Petroleum news

page 3 Wielechowski defends ACES, points to obligations under leases

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January Mining News inside

The January issue of North of 60 Mining News is enclosed.

Shell's permits upheld; EAB rejects appeals of OCS permits

The Environmental Appeals Board announced on Jan. 12 that it had rejected appeals against the Environmental Protection Agency's air quality permits for Shell's use of the drillship Noble Discoverer for exploration drilling in the Chukchi and Beaufort seas. The air quality permits are critically important to Shell's ability to move forward with its drilling program, starting this year.

Four petitions

The board had received four petitions challenging the issue of the permits. One petition came from the Native Village of Point Hope and a group of 10 environmental organizations;

see **PERMITS UPHELD** page 16

Buccaneer's Kenai Loop online; more drilling planned this year

Buccaneer Energy Ltd. is the newest natural gas producer in Alaska.

The Australian independent brought the Kenai Loop No. 1 well online on Jan. 14, according to the company. Buccaneer said it expects to produce up to 5 million cubic feet per day from the well for up to three months while it monitors reservoir pressure.

Through contracts negotiated last year, the company will sell Kenai Loop gas either into Enstar Natural Gas Co.'s daily winter auction, a local spot market for supplies during peak demand, or to ConocoPhillips for use in the Kenai liquefied natural gas facility.

"We are extremely proud of the speed and efficiency our team has displayed in going from discovery to permitting and

see **KENAI LOOP ONLINE** page 15

GOVERNMENT

Juneau gavels in

Coastal zone moves as initiative; governor asks for meaningful tax change

By KRISTEN NELSON

Petroleum News

When the Alaska Legislature gaveled in Jan. 17 in Juneau, it returned to two oil and gas issues which dominated the 2012 session — oil taxes and coastal management.

House Bill 110, Gov. Sean Parnell's proposed changes in ACES, Alaska's Clear and Equitable Share, the state's oil and gas production tax, was passed by the House last year but stalled in the Senate.

Much the same could be said for coastal zone management. After much work the House, the administration and stakeholders reached an agreement on changes to the program and the bill passed the House unanimously.

Chenault said any member could introduce coastal zone legislation, but Rep. Craig Johnson, R-Anchorage, the House Rules chair, said he'd much rather see a bill come from the Senate.

But the House failed to concur in changes the Senate made in the bill and the program died.

Local communities who wanted to see the coastal zone management restored began a petition drive and on Jan. 17, before legislators gaveled in, the Alaska Sea Party turned in what appeared to be

see **2012 SESSION** page 15

PIPELINES & DOWNSTREAM

TransCanada to try again

White House, State Dept. deny Keystone XL permit, allow filing for revised route

By GARY PARK

For Petroleum News

The Obama administration, to a chorus of disapproval from Republican and Democratic lawmakers in the U.S. Congress, has turned down TransCanada's proposed 800,000 barrels per day Keystone XL pipeline from the Alberta oil sands to Texas Gulf Coast refineries, but left the window open for the Canadian company to file a revised route that bypasses an ecologically sensitive area in Nebraska.

TransCanada immediately said it will reapply for a permit, having already said on Jan. 12 it was working with the U.S. State Department and Nebraska Department of Environmental Quality to identify a route around the Sand Hills region and the Ogallala Aquifer.

Alaska's two senators, Lisa Murkowski and Mark Begich, both expressed their frustration with a decision they said would stifle jobs and U.S. access to affordable energy.

Canadian Prime Minister Stephen Harper told

see **KEYSTONE DENIED** page 14

FINANCE & ECONOMY

Three strikes for Parker

BP issues default on two Arctic rigs; drilling delayed, but working on resolution

By KAY CASHMAN

Petroleum News

With its new Liberty rig undergoing a lengthy engineering and design review that began shortly after 2009 delivery to BP on the North Slope, Parker Drilling has suffered another setback in its attempt to resurrect its business in Alaska. On Jan. 17 the Houston-based company said it had received a letter of default from BP on the two new Arctic Alaska Drilling Units, or AADUs, it delivered to the North Slope in August under a five-year contract with the Prudhoe Bay unit operator.

The AADUs, Parker rigs 272 and 273, would be the first rigs in Alaska to bear the Parker logo since the late 1990s, when the company pulled out of the state. (The Liberty rig, designed and built by Parker, is owned by BP and operated by Parker.)

"The unique design for these new, technologically advanced rigs posed engineering, construction and commissioning challenges that

see **PARKER RIGS** page 16

JUDY PATRICK

In August, being delivered to the North Slope at West Dock, is Parker Drilling's Rig 273 drill module. The two rigs' utility modules and the Rig 272 drill module are on the barge in the background.

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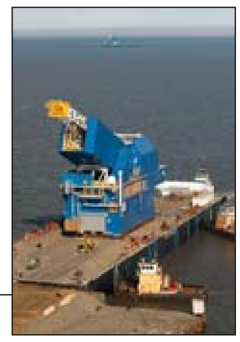

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● GOVERNMENT

Wielechowski remains critical of HB 110

Anchorage senator questions need for production tax breaks, calls for more analysis, notes state's leases require development

By STEFAN MILKOWSKI

For Petroleum News

The State of Alaska is not a business, but when it comes to oil tax reform, it ought to act like one, according to Sen. Bill Wielechowski.

"I don't think there are too many businesses that would agree to multibillion-dollar tax breaks with no assurances in return," Wielechowski says.

The Anchorage senator, who is vice chair of the Senate Resources Committee, has been a vocal critic of Gov. Sean Parnell's oil tax bill, HB 110. There's little evidence that North Slope developments aren't profitable, he argues. And history suggests that low taxes aren't enough to halt Alaska's production decline.

Instead, Wielechowski, a lawyer, advocates pushing companies into production through stricter enforcement of lease terms and by removing structural impediments.

Petroleum News spoke with Wielechowski on Jan. 16.

Petroleum News: You've been critical of the governor's HB 110 and the level of analysis his administration has presented. Can you explain your position on the bill?

Wielechowski: I think we need to act with our oil resources like any business, or any oil company, would. We have leases with the oil companies. Those leases require development when the oil companies can make a reasonable rate of return.

So I think the first analysis needs to be, What exactly is the return here in Alaska? How economic are their fields right now? I think that's what any business, any oil company would do. They would first figure out how economic the current tax structure is. I don't think we've seen that from the administration yet.

We haven't seen a field-by-field analysis to determine what exactly are the returns, the net present values? What exactly are the expected profits on the current fields, the fields that might be developed in the future? How are they under ACES and how would they be under the governor's bill? We haven't seen that.

We did that during ACES. We did a pretty substantial analysis of a number of fields, and that was very helpful.

Petroleum News: The administration and oil companies describe the oil tax as an impediment to increased production. Do you not trust that's the case?

Wielechowski: I'm just saying show me the numbers. The numbers I've seen show they are very profitable, show that they offer very good rates of return.

SEN. BILL WIELECHOWSKI

In fact, those are direct statements from a number of oil company executives. We've seen during analyst conference calls, ConocoPhillips executives say that Alaska offers strong cash margins. We had consultants during the last oil tax debate show that rates of return were very high.

If that's not so, let's have a factual analysis of what the numbers really are. And if we're not competitive, truly, that's a good place to start.

Petroleum News: Why do you think oil production has been declining so much?

Wielechowski: Unfortunately if you look back over the last 30 years, we've had oil production declining significantly, at a rate of more than 5 percent per year. We had that decline when you had the old economic limit factor, which was a production tax of zero percent on most fields on the North Slope.

I think with the new explorers, with the advent of the shale fracturing technology, with the offshore developments and new conventional developments, the heavy oil developments, I think you're going to see a big turnaround in the next five to ten years.

Petroleum News: Some people suggest companies exploring now are expecting lower production taxes.

Wielechowski: I think you need to look at the legal obligation the companies incur when they take out a lease. Their obligations require them to develop the lease when they can make a reasonable profit. It doesn't say, When you can make a reasonable profit under a different tax structure.

Petroleum News: Some oilfield service companies say there's been hardly any work on the Slope for years, and some are moving personnel and equipment to places like North Dakota. Is that a problem?

Wielechowski: What the numbers show is that every single year ACES has been in place, we've had all-time highs in capital investment. We've had all-time highs in operating investment. We'll get very close to an all-time high in the number of exploratory wells on the North Slope.

We've had all-time highs in the number of jobs on the North Slope. We've got corporate profits at all-time highs. We've got development wells at 5-year highs. So when you look at the numbers out there, it doesn't support a lot of what we're hearing.

Q AND A

There certainly is an explosion going on in North Dakota, but as our legislative research division pointed out, North Dakota had virtually the same tax rates in place for decades, and it wasn't the tax rates that caused the explosion of development. It was the fact that they figured out how to hydraulically fracture the oil.

We've got a lot of oil that's similarly trapped on the North Slope, so I think you are going to see an explosion of hydraulic fracturing shale oil very soon. We're starting to see it with Great Bear already.

Petroleum News: You paint a pretty rosy picture of activity on the North Slope. Do you have any concern about how things are going there?

Wielechowski: We're obviously concerned about the declining production. That's something that unfortunately has been happening over the last 30 years.

Developers and explorers will tell you a lot of it is environmental, some of it is permitting, a lot of it is the fact that we don't have the infrastructure they have in other parts of the country, or the world.

I have not been convinced that our tax structure is one of the impediments. You've got Libya, China, Venezuela, Algeria, Angola, Kazakhstan, and more, all with government take over 90 percent. And yet you see the same companies that are doing business here flocking to do business in many of those countries.

There are no doubt some infrastructure impediments, some permitting impediments here in the state. We're trying to tackle those by doing things like Roads to Resources. We put more money into trying to help DNR get out of the big backlog of permits they have.

But also, we need to be looking at ensuring the lease terms are being followed and that companies aren't sitting on leases that are profitable. I think that is something that has been overlooked and needs to be more closely examined.

Petroleum News: Would you like to see the state pursue litigation?

Wielechowski: I would like to see the

see **WIELECHOWSKI Q&A** *page 13*

CLARIFICATION

Not tax return data

A Q&A with Rep. Eric Feige in the Jan. 15 edition mentioned new information being gathered from the Department of Revenue. The information is not tax return data; it is information provided separately by oil companies about expenditures. See story in this issue.

—PETROLEUM NEWS

● FINANCE & ECONOMY

Spring cleaning in winter

Two oil sands-weighted Canadian companies shake up executive ranks; analyst says departures all point to productivity problems

By GARY PARK
For Petroleum News

The New Year has arrived with a resounding thump in the oil towers of downtown Calgary, with investors purging the upper echelons of two companies with large stakes in the oil sands.

There is nothing linking the events, but the departed heads of Nexen and Connacher Oil and Gas might have reason to ruefully compare notes over a pint of beer.

