Petroleum news

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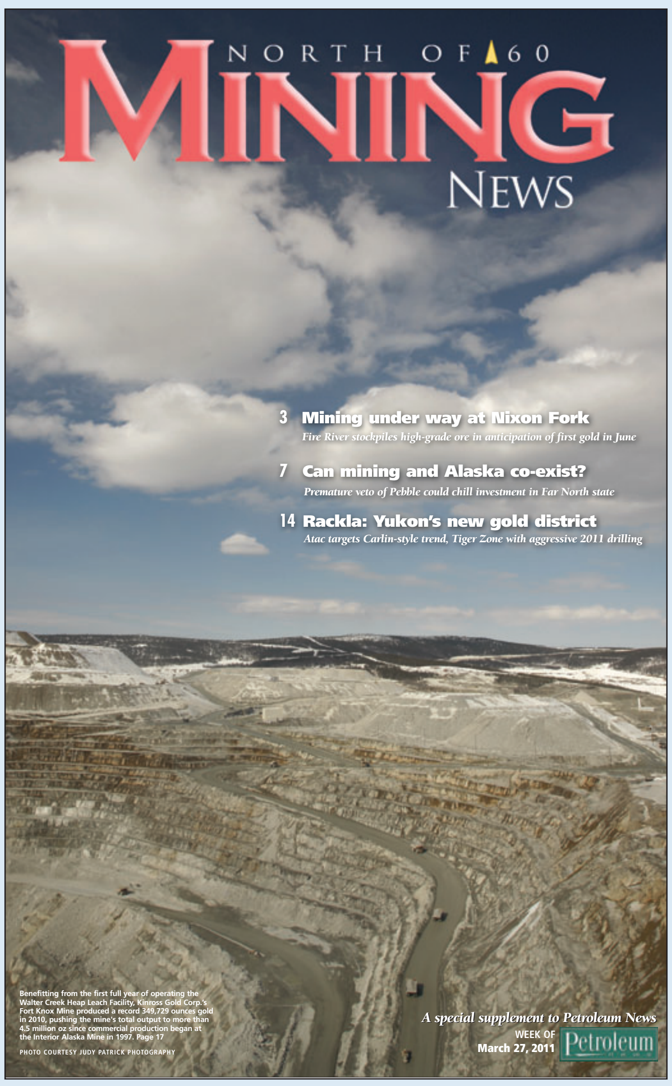
page 3 Q&A: Paskvan looking at issues from gas line and hydro to oil tax impacts

March Mining News inside



The March issue of North of 60 Mining News is enclosed

Spartan 151 headed for Cook Inlet; needs final modifications

A jack-up rig is headed for Alaska for the first time in more than a decade.

The M.V. Kang Sheng Kou heavy lift vessel left Freeport, Texas, at around 6:50 p.m. on Friday, March 18, carrying the Spartan 151 jack-up rig to Cook Inlet on behalf of operator Escopeta Oil. As of press time, the last known location of the ship was somewhere in the Gulf of Mexico, on its way to round the tip of South America.

SPARTAN OFFSHORE DRILLING

Spartan 151 jack-up leaves Freeport, Texas, for Cook Inlet, Alaska, on March 18.

"Yup. We're on our way," company President Danny Davis told Petroleum News.

Escopeta plans to use the rig to explore Kitchen Lights, a large offshore unit in the upper Cook Inlet that combines four distinct prospects and is thought to hold both oil and gas.

The Division of Oil and Gas put Kitchen Lights in default last year because Escopeta missed work commitments deadlines and Escopeta appealed the ruling. The two sides reached a settlement that required Escopeta to have a rig bound for Alaska by March 31 and drilling by Oct. 31. Escopeta expects the jack-up rig to arrive in Cook Inlet around May 8 and begin drilling shortly thereafter, once modifications and inspections are done.

see **JACK-UP RIG** page 22

FINANCE & ECONOMY

What's with big spread?

Alaska North Slope crude price soars above benchmark West Texas Intermediate

By WESLEY LOY
For Petroleum News

Recently the price of Alaska North Slope crude oil has topped $117 per barrel — a remarkable development.

We're also seeing another unusual trend. The price of ANS crude is running far above that of West Texas Intermediate, a high-quality crude that serves as the major benchmark for U.S. oil pricing.

On March 23, the price of ANS stood at $117.55, a $12.35 premium over WTI at $105.20, according to figures available on the Alaska Department of Revenue's Tax Division website.

Normally, ANS and WTI prices are much closer together, with WTI often commanding a small premium. The last time this happened was on Dec. 23, when WTI held a $1.35 edge.

> *North Slope oil is delivered aboard tankers almost exclusively to West Coast refineries. It competes on the spot market with other crudes that can be hauled in by water from places such as South America, Mexico and Russia.*

'Shallow' ANS market

So what accounts for the huge gap we've been seeing lately?

It has much more to do with stresses on WTI crude as a benchmark than it does with any changes

see **CRUDE OIL PRICES** page 21

NATURAL GAS

LNG nuclear alternative

Encana joins Apache-EOG Resources push to export Canadian gas to Asia-Pacific

By GARY PARK
For Petroleum News

With the future of nuclear-generated power heading for unprecedented scrutiny in the wake of Japan's calamitous earthquake and tsunami, LNG and oil have seized the limelight as alternatives to meet the stricken country's energy needs.

Preliminary estimates point to Japan's possible need for an extra 143,000 barrels per day of fuel oil, 67,000 bpd of crude and 16,400 metric tons of LNG.

Bank of America Merrill Lynch has estimated Japan's LNG imports could rise to 7.1 million metric tons a year.

> *Encana said British Columbia's Montney and Horn River shale gas plays have capacity to grow to 7 bcf per day — almost half of Canada's total current gas output — in the next seven to 10 years from the current 2.8 bcf per day.*

Japan has already asked Indonesia to supply more LNG and oil to meet what Japan's vice minister of foreign affairs Makiko Kikuta said is a "massive shortage of electricity."

The Asian market is the world's largest LNG customer, with South Korea's state-owned Korea

see **NUCLEAR ALTERNATIVE** page 23

GOVERNMENT

OCS coordinator needed

Begich proposes federal OCS coordinator to streamline Arctic OCS development

By ALAN BAILEY
Petroleum News

Concerned about declining oil flow through the trans-Alaska oil pipeline, the main artery of the Alaska economy, U.S. Sen. Mark Begich, D-Alaska, has told the Alaska Legislature that he is going to introduce legislation that would create a position of federal coordinator for the Arctic outer continental shelf. The federal OCS coordinator would have a role analogous to the federal pipeline coordinator who is responsible for facilitating the permitting of a North Slope gas line — essentially the OCS coordinator would work with federal agencies, the State of Alaska and local governments to streamline oil and gas developments in the Chukchi and Beaufort seas, Begich said in a March 22 speech to state lawmakers.

SEN. MARK BEGICH

Begich's proposed legislation would establish a joint lease and permit processing office for the Alaska OCS, with that office having the authority to work across multiple government agencies, including the Environmental Protection Agency, the Army Corps of Engineers and the Department of the Interior.

Air permitting

Clearly concerned about delays in the air quality permitting for Shell's planned OCS exploration

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Petroleum News | North America's source for oil and gas news

● GOVERNMENT

Fairbanks senator concerned with energy

Joe Paskvan, co-chair of Senate Resources, looks at range of issues from gas and hydro, to information on oil and gas tax impacts

By STEVE QUINN
For Petroleum News

Joe Paskvan has been busy during his first year as co-chair of the Senate Resources Committee. One day he's learning about the prospects of Great Bear Petroleum's 500,000-acre lease acquisition for shale development. The next day he's collecting information on what changes are needed to Alaska's oil tax system. All of it has his interest and rapt attention. The Fairbanks Democrat, now in the third year of his first four-year term, recently discussed these and other issues with Petroleum News.

SEN. JOE PASKVAN

Petroleum News: Talk a little bit about Great Bear and the prospects of Alaska entering shale production.

Paskvan: We are hearing about all the significant developments in other parts of the United States whether it's the Eagle Ford in Texas or the Bakken in North Dakota and those are all the source rock shale oil plays in those regions. The arrival of Great Bear to Alaska in October 20010 was so to speak the initial statement that shale oil may be real and alive for purposes of Alaskan shale oil development. I found it exciting to think that it may be significant for the future of Alaska's oil production.

Petroleum News: What additional questions do you have for a project like that, whether it's Great Bear or someone else who wants to pursue that kind of development?

Paskvan: The difference in that process will be the difference between working for a short duration during the year as compared to working 365 days a year. That will be so to speak a change in the way Alaska perceives the way its resources can be extracted as compared to the conventional oil which is now done — the drilling and the access — on ice roads and getting to these locations only during the winter. I believe the shale oil play is a change in mindset to accessing the resources 365 days a year. This means how many miles of roads do we need to build a year so shale can be developed in this state. I think they need 20 to 25 miles of road per year in order to develop their business model. If you look at the acreage they obtained, they are strategic in their development close the Dalton Highway and close to the line itself.

Petroleum News: Repsol out of Spain recently announced buying a significant interest into Armstrong's leases. What does that tell you about Alaska's investment climate?

Paskvan: Repsol has joined with one of Alaska's newer players in Alaska, which is Armstrong, and I think Armstrong has done good things for the state of Alaska in the developments they have been able to bring online. Repsol is another in a pretty impressive string of successes in bringing new investors, new ideas, new companies to Alaska. The comments made by Repsol are obviously favorable to Alaska as a place to invest, and I think it's wonderful.

Petroleum News: You've heard plenty of testimony on the need to change the tax system. It sounds like everyone agrees there needs to be more oil in the pipeline. From there everyone has a lot of different ideas of what needs to be done. What is your take thus far?

Paskvan: I somewhat start from the foundation in what I've been hearing is that Alaska doesn't have a lot of the information or data that could drive this discussion on a more factual basis as compared to the potential that's driven on an emotional basis. We've heard that as far as a central database that would be an important tool for Alaska to have so the information we are currently receiving can be timely processed and conveyed to the Legislature. We don't have that. We don't have the capacity to be using the information we currently receive so we can better understand how the capital expenditures and how the capital credits are working. From every indication the credits structure is working and they are rebuilding the Prudhoe Bay facilities — that I think is for long term operation. If that's part of the goal, the capital expenditures indicate a long-term presence of the oil industry in Alaska. The capital credits are obviously useful to the producing companies and the non-producing companies.

Petroleum News: When you talk about getting your hands on the right information, what's missing?

Paskvan: When one reads the Jan. 18, 2011, report from the Department of Revenue to the Legislature, there was a focus in that report on the need for substantive information. That is my beginning point when the Department of Revenue indicates there is a need for substantive information. I think I have to listen to that statement. When one listens to others who are expert in this field, they compare Alaska as a jurisdiction to other jurisdictions as far as the transparency of information that is derived by the sovereign from the producing companies to help guide the best model for taxation, I think Alaska is perceived to be weak in its ability to process information. Then there are potentially holes in the types of information we receive so that we again can rely upon sound facts and a solid foundation in developing a tax structure.

Petroleum News: Continuing with the topic of tax structure, you were a champion of decoupling (separating gas tax from oil tax).

Paskvan: I still am.

Petroleum News: How so and should this still be a priority?

Paskvan: Ultimately I believe the tax structure that couples oil taxation with gas taxation is a bad thing right now. It's premised upon a certain correlation or connection between the value of natural gas and the value of oil.

It's obvious from the last three to five years there has been a separation of the pricing structures of oil as compared to gas where oil is much more valuable on a unit bases to natural gas.

The complication that brings into a coupled tax structure is injecting a low value commodity devalues the oil. The ultimate issue that was of key importance a year ago was that if you were to throw on a switch and inject 4.5 bcf of natural gas into Alaska's tax structure that in effect the State of Alaska would receive less money than if no natural gas were part of the structure.

We would be receiving oil taxes at a certain level. You inject 4.5 bcf in, and the cumulative tax that would be imposed on oil and tax is less than the tax just on oil under the coupled tax structure.

I think that shows the inherent problem with that coupled tax system. It shows the obscene results that would be reached under the current tax structure with current pricing: that you would have less revenue to the state the minute you flipped on the switch for 4.5 bcf a day going through this hypothetical large-diameter line.

Petroleum News: Would you like to see this included in any change the Legislature passes the next few years?

