Petroleum news

page 3 Escopeta seeks more partners to bring jack-up rig to Cook Inlet

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STATE OF ALASKA

Alaska's new governor, Sarah Palin, began talks with companies and agencies interested in playing a part in a North Slope gas pipeline the day after she was sworn in. Above, Palin and administration officials meet with Enbridge, a pipeline company based in Calgary.

Palin to consider all gas pipeline proposals; preliminary meetings with 12 firms, agencies held; state negotiating team being formed

The new administration has had initial meetings with those involved in — or wanting to be involved in — an Alaska North Slope gas commercialization project, and came away with information to assimilate and questions to ask.

As to when things will get moving, Alaska Gov. Sarah Palin and acting Commissioner of Natural Resources Marty Rutherford, who will head up the administration's negotiations, told reporters Dec. 6, at the conclusion of two days of meetings, that they need to assemble a negotiating team and determine what, if any, current fiscal year funds remain for the negotiations.

JUDY PATRICK

GOV. SARAH PALIN

Palin has already said she will introduce a bill seeking a law of general application on the first day of the Legislature's 2007 session, outlining key requirements for a natural gas pipeline.

"Our bill will provide for all proposals to be considered in a more open, competitive manner," Palin said in a Dec. 6 statement. "That's the process Alaskans have asked for and one I believe will deliver the very best gas pipeline proposal for Alaska."

Administration officials involved in the meetings, in addition to Palin and Rutherford, were Lt. Gov. Sean Parnell, Commissioner of Revenue Pat Galvin and Kurt Gibson of the Division of Oil and Gas. They met with 12 companies and organizations Dec. 5 and 6: the Alaska Gasline Port Authority, the Alaska Natural Gas Development Authority, BG Group, BP Alaska, Chevron, Conoco Phillips, Enbridge, ExxonMobil, MidAmerican Energy Holdings Co., Semco, Shell Oil and TransCanada.

Lessons learned

Palin said she had the opportunity to ask most of the par-

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EXPLORATION & PRODUCTION

ARC invests in Alaska

Independent Renaissance lands initial exploration funding from Calgary firm

By ALAN BAILEY

Petroleum News

Independent oil and gas company Renaissance Alaska LLC has secured initial funding for the exploration and development of leases in Alaska. Capital from ARC Energy Fund 5, a private equity fund managed by Canadian company ARC Financial Corp., has enabled Renaissance to purchase oil and gas leases and commit to a program of Alaska exploration, Renaissance co-founder Mark Landt told Petroleum News Dec. 6.

"We're prepared to bring up our own jack-up but we'd like to work with Escopeta and possibly other partners and put together a rig consortium. Once you bring a jack-up to the inlet you end up drilling all opportunities."

—Mark Landt, Renaissance Alaska

"We're setting up an office in Anchorage right away," he said.

ARC Financial Corp. is a private investment management firm located in Calgary, Alberta, that specializes in emerging companies the energy sector. According to the ARC web site, since 1989 ARC has managed the investment of more than $750 million in more than 120 early-start companies and

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NATURAL GAS

Clearing path for Mac gas

Deh Cho ponder offer; decision in spring; Dene Tha get federal consultation officer

By GARY PARK

For Petroleum News

There are signs of action to move two stumbling blocks standing in the path of the Mackenzie Gas Project.

A decision is likely this spring by the Deh Cho First Nations on whether they will accept the Canadian government's latest land claim offer, while the government has named a chief consultation officer to consult with the Dene Tha First Nation on the Mackenzie pipeline route into northern Alberta.

Following a meeting of delegates from Deh Cho communities in late November, negotiator Georges Erasmus said the Deh Cho need more information on the jurisdiction they would have over their land before they make a final decision on the federal proposal.

The government made an offer earlier this year covering 10,000 square miles, C$104 million in cash and some additional powers.

Instead of making a counteroffer the Deh Cho leaders have opted to take more time to consider the federal proposal — an indication they are tilting towards acceptance.

Rifts appearing in Deh Cho

Those deliberations are taking place at a time when rifts have started to appear in the Deh Cho, with the communities of Fort Liard and Fort Simpson declaring they are ready to break ranks and join the

see MAC GAS page 14

PIPELINES & DOWNSTREAM

TAPS owners win in appeal

FERC allows carriers to keep confidential information used in shipping bids

By ROSE RAGSDALE

For Petroleum News

The Federal Energy Regulatory Commission has overruled an administrative law judge decision to open confidential records listing competitively sensitive data to public scrutiny in a two-year-old interstate tariffs case.

The order, issued Nov. 30, came in response to an appeal from the five owners of the Trans-Alaska Pipeline System who were ordered by Presiding Judge Carmen A. Cintron earlier to open all filings and documents in the case that are designated as "confidential" and "highly confidential" to the public.

Cintron also denied a request from the TAPS owners — BP, ConocoPhillips Transportation Alaska Inc., ExxonMobil, Koch Alaska Pipeline Co. LLC, and Unocal Pipeline Co. — to maintain the confidentiali-

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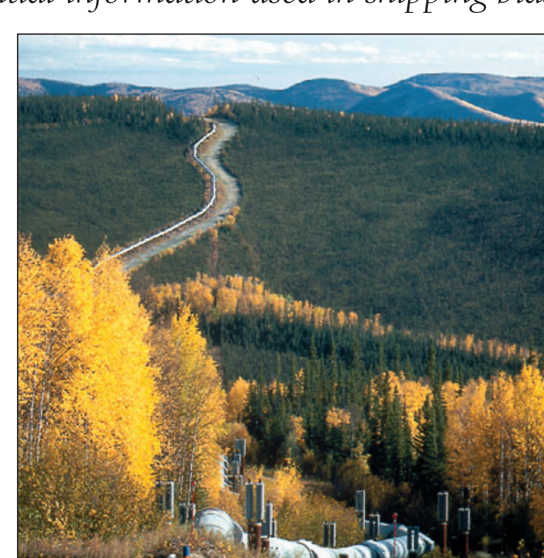

JUDY PATRICK

Photo taken along the 800-mile length of the Trans-Alaska Pipeline System

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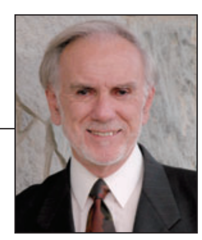

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● EXPLORATION & PRODUCTION

Escopeta seeks more jack-up partners

Initial public offering on London Stock Exchange fails to raise sufficient funds to bring rig to Cook Inlet for drilling program; have $15 million but need more to drill Kitchen prospects

By ALAN BAILEY
Petroleum News

Escopeta Oil is seeking additional partners to bring a jack-up exploration rig to Cook Inlet, after Centurion Gold Holdings Inc. withdrew its initial public offering of shares to fund the use of the rig. According to a Business Wire report, the share offering on the U.K. AIM market, a London Stock Exchange market that deals internationally in small growth companies, created "a lot of private interest" but only raised $15 million, well short of the required funding.

In 2005, Houston-based Escopeta formed a partnership with Johannesburg-based Centurion for the jack-up rig proposal — Centurion was going to raise the necessary capital through the sale of shares of a new company called Arrik Energy Inc., established specifically for the Cook Inlet venture. Centurion would then acquire a majority ownership of the 130,000 acres that Escopeta has under lease in the Cook Inlet, with Escopeta remaining the operator of the leases. The leases include the two Kitchen prospects, which lie in the deep central part of the Cook Inlet basin and which Escopeta believes contain major oil and gas resources.

DANNY DAVIS

"We think we have a possible total resource of 1.2 billion barrels of oil and 7 trillion cubic feet of gas," Escopeta President Danny Davis has said of the prospects.

But those prospects lie offshore — hence the need to bring a jack-up rig to Cook Inlet.

The Tellus rig

In March 2006, Escopeta entered into a contract with Songa Drilling for the use of the Tellus jack-up rig, with Kenai-based Inlet Drilling providing the drilling crew. An independent-leg cantilever jack-up, the Tellus could work comfortably in 250 feet of water and had a drilling depth capacity of 20,000 feet — more than enough for what the company needed, Davis said.

Escopeta also contracted with Coscol (HK) Investment & Development Co. of Hong Kong to use the heavy lift vessel Tai an kou to carry the Tellus from the Gulf of Mexico to Cook Inlet.

At the same time, Centurion kicked off the AIM initial public offering through a London investment bank.

But the Tellus rig required refurbishment before being moved to Alaska. That refurbishment, which took place at Port Arthur, Texas, proved to take much longer than initially anticipated and, as a consequence, an initial plan to move the rig in June had to be rescheduled to December.

Jones Act waiver

In July, the U.S. Department of Homeland Security granted a waiver of the Jones Act to enable the foreign-flagged Tai an kou to carry the Tellus to Alaska . The Jones Act mandates the use of an American-flagged vessel for this task.

In the fall, Centurion launched a retooled AIM initial public offering based on a plan to begin its exploration program with a well at Escopeta's North Alexander prospect, onshore on the northwestern edge of the Cook Inlet basin along the western margin of the Susitna River drainage.

Offshore drilling was rescheduled for spring 2007on the assumption that the jack-up rig would leave Port Arthur for the Cook Inlet in December.

At about the same time the Jones Act waiver was being issued Abbot Holdings Norge AS acquired Songa, the owner of the Tellus rig. That takeover triggered a flurry of rumors of problems with the relationship between Escopeta and Songa.

During that time period Abbot landed a jack-up rig contract in Mexico with day rates significantly higher than the rate agreed with Escopeta for Cook Inlet drilling.

But in mid-October Davis told Petroleum News that Escopeta's plans were moving forward.

"The Songa Tellus will come to Cook Inlet in early 2007, as soon as weather allows — if the Tellus is finally ready and if Escopeta and Songa Drilling can iron out contract issues that arose because of refurbishment delays," Davis said.

"Escopeta wants Songa to honor its contract, but if the Tellus isn't available, Escopeta will contract a different jack-up rig to meet its 2007 drilling objectives," he said.

Escopeta perseveres

So what does Centurion's withdrawal of the AIM initial public offering mean for Escopeta's offshore plans?

Escopeta will continue to honor commitments to Centurion but will also entertain proposals from additional partners, said Davis in a Dec. 1 statement that confirmed that the company is actively seeking those partners.

He said his company will drill in 2007, starting with its East Kitchen prospect offshore near the Kenai Peninsula town of Nikiski. Davis also said that Escopeta is sensitive to the fact that people need new sources of Cook Inlet natural gas for heating, electric generation, military and industrial use.

