



## October Mining News inside



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

## Cool summer slowed Arctic melt

This year has seen a notable slowdown in the rate at which the Arctic sea ice cover has shrunk during the summer, compared with recent years, although this year's Arctic sea-ice extent minimum remains consistent with a continuing decline rate of about 14 percent per decade.

At 2.07 million square miles, this year's ice extent minimum was 664,000 square miles more than the record minimum set in 2012, according to the National Snow and Ice Data Center, or NSIDC. The melt of the onshore Greenland ice sheet also slowed this year, NSIDC said.

NSIDC said this year's slowdown resulted from relatively cool and stormy Arctic summer weather.

In fact, the Arctic sea ice extent through May exhibited a similar pattern to that in 2012. But unusually low atmospheric pressure

see **ARCTIC MELT** page 16

## EEOC files discrimination suit in Alaska against Parker Drilling

The Equal Employment Opportunity Commission has filed a lawsuit against Parker Drilling, alleging the company discriminated against a vision-impaired job applicant.

The EEOC is an agency that enforces the Americans with Disabilities Act.

The EEOC filed the lawsuit on Sept. 18 in Alaska federal court on behalf of Kevin McDowell. The suit alleges Parker has engaged in unlawful employment practices at its Anchorage facility since at least February 2010.

"Kevin McDowell is an individual with a disability. He is blind in his left eye," the six-page lawsuit says.

Parker discriminated against McDowell when it failed to hire him for a toolpusher position because of his disability, the

see **EEOC LAWSUIT** page 11

## FINANCE & ECONOMY

# Fossil fuels dominate

WEC report looks at energy production, usage as world energy demand rises

By **ALAN BAILEY**

Petroleum News

A view that plentiful coal, oil and natural gas will remain primary energy resources in the years and decades to come, despite concerns about carbon dioxide emissions, was one of the key messages from a new report on world energy resources published by the World Energy Council.

Comparing its current energy report with a similar report that it published in 1993, the council says that, thanks in large part to new technologies such as the development of shale oil and gas, the world now has more energy resources than in the past. Re-assessments of oil resources, new technologies and continuing oil exploration have resulted in an increase in oil reserves by almost 60

percent in the past 20 years — oil production has increased by 25 percent during that period, the council's new report says. And talk from a few years ago of world oil production reaching a peak has largely evaporated, the report says.

"Oil is a mature global industry which offers the market participants opportunities for good economic returns," the report says, commenting that oil is a convenient internationally tradable commodity, currently indispensable to the road trans-

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## PIPELINES & DOWNSTREAM

# Grand strategy on trial

Enbridge's Northern Gateway faces 'very dramatic' change of public expectations

By **GARY PARK**

For Petroleum News

Enbridge did not gain a place among North America's top energy transmission companies by tying its future to a mere handful of projects.

In fact, the Calgary-based company has skillfully hedged its bets over the past 60 years by weaving a long-term web that includes a capital growth program for 2013-17 worth C\$36 billion, with C\$26 billion commercially secured.

But Enbridge is currently entangled in what could be a turning point in its history and the peak showdown over hopes by oil sands producers and the Canadian government to open a route to Asian

The premiers of Alberta and British Columbia, Alison Redford and Christy Clark, acknowledged Oct. 15 that if the Northern Gateway and Trans Mountain pipelines are not built, rail will fill the void to the Pacific Coast.

markets for Alberta crude.

The heavyweight contest is rapidly turning into a donnybrook as Enbridge prepares to spend millions of dollars on a public media campaign in a battle it shows every sign of losing. This final

see **NORTHERN GATEWAY** page 15

## NATURAL GAS

# Lawsuit over landfill gas

Eklutna suing Municipality of Anchorage under ANILCA; issue gas production

By **ERIC LIDJI**

For Petroleum News

Eklutna Inc. is suing the Municipality of Anchorage for a cut of the profits generated from a gas production operation at the Anchorage Regional Landfill in Eagle River.

In a 25-page complaint filed in Alaska Superior Court in early October, the Alaska Native corporation claims that the terms of the Alaska National Interest Lands Conservation Act entitle it to either half of the profits or half of the rent generated by the facility. The Municipality of Anchorage believes the facility does not trigger clauses in existing land-use agreements that would entitle Eklutna to a share of the profits.

The North Anchorage Land Agreement, a 1982

A 2004 study and a 2006 gas collection system provided enough information to justify moving ahead on a project to convert the gas to electricity to feed into a regional grid.

settlement to resolve some regional ANILCA disputes, included a provision entitling Eklutna to half of any income generated if Anchorage converted any of its "public interest lands" into a profit-earning enterprise.

The 274-acre Anchorage Regional Landfill is currently the only conveyance considered to be "public interest lands" under the term of the agree-

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North America's source for oil and gas news

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GOVERNMENT

# Bishop optimistic about big-inch pipeline

Fairbanks Republican favors Valdez for terminal, hopes to see competing utilities work together on Interior LNG trucking project

By STEVE QUINN  
For Petroleum News

Click Bishop has been in the Senate nearly one year and he has quickly found himself in some of the state's heavier hitting debates be it a statewide issue of oil taxes or discussions in his own backyard over how to implement a liquefied natural gas trucking delivery system to Fairbanks.

He also has a ringside seat for the argument between Fairbanks Natural Gas and the Interior Alaska Natural Gas Utility, who recently engaged in a contentious debate during public hearings being held by the Regulatory Commission of Alaska, or RCA. The contention is rooted in which utility is best prepared to provide new gas distribution services in areas of Fairbanks with high or medium population densities. This includes the areas around North Pole and Eielson Air Force Base.

Bishop, a Fairbanks Republican, served two governors as the state's Labor commissioner before stepping down and winning a Senate seat in last November's election.

Bishop serves on the Senate Resources Committee and is co-chair of the In-State Energy Committee with Sen. John Coghill.

He was also considered the swing vote in the Senate which passed Senate Bill 21, 11-9, before sending it to the House.

Bishop spoke to Petroleum News about his first year in office and the issues facing the state and the Interior region.

*Petroleum News: Let's start close to home. You've got a very heated debate about who should take the lead in developing the Fairbanks area for the LNG trucking. Does this concern you?*

Bishop: It is heated. You've got two sides very passionate about their positions and they both believe they are right. At the end of the day, it's in the RCA's hands. If we lived in a perfect world I would hope people on both sides of the issue can find some common ground and come together because the bottom line is we here in the Interior and rural Alaska need the cheapest energy possible. That's the goal. That should be their goal as well. I understand they need and want a profit, but also they have to have a project that's attractive for people to hook up as well.

*Petroleum News: Should the Legislature continue to have a role, or is it a case where you've done your job and it's the RCA's turn to take over?*

Bishop: That remains to be seen. I will not say our role is done. As things progress, RCA's decision comes out, from a layman's perspective, I could see the potential for funding when it comes to build out. To me, that's a very important piece of this puzzle not only for the LNG gas truck project, but down the road we are going to have piped gas. The more people we can have on gas, the better, not only for the Interior energy users but also to make piped gas become a reality.

*Petroleum News: Do you have any concerns about how divisive this has become and how quickly as well?*

Bishop: Yes, I have some concerns. But I'm hoping at the end of the day, cooler heads will prevail and the participants will come together. Of course, I'm concerned. I think anybody with a pulse would be concerned, and I don't mean that flippantly, either. If you listen to talk radio up here and you listen to other lawmakers, we've still got the wood stove debate going on, and we've still got air quality issues going on and at the end of the day, we've got people writing checks for \$1,000 a month. We can't continue with business as usual here.



SEN. CLICK BISHOP

*Petroleum News: Still on natural gas, what are your thoughts on Nikiski being the frontrunner for being the terminus?*

Bishop: My first priority is still a Prince William Sound terminus for the project, then pipe the gas from Glennallen to Southcentral Alaska. Who am I to say where the project is going to go. Private industry is going to come up with a lion's share of the capital from the bond markets. It makes some sense. Nikiski is the frontrunner, I'm glad you said that because it didn't leave Prince William Sound out of the equation. There is still a lot of engineering to be done; they still have to get across Cook

Inlet and across to Nikiski. There are some advantages. They have been in the LNG market for 40 years and there is Agrium, so there is infrastructure there, too.

I did take a little exception from an article I read. I've been around a while, too. Thirty years ago, a contractor cleared 1,000 acres in Valdez for the Alpetco (Alaska Petrochemical Co.) plant. At that time the Yukon Pacific gas line was going through. A spinoff was to build a chemical plant there. I was taken aback for someone saying there's not enough acreage along Prince William Sound to put a facility along there. Part of the argument is being above the tsunami level and Prince William Sound brings that to the equation as well. At the end of the day, I want what's best for Alaskans. We need to bring a gas line to fruition and I'm going to do what I can to bring it over the top.