In both cases, drastic action has been looming for months and culminated in the same week as directors sent Nexen chief executive Marvin Romanow and Connacher boss Richard Gusella packing.

There was no easy transition, no bland announcements. They were both fired, "effective immediately."

FirstEnergy Capital analyst Mike Dunn said in a note to clients that the management shake-up indicates Nexen's board is holding executive level management accountable for performance.

And a bunch of other senior executives accompanied their CEOs out the door.

In the absence of any explanations, employees and the outside world are left searching for answers, said Brian Reidy, managing consultant for Towers Watson a human resources firm in Calgary.

He said that when a chief executive makes an unseemly departure the factors usually involve strategy, direction, company image and leadership, all of them pointing to productivity problems.

Nexen has been under prolonged and growing pressure to tackle its floundering share value, which has fallen about 20 percent in the last 12 months, and its uneven operational performance; Connacher has faced similar woes, losing more than two-thirds of its stock price over five years.

Gusella dumps execs

Amid a raging debate over what direction Connacher should be taking and increasing pressure to seek a buyer, Gusella started out 2012 by dumping his president and chief operating officer, chief financial officer and vice president of corporate development, taking over the company reins.

"With no replacements lined up, it just creates a lot of uncertainty," said CIBC World Markets analyst Andrew Potter.

Complicating matters, Gusella also announced that his debt-laden company was abandoning its search for joint-venture partners after having turned down an unsolicited buyout offer in December, claiming Connacher could accomplish its expansion plans "without any new financial arrangements."

In the process he shrugged off growing shareholder pressure to explore outright sale of the company.

Gusella said in early January that the timing was not right for Connacher — with a market value of about C$385 million and long-term debt of C$865 million — to sell itself.

Gusella dumped

He apparently failed to heed the warning signs, with one shareholder declaring that "strong investor activism" would likely boil over within a few days.

A week later Gusella was ushered out the door, relinquishing all of his roles, including chairman, president, chief executive officer, chief operating officer and director.

"Investors wanted to see the joint venture done," Potter said. "The company has too much leverage, but not enough cash resources to develop their oil sands assets. Their debt-to-capital ratio is eight times. In any rational world that is not a good balance sheet."

He said Connacher is now looking to some national oil companies, majors and possibly financial companies to perform a rescue operation.

Total bid for Nexen rumored

Nexen, whose reach extends beyond Canada to the Gulf of Mexico, the North Sea, offshore West Africa and Yemen, has been on a short fuse for the past year, with speculation rife that France's Total was prepared to bid C$35 a share, about double the company's recent trading range.

A company statement did not specify why Romanow left after 13 years with Nexen, although Chairman Francis Saville said the board is "committed to closing the value gap for our shareholders through execution of our oil sands, conventional offshore and unconventional gas strategies."

The company has set 2012 production guidance at 185,000-225,000 barrels of oil equivalent per day, compared with its forecast 200,000-215,000 boe per day for 2011.

FirstEnergy Capital analyst Mike Dunn said in a note to clients that the management shake-up indicates Nexen's board is holding executive level management accountable for performance.

He said that given the close ties Romanow had with the operationally challenged Long Lake oil sands project it is "safe to assume that continued disappointments there played a role in these departures."

Three years after startup Long Lake — 65 percent owned and operated by Nexen, with the remaining 35 percent sold last year for C$2.5 billion by OPTI Canada to China's CNOOC — has been unable to reach even half of its design capacity of 72,000 bpd.

In late November, Nexen struck joint-venture deals with CNOOC to develop some of its properties in the Gulf of Mexico, where it produces about 20,000 boe per day, and with Japan's Inpex, which is paying $700 million for a 40 percent share of a shale gas play in British Columbia's Horn River basin, possibly setting the stage for LNG exports to Asia.

These arrangements could even point to an Asian-initiated takeover offer, especially now that China has expanded its presence in the oil sands from minority roles and joint ventures to PetroChina's bid for outright ownership of one and possibly two projects owned by Athabasca Oil Sands Corp. ●

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FINANCE & ECONOMY

Judge approves stay of BP Alaska case

An Alaska judge has approved a stay of a civil case pitting the state against BP so a key aspect of the dispute can go to binding arbitration.

The order granting the stay was entered on Jan. 12 in state Superior Court in Anchorage.

The state sued BP Exploration (Alaska) Inc. in March of 2009. The lawsuit claimed a range of damages in connection with two oil spills from corroded pipelines in the BP-operated Prudhoe Bay oil field in 2006.

Among the claims, the state wants royalty payments on oil that was not produced due to field shut-ins related to the spills and pipeline replacement work.

The suit said production shortfalls might have exceeded 35 million barrels, meaning the royalty claim potentially could amount to hundreds of millions of dollars.

The state and BP have decided to let a three-member panel of arbitrators decide the royalty issue. A BP spokesman has said the arbitration is expected to occur by the end of May.

—WESLEY LOY

NATURAL GAS

FERC gets gas pipeline resource reports

TransCanada Alaska Co. has submitted 11 draft resource reports for the Alaska Pipeline Project to the Federal Energy Regulatory Commission. The project is being jointly advanced by affiliates of TransCanada Corp. and Exxon Mobil Corp.

The office of the federal coordinator for Alaska Natural Gas Transportation Projects called the Jan. 13 report delivery a key milestone, and noted that the roughly 4,500 pages of documents detail and discuss potential impacts along the 803-mile U.S. corridor from Point Thomson to Prudhoe Bay to the Canadian border.

The first of seven scoping meetings is scheduled for Jan. 30 in Fairbanks, and a January Anchorage meeting cancelled because the resource had not been received is expected to be rescheduled for February.

FERC announced cancellation of the Jan. 18 Anchorage public scoping meeting on Jan. 4, and FERC staff said then that if the draft resource reports where not filed by Jan. 17, the remainder of the scheduled scoping meetings would be cancelled.

—PETROLEUM NEWS

● EXPLORATION & PRODUCTION

Badami permitting Red Wolf well

Exploration prospect within Badami would come after work finishes on two workovers within Badami Sands participating area

By ERIC LIDJI
For Petroleum News

Savant Alaska LLC could return to the Red Wolf prospect this winter.

The local subsidiary of Denver-based Savant Resources is looking to drill the onshore Red Wolf No. 2 delineation well in the Badami unit this winter. The 12,000-foot vertical well would be on ADL 367005, in the western half of the eastern North Slope unit.

The exploration prospect sits outside the Badami Sands participating area, where development has historically been focused since the unit first came online in 1998.

The program this winter involves a winter road, an ice well pad and two ice pad staging areas. Savant hopes to drill, test and complete the well between now and mid-May.

The Division of Oil and Gas is taking comments on the proposal through Feb. 13.

Two workovers planned first

Whether or not Savant gets to drill Red Wolf No. 2 this winter depends in part of scheduling. The company first plans to work over the B1-16 and B1-21 wells as part of the requirements of its recently approved ninth plan of development for Badami.

Savant is using Nabors 9ES rig for its work this winter. The rig is scheduled to spend the first half of the winter drilling at Repsol's Kachemach-1 pad southwest of Kuparuk.

Red Wolf No. 2 will target the Kekiktuk formation, the formation that contains the oil reservoir for the Endicott field, west of Badami. The Kekiktuk is a deeper and older geologic formation than the Brookian, where previous Badami development occurred.

Savant drilled the B1-38 well into the Red Wolf prospect in early 2010 and found oil in two horizons: the Kekiktuk and the shallower late Cretaceous Killian sands. Although Red Wolf is still an exploration prospect, it is currently producing from the Killian.

Red Wolf No. 2 is about two miles northwest of the bottom-hole for the B1-38 well.

Savant is on an ongoing mission to improve production rates at Badami, which has been shut down and restarted numerous times in its life. Production increased in the first half of 2011, but fell in the second half before picking up again toward the end of the year, the result, according to the company, of a planned turnaround at the field in October.

In November 2011, the most recent figures available, the unit produced 26,792 barrels of oil from the Badami field and 6,842 barrels from the Badami Undefined field. ●

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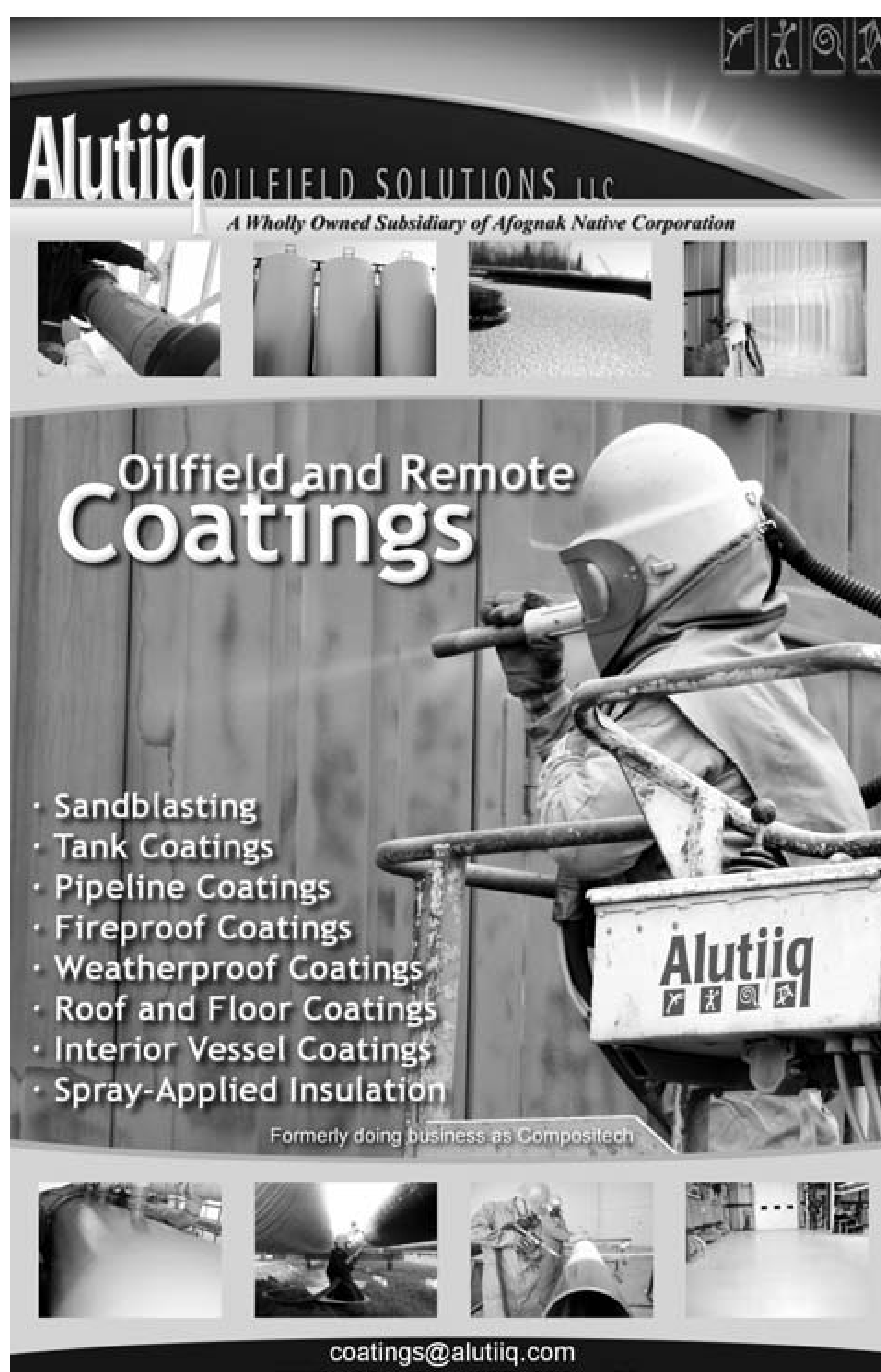

● LAND & LEASING

Hilcorp transfer finalized

State completes transfer of Unocal's Cook Inlet assets to Houston independent; approves other leasing changes across Alaska

By KRISTEN NELSON & ERIC LIDJI

For Petroleum News

Hilcorp Alaska LLC is officially a player in Cook Inlet.