"They need that gas and we're going to go get it for them. Escopeta has made a commitment — to the president, to the director of Homeland Security, and to the Department of Energy — to move a jack-up drilling rig to Cook Inlet and drill for gas and oil. … Escopeta sits on two of the largest drilling prospects in the United States, reserve-wise. In my opinion, Escopeta is sitting on the future of Cook Inlet gas supplies," Davis said. ●

Bob Warthen moving on

FORREST CRANE

BOB WARTHEN

Bob Warthen, the veteran Alaska geologist who provided Escopeta with the information about the Cook Inlet prospects that the company wants to explore, is moving on to new endeavors.

As a consultant for Escopeta, Warthen has promoted the potential of the offshore Kitchen prospects and has been heavily involved in Escopeta's drive to explore its Cook Inlet acreage.

Warthen would have become part of Arrik Energy, the company set up to fund the use of a jack-up rig to explore the Kitchen prospects, had the initial public offering of Arrik shares raised sufficient capital for the jack-up rig project, Warthen told Petroleum News Dec. 4.

But the time has come for a change.

"I've disassociated myself from Escopeta," Warthen said. "It's time for me to do other things."

Warthen emphasized that there is no ill will between himself and Escopeta and that he has retained a royalty interest in Escopeta's prospects. He said that he has some other oil and gas prospects that he wants to develop.

● EXPLORATION & PRODUCTION

True North joins Savant in Kupcake venture

Texas independent caps ground-breaking first year with moves to advance interests on Alaska North Slope and in Cook Inlet

By ROSE RAGSDALE

For Petroleum News

True North Energy Corp. of Houston, Texas, said Dec. 6 it has entered into a letter of agreement to join Savant Resources LLC in exploration of the Kupcake prospect on Alaska's North Slope, a gambit the companies hope will pay off with a discovery of more than 100 million barrels of recoverable crude.

The Kupcake prospect is located adjacent to the 130 million barrel Liberty field discovered by BP Exploration (Alaska) Inc. east of Prudhoe Bay.

The publicly held independent said it will pool leases that it owns covering about 120 acres with Savant's 1,291 acres within the Kupcake prospect on a net acreage basis in a non-cash deal. Savant will own about 91.55 percent working interest in the pooled area, while True North Energy will hold a 8.45 percent stake, the company said.

True North Energy also said it will join Savant in drilling a test well in Kupcake early next year. Denver-based Savant, a privately held independent, will act as operator for the venture and plans to drill to a depth of 11,000 feet in section 29, T11N, R18E, UM in order to test the Kemik formation.

Savant previously announced plans to secure a drilling rig and permitting for the well. The drilling operation is scheduled to begin in the first quarter of 2007.

True North Energy said Savant estimates that the Kupcake prospect contains more than 200 million barrels, of which about 50 percent are recoverable.

True North Energy has a total of 10,000 leasehold acres adjacent to the Kupcake prospect and is currently considering acquiring all available 3D seismic that covers about one third of its North Slope acreage, the company said.

True North also in Cook Inlet

True North, one of the few newcomers to Alaska's oil patch that own acreage in both of the state's major oil and gas basins, also said it has commissioned an independent evaluation of its Harriet Point prospect in Cook Inlet.

"We are extremely pleased to be able to participate in our first Alaska well during the first year of our company's operation and with an experienced industry operator like Savant," said True North Energy President John Folnovic.

True North Energy also said it hired Rose and Associates of Houston to conduct an independent technical evaluation of the resource potential of True North Energy's Harriet Point prospect.

Rose and Associates is a leading consulting firm and specializes in providing unbiased characterization and probabilistic play and prospect evaluations of some of the world's most challenging plays and prospects, True North Energy said.

In addition to a potential resource estimate, Rose and Associates will reinterpret and re-map the prospect based on True North Energy's existing 33 miles of seismic data.

True North currently has 25,000 leasehold acres in the Cook Inlet area, which it owns 100 percent.

Test well planned at Harriet Point

The independent also hired Michael Baker Corp.-Energy Division, to provide estimated project timelines and turnkey drilling and associated services costs for a test well on the Harriet Point prospect.

True North Energy said Rose and Associates and Michael Baker should complete their work early next year.

"I believe that the experience gained by participating in the drilling of the Kupcake well and the work undertaken by Rose and Associates and Michael Baker Corp. will allow us to significantly advance our understanding and development of our Harriet Point prospect," Folnovic added.

True North Energy also said Nov. 28 that it has raised another $1 million in equity financing through a private placement that will be used to fund the company's drilling participation programs and to increase its working capital.

"To date, True North Energy has raised in excess of $6 million in equity financing, while at the same time not incurring any debt," observed Folnovic.

"This latest financing will allow True North Energy to participate in recently undertaken drilling programs. This round of financing also has increased our working capital, giving us greater operating flexibility and an ability to advance important technical work on our Alaska exploratory acreage ahead of schedule," he added. ●

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● GOVERNMENT

Political landscape shaken up

New Alberta premier plans public scrutiny of oil sands royalties, wants to keep more bitumen refining in province; new federal Liberal leader has 'green' agenda, Kyoto Protocol at top of his list

By GARY PARK

For Petroleum News

In an age when political surprises are few and far between, Canada experienced two upheavals in the space of 24 hours that could have deep consequences for the oil and gas industry.

Stephane Dion was elected leader of the federal Liberal party Dec. 2, putting himself in line to become Canada's next prime minister and implement his "green" agenda, with the Kyoto Protocol at the top of the list.

Ed Stelmach won leadership of the Alberta Conservative party in the early hours of Dec. 3, making him the next premier of the province, with a pledge to review the oil sands royalty regime and what his government can do to keep more value-added processing of bitumen in Alberta.

Greg Stringham, vice president of the Canadian Association of Petroleum Producers, told reporters that the industry found Dion, when he was a federal cabinet minister, brought a "very balanced view" to the greenhouse gas emissions issue, favoring action to "protect the environment, but also to have economic growth."

But, before either man has a chance to add specifics to policies, Canadians needed time to recover from the shock of seeing two candidates who sat in third place after early ballots vault over their more favored opponents to seize the leadership prizes.

Stelmach contrast to Klein

Stelmach is as understated and low-key as his predecessor Ralph Klein was outspoken and colorful.

Although he was in Klein's cabinet for the past decade, little is known about the man known as "Steady Eddie" because of his reluctance to grab the spotlight, hold news conferences or parade himself in public.

However, those who do know the 55-year-old farmer from northern Alberta are agreed on one thing: When he makes a promise he delivers.

Unlike Klein, who operated a seat-of-the-pants government, Stelmach has also promised a more disciplined government, which will be driven by plans covering his first 45 days, six months and one year in office.

The test will be what kinds of plan he presents for the oil sands and whether it can be made to work in a sector that is reeling from plans to invest C$120 billion over the next 10 years while Alberta's ability to provide skilled workers and support services is at breaking point.

Klein candidly admitted in his final days in office that his government was caught off guard by the staggering pace of expansion and, in fact, had no policy for dealing with such unprecedented growth.

Oil sands royalties an issue

In addition, Stelmach is under pressure from various political and special-interest groups to overhaul oil sands royalties to ensure the province receives a larger share of the wealth.

Stelmach himself concedes that Albertans do not believe that royalties, which were introduced when oil prices were C$12-$20 per barrel, reflect what they should be receiving.

He has promised a public commission to review the regime — already a sharp divergence with Klein, who opposed province-wide hearings, declaring he was content with internal government studies.

Stelmach said it is necessary to rethink royalties that currently fetch only 1 percent of gross revenues until the front-end costs of projects are paid off, when they move to 25 percent.

Stelmach wants value-added operations in province

In conjunction, he has pledged to do whatever is possible to keep more of the industry's value-added operations in Alberta, including ethane as feedstock for the petrochemical industry and the upgrading and refining of bitumen.

He told a news conference Dec. 4 that that it is not possible to keep every barrel of bitumen in Alberta, but he wants to find ways to reduce the current outflow to upgraders and refineries in the U.S., where ConocoPhillips, BP and Marathon are working on expansions and modifications to their existing plants to handle more heavy crude from Alberta.

"We cannot allow long-term shipments of bitumen as Albertans lose out on higher value processing revenues and jobs," he said during his campaign.

"We will look for ways to encourage the industry to process oil sands in Alberta, including the possibility of having producers pay more if the bitumen is shipped to the U.S."

Stelmach also said his government will give priority to ensuring that basic infrastructure is in place to handle oil sands expansion, but dismissed any thought of applying a moratorium on future growth.

"There is no such thing as touching the brakes," he said.

To tackle the labor shortage that has contributed to cost inflation in the oil sands, Stelmach said he will lobby the Canadian government to change regulations governing the foreign temporary worker program and to let Alberta set its own immigration policy.

On the environment front, he intends to foster technological innovation and development to reduce greenhouse gas emissions and protect surface and groundwater systems that are an essential component of oil and gas production.

Next federal election could be in spring

With Dion in place as leader of the opposition Liberal party, the stage is set for the next federal election, widely expected in spring 2007, or sooner if Prime Minister Stephen Harper's minority Conservative administration is toppled in a confidence vote.

Although Dion is not popular in his home province of Quebec — Canada's second most populous province and a key battleground in an election — initial polls show him with a national lead of six percentage points over Harper.

Whenever the vote is called, Dion views the environment and sustainable development as two areas where the Harper government is vulnerable.

Within hours of his election, he pushed the environment to the front lines, declaring he wants to find a way to make Alberta's economic power base the target for deep cuts in greenhouse gas emissions and the use of technology to develop a more sustainable energy future for Canada.

"We won't kill the industry, we'll make the industry sustainable," he told a news conference.

"We have a very good plan for Alberta, precisely because there are so many things to do in Alberta."

If a Liberal government could succeed in the oil sands region "perhaps sustainable development will succeed everywhere in the world as we will export our know-how and we'll make megatons of money," he said.

Dion proposing California-style emissions standards

But Dion brings heavy baggage to the

see **LANDSCAPE** *page 6*

● FINANCE & ECONOMY

Government won't budge on trusts

Canadian finance minister digs in on plans to tax income trust distributions, but promises early ruling on trust growth; Pengrowth raises hopes with ConocoPhillips deal's 'comfort letter' from Flaherty, acquisition largest in Canada trust history

By GARY PARK
For Petroleum News

Canadian Finance Minister Jim Flaherty is unwavering in his message to income trusts — they will lose their tax exempt status in 2011 and nothing will persuade the government to shift from that course.

In recent meetings with the trust industry and in public statements, Flaherty said all that is on the table right now is the details of how the move will be carried out.

"We are having discussions with respect to implementation issues which are important to achieve ... the goal of fairness in taxation so that whether one has a corporate entity or a trust entity they would be treated the same for tax purposes," he told the House of Commons.

