



page 4 Canadian election set for Oct. 14; Arctic, environment are both issues

Chevron donates \$1M to UAA



COURTESY UNIVERSITY OF ALASKA ANCHORAGE

At the Kenai Peninsula College announcement of Chevron's \$1 million donation to support the University of Alaska's Alaska Native Science and Engineering Program and the Process Technology, Instrumentation, and Computer Electronics programs at UAA's Kenai Peninsula College Kenai River Campus in Soldotna on Sept. 4: from left to right, UAA Chancellor Fran Ulmer; speaking, Gary Turner, director of UAA's Kenai Peninsula College; Chevron's Alaska general manager, John Zager; Chevron's Alaska manager of public relations and communications, Roxanne Sinz; and Chevron's Alaska asset development manager, Steve Wright. See story, page 19.

Nuiqsut should get natural gas this winter, switching from diesel

Villagers in the North Slope community of Nuiqsut could heat their homes with natural gas this winter, more than a decade after securing a supply from a nearby oil field.

The North Slope Borough recently completed testing the Nuiqsut Natural Gas Pipeline and expects to bring the 14-mile line into operation soon. Area power generation facilities could start burning natural gas by Sept. 17, and contractors hope to begin converting boilers for the community of about 375 as soon as Oct. 13, although villagers can pay to switch over sooner.

The move to natural gas will dramatically lower heating costs in Nuiqsut, where temperatures fall below freezing nearly 300 days each year.

Nuiqsut currently pays the highest heating costs on the North Slope, where most communities receive some form of government subsidy.

Under the rates recently proposed to state regulators, customers would pay around \$1.79 per thousand cubic feet of gas from the pipeline. Generating the same amount from heating oil would cost around \$20.43, according to June prices collected by the state.

Once the system becomes fully operational, Nuiqsut will become the second North Slope community to generate heat from natural gas. Barrow, the largest city in the borough, uses a local supply of natural gas to heat its homes, businesses and public buildings.

Deal originally with ARCO

The Nuiqsut Natural Gas Pipeline has been long in the works.

The project dates back to early development work at the
see NUIQSUT page 21

NATURAL GAS

Imperial hopes high

CEO of lead partner in Mackenzie more upbeat than at any time in 6 years

By GARY PARK
For Petroleum News

Imperial Oil is more optimistic than it has been in the last five or six years that the Mackenzie Gas Project will proceed, regardless of delays caused by the Canadian federal election and in wrapping up the regulatory process, said chief executive officer Bruce March.

Speaking to a Peters & Co. North American Oil and Gas Conference in Toronto, he said Imperial, which controls about half of the 6 trillion cubic feet of Mackenzie Delta gas backing the project, has been encouraged by recent pledges by Prime Minister Stephen Harper to facilitate development of Arctic energy resources.

It is the second time in five months that March

Northwest Territories Industry Minister Bob McLeod told reporters the federal government can help by reaching fiscal terms with the MGP proponents and by ensuring the regulatory review of concluded in a timely manner.

has offered an upbeat outlook for the MGP, regardless of expectations that cost estimates are likely to rise well above the C\$16.2 billion estimate released last year.

In May, speaking to Imperial's annual meeting for the first time, he said the company is "excited" about the MGP.

see IMPERIAL page 19

LAND & LEASING

\$3.5 million in high bids

Ormat Nevada gets all but one tract in Mount Spurr geothermal lease sale

By ALAN BAILEY
Petroleum News

Any doubts about serious interest in geothermal energy for Southcentral Alaska were dispelled on Sept. 10 at the state Mount Spurr geothermal lease sale. The state received an estimated \$3.5 million in apparent high bonus bids, with all 16 tracts on offer being sold. Three bidders participated in the sale, with Reno-based Ormat Nevada picking up 15 of the tracts. Chad Attermann, a private individual with an address in Utah, picked up tract number 16.

Ormat Nevada outbid Iceland America Energy Inc. on four of the tracts. Two of those contested tracts lie in the centre of the lease sale area and



KEVIN BANKS

attracted bids of \$1.5 million and \$1.4 million. Attermann outbid Ormat Nevada on tract 16 with a bid of \$5,007.

Because the title work on the tracts has already been done, leases could be issued by the end of September, said Kevin Banks, director of Alaska's Division of Oil and Gas.

Third sale

This is the third geothermal lease sale that the state has held on tracts on the southern flanks of Mount Spurr, the closest volcano to the city of Anchorage. The last sale occurred in 1986.

The lease sale area is about 40 miles from Beluga, the nearest point on the Southcentral

see GEOTHERMAL page 18

SAFETY & ENVIRONMENT

The whaling perspective

MMS funded study highlights the positive and negative impacts of the oil and gas industry on the North Slope subsistence culture

By ALAN BAILEY
Petroleum News

The lively debate regarding offshore oil and gas exploration in Alaska's Beaufort and Chukchi seas leaves no one in any doubt about the level of concern in North Slope communities about the potential impacts of oil and gas development in the region. But, on the principle that facts form a better basis for informed discussion than anecdotal perceptions, the Alaska Eskimo Whaling Commission and the North Slope Borough in 2000 asked the U.S. Minerals Management Service to fund some research



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Bowhead whales

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Petroleum News

A weekly oil & gas newspaper based in Anchorage, Alaska

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State regulators choose not to adopt 2005 Environmental Policy Act guidelines, instead look to craft state-based standards in future

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• ALTERNATIVE ENERGY

Clean energy project plans sought

Applications due to Alaska Energy Authority by Oct. 8 for projects ready to proceed

By STEFAN MILKOWSKI
For Petroleum News

The Alaska Energy Authority is seeking proposals for renewable energy projects under a new program created this year by state lawmakers.

The program offers state grants to utilities, independent power producers, and government entities for the study or construction of economically viable renewable energy projects.

Lawmakers put \$100 million toward the program this year and have expressed their intent to contribute another \$50 million each year for the next four years.

House Speaker John Harris, R-Valdez, and Rep. Bill Thomas, R-Haines, pushed the renewable energy fund as a way to reduce energy costs, but the idea also received strong support from environmental groups, who touted the environmental benefits of switching away from fossil fuels.

House Speaker John Harris, R-Valdez, and Rep. Bill Thomas, R-Haines, pushed the renewable energy fund as a way to reduce energy costs, but the idea also received strong support from environmental groups, who touted the environmental benefits of switching away from fossil fuels.

“The number one thing the State should do is get communities off expensive diesel generation and inefficient electrical supplies and work towards zero fuel cost energy resources,” Thomas said in a news release.

The bill, HB 152, passed the Legislature in April, and Gov. Sarah Palin signed it into law in May. Funding was provided in

see CLEAN ENERGY page 24



• NATURAL GAS

Oregon senator wants Nikiski LNG exports to Japan ended

Wyden wants Alaska liquefied natural gas sent to Mexican terminal to add to U.S. supply

By ALLEN BAKER
For Petroleum News

Oregon’s U.S. Sen. Ron Wyden has asked the U.S. Department of Energy to revoke its approval of an export license for the Nikiski LNG plant in Alaska to send its product to Japan, arguing that the gas is needed in the Lower 48 — even though it amounts to just two-tenths of one percent of U.S. consumption.

In a Sept. 2 letter to Energy Secretary Samuel W. Bodman, Wyden wrote that the current administration is “arguing that we need to drill everywhere because we don’t have adequate energy supplies, while finding that we have so much energy that big oil companies can export it overseas and keep prices here at home higher than they would otherwise be.”

The Oregon Democrat suggests the Alaska liquefied natural gas could be sent to the new Sempra Energy import terminal in Mexico, then shipped back north into the West Coast market.

Mexican revolving door?

What the senator doesn’t mention is that the U.S. now sends more than twice as much natural gas the other way — from California to Mexico.

In 2006, deliveries to Mexico just from the state of California totaled 101 billion cubic feet, according to the Energy Information Administration. Nikiski LNG exports are 46 billion cubic feet annually. As for the total U.S. exports to Mexico — they’re about seven times the amount of natural gas the Alaska LNG plant sends to Japan.

The Alaska LNG export flow is so tiny in the overall scheme of things that it was exceeded last year by U.S. LNG imports from four countries — Egypt, Nigeria, and Algeria among them. That’s aside from Trinidad, which moved nearly ten times as much LNG to U.S. ports last year as the Nikiski plant sent to Asia.

Coming supply glut?

Meanwhile, natural gas production is

surging in the Lower 48 as companies such as Chesapeake, XTO and Anadarko are unlocking supplies from the Barnett shale in Texas, plus unconventional wells in the Rocky Mountain region and elsewhere.

The Rocky Mountain states, particularly Wyoming, are the big suppliers for the West Coast, which consumes 2,778 billion cubic feet of natural gas annually, about 12 percent of the total U.S. consumption of 23.1 trillion cubic feet.

Wyoming’s production alone increased 12 percent in the first six months of this year, compared to the same period in 2007, while Texas gas wells gained 16 percent, according to the EIA.



SEN. RON WYDEN

All this has led to a major decline in natural gas prices in the Lower 48, with the Henry Hub price at \$7.265 per thousand cubic feet Sept. 9, down from more than \$13 just a couple months ago. Even gas for delivery in December is just \$8.25 on the same date on the Nymex.

Meanwhile, vintage oilman T. Boone Pickens and Chesapeake Energy CEO Aubrey McClendon are suggesting domestic natural gas is so abundant the U.S. auto fleet should be converted to the cleaner-burning fuel.

McClendon made his case in a two-page ad in the Sept. 9 Wall Street Journal that says: “A new landmark study shows North American natural gas supply far exceeds industry forecasts. With 22 U.S. gas-rich shale basins that 21st-century technologies have made productive, long-term abundance is assured.”

Ron Wyden probably missed that ad. ●

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• GOVERNMENT

It's hot-button time in Canada

Arctic, environment figure large in federal election, more than sideways glance at U.S. campaign; Harper favored by industry

By GARY PARK
For Petroleum News

Canada's Prime Minister Stephen Harper has called a federal election for Oct. 14, right in the thick of the U.S. campaign.

Given that everything Harper does is carefully and strategically designed, take it as a given his timing is no accident, especially if the contest between John McCain and Barack Obama turns U.S. energy security and the environment into spin-off issues that benefit Harper's attempt to gain a

majority government.

For close to three years Harper has been forced to engage in a skillful balancing act, cobbling together short-term alliances with the left-of-center Liberal and New Democratic parties, to pass legislation and preserve his minority administration.

Now, with his so-called "pre-dawn election" call on Sunday, Sept. 7, he has apparently decided to make an all-or-nothing bid to gain outright control of the government.

And most pundits are of the view that the direction the U.S. campaign takes on energy and the environment will influence

the vote north of the 49th parallel.

For the petroleum industry, there is little doubt, outside of his blunders over the taxing of income trusts, that Harper is the preferred choice.

Whatever action he takes on the environmental front is not likely to spell the undoing of the oil sands sector.



STEPHEN HARPER

the co-venturers. A majority win for the Conservative party could see a fast turnaround in the pace of decision making.

It also might reignite the dormant debate over the blending of the Mackenzie and North Slope gas delivery systems.

Mackenzie path not clear-cut

But the path ahead for Mackenzie gas is far from clear cut.

Alternatives North, a social justice coalition based in Yellowknife, Northwest Territories, has made the case for environmental safeguards in the North in a recent response to special recommendations from Neil McCrank to the federal Department of Indian Affairs and Northern Development on ways to improve the NWT regulatory system.

Speaking for the coalition, Doug Ritchie said northerners "don't want the uncontrolled and unsustainable development that is happening in Alberta and that's the model put forward in the (McCrank) report."

He said the recommendations fail to address the "real issues with the northern environmental management system" including the federal government's failure to implement and fund the process.

Ritchie also objected to the exclusion of submissions from non-governmental organizations and northern boards from the McCrank report, while industry submissions were cited, including those by the Conference Board of Canada and the Fraser Institute, both promoters of "unfettered resource development."

"The Alberta-type model is so appealing because people don't have much control over it," he said.

Ritchie said the report reflects the growing oil and gas industry and the fact that there is limited monitoring of the industry's activities.

He said there is no desire by any aboriginal groups to "substantially change" the Mackenzie Valley Resource Management Act by lessening community involvement.

"We have a good system that aboriginal people fought for at the negotiating table," he said.

A federal spokeswoman said the government won't issue a response until the report has been fully reviewed.

Growing interest in Arctic

But interest in the Arctic as the last great global hope to generate large new oil and gas reserves and provide a security shield for North America is gathering momentum,

see ELECTION page 5

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Growing belief in Mackenzie

And there is a growing belief based on Harper's own declarations that the Mackenzie Gas Project will proceed, serving as a springboard to exploration and development of Canada's most northerly resources.

Despite some Canadian misgivings about the volume of oil and natural gas exports — both the environmental impact and the depletion of national reserves — the sentiment still favors the huge economic benefits Canada enjoys from its petroleum trade with the U.S.

If the next U.S. administration puts the emphasis on more stable, secure sources of supply Canada can only benefit from growth in those exports, which translates into even greater investment in the upstream sector accompanied by more high-paying jobs and long-term benefits to federal, provincial and territorial revenues.

Should the incoming U.S. president give urgency to advancing the Alaska natural gas pipeline, the pressure will be on the Canadian government to finally clear away the fiscal and regulatory obstacles that have slowed the Mackenzie Gas Project.