The privately held Houston independent has closed on its acquisition of Union Oil Company of California's Cook Inlet assets, and the Alaska Division of Oil and Gas has approved Hilcorp as unit operator for Deep Creek, Ivan River, Lewis River, Nikolaevsk, Pretty Creek, South Granite Point, South Middle Ground Shoal, Stump Lake and Trading Bay.

The division received notices of acceptance as successor unit operator from Hilcorp Dec. 28 and, by letters dated Dec. 29, authorized change of operator effective Jan. 1.

Marathon Alaska Production LLC also holds working interests in the Trading Bay unit and ExxonMobil Alaska Production holds working interests in the South Granite Point unit, the division said in Jan. 3 approvals of designation of successor unit operator.

The division said it received copies of letters from ExxonMobil Alaska and Marathon Alaska stating that they had no objection to Hilcorp as operator of those units.

In the other named Cook Inlet units Hilcorp holds all of the working interest.

The division also approved the transfer of lease ownership to Hilcorp, from Unocal.

Other leasing news

In other leasing news, Marathon Alaska Production LLC allowed one offshore Cook Inlet lease to expire. The lease — ADL 391554 — is contiguous to the Ninilchik unit.

Cook Inlet Energy Inc. transferred a 50 percent working interest and 43.25 percent royalty interest in one Cook Inlet lease to Unocal (who in turn transferred it to Hilcorp).

Samuel Cade and Daniel Donkel transferred a combined 85 percent working interest and 3.8 percent royalty interest in one Cook Inlet lease to North Future Energy Corp. The lease — ADL 391120 — is the smaller of two within the Municipality of Anchorage.

Nordaq Energy Inc. transferred small royalty interests in one west side Cook Inlet lease — ADL 391103 — to 11 independent investors in December: John Kidd, Williams de Broe Ltd., Cranberry Ventures LLC, Hugh North, Socarta LLC, Chawist LLC, Robert C. Warthen, Tiki Yates, Louis J. Jacober, Ilona Jean Hodson Farr 2005 Trust and Ilona Jean Hodson Farr Irrevocable Alaska Trust. The interests are all for less than 1.5 percent.

On the North Slope, Alaska Venture Capital Group allowed two leases to expire. The two un-unitized leases — ADL 390457 and ADL 390458 — are between the Kuparuk River unit and the Colville River. Anadarko US Offshore Corp. transferred a small working and royalty interest — all less than 6 percent — in three leases at the Milne Point unit — ADL 47433, ADL 47437 and ADL 47438 — to operator BP Exploration Alaska Inc. ●

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

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● FINANCE & ECONOMY

Dept. of Revenue gathers spending data

Department works with oil companies to understand trends in Alaska expenditures; spending from 2006-10 broken into 5 categories

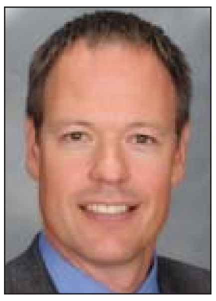
By STEFAN MILKOWSKI

For Petroleum News

In an effort to better understand trends in North Slope spending, and in response to clamor from lawmakers, the Department of Revenue has started gathering additional information from oil producers.

The department worked with oil companies last fall to develop a system for breaking spending into five different categories, Deputy Revenue Commissioner Bruce Tangeman explained in an interview Jan. 17. The categories are geological and geophysical, exploratory drilling, development drilling, facilities and other.

"We're getting the capital spend that we've been gathering since the PPT was put in place, but basically we're going back and gathering it in a useful format," Tangeman said. "This is something that should have been done from day one."



BRUCE TANGEMAN

The information covers expenditures included in companies' tax filings, but is being submitted independently of the tax filings.

For the years 2006 to 2010, companies revisited past expenditures and divided them into the five categories. A similar process will happen for 2011. The department will request more detailed information starting in 2012, but may be limited by the fact that companies classify their expenditures in different ways, according to Tangeman.

Interest in investment patterns

The 5-year look back covers only capital spending; starting in 2012, DOR will gather additional information on capital and operating expenses.

Ultimately, the goal is to help understand industry investment patterns since the state's shift from a gross production tax to a profits-based tax — first the petroleum profits tax, or PPT, and then Alaska's Clear and Equitable Share, or ACES.

"We have the luxury now that we can look back and see what's been happening under the tax structure and use that information to make changes going forward," Tangeman said.

According to Tangeman, the information gathered so far supports the tax reductions the Parnell administration is proposing in HB 110. "It's certainly confirming that we have a problem here," he said.

"We're getting the capital spend that we've been gathering since the PPT was put in place, but basically we're going back and gathering it in a useful format."
—Deputy Commissioner of Revenue Bruce Tangeman

Despite continued high oil prices, North Slope production continues to decline, Tangeman said. "Spending is not up like we're seeing elsewhere."

Operating toped capital in 2011

Tangeman added that 2011 was the first year that operating expenditures topped capital expenditures. "We're spending more and producing less," he said.

Tangeman said the department will present the new spending information to lawmakers in Juneau. The department is aggregating the figures to ensure taxpayer confidentiality.

Rep. Berta Gardner and three other House Democrats recently filed legislation seeking additional disclosure from oil companies. Their HB 263 would require companies claiming tax credits for expenditures to provide a "detailed description of the purpose of the expenditure" and say what the expenditure was for and what lease it applied to.

"(F)or hundreds of millions a year in oil industry tax credits, Alaskans need to know exactly what we're buying," Gardner said in a news release.

Tangeman said he has not studied the bill, but he suggested it isn't needed. He said the department already has the statutory authority to request information from oil companies and is in the process of figuring out exactly what information is needed and how best to gather it from companies. He added that the industry has been "very cooperative" so far. ●

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● EXPLORATION & PRODUCTION

Canadian frontier shuffle

Chevron realigns Beaufort, Newfoundland partnerships in deals with Statoil, Repsol; Imperial, ExxonMobil, Shell in partial retreat

By GARY PARK
For Petroleum News

Chevron Canada is at the center of deals with Norway's Statoil and Spain's Repsol that involve a sweeping strategic overhaul of exploration rights in the Beaufort Sea and Newfoundland offshore.

The result is a series of ambitious plans to probe Canada's most remote, highest cost frontier plays, demonstrating faith in the resource potential of technically challenging regions.

Pending regulatory approval, the three companies will drill a third exploration well in Newfoundland's Orphan basin this summer, with Chevron as 65 percent operator.

Repsol is farming in to 20 percent and Statoil is targeting 15 percent of positions vacated by Imperial Oil, ExxonMobil Canada and Shell Canada who held stakes in the basin's first two wildcat wells.

The basin is almost 200 miles from the closest Newfoundland landmark and is estimated to have production capacity of about 8 billion barrels of oil, although the initial wells have yet to ratify that estimate.

The three companies have also expanded their existing partnership in Atlantic Canada, acquiring two exploration parcels in the Flemish Pass basin, 250 miles east of St. John's, Newfoundland. Statoil will be operator with a 50 percent equity interest. Chevron has 40 percent and Repsol 10 percent.

Statoil farms in to Beaufort

In the Beaufort Sea deal, Chevron will remain operator after farming out 40 percent to Statoil, which will pay part of the costs of acquiring seismic data from a 3-D program covering 795 square miles this summer.

The companies did not disclose the value the transactions.

The Orphan basin properties, involving eight parcels covering 5.25 million acres, were acquired in 2003 for work commitments of C$673 million; the trio won the Flemish Pass rights in November for C$348 million; and Chevron committed C$103 million in 2010 for a 508,800-acre Beaufort parcel.

Chevron Canada President Jeff Lehrmann said in a statement the agreements "significantly strengthen our exploration position in Atlantic Canada and in the Beaufort Sea and reaffirm our commitment to achieving long-term growth in Canada."

Tim Dodson, Statoil Canada's executive vice president for exploration, said that building on his company's Flemish Pass position and gaining early entry to the Orphan basin and Beaufort provides "access to large potential resources and increases the optimality of our exploration portfolio."

Geir Richardson, another Statoil vice president, said his company has "for a long time realized the Arctic holds a significant part of (Canada's) remaining resources. We saw this is a very good opportunity."

He said Statoil is ready to work with Canada's National Energy Board on new Arctic drilling regulations after the federal regulator gave exploration companies a chance to show they could "meet or exceed" the board's requirement to kill an out-of-control well in the same season that the well was drilled.

> *The agreements "significantly strengthen our exploration position in Atlantic Canada and in the Beaufort Sea and reaffirm our commitment to achieving long-term growth in Canada."*
> **—Chevron Canada President Jeff Lehrmann**

Repsol said its objective is to expand its presence in North America, particularly Canada's East Coast.

Imperial, Shell offer few explanations

Imperial and Shell offered few explanations for their pullout from the Orphan basin beyond saying the decisions were consistent with their ongoing review of all assets in the context of corporate operating needs and financial objectives.

The initial Orphan well, Great Barasway F-66, was drilled in 2006 to a total water and subsea depth of 22,100 feet — a record for the Canadian offshore — at an estimated cost of C$140 million. The drilling rig encountered various operational problems and was classified as a dry hole.

The second well, Lona O-55, also encountered drilling difficulties before being completed in August 2010. It remains a tight hole.

Repsol said it was not troubled by the failure so far to report a discovery given that the average success rate for offshore wells is about 20 percent.

"One well is not enough evidence to doubt the play," said a Repsol spokesman.

Beaufort JV formed in 2010

Chevron's Beaufort license is adjacent to a joint venture formed in 2010 by Imperial Oil, ExxonMobil and BP to explore two licenses acquired in 2007 and 2008 for combined spending commitments of C$1.8 billion, although the partnership has yet to disclose any drilling plans.