Flaherty said the guidelines should be made public before Christmas and would operate until 2011, when existing trusts will start paying a 31.5 percent tax (18.5 percent federal and 13 percent provincial) tax on their cash distributions to investors.

One of the most anxiously awaited measures will deal with any limits the government may impose on the trusts' ability to grow through the four-year transition period.

Pengrowth deal got 'comfort letter'

To that end there was a sense of relief Nov. 29 when Pengrowth Energy Trust emerged as the successful bidder for C$1.02 billion worth of ConocoPhillips upstream assets.

It was a deal that was accompanied by a "comfort letter" from Flaherty's department, which indicated the ConocoPhillips acquisition — the largest in the history of a Canadian oil and gas trust — would not be considered "outside the scope of normal growth," Pengrowth said.

To date, the government has said only that it will not allow "undue growth," without precisely defining that term, although there have been rumors that it will cap expansion at 15 percent.

Whether true or not, Pengrowth avoided colliding with that limit by announcing it plans to sell 23 million new trust units, increasing its equity by 11 percent.

But the government letter requires Pengrowth to unload a portion of the acquired properties covering production of 7,700 barrels of oil equivalent per day in non-core areas.

Leslie Lundquist, Bissett Income Fund manager, told reporters the deal suggests the government will not interfere with the normal course of business by trusts.

She said the first test case since the Oct. 31 announcement on ending the tax moratorium "went swimmingly."

Mission awaiting guidelines

Not everyone is ready to accept that interpretation.

Mission Oil & Gas is considering a C$760 million takeover by Crescent Point Energy Trust, which was first announced almost two months ago.

Mission Chief Executive Officer Trent Yanko said uncertainty still persists and, although the Pengrowth ruling was encouraging, "we're still in a wait-and-see mode" until Flaherty releases the official guidelines.

The ConocoPhillips deal was the latest in a rapid fire series of transactions by Pengrowth, which bought ExxonMobil's properties in west-central Alberta for C$475 million in September and recently negotiated a C$1.1 billion stock-swap merger with Esprit Energy Trust, adding 44,000 barrels of oil equivalent per day in production and 153 million barrels of oil equivalent in proved and probable reserves.

The ConocoPhillips acquisition involves 21,000 boe per day and 51.4 million boe of proved conventional reserves, previously held by Burlington Resources before its takeover by ConocoPhillips.

Pengrowth estimated the acquisition cost averaged C$48,000 per flowing barrel, an abrupt cooling from earlier deals this year which pushed the average towards C$80,000 and above C$100,000 in a couple of cases.

Other indicators could come from the disposal of other assets already on the market, including 70,000-80,000 boe per day on offer by Husky Energy, Talisman Energy and Dominion Resources, while at least another 20,000 boe per day are being marketed outside the public spotlight.

Buyers' market

Volumes of that size, in an environment of low natural gas prices, escalating upstream costs and financing difficulties, have created the first buyers' market in a long time in Canada.

The test will be whether trusts try to take advantage of these conditions or whether there is a comeback by more traditional E&P companies.

Meanwhile, after a month of venting by some trust leaders, a sense of quiet reality seems to be taking hold as trusts ponder whether their future lies in a merger, a sell out, a stronger focus on building reserves through the drill bit rather than acquisition, or a return to the conventional sector.

In the initial reverberations, trusts lost an average of about 23 percent of their market value and have now regained about one-third of that loss.

Calgary-based investment dealer Peters & Co. has suggested that if the government imposed restrictions on the ability of trusts — who have accounted for about C$33.7 billion or 41 percent of acquisitions so far this year — the door could be opened to revival of conventional junior E&P companies, assuming that asset values will decline as the impact of trusts diminishes. ●

GOVERNMENT

Oil sands royalties challenged

The Pembina Institute, an independent Alberta-based research organization, says Alberta government revenues from the oil sands have dropped by almost one-third in the past decade despite heady oil prices, industry profits and production.

The report estimates the royalty return to the province dropped to C$2.29 per barrel in 2005 from C$3.39 in 1996, when a new royalty regime was introduced in an effort to spur investment.

Co-author Amy Taylor said the indications are that Albertans are receiving less than they were under a royalty system the institute has repeatedly said should be subject to a public review.

The conclusions are disputed by the Canadian Association of Petroleum Producers which said producers are forecast to pump C$2.5 billion into provincial coffers this year compared with C$800 million in 2005 and that doesn't include more than C$1.5 billion from the sale of oil sands leases.

The royalty regime requires operators to pay 1 percent of gross revenues until project costs are paid out, when the rate rises to 25 percent.

—GARY PARK

continued from page 5

LANDSCAPE

environmental task. During his time as Canada's environment minister, greenhouse gas emissions rose 35 percent above Kyoto's targets, which call for a 6 percent cut in 1990 emissions levels by 2012.

He is now promising an overall goal of lowering greenhouse gas emissions by 60 percent between 1990 and 2060 through California-style vehicle emissions standards and through tax incentives to encourage businesses to adopt environmentally friendly policies.

More immediately troubling for the industry may be Dion's commitment to tackle the "advantageous tax treatment oil and gas companies receive" through an accelerated capital cost allowance for oil sands mines.

He said it is "no longer clear that special treatment is warranted given the boom in development, massive profits and the rising price of all types of fossil fuels."

Greg Stringham, vice president of the Canadian Association of Petroleum Producers, told reporters that the industry found Dion, when he was a federal cabinet minister, brought a "very balanced view" to the greenhouse gas emissions issue, favoring action to "protect the environment, but also to have economic growth." ●

● EXPLORATION & PRODUCTION

November weather drops production

ANS averages 667,250 bpd, down 9.5 percent from October numbers after mid-month weather slows tanker loading in Valdez

By KRISTEN NELSON
Petroleum News

Weather continued to plague Alaska North Slope crude oil production in November, dropping the average to just 667,250 barrels per day for the month, down 9.48 percent from an October average of 737,141 bpd. Bad weather in Valdez slowed tanker loading in mid-November, forcing Alyeska Pipeline Service Co. to slow oil flow in the trans-Alaska oil pipeline, which went from 793,305 bpd Nov. 13 to a low of 267,804 bpd Nov. 20, and then ramped up, reaching 739,310 bpd on Nov. 23 and 806,579 on Nov. 30.

October's weather problems were different: flooding in the Valdez area which affected fiber-optic communication lines along the pipeline and high winds and rain on the North Slope which knocked out power at Prudhoe Bay.

Figures reported by the Department of Revenue's Tax Division show Valdez inventories peaking at more than 6.2 million barrels Nov. 19, after starting the month at 3.3 million barrels; there were 2.7 million barrels in inventory in Valdez Nov. 30.

The Joint Pipeline Office said in its Nov. 22 report that high winds and waves in the Valdez area beginning Nov. 15 interfered with tanker loading at the Valdez Marine Terminal, and North Slope producers had to prorate normal pipeline throughput "as inventory in the storage tanks at the VMT has gotten as high as 93.4 percent."

JUDY PATRICK

Trans-Alaska oil pipeline

JPO said there are 14 crude oil storage tanks available for use at the terminal, each of which can hold 510,000 barrels of oil, a total of 7.14 million barrels.

Most fields down

Prudhoe Bay had the largest barrel drop in production from October to November, almost 28,000 bpd, but Northstar had the highest percentage drop, 14.6 percent, averaging 43,447 bpd in November, compared to 50,883 bpd in October. Production from BP Exploration (Alaska)-operated Northstar bottomed out at 19,052 bpd Nov. 21 before beginning to rebound; the field produced 52,090 bpd on Nov. 30.

The ConocoPhillips Alaska-operated Alpine field had a 14.54 percent drop in production, averaging just 104,005 bpd in November, compared to 121,695 bpd in October. Production bottomed out at 35,727 bpd Nov. 20. Alpine, buoyed by Nanuq production, which began Nov. 27 (see story in Dec. 3 issue of Petroleum News), ended the month at 139,062 bpd. In addition to Nanuq, Alpine production includes another satellite, Fiord, which began production in August (see story in Aug. 13 issue of Petroleum News).

BP-operated Milne Point averaged 28,313 bpd in November, down 14.45 percent from an October average of 33,095 bpd.

ConocoPhillips-operated Kuparuk averaged 145,128 bpd in November, down 11.2 percent from an October average of 163,439 bpd, bottoming out at 56,105 bpd Nov. 20, but producing in the 150,000-bpd range at the end of November.

BP-operated Prudhoe Bay averaged 285,000 bpd in November, down 8.9 percent from an October average of 312,962 bpd. Prudhoe had its lowest production for the month Nov. 20, with 113,682 bpd; the field produced 360,363 bpd Nov. 30.

Lisburne, also operated by BP, averaged 17,575 bpd in November, down 5.8 percent from an October average of 18,654 bpd. The field had only 7,521 bpd of production Nov. 16; it produced 20,993 bpd Nov. 30.

Endicott has increase

BP-operated Endicott was the only North Slope field to see a production increase from October to November. The field averaged 43,782 bpd in November, up 20.2 percent from an October average of 36,413 bpd. Endicott had decreased production in mid-month, averaging just 19,391 bpd Nov. 20.

The field's November average is up over October because mid-way through October the Endicott pipeline started carrying some 32,000 bpd of Prudhoe Bay FS-2 oil. Last year at this time Endicott production averaged some 21,000 bpd.

Cook Inlet oil production averaged 16,528 bpd in November, down 1.4 percent from an October average of 16,768 bpd.

The November temperature at Pump Station 1 on the North Slope was 2.3 degrees Fahrenheit, compared to an average November temperature of 2.1 degrees F. ●

● GOVERNMENT

Galvin appointed Revenue commissioner

Alaska's new governor appoints more commissioners, chief of staff; bases choices on ability, not party politics

By RACHEL D'ORO
The Associated Press

Party affiliation is playing no role in Sarah Palin's selection of Alaskans to fill the highest rungs of her administration, the Republican governor-elect said Dec. 1 after introducing another round of appointments.

Palin was sworn into office Dec. 4 as Alaska's first woman governor and, at the age of 42, the state's youngest governor.

"I'm not looking at or asking what party people are registered to," Palin said Dec. 1, nodding at two designated commissioners, chief of staff and other top staffers announced at a news conference. "Raise your hands if you're a Democrat."

Blushing and smiling, incoming Revenue Commissioner Patrick Galvin lifted his arm in the air.

Galvin, 41, is currently a petroleum land manager with the state Division of Oil and Gas, serving as chief of the oil and gas leasing and permitting sections. According to his resume, he is the state's primary contact for federal offshore oil and gas activities.

Palin said she will rely on his expertise to help drive negotiations for a proposed natural gas pipeline from the North Slope.