Paskvan: Yes. Getting back to the first comment I made about the sufficiency of information received from the industry and the ability to process that and the holes in it, all of that needs to be looked at. Which raises the issue in the oil tax: Alaskans should fully understand our credit structure and its impact on the current production tax and also the potential for royalty reduction. That it's not widely used — there are only two projects that have receive royalty reduction — we need to understand the global oil industry in Alaska in order to create a tax system that will be able to handle the spectrum of oil exploration and oil development in Alaska.

see **PASKVAN Q&A** *page 5*

NATURAL GAS

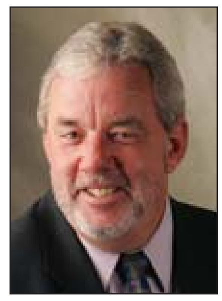
House Resources moves AGDC changes

Alaska Gasline Development Corp. wants authority for confidentiality agreements; ANGDA removed over potential conflicts of interest

By KRISTEN NELSON
Petroleum News

The Alaska Legislature is moving a bill that makes some changes to the Alaska Gasline Development Corp. which it set up last year. AGDC, established as a subsidiary of the Alaska Housing Finance Corp., is charged with reporting to the Legislature July 1 on a proposal to build an in-state natural gas pipeline which would be operational by Dec. 31, 2015.

The House Resources Committee moved out a bill March 21 which changes the membership of the joint in-state gasline development team established under AGDC and allows AGDC to enter into confidentiality agreements so that information acquired by the corporation to develop the report to the Legislature would not be subject to public disclosure.



DAN FAUSKE

House Bill 189, introduced March 10 by House Speaker Mike Chenault, R-Nikiski, allows the seat designated for the chair of the board of directors of the Alaska Railroad Corp. to be filled by the chair's designee, and removes the CEO of the Alaska Natural Gas Development Authority.

House Bill 369 which established AGDC last year named five team members: The executive director of AHFC (named chair of the development team in the bill); the commissioner of the Department of Transportation and Public Facilities or the commissioner's designee; the chair of the board of directors of the Alaska Railroad Corp.; the CEO of the Alaska Natural Gas Development Authority; and the in-state gasline project coordinator.

Railroad, ANGDA changes

HB 189 adds "or the chair's designee" to the Alaska Railroad Corp. member and drops the CEO of ANGDA from the team.

The railroad change accommodates the fact that the board has a new chair, Linda Leary of Carlile Transportation Systems, allowing the former chair, John Binkley of the Alaska Cruise Association, to remain as a team member.

The ANGDA change addresses a point of contention between AGDC and ANGDA.

ANGDA bid in open seasons held last year — after passage of HB 369 — for pipeline capacity on behalf of electric utilities in both the TransCanada and Denali pipeline projects and has indicated it would also bid for capacity on behalf of the utilities in an in-state gas pipeline.

AGDC maintains this creates a potential conflict of interest and while ANGDA has not agreed, ANGDA CEO Harold Heinze recused himself from the team last year.

When AGDC President Dan Fauske and the ANGDA board discussed the issue last fall, then Deputy Commissioner of Revenue Marcia Davis said separation of pipeline and shipper is a legal principle developed by the Federal Energy Regulatory Commission at a time when large conglomerates with both shipping and pipeline interests were giving sweetheart deals to affiliates.

In discussion of the bill the removal of ANGDA was said to be because of potential conflicts of interest.

Confidentiality most controversial

House Resources Committee members were most concerned about the provision for confidentiality, which includes a public records exception for AGDC.

Fauske told the committee that the provision allowing AGDC to sign confidentiality agreements will allow it to get information it needs from other agencies and private companies in order to complete its report to the Legislature.

He said when he first took the AGDC job weeks were spent hammering out details of an agreement with Enstar over use of that company's data. He said it's much easier with a confidentiality agreement.

House Resources co-Chair Paul Seaton, R-Homer, said he was concerned that the Legislature not get itself in the box it's in with the Alaska Gasline

see AGDC CHANGES page 5

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CLARIFICATION

Active explorers

An article in the March 20, 2011 issue of Petroleum News titled "BRPC spuds North Tarn" said that a joint venture lead by Brook Range Petroleum Corp. was on the "march toward being the most active explorer in Alaska over the past five years" by drilling seven wells. ConocoPhillips also drilled seven wells on the North Slope over the past five years, including some of the most remote wildcats in several decades and several wells in the National Petroleum Reserve-Alaska far from existing infrastructure. However, ConocoPhillips did not drill any traditional exploration wells in 2010 or 2011.

CORRECTION

Correction in Brooks Range article

The last paragraph of the article "Alaska Shale: Brooks Range joins Alaska shale game" in the March 20 edition of Petroleum News was incorrect. It should have read like this, with "all producing fields" replaced with "all production facilities":

With the exception of Eni's new Nikaitchuq oil field, all production facilities in northern Alaska are operated by two companies: BP and ConocoPhillips. Although oil production is down, most of the legacy fields are close to, or at, capacity for water and/or natural gas handling, which means the owners of those facilities have to back out their own oil to make room for third party oil.

● GOVERNMENT

BLM admits to drilling safety lapse

Federal agency concedes diverter wasn't used on well drilled near Alaska village of Wainwright; AOGCC to continue probe

By WESLEY LOY
For Petroleum News

The Bureau of Land Management has admitted responsibility for a failure to use a safety device called a diverter on a federal drilling project near the northwestern Alaska village of Wainwright.

But the BLM also seemed to steer accountability for the lapse toward its designated operator on the project, the U.S. Geological Survey.

The BLM stated its position in a March 15 letter to the Alaska Oil and Gas Conservation Commission, which had been pushing the agency for months to show proof it had used the required diverter on the seven wells at issue.

"BLM understands it is responsible for the actions of its operator," said the letter signed by Julia Dougan, the BLM's associate state director for Alaska. "BLM has no immediate plans for additional drilling but can assure the Commission if future drilling should be permitted, operations will be carried out in full compliance with state regulations."

How conflict unfolded

The letter is the latest twist in a long-running conflict between the BLM and the AOGCC.

The Wainwright project, which began in 2007, was a joint effort involving the BLM, the USGS, the North Slope Borough and Arctic Slope Regional Corp.

The goal was to test a local coalbed as a potential source of natural gas to meet energy needs in the remote village of about 550 people on the Chukchi Sea coast.

The AOGCC has authority to regulate drilling statewide, whether on federal, state or private land.

On June 22, 2010, the AOGCC hit the BLM with a "notice of violation" for possibly drilling wells without the required safety equipment.

A diverter, which sits atop the well, is designed to direct any unexpected release of dangerous hydrocarbons safely away from the rig work area. Like blowout preventers, diverters are a last line of defense for drillers.

The two agencies swapped letters over several months, with the AOGCC contending it was not seeing the verification it wanted on whether a diverter was used on the exploratory wells.

On Dec. 9, the AOGCC threatened the BLM with a public hearing to get answers.

Ultimately, Pat Pourchot, the U.S. Interior secretary's special assistant for Alaska affairs, was brought into the discussion.

In its March 15 letter, the BLM said it was the applicant for the state permit to drill one of the wells, Wainwright No. 2, but that it had designated the USGS as operator.

"Our documentation confirms no diverter was used on the Wainwright well #2," the letter said.

But the BLM said the USGS was both the applicant and operator for the other wells, Wainwright Nos. 3, 4, 5, 6, 9 and 10, and it directed the AOGCC to send any correspondence about those wells to a USGS official.

Investigation to continue

Cathy Foerster, one of the three AOGCC commissioners, told Petroleum News the Alaska Department of Law had advised the agency it probably doesn't have the power to fine the BLM for failure to use a diverter on Wainwright No. 2.

But Foerster said the BLM letter is significant, an indication "that the federal government is perfectly capable of self-correcting."

The AOGCC now plans to make inquiries to the USGS regarding whether the safety gear was used on the other Wainwright wells.

Foerster said the state's objective is plain. "When the federal government comes into our state to operate, we want their assurance that they will abide by our laws like any other operator," she said.

The Wainwright matter isn't the only source of friction between the AOGCC and the BLM. The commission has pointedly questioned the federal agency's attention to dozens of derelict "legacy wells" located chiefly in the National Petroleum Reserve-Alaska. ●

Contact Wesley Loy at wloy@petroleumnews.com

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PASKVAN Q&A

Petroleum News: Who are the people to be filling these holes for you?

Paskvan: The conversations I've had with Department of Revenue, the question is whether they can do that by regulation or does it need to be done by statutory change. I have explicitly put that on the table to them: What is the type of information they need; can they do it by regulation; is it something the Legislature can obtain through statutory change. The substance of this issue goes back to the Jan. 18, 2011, report. As soon as the report came out, that was an area of significance to me.

Petroleum News: Let's switch to another power source. Hydro is being discussed a great deal in Capitol halls. Can hydro help this state?

Paskvan: Hydro is 10 or 15 years down the road. It will all help in the long-term to stabilize our energy costs. But the question really is — other than electricity — in the Interior we have the heating demands, there is no way you can affordably heat your homes. We need something that is going to be affordable for the customer and that is probably natural gas in some form. Again, when one looks at the separation of pricing of natural gas from the pricing of oil, I think that it makes sense that you distribute the lower value of hydrocarbon to Alaskans and then we can heat our homes, heat our business and provide an energy resources around Alaska so we are not burning our high-value commodity which is diesel.

Petroleum News: With natural gas in mind, what concerns do you have with any progress or lack of progress natural gas pipeline?

Paskvan: The in-state gas line report will be issued July 1, so I'm hoping that a 24-inch line will be explored. The question will be whether the state will believe that will be an advance from the standpoint of distributing low-value energy resource to Alaskans. I think the Gottstein approach is intriguing as far as bringing a large-diameter line to the Interior of Alaska, then let the markets decide where it will go from there. ●

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AGDC CHANGES

Inducement Act. He said he wanted to make sure that confidentiality agreements don't result in data being withheld from the Legislature.

Fauske said AGDC would be handing a report to the Legislature with a recommendation. He said the bill gives AGDC the ability to gather information. AGDC won't be able to hand over all of the information covered by the confidentiality agreements, but Fauske said the report will contain background information explaining why the decision was made.

The committee amended the bill to sunset AGDC's confidentiality agreements on Dec. 31, 2011. ●

Contact Kristen Nelson at knelson@petroleumnews.com

NATURAL GAS

Quebec: Caught in a bind

Province freezes drilling to conduct environmental review, introduces royalty regime in anticipation of eventual 50 tcf development

By GARY PARK
For Petroleum News

Of all the North American jurisdictions with shale gas resources, few if any have as much to win or lose as Quebec.

Early calculations estimate its Utica formation, stretching over 160 miles of the St. Lawrence Lowlands between Montreal and Quebec City, holds at least 50 trillion cubic feet of recoverable resources which could yield 700 million cubic feet per day within 10 years of commercial development being approved.

That, in turn, would take a large bite out of the C$16 billion a year Quebecers pay to import oil and gas.

It could also improve Quebec's trade balance if gas is ever exported across the border to key markets in the U.S. northeast.

The provincial government has taken every chance it could to promote those benefits.

But the administration of Premier Jean Charest, which is facing a heavy defeat in the next election, is just as mindful that opposition in Quebec to shale gas development is probably more strident than anywhere on the continent.

Public meetings have turned into heated encounters, 128,000 residents have signed a petition opposing development and recent polls indicate up to 77 percent of Quebecers will not easily be persuaded that shale gas exploration and production will do anything but harm to water supplies and the environment.

Review agency findings accepted

The public mood easily won the day March 8 when the government wasted no time accepting the findings of its environmental review agency and effectively shut down any new shale gas activities for two years, pending a "strategic environmental evaluation" of hydraulic fracturing.

The action came within hours of the government receiving a 323-page report compiled over the last six months that called for a freeze after concluding scientific evidence on the impact of fracking is "partial or nonexistent."

The agency said a major piece in the shale gas puzzle covering the impact on water will be available in 2012 when the U.S. Environmental Protection Agency delivers the findings of a two-year study.

Environment Minister Pierre Arcand said in a statement "Quebecers should know we will not accept any compromise on health, safety and respect for the environment," despite the commercial potential of shale gas. But he backed away from imposing an outright moratorium.

"The conclusion of the (review agency) is clear: the lack of knowledge about shale gas requires the government's close supervision," he said. "We will take the time needed to answer all the questions."

Arcand said 18 wells have so far been fracked and, for "scientific purposes," the government will allow fracking at another 13 wells that have been drilled.

He said new regulations would eventually be adopted to tighten controls over shale gas exploration once a committee of experts and government officials completes a "strategic environmental review" by June or July.

Sliding scale royalties

While awaiting results from the environmental review, the government announced that if development proceeds, it will charge royalties on a sliding scale of 5 percent to 35 percent, depending on gas prices and well productivity.

Finance Minister Raymond Bachand said Quebec's share of production revenues could climb to 50 percent once corporate taxes were included, generating up to C$440 million in annual royalties and taxes for the province.

He said the government's goal would be to encourage exploration by allowing producers to pay lower royalties in the initial development and commercialization stages

see QUEBEC page 7

Alberta oversight 'inadequate'

An Alberta government-appointed panel found that the current system for monitoring water quality in the oil sands region is inadequate and that environmental impacts from industrial development in northern Alberta are not well known.