Paul Barnes, Atlantic Canada manager for the Canadian Association of Petroleum Producers, said the asset shuffles are a "positive sign" for the offshore plays.

The fact that companies are investing and scheduling work increases the potential for future discoveries offshore Newfoundland and in the Beaufort, he said, while conceding harsh weather and a lack of infrastructure pose obstacles.

However, Barnes said the companies apparently believe there is oil and natural gas to be found in sufficient quantities to make the investment worthwhile.

"They think the prize at the end of the day will be greater than the cost of undertaking exploration activity," he said. ●

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● PIPELINES & DOWNSTREAM

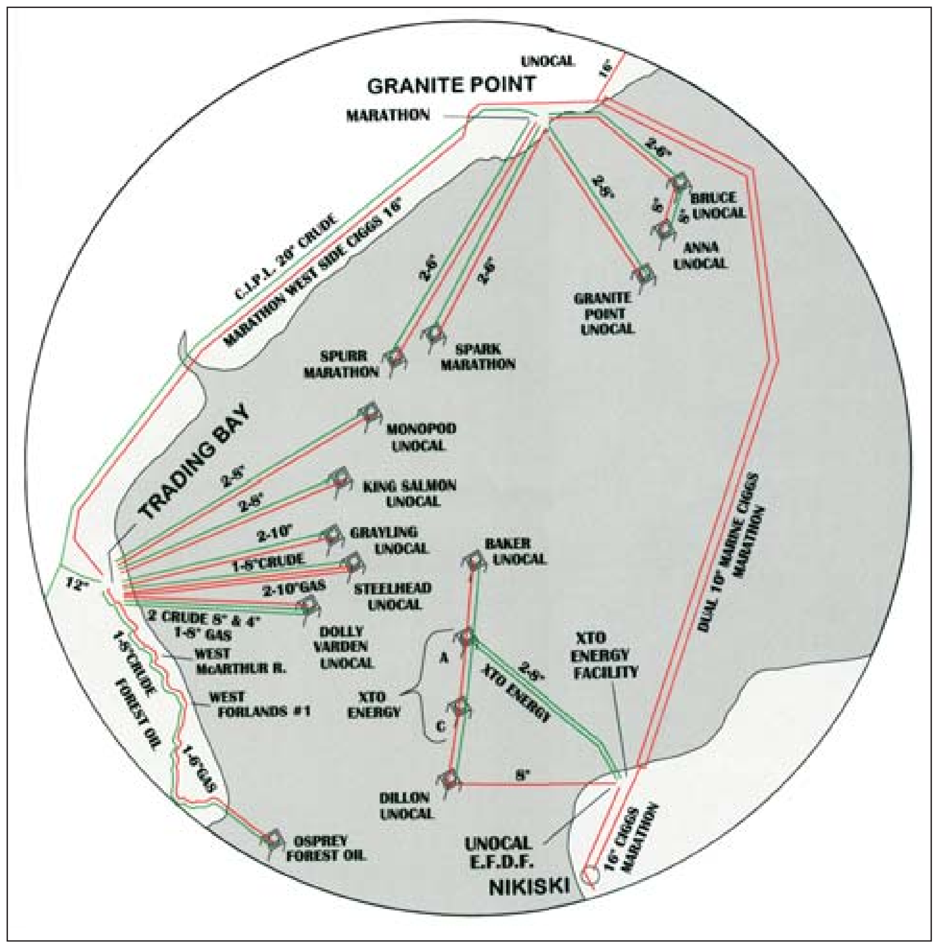
RCA approves CIGGS bidirectional flow

Commission gives final green light to the shipment of natural gas east to west under the Cook Inlet as gas supplies tighten

By ALAN BAILEY
Petroleum News

The Regulatory Commission of Alaska has approved modifications to the Kenai Nikiski pipeline and the Cook Inlet Gas Gathering System, or CIGGS, to enable the flow of gas east to west through CIGGS under Cook Inlet. Previously gas has only been able to flow west to east through the pipeline system.

CIGGS connects gas fields and the gas pipeline infrastructure on the west side of Cook Inlet with the Kenai Nikiski pipeline, and hence the entire gas pipeline infrastructure on the Kenai Peninsula.



Chugach concerned

Power utility Chugach Electric Association has been particularly concerned about the need to ship gas from the Kenai Peninsula west through CIGGS to bolster gas supplies for the gas-fired Beluga power station on the west side of the inlet, with the Beluga power plant being a major component of Southcentral Alaska power generation capacity.

The production from the Beluga gas field, adjacent the power plant, has been declining, causing Chugach to supplement its fuel supplies with gas from the Kenai Peninsula. Without the east to west flow of gas through CIGGS, Chugach has to swap gas purchased on the peninsula for gas delivered by Enstar Natural Gas Co. on the west side of Cook Inlet. But, as gas supplies from aging Cook Inlet gas fields tighten, Enstar cannot guarantee to deliver the volumes of gas that Chugach may need.

And as a new gas storage facility near Kenai, operated by Cook Inlet Natural Gas Storage Alaska, comes into operation this year, bidirectional flow in CIGGS will allow increased flexibility in managing the flow of utility gas to and from storage.

Temporary authority

At the end of September, recognizing the urgency of the situation for Chugach's gas supplies, the commission granted temporary authority for the necessary pipeline changes, to enable bidirectional flow through CIGGS before the onset of winter. And in November the commission approved changes to the CIGGS and Kenai Nikiski pipeline tariffs, to accommodate the bidirectional flow arrangements.

Although Marathon Oil Co. operates both CIGGS and the Kenai Nikiski pipeline, Chugach has been funding the pipeline system modifications, with assistance from a state grant.

Although Marathon Oil Co. operates both CIGGS and the Kenai Nikiski pipeline, Chugach has been funding the pipeline system modifications, with assistance from a state grant.

Essentially, the modifications involve the installation of a compressor in the Kenai Nikiski pipeline at its junction with CIGGS; the removal from CIGGS of some check valves that prevented east to west flow; and the bypassing of some CIGGS equipment at East Foreland. The metering system at the junction between CIGGS and the Kenai Nikiski line also has to be modified to allow for bidirectional flow.

CIGGS modified

Marathon spokeswoman Lee Warren told Petroleum News Jan. 18 that the modifications to CIGGS have been completed, to accommodate the flow of gas from east to west should the need arise during cold weather this winter. The new compressor has yet to be installed in the Kenai Nikiski pipeline — once that is done there will be full flexibility in changing the direction of flow through the pipeline system on a routine basis, Warren said.

"The KNPL (Kenai Nikiski pipeline)-CIGGS route provided through the east-west flow project will provide direct cross-inlet capacity from east to west to protect against the possibility of cold weather capacity constraints, outage and bottlenecks on the present system," the commission said in its order giving final approval for the modifications. "We find that the facilities modifications and bi-directional operation proposed by KNPL and CIGGS are required by the present or future public convenience and necessity." ●

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● GOVERNMENT

Doing things in the Norwegian way

Could Alaska boost its oil production by borrowing some ideas from Norway's success in attracting investment & spurring development?

By ALAN BAILEY
Petroleum News

With very high personal taxes and cradle-to-grave welfare, the culture of Norway is poles apart from that of Alaska. But could Norway's success in attracting oil industry investment point to some ways of improving Alaska's oil investment climate, to ensure that the "Last Frontier" does not become the last place in which to place oil development dollars?

In the summer of 2010 an Alaska delegation of politicians and other stakeholders in the Alaska oil industry visited Norway, to learn how the Norwegian oil industry works and to find out what Alaska can learn from the Norwegian experience.

And at a meeting of the Alaska World Affairs Council on Jan. 13 several people who took part in that visit participated in a panel to discuss lessons learned.

Norway's permanent permanent fund

Norway has a permanent fund, established from oil revenues, that was originally based on Alaska's permanent fund, Ira Perman, chairman of the Institute of the North, commented during an Alaska World Affairs Council panel discussion on comparisons between the Alaska and Norwegian oil industries.

But, despite being in existence for only half the life of Alaska's fund, and despite the production of less oil during the fund's existence, Norway's permanent fund now has assets of about $570 billion, compared with a value of around $40 billion for Alaska's fund, Perman said.

"They anticipate their permanent fund will be $3 trillion before they run out of oil and gas," he said.

The difference in the values of the two funds results from the fact that Norway, unlike Alaska, stashes away all of its oil revenues in its permanent fund, with only up to 4 percent of the fund being available annually to supplement the national budget, said panelist Rebecca Logan, general manager of the Alaska Support Industry Alliance.

Essentially, Norway views its permanent fund as a rainy day fund, meantime maintaining the country's high level of taxation despite the oil wealth that is flowing into the national coffers.

—ALAN BAILEY

Production leveling

Panel member Ira Perman, chairman of the Institute of the North, said that during the growth of Norway's oil industry the country's oil production ramped up more slowly than Alaska's, peaked a little later, has not fallen as far and now seems to be leveling out.

"What they told us is that they have stopped the decline of their oil and gas," Perman said. "They're managing to keep that level up about three times as high as we are and they anticipate they can continue to do that for the next 10 to 20 years."

Bradford Keithley, partner in the oil and gas practice of Perkins Coie LLP, attributed the decline in Alaska oil production to a parallel decline in Alaska oil investment.

"We're shorting investment by roughly half of what we need to do in terms of getting production up," he said.

Government participation

Keithley said that, from his perspective, one of the biggest factors in encouraging oil industry investment in Norway is the Norwegian government's own investment in the country's oil and gas fields. Petoro, a company wholly owned by the Norwegian government, invests along with private industry as a working interest owner in every Norwegian field, with the government providing its share of development capital and subsequently earning its share of field profits. The extent of government financial participation in different fields varies, depending on the risks involved, but averages about 20 percent, Keithley said.

In Alaska, the government tries to drive the oil industry from the back seat through regulation, trying to push oil companies into doing what appears to be in the state's interests, while sometimes pushing for actions that industry does not see as good investments, Keithley said. Under the Norwegian system, however, government and industry interests tend to be aligned, he said.

In fact there have been occasions when Petoro has come forward with a resource development idea that none of the companies participating in a license had thought of, Keithley said.

"In Norway the government invests … alongside industry … and so it's in the room, facing the same economic situation that the companies are (facing), seeing the same economic returns, seeing the same economic limitations," Keithley said. "And it aligns the state's interests to go in the same direction as industry because they see the opportunity for returns in the same way."

The result is to generate more investment, both on the government side and on the side of private industry, Keithley said.

"It grows the pie, rather than what we do in Alaska, which is fight about what share everyone gets of the existing pie," he said.