*Petroleum News: What would you like next to advance a project, be it a small diameter line or a large diameter line?*

Bishop: I'm a proponent of the large-diameter line. I still say the cheapest gas for the consumer is going to be moved through a large volume pipeline. I hope and pray the two projects can come together. I believe there is going to be only one pipeline off the North Slope and I'm optimistic that it's going to be a

big-inch pipeline.

*Petroleum News: Is it time for the executive branch to enter into negotiations for long-term fiscal policy for the natural gas taxes, or does the producer group need to bring a more firm project to the table?*

Bishop: I think it's a little too early to enter into that discussion. But, I'm not opposed to it.

*Petroleum News: OK, let's switch to SB 21. There are two issues still being debated. The first is the referendum, which will gain momentum as we draw closer to the August 2014 election. The other is the getting a clear definition of what constitutes new oil for tax credits.*

Bishop: First the referendum. That's the public process and I won't deny anybody the right to institute the referendum process. It's just another check and balance. I had a couple of individuals come into my office after my oil tax vote. They weren't totally happy. I spent a couple of hours going over SB 21 in my layman's perspective. I was told, "You make a lot of sense." I'm a little bit confused on which way to go on the referendum. It's not for me to tell you which way to vote on the referendum. It's between you and your gut. I'll tell you

see BISHOP Q&A page 13





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● FINANCE & ECONOMY

# Bellatrix lands JV deal

Mid-size Canadian E&P company cuts C\$240M deal with South Korea's consortium-owned Troika Resources Private Equity Fund

By GARY PARK

For Petroleum News

**B**ellatrix Exploration, a mid-size Canadian exploration and production company, may have overcome a major setback by attracting an Asian investor to help accelerate development of its fast-expanding resource prospects in west-central Alberta.

Four months after an unidentified joint-venture partner from South Korea bowed out, Bellatrix has struck a C\$240 million deal for the same assets with South Korea's Troika Resources Private Equity Fund, owned by a consortium that includes KDB Ban, SK Energy and Samchully AMC.

The new arrangement falls only slightly short of a C\$300 million partnership announced last January that was abandoned in June when the South Korean government-owned prospective partner missed a deadline for Korean government approval.

At the same time, Bellatrix said it hopes to complete a takeover of junior producer Angle Energy for C\$576 million and reported a bought deal financing to sell shares worth C\$175 million to help pay for the Angle and Troika deals.

## Almost C\$1 billions

Chief Executive Officer Ray Smith described the deals worth almost C\$1 billion as a "nice day's business."

Chris Theal, head of Calgary-based Kootenay Capital Management, said the Angle transaction "really does fit from an asset perspective."

He also said Bellatrix has shown the ability to "sign up joint ventures to bring in third-party capital and accelerate development of their inventory."

The company has negotiated three strategic joint ventures this year for a total of C\$684 million — Grafton Energy for C\$244 million, Daewoo E&P Canada and KIS Devonian Canada for C\$200 million and Troika for C\$240 million.

The immediate obvious benefit from the merged entity will be an initial capital budget for 2014 of C\$500 million, focused on the Cardium and Lower Mannville are of west-central Alberta, targeting prospects on the Cardium, Notekwin and Duvernay plays.

## Boost to production

The deal will also boost Bellatrix pro-

duction by about 10,000 barrels of oil equivalent per day to 33,000 boe per day (37 percent oil and natural gas liquids) and double its undeveloped land holdings to 400,000 net acres.

As well, it will give Bellatrix additional proved reserves of 32.7 million boe (54 percent oil and NGLs) for an outlay of C\$15.90 per boe and increase its potential drilling locations to 2,100 from 1,600.

The deal also helps continue a recent surge of equity financings that have totaled C\$1.4 billion in October and C\$1.19 billion in August after a dearth of deal making in the first half of the year that forced two brokerages, Stonecap Securities and Stifel Canada, to close their doors in Calgary.

Steven Paget, an analyst with FirstEnergy Capital, said the renewed activity reflects a growing appetite among investors for income-generating returns to protect against market volatility and reduce their exposure to future cash flows and market valuations.

## Other transactions

Other transactions in October include a C\$358 million takeover of privately held Black Shire Energy by Twin Butte Energy, while Tourmaline oil (C\$193 million), Paramount Resources (C\$60 million) and NuVista Energy (C\$25.6 million) have all completed equity offerings of both common and flow-through shares.

But the junior sector is also finding itself squeezed by an Alberta government decision in May to raise security deposits for oil and gas operators to cover the cost of restoring land affected by wells, facilities and pipelines in case they go out of business.

A government fund that once held C\$13 million from 88 companies has been expanded to C\$297 million from 248 companies.

"Our cash reserves are gone, our bank lines are gone and all of a sudden the government has demanded an immediate C\$1 million payment," said Dale Brand, chief operating officer of Midlake Oil & Gas.

Kelley Bourassa, an insolvency attorney at the firm of Blake, Cassels & Graydon, said that although it is too early to tell whether junior companies will be forced into bankruptcy many are just realizing the impact of the security deposits.

Alberta Energy Minister Ken Hughes has promised to review the issue. ●

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OWNER: Petroleum Newspapers of Alaska LLC (PNA)

Petroleum News (ISSN 1544-3612) • Vol. 18, No. 43 • Week of October 27, 2013

Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518

(Please mail ALL correspondence to:  
P.O. Box 231647 Anchorage, AK 99523-1647)

Subscription prices in U.S. — \$98.00 1 year, \$176.00 2 years

Canada — \$185.95 1 year, \$334.95 2 years

Overseas (sent air mail) — \$220.00 1 year, \$396.00 2 years

"Periodicals postage paid at Anchorage, AK 99502-9986."

POSTMASTER: Send address changes to Petroleum News, P.O. Box 231647 Anchorage, AK 99523-1647.

● ENVIRONMENT & SAFETY

# Alaska villages eye oil spill response

*Villagers worry about the need for quick, local response should increased Arctic vessel traffic result in an offshore oil spill*

By **ALAN BAILEY**  
Petroleum News

As Arctic vessel traffic increases in response to the melting of sea ice, rural villages, especially in the region of the Bering Strait, are taking an interest in how to respond should a marine accident cause an offshore oil spill. The Bering Strait is a relatively narrow choke point for ships traversing Arctic shipping routes such as Russia's Northern Sea Route. Coastal villagers, living in communities many miles from the nearest logistical support infrastructure, worry about the need to take immediate action in response to a spill, rather than waiting for oil spill response organizations to arrive on the scene.

The Wildlife Conservation Society has organized a two-day workshop on Nov. 7 and 8 in Fairbanks to determine what response tools people living in the Bering Strait region can safely and effectively deploy.

"With an increasing potential for oil spills, coastal communities of the Bering and Anadyr straits are seeking ways to protect their health and safety, as well as their long-term cultural practices and food security. This includes developing their capacity to act as first responders in the event of an accident," the Wildlife Conservation Society says in its background statement for the workshop.

The Alaska Dispatch has reported that a group of Northwest Alaska villages have formed an organization called the Bering Sea Alliance, to engage villagers in any developments in the Bering Sea region, with

the training of villagers in oil spill response being one of the organization's priorities.

"We want to leave nothing to chance as it related to the resources our villages depend on," said Art Ivanoff, chief executive of the alliance, according to the Alaska Dispatch report. "It's marine life that sustains our villages and we're trying to find a way to have the tools in the toolbox to respond to an incident if one were to occur."

Shell, the company at the forefront of oil exploration in the Chukchi Sea, to the north of the Bering Sea, has confirmed to Petroleum News that it is funding a three-day hazardous materials training workshop for the Bering Sea Alliance, to be held in the village of Wales, a village on the eastern coast of the Bering Strait.

The village spill response issue became one of the topics discussed during an Arctic oil spill response workshop organized by Commonwealth North in August.

During that workshop a representative from the Wildlife Conservation Society made the case for community involvement in oil spill response efforts, while an official from Alaska Clean Seas, a major Alaska oil spill response cooperative, expressed caution about issues such as the need for adequate maintenance of spill response equipment, the need for personnel physicals for responders and legal liability during a response operation. Alaska Clean Seas trains and equips North Slope villagers to participate in its North Slope spill response team. ●

Contact Alan Bailey  
at [abailey@petroleumnews.com](mailto:abailey@petroleumnews.com)

## NATURAL GAS

### AGDC board to meet Oct. 30

The Alaska Gasline Development Corp. board of directors will meet Oct. 30 from noon to 5 p.m. at the Wilda Marston Theater at 3600 Denali St. in Anchorage.

The public may participate from the Legislative Information Office in Fairbanks and from the State Office Building in Juneau, or by calling 907-330-8452 for the access number.

AGDC said in the meeting notice that pertinent reference materials, if used, will be made available to members of the public wishing to participate in the meeting.