"It's a tremendous honor to join the Palin administration and the gas line team being formed," Galvin said after his introduction.

Galvin, Banks, Houle favored Point Thomson default decision

Galvin was one of three Division of Oil and Gas section chiefs who provided input on ExxonMobil's recent proposal to reverse a 2005 decision by then division Director Mark Myers that found the undeveloped North Slope Point Thomson unit in default.

In an Oct. 23 memo, Galvin, Kevin Banks (see sidebar to this story) and Julie Houle, strongly recommended Exxon's proposal be rejected and the unit put into default. They were unanimously supported in that recommendation by their respective staffs.

Tibbles named chief of staff

Palin also announced three other appointments on Dec. 1.

Maj. Gen. Craig Campbell, she said, will return as commissioner of the Department of Military and Veterans Affairs, and Mike Tibbles, who led Palin's transition team, would be her chief of staff.

Tibbles, 37, has a long legislative resume that began in 1993, when he worked as a legislative assistant to the state House Finance Committee. His most recent stint was deputy administration commissioner under outgoing Gov. Frank Murkowski.

Palin also named John Bitney as her director of legislative affairs. Palin said she considers Bitney a longtime friend whose relationship with her dates back to "junior high band."

Bitney, 42, has an extensive state legislative background, starting as a House staffer in 1988 and serving later as legislative liaison for the Alaska Housing Finance Corp., according to a biography distributed at the press conference. Most recently he ran his own lobbying and consulting business, with a clientele

see **STAFF** page 13

Banks to head oil and gas

As Petroleum News was headed to press Dec. 7, Kevin Banks confirmed that he has been named acting director of the Department of Natural Resources' Division of Oil and Gas, replacing Bill Van Dyke, who has been acting director since Mark Myers resigned from the division in late 2005. See full story in the next issue of Petroleum News, and write up in a Dec. 8 news bulletin.

● EXPLORATION & DEVELOPMENT

Chevron working Cook Inlet projects

$200 million 3-year spend planned for oil re-development, gas exploration, says John Zager, company's Alaska general manager

By KRISTEN NELSON

Petroleum News

Chevron is looking for more hydrocarbons in the Cook Inlet basin, both oil and gas, John Zager, Chevron's Alaska general manager, told the Resource Development Council's annual conference in Anchorage Nov. 15.

1 2 SERIES

He said the company expects to have a total capital budget of some $200 million in the inlet over the next three years, 2007-09; including partners' share, the total is $300-$350 million.

The company also plans to drill its North Slope White Hills prospect in the winter of 2007-08.

"As compared to the last three years, we'll at least double and possibly triple our investment here in Alaska," he said.

Chevron is the fourth-largest producer in Alaska and the third-largest operator, with some 400 employees, about 275 in Kenai and about 125 in Anchorage.

The company has both oil and gas properties in the Cook Inlet basin, he said, and operates 10 of the inlet's 16 platforms, with eight of the 10 currently producing from the McArthur River, Trading Bay and Granite Point fields.

It also has non-operated North Slope production and a large exploration position.

Cook Inlet also challenging

Zager noted that while the North Slope is the area of the state recognized for challenging operations, "I just want to remind you that Cook Inlet is not a cakewalk either. We have to deal with large tides and ice pans and fairly aged infrastructure — most of those platforms have been out there pushing 40 years now."

JUDY PATRICK

John Zager, Chevron

In its heyday in the 1970s, Cook Inlet produced more than 200,000 barrels per day. "We're still producing about 200,000 barrels per day of crude," Zager said, "the problem is, 90 percent of it is water," increasing the cost of operations. Actual crude production has fallen to some 12,000 bpd.

Chevron has a multi-year program planned "to stabilize and increase production from the offshore platforms," he said, with 40 to 50 projects identified, including "the gamut of opportunities you expect on a large older field."

McArthur River is one of the state's largest fields, he said, has produced more than 600 million barrels of oil, but has some 1.6 billion barrels of original oil in place, leaving "roughly a billion barrels in there that we can go after and hopefully increase the recovery factor enough to make some good projects and extend the life significantly," including in-fill opportunities, step-out horizontal drilling, new fault blocks, waterflood optimization, Jurassic interval tests and deeper pool tests.

What Enstar got from Unocal was a commitment to spend $10 million in exploration money to find reserves. Since then, "Unocal and now Chevron has spent $225 million on gas exploration and development … roughly $60 million of exploration, $150 million on development of facilities and pipelines and about $15 million on gas storage."

—John Zager, Chevron's Alaska general manager

Zager said there are a lot of challenges, including those older platforms, many of which haven't had drilling operations on them for quite a few years.

"The current plan is to begin this drilling program in the second half of 2007," with a capital spend of about $200 million planned over the next three years, a total of $300-$350 million in capital when partners' shares are included.

Cook Inlet gas a concern

On the gas side, Chevron has a "significant" program coming up, Zager said, with "exploration plans at Granite Point."

That field is a big structure, a four-way closure, and is in a good neighborhood for gas with the McArthur River, Beluga River and North Cook Inlet fields in the area.

Granite Point "has never really been drilled on top as a gas prospect," he said, and while it's in a good neighborhood for gas, Granite Point is risky for gas because it's shallower than some of the other fields.

In addition, Chevron is "continuing to look at options on our south Kenai acreage" as well as in existing gas fields.

And the company is developing gas storage. "It's hard for me to over emphasize gas storage," he said. On cold days, gas is pulled out of storage and when temperatures go about 30 degrees, gas can probably be put back into storage.

Zager also addressed the contract Union Oil Company of California signed in 2000 with Enstar Natural Gas Co., the Southcentral Alaska local distribution company. It was the first gas supply contract to bring Lower 48 gas prices to Cook Inlet, he said, and was negotiated at a time when Enstar was having problems getting its gas contracts extended.

What Enstar got from Unocal was a commitment to spend $10 million in exploration money to find reserves.

Since then, "Unocal and now Chevron has spent $225 million on gas exploration and development … roughly $60 million of exploration, $150 million on development of facilities and pipelines and about $15 million on gas storage."

Zager said that to date, some 150 billion cubic feet of gas has been discovered and committed to Enstar under the contract — and since the Enstar market is about 30 bcf a year, it got about a five-year supply through the contract. When the contract was signed, he said, "Enstar had a contractual shortage beginning in 2004," and that's been moved out to 2009.

North Slope, Juneau plans

Elsewhere in the state, Chevron has a half-a-million acre exploration block called White Hills directly south of Kuparuk on the North Slope. "We're working hard on getting that ready and plan to have a rig out there probably about 12-14 months" from now, Zager said, describing it as a "smaller, more portable, built-for-purpose type rig."

He also said Chevron is "a strong supporter of this gas pipeline getting built … through Canada" as the "best means to monetize this gas." Getting the gas into Midwest markets will avoid having Alaska gas compete "so directly with LNG landing on the coast."

To the challenges of working in Alaska, "high cost, remote, long lead time, lack of infrastructure in many areas, regulatory and permitting uncertainty — I had to add fiscal uncertainty," Zager said, because of the new petroleum profits tax, the PPT.

The risk with the PPT, he said, is the temptation "to come back and fix it — and fix it on an annual basis, so that we never know exactly what the next fix is going to be."

The PPT increased the tax on production, but also gave significant credit for investments.

"I would advocate giving it some time to work and not run out and try to fix it," Zager said.

He particularly urged industry to resist "the temptation to run down to Juneau with our own amendments" to the PPT, "because once that bottle is opened again, I fear that we'll definitely lose control of the process." ●

● EXPLORATION & PRODUCTION

Spar system chosen for Perdido project

Technip lands major contract for 'ultra-deepwater' oil development project in Alaminos Canyon; three discoveries to be tied back

By RAY TYSON

For Petroleum News

Shell Offshore has awarded a major contract to French oilfield services company Technip to provide engineering, procurement and construction of a spar hull and mooring system for what could be the first oil production from the highly acclaimed Lower Tertiary play in "ultra-deepwater" Gulf of Mexico. The contract amount was not disclosed.

The so-called Perdido Regional Host Project, to be located in Alaminos Canyon about 200 miles south of Freeport, Texas, will consist of three discoveries tied back to a central production facility or spar anchored in 8,000 feet of water. The spar would replace the Gulf's traditional semi-submersible production platform.

"Following the worst hurricane season on record in the Gulf of Mexico, the existing offshore spar production facilities have proven their robust design, and confirmed the spar's unique features and benefits even during extreme hurricane conditions," Technip said.

COURTESY TECHNIP

First production estimated at 2010

First production from Perdido is expected around 2010, with the facility capable of handling 130,000 barrels of oil equivalent per day. It would be the deepest spar production in the world and the first DVA or direct vertical access, which Technip said would reduce drilling cost, simplify well workovers and facilitate access to subsea equipment.

The Perdido Regional Host Project would be the 14th spar delivered by Technip. It also would be in a water depth that is nearly a half-mile deeper than any other spar in the world.

The common processing hub would be on Alaminos Canyon Block 857 near the Great White discovery. The facility is being designed to gather process and export production within a 30-mile radius of the hub, which in addition to Great White currently includes the Tobago and Silvertip discoveries.

Great White is owned 33.34 percent by Shell, 33.33 percent by Chevron, and 33.33 percent by BP. Tobago is owned 32.5 percent by Shell, 57.5 percent by Chevron and 10 percent by Canada's Nexen. Silvertip is owned 40 percent by Shell and 60 percent by Chevron.

The Perdido Regional Host Project itself is jointly owned by Shell (35 percent), Chevron (37.5 percent) and BP (27.5 percent). Shell will serve as project operator.

Overall management from Technip's Houston center

"This regional concept will also reduce the number and size of the facilities and operations in this challenging frontier area, resulting in a lower environmental impact than would otherwise be achieved," Technip said.

Technip's operations and engineering center in Houston, Texas, will provide the overall project management, and the global engineering for the hull and mooring system, as well as engineering and procurement support for the riser tensioner system. The detailed hull design and fabrication will be carried out by Technip's yard in Pori, Finland.

Plans to develop the Alaminos Canyon discoveries were announced after positive results from a crucial Lower Tertiary production test on the Jack discovery in Walker Ridge were released in September.

The test not only proved up the prolific nature of the Lower Tertiary horizon, but it helped confirm a huge geological trend extending several hundred miles from Walker Ridge westward through Keathley and Alaminos canyons. The trend is thought to hold billions of barrels of oil in dozens of individual prospects.

In addition to the Shell group in Alaminos Canyon, 50-50 partners Devon Energy and Brazil's Petrobras have announced plans to develop the Lower Tertiary Cascade discovery in Walker Ridge. The duo is hoping for a 2009 production startup.