And, whereas in Norway there are no lease bonus bids or production royalties, with the government making its revenues from its share of field profits, in Alaska 15 percent of what companies make from oil production goes to the government in the form of royalties. In effect, private companies pay 100 percent of the investment for developing an oil field but only receive 85 percent of the return, Keithley said.

Tax comparison

Rebecca Logan, general manager of the Alaska Support Industry Alliance, also commented that at current high oil prices Norway's marginal tax rate for oil production is 78 percent, compared with Alaska's marginal rate of 85 percent. And Norway's tax rates do not increase with a rising oil price, she said.

Keithley said that, initially, Norway used an oil and gas leasing system similar to that in the Alaska as a means of building a cash reserve for future investments. But Norway had found that the leasing system tended to distort industry investments away from Norway. So, with sufficient cash in hand for direct government investment in oil and gas projects, Norway had switched over to its current licensing system.

Efficient permitting

Elle Ede, stakeholder engagement manager for Statoil Alaska, said that what had particularly struck her in the Norwegian approach to oil development was the speed with which permitting can be done. In Norway it takes approximately eight months to obtain the permits required for an exploration project. That compares with 14 months in the Gulf of Mexico and 32 months in Alaska, without taking into consideration delays that result from legal challenges, Ede said.

"We can't ignore the fact that part of the success in Norway is that stable regulatory environment that is very attractive to operators, because they understand that there is a predictable process and that they can succeed in a defined timeline," Ede said.

All Norwegian oil and gas development happens offshore.

But in Norway the debate about environmental concerns versus the benefits of development takes place before the government offers oil and gas licenses, Perman commented. When the government wants to open a new area for licensing there is a stakeholder process to engage oil companies, fishermen, environmentalists, coastal communities and the government in a discussion around the various issues involved, leading to a view of whether or not to open the area. Although this discussion process can take several years to complete, the end result is an agreement, potentially with stipulations, that goes to the Norwegian parliament for a final decision. And if the parliament decides to open the area, exploration and development can move ahead efficiently and predictably – the decision has been made and there is no further litigation, Perman said.

The upshot can be a decision not to open an area. There has been relatively little oil development in the Norwegian Sea, for example, because this is an important fishing area, Keithley said.

Licensing process

When the government opens an area for leasing it conducts an initial 2-D seismic survey, with the results of that survey becoming publicly available. Companies can shoot additional seismic of their own, if they wish, Keithley said.

Norway then awards licenses for oil and gas exploration on the basis of work plans rather than cash. In other words, companies bid work plans, with a license being awarded based on an assessment of early work commitments, a company's financial strength and a company's safety record, he said.

"From day one they are committed to go forward into work on the lease," Keithley said. A license can be terminated if a company does not meet its scheduled work commitments, he said. And the license is returned to the state if a discovery is made

see NORWEGIAN WAY page 10

● ENVIRONMENT & SAFETY

U.S. explores Arctic Ocean sovereignty

Five-year team-up with Canada concludes as scientists aboard icebreakers collect huge amounts of seismic and other data in polar sea

By WESLEY LOY
For Petroleum News

As global climate change opens the possibility for greater industrial involvement in the Arctic Ocean, the United States is seeking to establish the full reach of its claims at the top of the world.

And it's making significant progress.

U.S. officials say a summer 2011 mission with Canada wrapped up a five-year collaboration between the two nations to survey the Arctic Ocean.

"The bilateral project collected scientific data to delineate the continental shelf beyond 200 nautical miles from the coastline, also known as the extended continental shelf," said a Dec. 15 press release from the National Oceanic and Atmospheric Administration.

At the center of the collaboration was a pair of icebreaking ships — the U.S. Coast Guard cutter Healy, and the Canadian Coast Guard ship Louis S. St-Laurent.

Cost-effective partnership

The United States "has an inherent interest in knowing, and declaring to others, the exact extent of its sovereign rights in the ocean as set forth in the Convention on the Law of the Sea," NOAA said.

For the extended continental shelf, the interest is in energy resources such as oil, natural gas and gas hydrates; marine stocks such as crabs and clams; and mineral resources such as manganese nodules, ferromanganese crusts and polymetallic sulfides, the agency said.

The U.S. and Canadian icebreakers worked together in August and September on an Arctic mission that lasted nearly six weeks.

"This two-ship approach was both productive and necessary in the Arctic's difficult and varying ice conditions," said Larry Mayer, U.S. chief scientist on the mission. "With one ship breaking ice for the other, the partnership increased the data either nation could have obtained operating alone, saved millions of dollars by ensuring data were collected only once, provided data useful to both nations for defining the extended continental shelf, and increased scientific and diplomatic cooperation."

How big is it?

The extended continental shelf is that region beyond the U.S. Exclusive Economic Zone, which reaches to 200 nautical miles offshore.

The U.S. extended shelf is not limited to the Arctic. It might include areas in the Bering Sea, the Gulf of Alaska, the Atlantic Ocean and the Gulf of Mexico, as well as in the Pacific Ocean off northern California, northwest of Hawaii and near the Mariana and Line islands.

Preliminary studies indicate the U.S. extended continental shelf totals an area about twice the size of California, NOAA said. Additional data collection and analysis is expected to sharpen the estimate.

Another agency, the U.S. Geological Survey, in 2011 collected seismic data in the Bering Sea and Gulf of Alaska as part of efforts to delineate the extended continental shelf.

Many miles traversed

The 2011 Arctic mission was led by the Joint Hydrographic Center, which is a partnership between NOAA and the University of New Hampshire, and the Geological Survey of Canada.

On the U.S. icebreaker Healy, scientists used a multibeam echo sounder to collect bathymetric data to create three-dimensional images of the seafloor.

Scientists aboard the Canadian icebreaker Louis S. St-Laurent collected seismic data to determine the thickness of the sediments beneath the seafloor — an important step under the rules for defining the extended shelf — and to better understand the geology of the Arctic Ocean.

The 2011 mission traversed more than 5,600 total miles over the Beaufort Shelf, Chukchi Borderland, Alpha Ridge and Canada Basin and reached more than 1,230 miles north of the Alaska coast, NOAA said.

"As in previous Arctic missions, we obtained data in areas we were not entirely sure the ice would allow us to proceed, even with a two-ship operation," said Andy Armstrong, co-chief scientist on the mission and co-director of the Joint Hydrographic Center. "This was especially true in the eastern part of the Canada Basin where some of the thickest Arctic ice is found."

Reams of seismic data

From 2006 to date, scientists onboard the Louis S. St-Laurent have collected 9,320 miles of seismic data, vastly increasing the seismic data holdings in the deep Arctic Ocean.

"Scientists from the United States and Canada are using these seismic data to revise models of the origin and tectonic evolution of this poorly understood portion of the ocean," NOAA said.

Since the 2003 start of U.S. extended continental shelf work in the Arctic, the Healy alone has mapped some 123,000 square miles of the Arctic seafloor, an area about the size of Arizona.

"These data provided high resolution maps to help determine the outer limits of the U.S. extended continental shelf, while revealing previously undiscovered mountains, known as seamounts, and scours created by past glaciers and icebergs scraping along the ocean bottom 400 meters below the surface," Mayer said.

The U.S. Extended Continental Shelf Task Force is responsible for the delineation effort. The Department of State chairs the interagency body, with the Interior Department and NOAA serving as vice chairs.

More information is available at www.continentalshelf.gov. ●

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NORWEGIAN WAY

and the company is not prepared to move on to field development after the initial work is completed. Most environmental permitting is done at the front end of the process, with environmental stipulations being built into the work plans.

Depending on the work plans submitted by different companies for the same area, the government may offer a license to a consortium of companies. And the government specifies what percentage interest it will acquire in the licensed project, as part of the conditions for issuing the license.

However, to avoid political interference in business considerations, licensing decisions are made by staff within the licensing agency, and not by the politically appointed minister or deputy minister in charge of the agency, Perman said.

In Alaska

But how much of the Norwegian system could or should be applied in Alaska?

Logan said that she thinks that state involvement as a working interest partner in new projects could work in Alaska. However, Alaska cannot mimic Norway's expedited permitting process because of the multiple government jurisdictions involved in Alaska oil and gas, and because of the potential in Alaska for litigation after permits have been issued, she said. ●

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● LAND & LEASING

Showdown shaping up in Point Thomson case

Alaska Supreme Court schedules oral argument in unusual setting; Gov. Parnell outlines hopes for settling case, spurring gas line

By WESLEY LOY

For Petroleum News

The state and ExxonMobil are scheduled to go to school on Feb. 8, and each will be looking to teach the other a lesson.

The topic for the day is the Point Thomson case — a heavyweight struggle between the state and the oil giant for control of a lucrative oil and gas field on Alaska's North Slope.

The Alaska Supreme Court is ready to hear oral argument from the two sides, and has chosen West High School in Anchorage as the venue. The justices occasionally take their proceedings out of the courtroom and into the community under an initiative called "Supreme Court Live."

GOV. SEAN PARNELL

Argument is set to begin at 10:30 a.m., with each side allotted 30 minutes to talk.

Certainly, the student audience can expect to hear some high-stakes stuff, given the extraordinary value of the Point Thomson field and its importance for a proposed Alaska natural gas pipeline.

But if Gov. Sean Parnell has his way, the kids will be disappointed and the Supreme Court hearing will be called off.

Pending settlement

Point Thomson is located along the Beaufort Sea coastline, next to the Arctic National Wildlife Refuge.

ExxonMobil is operator of the field, with other major owners including BP, Chevron and ConocoPhillips.

Although rich in oil, and even richer in natural gas, the field hasn't been developed decades after its discovery. The companies have cited technical challenges, and the absence of a multibillion-dollar North Slope gas pipeline.

Lack of development is the crux of the court dispute. The state, tired of waiting, is trying to dissolve the Point Thomson unit and reclaim the state acreage, while ExxonMobil and its partners are trying to preserve the unit and keep their leases.

Point Thomson is regarded as important for supporting an Alaska gas pipeline, as the field holds about a quarter of the Slope's known 35 trillion cubic feet of gas.

In mid-August, the Parnell administration revealed that a "resolution in principle" had been reached with ExxonMobil. But to the governor's growing consternation, the other leaseholders have yet to sign onto the deal.

And so, the court case continues.

Parnell made note of the situation in his State of the State address to the Alaska Legislature on Jan. 18.

"Here's a roadmap to a gas line in Alaska's interest: First, these companies need to agree to resolve the Point Thomson litigation," said Parnell, according to the written text of his speech. "If no settlement in the State's interest can be reached with all parties, the State will fight for Alaska's interests at the Alaska Supreme Court hearing on February 8 in Anchorage."

> *"Here's a roadmap to a gas line in Alaska's interest: First, these companies need to agree to resolve the Point Thomson litigation."*
> —Alaska Gov. Sean Parnell

Aligning on gas

The governor had much more to say on the topic of moving Alaska North Slope gas to market — a long-frustrated economic development dream for the state.