Harper has said as much, with his late-August statement that "in the not-too-distant future (the MGP) will come to fruition ... opening up a region of the country in a way that it has not been opened up before and of establishing our economic reach and sovereignty in a way that it has never been done before."

In other words, the MGP plays a key role in Harper's overriding desire to ensure Canada does not let its claims to Arctic sovereignty crumble amid inaction — a goal that has no dissenters among Canadians, although the route to that objective is the subject of an intense debate over the exploitation of Arctic resources.

The Harper government, despite its pledge to streamline the northern regulatory process, has been slow to move on the MGP, failing to settle on fiscal terms with

CLARIFICATION

In article in the Sept. 7, 2008, issue of Petroleum News titled "Supplies to Point Thomson" described a permit issued to ExxonMobil allowing the company "to take water from a flooded gravel pit, presumably in order to build the ice road." That permit was a fish habitat permit from the state Department of Fish and Game.



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• SAFETY & ENVIRONMENT

Historic coal pollution found in the Arctic

Scientists have found evidence for a link between coal usage and the levels of thallium, cadmium and lead in Greenland

By ALAN BAILEY
Petroleum News

The pristine ice and snow of the Arctic may seem the last place to search for toxic pollutants, but a research team from the Desert Research Institute in Reno, Nev., has shown that looks can be deceptive. Analysis of a Greenland ice core containing ice dating from 1772 to 2003 indicates that elevated levels of the toxic heavy metals thallium, cadmium and lead correlate with the use of coal in Europe and North America following the industrial revolution, the researchers said in a paper published in the Aug. 26 edition of the Proceedings of the National Academy of Sciences.

A process called "global distillation" likely transferred the contaminants from relatively low latitudes through the atmosphere up to the Arctic, the researchers said. The research results showed contamination dropping after the 1940s as a result of a shift to the use of oil rather than coal and improved coal burning techniques. But the extensive use of coal in Asia at the present day leads to concerns about possible heavy metal contamination in the Pacific side of the Arctic, the researchers said.

The heavy metals pass up the natural food chain and are liable to become particularly concentrated in the marine and land animals that form a key component of the diet of the indigenous peoples of the region. And some evidence of elevated cadmium levels in some Arctic aboriginal populations has been found, the researchers said.

The research results showed contamination dropping after the 1940s as a result of a shift to the use of oil rather than coal and improved coal burning techniques.

Started in 1860

Analysis of the Greenland ice core consistently showed heavy metal concentrations starting to climb at around 1860, a time at which the industrial use of coal was escalating. And correlations between the heavy metal concentrations and certain trace chemicals point the finger at coal as the likely source of the metals. Thallium concentrations peaked between 1911 and 1915, reaching levels six times those of the pre-1860 era. Cadmium peaked in 1906 and 1946. Lead peaked between 1893 and 1915, declining thereafter. However, lead levels climbed again somewhat between 1949 and 1970, a period that saw the extensive use of leaded gasoline in vehicle engines.

The period of the Great Depression marked a general dip in contamination levels.

And trace chemical analysis indicated a shift from coal to oil and gas as primary fuels after about 1940. Heavy metal levels declined noticeably in the last few decades of the 20th century, the time during which tight environmental controls over coal burning came into place in North America and Europe, and during which the use of unleaded gasoline became widespread. ●

continued from page 4

ELECTION

bolstered by U.S. Geological Survey findings that the area north of the Arctic Circle may hold almost one-quarter of the undiscovered, technically recoverable resources.

Benoit Beauchamp, executive director of the Arctic Institute of North America at the University of Calgary, said the Arctic is the least explored of all the places left on Earth where there is any reasonable hope of making major conventional discoveries "in spite of all the formidable barriers against exploration," including the lack of infrastructure.

The spotlight is now on BP and an ExxonMobil-Imperial Oil joint venture in the Canadian portion of the Beaufort Sea, where both have made substantial commitments to exploration licenses and are now developing seismic and drilling programs.

Mudslinging between parties

It took less than a day for the environment to turn green to black as party leaders engaged in a spate of mudslinging.

Liberal party leader Stephane Dion, the greatest threat to Harper's re-election hopes, called the prime minister a liar and accused him of grossly misrepresenting the Liberal's carbon tax Green Shift plan, which is aimed at taxing greenhouse gas emissions and provides offsetting tax breaks and subsidies.

He said Canadians "want to do the right thing for their wallet and for the planet."

The main plank involves a tax to eventually raise C\$15 billion a year from diesel, natural gas, coal and jet fuel designed to reduce the use of fossil fuels and the resulting greenhouse gas emissions.

Harper said the tax would punish Canadians at a time of sky-high energy prices and when the economy is slowing down.

Polls show 45 percent of Canadians supported the plan in early September, down from an initial 52 percent.

"We want to focus on social justice and the environment. Harper wants to pit one against the other," Dion said Sept. 8.

Harper countered that it is not credible for Dion to claim his carbon tax will be revenue-neutral and have no impact on taxpayers.

"Every politician in history who promises a new tax says that it is temporary or revenue neutral. That is never true," he said.

Dwindling support for the Green Shift is viewed as a threat to business and industry in Western Canada, where Harper has his strongest support and is thus unlikely to shift the current balance of power.

To become the leader of a majority government, Harper has little prospect of making major inroads in Ontario, which accounts for about 30 percent of the Canadian population, leaving Quebec as his best hope of turning a long list of second place results in 2004 into victories. ●

LAND & LEASING

Relinquished Badami acreage now in sales

The state Division of Oil and Gas has added acreage to the two upcoming lease sales for state lands and waters in northern Alaska.

The changes offer new sections of four tracts to the North Slope areawide lease sale and five tracts to the Beaufort Sea areawide lease sale, both scheduled for Oct. 28 at 9 a.m. in the Wilda Marston Theater of the Loussac Public Library in Anchorage.

The new acreage comes from portions of 15 leases contracted out of the onshore-offshore Badami unit, east of Prudhoe Bay along the coast of Mikkelsen Bay.

Earlier this summer, unit operator BP voluntarily relinquished the leases, comprising about 30 percent of the unit, in order to keep more prospective acreage surrounding the Badami Sands Participating Area. Starting this winter and running through 2010, BP and Denver-based independent Savant Alaska LLC plan to drill two wells at Badami, which has been shut-in on and off since first going into production 10 years ago this summer.

The newly available acreage sits along the southern, eastern and northern borders of the unit, including portions of tracts 878, 884, 885 and 886 in the North Slope sale, and portions of tracts 125, 140, 141, 160 and 161 in the Beaufort Sea sale. The new acreage includes only one previously drilled well site, West Mikkelsen State No. 2.

The supplemental notice also corrects a previous mistake by including a portion of Beaufort Sea sale tract 75, located between the Staines River and Camden Bay.

For updated maps of the sale area, visit www.dog.dnr.state.ak.us or call 907-269-8814.

—ERIC LIDJI




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• LAND & LEASING

Yukon Flats EIS delayed to fall of 2009

Appraisals for the patchwork of tracts earmarked for a possible land swap between Doyon and Fish and Wildlife are proving complex

By ALAN BAILEY
Petroleum News

It emerged at the end of July that continuing work on land appraisals was likely to delay into the winter completion of the environmental impact statement for the proposed land swap between Doyon Ltd. and the U.S. Fish and Wildlife Service in the Yukon Flats Wildlife Refuge in Alaska's interior. The EIS was originally slated for completion in the fall.

But now it seems that the estimated delay of just a few months in EIS completion was unduly optimistic — on Sept. 3 Fish and Wildlife announced that it does not now expect a record of decision in the EIS until the fall of 2009.

Fish and Wildlife blames the complexity of the land appraisals required for the EIS for the delay. This is one of the most complex land exchanges in the history of the refuge system, Larry Bell, assistant regional director for external affairs for the U.S. Fish and Wildlife Service, told Petroleum News Sept. 5.

Bell said that rather than periodically deferring the likely EIS completion date, Fish and Wildlife has now set what it believes to be a realistic schedule.

"We feel very confident we can have it done by the fall of '09," Bell said.

Lowland area

The Yukon Flats consists of an approximately 15,000-square-mile lowland area around the Yukon River between the trans-Alaska oil pipeline and the Canadian border. The 8.6 million-acre Yukon Flats Wildlife Refuge, administered by the U.S. Fish and

On the Web



See previous Petroleum News coverage:

"Yukon Flats land assessment drags on," in Aug. 3, 2008, issue at www.petroleumnews.com/pnads/421000978.shtml

"Yukon Flats comment period reopened," in April 20, 2008, issue at www.petroleumnews.com/pnads/339450786.shtml

"Basin 30 to 70 miles from TAPS," in Feb. 10, 2008, issue at www.petroleumnews.com/pnads/926510343.shtml

"Yukon Flats draft EIS out," in Feb. 3, 2008, issue at www.petroleumnews.com/pnads/443556965.shtml

Wildlife Service, lies within the lowlands. Doyon and some Native village corporations own a patchwork of surface and subsurface land amounting to about 2 million acres inside the refuge perimeter boundary.

A sedimentary basin with petroleum potential, the Yukon Flats basin, lies under the flats. And motivated by the potential for oil and gas development in the region, Doyon has been trying to engineer the land swap with Fish and Wildlife, to consolidate its land holdings in the deepest part of the basin.

Under the terms of an agreement in principle Doyon would acquire about 110,000 acres of refuge lands over the deepest part of the basin, and an additional 97,000 acres of adjacent subsurface land. The refuge would acquire a minimum of 150,000 acres of Doyon full-fee land. And Doyon would also re-

allocate about 56,000 acres of remaining entitlement within the refuge to locations outside the refuge.

Also Doyon would pay Fish and Wildlife a portion of any oil and gas revenues from land obtained in the swap. Fish and Wildlife would subsequently have the right to use that money to purchase up to an additional 120,000 acres of Doyon land.

Equivalent value

Under federal regulations, Fish and Wildlife has to exchange refuge land of equivalent value to the Native land that the federal government obtains for the refuge. So, government land appraisals of all land that is potentially involved in the swap are critical in determining exactly what land would be exchanged — the federal government uses a prescribed formula to assign a dollar value to the land, based on factors such as the land's wildlife and other resources.

The Department of the Interior's Appraisal Services Directorate is responsible for the land appraisals. The directorate contracted out the appraisal work and is now reviewing the appraisal results, Bell said. Once the directorate is satisfied that the appraisals comply with the government rules the directorate will submit the appraisals to Fish and Wildlife.

Fish and Wildlife must then use the land valuations in combination with a plethora of other information that it has gathered to prepare a set of lands swap options, potentially including an option not to do the swap. Any options that do involve swapping land will have to ensure that the land is swapped on an equal value basis. Achieving "equal

value" could be done through the appropriate selection of tracts to be swapped, or by using a combination of land selections and balancing amounts of money, Bell explained.

In the final EIS the regional director of Fish and Wildlife will decide on a preferred option. A record of decision will be published in the Federal Register and the U.S. Congress will then have 30 days to consider the decision.

Becomes a proposal

The decision will, in effect, become a proposal to Doyon for the exact terms of the land swap, Bell said. Doyon would have to decide on whether to agree to that proposal, he said.

The land swap has provoked considerable controversy. On the one hand, oil and gas development could provide an income for some Yukon Flats residents and dividends for Doyon's Native shareholders. On the other hand, some Yukon Flats residents have expressed strong concerns about the potential impacts of oil and gas development on the subsistence culture in the region. Fish and Wildlife says that it has received more than 100,000 comments on the land swap proposal.

And some residents of the Yukon Flats have expressed concern that because of the escalating price of oil the land appraisals may result in the Native corporations relinquishing a larger area of surface land than they had originally anticipated. And the oil price situation also appeared to be a significant complicating factor in the land valuations themselves.

Bell said that the first 150,000 acres of Doyon land would be committed to the swap. But there are additional parcels of Doyon land identified in the land swap agreement that might be transferred, as needed, to meet the equal land value exchange requirements.

James Mery, Doyon's senior vice president, lands and natural resources, told Petroleum News in July that although the price of oil might translate into an increase in the acreage of land that could be transferred to the refuge that did not imply an unlimited commitment of land that Doyon would transfer.

"We are not going into this at any price or cost," Mery said. ●

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• NATURAL GAS

Green gas pipeline support is qualified

Conservation groups see North Slope natural gas line as bridge to renewable energy; concerned about possible use of gas in tar sands

By STEFAN MILKOWSKI
For Petroleum News

Alaska conservation groups are largely supporting the construction of an Alaska natural gas pipeline, but have made their support contingent on a handful of factors.

In a position paper released earlier this year, the Alaska Conservation Alliance, an umbrella organization comprised of 40 member groups, argued that a gas line would help reduce U.S. dependence on foreign energy sources and reduce emissions linked with global climate change.

Natural gas is cleaner burning than other fossil fuels, and its production could help Alaska develop renewable energy sources, read the statement.

"Right now we're facing probably one of the largest environmental crises of our time in global warming, and we had to make some choices," said Trish Rolfe, the Alaska regional representative of the Sierra Club, an ACA member.

"We see (a gas line) as a bridge to a renewable-energy future for Alaska and the nation," she added.

But the ACA also included a list of "principles and questions to guide (its) support" for a pipeline project. The list covers social and economic aspects of the project, including the level of public involvement and overall state revenues, as well as environmental aspects, such as pipeline route and design.

Among the environmental criteria, the ACA lists the use of best available technology and best management practices, as well as "sufficient funds" held in escrow for dismantling of the project.