Of the 19 exploratory wells drilled thus far by various companies along the Gulf of Mexico's Lower Tertiary trend, a dozen have resulted in potential commercial discoveries and eight were declared non-commercial. ●

GOVERNMENT

Companies offer simplified pipeline regs

As part of a Regulatory Commission of Alaska investigation into possible simplification of the regulation of the operation of some Alaska oil or gas pipelines, Marathon and BP jointly have proposed some new draft regulations.

The intent of the RCA investigation is to reduce the regulatory burden for small, producer-owned pipelines, thus encouraging the exploration and development of Alaska resources. Under current regulations a pipeline operator must incur the significant time and cost of filing a tariff for pipeline use by anyone needing the pipeline services, even for a pipeline that will likely never be used by anyone other than the operator. In an RCA public meeting in March to discuss the issue, the commissioners asked industry to prepare some draft regulations for consideration by the commission.

The proposed new regulations would only apply to a pipeline that provides service exclusively for the pipeline operator.

And in that situation the pipeline operator could file a "simplified tariff" that need not be justified in the manner required under the current regulations. The pipeline operator would also be exempt from regulation as a public utility.

However, if another company makes a bona fide request for transportation services on the pipeline, the pipeline operator must notify RCA of the request and within 60 days make a complete tariff filing, as is done currently.

—ALAN BAILEY

● FINANCE & ECONOMY

State revenue forecast: prices up

Production decline will turn around briefly, but state revenues currently bolstered by new PPT, worldwide high oil prices

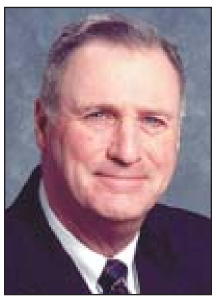
By KRISTEN NELSON
Petroleum News

Oil prices are higher, but production rates are lower in the state's fall 2006 revenue forecast than in the spring 2006 revenue.

The Revenue team of former Gov. Frank Murkowski, led by outgoing Commissioner of Revenue Bill Corbus, ran through the numbers when the Alaska Department of Revenue released its fall 2006 forecast Dec. 1.

For the current fiscal year, FY 2007, "we are projecting $59.15 (per barrel of Alaska North Slope crude oil on the West Coast); this is up from $53.60 for last spring," Corbus said.

The current price projections are consistently higher: FY 2008, $51.25 vs. $46.90; FY 2009, $49.50 vs. $25.50; and between $40 and $50 through 2016, compared to the spring forecast of $25.50 per barrel over that period.


BILL CORBUS

"We've changed the long-term price outlook from $25.50 to $41.50," Corbus said.

The department "continues to believe that there has not been a structural change in the world supply/demand relationship that has prevailed over the last several years," he said, with OPEC continuing to play an influential role, slowing but strong global economic growth, high prices that are encouraging development of new oil supplies and continuing price volatility.

Michael Williams, the department's chief economist, said the methodology the department used has changed, although the protocol — only changing long-run price forecast a maximum of every two years — has not changed.

For this forecast participants were asked to come up with scenarios: most likely case, high case and low case. Williams said that back to 2000 the forecast used the mid-range of the Organization of Petroleum Exporting Countries basket of prices, and prior to that they used a 15-year or five-year average. "So what they've done over time has changed."

Market dynamic

The use of scenarios is designed to capture market dynamics, he said, including cyclical prices for crude oil, which go up and then come down. "And what happens is when prices are high, they start a lot of events." People become more conservation minded and more development is encouraged on the supply side, eventually bringing prices down. "So that's why we use scenario analysis, to try and get a sense of that," with scenarios taking "into account the price effect with the idea that they will come back down."

The Revenue Sources Book said "key topics are presented (at the forecasting session) to assist the participants in making their forecasts. For the fall 2006 forecast, the topics reviewed were worldwide economic growth, oil demand, oil supply (for the countries belonging to the Organization of Petroleum Exporting Countries or OPEC and non-OPEC countries), geopolitics and prices (history, forecasts from other organizations and results from the pre-meeting solicitation)."

After all the results were compiled and reviewed, the department's economics team chose the most likely forecast for the fiscal years 2007 to 2013, but beyond 2013, "projects were very high and the department believed they were unrealistic given 146 years of crude oil price history," so for the official long-term forecast the low case scenario was selected.

A graphic in the Revenue Sources Book shows that the high price scenario climbed to the $75 range by 2013.

Both price and volume important

The department uses a sensitivity matrix to determine the importance of prices and volumes to state revenues. A 1 percent change in oil prices produces a 0.75 percent change in general fund unrestricted revenues; a 1 percent change in volume results in a 0.5 percent change. "Both price and volume of ANS are clearly important to the State of Alaska budget," the department said.

Petroleum engineer Dudley Platt addressed the changes in production. Differences between the spring and fall forecasts for FY 2007 and 2008 are because "we're recovering from the pipeline fiascos and we're getting back to normal sometime during this fiscal year '08." Platt said production is expected to be "relatively stable over the next three or four years."

On the "big, mature fields like Kuparuk and Prudhoe," production is "relatively predictable," he said. "We are starting to see some backfill to account or offset or mitigate that decline from fields such as Fiord and Nanuq, the ConocoPhillips' operation going on near Alpine."

Alpine itself has been "an overachiever," Platt said, but "seems to have peaked and we'll be looking at a decline from about this point forward" from the main field. Northstar is near the end of peak production and will be on decline.

"The ability to make up for declines in all those fields is directly related to capital investment to go after oils, basically heavy oils, that are known to exist," Platt said. If that money is spent and the heavy oil can be produced from West Sak, Orion, Polaris and Schrader Bluff, "it will go a long way to mitigate some of that decline. It won't completely offset it, though, so over the next five years you're going to see a decline, but that's premised on spending that money."●

What role for heavy oil in Alaska?

The Alaska Department of Revenue included a chapter in its fall 2006 Revenue Sources Book which addresses heavy oil in Alaska's future. "Will heavy oil do the heavy lifting for Alaska?" the chapter title asks.

In addition to providing a primer on what heavy oil is, Revenue notes that the real issue with heavy oil in Alaska "is not the API gravity, but the ability of the crude oil to flow, or its viscosity. While API gravity provides a measure of its density (and economic value), it fails to incorporate the more difficult issues surrounding flow."

And flow, the department said, is the real issue in Alaska.

One of the reasons for flow issues with Alaska heavy oil is that it is within 6,000 feet of the surface on the North Slope — close to the permafrost — "where temperatures are cooler, thereby reducing the oil's viscosity or ability to flow."

There are three major deposits of heavy oil in the world, that is deposits of more than 1 trillion barrels: Canada (some 1.86 trillion barrels); and Russia and Venezuela (each with about 1.2 trillion barrels).

Alaska, the department said, is at the next level with the potential of some 100 billion barrels of heavy oil resources, of which more than 20 billion barrels are known reserves with the possibility of billions more which could be identified.

Five fields produce viscous oil in Alaska, the department said: Orion,

see **HEAVY OIL** *page 11*

● GOVERNMENT

Palin to examine last-hour job blitz

Out-going governor names chief of staff Jim Clark to ANGDA board; does not reappoint present chairman Andy Warwick

By ANNE SUTTON
The Associated Press

Alaska Gov. Sarah Palin will revisit 35 appointments made by her predecessor in the hour before he left office, especially one she called "bizarre."

The appointment is that of Murkowski's former chief of staff, Jim Clark, to the volunteer seven-member board of the Alaska Natural Gas Development Authority.

At least one board member said Clark — Murkowski's right-hand man in the failed negotiations with oil companies on a $25 billion natural gas pipeline — has bucked the board's decisions since its inception.

Board member Scott Heyworth questioned Murkowski's motives as well as Clark's support for the authority.

"To do this at the 11th hour and then appoint his chief of staff who's been at odds with ANGDA since Day One, it's amazing," said Heyworth.

Palin's spokesman, Curtis Smith, said he told Palin of the appointment minutes before she took the stage for her swearing-in at the Carlson Center in Fairbanks.

"It's an issue she will revisit when the events of the day settle," Smith said Dec. 5 as Palin was involved with reopened pipeline negotiations.

Palin has the final word on appointments to any of the state's boards and commissions.

Authority approved by voters in 2002

The natural gas authority was approved by voters through a citizens initiative in 2002. The organization was formed to plan for a state-owned and operated natural gas pipeline from the North Slope to Valdez, where the gas would be converted to liquids and shipped south.

Murkowski, however, pursued a different pipeline project and asked the authority to focus instead on a proposed natural gas pipeline to the Lower 48 through Canada. In particular, the group has been studying spur lines that would divert some of the gas to Alaska towns in the interior and Southcentral regions.

At the time, some board members fretted about backing away from what they saw as a voter mandate, although the group moved forward with planning under the governor's proposal.

Clark said he believes his experience and understanding of the project would be valuable to the authority.

"We feel ANGDA made a very, very strong contribution there, and I'm looking forward to getting caught up with things they are doing and see if I can make a contribution," he said.

Clark said he resigned from his position as chief of staff at 10 a.m. Dec. 4 so that Murkowski could appoint him an hour later to a seat reserved for a member of the general public.

Warwick not reappointed

Heyworth also called Murkowski's failure to reappoint board chairman Andrew Warwick an act of "political retribution."

Warwick said he may have run afoul of Murkowski in the last election.

"I've supported Frank Murkowski for some 25 years, but I supported John Binkley in the primary and that probably had something to do with it," said Warwick, of Fairbanks.

Murkowski is traveling and could not be reached for comment. However, Clark said he is confident politics were not in play.

"I don't see where this administration has had retribution against anybody for anything, probably to a fault," Clark said. "Andy is owed a big debt of gratitude for his service."

Murkowski named Clark and Richard Schok Jr. of Fairbanks to seats held by Warwick and David Cuddy of Anchorage. Their terms expired six months ago although they have continued to serve since then at the request of ANGDA Chief Executive Officer Harold Heinze. Murkowski also reappointed Robert Favretto of Kenai.

Murkowski also ended his term as he began it, with the appointment of a family member. He named his son-in-law, Leon Van Whye, to the board of the Alaska Railroad.

Van Whye is married to Murkowski's daughter Eileen.

Frank Murkowski opened his administration in 2002 by naming another daughter, Lisa, to the U.S. Senate seat he vacated after winning the governor's office.●

Breaking News

As Petroleum News was going to press on Dec. 7, Alaska Gov. Sarah Palin removed Jim Clark and Richard Schok Jr. from the Alaska Natural Gas Development Authority Board and replaced them with her own appointments. The new governor reappointed Fairbanks resident Andy Warwick to fill Clark's seat. Lorrie Hovanec of Anchorage will fill Schok's seat.