Environment Minister Rob Renner appointed the six-member panel of scientists last September as part of a process intended to recommend a more comprehensive monitoring system in June.

The panel also said more scientific analysis is needed if the government is to fully understand the impact of bitumen operations on the environment, including the Athabasca River, the main waterway through the oil sands region.

Renner said the panel's findings will be incorporated in the omnibus report.

Based on the panel's work, he conceded that more rigorous environmental monitoring is clearly needed and that a coordinated, cumulative effects system must be implemented.

Rachel Notley, environmental spokeswoman for the New Democratic Party, said the report shows the government has misled the public about the impact of oil sands development.

She said there is no reason to trust the government to protect health, the environment and ultimately the sustainability of the oil sands industry, while Alberta's international reputation is being jeopardized.

—GARY PARK

NATURAL GAS

RCA refuses to change CINGSA decision

Inlet Entities want stipulations that address their concerns about gas storage leaks; commission upholds certificate decision

By ALAN BAILEY
Petroleum News

The Regulatory Commission of Alaska has denied a petition by Inlet Entities to modify the terms under which on Jan. 9 the commission approved a certificate of public convenience and necessity for Cook Inlet Natural Gas Storage Alaska's planned gas storage facility on the Kenai Peninsula. CINGSA is trying to fast track the development of its facility to head off projected shortfalls in utility gas deliveries during the winter of 2012-13.

In hearings in both RCA and the Alaska Oil and Gas Conservation Commission, Kenai Peninsula businessman Vincent Goddard has consistently argued that CINGSA has not taken adequate account of the possibility of gas leakages from its planned storage reservoir in the Cannery Loop gas field on the south side of the city of Kenai. Goddard owns two fish processing businesses with facilities on land directly over the planned gas storage reservoir. Goddard and his companies, collectively referred to in CINGSA hearings as Inlet Entities, want CINGSA to remediate some old gas wells that penetrate the planned reservoir and have expressed particular concern about the potential of gas leakage through one well, the KU 13-8 well, that surfaces within property leased by Goddard.

At the hearings, CINGSA has presented data from the Cannery Loop field that, CINGSA says, demonstrate that there are no leakage points from the proposed storage reservoir.

AOGCC permit

In November AOGCC, the state agency with prime responsibility for regulatory oversight of the integrity of gas storage reservoirs, granted CINGSA a permit to inject gas into its reservoir. AOGCC said that CINGSA's testimony regarding the integrity of the reservoir was more credible than that presented by Inlet Entities. However, the commission does require CINGSA to place a gas detection and alarm system in buildings near the KU 13-8 well.

Inlet Entities have argued that the reservoir integrity question is pertinent to RCA certification of CINGSA's facility, in that a lack of reservoir integrity would undermine the successful operation of the storage facility, in particular causing the facility's customers to lose gas. Following the issuance of the CINGSA certificate, Inlet Entities petitioned RCA to add stipulations requiring inspection or remediation of the KU 13-8 well, or alternatively requiring CINGSA to provide Inlet Entities with daily data regarding the storage facility operation and requiring periodic soil testing on land above the reservoir, to monitor for any escaping gas.

Majority decision

In a majority decision, the RCA commissioners rejected the Inlet Entities request.

"We conclude that the Inlet Entities have not demonstrated that our decision … was unreasonable, erroneous, unlawful or otherwise defective," the commission said in a March 17 order. "Therefore, we deny the petition for consideration."

In a minority dissenting statement, Commissioner Janis Wilson said that, although she would deny Inlet Entities' request for remediation or inspection of the KU 13-8 well, preferring instead to defer to AOGCC expertise, she would grant requests for soil testing and the disclosure of reservoir pressure data.

"AOGCC is not accustomed to considering ratepayer interests in public gas storage facilities," Wilson said. "We have the responsibility to protect ratepayer interests and ensure that utilities maintain safe service and facilities."

In its response to the Inlet Entities petition, CINGSA had told RCA that the petition "simply reiterates requests for relief that have been made, without success, before both the commission and the Alaska Oil and Gas Conservation Commission." ●

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QUEBEC

in exchange for higher royalties once upfront costs were recovered, adding "it is now reasonable to believe that Quebec's subsoil holds substantial shale gas potential."

The budget said all Quebecers must benefit from commercial development of the resource, including a C$100,000 per-well compensation to municipal governments to be paid over 10 years.

250 wells a year estimated

The government estimated that 250 wells could be drilled each year if production receives the go-ahead, building to 3,030 producing wells within 15 years and a productive life for the resource of 16 to 72 years.

Currently 12 companies have interests in shale gas exploration, led by a joint-venture of Talisman Energy and Questerre Energy, but all have either shelved or slowed their activities, citing high drilling costs, the lack of a service industry and the uncertain regulatory outlook.

Gary Leach, executive director of the Small Explorers and Producers Association of Canada, noted that in adjoining New York State a similar temporary moratorium has been placed on fracking.

"I think that once the science and facts (are known), Quebec will be comfortable moving forward with shale gas. The province knows there are billions of dollars in royalties and thousands of jobs that can be created by developing its shale resources," he said.

Grant Daunheimer, an analyst with Dundee Securities, said in a research note he does not expect "any material news from the play for up to 24 months." ●

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GOVERNMENT

Bill would re-establish coastal council

House Resources committee substitute extends ACMP to January 2017; 9-member Alaska Coastal Policy, Appeals Board created in DNR

By KRISTEN NELSON
Petroleum News

The Alaska Legislature's House Resources Committee has been hearing testimony on the Alaska Coastal Management Program and has generated a committee substitute for the governor's ACMP bill, House Bill 106.

The governor's bill was a barebones extension of the program, which ends July 1 without legislative action.

The committee substitute makes substantial changes in the program. Topping those changes is reestablishment of a board with coastal district representatives and commissioners; the committee substitute also includes a multitude of other changes. The changes are issues the committee heard addressed, most recently in the ACMP audit done by the Legislative Audit Division and in testimony by Glenn Gray, a consultant for some of the coastal districts.

Legislators from coastal districts have proposed revisions in the program since major statutory changes were made in 2003 and 2005. The 2003 changes eliminated a coastal policy board, transferred board authorities to the commissioner of the Department of Natural Resources, moved the program from the governor's office to DNR and restricted the ability of coastal districts to write local enforceable policies.

According to documents on contents of the work draft posted with the bill, the Alaska Coastal Policy and Appeals Board established by the bill would have authority to resolve differences between DNR and coastal districts, review elevations of proposed consistency determinations and jointly adopt ACMP regulations with DNR.

Duties of the board include resolving differences between DNR and coastal resource districts over district plans; reviewing proposed consistency determinations; and adopting regulations jointly with DNR.

Consultants an issue

An issue which came up in the audit was the refusal of the Division of Coastal and Ocean Management, which runs ACMP, to provide materials for review to consultants acting on behalf of coastal districts.

Legislative Auditor Pat Davidson, talking to the committee in a March 11 hearing about the audit her division did of ACMP last year, said the division had concerns and recommended to DNR that consultants be allowed to represent coastal districts. Many coastal districts are political subdivisions, she said, and delegation is a matter for them — not DCOM — to decide. Davidson said that DCOM is trying to foster good participation by stakeholders by insisting on local participation, but said the Audit Division believes DCOM overstepped by refusing to allow coastal districts to be represented by consultants.

The committee substitute says that DNR will provide data and information to representatives of coastal districts, including consultants and that if DNR provides funding to a coastal district, that funding can be used to employ or retain consultants.

DEC carve out eliminated

Changes made to the ACMP in 2003 and 2005 included what is called the Department of Environmental Conservation carve out — DEC's permitting process was "carved out" of the ACMP process.

This legislative change, Davidson told the committee, was to allow DEC to conduct its review concurrently rather than consecutively, an issue for applicants because some of DEC's permits take a long time. Davidson said industry liked this change, but coastal districts did not because it eliminated the option for a coastal district to develop enforceable policies related to air, water and land quality issues.

Coastal districts can comment on DEC permits through the public process, Davidson said, but because they can no longer develop local enforceable policies on air, water and land quality issues, their comments are not given the due deference given to enforceable policies.

Designated areas eliminated

Another issue for coastal districts is designated areas.

Under the present program they need to designate specific areas for concerns such as subsistence and habitat, but only a handful of such designated areas have been approved.

Davidson said the DNR threshold for designated areas requires scientific evidence, which is difficult and expensive for districts to provide and probably costs more than grant money the districts could get from DCOM.

Glenn Gray, a consultant for some of the coastal districts, said in a March 16 hearing that designated areas can be for important habitat areas and for subsistence areas, but he said only three small areas have been approved for habitat under the current program, and for subsistence, areas have been denied for 52 percent of total coastal district acreage.

And Gray said the rules have changed for subsistence areas, from 2005 when an entire coastal district could be designated as a subsistence area, to requirements that each subsistence type must have a separate designation and DNR must approve types, which must reflect a species life history and be linked to specific areas on maps on a scale of 1:63,360. Gray said that new map scale, required last year, is very costly and noted that at that scale the Northwest Arctic Borough would need 2,108 new maps.

The committee substitute for HB 106 repeals the designated area requirement.

Board established

The committee substitute creates the Alaska Coastal Policy and Appeals Board in the Department of Natural Resources. There are five public members appointed by the governor, one at-large from any coastal resource district and four members from specific areas, one each from: northwest Alaska, southwest Alaska, upper Cook Inlet and Southeast Alaska.

The board also has four commissioners: Commerce, Community and Economic Development; DEC; DNR; and Fish and Game.

The board will select co-chairs, one from among the public members and one from among the commissioners.

Duties of the board include resolving differences between DNR and coastal resource districts over district plans; reviewing proposed consistency determinations; and adopting regulations jointly with DNR.

The audit did not recommend reestablishment of the board, but it did recommend allowing coastal districts to designate their own representations and the completion of two ongoing regulatory processes: revision of the ABC list and the ACMP regulations. ●

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● FINANCE & ECONOMY

CWN report supports oil tax reduction

Group just one of statewide interests lining up in favor of changes in ACES, Alaska oil tax system, which is bringing in billions

By KRISTEN NELSON
Petroleum News

Commonwealth North and major Native corporations with companies doing work for the oil and gas industry spoke out the week of March 21 in favor of reducing the state's immediate take from oil and gas in favor of encouraging longer-term investment and production.

The Alaska Legislature's House Finance Committee met in Anchorage March 21 to hear from corporations established under ANCSA, the Alaska Native Claims Settlement Act, and other invited businesses on House Bill 110, Gov. Sean Parnell's proposal to reduce progressivity and make other changes in the state's oil and gas production tax.

In its most recent study report, "Alaska's Oil Investment Tax Structure: Establishing a Competitive Alaska," released March 23, Commonwealth North endorsed the governor's proposal and recommended passage this year, saying: "If it takes a special session, hold one."

The CWN report said that there is a philosophical tension between a tax policy that takes all it can and a tax policy that provides more moderate amounts of revenue so as not to deter investment. After weighing that tension, Commonwealth North said it concluded that it is in the best interest of present and future generations of Alaskans for the tax structure to encourage long-term North Slope production, allowing producers to earn returns on North Slope investments comparable to returns they can earn elsewhere.

It also noted that the current tax system, ACES, Alaska's Clear and Equitable Share, was enacted in late 2007 amid concern that the 2006 tax change, PPT, the Petroleum Profits Tax, had been approved by corrupt means.

ACES, passed in November and made retroactive to July 1, 2007, made Alaska's oil and gas taxes the highest in the nation, the report said. Compared to taxes PPT would have raised, ACES brought in an extra $5 billion through 2010.

Commonwealth North said the facts are clear: the current progressivity formula in ACES has brought in billions in revenue; investing on the North Slope by major producers — "primarily maintenance of the fields and not new oil production" — has continued; and oil production is declining faster than projected by the Alaska Department of Revenue.

Responsibility of Alaskans

Commonwealth North said it is the responsibility of Alaskans to ensure that the state "establishes a fiscal and tax structure that does not inhibit growth."

Multiple factors go into investment decisions, the report said, but Alaska producers have made it clear since ACES was proposed that the current oil tax structure "is one of the main contributing factors to have a chilling effect" on North Slope investment decisions.

Commonwealth North said it "determined that a tax adjustment is required for oil explorers and producers to increase investment and stem or stop the decline in oil production and preserve long term revenue for the State."

The intention of ACES was to combine a net profits tax and tax credits "to make the state an investment partner with the producers allowing the state to share in the risk of developing petroleum resources," the report said, with the state distributing more than $2 billion in tax credits under ACES (2007-10), while receiving some $14 billion in production tax revenue, more than three times the amount that would have been generated under the pre-PPT gross-value based system, generally referred to as ELF because of the economic limit factor which reduced taxes on less productive fields.

