Petroleum news

page 5 Q&A: Chenault — balance needed between austerity, development

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December Mining News inside

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

Obama puts Bristol Bay off limits for federal oil and gas leasing

President Barack Obama put federal Bristol Bay waters off limits to oil and gas leasing Dec. 16, extending indefinitely a temporary withdrawal he made in 2010 which would have expired in 2017.

In a release the White House said the "action safeguards one of the nation's most productive fisheries and preserves an ecologically rich area of the Bering Sea off the coast of Alaska that is vital to the commercial fishing and tourism economy and to Alaska Native communities."

The statement said the decision "builds on decades of local efforts to protect Bristol Bay from oil and gas development" by Alaska Native tribes and organizations and local seafood and

see **OFF LIMITS** page 17

On again, off again, on ...; two BC LNG projects get fresh lift

Just when it seemed they were gasping for air, two of Canada's leading hopes for an LNG industry — Petronas-led Pacific NorthWest and Chevron-operated Kitimat — have received a boost of oxygen.

Two individuals close to Pacific NorthWest say a sanctioning by the partnership is now likely in 2015, while Kitimat has received a surprise lift with the acquisition by Australia's Woodside Petroleum of Apache's 50 percent share.

British Columbia Premier Christy Clark, who never admits defeat at the worst of times, said Petronas, the Malaysian state-owned company, will almost certainly make its final decision in 2015, regardless of the fact that earlier in

see **LNG PROJECTS** page 14

NATURAL GAS

A critical juncture

The cost estimate for Interior Energy Project comes in higher than hoped

By ALAN BAILEY

Petroleum News

With estimated costs higher than anticipated and a concession agreement due to expire at the end of December, the board of the Alaska Industrial Development and Export Authority faces some tough decisions over the future of the Interior Energy Project, a project designed to bring affordable North Slope natural gas to consumers in Fairbanks.

The project involves the construction of a liquefied natural gas plant on the Slope; a trucking operation to ship LNG from the plant to Fairbanks; LNG storage and liquefaction facilities in Fairbanks; and

During a Dec. 16 meeting of the AIDEA board, it became clear that sufficient is now known about the project economics to cast doubt over the project's viability.

utility distribution pipelines for delivering gas to customers.

The objective is to provide gas to Fairbanks consumers at a cost of $15 or less per thousand cubic feet, to bring relief from the high cost of fuel oil that has been crippling household heating budgets and causing people to turn to pollution-causing firewood

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PIPELINES & DOWNSTREAM

Increasing deliverability

Hilcorp plans increased compression for east-to-west shipments across Cook Inlet

By ERIC LIDJI

For Petroleum News

Kenai Beluga Pipeline LLC is looking to improve east-to-west deliverability of natural gas supplies across Cook Inlet to meet increased west side industrial demand.

The Hilcorp Alaska LLC subsidiary wants to modify an existing compressor and add two new compressors at the Kenai Pipeline Junction to allow for larger shipments from producing fields on the east side of the Cook Inlet basin to facilities on the west side.

The goal would be to increase east-to-west shipments to 165 million cubic feet per day.

Over the past year, gas production from the Hilcorp-operated Steelhead platform at the McArthur River field has tripped offline on 32 separate occasions, each requiring additional shipments from the east side, according to Kenai Beluga Pipeline.

The direct shipments would serve Matanuska Electric Association's new Eklutna Power plant, as well as Chugach Electric Association's Beluga Power Plant, the Titan Alaska LLC liquefied natu-

see **HILCORP PLANS** page 17

EXPLORATION & PRODUCTION

Rough ride ahead

Cross section of Canada's oil patch slashes spending on price slump, over supply

By GARY PARK

For Petroleum News

It's not often a sampling of opinion within the Canadian petroleum industry will come up with the same answer.

But that's the way it is in these jumpy times as exploration and production companies roll out their 2015 capital budgets, all of them edging — if not leaping — toward safety from the collapse of oil prices, although all have their variations and idiosyncrasies.

But with oil sitting around a five-year low, the companies are slashing budgets, pointing to a long period of weak prices, compounded by opposition from First Nations, environmentalists and regulatory agencies.

Phil Flynn, a futures account executive with

Penn West may have entered the arena too soon in mid-November when it approved a capital budget of C$840 million, using a US$86.50 per barrel West Texas Intermediate price as its target. ...

Price Futures Group in Chicago, said there seems to be a realization that the price war coupled with an oversupply will not disappear any time soon.

The bean counters in the Canadian oil patch are responding accordingly.

Canadian Natural Resources (Canada's third largest all-round producer), Penn West Petroleum (a robust independent producer that, like so many of its peers, is immersed in restructuring), MEG

see **ROUGH RIDE** page 18

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Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of December 18, 2014. Active drilling companies only listed.

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

This rig report was prepared by Marti Reeve

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay Y-14C	BP
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay PBU 15-24	BP
Dreco D2000 Uebd	19 (SCR/TD)	Nanuq CD4-289	ConocoPhillips
AC Mobile	25	Kuparuk 2M-36	ConocoPhillips
OIME 2000	141 (SCR/TD)	Kuparuk 2F-22	ConocoPhillips
Kuukpik	5	Prudhoe Bay	Available
Nabors Alaska Drilling			
AC Coil Hybrid	CDR-2	Kuparuk 2F-18	ConocoPhillips
Dreco 1000 UE	2-ES (SCR-TD)	Deadhorse, under contract to Repsol for winter exploration	Repsol
Mid-Continental U36A	3-S	Prudhoe Bay	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay	Available
Dreco 1000 UE	7-ES (SCR/TD)	Kuparuk	ConocoPhillips
Dreco 1000 UE	9-ES (SCR/TD)	Kuparuk	ConocoPhillips
Oilwell 2000 Hercules	14-E (SCR)	Prudhoe Bay	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Deadhorse, under contract to Brooks Range Petroleum at Mustang	Brooks Range Petroleum
Emsco Electro-hoist-2	18-E (SCR)	Prudhoe Bay	Stacked
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Prudhoe Bay	Stacked
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Deadhorse, under contract to ExxonMobil for 2015	
Emsco Electro-hoist	28-E (SCR)	Prudhoe Bay	Stacked
Oilwell 2000	33-E	Prudhoe Bay	Available
Academy AC Electric CANRIG	99AC (AC-TD)	Deadhorse , under contract to Repsol for winter exploration	Repsol
OIME 2000	245-E (SCR-ACTD)	Oliktok Point	ENI
Academy AC electric CANRIG	105AC (AC-TD)	Deadhorse, under contract to Repsol for winter exploration	Repsol
Academy AC electric Heli-Rig	106-E (AC-TD)	Deadhorse, under contract to Great Bear for winter drilling	Great Bear Petroleum
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site U-09	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Well Drill Site F-41	BP
Ideco 900	3 (SCR/TD)	Kuparuk Well 3-O-16	ConocoPhillips
Parker Drilling Arctic Operating Inc.			
NOV ADS-10SD	272	Prudhoe Bay DS 18	BP
NOV ADS-10SD	273	Prudhoe Bay DS W-59	BP

North Slope - Offshore

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

Cook Inlet Basin – Onshore

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

Cook Inlet Basin – Offshore

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

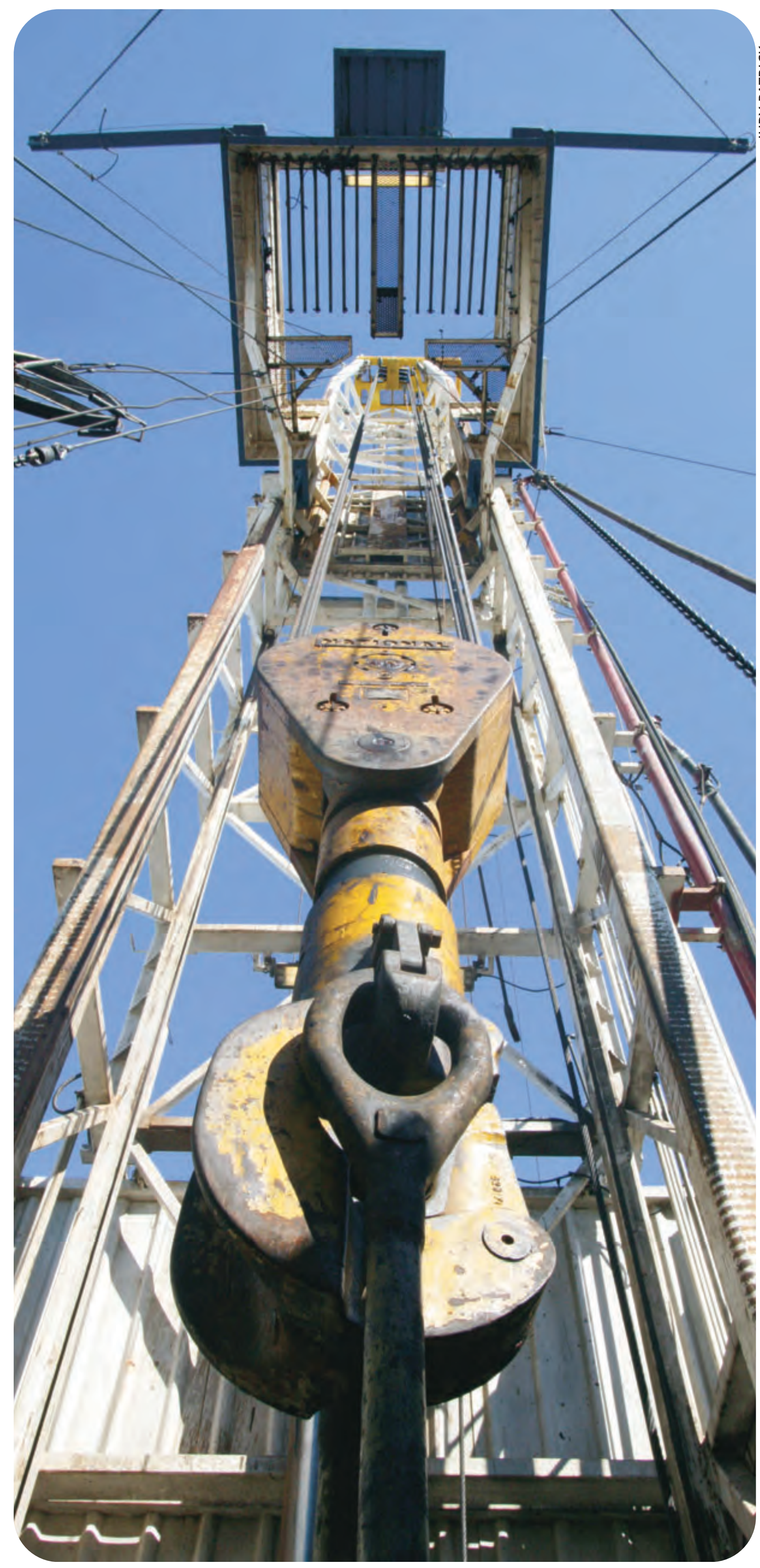
Mackenzie Rig Status

Canadian Beaufort Sea

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

Central Mackenzie Valley

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



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	Dec. 12	Dec. 5	Year Ago
US	1,893	1, 920	1,782
Canada	431	422	426
Gulf	58	56	57

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

*Issued by Baker Hughes since 1944

● EXPLORATION & PRODUCTION

Groups challenge Smith Bay plan

A coalition of environmental groups offered the lone comments on a NordAq exploration program planned for Smith Bay

By ERIC LIDJI

For Petroleum News

A one-well oil exploration program proposed for the nearshore Smith Bay region of the North Slope this winter has raised the hackles of a coalition of environmental groups.

In joint comments to the Alaska Department of Natural Resources, eight environmental groups challenged NordAq Energy Inc.'s proposed Tulimaniq No. 1 exploration well.

The groups were the Alaska Wilderness League, the Center for Biological Diversity, the Conservation Lands Foundation, the Eyak Preservation Council, the Northern Alaska Environmental Center, Resisting Environmental Destruction on Indigenous Land, which is better known by its acronym REDOIL, the Sierra Club and The Wilderness Society.