—PETROLEUM NEWS

## GOVERNMENT

### Making global oil sands pitch

The Canadian government is ready to spend C\$24 million over the next two years making a global case for the Alberta oil sands.

The campaign will lobby political and business leaders and use Twitter and roadside billboards to counter what the government calls "intense and sustained public relations" efforts, notably in California and the European Union, to put a stop to oil sands development.

But the push is being launched against the latest setback for the industry — an Environment Canada study that has found bird eggs downstream of the oil sands contain rising traces of mercury, with some above levels considered dangerous.

It coincides with a growing push by Prime Minister Stephen Harper to get U.S. approval for Keystone XL by convincing President Barack Obama and Washington lawmakers that the oil sands are a safe and secure source of energy.

Although the study did not directly tie the mercury levels to the oil sands, it is the third peer-reviewed study since 2010 to show those levels are rising in northern Alberta's ecosystem.

Canada signed an international treaty earlier in October pledging to reduce mercury emissions, which have been linked to damage to the brain, spinal cord, kidneys, liver and a developing fetus.

Craig Herbert, a research scientist and the study's lead author, said an oil sands link, while not proved definitely, is "one possibility," although others could include coal-fired power plants in Asia which have been identified as an "important source of gaseous elemental mercury in North America."

The study was produced through the Joint Oil Sands Monitoring, JOSM, program, a federal-provincial initiative launched in early 2012.

The results were shared with residents near the oil sands, who have blamed rising cancer rates and defects in fish on contamination of their atmosphere and water supplies.

The Canadian Association of Petroleum Producers, while declining to comment on the study, said it supports increased monitoring that might "evaluate the significance of any trends and to conclusively identify sources."

CAPP President David Collyer has been the only industry participant in negotiating the terms of the JOSM program to establish a more robust system to monitor air, water, wildlife and land quality around the oil sands region.

—GARY PARK

*Although the study did not directly tie the mercury levels to the oil sands, it is the third peer-reviewed study since 2010 to show those levels are rising in northern Alberta's ecosystem.*



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● ENVIRONMENT & SAFETY

# US CO<sub>2</sub> emissions dropped in 2012

EIA says factors such as improved energy efficiency, increased use of natural gas and lower electricity demand caused decline

By **ALAN BAILEY**  
Petroleum News

Although carbon dioxide emissions into the atmosphere continue to cause major concerns over global warming and ocean acidification, a recent drop in emissions in the United States perhaps demonstrates the possibility of a major developed country reducing rather than increasing its carbon footprint.

According to a recently published report from the Energy Information Administration, or EIA, U.S. carbon dioxide emissions fell by 3.8 percent in 2012, placing the 2012 emissions 12 percent below the emissions level in 2007, the year in which those emissions peaked after a multiyear climb. And although a sharp decline in emissions in 2009 can, at least in part, be attributed to reduced emissions-generating activity in the U.S. in the recession

that followed the 2008 financial crisis, the EIA points out that the drop in emissions in 2012 occurred in a year during which the U.S. economy grew.

“(U.S.) energy-related carbon dioxide emissions have declined in five out of the last seven years,” the EIA report says.

## Energy intensity

EIA says the drop in emissions in 2012 resulted to a substantial extent from a drop in U.S. energy intensity, a measure of the efficiency with which the country uses its energy resources. In fact the U.S. energy intensity, calculated by dividing the country’s total energy use by total economic activity, as measured by the gross domestic product, dropped by 5.2 percent in 2012. That reduction in energy intensity drove a corresponding drop in U.S. carbon intensity, the weight of carbon emitted per unit of economic activity. However, a fall

of 3.5 percent in the carbon intensity of U.S. power generation came largely as a result of an increase in the use of natural gas relative to coal in power stations — the burning of gas generates less carbon dioxide than the burning of coal. This decline in power generation-related carbon dioxide happened despite a slight fall in the use of renewable energy, where a drop in hydropower output more than offset an increase in wind power, the EIA report says.

The carbon intensity of the U.S. economy has been dropping fairly consistently year by year since records began in 1949, the report says.

## Other factors

In terms of total carbon dioxide emissions, a growth in the U.S. population coupled with an increase in the U.S. production output per-capita of that population

somewhat offset the energy and carbon intensity gains in 2012, the report says. At the same time, relatively mild weather during the winter heating season caused a reduced demand for heating fuel and, hence, a drop in residential emissions during the early part of the year.

In 2012 energy losses in electricity systems declined by 4.8 percent, implying improved efficiency in electricity generation, transmission and distribution. At the same time, domestic electricity consumption dropped 3.4 percent, taking carbon dioxide emissions resulting from residential electricity use down to levels last seen in the late 1990s, the report says. And, although vehicle use in the U.S. in 2012 appears to have been similar to that in the previous year, increasingly energy efficient vehicles are entering the market, with transportation-related carbon dioxide emissions remaining well below levels seen in 2007.

Looking at trends going back to the late 1990s, it appears that an annual growth in U.S. carbon dioxide emissions until 2007, the year that emissions peaked, was essentially driven by a steady increase in U.S. per-capita production output. Between 2007 and 2012, on the other hand, per capita output remained about flat, so that, with the carbon intensity dropping, total carbon dioxide emissions also fell.

## Increasing globally

According to information on the EIA website, global carbon dioxide emissions, thought to be the primary driver of global warming, are expected to rise by about 1.9 percent annually, primarily because of the use of fossil fuels in emerging economies such as India and China. However, the website also indicates that total emissions from these emerging countries still lag behind the total emissions from established industrial countries, including the United States. ●

Contact Alan Bailey  
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## LAND & LEASING

### Shutdown won't delay NPR-A lease sale

The annual oil and gas lease sale in the National Petroleum Reserve-Alaska will go ahead as scheduled on Nov. 6, a spokeswoman for the Bureau of Land Management told Petroleum News.

The BLM announced the sale on Sept. 30, just ahead of the 16-day partial government shutdown that put many federal employees on furlough.

The shutdown is now over and the NPR-A lease sale will proceed normally, the agency’s KJ Mushovic said.

The BLM is offering 408 tracts covering about 4.5 million acres.

Sealed bids must be received by 4 p.m. Nov. 4.

Bids will be opened at 1 p.m. Nov. 6 in the Denali Room on the fourth floor of the Federal Building, 222 W. 7th Ave., Anchorage.

—WESLEY LOY

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• PIPELINES & DOWNSTREAM

# Kitimat refinery seeks federal backing

Media mogul believes Chinese financier will cover some 2/3 of C\$26B price tag; Canadian governments have backed away from guarantees

By GARY PARK

For Petroleum News

British Columbia newspaper tycoon David Black has done well for himself financially through a stable of 120 community and daily publications in Canada and the United States.

It's beginning to look like adding a multibillion-dollar petroleum industry investment to his nest-egg might have to wait.

His plan for a C\$26 billion oil sands bitumen refinery at Kitimat, on the northern British Columbia coast, now hangs on squeezing a loan guarantee of about C\$8 billion from the Canadian government — an area that both the federal and provincial governments have shown a strong reluctance to enter.

Black told reporters at a Calgary energy conference in mid-October he will make his first pitch to the government in the spring.

At this point, he has no thoughts of asking the British Columbia and Alberta governments to join such an agreement.

He said the Kitimat Clean project's major financial backer, the Industrial and Commercial Bank of China, is capping its stake at C\$16 billion and now wants Canada to put "skin in the game."

"I must say I understand that," he said. "All the banks I've ever borrowed from wanted that."

## Industry not likely to fill gap

There is little or no chance of the oil sands industry filling that gap. Producers prefer to rely on existing refineries to upgrade raw bitumen into synthetic crude for refining into fuels and would sooner sell the raw bitumen to overseas customers.

Black believes he has "the money in place" to complete a feasibility study that is expected to cost C\$125 million to C\$150 million.

But he concedes the producers have taken a lukewarm view of his plan and none has agreed to participate, despite his confidence that a Kitimat refinery could be highly profitable.

Adding to the doubts that have accompanied his idea from the outset is the fact that Black is lagging far behind his own timetable for approvals.

In early February he set a tentative target of early April to determine whether the refinery would move forward or quietly fade out.

Noting that the government has provided financial backstops for resource projects in the past and views the export of Canada's natural resources as a matter of "vital economic importance," Black said: "Why wouldn't they do it for this?"

He said the government made a C\$1 billion guarantee last year for a C\$7.7 billion hydroelectric project in Labrador.

## Backing away from guarantees

But, despite providing loan guarantees and taking out equity stakes in several energy-related ventures over the 1970-2000 period, the Canadian and provincial governments have long since abandoned those roles, after either paying a heavy price for

*Adding to the doubts that have accompanied his idea from the outset is the fact that Black is lagging far behind his own timetable for approvals.*

their gambles, or selling their interests.