INTERNATIONAL

BP, Rosneft sign for JV in Russian Arctic

Russian state-controlled oil company OAO Rosneft said Nov. 30 it had signed an agreement with BP PLC to work together in developing energy projects in Russia's Arctic region.

The companies will work together to obtain exploration and production licenses in the far north, where Rosneft already has subsidiaries operating and where it plans to expand. Rosneft has also said it plans to bid for the Trebs and Titov fields, which hold some of the largest crude oil reserves in the region. Russia's biggest oil producer, OAO Lukoil, has also said it would bid for the two fields.

BP — which has a major joint venture project with Russian company TNK — paid $1 billion for shares in Rosneft's initial public offering in July, a move that was seen by many observers as an attempt to improve relations with the Kremlin-friendly company and smooth its expansion into Russia.

Foreign energy companies have come under increased scrutiny by Russian regulators in recent years, which analysts have speculated is part of a drive by the Kremlin to assert greater control over the energy sector.

—THE ASSOCIATED PRESS

GOVERNMENT

New coordinator's office holds first meeting

The Alaska Department of Natural Resources' Lease Monitoring and Engineering Integrity Coordinator's Office held its first organizational meeting Nov. 29. The office, part of the Division of Oil and Gas, is charged with improving oversight of oil and gas production and transportation infrastructure. The first meeting, held in Anchorage, was organizational, and state and local agencies addressed the scope and limitations of their mutual regulatory authorities and their long-term plan of action.

At the meeting were the state departments of Fish and Game, Environmental Conservation, Labor and Workforce Development, Transportation & Public Facilities; the North Slope Borough; the Alaska Oil and Gas Conservation Commission, DNR's Division of Oil and Gas, State Pipeline Coordinator's Office, Office of Project Management and Permitting and Office of Habitat Management & Permitting.

continued from page 10

HEAVY OIL

Polaris, Schrader Bluff, Tabasco and West Sak. Tabasco and West Sak are produced at the Kuparuk River field; Schrader Bluff is produced at the Milne Point field; and Polaris and Orion are part of the Prudhoe Bay unit.

The Ugnu is a viscous formation shallower than West Sak/Schrader Bluff — and closer to the permafrost — and there is currently no Ugnu production, Revenue said. Ugnu formation temperature is below freezing, it has an API gravity of about 8 degrees and a very high oil viscosity. "The billions of barrels of reserves in this formation are not economical to produce now, but someday may be," the department said.

Developing viscous oil requires different technologies than those for conventional oil. "Steam flooding" has traditionally been used to get viscous oils to flow, although in the last 10 years new techniques, such as steam assisted gravity drainage, have been developed and CO2 or natural gas injection have also been used.

"All of these techniques require facility and energy expenses that are well beyond the requirements for producing traditional oil reserves," Revenue said.

Alaska viscous oil production also faces a solid waste disposal issue, as significant amounts of sand are produced with the heavy oil. Some North Slope facilities were not designed with sand disposal in mind and must be periodically closed to allow sand removal. "As newer facilities are developed, they will likely integrate solid waste disposal," the department said.

—KRISTEN NELSON

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

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

Petroleum news Business Spotlight

FORRERST CRANE

Jeannette Messina

Hawk Consultants LLC

Hawk Consultants LLC is owned and managed by three professionals — Maynard Tapp, Mike Jens and Dave Norton — who have over 100 years of combined experience serving Alaska's energy, public works, telecommunications and private development clients. Hawk professionals provide dependable staff augmentation and management support services to advance client projects from concept to completion, short or long-term.

Jeannette Messina is the company's vice president of operations. She has been with Hawk Consultants for over 17 years, and essentially runs the business aspects of the operation. In 1996 she earned a Bachelor of Science degree in Business Administration and Accounting from Wyland University, Anchorage, Alaska.

● NATURAL GAS

Price of admission high for Petro-Canada

Gazprom wants downstream LNG stake for gas supplies from Shtokman; says it has 'support and cooperation' in Canada

By GARY PARK
For Petroleum News

If nothing else, Petro-Canada now has a better idea what it will take to enter the liquefied natural gas business.

To get a lot it may have to give a lot.

That's effectively the word from Russian gas giant Gazprom to the Canadian company and any others who hope to secure supplies from the massive Shtokman field in the Barents Sea.

Petro-Canada may have to bring Gazprom closer to consumers to get the 25-year supply contract Petro-Canada has been working on for almost three years as feedstock for its planned Gros Cacouna LNG terminal in Quebec, a joint venture with TransCanada.

To achieve that goal, Petro-Canada may have to help provide Gazprom with a stake in the downstream end.

In a Dec. 1 conference call with North American reporters, Gazprom Deputy Chairman Alexander Medvedev indicated his company — whose shares are owned 50 percent plus one by the Russian government — wants a "substantial" stake in Canada and the United states as a supplier of LNG and an owner of infrastructure and E&P assets.

He said Gazprom, which already has exploration programs in India, Vietnam, Algeria, Libya and Venezuela, is eager to diversify its "upstream base beyond the Russian border. Why not the United States? And Canada."

When it comes to the North American market, "we would like not just to produce ... but to be as close to the consumer as possible."

Medvedev said Canadian officials seem to be more receptive than those in the U.S., even though the government of Prime Minister Stephen Harper recently indicated it plans a more rigorous review procedure before allowing foreign state-controlled companies to make major acquisitions in Canada.

China has already moved into the oil sands, with India and Korea signaling their interest in joining the trend.

Gazprom didn't see Canadian opposition

Natural Resources Minister Gary Lunn said investment by the Chinese government companies is acceptable to Canada so long as it is limited to minority stakes in joint ventures.

Medvedev said the prospect of Gazprom investment in Canada has been favorably received.

"We didn't see any opposition during our meetings with government representatives of Canada," he said. "We only felt support and cooperation between Gazprom and Canadian companies."

In fact, four months ago at the G8 summit, Harper and Russian President Vladimir Putin issued a joint statement promoting the stabilizing role LNG project could play in global energy markets.

They pledged to "take measures both nationally and internationally to facilitate investments into a sustainable global energy value chain to ... develop global LNG markets."

"To reduce huge investment risks and facilitate smooth functioning for the emerging global LNG market, we will seek to create appropriate investment conditions," the two leaders said.

Putin also endorsed efforts to reach a supply agreement between Gazprom and Petro-Canada

Major purchases in U.S. would likely face opposition

However, Medvedev conceded that any move by Gazprom to make major purchases in the U.S. would likely encounter the same opposition that scuttled a bid by China National Offshore Oil Corp. to buy Unocal and by Dubai Ports World's bid to take over management of U.S. ports.

He argued that Gazprom is little different from any other state-owned companies, describing the company as "a commercially driven and value driven enterprise. All of the accusations that say we are manipulated by the Kremlin are absolutely absurd."

Medvedev said Gazprom, which meets 26 percent of Europe's gas needs, would be in compliance with North American legislation, just as it is in Europe.

His message was a distinct shift in tone from remarks earlier this fall by Gazprom chairman Alexey Miller who said Gazprom would develop the Shtokman field without foreign partners, focusing instead on building pipelines to European markets.Medvedev rejected any suggestion that Gazprom might have difficulty serving markets in Europe, Asia and North America, saying it has "enough reserves to meet both local demand and all our export obligations including potential sales to new markets."

For the Baltic LNG project he said Gazprom will soon narrow down the list of candidates for a production consortium to two or three companies. In addition to Petro-Canada, contenders have been Chevron, ConocoPhillips and the two Norwegian companies, Norsk Hydro and Statoil. ●

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RENAISSANCE

has produced outstanding returns for its investors.

Acreage acquired

Renaissance has acquired 90,564 net acres of Alaska leases, primarily from Rutter and Wilbanks Corp. The company is also in the process of acquiring an additional 26,610 acres that Rutter and Wilbanks obtained in the State of Alaska's May Cook Inlet areawide lease sale. The Renaissance leases are on the Kenai Peninsula, offshore in Cook Inlet and in the Umiat oil field at the eastern edge of the National Petroleum Reserve-Alaska.

The Cook Inlet leases include the offshore Northern Lights prospect that has in the past been estimated to contain 111 million to 358 barrels of oil equivalent. Rutter and Wilbanks has retained a 12.5 percent interest in the prospect, with Renaissance acquiring an 87.5 percent interest, Landt said. Northern Lights, also known at various times as Tyonek Deep and Sunfish, lies south of the ConocoPhillips North Cook Inlet gas field, near the center of a 23-mile long anticline.

ARCO and Phillips drilled into the Northern Lights prospect in the 1990s. Fifteen out of 17 wells were deemed productive for oil, with eight testing at initial rates of about 3,600 barrels per day from three zones, according to Paul Fenemore, the president of Prodigy Alaska, the company that bought the Northern Lights leases in 2003 — ARCO and Phillips had decided not to develop the prospect.

Rutter and Wilbanks acquired the Northern Lights leases from Prodigy in early 2006.

Kenai Peninsula acreage

The Renaissance acquisitions from Rutter and Wilbanks also include a 100 percent interest in the onshore Eagle and West Eagle prospects, east of Deep Creek on the Kenai Peninsula. And on the North Slope Renaissance has purchased a 50 percent interest in the Umiat oil field, at the eastern edge of the National Petroleum Reserve-Alaska, with Rutter and Wilbanks retaining the remaining 50 percent interest in Umiat.

Landt said that Renaissance hopes to drill its first well in the Cook Inlet basin in 2008. That first well will likely be onshore, because of the timing of the drilling seasons, Landt said. Drilling in the offshore acreage will require a jack-up rig.

"We're prepared to bring up our own jack-up but we'd like to work with Escopeta and possibly other partners and put together a rig consortium," Landt said. "Once you bring a jack-up to the inlet you end up drilling all opportunities."

Scales, Cook join team

Meantime Renaissance is staffing its Alaska operation. Nick Scales, who has been working on jack-up rigs offshore Louisiana, is joining the company in Alaska as a full-time employee. Scales worked in drilling for BP and ARCO in Alaska for several years, and has also worked for Arctic Slope Regional Corp.

Mike Cook, Scales' most recent boss, will also join Renaissance in Alaska. Landt said Cook's experience with jack-up rigs offshore Louisiana would prove valuable to the company.

In addition to Landt, Renaissance employees include the company's other co-founders James Watt and W. Allen Huckabay.

Landt worked at ARCO Alaska from 1992 to 1997, serving initially as district land manager for the Cook Inlet.

"Sunfish and North Foreland were my wells," he told Petroleum News in a 2001 interview. "I saw an opportunity south of the North Cook Inlet field but ARCO walked away from it."