Commonwealth North said the study group concluded that "trading some current oil tax dollars for the likelihood of a longer North Slope production cycle is in the best interests of all Alaskans."

CIRI sees 'dramatic downturn'

Corporations formed under the Alaska Native Claims Settlement Act expressed their concerns to House Finance in Anchorage March 21.

Margie Brown, president and chief executive officer of Cook Inlet Region Inc., said CIRI has significant ownership interest in

see **CWN REPORT** *page 11*

● PIPELINES & DOWNSTREAM

TAPS already hitting low flow issues

Alyeska president warns that without increased North Slope oil production the pipeline to Valdez runs the risk of a major outage

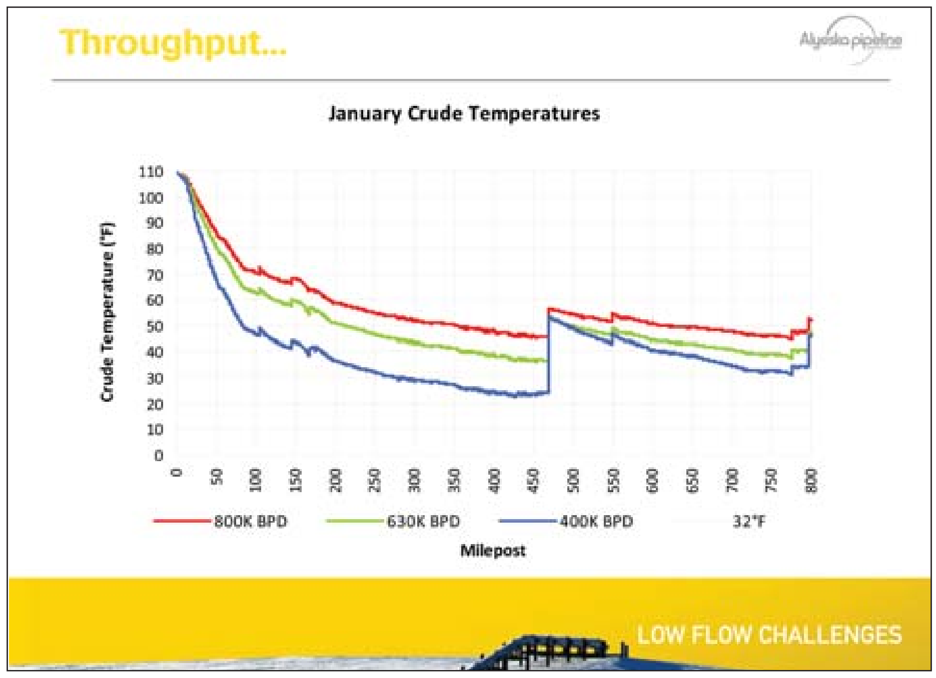
By ALAN BAILEY & KRISTEN NELSON
Petroleum News

In February Alyeska Pipeline Service Co. President Tom Barrett told the Alaska House Resources Committee that the trans-Alaska oil pipeline system, known as TAPS, had come close to the brink of a major outage when forced into a winter shutdown following an oil leak in January at pump station one, at the northern terminus of the line.

TOM BARRETT

And on March 18 Barrett was back in Juneau talking to the House Finance Committee, reiterating his concerns about declining oil flow through the line and saying that the pipeline is already at a point where cooling of the slowly flowing oil as it travels from Prudhoe Bay to Valdez could lead to a major disruption in pipeline operations.

"A lot of people have asked me, at what point will the declining flow of crude oil become a problem for TAPS, for Alyeska," Barrett said. "And the response is simple — the problem exists out there now. This is not something facing us down the road; it's not theoretical; it's an issue we confront at TAPS daily, today. And without increased throughput in the line, our challenges of operating the line safely will increase over time."



Oil cools as it flows south through the trans-Alaska pipeline during the winter, but with output products from the North Pole refinery heating the oil back up at around mile 470. The lower the rate of oil throughput, the more the oil cools.

Designed for more oil

The problem is that the 48-inch pipeline was originally designed to carry much more oil than the 630,000 barrels per day that currently flows into the line from Pump Station 1. As a consequence, the length of time that it takes each barrel of oil to travel from the North Slope to Valdez has increased from four-and-a-half days during peak throughput in the late 1980s to about 15 days now. The increasing travel time causes the oil to cool more and more as it flows south during the cold of the winter, thus raising the risk of water that is carried with the oil freezing, and increasing the potential for wax and sediments to drop out of the oil and clog the line.

The coldest point of the line is the section near where the line crosses the Yukon River. Then, at a point just east of Fairbanks, to the south of the Yukon, the North Pole oil refinery takes some oil from the line and then returns unneeded refinery products into the line, thus warming up the oil for the second half of the 800-mile trip to Valdez.

During the response to the January oil spill, with the oil temperature hovering around 36 F in the Yukon section of the line, Alyeska had to temporarily restart the line while oil was still leaking, to prevent a freeze up in the line during the time taken to assemble the resources required to fix the leak. The restart also enabled the recovery from the line of two devices called pigs that might otherwise have become frozen in place.

The longer the pipeline is shut in during the winter, the more difficult the subsequent startup becomes, Barrett told the legislators. And one of the biggest risks is ice or wax damage to one of the mainline pumps, a catastrophe that could result in a pipeline outage lasting several months, he said.

Major impact

An extended pipeline shutdown would obviously lead to a shut in of North Slope oil fields. And, apart from the consequent economic impacts of this happening, the shutting in of oil wells over an extended period of time could lead to irreversible well damage. And then there is the question of impacts on the North Pole refinery of an extended loss of crude oil feedstock — the refinery supplies heating fuel for Interior Alaska as well as jet fuel for Anchorage International Airport.

Were the refinery itself to go out of business, regardless of any shutdown of pipeline operations, that would cause a major operational problem for Alyeska because of the continuing need to warm up the oil at North Pole, Barrett added.

"We would have to find a way to add heat in some other manner," he said.

In 2007 Alyeska launched a study into the consequences of low oil flow and how to deal with those consequences, but the company has discovered, both through the study and through the lessons learned from the January oil spill incident, that the low-flow issue is more complex than originally envisaged, Barrett said. One problem, for example, is that the instrumented pigs — the devices that Alyeska periodically sends down the line to monitor pipeline wall corrosion — are not designed to operate at the low travel speeds that oil flow in the line is heading for. And, at the same time, Alyeska's sophisticated pipeline leak detection system was also not designed to operate at very low flow rates. At some point Alyeska will need to upgrade its leak detection system, at great expense, if oil flow continues to drop, Barrett said.

Increasing risk

Barrett emphasized that there is no specific threshold throughput volume below which the pipeline will cease to operate. Rather, the declining throughput volumes progressively increase the risk of pipeline throughput disruption.

"Depending on which engineering group you're talking to, anywhere from 500,000 barrels a day to 300,000 barrels a day becomes increasingly problematic," Barrett said. "I am uncomfortable at 640,000 barrels because of the (January) scenario we just went through."

As a consequence of its low-flow study, Alyeska has developed some techniques to address the problem of the cooling oil. For example, during the January incident Alyeska warmed the oil close to the halfway point of the pipeline route by recirculating oil in Pump Station 7, a pump station that is no longer in active use for pumping oil through the line, Barrett said.

Other future possibilities include the use of oil heaters or the installation of heating tape on the pipeline, or the use of heat recovered from turbine exhaust gases at pump stations.

Ultimately, the solution to the low flow problems is to produce more oil for pump-

see TAPS FLOW page 11

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CWN REPORT

Peak Oilfield Services Co. and Alaska Interstate Construction Co., both of which do a lot of work on the North Slope. Brown said she was concerned by a "very, very dramatic downturn" in estimated income from those companies, reflecting a decline in work on the North Slope.

She said the oil patch is sometimes up and sometimes down, but the magnitude of this decline was alarming. Money will go where there is opportunity, and she said she didn't want private investment dollars slipping away from Alaska.

The easy oil on the North Slope has been found, Brown said: The remaining oil is challenged; there is risk and there needs to be an appropriate return.

She said House Bill 110 is on the right track, and CIRI supports the governor's efforts to reform the oil tax.

Brown also said that she thinks discussion about work commitments in exchange for lowering of tax is not a healthy dialogue. CIRI requires work commitments as part of its unit agreements and leases, and she said she believes it's stepping over the line to discuss that in taxation.

Set a fair tax regime and let free enterprise work, she told legislators, and don't overreach when you're in the tax regime.

Doyon

Aaron Schutt, chief operating officer of Doyon Ltd., said Doyon supports House Bill 110 and would like to see provisions of the bill effective this year.

Doyon Drilling is the oldest and most successful of Doyon's businesses, and Schutt said about three-quarters of Doyon's corporate assets are invested on the North Slope, most heavily in drilling rigs.

Doyon is also the state's largest private landowner, and roughly half of its 12.5 million acres were selected for resource development potential. Those factors align Doyon with the state in wanting success in oil and gas, he said.

Doyon has 1,500 employees who rely on success in the oil fields and he said the bottom line is that Doyon believes it's time to adjust the state's oil and gas tax structure.

Asked to distinguish between production and exploration companies, Schutt said what he sees in Alaska is a lot of small companies generally without the balance sheets to go to full production with remote fields, exploring with the intent to find something and sell all or part of the working interest to a larger company.

He said one of the things he hasn't heard a lot about is the secondary impacts of oil tax policy on service and supply companies. Five years ago, with high commodity prices, Doyon had to search for employees, even outside Alaska, he said. Then there was the worldwide recession and lower commodity prices, and Doyon struggled to keep its contracts. As commodity prices have risen, Doyon would expect more activity and the ability to adjust wages upward, but can't command higher contract rates, Schutt said, speculating that it's because there just isn't any margin left.

He also said that while Doyon was successful in keeping a lot of its contracts, other companies were not, which meant an exit of skilled workers from the state. Because companies recruit from each other, a decline in the business other companies have isn't good for Doyon, Schutt said.

Doyon believes there are fewer opportunities now, and that a tax reduction is needed, Schutt told the committee.

ASRC: Wants to protect, grow jobs

Tara Sweeney, senior vice president external affairs for Arctic Slope Regional Corp., said ASRC's family of companies represent a broad swath of Alaska and the corporation wants to protect and grow Alaska jobs.

The oil and gas industry is the bedrock of Alaska industry, she said, creating thousands of jobs and accounting for a third of the state's economy and most of state revenues.

But the state's oil and gas industry is at a turning point, Sweeney told legislators: Dropping production on the North Slope could force a shutdown of the trans-Alaska oil pipeline within a decade with the loss of thousands of jobs and irreversible damage to the state's economy.

The state needs a competitive tax structure that attracts new companies to the North Slope she said. And while some have questioned whether reforming ACES will result in increased investment, "I wouldn't be here if I didn't believe it," Sweeney said.

She said ASRC Energy has had many conversations with companies with money to invest, but until the state's tax regime is more competitive they are waiting on the sidelines and will invest elsewhere.

"ASRC Energy is losing out every day," she said.

ACES reform isn't about saving money for the producers, Sweeney said, but about protecting jobs and growing jobs in the future. The issue is complex, but future success depends on the state's ability to attract investment, she said.

NANA: ACES negative impact

Eric Fox and Joe Mathias, representing companies that are part of NANA Regional Corp., said the corporation supports House Bill 110 as a way of making Alaska more competitive and creating opportunities for which NANA companies can compete.

Fox said that ACES is having a negative impact on the 2,400 employees of NANA Management Services; more than half of the company's revenues come from services to the oil and gas industry.

Mathias said Alaska's investment climate is driving away business and said the state must become more competitive. He said the combination of what he called the "Great Recession" and ACES has been devastating.

NANA WorleyParsons, for example, is operating at half its previous staff, and the decline in business is creating an industry brain drain as people leave Alaska for better opportunities.

The services offered by NMS come into play with the production phase, Fox said, and often provide jobs for NANA shareholders. Formerly there was a charter flight into Kotzebue every week to transport workers; in the last three years that charter has only operated every other week. NANA is seeing the effects of ACES as are its shareholders, he said. ●

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TAPS FLOW

ing down the pipeline, with throughput really needing to be above 800,000 barrels per day and preferably as high as 1 million barrels per day, Barrett said. But while oil production in the United States as a whole went up in 2010, Alaska production declined in that same time, he said.

"At the end, our bottom line is pretty simple and straightforward: We need more oil in the pipeline," Barrett said. "TAPS viability, in all honesty, depends on the political will for oil development; it depends on it in Washington and it depends on it in Alaska. And so we need help to get safe and responsible production in Alaska; it's urgent and it's critical." ●

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● EXPLORATION & PRODUCTION

Despite declines, Cook Inlet still busy

Majors and indies continue to ring life from old fields and chase new targets, not only oil and gas, but also coal and geothermal

By ERIC LIDJI

For Petroleum News

While oil taxation debates in Juneau are focusing public attention on North Slope investment, Cook Inlet continues to be a dynamic basin, where big players squeeze life from old assets and new companies chase untapped targets. As the warmer weather approaches, here are some of the energy developments in the Southcentral area.

