Petroleum news

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page 10 DOE likes Murmansk port: Oil could be shipped from Russia to U.S.

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NATURAL GAS

LNG license renewed

Nikiski export terminal gets extension; DOE says gas supplies adequate

By ALAN BAILEY

Petroleum News

On June 3 the U.S. Department of Energy approved two more years of natural gas exports from Alaska's Cook Inlet to Asia. The approval was in response to a request from Nikiski LNG plant owners ConocoPhillips and Marathon to extend the plant's export license for two years, from April 1, 2009 to March 31, 2011.

The companies would be exporting 98.1 billion cubic feet of liquefied natural gas to Japan or other Pacific Rim countries during that time, DOE said in its announcement.

"Based on the evidence of record, DOE finds there are adequate supplies to meet both domestic and export demand during the proposed export timeframe and approval of the export license will not adversely affect domestic gas use in the Cook

see **LICENSE** page 18

The Nikiski LNG facility

NATURAL GAS

Alaska not FERC's job

Consultants: assuring open access, low tariffs for gas line state's responsibility

By KRISTEN NELSON

Petroleum News

If Alaska wants things like open access, expandability and the lowest possible tariffs for a North Slope gas pipeline, it had better stick with the AGIA process, because those things aren't FERC's responsibility.

That was the opinion of consultants who looked at the issue for Gov. Sarah Palin's gas pipeline team.

Open access and expandability are cited by the administration, along with the lowest possible tariff, as necessary if Alaska's North Slope is to keep and attract new explorers, a concept frequently described as opening the basin.

What the Federal Energy Regulatory Commission routinely provides and what the Alaska Gasline Inducement Act requires applicants to commit to are different things, consultants said May 28 at the administration's AGIA public forum in Anchorage.

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see **FERC** page 17

NATURAL GAS

Kvisle defends TransCanada

CEO says company has financial strength, experience needed for gas line

By KRISTEN NELSON

Petroleum News

TransCanada has the experience and the financial strength to build a natural gas pipeline from Alaska's North Slope to market connections in Alberta, and the ability to create a commercial proposal for the line attractive to BP, ConocoPhillips and ExxonMobil, majority leaseholders in known gas accumulations at Prudhoe Bay and elsewhere on the North Slope.

That was the message delivered by Hal Kvisle, president and CEO of TransCanada Corp., in Anchorage May 29, where he met with Alaska Gov. Sarah Palin and attended part of the governor's Alaska Gasline Inducement Act public forum.

Hal Kvisle, TransCanada

The forum included presentations by Palin and administration officials and discussions by consultants on why the administration is recommending to the Legislature that TransCanada receive a license under AGIA. The license would commit the state to match up to $500 million in project expenses in return for commitments including low tariffs, an open-access gas pipeline and completion of the process through certification by the Federal Energy Regulatory Commission.

Long TransCanada involvement

At a press conference during the forum Kvisle noted that TransCanada has "been in pursuit of a

see **KVISLE** page 19

More Chukchi village CBM drilling

U.S. GEOLOGICAL SURVEY

Early optimism from results of a test coalbed methane well drilled in the summer of 2007 in the Chukchi coast village of Wainwright has proved justified. The well encountered a total of 70 feet of coal dispersed across multiple seams. And the presence of a significant gas resource in the coal is triggering a more extensive drilling and testing program at Wainwright during the summer of 2008, Art Clark, U.S. Geological Survey drilling project supervisor and co-project leader of the Department of the Interior-led Wainwright project, told Petroleum News May 29. See full story on page 3.

Civil rights icon Innis unlikely ally for energy extraction

JUDY PATRICK

ROY INNIS

Roy Innis believes affordable energy is a civil rights issue.

Innis brings some legitimacy to that claim. For the past 40 years, he's been the national chairman of the Congress of Racial Equality, or CORE, one of the oldest civil rights organizations in the country. For decades he's fought for social and political reform for black people in America, including the historic battles of the 1960s.