Aside from the comments of other state agencies, the environmental groups offered the only public comments on the proposed plan of operations for exploration work.

The state responded to the comments in its recent decision to approve the winter exploration program. The decision can be appealed before exploration work begins.

NordAq must still obtain various permits for specific activities before work can begin.

The groups accused the department of failing to properly consider the cumulative environmental impacts of the program, the specific environmental impacts on the Teshekpuk Lake region, the potential for an oil spill and other environmental issues.

NordAq plans to drill a vertical well in the Ikpikpuk River delta this winter. The program includes core samples and a vertical seismic profile, which would occur in the well bore.

While NordAq is still narrowing down the precise location, the company intends to drill the well from an ice pad constructed in the nearshore waters off the coastal delta.

Depending on the results, NordAq might drill appraisal wells in subsequent years.

The Smith Bay region is remote, even by the standards of the North Slope. But the region is also prospective for oil and gas and has therefore drawn the interest of oil companies.

Teshekpuk Lake

The groups accused the department of submitting NordAq's plan of operations for public comment without providing any accompanying analysis of the potential impacts.

A recent court decision requires the state to analyze impacts at each stage of a project.

Essentially, the comments suggest that the department should have split its approval process in two, submitting a preliminary finding for comments and then issuing a final decision. The state uses that bifurcated approach in other permitting scenarios.

The state believes its existing regulatory process adheres to the court ruling by providing the public with a chance to comment on the plan of operations directly, by analyzing the plan of operations in its final ruling and by giving the public time to appeal any ruling.

The proposed program would occur in the Teshekpuk Lake region.

Second only to the Arctic National Wildlife Refuge, the Teshekpuk Lake region is perhaps the most contentious area of the North Slope, when it comes to development.

The environmental groups took pains in their comments to describe the "ecological vibrant" region, which is an important bird habitat and a popular area for caribou herds.

The state believes the NordAq plan properly considers those special needs. Common measures to mitigate environmental impacts in the "Teshekpuk Lake Special Area" include a restriction on summer barge travel to protect birds, among other measures.

Oil spill prevention

The groups also believe the existing plan fails to adequately address oil spill response.

The department believes many of the group's concerns about oil spills stem from development work, while the current program only addresses exploration activities.

For exploration activities in Alaska, the Alaska Department of Environment Conservation manages oil spill contingency plans before work begins and the Alaska Oil and Gas Conservation Commission inspects blowout preventers before drilling gets under way.

In agency comments included with the ruling, the DEC reminded NordAq to apply for a discharge permit relative to the work but otherwise made no comment about spill plans. ●

Contact Eric Lidji at ericlidji@mac.com

EXPLORATION & PRODUCTION

North Slope western coastal area opens

The western coastal area on the North Slope opened for tundra travel Dec. 17. Other areas remain closed.

The Alaska Department of Natural Resources, Division of Mining, Land and Water, said soil temperatures and snow cover in the western coastal area have met the criteria for opening — 6 inches of snow and temperatures colder than minus 5 degrees C at 30 centimeters depth.

The opening applies only to operators with valid off-road vehicle travel permits to operate on state-owned lands. The division warned that while overall snow cover is good it may be thin in some areas, and those areas should be avoided or special construction methods used to protect the tundra surface.

State personnel will conduct periodic site inspections to ensure compliance.

Questions should be directed to the division's northern region land section in Fairbanks at 907-451-2740.

—PETROLEUM NEWS

CORRECTION

Eight applications received since 1995

An article in the Dec. 7 issue of Petroleum News ("Royalty relief used sparingly in Alaska") referenced seven requests for royalty modification since 1996. The state has actually received eight applications since 1995. The article failed to mention a request by Chevron for royalty modification at properties on the west side of Cook Inlet in 2007. The company later withdrew the application. Petroleum News regrets the error.

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● GOVERNMENT

Balance of austerity, development goal

Chenault, returning as House speaker, says cutting operating budget will be challenge; diversifying economy with gas line important

By STEVE QUINN
For Petroleum News

Mike Chenault already had the record for being the state's longest serving House Speaker when he was voted by his peers to a fourth term. That tenure begins when the new Legislature gets sworn in next month to begin a session that features a new governor, Bill Walker, and the administration he continues to build.

When the Legislature last adjourned in April, the price of oil was higher than $100 per barrel. Today, it's barely touching $60.


MIKE CHENAULT

Still, Chenault, a Nikiski Republican, says while the state must practice austerity, it must not lose sight of long-term goals such as advancing a natural gas pipeline to an LNG export facility.

The Legislature also faces an administration with appointments with philosophical histories differing from Chenault and his caucus, creating a prospective rough start when lawmakers return to Juneau in January.

Chenault spoke to those and other resource development issues with Petroleum News.

Petroleum News: You're getting your fourth term as speaker. Your priorities have been pretty clear: Establishing a framework to advance a gas line with priorities of getting North Slope gas to Alaskans. Has any of that changed?

Chenault: Not really. All of us are trying to do the best job we can. The people in my district are very important to me. I want them working. The more Alaskans we can get good jobs for, the better off the state is. I'm going to continue to push for resource development, whether it's oil and gas or mining, the best that we can in order to give Alaskans the best opportunity based on jobs.

The big issues will be the operating budget. We can trim the capital budget some more. The operating budget is going to be the big piece. We've got education and the governor saying he wants to expand Medicaid. There are some who don't want to do that because of the future costs involved.

According to the bean counters unless we get a lot of new oil and the price goes up, it will be at a time when we don't have much money. There are folks talking that there is a way we can address the people — the 40,000 — who don't have insurance covered. I'm willing to listen to that.

Today it might not cost money, but wait a few years and find out it might cost millions. By then you've got people depending on that program, I can tell you as a legislator for so many years, there's a lot of pressure on you.

> ***"I think probably the biggest thing we have now is we have the state of Alaska and the big three gas holders talking about the same project and working toward the same project."***
> ***—House Speaker Mike Chenault***

Petroleum News: Let's go to the interim. Are you pleased with the progress thus far on the pipeline projects being pursued be it AKLNG or ASAP?

Chenault: AGDC's project is moving along on budget and on time. From what I can see AKLNG and talking to those folks, they are progressing. Naturally we hope by the end of this session, or certainly this year, we get some type of offer back to the Legislature to see about moving the AKLNG project forward but we won't know about that until it happens.

Petroleum News: Do you still believe the ASAP project remains important enough to keep on the table?

Chenault: I think that it is. You know, a lot of people are trying to call it a fallback position, but if the numbers don't work out and we can't get big project sanctioned, then we will have a lot of the information that is needed on both projects that AGDC is working on. We paid for other information through the AGIA process and through the AKLNG process. If we can't make a big line work, then maybe we can make a smaller one work. Naturally, the economies of scale and economics are going to drive either one of these two projects. If the big project, for whatever reason, were to go away, then it would give us the opportunity to still get gas to Alaskans to try to drive the cost of energy down.

Q AND A

Petroleum News: Now I know you weren't a big fan of AGIA, certainly the licensing process, but was there any redeeming value to it, given the information you just noted?

Chenault: I think there is information that can be utilized in any of these projects. Now whether it was worth what we paid for it or not, that's a whole different story. Not having signed the confidentiality agreement to be able to look at some of the in-depth information that's there, I can't make an educated decision other that I feel there is information we will be able to use for any project if we are fortunate to move forward on one.

Petroleum News: You noted confidentiality agreements. How do you strike a balance between the confidentiality agreements and assuring the public transparency because there will always been industry information considered proprietary?

Chenault: I think there is a way to do that. I don't know exactly how. People always want information, as early as they can get it so they can try to be informed for whatever reason. It depends on who they are. A lot of times it's information that should probably not be available until it's thoroughly vetted, until it's determined what is the real confidentiality of this information.

Some things need to be held confidential just to help the negotiations not only with the big three owners of the natural gas but also information that you don't want people who you might be dealing with to know because it gives them an advantage. In Alaska, we need to treat our involvement as such.

We need to be looking out for Alaskans and if that means we have some confidential information there as far as negotiations, then we need to hold on to that to make sure we get the best deal for Alaskans. Not the best deal for the buyers of the gas. Not the best deal of the sellers of the gas, but the best deal for Alaskans.

Petroleum News: Do you think there is anything the Legislature can accomplish during the upcoming session toward advancing a project or is it a patience waiting game for year's end when a prospective offer comes?

Chenault: I don't know yet without having talks with the AGDC and AKLNG folks on when do they feel we can be in a position to have that information brought to us so we can make an informed decision.

Petroleum News: As you consider the time you've been in office, what progress do you believe has really be made toward getting a gas line project under way as this has been pretty elusive?

Chenault: I think probably the biggest thing we have now is we have the state of Alaska and the big three gas holders talking about the same project and working toward the same project. Never before have we had that. With AGIA, we had the state on its own. People tried to say that Exxon finally said, OK, we are going to work on it. But I don't think anywhere you'll find Exxon actually signed a contract agreeing to the terms of AGIA. Then you have the Denali project with BP and Conoco working out there. For a $65 billion project, you have to have all of the players in the game and all of the players making informed decisions. That's what we have right now. With the AKLNG project, we have the producers, the state, AGDC, which is a state corporation and we have TransCanada the pipeline builder. You have all of the pieces to put a successful project together. It's a matter of can you come to terms?

Petroleum News: Given the fiscal situation right now, can the state afford to be on a concurrent path with two pipelines?

Chenault: I guess you can look at it two ways: Can the state afford to or can the state not afford to. I don't

see **CHENAULT Q&A** page 15

● PIPELINES & DOWNSTREAM

Enbridge mulls rescue plan

Company 'few months away' from deciding whether to offer First Nations more equity, faces blunt demands from new national leader

By GARY PARK
For Petroleum News

Enbridge, while acknowledging it missed an opportunity years ago to gain the support of First Nations and the people of British Columbia for its C$7.9 billion Northern Gateway pipeline, is hinting at a possible dramatic gesture to salvage the project.

Having encountered apparently inflexible opposition from a large percentage of the 27 First Nations along the pipeline right of way in British Columbia and failed to win over a majority of those communities with its offer of a combined 10 percent equity stake in the pipeline, Enbridge is rethinking its strategy.

Sources close to the project say discussions are taking place with First Nations and Metis on a proposal to transfer control over Northern Gateway ownership to a board drawn from Enbridge, committed pipeline shippers — including Suncor Energy, CNOOC-owned Nexen, Cenovus Energy, the Canadian unit of France's Total, MEG Energy and Inpex Canada — and aboriginal equity stakeholders, while expanding the aboriginal ownership position.

Strong voices to be added

Northern Gateway President John Carruthers, echoing an admission by his predecessor Janet Holder earlier this year, told the Financial Post that Enbridge accepts there needs to be a "strong aboriginal and British Columbia voice in the leadership ... and we are open to change."

He said any changes in governance and ownership could be announced within a few months.

The obvious parallel has been established by the Aboriginal Pipeline Group of the Northwest Territories which secured a right to one-third ownership of the Mackenzie Valley natural gas pipeline.

Carruthers said that even if Enbridge reduces its stake in Northern Gateway it would still expect to build the twin pipelines to export 525,000 barrels per day of crude bitumen and import 193,000 bpd of condensate and play a role in the leadership and management of the system.

Time an issue

But whether Enbridge has the time to "listen, dialogue and build partnerships" is an open question. Even the company has candidly admitted it has abandoned hopes of a 2018 startup.

Although no formal revised target has been set, Wood Mackenzie analyst Michael Wojciechowski said he doubts that Enbridge can satisfy the 209 conditions set by Canada's National Energy Board and the five requirements insisted on by the British Columbia government to start construction within two years.

He said Northern Gateway could be stalled until at least 2025 if producers can find market outlets on any of three other stalled pipeline projects — Kinder Morgan's Trans Mountain expansion and TransCanada's Keystone XL or Energy East.

However, the apparent dawn of awakening at Enbridge may not be enough to win over First Nations that have been emboldened by a Supreme Court of Canada judgment this year giving them rights to land beyond their defined treaties, or claims.