He repeated his recently stated view that a pipeline to the southern coast for liquefied natural gas exports is the option he now would like to see the oil companies pursue. In recent years, the focus has been on a conventional gas line into Canada.

"During the first quarter of 2012, Alaska expects these producers to formally align under an Alaska Gasline Inducement Act framework," Parnell said. "This alignment must include work on a large-diameter liquefied natural gas line through Alaska to tidewater."

Meantime, a state agency, the Alaska Gasline Development Corp., continues to work on a different gas line project, Parnell said.

"By third quarter of 2012, the two projects, one under the Alaska Gasline Inducement Act with the aligned parties, and the other under the Alaska Gasline Development Corporation, will complete discussions determining what potential exists to consolidate projects," Parnell said. "The AGDC has valuable ongoing work. It is already engaged in an Environmental Impact Statement process for an in-state gas line route to tidewater."

see SHOWDOWN page 13

ENVIRONMENT & SAFETY

XTO finishes cleanup at Nikiski

The Alaska Department of Environmental Conservation said Jan. 18 that XTO Energy has "adequately addressed the release" which took place Jan. 9 from tank No. 3 at the company's Nikiski onshore facility "and that no further cleanup action is needed until spring."

DEC said that in the spring, the secondary containment liner can be cleaned and any residual product within the containment can be recovered.

The spill, an estimated 6,300 gallons, was caused by a faulty gasket on an access plate on the side of the tank. The faulty gasket has been replaced.

XTO personnel and contractors responded on the night of Jan. 9 to recover free liquids from the secondary containment area, a bermed area lined with a 60-mil liner. XTO completed delineation of the impacted area Jan. 10 and began removal of contaminated snow and ice.

DEC said that over the next several days, responders melted snow and ice in the affected area down to the secondary containment liner and recovered fluids from the liner; the fluids were re-introduced into the XTO facility.

XTO notified DEC on Jan. 17 that cleanup was complete and equipment was being demobilized.

DEC said no resources were affected by the release as all spilled fluids were captured within the secondary containment area.

—PETROLEUM NEWS

Petroleum news

Oil Patch Bits

ACHC acquires McGraw's Custom Construction

ASRC Construction Holding Co. said Dec. 6 that it has acquired the business of McGraw's Custom Construction Inc., an Indian-owned small business that has been performing residential, industrial and government construction in Alaska for more than 30 years. ASRC McGraw Constructors LLC, a subsidiary of ACHC, purchased the assets of MCC and will be based out of Sitka, Alaska, and employ more than 30 people. ACHC is a subsidiary of Arctic Slope Regional Corp.

"We're pleased to add ASRC McGraw Constructors to our family of companies," said Jim Mendenhall, ACHC president and CEO. "The name McGraw has been synonymous with high quality and professional workmanship in Southeast Alaska for decades, and we're confident we can continue those standards while bringing the company to the next level."

Chuck McGraw formed McGraw's Custom Construction Inc. in 1978, a company responsible for a long list of projects in Southeast Alaska — including the construction of the Sitka Fire Hall, Craig High School and the renovation of Harbor View Elementary School. McGraw and his sons are now employees of the new company.

Foss Maritime hybrid tug on way to California

Foss Maritime Co. said Jan. 18 that a second hybrid tug will soon be working the ports of Long Beach and Los Angeles. Foss once again partnered with Aspin Kemp and Associates to retrofit the Campbell Foss with this proven, patented hybrid technology.

COURTESY FOSS

The tug is the first vessel to be retrofitted with motor generators, batteries and control systems at Foss' Rainier, Ore., shipyard. The Campbell Foss will join its award-winning hybrid sister, the Carolyn Dorothy, which has been bringing cleaner air and greater fuel efficiency to Southern California communities since 2009. The launch marks another step in hybrid technology's evolution and allows Foss to provide "Green Assists™" to its customers in San Pedro Bay.

The ports of Long Beach and Los Angeles are partnering with Foss to bring the second hybrid to San Pedro Bay with help from a $1 million grant from the California Air Resources Board under the AB 118 Air Quality Improvement Program.

see **OIL PATCH BITS** *page 13*

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

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

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OIL PATCH BITS

"With intensive testing, we demonstrated that the hybrid technology in use on the first hybrid tug was very effective in reducing emissions," said Richard Corey, deputy executive officer, California Air Resources Board. "We are very pleased that the Carolyn Dorothy will soon be joined in San Pedro Bay by a second hybrid using the same proven technology. Use of these proven hybrid technologies brings us one step closer to achieving our longer term goals for a zero emission freight transportation system."

Lynden donates shipping costs for Plesiosaur fossil

As reported in the Fairbanks Daily News Miner Jan. 11, the University of Alaska Museum of the North received a big gift just in time for Christmas.

Four crates containing about a thousand pounds of rocks and bones, the remains of a plesiosaur, arrived at the museum on Dec. 23. UPS carried the four crates from Montana to Anchorage, and Lynden Transport donated the shipping costs to carry the crates the rest of the way to Fairbanks.

Plesiosaurs were carnivorous marine reptiles. Dr. Patrick Druckenmiller, the museum's earth science curator, said they were one of the main groups of big reptiles ruling the sea. They had long necks, about half the length of their bodies, and paddles as limbs. Their fossils are found throughout the central U.S., where there used to be a shallow sea about 74 million years ago.

The Museum of the Rockies, where Druckenmiller used to work, offered him the chance to excavate the fossil. He jumped at the opportunity and headed down with his family in July 2011.

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.

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SHOWDOWN

And, the AGDC has a 417-mile State right-of-way in hand, assets useful in a consolidated project."

2013 gas tax debate?

Parnell continued: "By third quarter 2012, Alaska expects the companies to harden their numbers on an Alaska liquefied natural gas project. By that time, they will identify a pipeline project with an associated work schedule.

"If these milestones are timely met, the 2013 Legislature can take up gas tax legislation designed to move the project forward.

"The path ahead is better defined and benchmarks for progress are in place. While a lot more work remains, Alaska is closer to the day when our gas can move from the ground to Alaskans and markets beyond."

On Jan. 5, Parnell held a remarkable private meeting in Anchorage with the chief executives of the three top companies operating in Alaska — BP's Bob Dudley, Jim Mulva of ConocoPhillips, and ExxonMobil's Rex Tillerson.

In his speech to the Legislature, Parnell said the meeting made for a "productive discussion."

"Teams from the companies have been working diligently to align on a gas project," Parnell said. He also said the Department of Natural Resources, and state lawyers, had been working hard to resolve the litigation issues.

Parnell noted that in the 24 hours preceding his State of the State speech, he'd talked again with all three CEOs "to get a progress report."

"I ascertained that while teams were diligently working, agreement on key issues has not yet been reached. So, tonight, the State of Alaska sets some expectations — some benchmarks of progress we will look to during 2012." ●

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WIELECHOWSKI Q&A

state look at the leases and figure out, in cooperation with the oil companies, what sort of rates of return, what sort of net present values are out there.

When you take a lease out anywhere in the world, you can't just sit on it. You have an obligation to develop that, and you have an obligation to consider the interests of the sovereign.

I do think there's an obligation on the sovereign's part to be looking at ensuring the leaseholders are abiding by the terms of their leases.

Petroleum News: Last month, Senate President Gary Stevens gave a talk in which he cautioned against "inexcusable trustfulness" of oil companies. Are supporters of HB 110 guilty of inexcusable trustfulness?

Wielechowski: It's the position of many of us (in the Senate) that there needed to be more analysis done. You need to look at this like a business would. I don't think there are too many businesses that would agree to multibillion-dollar tax breaks with no assurances in return.

You need to figure out if you go ahead and drop your tax rates a certain amount, how does that impact the net present values and internal rates of return and other financial metrics? And if you can't do that, or are unwilling to do that, then you don't have a basis of information to go ahead and even start the conversation.

It seems to be a given for some people that if you just lower taxes, that's going to lead to more investment. Unfortunately, we have a 30-year history with very low or zero taxes where that very clearly was not the case.

Petroleum News: Over the interim, we had the Pedro van Meurs reports come out and a group of legislators traveling to Norway. Did anything come out of those that changed your views?

Wielechowski: My opinion did change somewhat. One of the things we heard from a number of experts was that at very high pricing levels for oil, for instance $160, our progressivity became too high. I'm much more open to addressing that issue than I was before.

I also like one of the ideas Pedro van Meurs came out with — setting a decline curve for fields on the North Slope and then providing some sort of tax relief for companies that bend the curve.

But before you get to any of that, you really have to model the numbers.

Petroleum News: Van Meurs also suggested increasing incentives for heavy oil. Would you support that?

Wielechowski: I was surprised to see him say that. I went back through some of his testimony under PPT, and he said at that time we were applying enough incentives for heavy oil and any more would be too much.

He also wrote a document around April (2011) and one of the suggestions he made to incentivize unconventional oil, which I take to mean heavy oil, shale oil, was that states and countries in North America look at Alaska's tax as a model.

Under ACES, we offer extremely large incentives for heavy oil, so I would want to model that very carefully.

Petroleum News: What do you think the Senate will pass this year? Do you anticipate some changes to the tax system?

Wielechowski: It's hard to say. I can't speak for the Senate. I just keep coming back to the idea that we need to look at the financial models. And I think if you can, through financial modeling, show that we're off kilter with ACES, I think there will be support for making changes to it.

Petroleum News: Is the Senate united on the need to decouple oil and gas taxes?

Wielechowski: We passed it before. That was a suggestion Dr. van Meurs recommended. I think there's quite a bit of support for that in the Senate.

One of the other things Dr. van Meurs recommended was that our incentives are too high, and that we're simply giving money away. So I think there will be some look at that as well.

Petroleum News: You think the Senate wants to reduce tax credits?

Wielechowski: Those were some of the recommendations we heard over the summer. That was a recommendation by Dr. van Meurs. We put the incentives in place to try to spur development, spur production, and if you're not getting the desired result, then I think a reasonably prudent person or Legislature would go back and reevaluate that.

Petroleum News: My last question is about the Gleason decision on property taxes for TAPS. Is there anything to be learned from the release of documents related to that case?

Wielechowski: It was quite a decision. I spent many hours reviewing and reading it, and I think there's a lot to take away. I think it's very clear the judge had concerns over the Department of Revenue and their ability to forecast and provide accurate information.

I think there were some big concerns over the lack of information received by the state and the municipalities regarding the level of oil that could be put through TAPS, the financial viability of the North Slope. You had documents from BP where they indicated they expected the Prudhoe Bay and Kuparuk River units to be cash flow positive through 2064.

The judge found that TAPS could operate down to 70,000 to 100,000 barrels (per day) based on BP's own experts. Nobody wants us to get to the point where TAPS is running that low. But I do think it shows that we haven't gotten as straight answers on this issue as we should have.●

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KEYSTONE DENIED

President Barack Obama in a phone call Jan. 18 he was "profoundly disappointed" with the decision, which he said will accelerate Canada's efforts to diversify its crude exports away from U.S. markets.