The majors in the Cook Inlet continue to focus on maintain legacy assets.

In late 2010, Chevron completed a gas well from the Steelhead platform, and the company also performed two gas well workovers at Steelhead last year. Chevron also partnered on non-operated drilling programs at the Ninilchik unit and the Beluga River unit in 2010.

This year, the company is planning a mix of similar activities. "We plan to begin our Chevron operated program in the third quarter of 2011 with a workover and drilling program for gas on the Steelhead platform," spokeswoman Roxanne Sinz told Petroleum News. "We anticipate other possible new drilling activities in our partner operated properties. We are considering a new drilling opportunity at Ninilchik unit and are evaluating the drilling of a replacement well in Beluga River unit this year.

"We currently have workover operations under way on the Grayling Platform performing abandonment work," Sinz wrote. "Once that project is complete, we will start a workover program on the King Salmon Platform. Well P&A work is planned on one of the Middle Ground Shoal Platforms pending the results of a tender that is currently under way. Onshore we have a well workover program planned for this summer at Swanson River."

Chevron operates in Alaska along with its affiliate Union Oil Co. of California, and in October 2010 the companies announced plans to market their Cook Inlet assets.

Reduced drilling for Marathon

Marathon Oil continues to forecast reduced drilling.

The Houston-based major plans to drill between one and three wells per year in Alaska in 2011 and 2012, according to recent U.S. Securities and Exchange Commission filings.

Marathon drilled nine wells in 2008, six wells in 2009 and three wells in 2010.

Marathon, however, did do something rare in 2010: drill an exploration well. Marathon said its Sunrise LK2 well on Cook Inlet Region Inc. leases inside the Kenai National Wildlife Refuge "encountered a zone of interest" but released no further results.

ConocoPhillips and Marathon are also in the process of mothballing their liquefied natural gas export facility on the Kenai Peninsula. While the companies said they are monitoring LNG demand in Japan in the wake of a nuclear disaster, they did not — as of yet — have any plans to make additional shipments outside of their original contract.

In addition to some of that operated drilling, such as Beluga River, ConocoPhillips is focusing mostly on field maintenance. Particularly, the company is working to move compressors at the Beluga River unit closer to wells to increase reservoir pressure.

Life in Southern Kenai

Armstrong Cook Inlet will be the newest producer in the Cook Inlet.

The Denver-based independent and several partners recently got approval to bring the onshore North Fork unit, located in the southern Kenai north of Homer, into production.

Armstrong is already set up to make deliveries to regional utility Enstar Natural Gas through a contract brokered in 2009, but is also exploring the oil potential of the unit.

With North Fork, the regional natural gas transmission grid now extends into the southern half of the Kenai Peninsula, changing the economics of development in the region.

However, as of yet, leaseholders in the region have not announced new projects.

Chevron, through Unocal, recently asked the state to extend the terms of the Nikolaevsk unit, located just northeast of North Fork, until March 31, 2012. The unit was originally set to expire on Jan. 30, 2009, but the state previously extended it to March 31, 2011.

Unocal has lost several battles at Nikolaevsk recently.

Over the past year, the Division of Oil and Gas rejected Chevron's third plan of development for the unit, as well as a request to form participating areas at the unit.

Pioneer Natural Resources recently terminated its Cosmopolitan unit, located west of North Fork along the coast by Anchor Point, but kept two leases held by production.

The short term status of those leases will become known when the division releases the notice for the next Cook Inlet areawide lease sale, expected in the next few weeks.

Cosmopolitan is primarily oil prone, but is thought to contain significant gas as well.

The largest leaseholder in the Cosmopolitan area is Apache, the Houston-based independent that arrived in Alaska last year and generally revisits old oil plays.

Buccaneer Alaska doesn't plan to explore its leases in the area until 2012 (see below).

New players moving fast

Several new companies arrived in the Cook Inlet last year and quickly got to work.

Linc Energy Alaska, the local subsidiary of an Australian independent, recently completed its first well in Alaska, an onshore well near Point McKenzie.

Since arriving in Alaska, Linc has acquired 122,000 acres in oil and gas leases and 181,000 acres in Underground Coal Gasification leases from the Mental Health Trust.

Linc drilled the LEA No. 1 well in October, 2010, confirming "three significant sand intervals that appear to be gas charged." Linc is still analyzing the well, though.

While LEA No. 1 is a conventional gas well, Linc is primarily focused on Underground Coal Gasification, a process to produce synthesis gas in situ from deep coal seams.

Linc expects a three phase UGC project in Alaska: a single gasifier on a 90-day trial monitored for one year; a panel of three to six gasifiers on a one year trial; and finally a working underground coal gasification project combined with gas-to-liquids technology producing 20,000 barrels per day of various synthetic diesel products.

Local independent NordAq Energy Inc. spud its Shadura No. 1 exploration well in mid-February on Cook Inlet Region Inc. subsurface in the Kenai National Wildlife Refuge.

At a total depth of 14,556 feet, the well is targeting potential gas horizons in the Upper and Middle Tyonek formation and a secondary objective in the Beluga formation.

On the west side of Cook Inlet, Cook Inlet Energy, a subsidiary of Tennessee independent Miller Energy Resources spent its first year in Alaska restoring production from older fields it picked up following the bankruptcy of Pacific Energy Resources.

Cook Inlet Energy is considering some exploration and development wells it could drill from the Osprey platform. "We have begun ordering the equipment necessary to deploy our next stage of development for the Osprey platform and are in active discussions to secure the necessary capital to fund the next phase of our operations. If we are successful in securing this necessary funding, we believe our development plans will result in an increase in both the number of producing wells and the amount of our total oil and gas production," Miller CEO Scott Boruff said in a March 22 statement.

Meanwhile, veteran Cook Inlet independent Aurora Gas — a leaseholder on

see **INLET ACTIVITY** *page 13*

NATURAL GAS

Conoco to spud Prudhoe hydrates well

DOE project will be first field trial of exchange technology to produce methane, sequester carbon dioxide in hydrate structure

By WESLEY LOY
For Petroleum News

ConocoPhillips Alaska Inc. was expected to spud a natural gas hydrates exploratory well by the end of March in the Prudhoe Bay field.

The company is doing the project in conjunction with the U.S. Department of Energy.

The Alaska Oil and Gas Conservation Commission approved a drilling permit for the Ignik Sikumi No. 1 well on March 1.

ConocoPhillips spokeswoman Natalie Lowman told Petroleum News on March 22 that the company preferred not to say much about the drilling, in deference to the DOE. But it was "safe to say" the well would spud sometime in March, she said.

In December, ConocoPhillips told the state Department of Natural Resources it planned to build an ice pad for the project adjacent to Prudhoe Bay L-pad.

Staggering hydrates potential

In December, ConocoPhillips told the state Department of Natural Resources it planned to build an ice pad for the project adjacent to Prudhoe Bay L-pad.

ConocoPhillips is a major owner in Prudhoe, but BP operates the field.

The DOE selected ConocoPhillips to perform the first field trial of a "promising technology" to produce methane from gas hydrates on Alaska's North Slope, a project data sheet said.

"This trial represents the first experiment outside a laboratory of this production technology in which a carbon dioxide molecule is exchanged for the methane molecule locked up in the hydrate's structure. The methane gas is produced, and the carbon dioxide is sequestered inside the hydrate structure," the data sheet said.

Gas hydrates are believed to be a huge resource across the Slope. The U.S. Geological Survey has estimated 85 trillion cubic feet of undiscovered, technically recoverable gas resources exist within northern Alaska hydrates.

That dwarfs the 35 tcf of known conventional gas in Prudhoe Bay and other North Slope fields.

Hydrates are a solid, crystalline form of gas, usually methane, mixed in sandstone and water. A combination of cold and pressure keeps the gas as a solid.

ConocoPhillips isn't the first to target Slope hydrates.

BP in February 2007 drilled a DOE-funded test well in the company's Milne Point field. ●

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NATURAL GAS

LNG plant's last scheduled shipment

An Alaska plant plans to send its last scheduled shipment of liquefied natural gas to Japan in March.

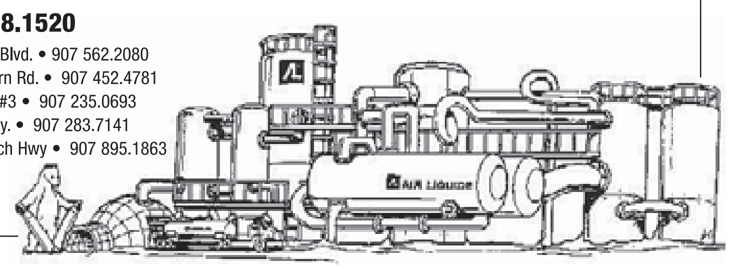
The Kenai plant, owned by ConocoPhillips and Marathon Oil Corp., is closing after more than 40 years in operation.

The Kenai plant, owned by ConocoPhillips and Marathon Oil Corp., is closing after more than 40 years in operation. The companies, in announcing the decision in February, cited market conditions. Exports from the plant began in 1969 and all exported liquefied natural gas, or LNG, went to Japan.

ConocoPhillips spokeswoman Natalie Lowman says the nuclear crisis in Japan, following the massive earthquake and tsunami earlier in March, hasn't changed plans to shutter the Kenai plant.

She says the plant did not provide a large percentage of Japan's total LNG needs. But she says ConocoPhillips is willing to help make gas available to Japan, if needed to meet energy needs, on a temporary basis.

—THE ASSOCIATED PRESS



continued from page 12

INLET ACTIVITY

both sides of the Cook Inlet — is focusing on marketing its gas, but also proposing to drill two wells this year. The company, though, might farm-out some or all of its exploration acreage.

Buccaneer aims to get busy

Another Cook Inlet newcomer is looking to shift from planning to drilling.

Buccaneer Alaska, the local subsidiary of an Australian independent, is gearing up to drill its first well in Alaska, an onshore well just north of Marathon's Cannery Loop unit.

Buccaneer recently contracted the Glacier Drilling Rig No. 1 — previously used at NordAq's Shadura No. 1 well — to drill the Kenai Loop No. 1 well this spring.

Buccaneer is also planning a much larger drilling project for this summer.

The company is looking to buy a jack-up rig to explore two offshore prospects in upper Cook Inlet — the Southern Cross unit and the North West Cook Inlet unit.

Buccaneer is looking to partner on the purchase with the Alaska Industrial Development and Export Authority and should know more about the fate of the venture in April.

With those two projects taking priority for 2011, Buccaneer has pushed back work on its two other Alaska projects — the West Eagle prospect in the southern Kenai Peninsula and the West Nicolai Creek prospect on the west side of the Inlet — for at least a year.

Escopeta jack-up on way to inlet

Buccaneer is not the only company that wants to see a jack-up rig in Alaska.

Houston independent Escopeta Oil is currently shipping the Spartan 151 jack-up rig to Cook Inlet on a heavy lift vessel expected to arrive in Alaska in early May. The jack-up is under a two-year lease, with the option for an additional four years. Escopeta also has an option to purchase the rig, and intends to use it to drill both its own wells and those of other operators.

Once the rig arrives and passes inspection, Escopeta plans to use it to explore Kitchen Lights, a large offshore unit in the upper Cook Inlet with four distinct prospects — Corsair, Northern Lights, East Kitchen and Kitchen.

"We'll drill our first well at Corsair," Escopeta President Danny Davis told Petroleum News in February. "And then while we're evaluating the results from our well, we'll use it to drill another company's well."

CIRI and Ormat

While Cook Inlet is primarily a natural gas basin with limited oil production, companies are increasingly exploring the region for unconventional forms of energy.

Cook Inlet Region Inc. has been drilling on the west side of the Cook Inlet to explore the underground coal gasification potential of deep coal seams in the area. Meanwhile, Ormat Nevada recently confirmed the geothermal potential of its wells in the Mount Spurr area and is now wants to sign a power purchase agreement to fund development. ●

Contact Eric Lidji at ericlidji@mac.com

NATURAL GAS

Propane conference March 31-April 1

The Alaska Natural Gas Development Authority will host the Alaska North Slope Propane Conference March 31 and April 1 at the University of Alaska Anchorage Commons Building at 3700 Sharon Gagnon Lane.

Presentations begin at 9 a.m. both days.

The focus is on bringing stakeholders together to review current and long-term opportunities for using propane as an alternative to diesel.

ANGDA remains focused on bringing affordable gas to all Alaskans, said ANGDA CEO Harold Heinze.