Pipelines on their own

The Canadian government has effectively told Enbridge and Kinder Morgan they are on their own if they hope to secure final approval for pipelines to carry oil sands bitumen to tanker ports on the British Columbia coast.

Industry Minister James Moore, the senior cabinet minister from British Columbia, said his government has "done everything we can in a responsible way" to support plans for the Northern Gateway pipeline and Trans Mountain expansion to deliver an additional 1.2 million barrels per day to Asia-Pacific markets.

He told the Canadian Broadcasting Corp. it is now up to the two companies to meet environmental standards, engage with First Nations, negotiate the conditions set by the British Columbia government and reach agreements with municipal governments.

Moore said the federal government could not have done anything different to avoid the protests that have stalled the two pipelines, adding the "culture in British Columbia ... invites disagreement. But frankly these were not particularly massive protests."

The underlying message seems to be that the government is no longer prepared to fight losing causes to achieve Prime Minister Stephen Harper's long-time goal of turning Canada into an energy superpower and advance its resource-based economic policies to create jobs and generate revenues.

Nathan Cullen, a New Democratic Party Member of Parliament, whose British Columbia constituency includes the terminus for Northern Gateway, ridiculed Moore's position.

He said the government made a "fatal mistake" by rigging the regulatory process in a way that convinced the public they had no chance of a fair hearing and that every pipeline proposal would be approved, regardless of the economic or environmental impacts."

Cullen told the CBC that by applying the "old bulldozer politics of the 1950s," the government has made the outlook for the two pipelines "dark and growing darker."

—GARY PARK

*"We will no longer accept poverty and hopelessness while resource companies and governments grow fat off our lands." —**Assembly of First Nations Grand Chief Perry Bellegarde***

Blunt-spoken new grand chief

Accompanying that benchmark decision, the Assembly of First Nations, the national voice for aboriginals, has elected a blunt-spoken new grand chief who will insist that his people will demand to share in the wealth from resources extracted on traditional lands.

Perry Bellegarde, who follows the conciliatory Shawn Atleo, told Canadians that "for too long we have been dispossessed of our homelands and the wealth of our rightful inheritance."

"Canada will no longer develop pipelines, no longer develop transmission lines or any infrastructure on our lands as business as usual," he said. "We will no longer accept poverty and hopelessness while resource companies and governments grow fat off our lands.

"If our lands and resources are to be developed, it will be done only with our fair share of the royalties. It will be done on our terms and our timelines. Canada is Indian land."

That message mirrored a stand taken Dec. 5 by 36 chiefs in northern British Columbia who have taken collective action to pursue ownership positions in LNG, mining and forestry projects. Another six chiefs are expected to join the alliance.

Chief Martin Louie of the Nadleh Whut'en First Nation said the Supreme Court has set a new standard in indigenous rights that should lift the burden on aboriginal communities to engage in blockades or lawsuits to collect the benefits of resource development. ●

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FINANCE & ECONOMY

Taking a long-term view on pricing

The sudden fall in oil prices is hitting Alaska, but what might the short-term outlook lead to for the state's oil and gas industry

By ALAN BAILEY
Petroleum News

It takes a brave person to attempt to predict the price of oil and gas more than, say, a few hours ahead. So, what does the current plunge in oil prices really mean for Alaska's oil and gas future? And is there any solace to be found in what appears to be a descent into a world of declining oilfield returns and falling state revenues?

On Dec. 8 during Law Seminar International's annual Energy Markets and Regulation in Alaska conference, Paul Carpenter, principal and chairman of the Brattle Group, cautioned about the importance of taking a long-term view of oil and gas markets, suggesting that some of the current market dynamics could end up working in Alaska's favor.

"We can get awfully wrapped up in assessing what we think the effect of short-term events in the market are, particularly in commodity markets like this, and miss the longer-term trends," Carpenter said. "We have to understand what's going on today but keep a sober view of where it may all shake out."

With oil prices dropping in a market-share war between Saudi Arabian crude and U.S. shale oil, some high-cost production may be forced out of the market. And, with liquids production in shale plays currently subsidizing North American gas production, low oil prices could have the converse effect of pushing gas prices up. Then, if oil prices rebound in the future, that could enable Alaska North Slope oil production to increase and could favor Alaska liquefied natural gas exports, Carpenter said.

Volatile market

Citing the late Morris Adelman, a noted energy economist, Carpenter said that while the potential availability of expensive oil production coupled with the dampening impact of high oil prices on consumer demand places an upper ceiling on the price of oil, instabilities within the Organization of the Petroleum Exporting Countries, the cartel that tries to control the world oil market, can lead to oil price volatility. And once the price starts falling as at present, the price can go very low. Currently the marginal cost of production from Saudi oil wells, probably $10 to $20 per barrel, would presumably set a threshold below which current production would no longer prove viable.

But viable investment in new wells, to increase production, would require a somewhat higher price level. Some consultants have suggested that prices in the range of $50 to $60 are required for the continued growth of U.S. shale oil production, Carpenter said. However, with oil companies hedging oil prices a few years into the future as part of their risk management strategies, low oil prices may not start having a significant impact until around 2016, he commented.

On the other hand, there have already been reports of drilling cutbacks in 2015. And, with small independent oil companies accounting for perhaps 18 percent of high-yield bonds in the bond market, low oil prices could cause significant financial distress for these companies which have been drivers behind some shale gas development, especially in the Marcellus shale, Carpenter said.

However, there has been an emphasis on drilling liquids-rich gas wells in recent years — the Energy Information Administration estimates that about 60 percent of new gas wells produce both oil and gas. So, if the gas-subsidizing impact of oil production from these wells is hit by low oil prices, the price of gas should rise. One consultancy has estimated the need for a breakeven gas price of $5 or $6 per million British thermal units if oil prices drop to $50 or $60 per barrel, Carpenter said.

Price gap

But that potential trend leads to interesting questions over the comparative price of oil and gas, and the impact of the price gap between the two commodities on the liquefied natural gas market — the contract price of LNG in Asia is typically indexed to the price of oil.

"That (price) gap is critical to new LNG export projects, because they are all about geographic price arbitrage between oil-linked Asian contract prices and North American gas prices," Carpenter said.

Recent data do seem to point to some price convergence. A Credit Suisse evaluation in the last couple of weeks indicated that, with Brent crude priced between $60 and $85, the price of LNG delivered in Japan would lie in the range $10 to $13 per million British thermal units. At the same time, if the price of natural gas on the U.S. Henry Hub market is about $4, that should translate to an LNG cost when delivered in Asia of about $10.40 — Cheniere Energy, a U.S. LNG company, has been forecasting a delivered price for LNG in Asia of about $11.90, based on a $4 Henry Hub price, Carpenter said. At a Henry Hub price of $6, the cost of LNG in Asia would be about $12.70, he said.

Alaska gas has the advantage of not being tied to the Henry Hub market. An estimated cost of $45 billion to $65 billion for the project to export Alaska LNG, using North Slope gas, translates to a gas price of $8.50 at Nikiski on the Kenai Peninsula, from where the LNG would be shipped to Asia, Carpenter said. Then, factoring in the cost of transportation to Asia, the cost in Asia would be in the $9 to $10 range, he said.

"So, all of this stuff seems to be converging at the moment, if you believe that the oil price we're seeing now is sustainable for a long period of time," Carpenter said.

LNG demand

But the viability of an Alaska LNG project will depend on future world LNG demand and on competition from other potential LNG exporters. With LNG projects currently under construction likely to meet predicted demand through to 2020, the questions for Alaska will revolve particularly around demand beyond that time. And the International Energy Authority has identified India and China as the likely main sources of LNG demand growth in the longer term, with demand in countries such as Japan remaining somewhat static.

But, although a desire by the Chinese government to improve air quality in China has been driving an increased demand for gas in that country, future Chinese demand is uncertain, in part because of competition from renewable energy sources, from wind energy in particular. Also, the economics of shale gas production in China are not looking particularly favorable — China has entered into an arrangement with Russia for the supply of gas through two Russian pipelines, Carpenter said.

Russia is particularly anxious to export gas to Asia by pipeline, to support large-scale gas production and marketing from so-far undeveloped gas resources in Siberia, with economies of scale potentially making the export of LNG from Siberia viable.

A shakeout?

On the other hand, European gas

see **PRICING OUTLOOK** *page 8*

ENVIRONMENT & SAFETY

Break causes Kuparuk drilling mud spill

A gasket failure on a 2-inch hard line at the ConocoPhillips Alaska-operated Kuparuk River unit Dec. 15 resulted in a spill of some 85 barrels of drilling mud, brine and diesel mixture.

The Alaska Department of Environmental Conservation, Division of Spill Prevention and Response, said in a situation report that the release was discovered at 4 a.m. Dec. 15.

The 2-inch line runs between the ball mill injection facility and the injection well. The spill affected an area of approximately 3,000 to 4,000 square feet on a gravel pad and a closed reserve pit.

DEC said the spill occurred during normal operations.

The ball mill injection facility was shut down and the hard line isolated, which stopped the release. DEC said the failed gasket was identified and repaired and the line inspected to insure there were no additional leaks.

About one-half of the drilling mud, brine and diesel mixture spilled to a gravel pad and the other half to a closed reserve pit. DEC said the spilled material has frozen and is not spreading.

Alaska Clean Seas responded to the release for ConocoPhillips and is delineating the spill area, DEC said.

A loader and two trucks have removed some material from the gravel pad and taken it to the Drill Site 1H waste storage cell. The closed reserve pit has insufficient ice thickness to support truck operations and that area will be cleared using skid steers.

Hand tools will be used to recover material from piping and other infrastructure along the gravel pad and reserve pit.

—PETROLEUM NEWS

● GOVERNMENT

Oil prices adjusted down for forecast

Walker budget cuts capital spending to bone; administration to ask for public input on what can be cut based on falling crude prices

By KRISTEN NELSON
Petroleum News

Gov. Bill Walker has submitted the operating budget prepared by the outgoing Parnell administration to the Alaska Legislature as a placeholder, along with a capital budget pared down to $106 million.

The governor's office said in a statement that the capital budget includes only items with federal or other match funding, along with the Kivalina School planning funds which the state is legally obligated to provide.

In a Dec. 15 presentation to the Anchorage Chamber of Commerce Walker said with the steep drop in the price of oil "we are going to need to make significant changes in our state." During the campaign, he said, he told Alaskans that the state was running a deficit of $7 million a day. That amount is now $11 million a day, Walker said.

"It's not a Grinch who stole Christmas message today," he said, "but it is one that we're going to have to make some adjustments. And when I say we, I mean we as Alaskans."

Walker said the state will "manage our way out of this" and rather than declaring a crisis, "declare an opportunity to manage our way out."


GOV. BILL WALKER

He said adjustments will be made to the budget from the Parnell administration. "This is something that you don't do overnight; this is something that you don't do without having commissioners in place," Walker said.

Several departments have acting or interim commissioners. Two departments with named commissioners have acting commissioners until the designated commissioners, Mark Myers in Natural Resources and Randall Hoffbeck in Revenue, come on board in January.

The state will have to dip into savings, Walker said, to cover an expected $3.5 billion deficit in fiscal year 2015.

"We don't want to turn our economy into a tailspin," he said, "but we want to be honest and forthright about where we are."

The falling oil price

Marcia Davis, acting Revenue commissioner, told the chamber audience the previous administration had done a lot of work and developed a preliminary budget.

"But circumstances overtook the world and a lot of things happened ... primarily the commodities market was surprised when the Saudis didn't drop their supplies" and determined instead "to wait out the high-cost producers."

see BUDGET CUTS page 13

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PRICING OUTLOOK

demand has dropped, leading to a growth in the spot market for LNG and a potential glut in LNG spot trading. A glut of this type could bode ill for short-term LNG prices, placing some of the currently proposed LNG projects at risk. A shakeout of LNG projects could work to Alaska's advantages if the LNG markets pick up in the 2020s, at a time when Alaska exports are able to hit the market.