Black doubts that Enbridge's C\$6 billion Northern Gateway pipeline, to export 525,000 barrels per day of crude bitumen to Asia and California, will overcome a wall of resistance and gain final approval from the Canadian government of Prime Minister Stephen Harper, which wants to protect the 21 British Columbia legislators it has in Parliament.

He also believes his 550,000 bpd refinery on the coast would help the British Columbia and Alberta premiers, Christy Clark and Alison Redford, overcome one of their concerns about the risk of operating bitumen-landed tankers in British Columbia waters.

Black suggested a British Columbia refinery could help British Columbia achieve its goal of reaping "fiscal and economic benefits" in return for allowing bitumen to move across the province. ●

Contact Gary Park through publisher@petroleumnews.com

## EXPLORATION & PRODUCTION

### DGGS adds web-based geologic map index

Alaska's Division of Geological and Geophysical Services, or DGGS, has implemented a web-based application that uses an interactive map as an index to DGGS and U.S. Geological Survey geologic maps of Alaska and to related publications about Alaska geology. Accessible on the division's website at <http://maps.dggs.alaska.gov/mapindex/>, the application enables searches based on geographic area of interest, keywords, themes, publishing agency, dates and other criteria, the division says. Search results link into the division's database of government publications from multiple agencies, from where material can be viewed and downloaded. Publications not associated with maps can be accessed through the division's publications database at <http://dggs.alaska.gov/pubs/advanced-search>.

*The map index application accesses a variety of geology-related maps including geophysical maps and geologic hazards maps, as well as traditional geologic maps.*

The map index application accesses a variety of geology-related maps including geophysical maps and geologic hazards maps, as well as traditional geologic maps. DGGS says that it plans to add additional maps to the system, including maps published by the U.S. Bureau of Mines and the U.S. Bureau of Land Management.

"No other geographic index of Alaska geologic maps exists at this time," DGGS says. "This valuable resource will make it easier for anyone with Internet access to find the geologic maps they need to perform research, make informed resource- and land-management decisions, and better understand the geology across the state."

Original funding for the map index project came from the federal Minerals Data and Information Rescue in Alaska program — the State of Alaska is providing continuing funding, DGGS says.

—ALAN BAILEY



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## NATURAL GAS

### Buccaneer executes two short-term GSAs

Buccaneer Energy Ltd. recently announced two short-term winter gas sales agreements.

The Australian independent will deliver up to 2 million cubic feet per day to an unnamed "large commercial end-user" for some five months starting in mid-November. The actual volumes "will be dictated by weather conditions," suggesting it is for peak demand.

The second contract will provide back-up fuel to an un-named Cook Inlet oil producer "to ensure operation of their oil facilities in the Cook Inlet" during the winter. The contract contains no specific volume requirement and "deliveries will be dictated by the requirements of the customer," according to Buccaneer. The major Cook Inlet oil producers include Cook Inlet Energy LLC, Hilcorp Alaska LLC and XTO Energy Inc.

Buccaneer said the gas prices in both contracts range from \$6.80 to \$7 per thousand cubic feet, which is "consistent with recent gas sales agreements," according to the company.

The contracts come on top of the 9.5 million cubic feet per day Buccaneer is contractually obligated to deliver to Enstar Natural Gas Co. through various contracts.

Buccaneer is currently producing some 10 million cubic feet per day from two wells at the onshore Kenai Loop field, but believes it can increase production to as high as 12 million cubic feet per day if it can execute additional contracts in the coming months.

Having recently completed and tested a new well at Kenai Loop, Buccaneer is now moving its Glacier No. 1 rig to the onshore West Eagle unit northeast of Homer.

—ERIC LIDJI

*Buccaneer said the gas prices in both contracts range from \$6.80 to \$7 per thousand cubic feet, which is "consistent with recent gas sales agreements," according to the company.*

## PIPELINES & DOWNSTREAM

### Enforcement action against BP wraps up

Federal pipeline regulators recently closed a long-running enforcement case against BP Exploration (Alaska) Inc.

The case began in July 2009, when the Pipeline and Hazardous Materials Safety Administration inspected written procedures for operations, maintenance and emergency response on the Greater Prudhoe Bay natural gas liquids pipeline system.

The agency subsequently issued BP an order to amend its "inadequate" procedures.

The case concerned, in part, whether a 6-inch diameter pipeline running to Flow Station 1 was subject to federal regulations. BP argued it was not, contending the pipeline was a "production flow line" carrying liquids subject to additional processing in separation facilities prior to entering the trans-Alaska oil pipeline.

PHMSA said BP's argument was "not persuasive," noting that the line originated at a pipeline the company acknowledged was a regulated transmission pipeline.

In an Aug. 27 letter closing the case, PHMSA Western Region Director Chris Hoidal wrote that BP appeared to have corrected the inadequacies. The letter said BP submitted a statement on July 18 agreeing that its NGL pipeline was subject to federal regulations.

BP also stated that "inspection intervals and updated requirements will be implemented by year end 2013," PHMSA said.

—WESLEY LOY

## FINANCE & ECONOMY

### Herbert to return as BP exploration chief

BP named Richard Herbert as its new head of exploration. He will be based in London, the company said in an Oct. 18 press release.

Herbert will succeed Mike Daly, who is retiring at year's end after 28 years with the company.

Herbert will rejoin BP from Talisman Energy, where he has been executive vice president for exploration since 2009.


Before joining Talisman, Herbert spent six years with TNK-BP in Russia. Prior to that, Herbert spent 19 years with BP, first joining the company as an exploration geologist in 1984. He held a number of senior positions around the world, leading BP's Angolan business and then the Wytch Farm oil field in England.

Daly has led BP exploration for eight years. Under his leadership, BP has accessed new deepwater exploration positions, including in Angola, Australia, Brazil, Canada and Libya, and deepened existing positions in the Gulf of Mexico and Egypt. He's also led in regard to the Rumaila oil field in Iraq, and Canadian oil sands and shale plays around the world.

"Mike leaves BP a thriving exploration organization, with a deep, world-class portfolio and a drilling program that is gaining momentum once more, making a number of significant discoveries already this year," said Bob Dudley, BP chief executive. "His leadership has been underpinned by his passion for geoscience and deep appreciation of the importance of relationships with governments and partners."

—WESLEY LOY

*Herbert will rejoin BP from Talisman Energy, where he has been executive vice president for exploration since 2009.*



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**E&P**

**US drilling rig count down by 4 to 1,739**

Oilfield services company Baker Hughes Inc. says the number of rigs actively drilling for oil and natural gas in the U.S. decreased by four the week ending Oct. 18 to 1,739.

The Houston-based company said in its weekly report that 1,361 rigs were drilling for oil and 372 for gas. Six were listed as miscellaneous. A year ago there were 1,839 active rigs.

Of the major oil- and gas-producing states, Colorado gained three rigs and Louisiana, North Dakota and West Virginia each gained one.

Texas lost five rigs, Ohio and Oklahoma each lost two and Arkansas, Kansas and Pennsylvania each lost one. Alaska, California New Mexico, Utah and Wyoming were unchanged.

The U.S. rig count peaked at 4,530 in 1981 and bottomed at 488 in 1999.

—ASSOCIATED PRESS

**FINANCE & ECONOMY**

**Cook Inlet Energy CEO gets \$250K bonus**

The board of Miller Energy Resources Inc. has approved a \$250,000 cash bonus for David Hall, the company's point man in Alaska.

Hall is chief operating officer for Tennessee-based Miller, and chief executive of the company's Alaska subsidiary, Cook Inlet Energy LLC.



DAVID HALL

On Oct. 17, the board approved the cash bonus plus a conditional grant of 35,000 shares of Miller's common stock, the company said in an Oct. 18 filing with the U.S. Securities and Exchange Commission.

The bonus and stock grant were in recognition of Hall's performance during fiscal 2013, which ended on April 30, the filing said.

Miller management cited "Hall's leadership in Alaska along with operational performance during the period, including the commencement of our offshore drilling program with Rig 35 and the success of new reworks on wells brought online."

Rig 35 was specially built for the Osprey offshore platform. Cook Inlet Energy has been concentrating on well workovers on Osprey, which was shut-in when the company acquired the platform and other westside Cook Inlet assets out of a bankruptcy sale in late 2009.

The company's other main producing property is the West McArthur River oil field.

Miller Energy shares trade on the New York Stock Exchange. Its stock price has more than doubled since July 1, closing on Oct. 23 at \$8.22.

In September, the company reported total production of 3,300 barrels of oil equivalent per day, most of it in Alaska and the rest in Tennessee.

—WESLEY LOY

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• EXPLORATION & PRODUCTION

# Calif. finds more instances of fracking

Technique used on offshore platforms, manmade islands off popular surfing, tourist spots Long Beach, Seal Beach, Huntington Beach

By ALICIA CHANG & JASON DEAREN

Associated Press

The oil production technique known as fracking is more widespread and frequently used in the offshore platforms and man-made islands near some of California's most populous and famous coastal communities than state officials believed.