"In the event a large or small diameter gas pipeline services our state, there are numerous villages and communities that would never benefit from North Slope natural gas," he said, but would benefit from propane.

The conference agenda includes the delivery chain for propane and a panel discussion with rural community leaders on the potential use of alternative energy resources.

The conference is free of charge, but seats are limited.

For more information contact Heinze at 907-229-2660 or Mary Ann Pease, ANGDA propane supply coordinator at 907-529-9719.

—PETROLEUM NEWS

● FINANCE & ECONOMY

Oil above $105 as traders eye upheaval

THE ASSOCIATED PRESS

Oil prices rose March 23 after violent protests in Yemen and Syria and as the U.S. government said gasoline demand continues to rise despite sharp price increase at the pump.

Benchmark West Texas Intermediate crude for May delivery added 59 cents at $105.56 per barrel on the New York Mercantile Exchange in midday trading.

Oil prices have jumped about 24 percent since the middle of February when fighting broke out in Libya and threatened the country's oil fields. The clash between Moammar Gadhafi and pro-democracy rebels has shut down most of the country's oil production and experts say Libya's exports will remain off-line for months.

The rebellion in Libya, combined with other protests in North Africa and the Middle East, has rattled energy markets and raised concerns that oil supplies will tighten as violence spreads. Prices jumped again the morning of March 23 after a bomb went off at a crowded bus stop in central Jerusalem, killing one person and wounding 20 others. Authorities called it the first major Palestinian militant attack in the city in several years.

The rebellion in Libya, combined with other protests in North Africa and the Middle East, has rattled energy markets and raised concerns that oil supplies will tighten as violence spreads.

Emergency laws in Yemen

In Yemen, an important transfer point for global oil supplies, parliament on March 23 enacted emergency laws giving embattled President Ali Abdullah Saleh new powers of arrest, detention and censorship after he warned that the country could slide into a civil war as the opposition rejected his offer to step down by the end of the year.

Violent protests also had spread in southern Syria, where as many as six people were killed by security forces in the southern city of Daraa.

In Libya, fighting between rebels and government forces has halted most of the country's 1.6 million barrels a day of crude production. Investors expect that an international military intervention launched to halt Libya's leader crackdown will likely prolong the shutdown of oil output from the OPEC nation.

"Oil production in Libya is likely to have fallen to a quarter of its normal level ... and exports have virtually come to a halt, taking over 1 million barrels of high-quality crude oil a day off the market," said analysts at Commerzbank in Frankfurt.

Demand up in China

Meanwhile, oil demand in China, the world's second biggest crude consumer behind the U.S., rose 10.1 percent in February from a year earlier, to the second strongest level on record, Platts reported Tuesday.

In the U.S., the Energy Information Administration reported March 23 that American motorists are so far handling higher fuel costs without cutting back. At a national average of $3.548 per gallon, retail gasoline prices remain at the highest ever for this time of year and have reached a point where economists expect consumers to start to cut spending.

The EIA said the U.S. consumed an average of 9.1 million barrels per day of gasoline, up 1.2 percent from the same period last year. Gasoline supplies also dropped last week by 5.3 million barrels, more than twice as much as expected.

In other Nymex trading for April contracts, heating oil dropped less than a penny to $3.0732 per gallon and gasoline futures added 1 cent at $3.0180 per gallon. Natural gas gained 4 cents at $4.299 per 1,000 cubic feet.

In London, Brent crude rose 2 cents to $115.66 per barrel on the ICE Futures Exchange. ●

● INTERNATIONAL

Falklands eyed as oil region after find

By JANE WARDELL
Associated Press Business Writer

British oil and gas explorer Rockhopper said March 21 its crude discovery in the Falkland Islands is likely to prove commercially viable, boosting expectations that the politically sensitive territory could become a new oil province.

As exploration of the waters around the Falklands remains controversial amid a long-running dispute between Britain and Argentina over ownership of the islands, Rockhopper Exploration PLC reported a "significant reservoir package" at its Sea Lion prospect.

The company, which first reported its oil find at Sea Lion last May, said its appraisal well now showed a thick, high quality reservoir package, a substantial oil column and a recognition of the first oil-water contact in the license to date.

"Following this positive result we believe Sea Lion is highly likely to prove commercially viable," Chief Executive Sam Moody said in a statement to the London Stock Exchange.

Earlier mixed results

The update followed mixed results from earlier Falklands exploration — fellow British company Desire Petroleum PLC abandoned a well last year after failing to find oil — and comes as crude oil prices have soared to just over $103 a barrel amid allied military strikes on Libya, the world's 12th-largest oil supplier.

Shares in Rockhopper and other companies exploring the Falklands basin jumped after the announcement. Rockhopper soared 31.4 percent to 285.25 pence ($4.64). Desire rose 8.2 percent to 39.75 pence. Falkland Oil and Gas Ltd lifted 3.8 percent to 82.50 pence and Borders & Southern Petroleum PLC picked up 6.7 percent to 64 pence.

However, drilling by British companies off the Falklands has sparked protests from Argentina, which claims sovereignty over the British-governed islands that lie some 300 miles off its coastline.

When the exploration plans were first announced, British Defense Minister Bill Rammell said his government had a "legitimate right" to build an oil industry in its waters.

Argentine President Cristina Fernandez has said Britain's oil-drilling operation violates international laws and treaties as well as U.N. resolutions asking that neither side take unilateral actions that could aggravate the situation.

Attempts to disrupt

Argentina has tried to disrupt the exploration by issuing a decree obliging ships using Argentine ports to seek a permit if they enter or leave British-controlled waters. Britain told its ship captains to ignore the restrictions.

Rockhopper, which wholly owns four offshore production licenses granted by the Falklands government and has a share in another two operated by Desire, said it will now plug and abandon the appraisal well as planned.

It will then send its Ocean Guardian semi-submersible rig to drill an exploratory well at Desire's Ninky prospect, in which it holds a 7.5 percent working interest, before the rig returns to the Sea Lion prospect to drill a further three appraisal wells. The company is considering extending that program, it said.

"We can now continue to appraise the Sea Lion discovery and to explore additional prospectivity within our acreage with added confidence," said Moody. ●

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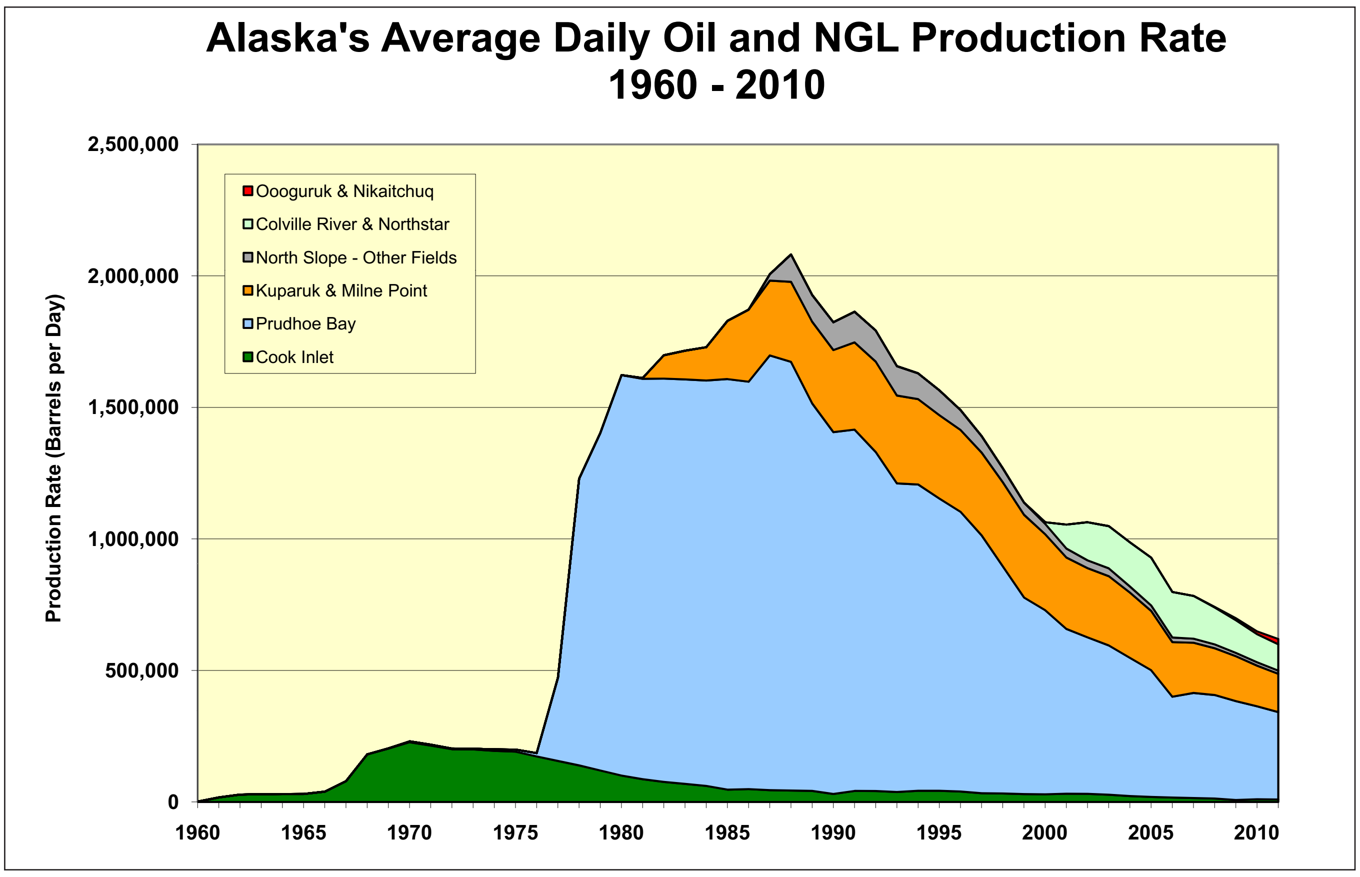
LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
DNR	Alaska Peninsula Areawide	May 25, 2011
DNR	Cook Inlet Areawide	May 25, 2011
DNR	Beaufort Sea Areawide	October 2011
DNR	North Slope Areawide	October 2011
DNR	North Slope Foothills Areawide	October 2011

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



PREPARED BY STEVE DAVIES OF THE ALASKA OIL AND GAS CONSERVATION COMMISSION

Petroleum News will be reproducing this standalone chart from the Alaska Oil and Gas Conservation Commission on a regular basis because of the interest in the decline in Alaska's oil production.

LAND & LEASING

Buccaneer adds acreage to Kenai Loop project

Buccaneer Alaska is moving closer to drilling at Kenai Loop this spring.

The local subsidiary of an Australian independent has contracted Marathon's Glacier rig No. 1, a truck-mounted rig used on several other Cook Inlet prospects in recent years.

Buccaneer is moving the rig near the drill site to cut down on mobilization time during spring thaw. The company hopes to drill by mid-April, but said it won't have a firm spud date until it finalizes several outstanding contracts with service and equipment providers.

Buccaneer also added more Cook Inlet Region Inc. acreage to the prospect, a 1,275-acre lease that "directly offsets" the proposed location for the Kenai Loop No. 1 well.

The company now holds some 9,009 acres from multiple landowners at the onshore play, located just north of the city of Kenai and the Marathon-operated Cannery Loop unit.

Buccaneer, the local subsidiary of an Australian independent, is permitting three well locations and estimates reserves between 35 billion and 78 billion cubic feet of gas.

Kenai Loop No. 1 would be Buccaneer's first well in Alaska. The company is also looking to purchase a jack-up rig to explore two offshore prospects, and holds additional onshore acreage on both sides of the Inlet that it plans to begin permitting this year.

—ERIC LIDJI

Dewline unit expanded; another well required

The State of Alaska has expanded the Dewline unit and required operator UltraStar Exploration to add another well to its plans for the acreage north of Prudhoe Bay.

Under the new unit terms, UltraStar must now drill the N. Dewline No. 1 well by May 31, 2013, and the N. Dewline No. 2 well by May 31, 2014, or risk losing the unit.

The Division of Oil and Gas made its ruling on March 15.

The expansion adds ADL 390608, an offshore lease acquired in an October 2004 lease sale, to the unit. The expansion brings the size of the four-lease unit to some 4,533 acres.

UltraStar drilled the Dewline No. 1 well at the unit in April 2009 and managing member Jim Weeks previously told Petroleum News that it plans to drill a follow up next year.

Weeks described the N. Dewline No. 1 as a 14,000- to 15,000-foot directional well to an offshore target from an onshore pad, with a 6,000-foot displacement. The new expansion lease is slightly more than 6,000 feet from the shoreline in the Dewline unit.