"As with everything, timing is important," Carpenter said, cautioning that when uncertainties reign in the market, there is value in deferring investment decisions. People have been waiting for 40 years to monetize North Slope gas, he said. ●

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● EXPLORATION & PRODUCTION

Struggling Miller Energy closes on Savant

Tennessee-based firm reports disappointing Alaska wells, will focus on safer targets with immediate production, cash flow potential

By WESLEY LOY
For Petroleum News

Miller Energy Resources Inc. announced Dec. 12 it had closed its acquisition of Savant Alaska LLC, giving Miller control of the small Badami oil field on Alaska's North Slope.

The deal, however, is one of the few bright spots for Miller, which lately has struggled in the field and on Wall Street.

In a Dec. 10 investor conference call, Carl Giesler, Miller's relatively new chief executive officer, spoke candidly about the company's challenges. He allowed that Miller perhaps shouldn't have pursued two drilling projects that resulted in disappointment — one in the company's offshore Redoubt unit in Cook Inlet, and the other at a natural gas prospect called Olsen Creek on the inlet's west side.

"Simply put, our operational credibility is low at best and we get that," Giesler said.

Miller announced it was writing down the book value of its Redoubt field by $265 million, mainly due to the decline in crude oil prices.

The company also is writing off the exploratory Olsen Creek No. 2 well, in the amount of $13.4 million, due to the lack of a commercial find.

Badami takeover

Miller Energy is a small company based in Tennessee and listed on the New York Stock Exchange. Recently, Miller sold its legacy Tennessee assets to become a pure Alaska play.

The company has operated in Alaska through its Anchorage-based subsidiary, Cook Inlet Energy LLC.

Miller announced it closed its Savant acquisition for a net cash price of $6.5 million. Miller said the acquisition would boost its net production by about 600 barrels of oil per day.

Savant was the operator of Badami, the easternmost producing field on the North Slope. BP originally developed Badami, which has proven over its history to be a poor performer.

Miller now has a 67.5 percent interest in the Badami unit, with ASRC Exploration LLC holding 32.5 percent.

In a Dec. 10 press release, Miller said it "expects to drill an additional two wells during the summer of 2015 at Badami."

As part of the deal, Miller also picked up a controlling interest in the 25-mile Badami pipeline, which could be a strategically important asset as new fields are developed on the eastern North Slope. The Badami pipeline ties into the network that feeds Slope oil into the large, southbound trans-Alaska pipeline.

Drilling refocus

"Given the continued pressure on oil prices, we're redirecting our drilling effort towards lower-risk and predominantly gas wells," Giesler said in the press release. "We're fortunate — and we think unique — as a company to have a solid inventory of gas wells and the ability to sell gas at a price greater than $6 per mcf. Because of the closed-loop nature of the Cook Inlet area in which we operate, gas trades for north of $6 per mcf and the state of Alaska shares via cash tax credits in 35 percent to 65 percent of our well costs."

> *"Management plans to steadily grow production and cash flow by drilling its inventory of gas wells at North Fork," Miller said, noting company rig 37 was actively drilling in the field.*

The drilling refocus comes after some notable drilling disappointments.

In November, Miller announced a new well known as RU-9, drilled off the Osprey platform in the Redoubt unit, had entered production. The company had said the well was "intended to capture oil reserves from a large four-way structure" located about 2.5 miles southwest of the platform.

Output from the well reached only about 100 barrels of oil per day prior to an electrical failure with a pump, taking the well offline.

Giesler, in the conference call, said the well had not gone as planned. "In retrospect, we perhaps took on too much risk with RU-9," he said.

The company plans hydraulic fracturing operations to further develop Redoubt, Giesler said.

Miller in February acquired the North Fork natural gas field on the Kenai Peninsula, and the field figures prominently in the company's shift to "lower-risk drilling projects with immediate production and cash flow potential."

"Management plans to steadily grow production and cash flow by drilling its inventory of gas wells at North Fork," Miller said, noting company rig 37 was actively drilling in the field.

In the Redoubt unit, the company said it would target "lower-risk sidetracks" and proved undeveloped reserves.

Stock swoon

The drilling refocus would appear to mark an exploration hiatus for Miller.

Lower oil prices, management upheaval and other factors have combined to hammer Miller's stock price.

Miller shares closed Dec. 17 at $1.35 a share, down more than 70 percent since late September.

Financial statements showed Miller's average daily production for the three months ended Oct. 31 was 3,273 barrels of oil equivalent per day. The company has been experiencing significant operating losses. ●

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● NATURAL GAS

AKLNG gets comments on project plans

Federal, state agencies respond Dec. 11 to October filing of two preliminary reports with Federal Energy Regulatory Commission

By BILL WHITE

Researcher/writer for the Office of the Federal Coordinator

In their first feedback on Alaska LNG's preliminary construction plans, federal and state agencies raised dozens of questions and issues they want to make sure are covered as the project sponsors progress with design and environmental analysis.

The agencies on Dec. 11, 2014, asked sponsors of the multibillion-dollar project for more information about where they plan to get construction gravel, how they plan to lay a pipeline across Cook Inlet and what kind of wear and tear state roads and bridges would endure as hundreds of thousands of tons of materials move across Alaska during construction.

The requests for more information were expected as the sponsors are in the early stages of their design, route selection and construction planning for the LNG export project.

Martin's letter is part of the ongoing formal dialogue between regulators and the sponsors about the project and its environmental review. Both the project and its review are in their early stages.

The feedback came in a 24-page letter from James Martin, environmental review team leader at the Federal Energy Regulatory Commission, which will coordinate and issue the single federal environmental impact statement for the project.

Feedback on two reports

Martin's letter provides the sponsors with regulator feedback on their Oct. 1 filings with FERC of two required reports that help initiate the government's environmental review. Preliminary Draft Resource Report 1 included a 39-page description of the project and plan for building the gas treatment plant, pipeline and liquefaction plant, plus hundreds of pages of appendices that included maps and a description of permits needed. Preliminary Draft Resource Report 10 was a two-page outline of alternatives to the project and its components that the sponsors plan to study.

Martin's letter is part of the ongoing formal dialogue between regulators and the sponsors about the project and its environmental review. Both the project and its review are in their early stages.

The $45 billion to $65 billion Alaska LNG project is a joint effort of North Slope producers ExxonMobil, ConocoPhillips and BP, with the state of Alaska and pipeline company TransCanada. The project would involve a massive North Slope plant to cleanse produced gas of carbon dioxide and other impurities, an approximately 800-mile pipeline from the North Slope to the liquefaction plant, and an LNG plant and shipping terminal at the coastal town of Nikiski, 60 air miles southwest of Anchorage.

The pipeline would be capable of carrying 3 billion to 3.5 billion cubic feet of natural gas per day. Alaskans, pipeline operations and the LNG plant would consume some of this gas. The LNG plant would have the capacity to make up to 20 million metric tons a year of LNG, processing about 2.5 billion cubic feet a day of gas. The sponsors would target Asian markets for LNG sales.

Some comments informational

Martin's letter provided comments from FERC staff to the preliminary resource reports, as well as those of over a half dozen state of Alaska agencies.

Some state comments were informational: early warnings about other permits the project would need, suggested edits to conform language to wording in regulations, signals about subtleties in regulations Alaska LNG should know about, notes that map information is mislabeled, or similar issues.

In their comments, FERC and the state generally requested more specifics. The Alaska LNG sponsors expected this. When they filed on Oct. 1, they noted that the draft resource reports were preliminary and that much greater specifics would follow.

The sponsors are planning to provide increasingly more detailed resource reports about the project's environmental impact in revisions planned for early 2015 and early 2016. The sponsors then anticipate that in summer 2016 they will make a full application, with final reports, to FERC asking it to approve construction of the project, assuming work goes on schedule and the project economics look viable.

Other comments

Other comments from FERC and the state included:

•Describe in more detail who would own and operate each facility Alaska LNG would build; Preliminary Draft Resource Report 1 is unclear on this point.

•Provide more detail on the locations of potential connectors where Alaskans might take gas off the 800-mile pipeline, "as well as information on discussions with local entities to take the gas from the take-off points." The North Slope producers said they would provide off-take points for local distribution. But the state would decide the locations and how the gas moves to customers from the mainline.

•Identify where gravel and sand used during construction would be mined and where blast rock and other construction debris would be disposed, plus the likely quantities. On the northern portion of the pipeline route, along the Dalton Highway, "good quality material sites ... are hard to find, develop and permit," the

see **PROJECT COMMENTS** page 11

GOVERNMENT

BOEM increases offshore oil spill liability

The federal Bureau of Ocean Energy Management has increased the liability limit for oil-spill related damages from an offshore spill on the federal outer continental shelf from $75 million to $134 million, the agency said Dec. 11. This liability cap applies to damages that result from an oil spill, with the cost above the cap being met out of the government's Oil Spill Liability Trust Fund. However, this limit only applies to damages — the party that causes a spill has unlimited liability for all other spill-related expenses, including the entire cost of cleaning up the spilled oil.

The increase in the liability cap is consistent with recommendations from the National Commission on the BP Deepwater Horizon Oil Spill and other studies, BOEM said.

The statute relating to the oil spill liability limit comes within the Oil Pollution Act of 1990. The previous limit of $75 million was set in the act, but with a provision for increasing the limit in line with inflation. This is the first time that the government has increased that limit since the act was passed. And BOEM has used the increase in the consumer price index since 1990 as the basis for calculating the new cap. The agency said that the increase is the largest that can be applied without new legislation.

"BOEM is taking an important step to better preserve the 'polluter pays' principle of the Oil Pollution Act and further promote safe and environmentally responsible operations," said Walter Cruickshank, acting director of BOEM. "This is the first administrative adjustment since the Oil Pollution Act was enacted in 1990 and is needed to keep pace with inflation, which has increased 78 percent since then."

—ALAN BAILEY

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PROJECT COMMENTS

state said.

•Assess the effects of soil disturbance "caused by burial of the pipeline to permafrost integrity, particularly through stream banks and wetlands."

•Provide much more detail on the plan to lay the gas pipeline atop the Cook Inlet seabed versus burying it.

•Analyze whether roads and bridges are adequate to endure the expected movement of equipment, heavy materials and people during construction. What would be the timeline and who would be responsible for any upgrades? The state asked for information specifically about maintenance and wear of the Parks and Dalton highways, which parallel most of the 800-mile gas pipeline route, and the Elliott Highway north of Fairbanks. Heavy truck traffic particularly during winter construction could challenge Fairbanks' efforts to keep within air-quality standards, the state noted.

•The state Department of Transportation also requested more information about Preliminary Draft Resource Report 1's statement that airports might need upgrades. "What needs to be done, at what airports and at what cost?"

•The department asked about the report's statement that part of the Kenai Spur Highway would need to be rerouted away from the LNG plant site for safety. The highway runs past the site in Nikiski. The department asked for more information "as soon as possible," because it needs time and funding to move the road.

•Describe whether dredging would be needed to move in equipment and material for construction of the LNG plant at Nikiski and for construction of North Slope facilities.

•Provide more specifics on wetlands and water-body construction, revegetation and erosion control plans. ●

Editor's note: This is a reprint from the Office of the Federal Coordinator, Alaska Natural Gas Transportation Projects, online at www.arcticgas.gov/regulators-comment-alaska-lng-preliminary-plans.

GOVERNMENT

BSEE safety rule goes to OMB

The federal Bureau of Safety and Environmental Enforcement has sent proposed new regulations for drilling on the outer continental shelf to the president's Office of Management and Budget for review, prior to release for public comment. Called the Blowout Prevention Systems and Well Control Rule, the regulations address well design, well control, safe drilling margins, casing, cementing, real-time monitoring and subsea containment, according to information on the OMB website.