Innis, 74, now believes cheap energy is the "third leg" of those civil rights goals from decades ago, or "economic civil

see **INNIS** page 15

Wood Mac report says climate bill makes gas uneconomic

Proposed legislation in the U.S. Congress aimed at reducing greenhouse gases would make more than one third of all domestic natural gas projects uneconomic, according to a new report from the research and consulting firm Wood Mackenzie.

Commissioned by the American Exploration and Production Council, the report looks at how the Climate Security Act of 2007, specifically provisions requiring producers to pay for greenhouse gas emissions by consumers, would impact the upstream economics of natural gas projects

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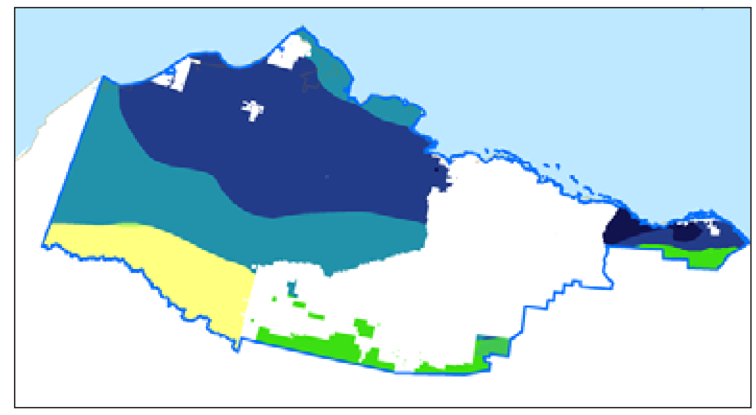

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● NATURAL GAS

More Wainwright coalbed methane drilling in works

U.S. Department of Interior results from last year's test well at village on Chukchi Sea promising; lead to 2008 delineation well and small-scale production test

By ALAN BAILEY

Petroleum News

Early optimism from results of a test coalbed methane well drilled in the summer of 2007 in the Chukchi coast village of Wainwright has proved justified.

The well encountered a total of 70 feet of coal dispersed across multiple seams. And the presence of a significant gas resource in the coal is triggering a more extensive drilling and testing program at Wainwright during the summer of 2008, Art Clark, U.S. Geological Survey drilling project supervisor and co-project leader of the Department of the Interior-led Wainwright project, told Petroleum News May 29.

"There's enough gas contained within these coal seams (at Wainwright) to warrant the next phase of work. … These coals are fully saturated with gas," Clark said.

The DOI team drilled the 2007 well as part of a program to investigate the possibility of using coalbed methane as an energy source for some remote Alaska villages.

Wainwright with a population of 500 to 600 depends on expensive diesel fuel for electricity generation — an ability to switch to natural gas as an energy source for the electricity power plant could represent a substantial economic benefit for the community. Tests in 2007 indicated the presence of about 1.24 billion cubic feet of gas in one square mile of just one subsurface coal seam. That might scale up across multiple seams and a wider area to supply enough gas to meet Wainwright's electricity generation needs for several decades.

More powerful rig

Because the lightweight coring rig that the team used to drill the 2007 well at Wainwright is not capable of the open-hole drilling required for the 2008 drilling program, the DOI team has obtained a more powerful rig.

"We still have a small portable rig up there … but we have transported a truck-mounted rotary-core rig up to the slope," Clark said. "… We'll be doing some coring but primarily we'll be doing open-hole rotary drilling, and that is why we wanted to have the larger rig."

As of May 29 the truck-mounted rig and other equipment were staged at Prudhoe Bay for airlifting to Wainwright. The team had hoped to start drilling at Wainwright around June 2, but is currently in a holding pattern until all of the required permits have been obtained, Clark said.

The team will begin by drilling a delineation well about two miles from the 2007 drill site, he said.

"We'll be drilling a delineation well to somewhere in the neighborhood of 2,500 to 3,000 feet," Clark said. "The purpose of that will be to define the lateral extent of the individual coal beds."

That well depth is substantially more than the 1,613-foot depth of the 2007 well. The purpose of drilling a deeper hole is to look for more coal beds and learn more about the subsurface geology, Clark said.

The team also wants to drill deep to look for sand beds that might prove suitable for the re-injection of produced water — tests of water from the well in 2007 showed that water to be highly brackish and unsuitable for drinking.