The main target for the well is in the Ivishak sandstone, but the well could also be used to explore potential targets in the Sag River formation and the Kuparuk formation. Although exploration drilling in the region north of Prudhoe Bay dates back to the 1960s, commercial production eludes the area, despite its proximity to significant infrastructure.

—ERIC LIDJI

FINANCE & ECONOMY

AEDC: presenting an Alaska call to action

On March 31 the Anchorage Economic Development Corp. will present its annual 10-year projection of potential resource extraction projects in Alaska. And, with various projects uncertain or on hold thanks to a variety of factors including taxation, environmental permitting, high development costs and commodity pricing, that future projection is not looking encouraging, Bill Popp, CEO of AEDC, told Petroleum News March 22.

"This year our projection is not one of optimism," he said.

Popp said that, although there are quite a few projects that could potentially move ahead, AEDC sees little or no possibility of any of these projects happening unless people in Alaska work together to tackle the issues that are impeding resource development.

"We are presenting what we believe is a call to action," Popp said. "From our point of view, we're at a crossroads."

As in years past, Petroleum News and its sister publication North of 60 Mining have been helping AECD by researching a list of potential projects, together with the project objectives, costs and employment potential. The McDowell Group has been using the project data to model future levels of investment, employment and resource production, if the projects go ahead.

But this year, given the current level of pessimism about Alaska resource development, AEDC will simply present the project data as a series of opportunities, rather than attempt to assess the probability of each project actually happening, Popp said.

Bearing in mind that one opportunity that people have been considering is the establishment of a chemical industry in the Cook Inlet region, to process natural gas from the North Slope, AEDC has invited Dave Witte, executive vice president for business development for Chemical Markets Associates Inc., to the March 31 meeting to talk about the global chemical industry, and about Alaska's potential place in that industry.

—ALAN BAILEY

ENVIRONMENT & SAFETY

USCG starts 2011 Arctic awareness flights

On March 22 the U.S. Coast Guard conducted the first of its 2011 Arctic awareness flights, with its Kodiak-based HC-130 Hercules aircraft flying up to the Beaufort Sea and monitoring sea-ice conditions north of Prudhoe Bay.

Each year the Coast Guard conducts these flights every two weeks between March and November, surveying sea ice, monitoring vessel traffic and identifying any challenges that the Coast Guard may face in the Arctic region. The flights also provide opportunities to test Coast Guard capabilities, in terms of personnel and equipment, including the testing of airborne imaging equipment that can help identify hazards along Alaska's Arctic coast, the Coast Guard says.

Three exercises planned

The March 22 flight marks the start of planned Coast Guard Arctic activities for 2011, including three exercises involving the state and local communities in practices of search and rescue; pollution response; towing operations; and mass casualty response, the Coast Guard said. The Coast Guard is also involved in boating safety outreach; commercial fishing vessel safety exams; and port assessments. In addition, having established a new navigation aid at Point Hope on the Chukchi Sea coast in 2010, the Coast Guard plans to install another navigation aid at Point Barrow this year.

—ALAN BAILEY

Probe finds Macondo BOP activated

A forensic investigation of the failed Macondo well blowout preventer has determined that the device did activate during the course of the explosion and fire on the Deepwater Horizon rig in the Gulf of Mexico in April 2010. The investigation report, published by Det Norske Veritas, the company retained to conduct the investigation, says that the BOP rams, including the blind shear rams that should have cut through the well's drill pipe, hence sealing it off, did operate following the well blowout. But the blind shear rams failed to completely close, the report says.

The investigation, conducted in a NASA facility in New Orleans, involved a detailed examination of the blowout preventer, and of the remains of the drill pipe that had passed through the device. The investigators matched up broken segments of pipe visually and using laser-generated profiles, and then reconstructed the events within the blowout preventer before, during and after the blowout.

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Pipe buckled

It appears that as the blowout gained momentum it pushed the drill pipe inside the blowout preventer up against a closed device called the upper annular, towards the top of the preventer. The force of the blowout then caused the pipe to buckle into a configuration where it was resting against the side of the well bore. Then, when the blind shear rams activated, the buckled pipe was only part way within the span of the ram blades. As a consequence, the ram blades only partially cut the pipe, causing part of the pipe cross section to become trapped in the ram mechanism, thus preventing the ram blades from fully closing.

Although the investigation appears to have shed much needed light on the cause of the blowout preventer failure, the investigators are still not exactly certain when the blind shear rams activated. However, since the buckling of the drill pipe would have happened in the initial stages of the incident, the timing of ram activation did not impact the end result, the report says.

—ALAN BAILEY

FINANCE & ECONOMY


JUDY PATRICK

The Osprey platform in Alaska's Cook Inlet.

CIE pledges $18M platform removal bond

Anchorage-based oil and gas producer Cook Inlet Energy LLC has agreed to fund an $18 million "performance bond" to cover the eventual dismantlement of the Osprey platform in Alaska's Cook Inlet.

The company, a subsidiary of Tennessee-based Miller Energy Resources, acquired the shut-in platform as part of a deal in late 2009 to buy an assortment of oil and gas assets from Pacific Energy Resources Ltd., which was undergoing bankruptcy liquidation.

The bond agreement, signed with the Alaska Department of Natural Resources, was disclosed in a quarterly report Miller filed with the U.S. Securities and Exchange Commission on March 22.

The report further said the DNR had approved a redevelopment plan for the Redoubt unit, in which the Osprey platform stands.

Miller said the bond agreement, along with the redevelopment approval, means "we have now met the State's requirements to bring the offshore Osprey oil platform out of lighthouse mode and back into production."

Millions already set aside

When Miller and Cook Inlet Energy acquired the Pacific Energy properties, they assumed liabilities related to decommissioning wells and other assets.

The SEC filing indicates the companies already have come a long way toward funding the $18 million bond for the platform.

Under the agreement with the state, about $6.6 million the previous owner contributed to an escrow account can apply toward Cook Inlet Energy's obligation, Miller said.

And the company reported it has accrued millions more toward the Osprey retirement liability.

Miller, traded on the Nasdaq exchange, reported oil and gas revenue of just over $7 million for the three months ended Jan. 31.

—WESLEY LOY

ENVIRONMENT & SAFETY

API endorses Center for Offshore Safety

The board of the American Petroleum Institute has endorsed a plan for the oil and gas industry to establish a Center for Offshore Safety. Based in Houston, the center will be available to all companies that operate in deepwater exploration and production, API says.

"The oil and natural gas industry has approved the creation of the Center for Offshore Safety, which will promote the highest level of safety for offshore operations through an effective program that addresses management practices, communication and teamwork," said Jack Gerard, API president and CEO. "The board directed API to further develop the operational framework and timeline for the center — working with other industry stakeholders — to enhance industry safety and environmental performance."

The new center will be one of the outcomes of investigations into the Deepwater Horizon disaster, with API having provided testimony to the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling on options for an oil industry safety organization.

API says that the center will draw on lessons learned from existing successful safety programs, applying the best elements of these programs to the unique challenges of offshore oil and gas operations. The center will use an API recommended practice for safety and environmental management systems, a practice that the Bureau of Ocean Energy Management, Regulation and Enforcement has recently incorporated into federal regulations, API says. Independent certifiers will audit and review the center's programs.

"While many of the center's structure and operating details have yet to be resolved, the program will be run by the separately funded standards and certification arm of the American Petroleum Institute, which receives regular audits and accreditation by the American National Standards Institute and the ANSI-ASQ National Accreditation Board," Gerard said.

—ALAN BAILEY

Oil Patch Bits

Larkin rejoins Crowley as VP sales and customer care

FRANK LARKIN

Crowley Maritime Corp. said March 15 that Frank Larkin has rejoined its team as vice president of sales and customer care for the company's liner services and logistics groups. Leveraging his commercial background, Larkin will lead the domestic and international sales efforts for Crowley's container and breakbulk shipping services in the Caribbean basin and the company's worldwide logistics services. "We are pleased to have Frank back with us at Crowley," said Tom Crowley, chairman, president and CEO. "He brings to us a wealth of trade knowledge and leadership, which will benefit our customers and our sales and customer care teams."

He has 27 years of experience in international transportation, including overseas postings in Brazil and Argentina. He is on the board of directors of both the National Freight Transportation Association, a nationwide organization comprised of importers and exporters, railroads, ocean carriers and ground transportation services, as well as the Brazilian American Chamber of Commerce, where he serves as chairman of the trade and investment committee. Larkin received his Bachelor's in economics, cum laude, from Boston College and is fluent in Spanish and Portuguese.

Shell Group supporting relief efforts in Japan

Shell and Showa Shell Sekiyu K.K. said March 22 they would make a combined donation of US$2 million to the Japanese Red Cross Society to provide disaster relief assistance in response to the catastrophic earthquake and tsunami in Japan. The Shell Group, in addition to this, has implemented a worldwide employee donation program to further support Japan's disaster relief efforts.

Shell's Chairman in Japan, Chris Gunner, said "Our hearts are heavy as we reflect on the thousands of lives lost and the enormous damage due to the earthquakes and the tsunami. Shell has been part of the Japanese community for more than 100 years. Financial support will not dull the pain of this tragedy, but it is important in helping to rebuild lives."

"Given the scale of this catastrophe and resulting human suffering, we want to do our part to assist with the relief and reconstruction efforts," said Shigeya Kato, chairman of Showa Shell Sekiyu K.K.

As a result of the earthquake and tsunami, Japan has seen an increase demand for imports of liquefied natural gas and other fuels. Shell and its LNG joint ventures are working to help ensure continuing and additional supplies of LNG into the country to meet these critical requirements.

see **OIL PATCH BITS** *page 23*

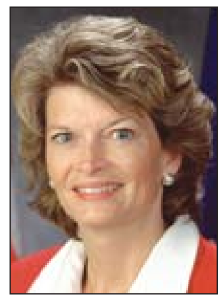
Companies involved in Alaska and northern Canada's oil and gas industry

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

Murkowski calls for more Alaska oil

Faced the with the specter of the trans-Alaska oil pipeline having to close down "in a matter of years" as the flow of oil through the line gradually slows and temperatures in the line drop, it is essential to bring new oil reserves on line, U.S. Sen. Lisa Murkowski, R-Alaska, told Alaska lawmakers in a speech to the state legislature on Feb. 24.

"We can reverse this trend," Murkowski said. "There are perhaps 50 billion barrels waiting to be produced between the offshore Arctic, in the National Petroleum Reserve and in the coastal plain of ANWR. Those estimates have the potential to grow as our frontiers are fully explored."


SEN. LISA MURKOWSKI

And Murkowski cautioned that the export of natural gas from the North Slope would not substitute for oil in the battle to keep the state's coffers full.

Gridlock

Murkowski blamed the decline in Alaska oil production on a gridlock resulting from federal overreach in managing federal lands and applying environmental laws.

"It is in this nation's interest — as well as in Alaska's — that we break the gridlock that threatens to put TAPS in the scrap heap. That's what I intend to do in Washington," Murkowski said.

Murkowski blamed the decline in Alaska oil production on a gridlock resulting from federal overreach in managing federal lands and applying environmental laws.

Current world events also underline the need for the United States to produce more of its own energy, she said.

Murkowski said that she will use her position as the ranking member of both the Senate Energy and Natural Resources Committee and the Interior Appropriations Committee to fight for the removal of barriers to Alaska oil development.

"We must ensure that Shell finally receives its air permits so we can begin to develop the massive resources beneath the Beaufort and Chukchi Seas," Murkowski said. "We must ensure that a simple bridge can be built in the National Petroleum Reserve so that CD-5 and other areas can be developed."

Tax concerns

And, saying that she shares Gov. Sean Parnell's concerns about the competitiveness of Alaska's oil tax rates, Murkowski urged lawmakers to act on the governor's proposed tax changes.

"Tax rates matter because oil is a global enterprise," Murkowski said. "Companies don't have to choose between drilling in Alaska and not drilling at all."

Murkowski said that progress toward the construction of a North Slope gas line will require fiscal certainty on gas production taxes. She also commented that a North Slope gas-to-liquids plant or a large-diameter gas line to Fairbanks should be considered as means of monetizing North Slope gas.

—ALAN BAILEY

continued from page 1

CRUDE OIL PRICES

in the market for ANS crude.

North Slope oil is delivered aboard tankers almost exclusively to West Coast refineries. It competes on the spot market with other crudes that can be hauled in by water from places such as South America, Mexico and Russia.

But the market for ANS crude is very shallow. That is, transactions are infrequent. In fact, most days go by without a spot market deal for ANS crude, said Joyce Lofgren, a petroleum economist with the Department of Revenue.

Of the three major ANS producers, ConocoPhillips is the most apt to sell oil, typically to Tesoro, Lofgren said. Tesoro has refineries at Anacortes, Wash., and in California at Los Angeles and Martinez.

Sales are rare involving the other two North Slope producers, BP and ExxonMobil.