In waters off Long Beach, Seal Beach and Huntington Beach — some of the region's most popular surfing strands and

tourist attractions — oil companies have used fracking at least 203 times at six sites in the past two decades, according to interviews and drilling records obtained by The Associated Press through a public records request.

Just this year in Long Beach Harbor, the nation's second-largest container port, an oil company with exclusive rights to drill there completed five fracks on palm tree-lined, man-made islands. Other companies fracked more than a dozen times from old oil platforms off Huntington

Beach and Seal Beach over the past five years.

Though there is no evidence offshore hydraulic fracturing has led to any spills or chemical leaks, the practice occurs with little state or federal oversight of the operations.

The state agency that leases lands and waters to oil companies said officials found new instances of fracking after searching records as part of a review after the AP reported this summer about fracking in federal waters off California, an area from three miles to 200 miles offshore. The state oil permitting agency said it doesn't track fracking.

## Call for moratorium

As the state continues its investigation into the extent of fracking — both in federal waters and closer to shore — and develops ways to increase oversight under a law that takes effect in 2015, environmental groups are calling for a moratorium on the practice.

"How is it that nobody in state government knew anything about this? It's a huge institutional failure," said Kassie Siegel, an attorney with the Center for Biological Diversity. "Offshore fracking is far more common than anyone realized."

Little is known about the effects on the marine environment of fracking, which shoots water, sand and chemicals at high pressure to clear old wells or crack rock formations to free oil. Yet neither state nor federal environmental regulators have had any role in overseeing the practice as it increased to revitalize old wells.

New oil leases off the state's shores have been prohibited since a 1969 oil platform blowout off Santa Barbara, which fouled miles of coastline and gave rise to the modern environmental movement. With no room for physical expansion, oil companies instead have turned to fracking to keep the oil flowing.

## State investigation launched

The state launched an investigation into the extent of offshore fracking after the AP report in August. California officials initially said at the time there was no record of fracking in the nearshore waters it oversees. Now, as the State Lands Commission and other agencies review records and find more instances of fracking, officials are confused over who exactly is in charge of ensuring the tech-

nique is monitored and performed safely.

"We still need to sort out what authority, if any, we have over fracking operations in state waters; it's very complicated," said Alison Dettmer, a deputy director of the California Coastal Commission.

## Long Beach concentration

Nowhere is the fracking more concentrated than in Long Beach, an oil town with a half-million residents and tourist draws such as the Queen Mary.

The city's oil arrangement stems from a deal drawn up in 1911, when California granted the tidelands and other water-covered areas to the city as it developed its harbor. When oil was discovered in the 1930s, the money started coming in.

Long Beach transferred \$352 million of \$581 million in profits to state coffers in fiscal year 2013 from onshore and offshore operations, according to the city's Gas and Oil Department. Most of the oil recovery comes from traditional drilling while fracking accounts for about 10 percent of the work.

The department says fracking is safe. It has a spill contingency plan and monitors pipelines. Well construction designs are approved by state oil regulators. The designs can be used for conventional drilling and fracking. And the oil industry says offshore fracks are much smaller operations than onshore jobs, involving only a fraction of the chemicals and water used on land.

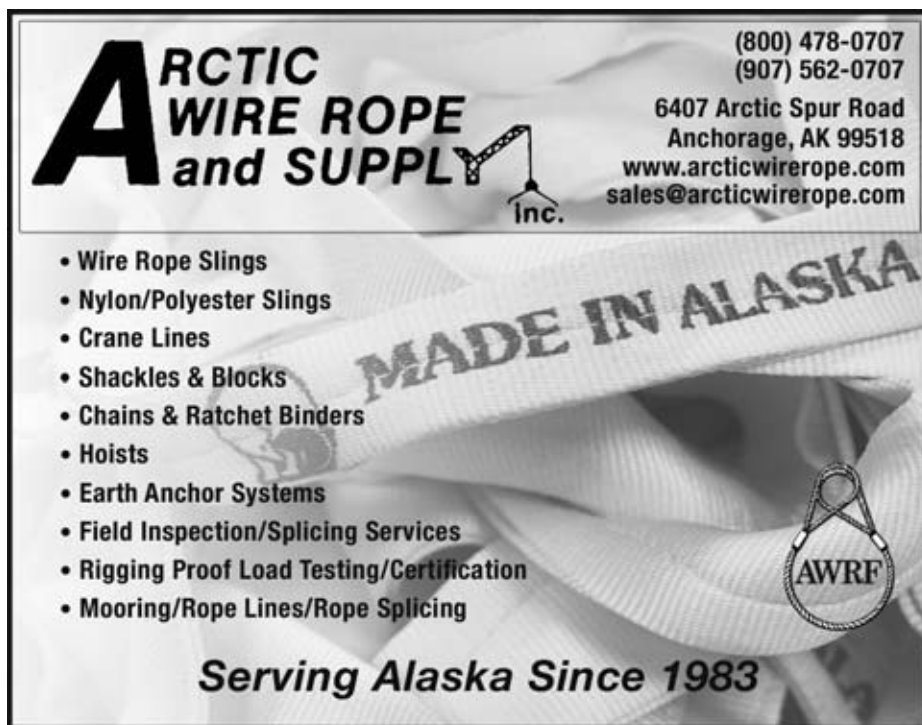
City oil officials see themselves as partners with Occidental Petroleum Corp. — not regulators — though officials participate in the company's internal audits and technical reviews by the state.

Occidental and the city briefly took a fracking timeout after passage of the state's new rules. Long Beach oil operations manager Kevin Tougas said there are plans to frack again later this year. Occidental spokeswoman Susie Geiger said in an email that the company doesn't discuss its operations due to "competitive and proprietary reasons."

No one is tracking the amounts or precise composition of any fracking chemicals that enter the marine environment, though in September the state passed a law that starting in 2015 would require disclosure of agents used during the procedures.

Fracking fluids can be made up of hundreds of chemicals — some known

see **FRACKING** page 11



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## FINANCE & ECONOMY

### Oil above \$97 on China manufacturing

Stronger Chinese manufacturing pushed the price of oil higher Oct. 24 but gains were kept in check by plentiful supplies.

Benchmark U.S. crude for December delivery was up 41 cents at \$97.27 a barrel by midday in Europe in electronic trading on the New York Mercantile Exchange.

The contract fell \$1.44 to \$96.86 Oct. 23 after the Energy Information Administration said U.S. oil inventories rose by 5.2 million barrels the week ending Oct. 18, a possible symptom of subdued demand and overproduction. The rise in stockpiles followed a 4 million barrel increase in the previous week.

#### Lowest levels since June

The price of crude has fallen about 5 percent over the past week to its lowest levels since June. But it got a lift Oct. 24 from a survey that showed China's manufacturing rose to a seven-month high in October, suggesting continued momentum for the recovery in the world's second-biggest economy.

The preliminary version of HSBC's purchasing managers' index rose to 50.9 from September's 50.2 on a 100-point scale on which numbers above 50 indicate expansion.

Output, new orders and new export orders all increased at a faster rate, according to the survey, which is based on 85-90 percent of responses from 420 factories.

Brent crude was up 17 cents at \$107.97 a barrel on the ICE futures exchange in London.

In other energy futures trading on the Nymex:

- Wholesale gasoline added 0.8 cents to \$2.551 a gallon.
- Natural gas fell 3.6 cents to \$3.583 per 1,000 cubic feet.
- Heating oil shed 0.5 cents to \$2.919 a gallon.

—ASSOCIATED PRESS

continued from page 1

### EEOC LAWSUIT

suit says. A toolpusher is also known as a drill site manager.

"Mr. McDowell is qualified for the position as he had previously performed all of the essential functions of similar jobs successfully and without any accommodation," the suit says.

#### Application process

Parker is an international drilling contractor based in Houston. Two Parker rigs are working in the BP-operated Prudhoe Bay field on Alaska's North Slope.

Despite his vision impairment, McDowell has worked for oil drilling companies from 1978 to the present, the EEOC lawsuit says.

He had worked for Parker Drilling from 1978 to 1982 in "a number of positions on the drill floor," the suit says.

In January 2010, McDowell applied for a toolpusher position, and Parker interviewed him, the suit says.

The company "offered Mr. McDowell the position of a junior drill site manager and told him that he would later be promoted to a senior drill site manager," the suit says.

Parker scheduled McDowell for a physical examination, which occurred on Jan. 25, 2010, and the company also instructed him to return later that week to start his training for the new position, the suit says.

"However, upon receiving Mr. McDowell's physical examination

results on approximately February 1, 2010, Defendant notified Mr. McDowell that it would not hire him for any position. Defendant made the decision not to hire Mr. McDowell on the basis of disability," the suit alleges.