Harper's office said Obama explained the decision was not based on the merits of the project and was "without prejudice."

He said in a television interview Jan. 16 that the Obama administration's decision in November to delay the project was made for "very bad political reasons."

Alberta Premier Alison Redford said Keystone XL was caught up in an "awful lot of politics" in this presidential election year, but expressed confidence that "it is still entirely possible for this project to proceed."

White House blames Congress

The White House and State Department said a Feb. 21 deadline set by Republicans in Congress for a decision on Keystone XL did not allow adequate time to review the proposed pipeline, given the agreement to change the route.

Alaska's two senators, Lisa Murkowski and Mark Begich, both expressed their frustration with a decision they said would stifle jobs and U.S. access to affordable energy.

Murkowski, a Republican, said "election-year politics have trumped good policy" just a day after the President's Jobs Council "called for an 'all-in' energy policy, including increased production of oil and natural gas and construction of pipelines to deliver that energy to market."

She voiced disappointment that Obama, amid global economic insecurity and threats to U.S. energy security, acted against a project "that would deliver vitally needed jobs and provide oil from our most reliable ally and biggest trading partner."

Begich, a Democrat, said the Keystone development "underscores the need to keep moving forward on developing Alaska's enormous energy potential in the Arctic," including offshore drilling in the Chukchi and Beaufort seas and in the National Petroleum Reserve-Alaska as well as the coastal plain of the Arctic National Wildlife Refuge, which he said should be part of a "comprehensive energy plan for the U.S."

2014 still target

TransCanada Chief Executive Officer Russ Girling said his company, in anticipation of the Jan. 18 verdict, was working on a number of fronts to maintain a construction schedule that would enable is to achieve an in-service date of late 2014.

He said TransCanada expects a renewed application would be processed in an "expedited manner," making use of the exhaustive record compiled from public hearings and State Department studies over the past three years.

Until Keystone XL is constructed, the U.S. will import millions of barrels of "conflict oil" from the Middle East, Venezuela and other foreign countries that do not share the same democratic values as the U.S. and Canada.

Girling said 20,000 construction jobs will continue to "hang in the balance" of the project does not proceed.

TransCanada said it expects to complete its re-routing work by September or October.

Susan Casey-Lefkowitz, international director for the Natural Resources Defense Council in Washington, D.C., said that regardless of any changes TransCanada makes to its application, "It will face the same valid public concerns and fierce opposition as the first time. No matter how many times it is proposed, Keystone XL is not in the national interest."

BOLD Nebraska, an organization representing Nebraska farmers and rancher, said a revised application will be met with an equally passionate response, even if it skirts the Sand Hills region.

Not in 'national interest'

The State Department said it and Obama agreed Keystone XL does not meet the U.S. "national interest … at this time."

H. Sterling Burnett, a senior fellow at the National Center for Policy Analysis, said the environment is more likely to suffer if Keystone XL is not built and Canada decides to use tankers to ship crude to the U.S. West Coast and Asia.

"Tankers are far more prone to spill oil than pipelines and increased traffic raises the accident risk," he said, adding greenhouse gas emissions are "vastly higher" from tankers than pipelines.

But Alex Pourbaix, TransCanada's president of energy and oil pipelines, noted earlier in January that the State Department completed its environmental review last August and concluded there were no major impacts that could not be mitigated, notably those dealing with the Sand Hills.

Phil Adams, a senior analyst at corporate bond research company Gimme Credit, said in a note that rejection of Keystone XL does not kill the project.

"We suspect the project's new route will ultimately be approved by whatever administration is in office in 2012," he said. ●

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GOVERNMENT

NMFS extends Arctic EIS comment period

The National Marine Fisheries Service, or NMFS, is extending the public comment period until Feb. 28 for its draft environmental impact statement for Arctic offshore oil and gas activities. The comment period had been due to close on Feb. 13 but NMFS received several requests to postpone the deadline, the agency said Jan. 12.

As part of the public review NMFS is scheduling public meetings in eight North Slope communities between Jan. 30 and Feb. 9, and a public meeting in Anchorage on Feb. 13.

The EIS considers the impacts of seismic surveys and exploration drilling in the Beaufort and Chukchi seas on the environment and on subsidence hunting. The findings of the final EIS will determine NMFS policies for the issue of marine mammal incidental harassment authorizations for seismic activities and exploration drilling, both on the federal outer continental shelf and in state coastal waters. The EIS will also form the basis of future Bureau of Ocean Energy Management environmental analyses for seismic survey permitting for the outer continental shelf.

The EIS proposes five alternatives for the oversight of offshore Arctic exploration. One alternative would be to stop issuing seismic permits or harassment authorizations for exploration activities. The other alternatives involve placing limits on the total number of drilling or seismic programs that could be conducted in the offshore Arctic in a single year. One alternative involves the scheduled closure of some environmentally sensitive areas. And one alternative requires the use of alternative seismic technologies to replace or augment traditional air guns.

NMFS has not yet determined a preferred alternative for the EIS.

—ALAN BAILEY

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2012 SESSION

a sufficient number of signatures to put a strong coastal zone management program on either the August primary ballot or the November general election ballot.

As Juneau Mayor Bruce Botelho, a lead sponsor of the initiative, said at a Jan. 17 press conference, the state constitution requires 120 days between the end of the legislative session and the appearance of an initiative on the ballot, so if the session ends within 90 days the initiative would appear on the August ballot; if the session extends by more than three days, then the initiative would be on the November election ballot.

If a bill with a program substantially the same as the ballot initiative is passed and signed, then the ballot initiative wouldn't appear on the ballot.

Botelho said there were still some outstanding bills, but he expected the cost of the initiative campaign would be about $100,000. A campaign for votes if the initiative appears on the ballot is expected to cost about $500,000, he said.

Neither body interested

Leaders in the House and Senate tossed the ball back and forth on the issue of who might initiate legislation.

Asked if the House would deal with the issue or leave it to the ballot initiative, House Speaker Mike Chenault, R-Kenai, said in a House Majority press availability the morning of Jan. 17 that that conversation hadn't occurred yet. He said he understood the initiative signatures would be turned in before the Legislature gaveled in and said the House would have to look at it and see how they want to address it.

Chenault said any member could introduce coastal zone legislation, but Rep. Craig Johnson, R-Anchorage, the House Rules chair, said he'd much rather see a bill come from the Senate.

In a Jan. 18 Senate bipartisan working group press availability, Gary Stevens, R-Kodiak, the Senate president, said that based on the House's lack of support last year for the Senate's version of coastal management, "it would make no sense for the Senate to pass a piece of legislation again to the House and just have them defeat it."

Stevens said that if something happens in this session on coastal zone management, "it really has to be generated in the House."

Sen. Lyman Hoffman, D-Bethel, said based on the initiative, which "says that basically we will go back to pre-Murkowski days and that is very, very different than what the Senate had passed and what the House has passed" his "first concern is can we, either body, pass a piece of legislation that is similar" to what is proposed in the initiative.

Stevens said he is "pretty certain" that a bill changing the oil production tax will move through the Senate, but said, "It will probably not be House Bill 110," the governor's bill which passed the House last year.

New tax bill

In his Jan. 18 state of the state address Gov. Sean Parnell asked legislators to vote in favor of "meaningful" oil tax reform; he did not mention coastal zone management.

The governor said companies have pledged at least $5 billion in new investments if "meaningful tax reform" passes, and said the state would "likely see billions more."

The governor's goal is to increase throughput in the trans-Alaska oil pipeline to 1 million barrels per day in 10 years time (in mid-January production averaged 625,000 bpd).

Parnell said that in addition to meaningful tax reform, which would attract investment, the administration is also working to streamline the state's permitting process and improve access through the Roads to Resources initiative.

The Senate bipartisan working group held its press availability after the governor spoke, and Sen. Joe Thomas, D-Fairbanks, said he would like to see a roadmap for the increased production the governor wants. Thomas said that in discussions he's had with industry, he's not found anyone who thinks the 1 million barrel goal, an increase of about 400,000 bpd, "was even a realistic number." He said what he's been told is that an increase of 200,000 bpd "was something that could be achieved."

Sen. Hollis French, D-Anchorage, referred to a steady production decline at the Kuparuk River field between 1996 and 2006, when the production tax for that field under ELF, the previous tax system (economic limit factor) dropped from 12 percent to almost zero. He called that a "10-year real-time experiment using the governor's theory that if you just drop taxes, you'll get more investment and more production," and called for tying "tax relief to specific projects that put more oil in the pipe."

A new bill

Stevens said he is "pretty certain" that a bill changing the oil production tax will move through the Senate, but said, "It will probably not be House Bill 110," the governor's bill which passed the House last year.

He said the co-chairs of the Senate Resource Committee, Tom Wagoner and Joe Paskvan, were working to begin the process in their committee and send a bill on to the Finance Committee.

Paskvan said there was no timetable for an oil production tax bill. He said a number of options are on the table and he believes "we have a better foundation to act upon now than we did a year ago."

He said a bill could come out of the Resources Committee or out of the Finance Committee, but said "here's no timetable on when a bill will be introduced."

Stevens said he couldn't provide a timeline either, but said the Senate recognizes "the importance of getting the legislation to the House in time for them to fully vet it and fully consider it, so we are under a bit of a time crunch and we want to make sure that it gets there … so they'll have all the time they need to deal with it." ●

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KENAI LOOP ONLINE

production at Kenai Loop in less than nine months. This includes the construction of a pipeline and the facilities necessary to drill, produce and transport a substantial amount of natural gas," Buccaneer Director Dean Gallegos said in a statement. "Buccaneer is looking forward to an active 2012 with drilling at Kenai Loop likely to commence in second quarter 2012, prior to the start of its offshore program."

Once sustained production begins from Kenai Loop, Enstar plans to use the supplies to meet its contractual obligations to Cook Inlet Natural Gas Storage Alaska's storage facility on the Kenai Peninsula, expected to come online in the first half of this year.

Pricing 'standard'

Like other recently approved gas supply agreements in Cook Inlet, pricing in the contract is indexed to the New York Mercantile Exchange gas futures, with additional floor and ceiling prices adjusted for inflation. The price won't drop below $5.75 per thousand cubic feet between March and November or $6.85 per thousand cubic feet between December and February, and won't go above $10 per thousand cubic feet.

The contract requires Buccaneer to deliver a total of 12 billion cubic feet to Enstar, with an option to increase that total volume to 31.5 bcf, pending successful follow-up drilling.

The contract also requires Buccaneer to complete two new wells at Kenai Loop. The company met its first deadline last year and must drill it second well by Nov. 1, 2013.