It also considers whether the project "strive(s) to develop Prudhoe Bay gas within the existing development area."

"The real question is how much gas do the pipeline proponents need, over what time, to make the project viable," said Pamela A. Miller, arctic coordinator for the Northern Alaska Environmental Center, another ACA member. "Generally we're supportive of using that gas in the known fields."

Miller and others also expressed concern over how gas would be used at the end of the pipeline.

"One of the biggest concerns that many of the major national environmental groups are going to be looking at is how does our gas play into the Alberta tar sands," said Kate Troll, ACA's executive director.

ACA has not taken a position on a specific gas line project. Troll said it was too early to tell whether the TransCanada project or the Denali project would meet the principles spelled out by ACA, but said both were headed in the right direction.

She added that the criteria were offered in good faith.

"It's not trying to give a qualified support by listing unattainable conditions," she said.

Covering old ground

Conservationists and others said the situation today is fundamentally different than with the trans-Alaska oil pipeline three decades ago, when environmental opposition contributed to lengthy delays.

The gas line will use existing pipeline and highway corridors and will undergo a more developed environmental review process.

"It will be a very different process today than it was then, for sure," said Jennifer Thompson, director of communications for the Office of the Federal Coordinator.

"It's not like we're proposing to dig up undisturbed ground," she added.

Any pipeline builder will have to secure a Certificate of Public Convenience and Necessity from the Federal Energy Regulatory Commission and right-of-way permits from the U.S. Army Corps of Engineers and state Department of Natural Resources. It will also have to follow the National Environmental Protection Act and complete an Environmental Impact Statement.

The pipeline builder will need similar permits in Canada, as well as many other smaller permits from federal and state entities.

Gus Gustafson, who is advising the permitting process for Denali, said Denali's early pre-filing with FERC was in part an effort to address environmental concerns early in the process.

"What we're doing, and what we'll con-

see PIPELINE page 19

OUR ARCTIC NEIGHBORS

Integrating operations in the digital age

A new Norwegian initiative is aimed at designing a digital computer and communications architecture to support state-of-the-art oil and gas field developments that rely on remote operations and that include large amounts of instrumentation. The objective is the design of a standard digital architecture that will enable the effective and efficient exchange of information between remote offshore fields and onshore operations centers, coupled with the automation of key oil field processes in the challenging environment of the high north.

The initiative, in the form of a joint industry project managed by Norway-based risk management organization DNV, is called "IO in the High North" — "IO" is an abbreviation for integrated operations, a concept in which oil and gas production processes offshore and onshore are coordinated and optimized through immediate access to data and information.

State-of-the-art digital technology will underpin the IO approach to doing business.

"On the Norwegian continental shelf the installations are connected to the onshore facilities through powerful (optic) fiber cables," DNV spokesperson Kjetil Hjertvik told Petroleum News Sept. 4. "That makes it possible to transfer data in real time."

A new Norwegian initiative is aimed at designing a digital computer and communications architecture to support state-of-the-art oil and gas field developments that rely on remote operations and that include large amounts of instrumentation.

Unmanned offshore rigs

The project focus will be on improved approaches to semiautonomous control systems for unmanned offshore rigs, production security in Arctic regions and subice operations, according to a DNV press release. Much attention will be paid to the environmental aspects of oil and gas operations, DNV said.

The Norway Oil Industry Association, the Business Association of Norwegian Knowledge and Technology Based Enterprises and the Norwegian Defence and Security Industries Association are supporting the project, with the Research Council of Norway also contributing funding. The project is expected to last four years.

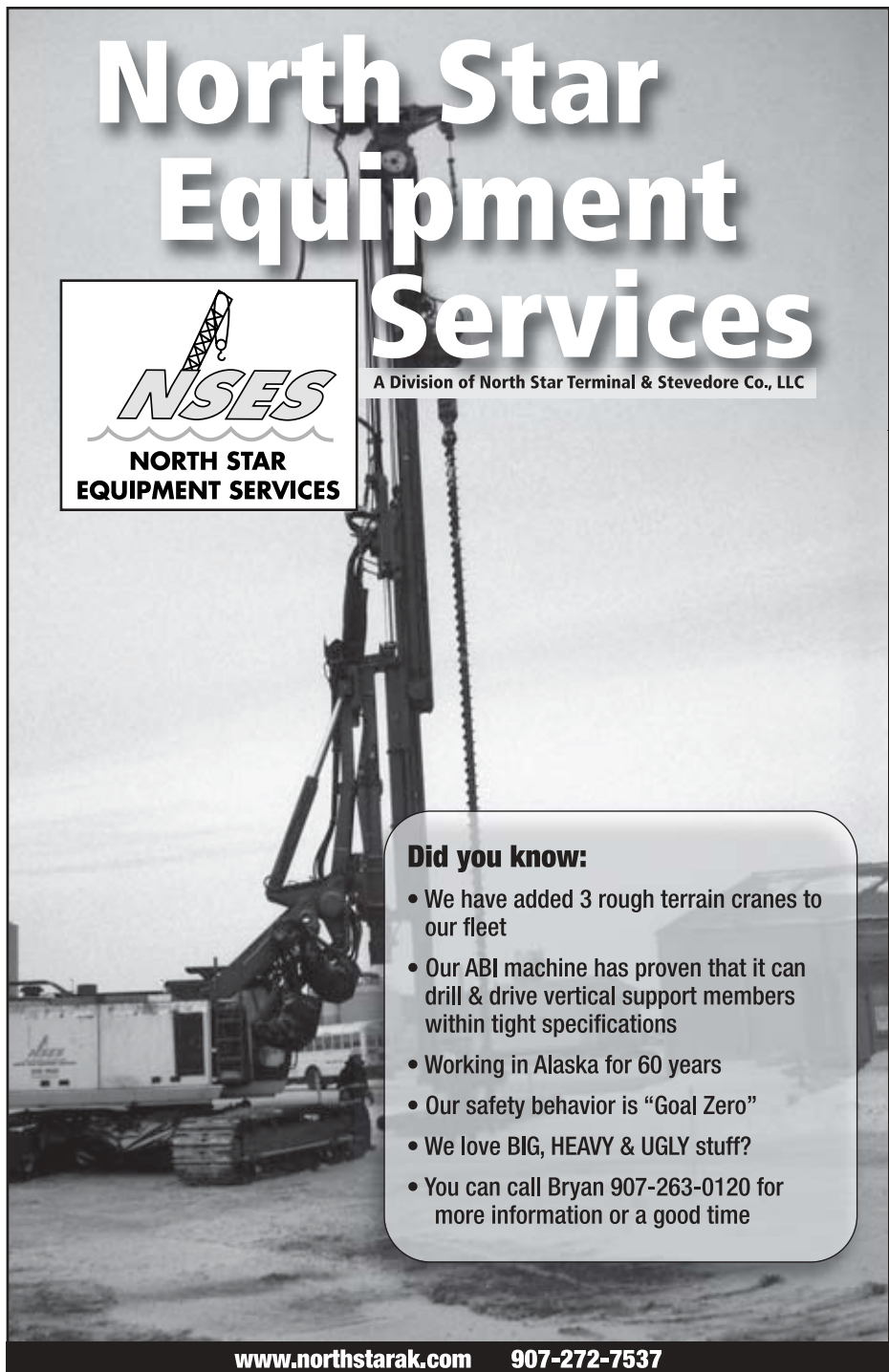
"Collaboration between different industries is important to meet the challenges of the future," said Heidi Brovold, the person with responsibility for integrated operations work in DNV. "IO in the High North shows how the Norwegian knowledge industry is taking a leading role in the global oil and gas industry."

—ALAN BAILEY

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NATURAL GAS

ANGDA puts early EIS project to bid

As various pipeline efforts gear up around the state, the first step is often reviewing the work of previous pipeline efforts. To that end, the Alaska Natural Gas Development Authority is trying to find out what information exists and what still needs to be learned as it proceeds on a spur line connecting Southcentral Alaska to the Interior.

The public corporation recently issued a request for proposals to gather baseline data in preparation for a future Environmental Impact Statement. The \$250,000 contract runs from Oct. 2 through Dec. 15, and covers a range of aspects related to the spur line.

As proposed by ANGDA, the spur line would run from Beluga to Fairbanks through Glennallen and Delta Junction, and possibly connect to a future mainline running from gas fields in the North Slope to markets in the Lower 48 and Canada.

As proposed by ANGDA, the spur line would run from Beluga to Fairbanks through Glennallen and Delta Junction, and possibly connect to a future mainline running from gas field in the North Slope to markets in the Lower 48 and Canada.

Info for future EIS

The information gathered will go toward a future contract to prepare the EIS for the spur line project. ANGDA has long advocated for pre-building the spur line to bring gas to local markets quickly and to avoid the drain of resources and supplies associated with the main line, expected to be among the largest construction projects in history.

"This is to get started right away," said Harold Heinze, CEO of ANGDA.

ANGDA is not the only company looking to fill information gaps in the state. BP and ConocoPhillips have crews working in Tok and on the North Slope to fill similar information gaps for the proposed Denali pipeline.

A state-backed effort from TransCanada has yet to begin fieldwork.

ANGDA hasn't found any overlap between its project and the two proposed mainlines, but remains in contact with both companies, according to Heinze. As a public corporation, all ANGDA reports remain in the public record.

Enstar Natural Gas Co. is also working toward building an in-state gas pipeline. Earlier in the year, the state government brokered a partnership between Enstar and ANGDA, but the two companies have yet to meet since that partnership was announced, Heinze said.

—ERIC LIDJI

EXPLORATION & PRODUCTION

Devon Energy, Baytex Energy push ahead

Two oil sands operators remain on track despite report gap between oil sands costs, breakeven narrowing; M&A likely to quicken

By GARY PARK

For Petroleum News

Devon Energy obtained regulatory approval Sept. 8 to build the second phase of its Jackfish oil sands project in Alberta and immediately announced it will move ahead with the project.

Jackfish 1 has already reached 15,000 barrels per day after coming onstream early this year and is ramping up to its peak 35,000 bpd by early 2009.

Devon's Canadian unit already has 42,000 bpd of heavy oil output from the Lloydminster region of northeastern Alberta.

A company spokesman said Jackfish 1 cost about US\$730 million and Jackfish 2, scheduled to reach full production of 35,000 bpd by 2012, is expected to cost US\$1.106 billion, reflecting the rise in labor and equipment costs in the oil sands.

Both phases use steam-assisted gravity drainage technology, which involves pumping steam under high pressure to melt bitumen deposits and force them to the surface.

Devon President John Richels — previously head of the Canadian operations — describes the oil sands operations as a key part of the company's North American portfolio and an important element of meeting "the future energy needs of North America."

Baytex reports test results

On the western side of Alberta, Baytex Energy Trust has reported better-than-expected test results from its Seal oil sands property in the Peace River area.

It completed construction of a thermal pilot project in the first quarter and has a 100 percent working interest in more than 64,000 acres of long-term leases.

UBS Securities analyst Grant Hofer said the long-term potential of the Seal property "dwarfs Baytex today ... (and) should drive significant value appreciation" for Baytex whose trust units will peak at C\$32, while cautioning investors to take a wait-and-see approach.

"Without a concrete development plan it is too early for investors to ascribe much value to the ultimate potential within Seal," UBS said.

Investment dealer Peters & Co. forecasts it will take at least two years to develop the Seal project, with analyst Jeff Martin sticking to his 12-month Baytex target of C\$32.

Projects being squeezed

In the background, National Bank Financial Senior Vice President Peter Ogden said in a report that oil sands projects are getting squeezed as rising costs boost the breakeven price for the sector.

His report now estimates the threshold is US\$85 per barrel for oil sands mining projects, up \$20 per barrel or 31 percent in just over a year.

In May 2007, the breakeven price was \$65 per barrel, assuming an 8 percent rate of return, capital cost of C\$100,000 per flowing barrel and operating costs of C\$20.50 per barrel.

However, Ogden does not anticipate projects will be cancelled just yet, although a decline in oil prices will likely see more marginal projects deferred, lowering construction costs and making better ventures more profitable.

Otherwise, he expects capital costs for mining projects to rise in the range of C\$125,000-C\$160,000 per flowing barrel.

The prospect of deferrals has caused the Canadian Association of Petroleum Producers to lower its oil sands production target to 3.5 million bpd in 2020, down 11.5 percent from a year ago.

Ogden reported that the breakeven price for projects using steam-assisted gravity drainage methods has risen more modestly to C\$70 per barrel, up 21 percent since May 2007, also based on an 8 percent rate of return.

He said these thermal projects are profitable at lower oil prices because they need less up front investment.

Last year's calculation of a break-even price was based on capital costs of C\$80,000 per flowing barrel and operating costs of C\$22 per barrel.

Ogden forecasts an increase in merger-and-acquisition activity now that lower oil prices have dragged share prices for oil and gas companies to their lowest level in two years, listing EnCana's oil sands spinoff, OPTI Canada and UTS Energy as companies "with a target on their back." ●



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• NATURAL GAS

B.C. struggles with coalbed methane

Shell Canada takes 'time out' from Klappan play for concerns of aboriginal communities, shrinking chances of '08 production

By GARY PARK

For Petroleum News

British Columbia's hopes of becoming the second Canadian province after Alberta to commercially produce coalbed methane have been narrowed to two junior producers.

Shell Canada's Klappan play in the northwestern Bowser basin, tagged as a coalbed methane resource capable of challenging North America's largest plays, has been shelved for possibly a year.

