas Director Kevin Banks said in an interview Nov. 18 that Flint Hills, which buys royalty oil from the state to make its products, is taking "a lot less oil" than it used to. "They're actually below what was going to be a minimum volume that was in their original contract with us," he said, adding that the state would be flexible.

Banks said he would be surprised if this month's heavy reliance on out-of-state jet fuel resulted from any price differential between domestic and foreign sources. "It might be true that Asian refineries sell jet for less than West Coast refineries, but that's because the market for jet is on the West Coast," he said. Lower prices would be required to account for the extra shipping cost.

Cook declined to comment on pricing matters.

Despite operating its refinery at partial capacity, Flint Hills is doing better than before, according to Cook.

In March, Cook told lawmakers the company was "losing money again" and said the outlook for the future was uncertain. Flint Hills, which had put the refinery up for sale, met with the state's Department of Natural Resources to discuss ways to keep the refinery operating.

Cook said Nov. 19 that the facility is no longer for sale.

"Our economics became better," he said. "We're moving right along." ●

Oooguruk field continues to perform well

Pioneer Natural Resources' Oooguruk field in state Beaufort Sea waters, offshore Alaska's North Slope, continues to perform well, said Timothy Dove, the company's president and chief operating officer, during an investor conference call on Nov. 4. The field is producing oil at around 6,000 barrels per day, he said.

Oooguruk production will probably increase by about 10 percent between the fourth quarter of 2009 and the fourth quarter of 2010, said Scott Sheffield, chairman and chief executive officer.

During the summer Pioneer successfully completed the drilling of five horizontal wells — three producers and two injectors — in the Nuiqsut, the deeper of the two Oooguruk reservoir horizons, Dove said. And currently the company is waiting for the winter freeze up before embarking on a drilling campaign in the deeper Kuparuk horizon, he said.

In early 2010, Pioneer expects to initiate a project to provide an independent source of water for injecting into the Oooguruk reservoir, said Richard Dealy, Pioneer executive vice president and chief financial officer. Oooguruk currently obtains water from the nearby Kuparuk River unit, operated by ConocoPhillips, but in early 2009 that water supply went off line for several weeks while ConocoPhillips conducted repair work on the water line.

Pioneer currently estimates that Oooguruk should produce between 120 million and 150 million barrels of oil.

—ALAN BAILEY

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COSMO

the Hansen 1A-L1 well, using Rowan rig 68.

"The well workover work that we have planned should start here shortly," Tadd Owens, Pioneer's director of government and public affairs, told Petroleum News Nov. 10. The workover should be completed and the rig demobilized by the end of the year, with testing of the well taking place in January, Owens said.

Move ball forward

Pioneer staff working on the Cosmopolitan project think that the workover will "help us keep moving the ball forward and hopefully get to a full development," Owens said. But Pioneer does not anticipate drilling another Cosmopolitan appraisal well before the end of 2010, he said.

Pioneer has said in the past that it wants to drill another appraisal well and complete some engineering design work before making a development decision for Cosmopolitan.

In its approval of the changes to the plan of exploration for Cosmopolitan, the Division of Oil and Gas said that Pioneer has met its 2009 obligations to start filing permit applications for the installation of production facilities, start a "commercial front-end engineering design" for those facilities and report on its activities to the division.

On or before Feb. 1, 2010, Pioneer will commence drilling a workover on the Hansen 1A-L1 well for well diagnostics and to enhance an evaluation of the Cosmopolitan reservoir, the division said, in reference to the workover that Pioneer is about to start. On or before Nov. 15, 2010, Pioneer will commit in writing to the division and the U.S. Minerals Management Service to drill an additional appraisal well to further delineate the Cosmopolitan unit either north or south of the existing Hansen wells: The drilling of the new well must commence on or before April 30, 2012, the division said. ●

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INSIDER

taking both long and short positions and using up to 30 percent leverage to generate better returns.

The prospectus says the stocks in its target field will include drillers, exploration and production companies and refiners.

There is no indication whether the fund will be influenced by Pickens' current enthusiasm for natural gas-powered vehicles or wind power to reduce the $700 billion a year that it cost the U.S. last year to import oil.

The prospectus says the funds will follow an investment strategy "substantially similar" to Pickens' BP Capital Energy Equity Fund.

Although the fund units are registered in Canada and intended for Canadian investors only, there will be no geographic boundaries on the investments.

BP Capital Energy has posted a compound annual growth rate of 20.2 percent before fees, which reduce investors' annual take to 10.8 percent.

In addition, the Canadian fund will turn over 2 percent of the fund's net asset value each year to BMO Nesbitt Burns, which will then pay Pickens' investment team from the proceeds.

If the fund raises its net asset value over the course of a year, 20 percent of the gain will go to BMO Nesbitt Burns and the investment team.

Each $10 "combined unit" comes with a unit in the fund. Pickens said he will own 10 percent of the fund.

A month ago, Pickens forecast oil prices of $85 per barrel by the end of 2010, and said they could reach $90-$100 if there is a global economic recovery, while natural gas prices will average $7 per million British thermal.

But, without a plan for U.S. energy independence, oil could soar to $300 within a decade, he said.

Pickens said U.S. climate change legislation is essential to avert such an exponential increase, but he does not rule out the chances of President Barack Obama eliminating U.S. dependence on Middle Eastern oil over the next 10 years.

—GARY PARK

Shell denies asking for delay in drilling decision

MARVIN ODUM, ROYAL DUTCH SHELL'S U.S. subsidiary president and executive VP for exploration in the Americas, says the company did not ask the Minerals Management Service to delay a decision on Shell's request to drill for oil and gas in Alaska's Chukchi Sea.

Odum said after a Senate hearing Nov. 19 that he only knew what he "read in the papers" about the delay granted this week by the Interior Department, adding that Shell did not request it.

But a letter from MMS, an arm of the Interior Department, says Shell requested the delay so it can respond to a deluge of public comments on the drilling proposal.

The Nov. 17 letter from John Goll, regional director of MMS in Alaska, says Shell has 10 days from the receipt of the letter to respond to comments.

—MATTHEW DALY, ASSOCIATED PRESS, WASHINGTON. D.C.

When asked about the State of Alaska's decision to take over as lead on a possible bullet line from Anadarko Petroleum's Gubik Complex in the Brooks Range Foothills, Sims said the state's intervention was welcome and did not dim his company's interest in the project.

Enstar still upbeat on bullet line

JOHN SIMS, ENSTAR'S DIRECTOR of corporate communications, says the Anchorage-based utility is still bullish on a bullet line from the Brooks Range Foothills to Southcentral Alaska, but "from a long-term perspective" a continuous gas supply from Cook Inlet would be the "best case scenario" to supply Enstar's customers.

The next best scenario, he said, would be natural gas from the North Slope and/or Brooks Range Foothills via a bullet or spur line.

Imported natural gas would be the "worst case scenario," Sims said.

When asked about the State of Alaska's decision to take over as lead on a possible bullet line from Anadarko Petroleum's Gubik Complex in the Brooks Range Foothills, Sims said the state's intervention was welcome and did not dim his company's interest in the project.

"The state has more resources, more expertise … more everything than a utility company. The state's able to get all the players in the room … so when they requested to take the lead, we gladly handed it over to them," he said.

—KAY CASHMAN