#### Back pay, damages sought

The EEOC says Parker's "unlawful employment practices ... were and are intentional."

One popular online oil field glossary defines the job of toolpusher this way:

"The toolpusher is usually a senior, experienced individual who has worked his way up through the ranks of the drilling crew positions. His job is largely administrative, including ensuring that the rig has sufficient materials, spare parts and skilled personnel to continue efficient operations. The toolpusher also serves as a trusted adviser to many personnel on the rig site, including the operator's representative, the company man."

The EEOC is asking the court to grant a permanent injunction enjoining Parker from discriminating against applicants or employees with disabilities.

The agency also asks that McDowell be awarded back pay, compensation for losses and punitive damages in amounts to be determined at trial.

Parker Drilling had not yet answered the EEOC lawsuit as Petroleum News went to press.

—WESLEY LOY

Contact Wesley Loy  
at wloy@petroleumnews.com

continued from page 10

### FRACKING

and others not since they are protected as trade secrets. Some of these chemicals are toxic to fish larvae and crustaceans, bottom dwellers most at risk from drilling activities, according to government health disclosure documents.

#### No monitoring of chemicals

Myriad state agencies that oversee drilling, water quality and the ocean said they did no monitoring of fracking chemicals during offshore jobs.

Don Drysdale, a spokesman for the California Department of Oil, Gas and Geothermal Resources, said the new regulations will include "extensive protec-

tions" for groundwater.

The industry estimates that about half of the fluids used during fracking remain in the environment; environmentalists say it is much higher. Long Beach says it uses a closed system and there's no discharge into the water. Instead, fluids are treated before being re-injected deep under the seafloor.

The Long Beach Water Department, which monitors well water quality annually, said there are no known impacts to residents' water from fracking.

"It's our hometown," said Chris Garner, a fourth-generation resident who heads the gas and oil department. "We have a vested interest in making sure the oil operations have been without harm to the city." ●

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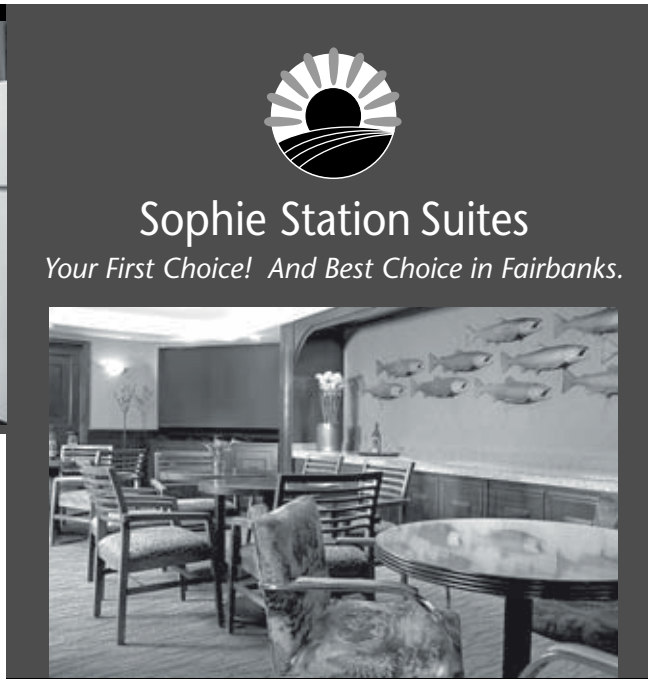
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### Crowley crew rescues passengers from adrift skiff

The crew of the Crowley Maritime Corp. tug Siku, operating in Western Alaska, recently rescued six men adrift in the Bering Sea. Shortly before the incident, the men's 21-foot, aluminum skiff ran out of gas in Hooper Bay and was being quickly blown out of the bay and into building seas.

Responding to a request by the Coast Guard, the crew of Siku, which was in the area holding for weather, located the skiff, which was drifting about a mile offshore of Hooper Bay despite having its anchor out.

Siku Captain Angus Isaac instructed the skiff crew to pull up their anchor and ready themselves for a line from the tug. The captain then maneuvered the tug so that the skiff was in the lee to protect it and its passengers from the building wind and seas. The crew then threw a heaving line to the skiff and pulled it alongside the tug allowing the passengers to disembark and board Siku. The tug crew then attached a line to the skiff and towed the stricken boat back into the sheltered waters of Hooper Bay where it was re-filled with gasoline.

"We are proud of the professionalism of Captain Isaac and his crew," said Greg Pavellas, director, marine operations. "Crowley has a longstanding relationship with the people of Alaska and we were happy to put our safety and rescue training to work in order to lend a hand to



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those men who were in dire need." For more information about Crowley visit [www.crowley.com](http://www.crowley.com).

### CH2M HILL Alaska announces VP of construction

CH2M HILL, a global leader in consulting, design, design-build, operations, and program management, announced that Craig Crawford has been hired as the new energy and chemicals vice president of Alaska construction of CH2M HILL Alaska, effective Oct. 15.

Crawford has held a number of positions for the oil and gas industry at the executive level in engineering, construction, advising, finance, as well as operation and maintenance for various companies across the U.S. He previously served as vice president of operations for Texas Gulf Oil and Gas Inc. Crawford also co-founded and served as chief operating officer of Texas Gulf Energy Inc., a startup construction service company focused on the oil and gas industry. With more than 30 years of experience in chemical and petroleum engineering and continued accomplishments on the business side of the industry, he will now focus on providing his leadership and success to CH2M HILL in Alaska.

"Having a leader with a proven track record such as Craig is a welcome addition to the company and will only serve to further strengthen our operations in Alaska," said Terry Bailey, CH2M HILL regional manager of Alaska operations. "This is an exciting time for the company, not only in strengthening our leadership team, but with someone as experienced as Craig on board, we can expect to see great business results and continued client satisfaction in Alaska."

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## BISHOP Q&A

straight up personally as someone who has been in Juneau for seven years — six years with the administration and one year as a legislator — when you're inside the bubble, and you're working it and see it go to this point, it leaves you questioning the process a little bit. At the end of the day, it's going to educate people better on SB 21 and they will be able to make up their minds.

*Petroleum News: OK, on to the second part, finding definition of new oil.*

Bishop: Having worked with people in the administration, like DNR and DOR, I wasn't really that concerned about new oil. I felt fairly confident about metering the oil. I was glad to see DOR Deputy Commissioner (Bruce Tangeman) take a hard line on metering the new oil. I've been to Prudhoe Bay. I've been to a drill rig. They can drill multiple wells off of one pad. It's amazing for the layman who hasn't seen drilling or who hasn't been there. You can drill a two-and-a-half inch drill bit 12,000 to 14,000 feet horizontally and hit a seam of rock that produces new oil. You would think you could meter that new oil. At what cost, that remains to be seen. I'm glad to see that Revenue is taking a hard line on the metering and holding everyone accountable. It gives the public confidence in the process and it shows that the administration is doing the right thing for the people.

*Petroleum News: When you voted for SB 21, you stated it was a leap of faith that the change will produce increased investment.*

Bishop: It's like I told the industry, the burden of proof is on you. I'll go back to Barry Pulliam's testimony in Senate Finance, when he said this bill makes Alaska competitive, right on the middle. I'd be shocked and stunned if they didn't invest. The jury is still out. Actions speak louder than words, so we'll see.

*Petroleum News: So what's the difference between being in the administration then going over to the legislative branch?*

Bishop: I always tell the difference is you play more offense on the other side of the fence.

*Petroleum News: How did being Labor commissioner help you with what you're doing now?*

Bishop: For starters, I'm a people person and a consensus builder. Having spent six years working with the Legislature and building relationships with people who are now my peers, I think that's a huge step forward. There's a learning curve you don't have to worry about if you can hit the ground running. Getting things done is all about relationships with people who trust you. I would like to think my track record speaks for itself and I'm able to bridge across both sides of the aisle with lawmakers and have their respect. I always tell people there is no "I" in team. Have that respect with the lawmakers and knowing how the process works, those are two big steps.

*Petroleum News: OK, so let's talk more about your first year in office, starting with being co-chair of the In-State Energy Committee?*

Bishop: It was a little new. My transition wasn't seamless, but it was a lot easier than a freshman legislator because I've spent so much time testifying in front of legislators as commissioner. So the process was a little easier for me. Running a committee is a little different.

You learn along the way. You make mistakes and hope you don't make them again.

With the Energy Committee, the one telling thing for me was a report I read, an energy report. It listed everything from Susitna Dam to bringing gas to the Interior to intertie upgrades — the whole gamut. The funny thing about it was this report was 50 years old. There's nothing new under the sun. I sat there and struggled and talked to people. I asked how do we coordinate, unify and get everybody pulling in the same direction, then execute it and lower everybody's energy costs to the user.