U.S. GEOLOGICAL SURVEY

Removing the core barrel inner tube from the Wainwright coalbed methane test well

The team will also collect 50 to 100 feet of core below a depth of about 1,250 feet in the delineation well. That core will include the primary coal seam that the team is interested in for coalbed methane production. After the coring the team will open-hole drill to the full depth of the well before running a suite of geophysical logs. The team will then plug and abandon the well, Clark said.

Coal samples from the coring will provide material to verify the gas desorption data from 2007.

Multi-well test array

Clark expects the drilling of the delineation well to take about a week to 10 days, after which drilling of the test wells will commence.

"We're going to come back over to the area that we drilled last year and we're going to install a multi-well test array and conduct a short production test," Clark said. "We'll have one production well set and several monitor wells and we'll be pumping water and presumably gas … from the central production well."

Although the team has considered drilling as many as five monitor wells, Clark expects that four wells will suffice. The drilling of those wells and the production well, together with the installation of equipment in the wells, will likely take a month or so. The team will then spend about two weeks doing coalbed methane production testing — the length of the testing program will depend on available time and money, Clark explained.

The testing will enable an assessment of how easily gas and water can flow

see CBM page 4

● NATURAL GAS

Conoco spuds Beluga River unit well

BRU 243-34 first step in satisfying agreement with the state, increasing production in Cook Inlet; four more wells could follow

By ERIC LIDJI
Petroleum News

ConocoPhillips spud the BRU 243-34 development well in the Cook Inlet basin on May 31.

The well is one of two ConocoPhillips plans to drill in the onshore Beluga River unit this year to target the Beluga formation, and one of five the company has planned for Cook Inlet this year. The other three would be in the offshore North Cook Inlet unit.

ConocoPhillips drilled the well with a Nabors rig.

The Beluga River unit sits north of the village of Tyonek along the west bank of Cook Inlet. ConocoPhillips operates the unit, but shares ownership equally with Chevron and the Anchorage electric utility Municipal Light and Power.

BRU 243-34 is in section 34, of Township 13N, Range 10W of the Seward Meridian.

ConocoPhillips hopes to drill the well to an estimated total depth of 3,553 feet to hit the top of the Beluga interval.

Well satisfies deal with state

The well helps satisfy the terms of a deal among ConocoPhillips, Marathon Oil and the state to increase production in Cook Inlet and convince federal regulators to extend a license for exporting Alaska liquefied natural gas to markets in East Asia.

The U.S. Department of Energy approved the extension on June 3 (see story in this issue).

The deal with the state required ConocoPhillips to prepare to drill two wells at Beluga River this year, and additional wells at North Cook Inlet if "market conditions warrant."

The agreement also required Marathon to prepare to drill five wells this year: two in the Ninilchik unit and three in the Kenai gas field. Marathon announced plans for those wells earlier in the year.

The agreement helped make 2008 one of the busiest on record for ConocoPhillips in the Cook Inlet. The company hasn't been this active in the Cook Inlet since 1993.

Wells required spacing exemptions

The state and the companies hope to offset production declines by squeezing more natural gas from these legacy fields.

Beluga River and North Cook Inlet are among the oldest and most prolific natural gas fields in the Cook Inlet, producing more than 2.75 trillion cubic feet of gas through the end of 2006, according to the most recent state figures.

The well helps satisfy the terms of a deal among ConocoPhillips, Marathon Oil and the state to increase production in Cook Inlet and convince federal regulators to extend a license for exporting Alaska liquefied natural gas to markets in East Asia.

As a result of historic drilling at the fields over the years, the drilling program at Beluga River and North Cook Inlet ran afoul of state codes requiring gas wells to be more than 3,000 feet from existing gas wells tapping the same reservoir.

The Alaska Oil and Gas Conservation Commission recently issued two spacing exemptions to ConocoPhillips for the two Beluga River unit wells.

The exemptions cover BRU 243-34 and BRU 211-26, the other well planned for the Beluga River unit this year.