The company has taken a time out from its drilling plans at the request of aboriginal communities in the area.

The Tahtlan Central Council, representing the Tahtlan and Iskut Indian tribes, and the Tahtlan First Nation, asked for more information about the plans.

The Tahtlan are claiming the Klappan region as traditional territory, which they dub the Sacred Headwaters because it includes the salmon-bearing Skeena, Nass and Stikine rivers.

There has also been significant opposition from groups worried about the impact of coalbed methane activity on water and wildlife.

Break to facilitate talks

Shell Canada decided to "take a pause" to facilitate its discussions with the Tahtlan.

In 2004 it was awarded about 102,000 acres of petroleum and natural gas exploration tenure in the Klappan area and followed that with three wells while gathering some environmental baseline data.

Exploration activity was postponed in 2005 and 2006 to allow the Native community "more time to work through their internal issues about resource development."

The process took a sharp downward turn in 2007 when attempts to complete some roadwork were blockaded by the Klabona Keepers Society, members of the Iskut First Nation, while several environmental groups co-signed a letter opposing coalbed methane drilling.

Shell Canada noted that all three exploratory wells in 2004 were drilled on previously disturbed sites, where substantial coal mining exploration occurred in the 1970s.

In addition, the company said construction and camp work was done under contract with the Tahtlan Nation Development Corp., which included an economic benefit to the community.

Shell Canada is now into the fifth year of an eight-year tenure, which it hopes will enable it to verify the presence of a commercially viable resource as well as determine whether there is water in the coal that can be managed.

Gas in area very dry

Results from two of the three test holes indicated the gas in place could exceed 45 billion cubic feet per section, said Barry Ryan, a coal and coalbed methane specialist in the British Columbia government's Ministry of Energy, Mines and Petroleum Resources.

The estimate of resource density was based on the average gas content in the three Shell wells and regional coal thickness estimated from previous exploration by Gulf Canada Resources.

Ryan described the gas as very dry with a low carbon dioxide content.

He said the early estimates point to gas-in-place that would exceed the San Juan basin in the U.S. and far surpass the Powder River and Rayton plays in the U.S. and the Horseshoe Canyon in Alberta.

Hopes on juniors

The rapidly fading chances that B.C. can bring coalbed methane onstream this year are now pinned on two junior producers.

Canadian Spirit Resources and Hudson's Hope Gas aim to start selling coalbed methane from the Peace River coalfield in the province's northeastern corner.

Ryan said the Peace River has a substantial in-place resource, although the carbon dioxide content can range from about 5 percent to 15 percent. Both companies are studying the removal of CO2 before sending the gas to market.

Sproule Associates estimated Canadian Spirit has 1.8 trillion cubic feet of raw coalbed methane and shale gas in place in the Farrell Creek area.

Canadian Spirit has completed about half of the 17 wells it has scheduled for 2008, while Hudson's Hope, a wholly owned unit of Houston-based GeoMet, is targeting nine wells for the year.

In the southeast region's Elk Valley coal basin, EnCana drilled 17 wells in the 2001-04 period before the lease was taken over by Storm Cat Energy, which has completed a number of wells over the past two years and said earlier this year it was testing nine wells.

In the nearby Crowsnest coalfield Chevron Canada drilled three wells in 2003 and Shell Canada drilled two holes, but there has been no indication of follow-up work.

BP has the exclusive right to acquire coalbed methane rights on about 80,000 acres of the Crowsnest area and those negotiations are under way, but BP is avoiding the Flathead area near the U.S. border because of a controversy over the possible impact on water quality in the Flathead River which crosses the B.C.-Montana border. ●

LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
DNR	Mount Spurr Geothermal	Sept. 10, 2008
BLM	NE NPR-A	Sept. 24, 2008
BLM	NW NPR-A	Sept. 24, 2008
DNR	Beaufort Sea Areawide	Oct. 22, 2008
DNR	North Slope Areawide	Oct. 22, 2008
DNR	Alaska Peninsula Areawide	February 2009
DNR	North Slope Foothills Areawide	February 2009
DNR	Cook Inlet Areawide	May 2009
DNR	Beaufort Sea Areawide	October 2009
DNR	North Slope Areawide	October 2009
MMS	Sale 209 Beaufort Sea	2009
MMS	Sale 211 Cook Inlet	2009
DNR	Alaska Peninsula Areawide	February 2010
DNR	North Slope Foothills Areawide	February 2010
DNR	Cook Inlet Areawide	May 2010
DNR	Beaufort Sea Areawide	October 2010
DNR	North Slope Areawide	October 2010
MMS	Sale 212 Chukchi Sea	2010
MMS	Sale 217 Beaufort Sea	2011
MMS	Sale 214 North Aleutian basin	2011
MMS	Sale 219 Cook Inlet	2011
MMS	Sale 221 Chukchi Sea	2012

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

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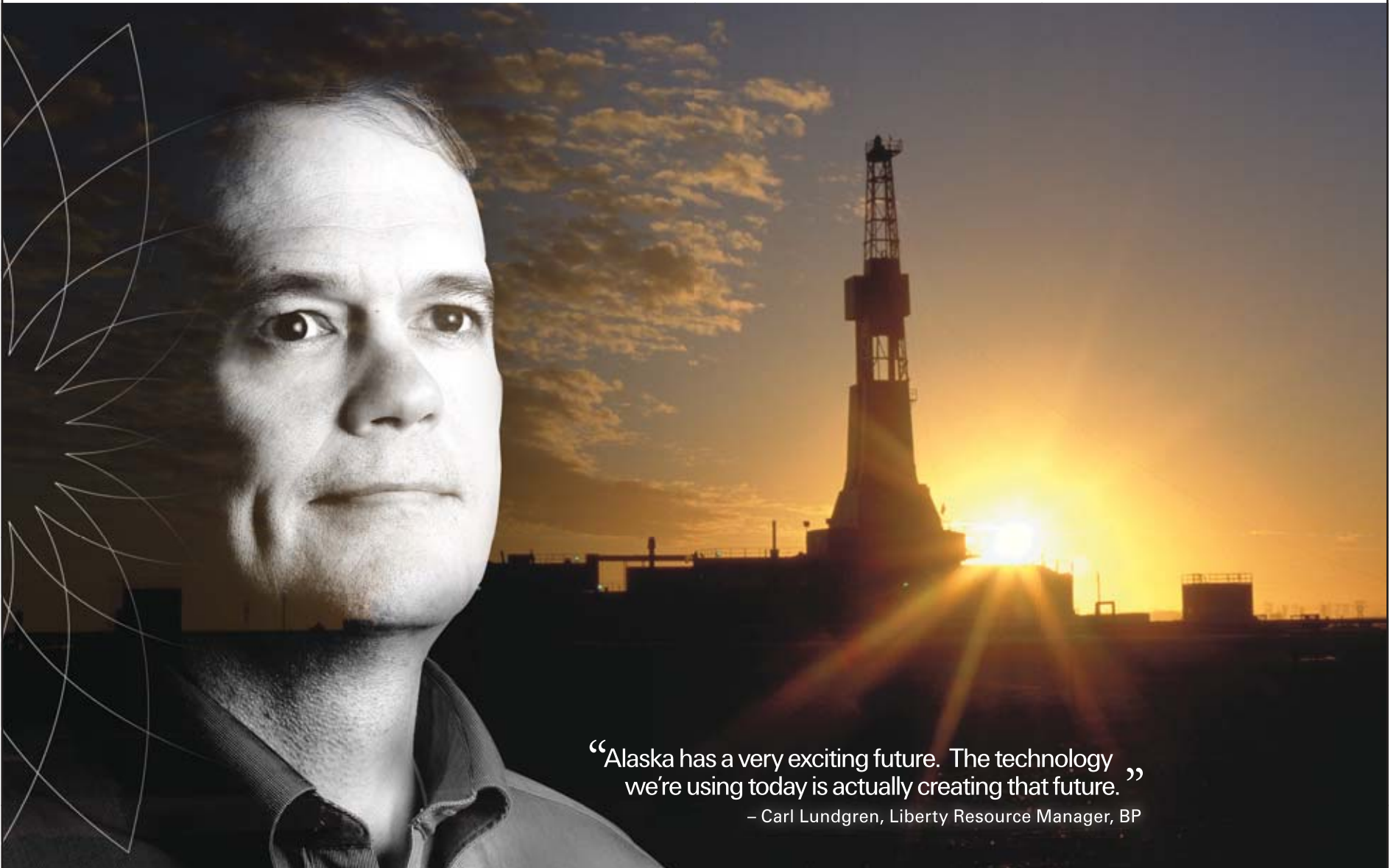
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• NATURAL GAS

Looking at the gas options for Alaska

Heinze outlines the business aspects of delivering NS gas within the state; pushes for NS propane sales to rural communities

By ALAN BAILEY
Petroleum News

When it comes to piping natural gas from Alaska's North Slope most eyes have been focused on gas delivery to distant venues.

But not so the Alaska Natural Gas Development Authority. Formed originally by voter initiative as a state corporation to promote an in-state gas line to a proposed LNG terminal in Valdez, ANGDA under the leadership of its CEO Harold Heinze has adopted a more general role of looking out for Alaska gas supplies.

"Our focus is what's going on in the state of Alaska," Heinze told a Sept. 8 meeting of the Anchorage Chamber of Commerce. "Very frankly there are more than enough folks worrying about gas to Chicago and other things like that."



HAROLD HEINZE

"Again, it will play into the whole Cook Inlet situation," he said.

Close balance

However, there is now a close balance between gas production and consumption in the Cook Inlet region. Gas delivery during peak winter demand has become a concern, with peak deliverability depending on curtailment of production at the LNG terminal.

"Without the Kenai LNG plant we wouldn't have made it through the last two winters," Heinze said. "And we're not in much better shape this coming winter."

Drilling more wells and implementing gas storage can deal with the deliverability issue, but it will be a long time before a spur line with high deliverability can come into the area, he said.

Meantime, gas prices in Southcentral Alaska will continue to increase, Heinze

see OPTIONS page 14

ANGDA funding Alaska value-added gas industry conferences set for next spring

The Alaska Natural Gas Development Authority is providing \$250,000 in funds for an industry conference on potential Alaska in-state value-added gas industries, ANGDA CEO Harold Heinze told the Anchorage Chamber of Commerce Sept. 8.

The tri-borough mayors of Anchorage, Kenai Peninsula Borough and the Matanuska-Susitna Borough are sponsoring the conference which is being organized by the Anchorage Economic Development Corp., Heinze said.

Heinze told Petroleum News that the conference is a follow up to a re-run of an ANDGA study into the viability of value added industries in Alaska — following the run up in oil and other commodity prices over the past couple of years the revamped study pointed to the potential viability of gas-related chemical production. The idea now is to invite managers from petrochemical companies to Alaska to generate interest in locating major petrochemical manufacturing plants in Alaska using North Slope gas, he said.

Bill Popp, president and CEO of AEDC, told Petroleum News that the conference is tentatively scheduled for April 28 and 29 in Anchorage's new Dena'ina convention center.

see CONFERENCE page 16

Short term issues

The long term prospects for gas in Alaska look bright, but there are some difficult issues in the short term, he said.

In Alaska, mainly in Southcentral Alaska, natural gas is used for heating, electricity generation and LNG exports. But that usage only represents about 5 percent of the possible North Slope pipeline capacity, Heinze said.

At the same time, Southcentral Alaska has seen a major investment in an energy infrastructure that is designed to use gas.

"You've got to have gas molecules to make it work," Heinze said.

ANGDA is concerned about obtaining gas for use in Alaska from a future North Slope gas line. Consequently, it has been focusing on plans for a spur line that would connect to the main line at Delta Junction and run through Glennallen to the Matanuska-Susitna Valley, Heinze said.

And, with the Denali Pipeline and TransCanada pipeline projects moving ahead, the prospects for construction of a North Slope gas line are becoming ever rosier.

"We've ended up at a good spot," Heinze said. "We've got two very capable sponsor groups who are capable of designing, building and executing a big pipeline. ... They will probably move faster than any of you think."

At the same time there are several things happening that are also important for in-state gas. Enstar Natural Gas Co. is working on a project to bring North Slope gas to Southcentral Alaska — six to nine months from now Enstar should be able to evaluate its project, Heinze said. And the export of LNG from an "all-Alaska" line is still on the table as part of the AGIA process.

At the same time, a recent Regulatory Commission of Alaska hearing on Enstar's new Cook Inlet gas supply contracts proved very contentious and a pending RCA decision on the Enstar contracts will become very important in setting the stage for the future of the gas industry in the Cook Inlet region.

And under the agreement for the extension of the export license for the Nikiski LNG terminal on the Kenai Peninsula, ConocoPhillips and Marathon Oil are both going to drill five new Cook Inlet wells, Heinze said.



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• EXPLORATION & PRODUCTION

Ike, Gustav take big bite out of production

Hurricanes take out big part of Gulf of Mexico production as operators, refiners shut down; MMS says shut-ins began late August

By RAY TYSON
For Petroleum News

Back-to-back hurricanes Gustav and now Ike, as it churns through the Gulf of Mexico, have taken the lion's share of U.S. Gulf oil and natural gas production out of circulation, causing a major supply disruption and forcing some producers to request emergency loans from the U.S. Strategic Petroleum Reserve, evidently to keep their Gulf Coast oil refineries running.

About 25 percent of U.S. oil production and 15 percent of its natural gas production come from the Gulf of Mexico.