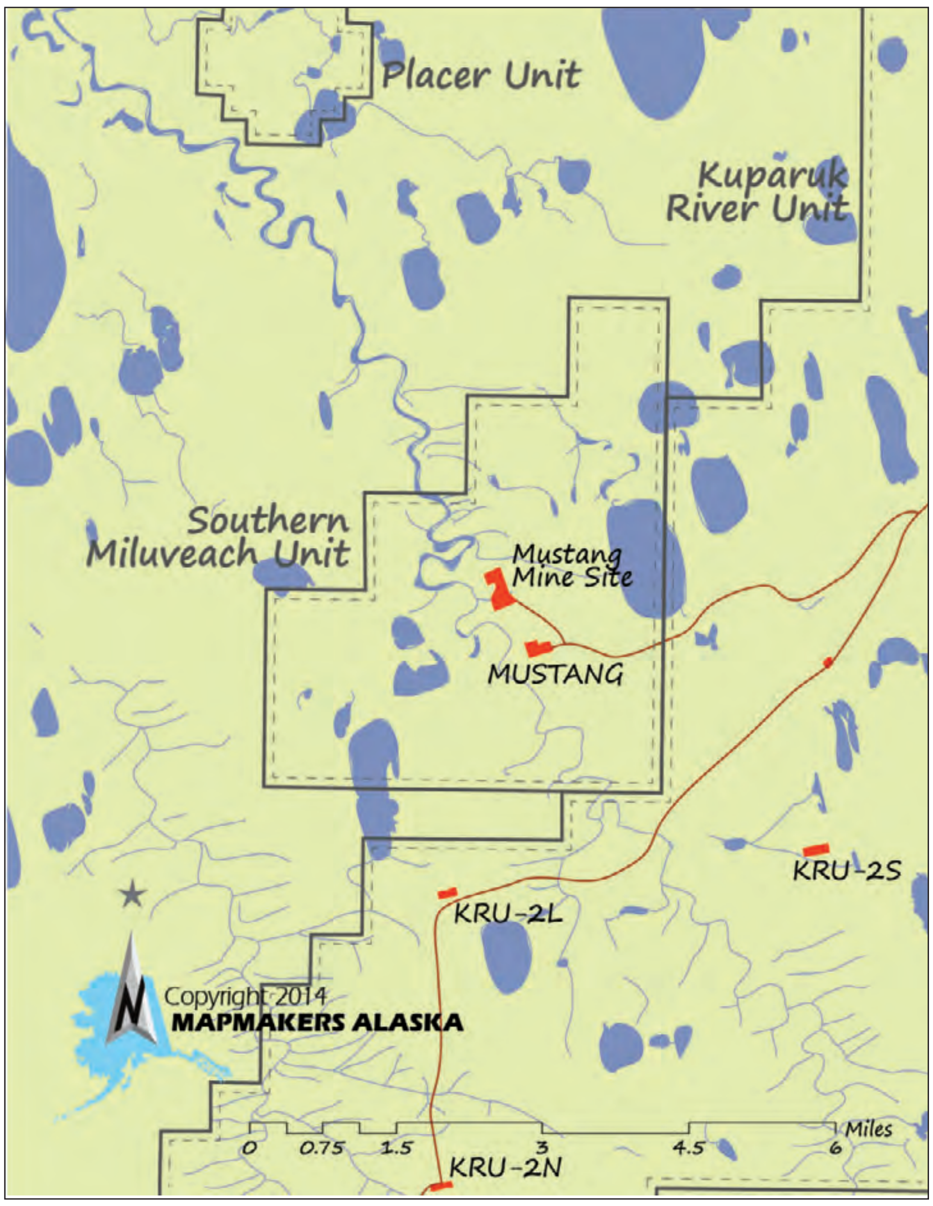
The proposed rule addresses issues raised by the Deepwater Horizon disaster in the Gulf of Mexico, the website says.

—ALAN BAILEY

● EXPLORATION & PRODUCTION

Brooks Range moving ahead at Mustang

Three wells and pipeline supports planned for this winter; module fabrication in spring and summer 2015 followed by installation



By ALAN BAILEY
Petroleum News

Nabors rig 16-E is about to move on site to drill three new wells in the North Slope Mustang field this winter, Jack Laasch, Brooks Range Petroleum's operations strategy manager, told the Alaska Support Industry Alliance Dec. 11. Having already completed the field's gravel access road and pad, Brooks Range is continuing with the development of Mustang, with expectations of bringing the field on line in April 2016, Laasch said.

The field will have standalone production facilities on its pad, connecting by pipeline to the nearby ConocoPhillips' Alpine oil line, for the delivery of produced oil to market via the trans-Alaska oil pipeline. Brooks Range has previously said that it anticipates initial production from Mustang of 8,000 to 10,000 barrels per day, with the 15,000-bpd capacity of the field's production facilities being capable of acting as an anchor for other developments in the immediate area of the field.

Mustang is adjacent the southwest perimeter of the Kuparuk River unit (see map).

Winter program

Laasch said that this winter's drilling program at Mustang will start with a well called Lippizon.

"What we are expecting to do is get mobilized, rigged up and start drilling around Christmas time," he said.

After drilling Lippizon, an operation that should take about a month, the rig will drill the Shamrock well, the second well of this winter's program. Testing of Lippizon and Shamrock will be followed by the drilling of Argo, the third well. All three wells should be completed by around March 25, Laasch said.

The eventual development plan for the field involves the use of slanted injection wells and horizontal production wells, he said.

Also this winter, Brooks Range plans to install pilings and pipeline vertical support members at the development site, with that work requiring careful coordination with the winter drilling activities.

Laasch said that this winter's drilling program at Mustang will start with a well called Lippizon.

The engineering of the field facilities is currently in progress and the procurement of long lead time items such as electrical generators has started. Brooks Range anticipates having the field modules fabricated in Alaska and expects to award construction contracts early in 2015, Laasch said. Module fabrication would take place during the spring and summer, in time for shipment to the field site in the fall. Ahead of moving the modules on site, Brooks Range plans to place a construction camp on the pad.

"We're planning that coming up around Aug. 1," Laasch said.

The construction camp will eventually become the long-term operations camp for the field, he said.

That will all lead to field startup in the planned April 2016 timeframe. Reflecting on the recent drop in oil prices, Laasch commented that, although Brooks Range has been planning on prices around $85, prices lower than that would not start to impact the project until later in 2016, after production is under way.

In August Thyssen Petroleum USA, the JK Group and Magnum Energy Partners acquired ownership of Brooks Range from Alaska Venture Capital Group and Ramshorn Investments, along with a 90 percent interest in the Alaska oil and gas holdings of the two former owners. The Alaska Industrial Development and Export Authority is providing some of the funding for the construction of the Mustang gravel road, the gravel pad and the field facilities. The working interest owners are paying the entire cost of exploration and development drilling. ●

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GOVERNMENT

Gas pipeline coordinator office to close

By BECKY BOHRER

Associated Press

The office of the federal coordinator for Alaska gas pipeline projects is shutting down after not being included in the budget bill that Congress recently passed.

Federal coordinator Larry Persily said he plans to have the office shut down by the end of February.

The office was created in a 2004 law aimed at helping advance an Alaska gas pipeline project that would serve North America. Market conditions led to that plan being scrapped in favor of a liquefied natural gas project that would allow exports to Asia. The state of Alaska, BP PLC, ConocoPhillips, Exxon Mobil Corp. and TransCanada Corp. are involved in the effort.

Persily said the lack of clear authority for his office to be involved with a new project was becoming more of an issue. Congress did not act to address that.

Persily said his office was not included in any bill before a House or Senate committee for a vote.

Coordination still needed

Robert Dillon, a spokesman for U.S. Sen. Lisa Murkowski, said given that the project being pursued is not focused on delivering gas to the Lower 48, it made it harder to argue for funding for the office to be included.

As the project progresses, he said Murkowski, R-Alaska, will make it a priority to ensure that permitting efforts are coordinated. He said it's not clear yet how she will do that.

Right now, it's not clear whether there will be a project. The partners have not reached a final decision point and are in a phase of preliminary engineering and design.

Persily said the project ultimately will live or die based on its economics, not on whether his office exists. But he said his office helped to keep the public and federal agencies informed on what was happening with the project, even after the focus shifted.

Persily is looking for ways to preserve the work done by the office so it's available if the office is revived later. The office has contracted with Alaska Resources Library and Information Services to maintain the searchable digital database of gas line documents going back 40 years, he said.

A gas pipeline has long been a dream in Alaska as a way to provide energy, create jobs and help to shore up revenues in a state now heavily dependent on oil. ●

GOVERNMENT

Harper, Prentice dig in on GHG restrictions

By GARY PARK

For Petroleum News

Canadian Prime Minister Stephen Harper and Alberta Premier Jim Prentice have decided the time has come to make the economic case against punitive measures to regulate carbon emissions in the oil industry.

Harper led the salvo by using, for him, unusually blunt language in declaring that "under the current circumstances in the oil and gas sector, it would be crazy economic policy" to impose unilateral penalties on greenhouse gas emissions, adding his government is "clearly not going to do it."

Two days later, Prentice said that "under no circumstances (is the Alberta government) going to make changes that, at a very difficult time, damage the investment climate or damage jobs in the province."

But even those two close allies are not quite singing from the same song book.

With Harper making it clear his government will not support any increase in Alberta's long-established carbon dioxide levy of C$15 per metric ton for major emitters, Prentice, despite signaling in recent months that he was prepared to raise the penalty, has been forced to admit Alberta will not go it alone.

Spending cuts

Even so, he delivered an unequivocal message to Albertans: Expect an early round of spending cuts — likely confined to the infrastructure sector since he has ruled out education or health care — ahead of forecasts that the plunge in oil prices could slash provincial revenues by C$7 billion in 2015.

Prentice told reporters that although Alberta wants to be an environmental leader it is also "mindful that we need to see investment and jobs created."

Harper, after promising for years to set emissions limits for the petroleum industry under a "sector-by-sector approach," has backed away from that pledge.

He was guarded on what the province will do when its C$15 carbon levy expires at the end of 2014, refusing to be drawn by speculation that the penalty could be doubled.

He has been forced to issue dire warnings, given the latest round of economic growth projections, with RBC Dominion Securities lowering its real gross domestic product target for Alberta in 2015 to 2.7 percent from 3.5 percent and warning the deceleration will continue into 2016 at 2.3 percent — bad news for all of Canada because Alberta is the largest single driver of national prosperity.

In a hasty update, Prentice said that "a few weeks ago, I thought it was a terrible circumstance to talk about $75-a-barrel oil. Today that doesn't look so bad."

"The changes have been so deep and so dramatic, all Albertans will feel the consequences."

He said low oil prices are expected to persist until at least March 31, when the current fiscal year ends, and possibly beyond.

Todd Hirsch, chief economist for ATB Financial, said Prentice — who has ruled out cuts to education and health care and has refused to consider ending Alberta's hold out against a provincial sales tax — "doesn't have much room to maneuver."

Signatories in Peru

Harper said that "nobody in the world is regulating (carbon emissions) in their oil and gas sector."

But in slamming the door he has turned his back on four of Canada's 10 provinces — British Columbia, Manitoba, Ontario and Quebec — which signed a pact at the United Nations climate change conference in Lima, Peru.

They joined 12 other state, provincial or territorial governments — including New South Wales in Australia and Scotland — in recognizing that their national governments may not be prepared to move with the required urgency.

"All of us are signed on to an agreement to set targets together, to set common disclosures and to build cooperation to get deep reductions," said Ontario Environment Minister Glen Murray.

Most of the signatories to the compact agreed to reduce greenhouse gas emissions by 80 percent or more by 2050.

Harper, after promising for years to set emissions limits for the petroleum industry under a "sector-by-sector approach," has backed away from that pledge.

He has said Canada will not take action until the United States introduces measures for reining in emissions from coal-fired power plants and curbing carbon output from the oil sector at a time when its production is soaring.

Canada's Environment Minister Leona Aglukkaq told the Peru summit that her government has already regulated areas of coal-fired electricity and transportation and remains committed to achieving its pledge to reduce greenhouse gases by 17 percent from 2005 levels by 2020.

She said Canada "will continue to move forward with measures in a way that reduces greenhouse gas emissions while maintaining economic growth. We have shown that it is possible to protect the environment while supporting economic growth."

However, even Aglukkaq's own department released a report Dec. 9 that even if the economy sags and energy consumption drops Canada will still be 116 million metric tons of carbon output short of its 2020 target, with Alberta climbing to 249 million metric tons in 2012 (largely stemming from its oil sands sector) from 232 million metric tons in 2005 and could reach 287 million metric tons in 2020, making up one-third of Canada's total. ●

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BUDGET CUTS

That occurred at the Nov. 27 meeting of the Organization of the Petroleum Exporting Countries, mere days before the Walker administration took over Dec. 1.