Landt later became vice president of land and new business ventures for Prodigy, in which position he pushed the potential of the Northern Lights prospect. The subsequent purchase of the prospect by Rutter and Wilbanks, described by Landt as an "angel investor," has now provided an opportunity for Landt to become involved with the prospect again. ●

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STAFF

including investment bankers and trade associations.

Palin prompted a few laughs when she cautioned reporters against referring to Tibbles and Bitney as "Tibbles and Bits."

Also named Dec. 1 was Meghan Stapleton as press secretary and director of communications for the governor's office.

Stapleton, 34, is a former reporter, anchor and managing editor with KTUU-TV in Anchorage. More recently she has worked as corporate communications director for Alaska Communications Systems. ●

—Petroleum News contributed to this article

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MAC GAS

Aboriginal Pipeline Group, which has a chance to take a one-third equity position in the Mackenzie pipeline.

Other Deh Cho communities who might be having second thoughts about taking a stand that could scuttle the Mackenzie project are being encouraged to consider breaking ranks.

Erasmus told CBC News that although the Deh Cho have previously insisted on owning and governing their entire region rather than sharing power with the Canadian and Northwest Territories governments, "they don't want to close the door until they see the full hand."

"They know it was an initial offer, a counteroffer to the Deh Cho proposal, and they want to see what it really means before they make up their minds about whether this is something they are prepared to live with," he said.

Erasmus said more detail is required on what jurisdiction the Deh Cho would have, along with the proposed land-use plan and the amount of land and money the federal government is prepared to offer.

When that information is made available in the spring, the Deh Cho will decide whether or not they will accept the federal offer.

Meanwhile, federal Indian Affairs and Northern Development Minister Jim Prentice has been unwavering in his view that the Mackenzie project can proceed, with or without a land claim agreement.

In a separate announcement, the federal government appointed Tim Christian as chief consultation officer with the Dene Tha, responding to a Federal Court of Canada ruling in November that Ottawa had failed to properly consult with the Dene Tha, whose land is the terminus for the pipeline.

The Dene Tha said they had been shunted aside in the Mackenzie negotiations — a position the court largely endorsed by ordering a remedies hearing to solve the dispute.

Christian has long experience negotiating with first nations and was the chief federal negotiator in a 2005 out-of-court settlement with the Deh Cho on a similar dispute over pipeline consultations.

On another matter, Prentice said negotiations to reach a devolution of powers agreement with Nunavut Territory should be less complicated than achieving a settlement with the Northwest Territories because Nunavut has a single land claims organization, while the NWT involves many aboriginal groups, some of which don't have final land claim pacts. Devolution would see some exclusive federal powers over resource development transferred to the territories, along with direct access to resource revenues.

Prentice said the government is committed to negotiating devolution agreements, but he would not speculate on how long the process might take.

The NWT has been arguing its case for years, while Nunavut, which did not become a territory until April 1, 1999, says it is already a year behind schedule. ●

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TAPS

ty of 2006 data contained in the filings, and she denied an interlocutory appeal of her ruling on the ground that no extraordinary circumstances exist to merit granting such a request.

However, FERC Commissioner Joseph T. Kelliher, acting as motions commissioner, disagreed with Cintron on at least one aspect of the appeal and referred it to the full commission for review.

The TAPS owners protested having to make public documents which contained commercially sensitive cost and throughput projections, net carryover, and voluntary revenue reduction information contained within their 2005 and 2006 tariff calculations, known as the "TSM projection data."

"TSM" refers to a 1985 settlement agreement between the TAPS carriers and the State of Alaska that is used to set tariffs for crude shipments on the pipeline. The TAPS carriers said they use this data in competing for customers to fill capacity on the 800-mile trans-Alaska oil pipeline.

The full commission reviewed Cintron's decision and arguments by the TAPS owners as well as the opinions of Anadarko Petroleum and Tesoro Corp., two TAPS shippers that are protesting the tariffs as being excessive.

FERC concluded that TAPS' owners had good reasons to keep the information confidential.

"We conclude that the appeal should be granted because once the information becomes public, the decision to make it public cannot be corrected later on. The TAPS Carriers' have shown that release of the material is likely to have an adverse impact on the existing competitive situation involving TAPS rates and capacity," the commission wrote in its eight-page order.

FERC said the State of Alaska's support of the argument advanced by the pipeline owners added further weight to their position. The commissioners noted that the state has an interest in ensuring competitive tariff rates on the pipeline.

The commissioners also said they found Anadarko and Tesoro's arguments for denying the appeal unconvincing.

"That the TSM Projection Data did not have confidential status prior to 1995 is irrelevant because until 1995 capacity on TAPS was fully subscribed, and the carriers did not compete for throughput. That is not the situation at present, where throughput on TAPS is less than its mechanical capacity, and the carriers actively compete to fill their portion of the capacity," the commissioners wrote.

The commission also noted that only the TSM projection data would remain confidential out of hundreds of documents and filings that will be made public in the case.

In response to another appeal of Cintron's ruling by BP Pipelines and ExxonMobil Pipeline, Kelliher said he did not believe the two TAPS carriers demonstrated extraordinary circumstances and the issue did not warrant a full review by the commission.

BP and ExxonMobil had asked the commission to allow them to keep "highly confidential" the prices at which the two TAPS owners purchase fuel gas for the TAPS pump stations from the gas producers. The carriers claimed this information has limited relevance to the tariff proceedings and making the prices public would cause irreparable harm to the North Slope gas producers, BP Exploration (Alaska) Inc., ExxonMobil Production Co. and ConocoPhillips Alaska.

The full commission did not review this issue.

The dispute over disclosing confidential documents and exhibits in the case arose as hearings before Cintron began Oct. 31.

In arguing for full disclosure, Anadarko and Tesoro offered to waive "confidential" and "highly confidential" classifications of some of their own documents, if the TAPS owners would agree to do the same.

After hearing additional oral arguments and weighing the parties' positions, Cintron said she found no competitive harm to the TAPS carriers from public disclosure of the documents and if there were any competitive harm, such harm would be outweighed by the public's interest in having access to the documents.

The underlying case began nearly two years ago when Anadarko, Tesoro and the State of Alaska protested a proposed 28 percent hike in TAPS' 2005 tariffs, calling them unjust, unreasonable and excessive.

BP, which owns 50.01 percent interest in TAPS, sought the biggest increase, 28 percent, or 87 cents, higher than its 2004 rate.

The two shippers and Alaska officials have asked FERC to suspend the 2005 tariffs, declare the rates subject to refund, establish just and reasonable TAPS rates and take other appropriate steps to provide relief.The Regulatory Commission of Alaska ruled in 2002 on a similar complaint from shippers, including Anadarko, and drastically lowered the tariff for crude being shipped to Alaska destinations on TAPS. RCA also ordered substantial refunds.

The TAPS tariff for oil being purchased for in-state use was about $1.96 a barrel in 2004, compared with $3.01 a barrel or more for oil transported outside the state.

The case represents the first time FERC has been asked to rule on the fairness of the tariffs that TAPS owners charge for Alaska North Slope crude shipped to markets outside Alaska. Currently, about 17 percent of the nation's oil is supplied by the North Slope via the pipeline.

Hearings in the tariff case are ongoing. Initial briefs are due Feb. 2. ●

GOVERNMENT

Marathon pays fine on Cook Inlet platform

The U.S. Environmental Protection Agency said Nov. 28 that Marathon Oil Co. has agreed to pay nearly $38,000 for alleged Polychlorinated Biphenyls violations at its Cook Inlet Spark oil and gas production platform.

EPA said it is citing the company for violating the federal Toxic Substances Control Act by failing to properly register and store two PCB transformers for disposal and reuse. EPA alleges that these two PCB transformers have been improperly stored for several years.

According to Daniel Duncan, EPA's Region 10 PCB program coordinator, "Facilities that store PCBs need to be aware of their notification and storage obligations under TSCA. We'll continue to review the reports filed under the PCB regulations to determine proper compliance with the storage and disposal rules."

EPA said Marathon has now removed and properly disposed of the two PCB transformers.

Houston-based Marathon spokesman Scott Scheffler said Marathon and EPA Region 10 executed a consent agreement Nov. 22 "whereby Marathon agreed to pay a civil penalty in the amount of $37,860 to settle alleged record-keeping, storage and inspection violations associated with two transformers Marathon previously operated on its Spark Platform in the Cook Inlet, Alaska."

Marathon said the transformers had previously been taken out of service "and drained of all fluids pursuant to EPA's regulations in 1996." The company "self-reported this matter to EPA in 2005 and has actively cooperated with the agency throughout their review of this situation," Marathon said.

With EPA's approval the transformers were removed from the Spark platform and disposed of at an approved facility last summer.

"It is important to note that there was no release of any contaminants to the environment during the time the transformers were maintained on the platform or during the subsequent removal and disposal operation," Marathon said, noting it "takes seriously the need to comply with all applicable regulations, including reporting requirements thereof. In addition, the health and safety of our employees, contractors and neighboring communities has always been and will continue to be a top priority for Marathon."

Both Spark and Spurr, the other platform in the North Trading Bay unit, produced oil and both were shut-in in 1992.

Marathon installed gas production facilities on Spark in the fall of 1996 and gas production began in December 1996.

There was a gas test at Spark in 2002; state records show "intermittent" gas production from North Trading Bay, where the platform is located.

"The Spark platform's single gas well has produced intermittently since gas production facilities were installed in 1996," Marathon spokesman Paul Weeditz told Petroleum News.

"Most recently, high water production caused the well to cease flowing altogether" in September of 2005. Weeditz said a workover of the well is tentatively planned next year to attempt to return the well to production.

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MEETINGS

ticipants what lessons the state should have learned from negotiations over the last two years. "Unreasonable timelines and expectations will not get us a gas line," was the response of quite a few participants, she said, pledging not "to create any artificial timelines" for the negotiating process in her administration.

"Another thing that the participants … shared with us was their need to see the Legislature onboard with the administration, working as a team for Alaska, in order to progress this project." Palin noted that she has said, and intends, "to work with the Legislature, not against them."

More public involvement throughout the process was also mentioned by a number of the companies, said Lt. Gov. Sean Parnell.

Palin said another thing they heard from a number of participants is that "explorers are not going to risk exploration capital in Alaska if they don't believe that they're going to be invited as participants in the gas line. They want access to the gas line."

Rutherford said the access issue was a difference between concerns of the North Slope producers and those without current gas.

There were also common concerns.

"They all made the point that they needed to have a reasonable tariff structure …; they needed to have expansion — when expansion was economic they needed to have certainty that the pipe would be expanded; and that they needed equal opportunity in the initial open season." Those things, Rutherford said, "were equally important to virtually all of them."