According to statistics furnished by the U.S. Minerals Management Service, nearly 80 percent on average of 1.3 million barrels of daily oil production and 65 percent on average of 7.4 billion cubic feet per day of natural gas output in the U.S. Gulf have been shut-in since late August when operators first began evacuating platforms and drilling rigs ahead of Gustav.

EIA: product stocks down

The Energy Information Administration reported that total U.S. oil product stocks fell 9.2 million barrels to 676.7 million barrels the week ending Sept. 5, as U.S. refinery output plummeted due to disruptions related to Gustav. At 776.7 million barrels, total U.S. product stocks were 24.163 million barrels below the five-year average and 19.8 million barrels below year-ago levels. The deficit between the weekly stocks figure and the five-year average was the largest in four years.

With the imminent arrival of Ike, many operators appear to have delayed production startup following Gustav until after the

second storm passes. This means the U.S. Gulf has been producing at roughly 20 percent of capacity for oil and about 35 percent of capacity for natural gas since MMS issued its first production shut-in report more than two weeks ago.

Moreover, depending on the extent of damage to platforms, rigs and subsea pipelines, it could take additional days, weeks or months to fully assess the damage and restore U.S. Gulf production to pre-hurricane levels. Though Gustav appears to have caused far less damage to offshore facilities than wrought by Category 5 hurricanes Katrina and Rita in 2005, the jury is out on Ike until after the storm makes landfall and companies can begin assessing the damage.

Soon after entering the Gulf of Mexico earlier the week of Sept. 8 Hurricane Ike appeared headed for southwestern Texas or northeastern Mexico. However, by midday Sept. 11, forecasters had altered Ike's path to a more easterly direction toward the Galveston-Houston area, with a projected landfall late Sept. 12 or early Sept. 13. Ike was expected to strengthen to a Category 3 or 4 hurricane and make landfall as a Category 2-4 storm.

Galveston evacuation ordered

Meanwhile, Texas state authorities Sept. 11 ordered a mandatory evacuation of Galveston, a barrier island south of Houston that was devastated by a killer hurricane in 1900. An estimated 6,000 to 12,000 persons perished in the storm, which to date remains the deadliest natural disaster ever to strike the United States.

"The official forecast ... anticipates that

see HURRICANES page 19



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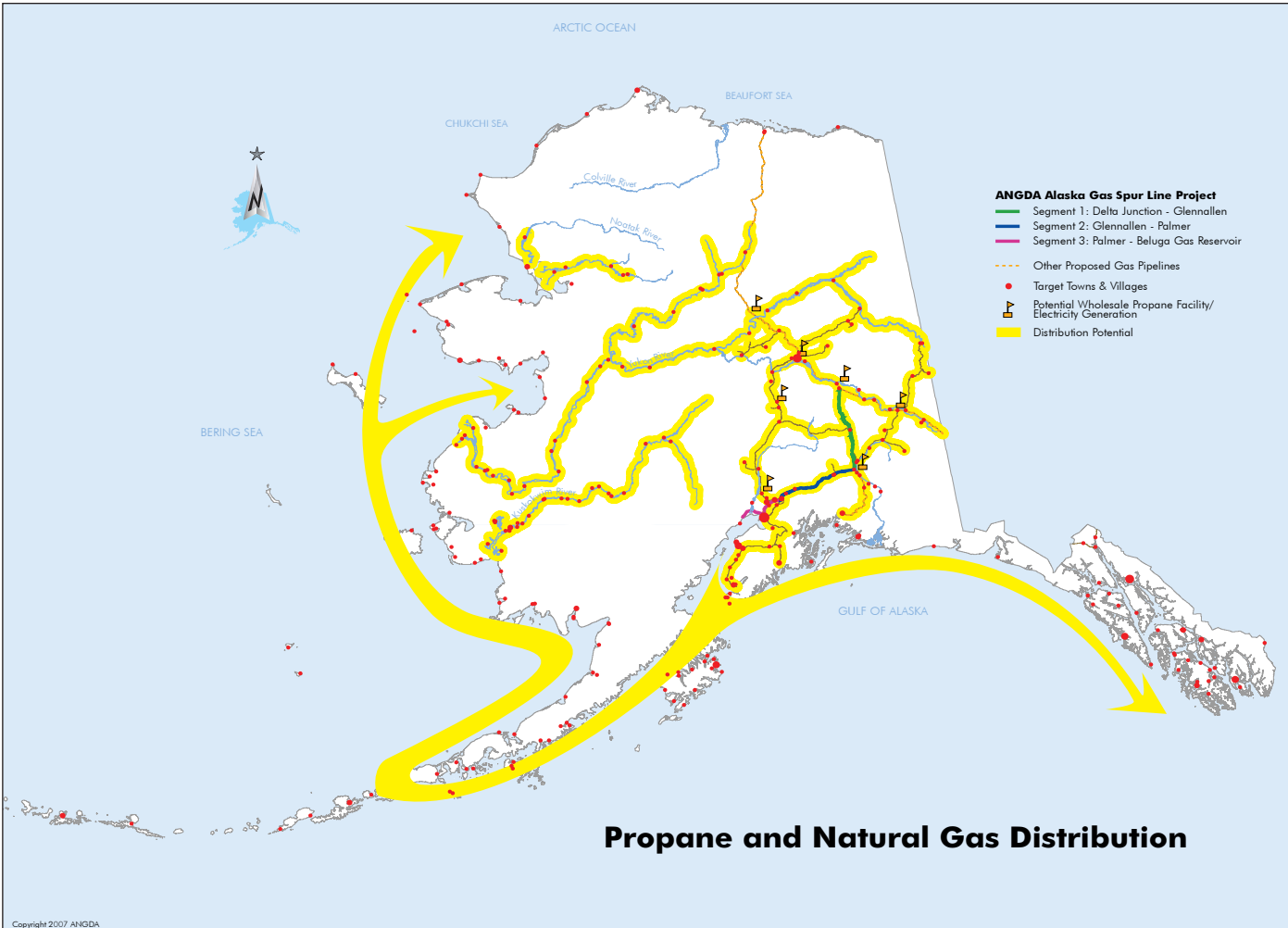
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Potential distribution routes for North Slope propane in Alaska

continued from page 11

OPTIONS

said. "That's a reality of the blend of contracts and their ages, and more importantly the way the contracts are indexed in price," he said.

But although gas prices are on the rise, Heinze expects that gas will continue to trade at a discount to oil on an energy content basis. There is a similar trend in the United States as a whole because the United States has huge domestic gas resources but limited internal supplies of oil, he said.

World of hurt

Interior and rural Alaska are currently in a world of hurt when it comes to energy prices.

Fairbanks residents face utility bills four to five times the size of those in Southcentral Alaska, with dependence on oil for heating a major cost factor, Heinze said. Fairbanks is looking forward to what will likely be about the cheapest gas in the United States once the North Slope gas line passes close to the town, but still has to face an immediate energy price problem.

"The problem is what will their economy look like. What will be the citizenry, the population, the demographics of who's left there? What will happen to the military bases?" Heinze said.

Gov. Sarah Palin has issued a challenge to the organizations involved in Alaska gas supplies, Heinze said. ANGDA has interpreted that challenge as a call for near term assistance for the people in Fairbanks, he said.

"Our response was that we can take the basic spur line we've been working on ... and we could tack onto the (Delta Junction) end of it high-density plastic pipe, and run it all the way on up to North Pole where Golden Valley (Electric Association) makes the electric power for the Interior basin," Heinze said.

The shipment of gas north from Cook Inlet through the extended pipeline could save hundreds of millions of dollars in Fairbanks utility consumer costs over several years, he said. And this arrangement could piggy-back off pre-building the spur line before construction of the main North Slope line starts, at which point construction costs are likely to escalate.

Although Cook Inlet gas supplies are tight, Fairbanks demand is relatively small and would only add 10 percent to Southcentral demand, Heinze said.

Spur line progress

Meantime, ANGDA fieldwork for assessing wetlands along the spur line route has been in progress.

"That work will be completed, if not already completed, this summer," Heinze said. ANGDA has initiated an environmental impact statement for the spur line construction, as well as the federal right of way procedure and other activities. Work on the spur line route is 12 to 18 months ahead of other gas line projects, Heinze said.

ANGDA is also developing gas supply contracts and a gas purchase strategy — as North Slope gas comes to market there will be opportunities for Alaska utilities to buy gas in the ground on the Slope, Heinze said.

"ANGDA intends to pursue that vigorously," he said.

But because of the impracticality of building long-distance gas pipelines to small rural communities in Alaska, Heinze thinks that the distribution of propane from the North Slope to these communities by road, river and coastal barge will be a key to future rural energy supplies.

"We're also looking at the immediate installation of a propane wholesale facility on the North Slope," Heinze said. ●

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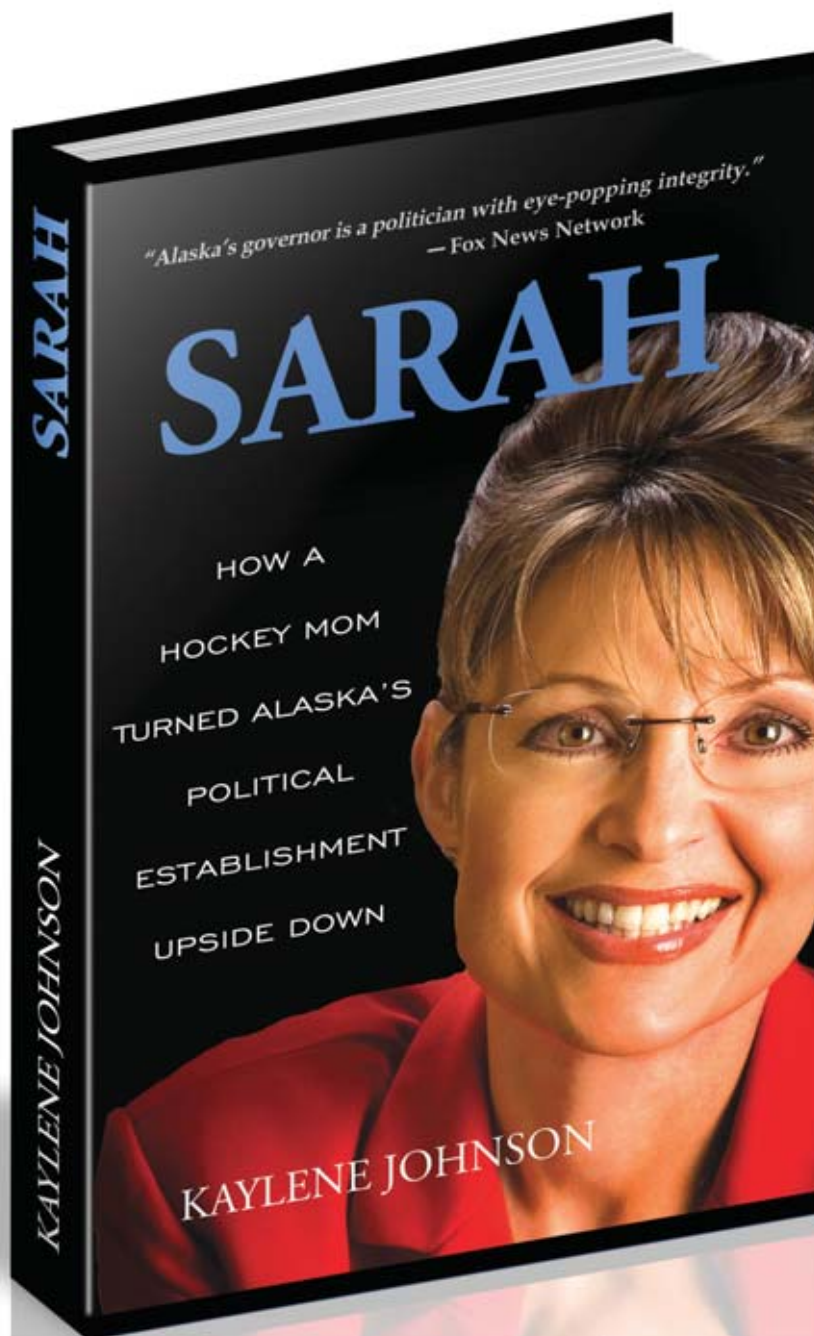


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Love of outdoors, spiritual upbringing, strong family ties shaped Alaska's first woman governor

Sarah Palin, then 39, a hockey mom and former mayor of Wasilla, thought her dream of making a difference in the male-dominated realm of Alaska politics was over in 2004 when she clashed with the state chairman of her Republican party and fell out of favor with Gov. Frank Murkowski over issues related to ethics and openness in government.

Yet, the former high school basketball star and one-time TV journalist could not shake the feeling that she was destined for something bigger. Two years later, she decided to make a long-shot bid for governor, promising openness and a higher ethical standard.

Then, fate intervened. Her populist reform message suddenly became front-page news when a major political scandal rocked Alaska politics. Alaskans began listening to her. And they liked what they heard.

In “Sarah: How a Hockey Mom Turned Alaska’s Political Establishment Upside Down,” author Kaylene Johnson reveals that as a young girl, Sarah Heath was ambitious, competitive, and—at times—stubborn. She never backed down from a fight. She devoured newspapers and preferred nonfiction books to Nancy Drew. When her college roommates put up posters of Madonna and Metallica, the future governor looked up to a different sort of heroine—Libby Riddles, first woman to win the Iditarod Trail Sled Dog Race.