"So we needed to go back in, revise our numbers," Davis said.

With the $5.9 billion unrestricted general funds budget already passed for fiscal year 2015 (which began July 1), a supplement of some $200 million was needed for oil and gas credits, bringing that number to $6.1 billion.

The forecast price of oil for FY 2015 is now $76, an average of the known price for the beginning of the year and a forecast of $64 a barrel for the rest of the fiscal year, she said.

"Our directions from Gov. Walker are to be accurate, to be conservative, to be as honest as we could about what we think the revenue ... is going to be," Davis said. Using a 70 percent confidence level, the oil price is projected at $76 for FY 2015, $66 for FY 2016 and $93 for FY 2017.

Production volumes, she said, were not adjusted.

Open manner

Office of Management and Budget Director Pat Pitney told the chamber the capital budget was reduced to a minimum — requirements and federal matching, calling it a zero capital budget that costs $100 million.

Pitney said solutions to meet the budget deficit need to be done in an open manner. She said the transition team was being reengaged to address the issue and said the administration would be asking for feedback from chambers of commerce, local governments and Native organizations.

We have to partner, she said: We all deliver services, and need to determine how we can deliver those services efficiently. ●

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FINANCE & ECONOMY

CIRI and AIX close to settlement

Cook Inlet Region Inc. and AIX Energy LLC have tentatively agreed to a settlement that would resolve legal disputes related to the bankruptcy case of Buccaneer Energy Ltd.

CIRI had initially leased land to Buccaneer for use at its Kenai Loop field before revoking the lease. The lease subsequently became involved in a correlative rights dispute over the onshore gas field in the northern Kenai Peninsula near the city of Kenai.

CIRI had initially leased land to Buccaneer for use at its Kenai Loop field before revoking the lease. The lease subsequently became involved in a correlative rights dispute over the onshore gas field in the northern Kenai Peninsula near the city of Kenai.

Those cases were playing out before the Alaska Oil and Gas Conservation Commission and state court. The cases had continued to hang over the bankruptcy proceedings.

In November, a federal bankruptcy judge in Texas allowed Buccaneer to sell nearly all of its Alaska assets to AIX Energy LLC, which had been Buccaneer's largest creditor.

"CIRI, AIX and the other parties in the Alaskan state court litigation have agreed in principle to a comprehensive settlement of that litigation under which all parties will dismiss their claims against each other," attorneys for CIRI and AIX wrote in a Dec. 15 notice to the U.S. Bankruptcy Court for the Southern District of Texas. Given that the court has approved other settlements during the case, the attorneys said they expect the court will also approve the current settlement, once the parties finalize the document.

—ERIC LIDJI

EXPLORATION & PRODUCTION

Conoco planning Moraine data well

ConocoPhillips Alaska Inc. is permitting a second well at the Kuparuk River unit to appraise the potential of the Moraine formation in the vicinity of its Palm satellite.

The company intends to drill the Moraine No. 1 well this winter from an ice pad in the northwest corner of the unit "to acquire core, logs and fluid samples," which will be used "to delineate the Moraine reservoir" in the region, according to a Dec. 10 permitting application ConocoPhillips filed with the Alaska Oil and Gas Conservation Commission.

The company would plug and abandon the well once the work is completed.

Earlier this year, ConocoPhillips permitted the 3S-620 Moraine well at Drill Site 3S, which is associated with the Palm satellite of the unit. The goal of the horizontal well is to gain "additional reservoir information in this area and narrow uncertainty around reservoir description parameters including oil-water contact, sand quality and thickness, and oil viscosity," according to filings with the state Division of Oil and Gas. "This information is critical for any future development of this part of the Kuparuk reservoir."

The company intends to spud both wells in early 2015.

Given that ConocoPhillips wants to drill both wells within the same governmental section — the smallest measurement in a large surveying grid used to divide the North Slope — the company is required to get explicit AOGCC permission, a fairly common request.

The AOGCC is currently considering the request.

—ERIC LIDJI

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LNG PROJECTS

December Petronas announced an indefinite delay in the joint venture.

Greg Kist, the former president of Pacific NorthWest, who stepped down from the C$36 billion venture two months ago, told a Toronto meeting he believes Petronas and its partners will remove any doubts within three to six months.

Both based their forecasts on internal deadlines, including a targeted startup date of 2019, which restricts the construction and commissioning timetable to 50 to 54 months.

Kist said the other partners (Japan Petroleum Exploration, Indian Oil Corp., Sinopec, China Huadian and Petroleum Brunei) face a "requirement for the delivery of (LNG) at a certain time."

If Pacific NorthWest does not get launched they must find volumes elsewhere, he said.

Shovel-ready needed

Kist said Petronas will not be in a position to make a final investment decision unless the project is "shovel-ready," which includes Canadian government environmental approvals, adding that if Petronas made a conditional FID now it would weaken its bargaining leverage.

He agreed with those who take issue with Petronas' claim that low oil prices have forced it to shelve decision making, noting the Pacific NorthWest project economics factored in low-price market cycles.

Kist said foreign LNG proponents in British Columbia are challenged by high taxes, high construction costs and unresolved First Nations rights, but suggested the British Columbia government's special LNG tax is mostly a political ploy to win over B.C. residents and is offset by the province's continuing offer of royalty credit programs such as a deep well benefit that eases the financial burden of developing resource plays in the B.C. northeast.

Clark expects 2015 verdict

Clark told the Financial Post she is "quite certain" Petronas will deliver a verdict in 2015.

"We have done what we possibly can to make the deal work," she said. "Now they have to go out and get a better price from their suppliers."

"We have done what we possibly can to make the deal work. Now they have to go out and get a better price from their suppliers."
—British Columbia Premier Christy Clark

Clark said her government will not revise its tax regime, but is open to negotiating separate project development agreements with the other players.

Whatever happens with Pacific NorthWest, she noted that 17 other proponents have registered an interest (and many have export approvals from the National Energy Board) to develop British Columbia's abundant gas resources.

She said some of the strongest interest has come from South Korea and India (which wants clean power to achieve its goal of becoming the world's second-largest steel producer after China).

For Petronas the postponement of a decision on Pacific NorthWest could stall the search for another partner to reduce its stake to 50 percent from 62 percent, which could yield C$1.2 billion based on the C$2.5 billion it reportedly collected from Indian Oil, Sinopec and China Huadian, thus improving the project's economics.

Woodside entry

Meanwhile, the entry of Woodside, which plans to invest US$3.7 billion for Apache's half-share of Kitimat and its 13 percent interest in the Wheatstone LNG project in Western Australia, brings a credible element to the Kitimat venture.

A Chevron spokeswoman said the deal brings Kitimat one major step closer to a final investment decision by overcoming any concerns about consistent ownership in the project.

She said Woodside brings "significant experience" to Kitimat along with a long history of working with Chevron on Australia's North West Shelf LNG project that has been in business for 25 years, and in which the two companies each have a 16.67 percent stake, plus two other Australian projects.

Before the Dec. 15 announcement, Woodside was engaged in feasibility studies on its Grassy Point LNG facility near Prince Rupert on the northern British Columbia coast, which is designed to export 20 million metric tons a year of LNG, double the initial volumes for Kitimat, which has completed feasibility studies and is now in the midst of front-end engineering and design work.

Apache Chairman Steven Farris said in a statement he is "confident that Woodside's participation will have a positive impact in seeing these world-class LNG facilities through to first production."

However, RBC Capital Markets analyst Leo Mariani said in a research note that "many" do not believe that the obstacles facing Kitimat can be scaled, while Bernstein Research's senior analyst Bob Brackett said Kitimat is still confronted with an "extremely high cost of development associated with both the remote LNG build and the upstream assets."

The transaction, scheduled to close in the first quarter of 2015, includes natural gas resources in the Horn River and Liard basins of northeastern British Columbia, although Apache will retain control of its producing gas wells in the area.

—GARY PARK

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CHENAULT Q&A

think the state can back out right now and say, no we can't afford to. I think we are committed to a project. We want to see a project move forward. The money for an AGDC project is already allocated. They are not going to come back to the state and ask for any more money. They already have enough money to get through the FEED process.

I don't know about the AKLNG and what the next ask will be from them. I think that is going to be determined by how much work they've got done and where they are in that process. I still continue to think we've got to diversify Alaska's economy. I don't think Alaska can continue to afford to be dependent just on oil while the gas revenue is years away.

If we continue to delay, it would be another year later where there isn't gas for Alaskans. We need to continue to move forward with these projects until we get to that go, no-go situation.

Some might know that the AGDC project is not duplicating the work that the AKLNG project is. It is complementary to the AKLNG project, because they have been working on a lot of the information from Fairbanks south for instance versus AKLNG which has been working on a part of the project Fairbanks north. That information that AGDC is getting will fit right in with the AKLNG project and vice versa.

The economics will be the driver of this project. So there is no repetition, no duplication of studies or any other work that is needed between the two, so it works seamlessly together. Alaska needs to keep moving forward.

Petroleum News: With oil prices hitting five-year lows, do you think that's bringing a dose of reality to the state as to just how volatile things are for the state?

Chenault: I think it does. When I came into the Legislature, we were in a spending deficit, then the price of oil went up and when your budget is based on the price of oil, and it's higher you have the opportunity to do things in the state that otherwise you would not be able to do, whether that's fix roads, or build schools. Like a number of capital projects around the state, I think you see that spending increase. Whenever the price of oil drops, you don't see those expenditures on the same scale. The catch is the operating budget. When you have money there, they want certain services. Now when the money is tight and the price of oil is down and you start looking to make reductions in the operating budget, it's going to have an effect on communities around the state and some individuals around the state.

Petroleum News: When we've talked in the past, you noted how high oil prices masked the problem of the state's former tax regime and declining production.

Chenault: They were masking the continuing decline. There is no doubt. I think we will stem it to some extent. Now will we bring it to 2 million barrels a day, the chances are no unless you bring in offshore or ANWR. If you take a 50,000 barrel a day decline, can you stem that. I think you can. If you take a look at what incentives have done here in Cook Inlet to drive new production. I think at one time it was down to 7,000 barrels a day, which is way down from the 1980s in the heyday. I think we are right now at about 16,000 a day. So I think the right incentives, the right conditions — and certainly the technology is helping — there are a lot of barrels out there we can get because of the right tax incentives.

Petroleum News: Now you've got a new administration getting in place and there are some appointments that have already upset some of your colleagues and members of your caucus, starting with the chief of staff Jim Whitaker, who was critical of you, Rep. (Mike) Hawker and now Sen. (Kevin) Meyer for your ties to the oil industry during the tax debate.

Chenault: What we did was declare our conflict or perceived conflict in House Finance Committee. In all reality, according to the rules, we only needed to declare the conflict on the floor. We chose to declare it in the committee because we wanted to put it out there in the public. Folks will have conflicts or perceived conflicts. Jim chose to put an article in the ADN and sort of chastise us. Nobody thinks it's humorous. Everybody takes it fairly serious. It's something the administration and myself will have to work out. I'll talk to the governor and have those conversations with him and we'll take it from there.

Petroleum News: Is this something that can be forgotten or forgiven?

Chenault: It can't be forgotten. If you want to impugn my integrity, you can do that but there are repercussions for that. I'll just leave it at that. I don't know how the other two feel about it, but that's how I feel.

Petroleum News: What about bringing back Mark Myers, this time as Resources commissioner and Marty Rutherford to return as deputy commissioner? Philosophically, you weren't in line.

Chenault: Those folks, they will come before the committees and there will be folks who will not support them. I think both of them are very smart. As far as I was concerned they were on the wrong side of both issues, whether it's AGIA or ACES. I'll try not to let that interfere with how I vote for him. As I told the governor, I'll keep an open mind, but whenever you bring somebody back from previous administrations, they come with baggage. Sometimes that's good. Sometimes that's bad. Whether you like it or not, we all carry it. When you try to make decisions and do what's best for Alaska, I've got to go with my gut most of the time. A lot of it is going to be what kind of information these folks bring forward as to what direction they want to take the department. That will be the key. We don't know a lot about the administration as to what direction the departments are going to go. Until we have those conversations and are able to have those discussions, it's hard to say up or down, yes or know. I want to hear what the objectives for the departments are.