Not all of the participants wanted to be project sponsors.

Rutherford said there were varying degrees of willingness to discuss participating in the project. Companies wanted the opportunity to explore, she said, and protection for their ability to monetize anything they find, "and that they had a level playing field from a commercial perspective, with everyone else."

Some confusion on past goals

Palin said that some participants in the meetings "felt that there was some confusion with what it was that the administration was driving towards in the negotiations — the prior administration."

"Some of the participants didn't know if they were being seriously considered … or if they were — I guess speaking bluntly here — if they were just being used as leverage in negotiations with the big three oil companies.

"So the lesson learned there was the need for honestly, for transparency there with the administration's goals."

Palin said she "was able to provide those participants our assurance that we would not treat them that way — that we will not lead them on in terms of being allowed to participate early on without the intention of seriously and fairly considering their proposals."

As to which companies were concerned about being used as leverage, Rutherford said: "I think everybody but the producers."

Closing window, costs not concerns

There has been concern that Alaska gas faces competition from imported liquefied natural gas.

Rutherford said one thing the administration officials heard was that LNG terminals are not being built as quickly as some had hoped.

She said the group did hear some concern about "coal developments in the Midwest and Wyoming, Montana, that area, that could actually compete with Alaska gas."

"But generally people thought that there wasn't any window that was about to abruptly close."

Rutherford said one thing of particular interest to her was that "virtually every party continued to say that this is a very economic project," in spite of rising costs. "But with the price forecast of gas they thought that the project was still very doable and very interesting to a lot of parties."

And, she said, discussions with the companies confirmed for her "that the access provisions are absolutely critical to the future economic health of this state."

What's on the table?

Asked if state equity participation was still on the table, Palin said one thing that was discussed with meeting participants was "their take on the need for the state's participation. And it's still on the table — nothing's not on the table." Participants were invited to provide their input, she said, including input on state participation.

Fiscal certainty came up "three or four times, primarily from the producers, but TransCanada also mentioned it," Rutherford said. The talks were general, she said, and didn't get to the level of whether it was "fiscal certainty on just gas of fiscal certainty on gas and oil."

But if the state does provide incentives, Rutherford said, that could be reflected in timelines — not the timelines for moving the negotiation process forward, but timelines for the project itself.

"If … in fact the state decides that it wants to take a position and put financial incentives on the table to move the project forward," then in exchange the state could ask for "some commitments on timing on how the project would progress," Rutherford said.

What's next?

Palin said the administration needs to put a gas line negotiating team together and part of that requires figuring out what's in the current fiscal year's budget and "how much money is left over from the prior negotiating team and where we can find the funds to continue the process."

Rutherford said the operating budget carries some of the negotiating load in Revenue, Law and Natural Resources, "with individuals who are already on staff."

But the complexity of the issues requires outside assistance, she said, "anything from experts on tariff to experts on financing, economic analysis." Some of the Legislature's initial funding was used to develop a model which is available, and "we already have a great deal of data that we will be drawing upon," but some additional analysis and "unique expertise" will be needed.

Commissioner of Revenue Pat Galvin said they're still sorting out available monies, but "I guess it's fair to say that an awful lot of the money that was appropriated for this fiscal year regarding gas line negotiations has been spent." They're identifying remaining funds now, he said.

Asked about Pedro van Meurs, Galvin said van Meurs' contract has or will shortly expire. Palin said she did not intend to renew the contract.

Analyzing some of the material received — and getting answers to some questions that material raised — is next on the agenda, Rutherford said. "I think that we do need to have a team. We do need to have a budget. But also we need to determine if in fact there are parameters under which negotiations would progress.

"And the governor will have to make those decisions, but we're going to have to frame all the various questions and ramifications of those issues as we begin to move forward."

The governor will have to decide, Rutherford said, "which project she wants to address."

Asked if her administration was starting from ground zero, Palin said: "No, basically, we don't have to start from ground zero. There's been so much work already accomplished. …

"A lot of fiscal and human resources have gone into the contract that Gov. Murkowski wanted adopted by the Legislature" and there is a lot of information available.

"But I think it's been very valuable to have this opportunity to hear from the participants what lessons should be learned thus far."

—KRISTEN NELSON

ANGDA wants to move to governor's office

Among presentations made to Gov. Sarah Palin Dec. 5 and 6 was one by the Alaska Natural Gas Development Authority, which asked to be moved from the Department of Revenue into the Governor's Office.

The authority also asked to have exclusive responsibility for all in-state gas issues assigned to it, and asked the governor to "set cooperation requirements for all departments and stakeholders."

And, presumably in response to the appointment by out-going Gov. Frank Murkowski of his chief-of-staff Jim Clark to the ANGDA board, the authority suggested that the governor "adjust board membership to your preference."

Using ANGDA as the vehicle for the state's internal interests would demonstrate resolve to solve Alaska's energy problem, the authority said, noting that it is fully operational and is already "working with all parties — public and private."

The authority pegged legislative issues for attention, including previously submitted changes required in the state's Pipeline Act and noted that Point Thomson might be quickly developed using ice-breaking tankers, for which, it said, Shell and Exxon have patents.

—KRISTEN NELSON

LAND & LEASING

White House confirms Bristol Bay oil and gas leasing ban might be lifted

President Bush is considering lifting a ban on oil and gas leasing in federal waters off Alaska's Bristol Bay in the North Aleutian basin.

Leasing was stopped nearly two decades ago following the 1989 Exxon Valdez oil spill offshore Alaska in Prince William Sound.

But with natural gas prices higher, the U.S. Interior Department's Minerals Management Service earlier this year proposed reopening the North Aleutian basin, which includes Bristol Bay and part of the southeastern Bering Sea.

White House spokesman Scott Stanzel confirmed Dec. 2 that the president is considering it.

In recent days, national environmental groups issued a flurry of e-mails and press releases urging their supporters to lobby Congress, the White House, Alaska officials and others against the proposal. They have speculated in recent days that Bush might allow such drilling before Democrats regain control of Congress in January.

Supporters of offshore drilling propose limiting lease sales to a small area in the southwest corner of the basin starting near Port Moller.

Gov. Frank Murkowski, in a Nov. 22 letter to MMS director Johnnie Burton, said local communities in that area supported offshore drilling as long as they were closely involved in oil and gas development.

"Any oil and gas activity in the region must minimize conflicts with fishing activities, minimize negative impacts to fish and wildlife resources and must be done with significant stakeholder consultation," Murkowski wrote.

Murkowski, who left office Dec. 4, also proposed changing federal law to allow the state and coastal communities to get more revenue from the offshore leases, and he reiterated his request that the president lift the leasing ban.

Though she hadn't been briefed on the proposal, Gov. Sarah Palin in the past has said that Cook Inlet "was an excellent model for how offshore development and a delicate marine environment can co-exist," her spokesman Curtis Smith said in early December.

The MMS said in its August proposal that reopening oil and gas development in the basin's federal waters, extending between three miles and 200 miles offshore, could produce $7.7 billion in oil and gas production and up to 11,500 jobs. If the president lifts the ban, lease sales could start as soon as 2010, MMS said.

MMS estimates the area holds some 200 million barrels of oil and 5 trillion cubic feet of natural gas.

Fourteen companies are said to be interested. The agency cited support among more than a dozen local and tribal governments nearby that believe the drilling would boost their economy.

The Bristol Bay region's fishing economy has been depressed over the past decade, partly because of competition from less expensive farmed salmon. The depressed fisheries have given more support to Royal Dutch Shell PLC and other oil companies that have lobbied the White House to lift the offshore drilling ban.

The southwest segment of Bristol Bay was last open for lease sales in 1988 when the federal government collected more than $95 million, which it has since paid back to the successful bidders.

Congressional protections put on the area in 1989 were lifted in 2003 at the behest of Sen. Ted Stevens, R-Alaska, who said he had been acting at the request of constituents in the region.

—This story was reported and written by The Associated Press, reporter Richard Richtmyer of the Daily News and edited by Petroleum News.

Working together for cleaner air and a better future

A report from the Prince William Sound Regional Citizens' Advisory Council

For years, our council has sought an end to hazardous air pollution from Alyeska Pipeline's tanker terminal in Valdez. A major step came in the late 1990s with the installation of equipment to capture the huge quantities of hydrocarbon vapors forced out as tankers load oil.

Now, we're happy to report that Alyeska and the oil companies that own it have committed to a plan that will virtually eliminate air pollution from the last major source at the terminal: the Ballast Water Treatment Facility.

EPA estimates the ballast water plant puts out 206 tons per year of dangerous vapors, including cancer-causing benzene. That´s over eight times EPA's major source threshold level of 25 tons per year, and it's why we have long urged an end to these emissions. Alyeska projects its overhaul of the ballast water facility will cut the level to less than five tons per year by 2008. The plan includes these improvements:

- **Eliminate one large ballast water tank and burn vapors from two others rather than releasing them to the atmosphere.**
- **Replace the Dissolved Air Flotation System, which is open to the atmosphere, with a sealed Induced Gas Flotation System.**
- **Replace the open-air Biological Treatment Tanks with a closed system that captures vapors for safe disposal rather than releasing them into the atmosphere.**

In a series of letters this fall, the companies that own Alyeska and the Valdez tanker terminal committed to the plan:

> ***I would like to reiterate BP's commitment to the Alyeska plan.***
> *-- Al Bolea, President, BP Pipelines (Alaska) Inc.*

> ***I would like to reiterate the Owners' commitment to the upgrading and enhancement of the Ballast Water Treatment Facility at the Valdez Marine Terminal.***
> *-- Gary Preussing, President, ExxonMobil Pipeline*
> *On behalf of ExxonMobil, ConocoPhillips, Unocal, and Koch Alaska*

The campaign to reduce emissions from the Valdez terminal to safe levels has been a long and complex one, and we commend Alyeska and its owners for taking this final step to complete the process.

For our part, we commit to continue working with Alyeska on the design and implementation of these welcome improvements.

Stan Stephens

Stan Stephens, President
Prince William Sound Regional Citizens' Advisory Council

Hazardous air pollution from the various components of the ballast water facility totals 206 tons annually, according to an EPA estimate late last year.

• The facility's ballast water tanks release an estimated 38 tons of hazardous air pollution per year.

• The facility's Dissolved Air Flotation System releases an estimated 62 tons of hazardous air pollution per year.

• The facility´s Biological Treatment Tanks release an estimated 106 tons of hazardous air pollution per year.

The Prince William Sound Regional Citizens' Advisory Council • 130 South Meals Ave., No. 202 • Valdez AK 99686 • 907-834-5000