—ERIC LIDJI

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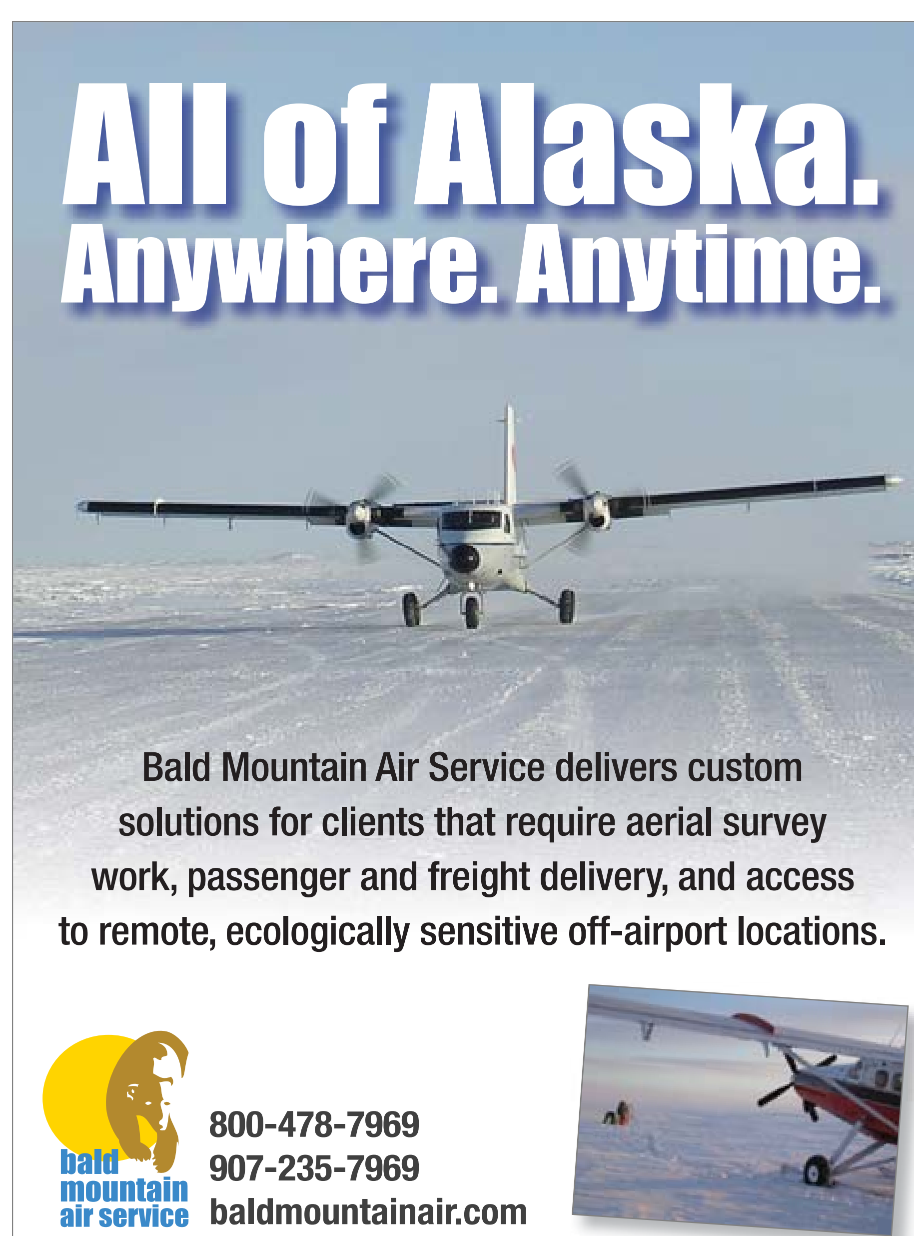

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PERMITS UPHELD

one from the Inupiat Community of the Arctic Slope; and the other two came from private individuals. The Alaska Eskimo Whaling Commission had originally been party to the Inupiat Community of the Arctic Slope petition but later withdrew from the case.

The board, the panel of judges with final authority over EPA decisions, said that the petitioners had failed to demonstrate that there was any need to review the validity of the EPA permits.

"Achieving usable permits from the EPA is a very important step for Shell and one of the strongest indicators to date that we will be exploring our Beaufort and Chukchi leases in July," said Shell spokesman Curtis Smith in an email press release in response to the board's announcement. "That our air permits for the Noble Discoverer withstood appeal is a testament to the robust nature of the work we have done to have the smallest possible impact on the Arctic air shed and further validates that Shell is a company uniquely positioned to deliver a world-class drilling program in the Alaska offshore."

On the web

See previous Petroleum News coverage:

"Environmental, Native groups appeal Discoverer air permits," in Oct. 30, 2011, issue at www.petroleumnews.com/pnads/911532353.shtml

"New Shell permits," in Sept. 25, 2011, issue at www.petroleumnews.com/pnads/639418641.shtml

"New Shell hurdle," in Jan. 9, 2011, issue at www.petroleumnews.com/pnads/836602081.shtml

Kulluk still needed

Although Shell now has air permits for the use of the Noble Discoverer in both the Chukchi Sea and the Beaufort Sea, the company has been planning to use this particular drillship in the Chukchi. The company plans to drill in the Beaufort Sea using its floating drilling platform, the Kulluk. A separate appeal against an EPA air permit for the Kulluk was launched after the Noble Discoverer permit appeal and is still under review by the Environmental Appeals Board.

"The validation of Shell's first air quality permits is almost the end of what has been a long and exhaustive process," said Sen. Lisa Murkowski in response to the appeals board announcement. "I'm relieved that the EPA's internal appeals board chose here not to drag out the process any further, and I hope that the permits for Shell's second drillship, the Kulluk, are similarly confirmed in a timely manner."

"This is excellent news for Shell and for moving forward on oil and gas production in Alaska's Arctic," said Sen. Mark Begich. "As we continue to push the Obama Administration to move permits and coordinate decisions that will allow us to use our own resources to fuel our nation's economy and create thousands of jobs, I'm pleased to see the EPA give another key piece of regulatory certainty that Shell can work in the Beaufort and Chukchi seas this summer."

Seven questions

In total, the petitioners in the appeal raised seven questions over the validity of the permits.

Two of the questions, the first involving the definition of when a drillship becomes a stationary emissions source, and the second concerned with the potential impacts of air emissions on local communities, had already been adjudicated on by the board in December 2010 in an appeal against previous versions of Shell's permits. The board determined that EPA had complied with the board directives in 2010 regarding these questions. And in its new ruling, the board saw no new reason to raise further objections to these aspects of the permits.

The petitions did, however, raise five new questions. The board threw out two of these questions — a question over Shell's ambient air quality analysis and a question over nitrous oxide emissions — because these questions had not been raised during the public review period for the draft permits. And the board rejected the three remaining claims on the grounds that the petitioners had failed to demonstrate that the EPA had erred in issuing the permits. Those three questions related to whether ambient air quality standards should apply inside a U.S. Coast Guard-imposed 500-meter public safety zone around the drillship; a lack of enforceable limits on methane emissions from the drillship's drilling mud system; and a claim that additional public review time should have been allocated to the permit because multiple air quality permits were simultaneously out for review.

—ALAN BAILEY

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PARKER RIGS

have resulted in un-anticipated design modifications, delays and cost increases," Parker Drilling President and Chief Executive Officer David Mannon said in the Jan. 17 press release. "The actions we are taking are important to meeting the operational and safety objectives we desire."

The modification work on 272 and 273 will extend the commissioning activities and increase the two rigs' total cost, resulting in a $171 million impairment charge in the fourth quarter, Parker said.

In a conference call with analysts and the press following its Jan. 17 release, Parker officials said the overall cost of the two rigs was now anticipated to be $385 million, with $340 million of that spent by the end of 2011, including capitalized interest.

In 2012 the company expects to spend another $38 million, plus capitalized interest, making the total impairment about $216 million.

> *"The unique design for these new, technologically advanced rigs posed engineering, construction and commissioning challenges that have resulted in un-anticipated design modifications, delays and cost increases."* **—Parker Drilling President and CEO David Mannon**

Although Parker offered no timetable for completion of the rigs, which were intended to replace two rigs owned by other drilling companies in the Prudhoe Bay field and be in operation by now, the delay means BP is currently down two rigs.

In 2008, when BP announced it was purchasing the two Parker rigs, there were six drilling rigs working in Prudhoe Bay proper, which excluded satellite rigs. Today only two rigs are working there, Doyon 25 and Nordic 1, although that could change if BP brings Doyon 16 back from Milne Point.

BP says in talks with Parker

What does BP have to say about Parker's announcement?

Very little, but it appears Parker is still in the game.

A local BP spokeswoman told Petroleum News Jan. 18, "Yes, BP has provided Parker with a notice of default as indicated by Parker. The notice addresses Parker's obligation to deliver the drilling rigs in compliance with, and within the deadlines established in, the contract. Currently, the rigs are not complete and have not been delivered. BP has not reached a final decision on what action it will take. We are in discussions with Parker to address the matter."

In the Jan. 17 conference, Parker executives were asked about the implications of BP's letter of default, specifically "Is there a situation where the contract is null and void altogether?"

Their response was that they don't believe Parker is in default, and so are "proceeding on with generating solutions to the issues we discovered during rig commissioning" and working with BP on a "revised schedule."

The AADUs, rigs 272 and 273, Parker said in its release, "represent a new class of drilling rig that incorporates some of the most advanced features available in the global land rig market, including a safety-engineered, state-of-the-art equipment package; a highly automated drilling system; zero-discharge capabilities; and a modular design allowing the entire rig to transport itself in three, fully-enclosed mobile units."

Parker's "intent is to deliver to our customer and to Alaska's North Slope drilling market a more productive drilling rig than what is currently available. We expect the AADUs to establish a new standard of performance for arctic drilling," Mannon said.

Parker offers "contract drilling solutions, rental tools and project management services to the energy industry, with an international fleet of 25 land rigs and two offshore barge rigs, and a U.S. fleet of 13 barge rigs in the U.S. Gulf of Mexico," excluding its three non-operational land rigs in Alaska.

Parker first did business in Alaska in the late 1960s, when it was awarded a contract with the U.S. Atomic Energy Commission to drill exceptionally large and deep holes to contain the blast from a nuclear test.

Parker transitioned into oil drilling soon after, bringing several drilling rigs to Prudhoe Bay following its discovery in 1968.

Over the next three decades, the company operated as many as 10 to 12 rigs in Alaska, both on the North Slope and in the Cook Inlet basin, but during a stretch of low oil prices in the late 1990s Parker left the state. ●

Editor's note: For more information on the three Parker-built rigs in Alaska check out Petroleum News' story archive at www.petroleumnews.com. An article about the arrival of the two Arctic Alaska Drilling Units, or AADUs, also contains information about the legal status of the Liberty rig. It can be found at http://bit.ly/xJu5rq.

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