Petroleum News: The most recent objection came against (former longtime legislative staffer) Ken Alper to the Department of Revenue.

Chenault: Ken was a highly regarded Democratic legislative staffer and folks have good things to say about him and some who may be on the other end, don't have the same things to say.

Petroleum News: On to D.C. The state is sending one new member to the Senate and a veteran who will take over the Energy Committee. How does that bode for Alaska?

Chenault: I was just visiting Dan (Sullivan) in D.C. I think Dan being new, he's still trying to find the restrooms in the building and we talked about that. But he has his head on right. I know what he did when he was DNR commissioner and when he was the AG, so I feel comfortable that he will do all that he can to help with resource development. Now what that means on the federal level yet, I don't know. Hopefully it means streamlining some of the permitting processes that will allow us to move forward quicker. We'll have to wait and see once he gets sworn in.

Petroleum News: And what about having Sen. Murkowski sworn in next month as Energy Committee chair?

Chenault: I think that's good for Alaska. It gives her the hammer so to speak on some of these agencies who have been making Alaska and Alaska businesses and opportunities for resource development a living hell. Who knows? We don't know what opportunities are there because they haven't started the work. I feel there are better opportunities to negotiate rather than to negotiate from the standpoint of doing nothing, which is how I feel the federal administration has been treating Alaska, and then complaining how much we take in federal funds.

When Alaska became a state, the biggest concern the federal government had at the time was we would become a drain because of the size of the state and the low size of our population. That became true but it's not because of Alaska or Alaskans, but it's because the federal government will not allow us to develop our state the way other states have been able to do and that makes us more dependent on the federal government. If they want to blame somebody, all they've got to do is look in the mirror. ●

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Petroleum news

Oil Patch Bits

Fairweather relocates to larger facility


COURTESY FAIRWEATHER

Fairweather LLC has relocated their Anchorage corporate headquarters to a larger facility at 301 Calista Court. Encompassing 22,000 square feet of office space and a 10,000-square-foot warehouse, the Calista Court complex accommodates Fairweather's science, medical and safety divisions, as well as the company's executive offices. According to Fairweather General Manager Lori Davey, the decision to relocate to Calista Court was motivated by the recent expansion of the company's science and remote medical divisions and the need to upgrade technology and consolidate all of its offices in a single location.

Housing 40 employees, the Calista Court complex features a state-of-the-art Ethernet and teleconferencing system supported by Cat 6 wiring, along with a climate-controlled server room with a dedicated power source, accommodating up to six server racks. A key fob security system allows Fairweather to set time preferences for doors to lock or unlock automatically. The complex includes an open reception area, spacious break rooms on each floor and conference rooms offering an abundance of natural light.

Fairweather is currently offering office suites and warehouse space for lease at Calista Court. For more information contact Sally Marinucci at Fairweather 907-267-4605, or visit www.fairweather.com.

Crowley awards scholarships to three USMMA cadets

Crowley Maritime Corp. awarded three Thomas B. Crowley Sr. Memorial scholarships to United States Merchant Marine Academy cadets at Containerization and Intermodal Institute's Connie Awards luncheon in Newark, New Jersey, Dec. 8.

Recipient Michael Francis is a first class midshipman studying marine systems engineering with a concentration in nuclear engineering at the academy. He has spent 300 days at sea as an engine cadet and has sailed onboard M/V Green Point, S.S. Chemical Pioneer, USNS Guadalupe and the M/V Cape Horn. After graduation, Francis plans to begin his career in the maritime industry as a third assistant engineer and attend graduate school to obtain a master's degree in engineering.

Midshipman Thomas Kloepfer from Amityville, New York, is studying marine engineering systems with a minor in electrical engineering. He is active at the waterfront with the U.S. Power Squadron, a non-profit educational organization whose mission is to improve maritime safety and enjoyability through classes in seamanship, navigation and other related

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HILCORP PLANS

ral gas facility and Enstar Natural Gas Co. facilities in the region.

The Regulatory Commission of Alaska is taking comments through Jan. 2, 2015.

Earlier this year, with an eye toward increased efficiencies, Hilcorp Alaska consolidated four major Cook Inlet pipelines — Kenai Nikiski Pipeline, Kenai Kachemak Pipeline, Cook Inlet Gas Gathering System and Beluga Pipeline — into a single system called the Kenai Beluga Pipeline. The consolidated system operates under a previous certificate.

Deliverability and redundancy

The $16 million project would increase deliverability and redundancy.

Southcentral Alaska supports an integrated transmission grid that connects oil and gas production facilities to industrial centers and to residential and commercial properties.

On the west side of Cook Inlet, industrial activity is increasing while gas production from nearby fields is declining, leaving east side production facilities to pick up the slack.

The shortfall began several years ago.

In 2011, Kenai Nikiski Pipeline LLC and the Cook Inlet Gas Gathering System LLC proposed the East-West Flow Project, which allowed the two west-to-east pipelines to become bi-directional. The Regulatory Commission of Alaska approved the project.

East-to-west shipments began in 2012 and have “become increasingly important,” according to Kenai Beluga Pipeline LLC. East-to-west shipments on the Kenai Nikiski Pipeline and the Cook Inlet Gas Gathering System totaled 1.7 billion cubic feet in 2012 and 2.7 bcf in 2013, peaking at 24 million cubic feet per day in November 2013. “Further increases are expected in 2014,” Kenai Beluga Pipeline wrote.

Uncertain production

The need for increased shipments comes, in part, from uncertain production.

Over the past year, gas production from the Hilcorp-operated Steelhead platform at the McArthur River field has tripped offline on 32 separate occasions, each requiring additional shipments from the east side, according to Kenai Beluga Pipeline. The Beluga River unit is also seeing declining production, according to the company.

Additionally, using Alaska Oil and Gas Conservation Commission figures, Hilcorp expects total west side gas production to decline by 15 percent per year through 2016.

The additional compression would be installed at the Kenai Pipeline Junction. The two new compressors would be Cat 3516 reciprocating engine driven compressors. The added compression would increase gas transmissions to some 165 million cubic feet per day.

The additional compression would also bolster the system.

A single compressor at Kenai Pipeline Junction currently powers all east-to-west gas shipments. “While it is newly installed and well maintained, there will inevitably be some future mechanical failures,” Kenai Beluga Pipeline wrote. “Should the sole KPL Junction compressor fail during a cold weather event, the consequences would be considerable.”

Anchorage requirements

Additionally, the existing 63 million cubic feet per day compressor at Kenai Pipeline Junction cannot fully compensate for the 235 million cubic feet per day capacity of Enstar crossings under Turnagain Arm, which supply the city of Anchorage. Should that pipeline fail, gas must be routed around the west side of Cook Inlet into Anchorage.

Although a problem on the Enstar pipelines is “less likely to occur” than a compressor failure, according to Kenai Beluga Pipeline, an event is “still possible.”

While the added compression wouldn’t fully compensate for the Turnagain Arm pipeline, it would greatly increase the flexibility of the system should something go wrong.

At a public meeting before the RCA in May 2013, Enstar Director of Engineering John Lau proposed the idea of adding two additional compressors to increase deliverability, saying that his “wish list” was capacity of 200 million to 250 million cubic feet per day.

Would raise costs

In addition to the estimated $16 million construction cost, the expansion would nearly triple operating costs — as expected with a more than tripling of compression capacity.

By comparison, Enstar previously estimated it would cost some $35 million to add a crossing under Turnagain Arm and even more to expand existing crossings.

The compressor currently costs some $106,000 a year to operate, excluding fuel gas. The expansion would cost some $294,000 per year to operate, also excluding fuel gas.

Those costs would be included in the rate case Hilcorp intends to file for the system in 2016. Hilcorp expects shipping rates to increase by 4.8 cents per thousand cubic feet. ●

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OFF LIMITS

tourism businesses.

Bristol Bay is part of the 32.5 million acre North Aleutian Planning Area, a portion of which was leased in the mid-1980s but never developed. The administration of President George W. Bush set in motion a new lease sale for 2011 covering some 5.6 million acres.

President Obama temporarily withdrew the Bristol Bay area from oil and gas development using his authority under the Outer Continental Shelf Lands Act.

Murkowski not objecting

“Given the lack of interest by industry and the public divide over allowing oil and gas exploration in this area, I am not objecting to this decision at this time,” Alaska’s senior senator, Republican Lisa Murkowski, said in a Dec. 16 statement.

“I think we all recognize that these are some of our state’s richest fishing waters. What I do not understand is why this decision could not be made within the context of the administration’s upcoming plan for offshore leasing — or at least announced at the same time.”

The Department of the Interior is expected to release its next five-year plan for outer continental shelf development within the next few weeks.

One offshore well has been drilled in the area, a stratigraphic test well, the 1983 ARCO North Aleutian COST Well No. 1. That well, drilled offshore Port Moller in one of the deepest parts of the Bristol Bay basin, reached 17,000 feet and encountered rock with thermal maturities within the oil window.

A 2006 assessment by the Department of the Interior estimated a mean technically recoverable gas resource of 8.6 trillion cubic feet and an oil and gas condensate resource of 753 million barrels.

Onshore vs. offshore drilling

Responses to the state of Alaska’s Alaska Peninsula areawide lease sale program indicate that, as with the North Slope, local sentiment favors onshore over offshore drilling.

The state made land in the Alaska Peninsula area available for oil and gas leasing in 1960 and again in 1968, and although a few areas were leased, no wells were

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OIL PATCH BITS

subjects. After graduation in 2016, he plans to go to sea and eventually become a chief engineer.

Joshua Asaro, a recipient from Florissant, Missouri, is completing his final year of studies. During his time at the academy, he has been involved in the regiment. He filled billets as team leader, squad leader and petty officer before his appointment to regimental training vessel chief mate and later, regimental protocol officer. Asaro says he is eager to begin putting his skills to work as a sea-going officer after graduation.

To learn more about the Thomas B. Crowley Sr. Memorial Scholarship program, visit www.crowley.com/scholarships.

PND staff engineer earns fish disposal system patent

PND Engineers Inc. staff engineer and University of Alaska Anchorage graduate Alexandra West, EIT, has been awarded U.S. Patent 8,833,682 B2 for a water-powered fish carcass disposal system, an innovation inspired by growing up on the Kenai Peninsula among fishermen, salmon and wildlife. West designed a system that floats in a body of water, grinds fish carcasses into pieces and returns them to the water. The goal is to decrease human-bear interactions by more thoroughly disposing of fish remains that would otherwise attract dangerous predators to populated river areas.

The patent was awarded on Sept. 16. With this achievement, West also becomes the first student to earn a place on UAA’s Patent Wall of Fame in the UAA Administration Building, established by the Vice Provost for Research and Graduate Studies Dr. Helena Wisniewski to celebrate innovation, invention and entrepreneurship.

“I am very proud of Ms. West,” Wisniewski said. “She exemplifies the ideal student who applied her talent beyond her classroom studies. She observed a need and invented a device that will benefit fishermen and the environment, with the potential to contribute to the economy. I look forward to inducting her as the first student into the UAA Patent Wall of Fame.”

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ROUGH RIDE

Energy (whose major shareholders include China's CNOOC), Athabasca Oil (which sits on a healthy pile of cash) and Precision Drilling (which contracts one of North America's largest rig fleets) have all delivered their version of reality, none of which will fuel optimism.

Canadian Natural's contrarian approach

Canadian Natural frequently takes a contrarian approach to business, notably by cutting back exploration and production of its whopping natural gas resources a few years ago when other big gas players were hell-bent on chasing the pot of gold at the end of the shale rainbow.

Again it has caused some head-scratching by raising its gas spending for 2015 by 15 percent to C$920 million compared with the C$480 million (down 29 percent from this year) it plans to spend on Canadian light oil.