How a love of the outdoors, a spiritual upbringing, and a strong family network shaped Alaska’s youngest and first woman governor is told in the absorbing biography by Johnson, who lives on a small farm with her family near Wasilla. Johnson’s other books include “Portrait of the Alaska Railroad” and “Trails across Time.”

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• UTILITIES

RCA rejects federal net metering rules

State regulators choose not to adopt 2005 Environmental Policy Act guidelines, instead look to craft state-based standards in future

By ERIC LIDJI
Petroleum News

State regulators have decided to reject net metering standards proposed by the Bush administration, instead choosing to craft standards tailored toward Alaska.

The standards would have required larger utilities to buy electricity generated by individual customers connected to the grid. Across the country, net metering is used to promote small-scale renewable and alternative energy projects, like wind and solar.

Alaska is one of only eight states without net metering laws.

The Environmental Policy Act of 2005 created new guidelines for net metering and four other standards related to energy creation. While the federal law did not force individual states to adopt the measures, it did require state regulators to consider the proposals.

The recent decision by the Regulatory Commission of Alaska followed two years of discussions, workshops and public hearings that occasionally pitted utilities against advocacy groups and individual customers.

Proponents believe net metering would plant the seeds for a renewable energy industry in Alaska by encouraging customers to build, install and maintain a diverse portfolio of generation facilities around the state, eventually decreasing the need for fossil fuels.

But many utilities believe net metering, as proposed by the federal government, violates "cost causer-cost payer" principles, the idea that customers pay only for services they use. Under net metering, utilities would buy electricity at the same retail rates they charge, but those rates include fees designed to recover costs not incurred by net-metered customers, like the long-term expense of building new transmission lines, or system-wide maintenance.

During workshops held earlier this year, Municipal Light & Power, the public utility for downtown Anchorage, said rates would increase 0.6 percent, or about

one tenth of a cent, for each 1 percent of its load supplied through net metering.

Proponents say that expense is negligible, and should be ignored just like the "line loss" expense of delivering electricity to customers who live farther away from power plants.

Alaska unique for electricity

The debate arises in part from the unique model of electric utilities in Alaska.

Across the Lower 48, most customers buy from competing distributors on the open market, while gigantic for-profit generation companies rarely own distribution assets.

But to serve a small population spread across such a large area, almost every electric utility in Alaska is an integrated nonprofit covering a specific region with utility-owned generation, transmission and distribution facilities. The exception is Matanuska Electric Association, the second largest electric utility, which does not own generation facilities.

This model is particularly exaggerated among the smaller disconnected utilities that dot the vast rural expanse in the northern, western and southeastern corners of the state.

"If you took the entire Alaska universe of utility customer and utility sales and bundled them into one utility, we would be a very small utility in the Lower 48," said Meera Kohler with the Alaska Village Electric Cooperative, a collective of rural utilities. "And instead we have some 200 utilities."

Through size restrictions, the federal net metering standards would probably have impacted only the four largest utilities in Alaska: ML&P and MEA, as well as Chugach Electric Association in Anchorage and Golden Valley Electric Association in Fairbanks.

Those utilities are mostly member-owned cooperatives or municipally owned utilities, and they say their smaller margins challenge the economics of net metering as proposed by the federal government. In the world of cooper-

atives, "margins" are profits required by lenders, but eventually returned to customers in some fashion.

Proponents say net metering is simply a structure designed to scale up or down in size, and point to the Hawaiian island of Maui as an isolated community with net metering.

"You can have net metering on almost any size system," said Andy Baker, owner of Your Clear Energy, an Anchorage consulting firm specializing in renewable energy projects.

Avoided costs and SNAP

Currently, state statutes require many Alaska utilities to purchase electricity from third parties at an "avoided cost," meaning utilities buy power near wholesale rates, or the cost "avoided" by not having to generate the electricity.

GVEA buys third-party electricity through Sustainable Natural Alternative Power, or SNAP, a program that financially supports small-scale renewable energy projects using voluntary contributions from other customers. Producers get paid more or less depending on the amount in the fund and the number of other renewable projects on the grid.

Other electric utilities in Alaska are also considering implementing SNAP, and during the workshops, GVEA proposed a statewide SNAP program as a way to promote renewable generation without forcing utilities, and their customers, to purchase electricity.

But SNAP doesn't offer business certainty, according to Baker. A sudden decline of contributors to the fund, or a sudden glut of producers connecting to the grid, can quickly change the economics of a project.

Baker believes this lack of consistent standards for net metering in Alaska has kept investors, both large and small, from pursuing a renewable energy industry in Alaska.

"They're not buying right now because we don't know

see RCA page 17



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CONFERENCE

This will be a great opportunity to bring all the players from the global petrochemical industry to Alaska, Popp said.

Petrochemical facilities might in the future obtain North Slope ethane as a petrochemical feedstock through a spur gas line into Southcentral Alaska. However, Popp said that he does not expect the conference to result in firm commitments to spur line usage — the conference is really intended to create interest in the concept.

"It is an important first step to find out if we have interest in first bidding on (gas) spur line capacity," he said.

The fact that Southcentral Alaska is 1,000 miles closer to the North Slope than potential petrochemical production sites elsewhere gives Alaska a significant advantage in the factory-gate cost of industrial feedstock such as ethane, Popp said. That price advantage could offset any heightened cost that results from operating in Alaska or the cost of transporting the industrial products to market.

The Agrium fertilizer plant on the Kenai Peninsula, Alaska's only previous value-added gas industry facility, closed at the end of 2007 because of Cook Inlet gas shortages. Lisa Parker, Agrium's specialist for U.S. government and community relations, told Petroleum News Sept. 9, that Agrium would be interested in restarting its Kenai operations were North Slope gas to become available.

"If a spur line is built, Agrium would be interested in bidding during an open season," Parker said.

—ALAN BAILEY

• FINANCE & ECONOMY

Italians nab First Calgary Petroleums

By GARY PARK
For Petroleum News

An end is in sight for the stomach-churning ride shareholders of First Calgary Petroleums have experienced over the past four years.

Once reveling in shares that climbed to C\$25 apiece amid feverish speculation over the value of the company's Algerian assets they now stand to collect only C\$3.60 in cash for combined resources of about 1.3 billion barrels of oil equivalent, roughly half of its natural gas.

At various times the potential of the holdings has been estimated at 4.5 trillion to 13 trillion cubic feet of gas, but First Calgary is winding down its life without ever producing a barrel of oil or cubic foot of gas.

Almost a year after chief executive officer Richard Anderson was turfed by disgruntled investors, Italian oil company ENI made a takeover offer of C\$923 million Sept. 8. The bid was a 59.2 percent premium to First Calgary's 30-day weighted average, but 40 percent below the Calgary-based company's initial public offering price.

Company President Shane O'Leary said his board believed the ENI offer "delivers the highest value" for First Calgary shareholders "compared with other strategic options."

He said the resources and expertise ENI can bring to the Ledjmet block should "accelerate development" of a field expected to yield a net 30,000 boe per day for ENI by 2012.

ENI strengthening reserves

ENI chief executive officer Paolo Scaroni said the transaction was in line with his company's strategy of increasing its presence in core countries by "acquiring high potential assets."

The Italian company has been strengthening its reserves and growth potential recently by building upstream assets in Egypt, Yemen, Turkmenistan and the Congo.

ENI is expected to invest about US\$1 billion to develop the First Calgary reserves, a financing the Canadian company was unable to achieve, leading to its downfall.

ENI has been operating in Algeria since 1981 and produced 88,000 boe per day last year, helping it to build a strong relationship with the Algerian government.

For First Calgary, its five-year history as a publicly traded company has been typical of the roller-coaster ride of so many small Canadian firms which have latched on to substantial resources in politically volatile regions.

Next on the asset-disposal list could be Calgary-based Verenex Energy, which said Sept. 8 it is exploring "strategic alternatives" after testing a number of wells drilled in Libya, which it estimates could produce 100,000 barrels per day.

Verenex, whose shares have fluctuated from C\$8.99 to C\$17.43 over the past two months, has brought its assets close to development, backed by permits and established resources — something First Calgary fell short of achieving. ●

SAFETY & ENVIRONMENT

Refineries under scrutiny for emissions

An unidentified Canadian oil refinery was dramatically wide of the mark in estimating the volume of dangerous air pollutants released by the facility, according to a study by the government-financed Alberta Research Council.

The results have North American-wide implications, given that refineries apply similar monitoring methods.

The plant, thought to be in Alberta, released 19 times more cancer-causing benzene than it reported under Environment Canada disclosure regulations, 15 times more smog-causing volatile organic compounds and nine times more methane, one of the greenhouse gases, the study said, noting that it has "profound implications for communities" close to refineries.

It is believed the research council test, using advanced laser technology developed by BP and widely used in Europe, is the first at a North American refinery.

The study, paid for by the Alberta and Ontario governments, suggests it is likely all refineries in Canada and the United States are underestimating their emissions because they use a protocol developed by the American Petroleum Institute and the U.S. Environmental Protection Agency.

Emissions estimated

That method allows refineries to estimate their emissions by using technical assumptions and mathematical equations rather than calculating their actual emissions.

The study details, which were published in a journal in August, have triggered a heated controversy, with the API demanding the elimination of tables pointing to discrepancies between industry practice and the test results, according to a letter sent to the EPA and Environment Canada.

Based on the Alberta findings, the City of Houston has demanded the EPA change the way refineries calculate emissions.

The city said in a statement that the "current system relies on formulas, equations and Assumptions known as 'emission factors' which have been proven by direct observations of facilities to be inaccurate, unreliable and biased toward undercounting."

Ecojustice, a Toronto-based environmental group, is pressing Environment Canada to review the accuracy of industry reporting data given the Alberta findings.

Elaine McDonald, a senior scientist with the research council, said it is difficult to have effective pollution controls "if we don't have accurate monitoring data."

—GARY PARK

continued from page 16

RCA

what the return on investment's going to be," Baker said.

Regulators vs. legislators

The RCA will most likely revisit net metering, either to craft state-specific guidelines or to create a statewide SNAP program.

But as state regulators proceed, state lawmakers will also be considering the

issue. Proponents in the Legislature sponsored a net metering bill during the last regular session, but the bill stalled in committees. The bill will almost certainly be revived next year.

Both sides of the net metering debate seem to prefer resolving the matter with regulators, rather than the state Legislature, seeing the RCA as a more specialized, and possibly quicker avenue to a new standard in the state. ●

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GEOTHERMAL

Alaska electricity grid, thus the sale area is a possible site for a geothermal power plant.

Although no one has yet proved the existence of a viable geothermal source at Mount Spurr, a geophysical survey in the 1980s provided tantalizing indications of a possible layer of warm or hot brine 2,000 feet below the plateau at the entrance to the pass on the south side of the mountain. Some soil geochemistry anomalies also pointed to the existence of geothermal water in the area.

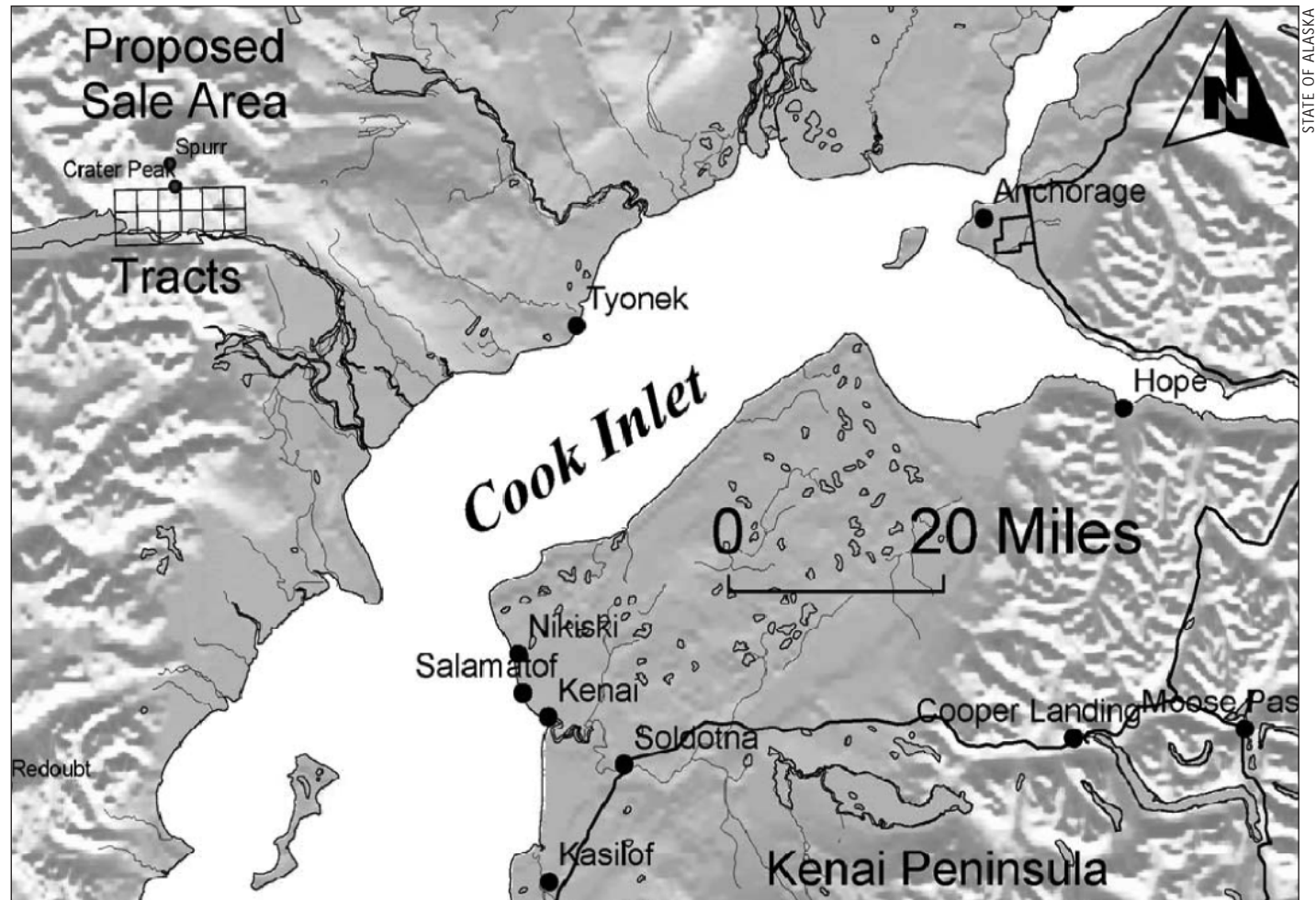
The vigorous bidding in this latest Mount Spurr sale came as a relief to DOG — the division had worried that lease terms such as the royalty rates mandated under state statutes and regulations might deter bidders.