Normally, the light, sweet WTI crude is worth a couple of dollars per barrel more than ANS, which is a little heavier and more sour — that is, it contains more sulfur, Lofgren said. Thus, ANS requires more refining.

Brent also well above WTI

In comparison with ANS crude, WTI is a landlocked crude — it doesn't move on tankers.

WTI crude goes by pipeline to the key oil storage and pricing hub at Cushing, Okla., and then to Midwest refineries making gasoline and other products.

Circumstances surrounding the movement of oil through the country's midsection appear to have held down the price of WTI compared to U.S. coastal grades as well as North Sea Brent crude, the European benchmark.

Historically, WTI usually traded at a premium to Brent, again due to WTI's relatively higher quality. But since December, the Brent price has exceeded WTI by as much as $19 per barrel, the U.S. Energy Information Administration reports.

The EIA as well as the financial and trade press have brimmed with analysis over what's causing the unusually wide and persistent gap between WTI and other crudes.

Among the apparent factors:

• Cushing and Midwest refineries are oversupplied with crude, resulting in lower prices for WTI. One financial writer referred to the situation as the "WTI glut" or "Cushing glut."

Rising crude imports coming down from Canada on existing and newly opened pipelines, plus the production surge from North Dakota's Bakken shale, are contributing to the oversupply, the EIA and others write.

A lack of pipelines to carry oil south from Cushing to the Gulf of Mexico coast, rather than north into the Midwest, is seen as part of the problem.

• The market has worried that storage capacity is running out at Cushing, adding pressure to get rid of oil.

• Some see a "political premium" driving up some crudes such as Brent relative to WTI. This is a reference to the unrest in Egypt and neighboring countries.

Other factors driving up Brent prices include North Sea production outages and strong Asian demand for oil. So while WTI prices have remained relatively flat, Brent and other crudes including U.S. coastal grades have climbed, the EIA said.

So how long will the big gap between WTI, ANS, Brent and other crudes last? Everybody seems in agreement it will not become a new normal. ●

Contact Wesley Loy at wloy@petroleumnews.com

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OCS COORDINATOR

drilling, Begich said that he also wants to see responsibility for Arctic OCS air permitting moved from the Environmental Protection Agency to the Department of the Interior, thus aligning Arctic permitting arrangements with those in the Gulf of Mexico.

"This makes no sense," Begich said with reference to EPA jurisdiction over air permitting in the Arctic offshore. "It's not fair and it puts companies with projects in the Arctic at a competitive disadvantage. … It's time to move all air permitting under the Interior Department where air permits were issued quickly (in the Gulf of Mexico) before the BP spill."

Fixing the air quality permitting problem may require legislation, Begich said.

Begich also said that he has been fighting the EPA and the Army Corps of Engineers over access to the National Petroleum Reserve-Alaska, and that he has been holding off congressional proposals to permanently lock oil and gas development out of the Arctic National Wildlife Refuge.

"One of the best long-term prospects for filling the oil pipeline and reducing America's dependence on foreign oil is from the enormous reserves likely beneath federal lands and waters of the outer continental shelf, the Arctic (National Wildlife) Refuge and the National Petroleum Reserve-Alaska," Begich said. "These prospects alone are projected to hold 40 (billion) to 60 billion barrels, nearly a decade's worth of U.S.

"One of the best long-term prospects for filling the oil pipeline and reducing America's dependence on foreign oil is from the enormous reserves likely beneath federal lands and waters of the outer continental shelf, the Arctic (National Wildlife) Refuge and the National Petroleum Reserve-Alaska."
—U.S. Sen. Mark Begich, D-Alaska

consumption."

Shell appreciative

Shell, the company whose plans to drill in the Beaufort and Chukchi seas have been held up for several years by permitting issues and litigation, said that it appreciates Begich's comments.

Responsible operators on the OCS need a predictable and accountable regulatory process, said Shell spokesman Curtis Smith.

"A federal OCS regional coordinator for Alaska could go a long way in making that happen," Smith said. "Shell has already spent five years and over $50 million trying to secure an air permit for our drilling rig but with no success. The senator's effort to align Arctic air permitting under the Department of Interior, as it is in the Gulf of Mexico, is one Shell supports." ●

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SPARTAN OFFSHORE DRILLING

At the invitation of Escopeta President Danny Davis, the Spartan 151 jack-up underwent a preliminary inspection by State of Alaska officials prior to departure from Freeport, Texas. Final inspection will occur in Alaska after a 15,000-pound blowout preventer is installed on the rig.

SPARTAN OFFSHORE DRILLING

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JACK-UP RIG

Final inspections needed

Before Escopeta can drill, the company must still pass final inspection by the Alaska Oil and Gas Conservation Commission. The company is having a 15,000-pound blowout preventer manufactured for the rig — the largest blowout equipment ever employed in Cook Inlet. It will be installed in Alaska.

Another outstanding issue is whether Escopeta will face delays related to the Jones Act, a federal law that requires ships moving between domestic ports to be built in the United States and manned by American crews. Because most of the available heavy lift vessels large enough to carry a jack-up rig are foreign-flagged ships, Escopeta got a Jones Act waiver in 2006, during an earlier attempt to bring a jack-up rig to Cook Inlet.

The U.S. Department of Homeland Security has not publicly said whether that waiver is still valid. If the waiver isn't accepted, it is uncertain what impact — timing or financial — it would have on Escopeta's program. U.S. Sen. Mark Begich, D-Alaska, recently petitioned the U.S. Department of Homeland Security to resolve some of those uncertainties.

A jack-up rig is a mobile offshore drilling unit that is well suited for relatively shallow waters, such as those in the upper Cook Inlet. Because companies have been unable to get a jack-up rig to Alaska since the 1990s, many choice prospects have gone undrilled.

Buccaneer deal up for vote

Buccaneer Alaska is also looking to bring a jack-up rig to Cook Inlet.

Another outstanding issue is whether Escopeta will face delays related to the Jones Act, a federal law that requires ships moving between domestic ports to be built in the United States and manned by American crews.

Rather than lease the rig, the company is looking to buy a jack-up in partnership with the Alaska Industrial Development and Export Authority and private investors to use first at its two offshore prospects — Southern Cross and North West Cook Inlet — and then to rent out to other offshore operators in Alaska, both in Cook Inlet and in the Arctic.

For months, Buccaneer has been in private negotiations with AIDEA management over the terms of that business arrangement. The AIDEA board of directors is scheduled to vote on that proposal on April 1. The specific terms of that deal have not yet been made public, but AIDEA could release the details in some form before the meeting.

Time is of the essence for both companies because significant tax credits are at stake.

The State of Alaska will pay 100 percent of the cost, up to $25 million, of the first well drilled to a certain depth in Cook Inlet using a jack-up rig. The one-time program also offers significant tax credits for the second and third wells drilled to the same depth in the Cook Inlet, but only if those wells are drilled by different companies using the same rig.

—ERIC LIDJI

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NUCLEAR ALTERNATIVE

Gas Corp., which has a monopoly on domestic gas sales, reporting that its 2010 LNG purchases surged 26.6 percent to 31.20 million metric tons.

Despite reassurances from the nuclear industry that most existing generating stations are designed to withstand major "seismic events" and incorporate redundant safety systems, the events in Japan "make the future of nuclear power highly questionable," said Tom Adams, an independent Ontario-based energy consultant.

Given that the Japanese industry has long been rated as the world's gold standard for the sector, "all the questions about reactor safety are back on the table," he said.

Further prod for export

That will likely give further prod to those North American gas producers who are shifting their attention to the Asia-Pacific region as an outlet for surplus supplies from shale gas and the Arctic.

John Rowe, chief executive officer of Exelon, whose utility runs 17 nuclear plants plus solar, wind and hydro facilities in the United States, told the CERAWeek conference in Houston earlier in March that natural gas is the cheapest and cleanest of all the options.

He estimated it would take two years to build a 1,000 megawatt gas-fired plant for $1 billion, compared with 10 years for a nuclear plant at a cost of $6 billion.

To fill the void in Japan, Royal Dutch Shell has said it will divert as much LNG as possible to meet that country's energy needs.

Export partnerships

Although it was a coincidence of timing, two partnerships to open the first offshore exports of Canadian LNG have gathered pace in the week ending March 18.

Following a series of broad hints this year, Encana reached a deal to acquire a 30 percent equity stake in the Kitimat LNG project, reducing the interests of the existing partners. Operator Apache will drop to 40 percent from 51 percent and EOG Resources will shrink to 30 percent from 49 percent.

Financial terms were not disclosed, although the latest price tag has been C$3.5 billion for a terminal designed to liquefy 1.4 billion cubic feet per day of gas and ship 10 million metric tons per year, starting at half those volumes in 2015.

Front-end engineering is currently under way for an export terminal and construction could start as early as 2012.

Encana said British Columbia's Montney and Horn River shale gas plays have capacity to grow to 7 bcf per day — almost half of Canada's total current gas output — in the next seven to 10 years from the current 2.8 bcf per day. It said those volumes are "more than sufficient" to supply British Columbia, Encana's current customers and the new Asian markets proposed for Kitimat LNG.

Eresman: 'continental push'

Encana Chief Executive Officer Randy Eresman said the Kitimat LNG investment puts his company in the forefront of a "continental push to deliver exports of abundant natural gas for the first time from Canada."

Encana has already made progress toward building a customer base in Asia through two joint-venture deals — a $5.4 billion partnership struck in February with PetroChina for 50 percent of its Cutbank Ridge shale and conventional gas assets, 255 million cubic feet per day of current production and 700 million cubic feet per day of processing capacity, and a farm-out arrangement a year ago with Korea Gas Corp., which has pledged to invest $1.1 billion over five years to develop resources in Horn River and Montney.

Encana and Apache are also E&P partners in Horn River, targeting gross production of 300 million cubic feet per day by the end of 2011.

In a recent report assessing the LNG market outlook for 2015-35, international energy advisor Poten & Partners said the Asia-Pacific basin holds promise for Kitimat LNG to enter long-term supply contracts, partly because of concerns over security of supply and the most attractive gas price index formulas in the world.

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Encana estimates Asian gas prices currently hover around $12 per thousand cubic feet, compared with $4 in North America.

Second contender

On a smaller scale, a U.S.-based partnership has become the second contender to export LNG from the British Columbia.

BC LNG Export Co-operative filed an application with the National Energy Board to initially convert up to 125 million cubic feet per day of natural gas into 900,000 metric tons of LNG annually, with shipments starting in 2013 to a variety of Asian countries, including Japan. The proposal allows for a doubling of capacity by at a later date.

The export point would be in the Douglas Channel of northern British Columbia, close to a planned Kitimat LNG terminal.

The new project would be operated by Douglas Channel Energy Partnership which is indirectly owned by LNG Partners, a closely held Delaware limited liability company based in Houston.

DCEP Gas Management Ltd., GML, is designated to operate the liquefaction facility — which could either be based on a barge or land.

GML said it has entered into a firm LNG sale and purchase agreement with BC LNG Export Co-op to purchase the full capacity of the LNG facility for 20 years.

The applicant has yet to put a firm price tag on the project beyond indicating that the cost is likely to range from $400 to $500 per metric ton of liquefaction capacity, or about $360 million to $450 million for the first phase.

DCEP said it has held discussions with "significant producers and marketers of gas" in the Western Canada Sedimentary basin, which is concentrated in British Columbia, Alberta and Saskatchewan.

The application said there have been formal expressions of interest from suppliers who could provide more than enough gas to cover one of the 900,000 metric ton trains. ●

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OIL PATCH BITS

Nalco celebrates World Water Day with grants

Nalco said Mach 22 that it recognizes clean water is a necessity both for human survival and for economic growth. In recognition of the United Nations' annual World Water Day, the Nalco Foundation has approved two multiyear grants funding important water programs in both countries.

A three-year, $450,000 grant to World Wildlife Fund U.S. will fund a water stewardship program to identify solutions to protect Taihu Lake, the third largest freshwater lake in China and a primary water source for more than 33 million people living in and around Shanghai. Taihu Lake is part of the Yangtze River basin, the source of water for 400 million people.

"Freshwater conservation and overall water quality improvement are important steps to solving growing water scarcity needs worldwide, but especially so in countries like India and China, facing stress from the combination of rapid economic and population growth," said Nalco Chairman and Chief Executive Officer Erik Fyrwald.

The Foundation is also providing a three-year grant for $500,000 to Water For People, a nonprofit international development organization founded in 1991. The money will help fund water, sanitation and hygiene programs in West Bengal and Bihar India.

Since 2004, the Nalco Foundation has made more than $1 million in total grants to Water For People.

Editor's note: All of these news items — some in expanded form — will appear in the next Arctic Oil & Gas Directory, a full color magazine that serves as a marketing tool for Petroleum News' contracted advertisers. The next edition will be released in September.