The renewed interest in gas poses an added puzzle, given that the company had an unsuccessful bid to unload 6.7 trillion cubic feet of gas reserves in the first quarter of 2014, then startled observers by paying C$3.1 billion for Devon Energy's gas output of 383 million cubic feet per day, lifting its output to 1.7 billion cubic feet per day.

What it now plans to spend in 2015 is targeted to hike its 2015 production forecast by 11 percent, possibly enticed by the knowledge that each C$1 rise in the AECO trading hub price generates C$420 million of extra annual cash flow.

Canadian Natural is also pressing ahead in its oil sector, budgeting C$4.2 billion for heavy assets and C$3.4 billion for its troubled Horizon oil sands mine, resulting in an overall spending program of C$8.6 billion, which is down a telling C$3.4 billion from the expected outlay in 2014.

Penn West budgeted early

Penn West may have entered the arena too soon in mid-November when it approved a capital budget of C$840 million, using a US$86.50 per barrel West Texas Intermediate price as its target, with C$585 million earmarked for three core resource plays in Alberta (Cardium, Viking and Slave Point).

Its light oil capital allocations will continue to include integrated investment to advance its waterflood programs.

> *Penn West, trying to put the best face on the outlook, said its in-house "rigorous sensitivity analysis" suggests it has a long-term plan that is "resilient to commodity price fluctuations that are common to the oil and gas industry."*

But the company has an overriding objective of trimming down, having generated C$1 billion in asset sales this year, shrinking its cash costs by 23 percent, or C$200 million, by slashing its management structure in half. The goal now is to reach operating costs of C$15 per barrel of oil equivalent by 2019.

Production guidance for 2015 is set at 95,000-105,000 boe per day, compared with an expected 101,000-106,000 boe per day this year.

Penn West, trying to put the best face on the outlook, said its in-house "rigorous sensitivity analysis" suggests it has a long-term plan that is "resilient to commodity price fluctuations that are common to the oil and gas industry."

In case that assessment doesn't hold up, the company said it has actions ready to deal with any further commodity price weakness, applying its control over 90 percent of its capital investment allocation decisions.

MEG from 'greenfield' to 'brownfield'

MEG, a relative oil sands startup, has cut its capital spending by 25 percent to C$1.2 billion (down C$600 million from its earlier guidance) as it shifts ground from "greenfield" plans for new projects to "brownfield" expansions of existing operations.

Chief Executive Officer Bill McCaffrey said the revised program shows MEG's ability to "adapt to the current market conditions while still delivering meaningful growth."

He said MEG only needs to rely on 20 percent of its budget to maintain current production, expected to average 65,000-70,000 barrels per day this year and aimed at 78,000-82,000 bpd in 2015.

Raymond James analyst Chris Cox said MEG should be able to fund 60 percent of next year's budget from operating cash flow and use the C$800 million of cash on hand to cover residual funding requirements, suggesting the company is taking "prudent" steps in the current commodity environment.

Athabasca scales way back

Athabasca Oil surprised some analysts by setting a spending target of C$266 million for 2015 (including C$58 million of unspent capital from this year) compared with the C$450 million-C$500 million target range set for 2014.

The company has also scaled back its production forecast to 7,000-8,000 barrels of oil equivalent per day for 2015 from its northeastern Alberta conventional light oil assets and 3,000-6,000 bpd from its nearly completed Hangingstone thermal-recovery oil sands operation.

Nick Lupick, an analyst with AltaCorp Capital, said the spending is 10 percent below his latest expectation, indicating management has decided the market volatility "warrants a slightly more cautious and calculated spending program."

Athabasca, boosted by the sale of its Dover oil sands lease to PetroChina, is expected to have C$1.3 billion in available cash, undrawn credit and promissory notes by Dec. 31, suggesting it is well-funded for 2015 and beyond.

Precision trims cap-ex

Precision has trimmed its 2014 cap-ex by C$23 million to C$885 million and plans to wield the axe even more vigorously in 2015 by lowering spending to C$493 million, reflecting the edginess within the oilfield services and production sectors.

Chief Executive Officer Kevin Neveu said that once 16 previously announced rigs (15 destined for the United States by mid-2015) have been delivered he expects "our rig building activity will be idled until we see an improved commodity price environment and rising customer new-build demand."

"While the current market is adjusting to recent rapid oil price declines, we remain intensely focused on cost management with a variable cost business model and balance sheet designed to address changing market conditions," he said. ●

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CRITICAL JUNCTURE

as an alternative means of warming buildings. Golden Valley Electric Association, the Fairbanks electric utility, also wants natural gas as an alternative to expensive liquid fuels for generating electricity.

Doubt over viability

During a Dec. 16 meeting of the AIDEA board, it became clear that sufficient is now known about the project economics to cast doubt over the project's viability. In addition, the precipitous drop in the price of oil in recent months is lowering the cost of fuel oil, making oil more competitive with gas as a fuel in the Interior.

State legislation introduced by Gov. Sean Parnell and passed in 2013 triggered the project. AIDEA is providing financial assistance for the project through state grants and low-interest loans.

In January AIDEA commissioned engineering firm MWH to manage the construction of the required LNG plant, with a concession agreement requiring delivery of the documents needed for a financial close for the project by Dec. 30. Those documents include a contract for the purchase of North Slope gas from BP; an agreement, including a cost agreement, for the engineering and construction of the LNG plant; an operations and maintenance agreement for the plant; and gas supply agreements with Golden Valley and the two gas utilities in Fairbanks, Fairbanks Natural Gas and the Interior Gas Utility.

A firm cost

With time running out on the concession agreement, albeit with a clause in the agreement including the potential for a 90-day extension, most of the documentation required for the financial close has yet to be fully completed. But MWH does have a firm cost for plant construction from Kiewit, the company expected to undertake the construction project, Rick Adcock, vice president and managing director of MWH Infrastructure Development Inc., told the AIDEA board. Also, MWH has contracted with TDX Power to operate the plant, in a joint proposal with Norgasco, the North Slope gas utility, he said.

However, that cost estimate, agreed with Kiewit and verified by independent consultants, is $228 million, a figure higher than the cost of $170 million to $190 million that had been envisaged a year ago. And, while that original estimate was based on an LNG plant with a capacity of 9 billion cubic feet per year, the new cost estimate relates to a plant with a reduced capacity of 6 bcf.

Demand in Fairbanks

With an initial demand commitment of 5 bcf per year, Golden Valley would account for the bulk of the gas throughput, at least initially. Fairbanks Natural Gas has an existing distribution pipeline system, currently supplied by LNG from Cook Inlet, and would commit to start with 0.1 bcf of North Slope gas, with that commitment expanding to 1.1 bcf after 12 years, Adcock said. The Interior Gas Utility has still to build its distribution system and would have no initial committed gas demand, but a demand growing to perhaps 0.6 bcf after 12 years, he said.

These volumes represent minimum commitments required for project financing and may be lower than actual demand.

The Interior Energy Project would use an existing gas supply agreement that Golden Valley has with BP, although some minor modifications are needed to that agreement. Cory Borgeson, president and CEO of Golden Valley, told the board that gas prices under this contract are indexed to the price of oil. At today's oil price, the price of gas would be close to $2 per thousand cubic feet, rising to around $4.50 at an oil price of $150 per barrel, he said.

Cost structure

Assuming an oil price of $90 and a corresponding gas price of $2.75 under the BP contract, Adcock explained how the various elements of the gas supply chain to Fairbanks would result in a delivered cost of gas for Fairbanks residents of $18 to $20.50 per thousand cubic feet, a cost range substantially above the $15 target.

Taking into account the need for fuel gas for the LNG plant and the administrative costs of the gas supply, the true cost of gas for the project would be $3.09, Adcock said. An optimistic cost of liquefying the gas which "could go up if certain things don't work out right" would be about $5, he said. The cost of trucking the gas to Fairbanks would be another $5, with storing the LNG in Fairbanks and then gasifying the LNG costing about $1. Depending on the scale of the AIDEA funding for the Fairbanks utilities, the gas distribution cost in Fairbanks might range between $4 and $6.50 per thousand cubic feet, Adcock said.

Demand risk

The biggest risk in this scenario would be uncertainty over the gas demand in Fairbanks, especially as the falling price of crude oil is likely to dampen people's enthusiasm for converting their heating systems from oil to natural gas. As the demand drops, the unit cost of delivering the gas would increase, thus further discouraging gas usage.

Borgeson, commenting that Fairbanks needs natural gas both as a catalyst for economic development and to resolve issues such as air pollution, said that Golden Valley has proposed accepting the gas demand risk by paying for some of the gas, even if it is not needed.

"If we take that risk, we still believe there is a substantial savings to our members," he said.

Borgeson commented that the Golden Valley board would need to approve this arrangement. The board has directed him to work with the gas utilities to continue to pursue the project, he said.

Utility views

Bob Shefchik, president and CEO of the Interior Gas Utility, said that with competent people on the project having done their best but having come up with deliverables not met and costs that are too high, it was unlikely that extending the project any further would somehow result in success. It is time to consider alternatives, he said.

"The big picture is I don't think we're there and I don't think we're going to get there," Shefchik said.

Dan Britton, president and CEO of Fairbanks Natural Gas, said that although the project faces the dual challenges of high capital costs and a lower than anticipated LNG demand profile, he did not see what the alternatives would be for a Fairbanks gas supply. People had originally anticipated the state funding the bulk of the cost of the LNG plant, but, with a significant amount of private funding now required for the project, it was difficult to meet that original $15 price target, he said.

"We're torn … I'm having trouble spotting a better alternative," Britton said. "I'm willing to spend another three months trying to figure something out, but not much more than that."

Cook Inlet gas?

Asked about the relative merits of shipping LNG from Cook Inlet, rather than from the North Slope, Britton commented that the North Slope has relatively cheap gas and security of the gas supply. The Golden Valley gas supply agreement with BP is for 15 years — contracts of that duration have not been seen in Cook Inlet for a long time, he said. And, rather than being indexed to the price of oil, the commodity with which Fairbanks gas competes, Cook Inlet gas is currently priced according to an agreement between gas producer Hilcorp Alaska and the state of Alaska.

However, Cook Inlet has an existing liquefaction facility and it would cost less to transport LNG from that region, Britton said. The future price of Cook Inlet gas will depend on a number of factors relating to the Cook Inlet gas market, he said.

Britton said that Fairbanks Natural Gas currently charges $23.35 per thousand cubic feet for Cook Inlet natural gas delivered to residential customers.

Shefchik expressed his concern that a perhaps temporary drop in oil prices might derail efforts to bring affordable gas to Fairbanks. The original purpose of the Interior Energy Project was to fundamentally change the impact of $4 diesel on the Alaska Interior, he said.

"People are going to be nervous that they're going to be getting the $1,000 (heating) bill again," he said.

The AIDEA board went into an executive session to discuss confidential aspects of the project.

The board has been considering the extensive testimony heard today from MWH and the three utilities on the status of the Interior Energy Project but does not yet have a timeline for taking action on the project, AIDEA spokesman Karsten Rodvik later told Petroleum News. ●

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OFF LIMITS

drilled.

When the state proposed areawide leasing for the Alaska Peninsula — and held its first areawide sale there in 2005 — local support favored onshore over offshore leasing, with onshore oil and gas development holding out the possibility of jobs while offshore drilling raised the fear of damage to the area's valuable fishery.

It was the fishery on which the Obama administration appeared to focus.

"With its pristine waters, rich fisheries and strong tourist economy, Bristol Bay is a treasure that should be off limits for oil and gas development," Secretary of the Interior Sally Jewell said in a Dec. 16 statement. She also said the action "caps decades of work from the community to protect the region's economic and cultural heritage."

United Tribes of Bristol Bay spoke to some of the same issues. In a Dec. 16 statement Robert Heyano, the organization's president, said the decision acknowledged "the immense cultural and economic value of Bristol Bay and recognition of our country's last great wild salmon resource is welcomed news that many of us have fought for decades to hear. We appreciate that (President Obama) has listened to Alaska Natives and has secured Bristol Bay's future as a national treasure."

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