“We were concerned because of the kind of response we got from industry ... that some of the lease terms might be too onerous,” Banks told Petroleum News after the sale. “... I am happy that we got that little bit of tug-of-war and that competition, and many of the tracts received more than a single bid.”

The royalty rate for leases on the tracts is 10 percent of gross revenues and the primary terms of the leases will be 10 year, Banks told sale attendees. The lengths of the primary terms reflect the time that it may take to evaluate and develop the leases, he said.

Rising energy prices

Amy MacKenzie, attorney for Ormat Nevada, told Petroleum News that the company started approaching the Alaska Department of Natural Resources about a couple of years ago, to see if a Mount



Spurr lease sale could be held. Rising energy prices and dwindling gas supplies in the Cook Inlet area made the prospect of a Mount Spurr geothermal development attractive.

“It’s the perfect storm of opportunities,” MacKenzie said.

Ormat Nevada is a special purpose subsidiary of Ormat Technologies Inc, a company that specializes in geothermal power and which has implemented geothermal power plants internationally, Paul Thomsen, director of policy and business

development for Ormat Technologies told Petroleum News Sept. 11.

“We’ve been developing geothermal power projects for about 25 years,” Thomsen said. “... We operate about 400 megawatts in the United States, primarily in Nevada, California and Hawaii.”

The company also markets geothermal equipment and has experience with both organic rankine cycle and combined cycle geothermal technology, he said.

Because the company is growing at about 100 megawatts annually in the

United States, the company is constantly on the lookout for new geothermal resources, Thomsen said.

Looking at Alaska

“We have been looking at Mount Spurr and Mount Makushin in Alaska probably for the last 15 years and when this lease sale gave us the opportunity to bid ... we jumped all over it,” Thomsen said (Mount Makushin is the volcano next to Unalaska in the Aleutian Islands). In addition, the company chairman has a personal interest in Alaska as a result of selling small geothermal units in Alaska in 1975, Thomsen said.

“We made a bid that we were comfortable with and that we think the resource supports and we’re thrilled to have won 15 out of the 16 tracts,” Thomsen said of the lease sale. “... We’ve done a lot of cursory work looking at the markets and so forth, and energy prices, and we think that Alaska is ripe for developing a base load geothermal resource.”

The advantage of geothermal energy is the potential for long term energy price stability, once the geothermal facility is established, Thomsen said. And the size of the lease sale bids reflected Ormat Technologies’ view of the “potential resource size and application,” he said.

Ormat Technologies will deploy some of its geologists to do field mapping and seismic work in the leases to prove up information available about the geothermal prospects, Thomsen said. The timing of that work will be weather dependent. The next step would involve drilling using small diameter holes, to define where the resource might be. Depending on the results of that drilling, the drilling of a production well would then enable testing of the viability of the resource.

And although Ormat Technologies uses its own geothermal equipment, the company would use local Alaska services as much as possible as it moves forward with any development at Mount Spurr.

“When it comes to running the pipes and the wells and so forth we tend to contract out and typically we use as many local contractors as we can to engage the community,” Thomsen said.

The timeframe for any development would depend on what the company finds in its investigations at Mount Spurr and how a Mount Spurr development would mesh in with the company’s other projects, Thomsen said. ●



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FINANCE & ECONOMY

Chevron donates \$1 million to UAA

Chevron has donated \$1 million to support the University of Alaska Anchorage's Alaska Native science and engineering program, and the process technology, instrumentation and computer electronics programs operated by the Kenai Peninsula College. Kenai Peninsula College is part of UAA and is located on the university's Kenai River Campus in Soldotna on Alaska's Kenai Peninsula.

UAA said that the Kenai Peninsula College portion of the donation is the largest single corporate gift that the college has ever received in its 44-year history.

Representatives from UAA, Kenai Peninsula College and Chevron attended gift announcement events on the Kenai River Campus on Sept. 4 and on UAA's Anchorage campus on Sept. 5.

Process technology is one of the fastest growing programs at the University of Alaska, with the Kenai Peninsula College having had more than 300 process control and/or instrumentation declared majors as of fall 2007, UAA said. The college enrolls about 2,000 students each semester, it said.

"Chevron's generous commitment to our programs will have an incredible impact on our current and future students," said Gary Turner, director of Kenai Peninsula College. "We will be good stewards of this gift. We plan to use the funds to upgrade teaching labs, to purchase industry-standard teaching equipment and to establish a scholarship program in these areas of study."

The Alaska Native science and engineering program is also growing fast, UAA said. The program increases recruitment and retention rates among Alaska Natives at the university level by introducing high school students to the science, technology, engineering and mathematics fields through hand-on outreach initiatives and summer bridging programs — the Chevron gift will benefit students through expanded program and support opportunities, UAA said.

Chevron said that it has recently increased its activity level in Alaska and that a larger workforce is needed, particularly in the fields of engineering, process technology and instrumentation.

"Chevron is committed to support the communities where we work," said John Zager, Chevron's Alaska manager. "We believe in recruiting and training locally and we want to be an active contributor in helping to grow Alaska's workforce for the future."

—ALAN BAILEY

Chevron said that it has recently increased its activity level in Alaska and that a larger workforce is needed, particularly in the fields of engineering, process technology and instrumentation.

SAFETY & ENVIRONMENT

Fastest ever rate of Arctic sea ice loss

According to the National Snow and Ice Data Center, the rate of Arctic sea ice loss in August was the fastest on record for that month.

"The Arctic sea ice extent on Sept. 3 was 4.85 million square kilometers (1.87 million square miles), a decline of 2.47 million square kilometers (950,000 square miles) since the beginning of August," the National Snow and Ice Data Center said Sept. 4.

As a result, although there are only about two weeks left in the ice melt season, it is possible that this year could see a record Arctic sea ice minimum. The current record minimum was set in 2007. The 2008 sea ice extent is already the second lowest recorded since the beginning of the era of satellite ice observations.

The Canadian Ice Service has reported continued calving of the ice shelves on the northwest coast of Ellesmere Island, to the northwest of Greenland, with two ice islands breaking away from the Ward Hunt ice shelf in July and the Markham ice shelf collapsing in August.

The Amundsen Northwest Passage route through the Canadian Arctic islands has been open for several weeks. The latest microwave satellite imagery of the Arctic also appears to indicate open water in the broader but more northerly McClure Strait Northwest Passage route.

—ALAN BAILEY

continued from page 13

HURRICANES

Ike will be a major hurricane at landfall," according to the National Hurricane Center's midday Sept. 11 report. Weather forecasters also cautioned that Ike's dimensions are enormous, meaning high winds and deadly storm surge could affect a broad area along the Texas-Louisiana coast.

ExxonMobil and BP said Sept. 11 they were shutting down their Houston-area refineries as a safety precaution. Exxon's Baytown refinery processes

567,000 barrels of oil per day and is the largest refinery in the United States. BP's refinery, also a large facility, is located in Texas City near Galveston.

Exxon and Shell, two of the largest producers in the U.S. Gulf, along with other operators in the region, have asked or are expected to ask for oil from the U.S. Strategic Petroleum Reserve to help offset oil shut-in due to Gustav. The SPR is a 700-million-barrel emergency stockpile of oil managed by the U.S. Department of Energy mainly to keep the U.S. economy running in case foreign crude imports are cut off. ●

continued from page 1

IMPERIAL

But then and again in Toronto on Sept. 9 he said the focus is squarely on developing a "commercially sound" project generating stakeholder support and buy-in.

Imperial negotiating 'proper fiscal framework' for Mackenzie

March told the Peters & Co. conference that Imperial, 69.6 percent owned by ExxonMobil, is negotiating with the Canadian government to establish a "proper fiscal framework" for the MGP, noting that the government has shown greater interest in the project over the past nine months than ever before.

While counting on government infrastructure spending to open up the Arctic region to exploration and development and its assistance in securing environmental and land-use permits, March said

there will be no big federal handouts for the MGP, echoing his earlier comments that there will be no government "give-aways" to the MGP partners.

He said the federal election called for Oct. 14 puts a short-term damper on negotiations.

Pending the election outcome, March has said there is little that can be accomplished on unresolved access agreements with aboriginal communities along the proposed pipeline right-of-way.

Northwest Territories Industry Minister Bob McLeod told reporters the federal government can help by reaching fiscal terms with the MGP proponents and by ensuring the regulatory review is concluded in a timely manner.

He, too, expressed concern that the MGP has been sidelined by the election campaign.

But he told a provincial energy ministers conference in Saskatchewan he will ask candidates and parties to make the pipeline a priority. ●

continued from page 7

PIPELINE

continue to do, is get out in front on issues," he said.

In response to concerns over upstream development or final use of the gas, Gustafson said if exploration disturbs environmental groups, "they'll have to deal with that." He added that Denali would not preclude shippers from shipping gas to the Alberta tar sands or other locations even though the Lower 48 was the major market for North Slope gas.

A spokeswoman for TransCanada wrote in an e-mail that environmental permitting "is always a critical component for any major project." The spokeswoman, Cecily Dobson, added that the permitting was important but not "time-

critical" at this point.

Avoiding the courts

Rolfe, of the Sierra Club, said conservation groups were hoping to avoid litigation over a gas pipeline by getting involved in the process early on.

"We want it to move forward and have the least amount of impact on the environment," she said. "We're hoping to do that up front so there won't be any need for litigation."

Meanwhile, U.S. Sen. Ted Stevens has proposed legislation that would limit judicial review of energy projects.

According to his Web site, he also favors "further streamlining" of federal permitting processes, including "FERC administration, wetlands consultation, and other provisions" for inter- and intrastate natural gas pipelines. ●



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In 1991 UCM hired Colin Keith as a warehouse technician. He was soon promoted to warehouse manager and became purchasing agent in 2005. Fishing, camping with the family, photography and basketball coaching keep life jumping for this Healy resident, as does driving a van full of high school basketball players in downtown Anchorage. Colin and his wife Amy also run a bed and breakfast operation in Healy.



COURTESY PHOTO

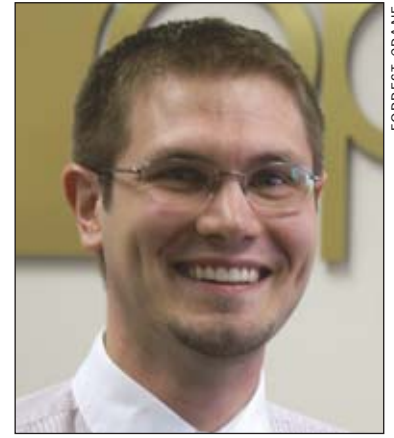
Colin Keith, Purchasing Agent

—PAULA EASLEY

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Opti Staffing Group is a full-service employment agency specializing in placing top candidates at Alaska's top companies. Whether it's contract, contract-to-hire, direct hire or executive placement, Opti credits its success to the individual candidates and clients with whom it partners. Opti's motto is "Our Success is Determined by Your Success."

Matt Cabana graduated from UAA with degrees in marketing and management in 2005 and settled into his current career at Opti in 2006. Since then, Matt and business partner Nicole Shea have led the Anchorage operation to become the company's top branch. His motivation: retiring on a sailboat somewhere in the Caribbean. Formerly a commercial fisherman, Matt dismisses rumors that when he stopped fishing, the take-home for other crew members increased dramatically.



FORREST CRANE

Matt Cabana, Operations Recruiter

— PAULA EASLEY

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

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WHALING

into the cultural, social and economic impacts of the oil and gas industry on Alaska Eskimo subsistence communities.

MMS duly obliged and the agency has now published a research report called "Quantitative description of potential impacts of OCS activities on bowhead whale hunting activities in the Beaufort Sea." And, as the title suggests, the research has focused on the potential impacts of offshore exploration and development on bowhead whale hunting, an activity that forms a core component of the subsistence culture of the North Slope Inupiat people.

In addition to quantitative information about the North Slope demographics and the views of North Slope communities, the report contains a wealth of descriptive material about how several communities incorporate whale hunting into their way of life.

Ambivalence

The report also brings out the ambivalence between the obvious economic benefits that the oil industry has brought to the region and the community's concerns that the industry may also be eroding cultural values.