That's the challenge. That's something I'm going to continue to work on that.

The Resources Committee, that was an interesting committee because there are a myriad of issues coming across your table. You learn a lot — everything from board of fish and game appointments to oil taxes and everything in between.

*Petroleum News: You share this role as co-chair with Sen. Coghill, also of the Interior. Do you see a problem with two Interior lawmakers running the commit-*

tee?

Bishop: I don't think so. I think if you look at the membership of the rest of the committee, you've got a good cross section of Alaska. I might be from Fairbanks, but I've got a lot of ties to rural Alaska. As somebody who has grown up here, and lived around the state and worked construction all over the state, I've got a lot of friends in a lot of communities. Some of my friends from Kotzebue and the Kobuk River area invited me back and I said, I might be a senator from District C, but I'm your senator also.

*Petroleum News: What value do you believe the In-State Energy Committee brings to the Legislature? It's a special committee that isn't necessarily in the thick of things like oil taxes.*

Bishop: I think it brings a breadth and depth of working knowledge of the state. The two of us with our assets with who we know we were able to bring in a great number of people. It was an overarching makeup of people moving electrons, people moving gas, people involved on renewables and get people on the record of what's out there in the world of energy.

I'm looking forward to going back this next session to look at how we can better utilize the intertie, maximize our electrons coming out of Bradley Lake and look at the gas fired units in Southcentral, and bring cheaper energy through the Railbelt and into the Interior.

*Petroleum News: Speaking of a wide range of projects, an Outside analyst noted at LB&A's recent LNG symposium that Alaska is investing in three major projects and to some, it appears that the state doesn't know what it wants. What are your thoughts on that?*

Bishop: It's easy to armchair quarterback when you aren't writing a check, but I'm saying on some of these projects that make sense, I've always been a believer that take a little leap of faith, put your money where your mouth is, take a stake in the game.

I made this statement on TAPS: If Gov. Egan had his way and we had an ownership position on TAPS, we wouldn't have a tax overhaul every eight years in this state.

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## WEC REPORT

port and petrochemical industries.

At the same time, with the world's population continuing to expand, with many modern technologies relying on electricity and with a pressing need to make commercial energy sources accessible to many more people, overall demand for energy will continue to rise, the report says.

While crude oil continues to maintain its strong position as a global energy source, coal, natural gas and hydropower are the cheapest energy sources for electricity generation, according to data presented in the report. Solar power and offshore wind power are relatively expensive; onshore wind power is cheaper than offshore wind power but more expensive than fossil fuels; biomass-related fuels, such as the burning of wood, encompass a wide range of costs.

And despite the "exponential growth" in the use of renewable energy sources, wind and solar power in particular, renewables still constitute only a relatively small percentage of the overall energy mix in most countries, the report says.

### Coal

Coal is the most widespread fossil fuel around the world and remains a crucial contributor to energy supplies in many countries.

Although countries in Europe and North America are trying to reduce their coal usage and coal's overall share in worldwide power generation is likely to fall, the amount of coal consumed is likely to increase as worldwide energy demand rises, the report says. Coal is widely available, safe, reliable and relatively cheap. However, carbon capture, utilization and storage technology, the only large-scale technology that could significantly impact emissions problems from coal burning, remains at a pilot stage of implementation, with an uncertain future because of high costs and detrimental impacts on power generation efficiency, the report says.

### Natural gas

Natural gas enjoys the advantage of being the cleanest

of the fossil fuels, while also being plentiful in supply and capable of use in high-efficiency power stations. However, the discovery, development and transportation of gas typically require some significant up-front investment, with close coordination needed between the gas and power infrastructures, the report says. The development of shale gas has revolutionized the North American gas industry and is spreading to other parts of the world.

### Nuclear

Nuclear power is highly efficient, results in predictable power costs and does not generate carbon dioxide emissions. But the capital costs of new nuclear power plants are high and rising, while there are major public concerns regarding nuclear waste disposal and high liability risks associated with nuclear accidents. Nuclear's global share of power generation peaked in the late 1980s and has been declining since then, although total nuclear generation capacity has remained almost constant through that decline. The future of the technology is uncertain.

### Hydropower

Worldwide, hydropower has become a major source of electricity, with the recent growth of this sector supported in many cases by government renewable energy policies, the report says. The technology is simple, has low operating costs and does not generate emissions. However, large hydropower systems pose significant land requirements and their implementation can meet with public resistance. And, although hydropower installed capacity has been increasing, the total amount of power generated from hydropower systems has been dropping in recent years, mainly because of water shortages, the report says.

### Wind

Wind power, using modern wind turbines, involves simple technology that can be installed or dismantled quickly and that requires no fuel. But, the intermittent nature of wind strengths makes wind power challenging to integrate into power grids. And the relatively high cost of the technology has tended to drive a dependency on

government subsidies for viable implementation, the report says. World wind energy capacity has been roughly doubling every 3.5 years since 1990 — China has the highest installed capacity, while Denmark has the highest capacity per capita of the population.

Reductions in government subsidies and the increasing costs of turbine materials may have a negative impact on future wind power development, the report says.

### Solar

The use of solar power is increasing, in part because of the declining cost of the manufacture of solar panels, the report says. This type of power source is highly reliable, can be installed quickly and is convenient for use in remote areas. But, as with wind, solar power is intermittent, and is thus challenging to integrate into a power grid. And the technology uses toxic materials, the report says.

### Bioenergy

The use of bioenergy and waste, fuel types that depend on biological feedstocks such as wood and agricultural residues, has been increasing along with increased energy demand, although there is a lack of reliable and standardized data for assessing the contribution of this energy source. Bioenergy use, such as the burning of wood, is proven and simple but can generate harmful emissions. Transportation of the fuel can be a drawback, and the use of some types of biofuel can impact water and food supplies.

### Energy efficiency

The World Energy Council report also comments on the importance of energy efficiency in the overall world energy economy. For example, a modern coal-fired power station can have an energy output efficiency of 46 percent, compared with an average efficiency of 34 percent for existing plants; a gas-fired power plant can have an efficiency of 61 percent. And energy efficiency improvements in buildings can reduce energy consumption by between 20 and 40 percent, the report says. ●

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## NORTHERN GATEWAY

effort to sway an antagonistic public comes just weeks before a Canadian government ruling expected before the end of 2013 on the Northern Gateway application.

And Enbridge has decided it can no longer count on its version of logic and reason to carry the day, especially as it faces a counterattack from emboldened environmental activists, who are believed to be financed by unknown sources in the United States.

### Facing unprecedented setback

More than at any other stage in its 60-year history, the company is facing an unprecedented setback after a continuous string of successes before regulators.

“We have secured every permit we’ve ever applied for,” said Byron Neiles, senior vice president, major projects.

What happens to Northern Gateway — designed to export 525,000 barrels per day of crude bitumen to Asia and California and import 193,000 bpd of condensate — is also seen as crucial to Kinder-Morgan’s plan to triple capacity to 890,000 bpd on its Trans Mountain pipeline system to the Pacific Coast and to TransCanada’s push for a possible 1.1 million bpd Energy East pipeline to Ontario, Quebec and New Brunswick refineries.

### The rail option

The premiers of Alberta and British Columbia, Alison Redford and Christy Clark, acknowledged Oct. 15 that if the Northern Gateway and Trans Mountain pipelines are not built, rail will fill the void to the Pacific Coast.

But they made no attempt to explain what infrastructure would be needed to handle at least 14 unit trains of 120 cars each on a daily basis to carry the incremental volumes of about 1.1 million bpd on the two pipelines projects.

Such a logistical challenge would rapidly become a nightmare if even one train derailed into either the Fraser or Skeena river, British Columbia’s two major salmon rivers.

The Fraser Institute, a conservative think tank, in a study published earlier this month underscored the superior safety record of pipelines over other modes of transportation.

It said road transport in the United States during 2005-09 had almost 20 incidents per billion-ton miles, while rail recorded two and pipelines 0.6.

### Project unveiled 11 years ago

It’s now 11 years since Enbridge unveiled Northern Gateway, a proposal that initially attracted little or no attention.

The road ahead seemed clear cut-for Enbridge — simply match up producers and refiners, sail through the regulatory process, obtain export permits and arrange financing. That’s the way it had always been in the pipeline business.

Few outside the industry had a clue about the esoteric world of building pipelines or dealing with regulators. Besides, once the pipelines were in the ground they were usually out of sight and mind, except for the occasional rupture or spill that usually passed without notice.

But Enbridge got caught up in a complex web, some of its own making, especially when it was at the center of a 2010 rupture of a crude pipeline that spilled more than 20,000 barrels of heavy Canadian crude into the Kalamazoo River in Michigan, the largest onshore spill in U.S. history.

The company now estimates the cleanup costs are approaching US\$1 billion and has warned that the total bill could be pushed beyond the limit of its insurance coverage.

### The crusade

That incident and the furor over Keystone XL have quickly turned opposition to oil sands development into a crusade, led by British Columbia First Nations and U.S.-financed environmental activist groups.

Chief Executive Officer Al Monaco freely admits the “the public’s expectations (on the whole chain of energy projects, including safe, reliable operation of pipelines) have evolved very dramatically in a very short period of time. Demonstrating the need or the economic benefits and getting through the regulatory process is not enough to get public support today.”

Mark Maki, an Enbridge pipeline executive, has conceded that even if Northern Gateway receives a go-ahead later this year the project “still has a long way to go.”

Vern Yu, senior vice president of business and market development, candidly describing Northern Gateway as a “lightning rod project,” said the company is counting on Canada’s federal cabinet ratifying the project by mid-2014, probably with a long list of conditions, and hoping that anticipated appeals will be resolved by early 2015.

Even that timetable is beginning to look optimistic. Otherwise a “yes” from the federal government does not necessarily mean “yes” to the aboriginal and environmental opponents who seem prepared to carry their fight to the point of civil disobedience — in other words blockading pipeline construction at the minimum.

The open hostility aimed at Northern Gateway and the Trans Mountain expansion has now moved up a notch, with oil sands opponents, many suspected of being financed by U.S. sources, turning their sights to the two projects because of concerns to Americans about 700-plus tankers moving in Pacific waters, while Enbridge has launched its own campaign that is expected to cost millions of dollars.

### Real-time tracking

Forest Ethics has launched website  
see **NORTHERN GATEWAY** page 16

## Enbridge looks for LNG opening

Enbridge expects consolidation among British Columbia’s array of LNG proposals will give it a chance to join the midstream business in British Columbia’s LNG world, even though it trails rival TransCanada.

“We all know about the LNG opportunities (on the Pacific Coast), but it’s going to take a lot of infrastructure, particularly (in moving natural gas out of) northeast B.C.,” company Chief Executive Officer Al Monaco told an investor conference earlier in October.

Even so, he said the “conventional wisdom” is that only one or two of the dozen projects now in various stages of planning will go forward, adding: “That’s the most likely scenario.”

Monaco suggested that one pipeline delivering gas to the coast “makes the most sense. We’re just in very preliminary stages of thinking that through and speaking to producers in northern British Columbia,” although not in a position to talk about specific projects.

Mark Maki, acting president of gas pipelines, said the midstream footprint in British Columbia and Alberta will “hopefully” leverage Enbridge’s ability to contribute to LNG infrastructure.

### Industry solution

Doug Krenz, senior vice president, natural gas commercial and business development, said the company is pursuing an industry solution to work with producers in the export of LNG, bolstered by its view that consolidation will eventually be needed in the sector.

While conceding that TransCanada has signed two commercial arrangements — with Royal Dutch Shell and Spectra Energy — to build two pipeline links costing C\$6.5 billion (US\$6.3 billion) to serve the Pacific Northwest project, operated by Progress Energy Canada, a unit of Petronas, he said “there’s a lot more to come on LNG.”

Krenz said TransCanada, through its gas-gathering Nova unit, “obviously has the ability to aggregate natural gas supplies to serve (the Pacific Northwest) pipelines.”

see **LNG OPENING** page 16



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## LANDFILL GAS

ment, according to Eklutna.

By launching a project to capture and sell gas produced by decomposing waste, Eklutna believes the Municipality of Anchorage is making money off the land, which would trigger profit sharing. The Municipality of Anchorage believes the profits come from improvements it made to the land, which would not trigger the profit-sharing provision.

The suit also claims that Anchorage failed to keep Eklutna abreast of developments leading to the commercialization project, a requirement under the 1982 settlement.

### Trash to treasure

Anchorage initially flared the methane produced at its landfill, but about a decade ago its Solid Waste Services division began investigating alternatives to this industry standard.

For decades, engineers saw landfill gas as a potential safety hazard, but a landmark commercialization project at the Palos Verdes Landfill in California in 1975 opened eyes to the possibilities of turning a liability into a source of revenue. The movement took a while to come to Alaska because engineers initially thought the Last Frontier was too cold to support the bacterial feeding frenzy needed to turn organic materials into gas.

Anchorage helped prove that trash generates heat, which is insulated by snow cover.

A 2004 study and a 2006 gas collection system provided enough information to justify moving ahead on a project to convert the gas to electricity to feed into a regional grid.

While increasingly common around the country, the Anchorage Regional Landfill was the first in Alaska to launch a methane commercialization project. The project came online in November 2012, selling power to the nearby Joint Base

Elmendorf-Richardson.

### The land or the landfill?

Those efforts constitute income from the land, according to Eklutna.

The suit cites internal emails from 2009 suggesting that Solid Waste Services understood the project might trigger the profit-sharing provisions of the settlement, and claims that Anchorage ultimately organized the project in a way that aimed to sidestep the payments.

When it hired Doyon Utilities in early 2011 to manage the project, Anchorage retained complete ownership over the proposed production facilities, leaving the construction and operations to Doyon, according to Eklutna. Had Anchorage leased a corner of the landfill to Doyon for building facilities, it would have triggered profit sharing, Eklutna claims.

Anchorage says it only made improvements to its property, which means it isn't profiting from the actual land. In a statement, the Municipality of Anchorage noted that "the landfill gas would not exist if not for the improvements the Municipality has made on the land. This landfill gas is not like natural gas or minerals that are part of the land itself."

But Eklutna believes Anchorage "functionally leased" the entire landfill to Doyon for the purposes of the project, which it believes should trigger the profit

sharing provisions.

### Decades to come?

Eklutna believes Anchorage is on the hook — one way or another.

Either Eklutna should get half of the profits generated from the facility, or it should get half the fair market value of the land Doyon is using to generate the gas, the suit claims.

The exact amounts are unclear, but it appears to be more than \$100,000 to date.

Eklutna also wants to be compensated for its expenses in putting the case together.

The Municipality of Anchorage believes the income from the facility is a crucial component for keeping the landfill operational for decades to come. "The Municipality has a financial duty to its taxpayers, including making sure there are sufficient funds to secure and build an alternative landfill and sufficient funds for the proper care and closure of this landfill when the time comes," the municipality said in its statement.

Earlier in the year, Anchorage expressed a willingness to settle with the Eklutna, but the two sides were clearly unable to reach an agreement before the case went to court. ●

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## LNG OPENING

"There's a lot of confidential information between them and the sponsor of the project that we aren't aware of and we expect that TransCanada was pretty aggressive on their pricing," he said.

But Krenz noted that the complexities associated with LNG projects, including market arrangements and hiring a labor force for pipeline construction, has seen "some of the timeframes starting to slide" in British Columbia.

Maki said he does not believe delays

in obtaining approvals for Enbridge's Northern Gateway crude bitumen pipeline across British Columbia have inhibited the company's ability to obtain an LNG project.

He was adamant that the "polarized" views around Northern Gateway stem more from opposition to oil sands pipelines than Enbridge's reputation.

"It's a different environment as it relates to LNG," he said. "Our research and the initial discussions we've had indicate that we should be able to be a part of an (LNG) gas pipeline."

—GARY PARK

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## NORTHERN GATEWAY

tarsandssos.org in Washington State, featuring real-time tracking of all tankers in and out of Kinder Morgan's Westridge terminal in Port Metro Vancouver, the terminus of the Trans Mountain system in British Columbia.

Forest Ethics U.S. spokesman Matt Krogh said the website is the start of a cross-border campaign to oppose the Canadian projects.

Enbridge, meanwhile, is trying to put a human face on Northern Gateway by focusing on project boss Janet Holder,

born and raised in Prince George, on the pipeline route.

"This is Janet Holder," says the TV ad voice-over. "She wants to build the safest pipeline Canada has ever seen."

Coastal First Nations, an alliance of eight aboriginal communities in northwest B.C., uses its own TV spot to depict an aboriginal toddler "who would like Janet Holder to respect the wishes of her community and 80 percent of British Columbians who oppose tankers in our coastal waters." ●

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## ARCTIC MELT

sures over much of the Arctic Ocean from June to August brought an extensive cloud cover and, hence, lower than normal temperatures. And wind patterns associated with the low pressure tended to cause the sea-ice cover to spread out, NSIDC said.

The pattern of ice thickness, a critical factor in ice longevity, remained similar to previous years. In fact, satellite radar telemetry data showed that during this year's spring melt season the Arctic ice

cover was thinner than in any previous year, NSIDC said. However, this year's summer wind pattern resulted in thick, multiyear ice remaining in a relatively compact area along the Canadian Archipelago, rather than become broken and dispersed in the Beaufort and Chukchi seas.

It would take several more consecutive years of cool conditions to build the ice cover back to the state it was in during the 1980s, NSIDC said.

—ALAN BAILEY

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