"Oil and gas development is, in some respects, at the center of contemporary life on the North Slope, in ways both obvious and subtle," the report says. "It is the only large-scale commercially viable natural resource-based development taking place on the North Slope today. It is the center of the private sector-driven portion of the regional economy, and is also central to the public sector portion of the economy through its role as the ultimate source of a very large part of regionally generated public revenues.

"... Despite its central importance to contemporary life on the North Slope, however, oil and gas development is very much seen as a double-edged sword, with issues of local versus non-local control over the shape of development of locally occurring natural resources at the fore, along with issues related to the social, cultural and individual/personal consequences of rapid development and associated socioeconomic change."

And, because of worries about potential impacts on bowhead whale hunting, the perceived downside to industry activity has particularly come to the fore in relation to offshore exploration in the Beaufort Sea.

"On- and offshore development are different," said one Barrow resident, according to the report. "Onshore there is less chance for contamination because they can control it. We can live with it onshore and work around its effects on our seasonal activities. Offshore it is a hostile environment with moving ice and heavy seasons. It is very risky. If they invade our hunting grounds, that is not acceptable to us because of the risk. Seventy-five percent of our food comes from the ocean. We get some of our food from the land, but the ocean is our garden."

Whalers from the Beaufort Sea village of Kaktovik at the eastern end of the slope commented that "whales and other marine mammals are very sensitive to noises and unusual activities, and their behaviors are changed by oil exploration, development, and production," the report said.

Structured surveys

But how widespread are these views and what is the general attitude of North Slope communities to offshore oil and gas industry activities?

To answer these questions the MMS-sponsored researchers carried out carefully structured surveys in Barrow, Kaktovik and

Nuiqsut — Nuiqsut is on the Beaufort Sea coast in the central North Slope area, close to the Alpine field. And to obtain control data for comparison from a coastal community not currently impacted by the oil and gas industry, the researchers conducted identical surveys in the village of Savoonga on St. Lawrence Island in the Bering Sea.

An analysis of the survey data showed that most residents in the four communities feel that their quality of life has stayed constant or improved over the past few years. And the majority of elders in the communities do not believe that their communities have become worse places to live. On the other hand, "a large percentage of Barrow elders are pessimistic about the trend in the quality of life in their community; this negative assessment is likely the result of a perceived lack of jobs, increase in substance abuse and crime, and erosion of traditional values," the report says.

Deflect whales

At the same time, whaling captains in the Beaufort Sea coast communities generally think that noise and disturbance from industrial activities deflect bowhead whales farther offshore than normal during the fall whaling season, when whales migrate west through the Beaufort Sea en route to their winter feeding grounds.

"However, changes in the spring bowhead migration pattern are largely attributed to climate change," the report says.

In fact, in Savoonga where no oil and gas development has occurred, whaling captains have observed the whales arriving earlier during the spring migration and in increased numbers during the fall. Some Savoonga residents attribute these observations to climate change, but most people did not offer an explanation, the report said.

Of the whaling captains who responded to the surveys, 59 percent said that the oil and gas industry has a neutral or unknown effect on whaling. And although survey respondents commented on the impact on subsistence activities of environmental disturbance and problems such as alcoholism, the respondents also commented on the increased availability of jobs and higher household incomes, as well as increased tax revenues for social services and infrastructure construction, as a result of the oil industry's presence.

But 69 percent of the whaling captains in the North Slope communities said that it is not possible to adequately safeguard the

see WHALING page 23



The North Slope village of Nuiqsut.

JUDY PATRICK

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NUIQSUT

Alpine oil field in the Colville River unit. The facilities for Alpine sit on part of the 140,000 acres of land owned by Kuukpik Corp., the Native village corporation for Nuiqsut.

In the mid to late 1990s, Kuukpik signed a deal with ARCO Alaska, then the operator of Alpine, allowing the company to use Native-owned lands in return for some of the gas produced during oil development. Alpine went into production in November 2000.

The move turned out to be one of great foresight for Nuiqsut. At the time, oil prices were only \$20 a barrel. Today, prices have been well above \$100 a barrel for months.

However, while ARCO, now ConocoPhillips, agreed to provide the gas, the village was required to build the facilities to condition and distribute the gas to homes and buildings.

The North Slope Borough agreed to finance the \$10 million pipeline project, raising money for the transportation system through bonds and for the distribution system through a grant from the National Petroleum Reserve-Alaska impact fund.

The borough planned to start construction toward the end of the 1990s. But the project moved slowly as the borough worked to get permits, grants and right-of-way leases.

Now certificated as pipeline

The borough received a certificate to

operate as a public utility in 2001.

By late 2004, officials with the Nuiqsut Natural Gas Pipeline said it had finished building the conditioning plant and some of the distribution facilities, but still faced "delays in its gas supply contract negotiations." Those delays, in part, forced the company to reapply for state regulatory permission to operate the pipeline.

The borough faced further delays as it worked with the Alaska Oil and Gas Conservation Commission to obtain approval for meters allowing the gas being taken from Alpine to be measured for state royalty purposes. In early 2007, the AOGCC approved a 1 million-cubic-foot-per-day gas offtake rate at Alpine, solely for the purpose of supplying Nuiqsut.

But the borough faced another obstacle in May of 2007 when the Regulatory Commission of Alaska determined the pipeline could not be run as a public utility because a clause in the right-of-way application filed with the state years earlier required the project to be a common carrier pipeline.

That re-designation meant the pipeline couldn't be exempted from economic regulation.

The borough finally received a new certificate in August 2007 to operate the pipeline as a common carrier, and submitted its first proposed tariff in August 2008. The RCA is taking comments on that tariff through Sept. 22.

—ERIC LIDJI

Contact Eric Lidji at 907-770-3505 or elidji@petroleumnews.com

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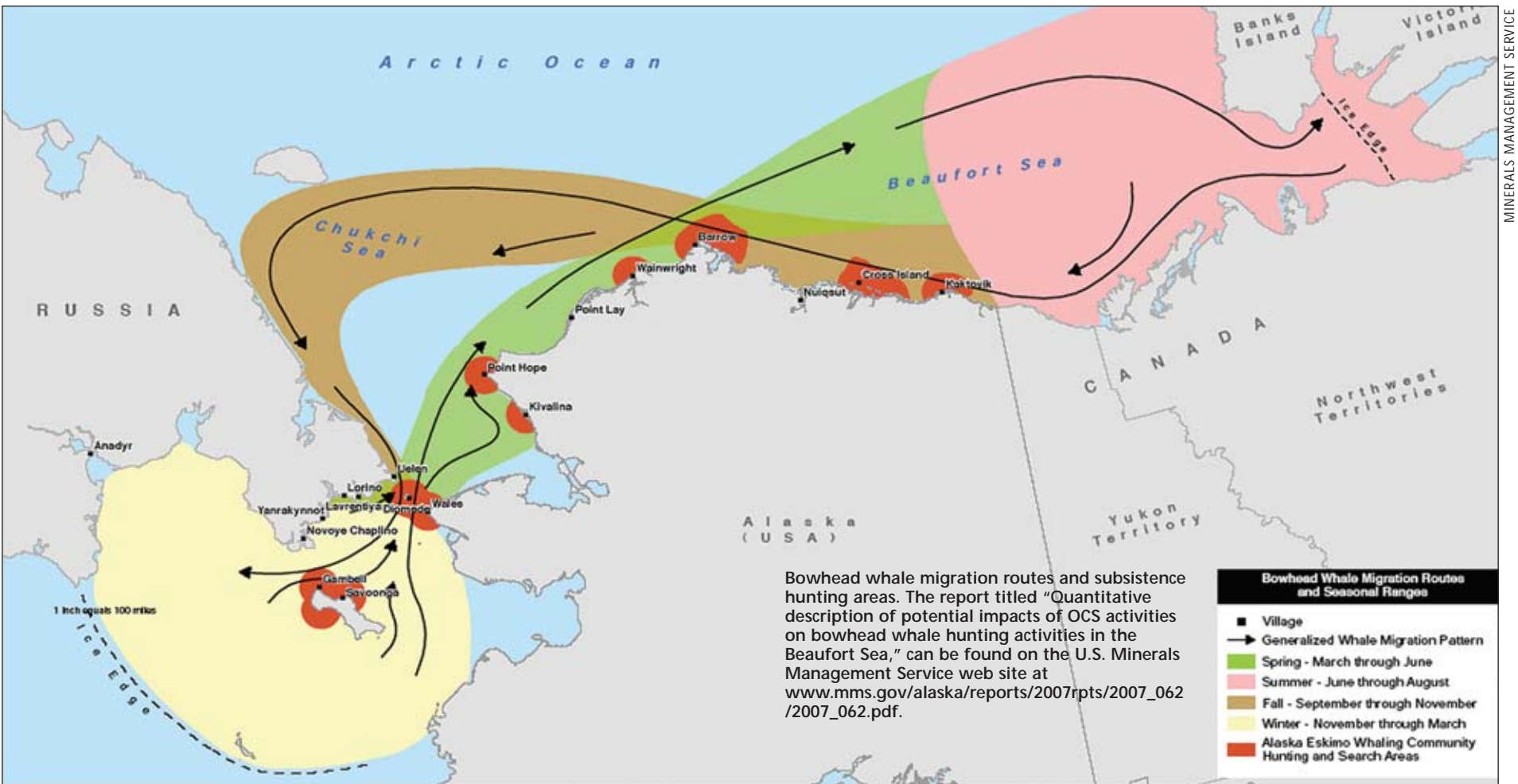
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WHALING

environment and "important cultural activities" against the potential impacts of off-shore oil development. However, only 28 percent of Savoonga whaling captains indicated that outer continental shelf oil development is incompatible with environmental protection and cultural activities.

Can influence industry

On the other hand, survey data indicated that more than half of the whaling captains feel confident that their communities can influence both offshore and onshore oil and gas development, the report said. The researchers think that this optimism arises from a "perceived growing responsiveness by the oil industry to local concerns."

"Conditions have been placed on off-shore development. They (the oil industry) understand pretty well what we are doing out there. There is better communication with industry," said Barrow and Kaktovik whaling captains, according to the report. "... Villagers have long expressed a preference for onshore development; the companies have become more adaptable and addressed village concerns such as reducing impacts on caribou migration."

On the other hand, many whaling captains have expressed skepticism about the potential to influence the industry, the report says.

From the perspective of cultural change within the communities, quite a few of the village elders think that elder influence has diminished, although that view does not appear to be strongly held among the general populace of the North Slope villages. In addition, there is a continuing involvement in subsistence activities on the North Slope at about the same level as in Savoonga, despite the fact that economic prosperity has reduced the dependence on subsistence food to some extent on the slope.

The report concludes by recommending additional research into the changes in traditional values, knowledge and practices that have resulted from oil and gas development, and into the perceptions of young people in the communities. The researchers recommend an in-depth investigation of current levels of subsistence harvesting. The researchers also propose a North Slope Borough research plan that would enable the analysis of changes in community data over time. ●

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CLEAN ENERGY

the state's capital budget and during a summer special session.

Chris Rose, executive director of the Renewable Energy Alaska Project and a member of the advisory committee set up around the fund, called the program a "great boon" for the state.

"It's an opportunity for the state to leverage outside funds and get projects built that will stabilize energy costs around the state, which in turn is going to make Alaska a more stable place to invest," he said.

Qualifying projects

Projects using wind, solar, geothermal, hydro or other forms of renewable energy will all be considered under the new program. Energy made from fuel cells, biomass or landfill gas will also be considered, as will certain transmission lines and natural gas projects for small communities without viable renewable energy options.

There is no size limit for qualifying projects, and projects that have already received state or federal grants will be considered.

Preference will be given to projects that can provide matching funds, demonstrate local support, and be completed quickly. Local energy costs and regional distribution of grant money will also be considered.

AEA officials will evaluate and rank proposals in consultation with a seven-member advisory committee appointed by the governor and legislative leaders. Committee members include Thomas, Rose, Jodi Mitchell of Inside Passage Electric Cooperative, James Posey of Municipal Light and Power, Brad Reeve of Kotzebue Electric Association, Vincent Beltrami of the Alaska AFL-CIO and Denali Commission, and Sen. Lyman Hoffman, a Democrat from Bethel.

AEA is planning to review proposals and award grants in two separate rounds.

The first round is aimed at projects that are ready to proceed quickly. Applications are due Oct. 8, and awards will be given in December using funds from the current fiscal year, assuming legislative approval.

The second round is aimed at projects that need more time. Applications are due Nov. 10, and awards will be given in July 2009 using funds from FY2010.

All grants are subject to legislative approval, but HB 152 allows the Legislative Budget and Audit Committee to approve grants for FY2009.

Comments on the RFA can be made through Sept. 17.

GVEA looks to wind

Kate Lamal, Golden Valley Electric Association's vice president of power supply, said similar grants awarded this year under a federal and state program allowed the utility to study promising new technologies without spending members' money.

"It's a good deal — it's a great deal, actually," she said. "They're all projects that are worth looking at."

Lamal said Golden Valley is currently studying all four projects for which it received funding. The utility will apply for grant money to build one of the projects, a wind farm near Healy, which is the furthest along, she said. A four-year-old cost estimate put the total project cost at \$60 million, although Lamal added that costs have risen dramatically since then.

Lamal said Golden Valley will probably seek additional funding for a waste heat recovery project at an existing power plant in North Pole. ●