BRU 211-26 would be in section 23, T13N, R10W SM and move to the southwest to target a different spot on the top of the Beluga interval at an estimated total depth of 3,588 feet. ●

EXPLORATION & PRODUCTION

Chevron plugs foothills exploration wells

Chevron has plugged and abandoned all three wells from the first year of exploration at its White Hills prospect in northern Alaska, according to recent well data from the Alaska Oil and Gas Conservation Commission.

The company completed the Smilodon 9-4-9 exploration well on March 22 and the Panthera 28-6-9 exploration well on April 11. Chevron completed the Mastodon 6-3-9 exploration well on March 27, as reported in the May 25 issue of Petroleum News.

As of May 21, the AOGCC had not listed information about Smilodon or Panthera.

The White Hills prospect is in the foothills of the Brooks Range just west of the Dalton Highway. The company hopes to drill eight wells over a two-year program at White Hills, its first project in northern Alaska since the early 1990s.

Chevron drilled all three wells using Nabors rig 106.

Chevron has not released any results from the three exploration wells, or the targets of the exploration program, calling it a "tight" venture.

—ERIC LIDJI

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Kay Cashman	PUBLISHER & EXECUTIVE EDITOR
Mary Mack	CHIEF FINANCIAL OFFICER
Kristen Nelson	EDITOR-IN-CHIEF
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Forrest Crane	CONTRACT PHOTOGRAPHER
Tom Kearney	ADVERTISING DESIGN MANAGER
Dee Cashman	CIRCULATION REPRESENTATIVE

ADDRESS
P.O. Box 231647
Anchorage, AK 99523-1647

NEWS
907.229.7057
or 770.3505
publisher@petroleumnews.com
or Elidji@petroleumnews.com

CIRCULATION
907.522.9469
circulation@petroleumnews.com

ADVERTISING
Susan Crane • 907.770.5592
scrane@petroleumnews.com

Bonnie Yonker • 425.483.9705
byonker@petroleumnews.com

FAX FOR ALL DEPARTMENTS
907.522.9583

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CBM

through the coal and will measure the amount of water produced for a given amount of gas. The testing will also involve monitoring pressure changes in the coal during gas production.

Publish in the winter

After completion of the testing program the team will analyze and evaluate the test data for eventual publication of the test results at some time in the winter. And, depending on those results, the team hopes to do a more extensive production test in the summer of 2009 — the team plans to leave its equipment at Wainwright over the winter in preparation for a 2009 program.

However, no funding has been committed for 2009 work yet, Clark said.

USGS, the Bureau of Land Management, the North Slope Borough, Arctic Slope Regional Corp. and Olgoonik Corp, are all involved in the 2008 program, with the North Slope Borough being the primary funding agency. Olgoonik is the village corporation for Wainwright. ●

GOVERNMENT

Canada divided on climate change

By GARY PARK

For Petroleum News

In a show of muscle-flexing, the Canadian provinces of Ontario and Quebec are embarking on a political form of schoolyard piling on.

Backed by two-thirds of Canada's 33 million population, the two governments ended an historic joint cabinet meeting June 2 by signing an accord they hope will wrestle control of Canada's climate change strategy away from the federal government.

In the process they have set the stage for a showdown with Prime Minister Stephen Harper and Canada's two leading oil and gas producing provinces, Alberta and Saskatchewan.

Premiers Dalton McGuinty of Ontario and Jean Charest of Quebec said their meeting was the "beginning of a further strengthening of an old alliance" in reasserting Central Canada as the nation's economic heartland.

To start "moving the ball forward," they plan to introduce what they hope will be a national cap-and-trade system for carbon emissions in 2010, setting a goal of "real reductions" in greenhouse gas emissions and spurning the federal strategy of "intensity-based" cuts in greenhouse gas emissions tied to units of production rather than overall reductions.

In the process (Ontario and Quebec) have set the stage for a showdown with Prime Minister Stephen Harper and Canada's two leading oil and gas producing provinces, Alberta and Saskatchewan.

They also want to tie the plan to the 1990 baseline set by the Kyoto Protocol rather than the federal proposal to start at 2006 emissions levels.

McGuinty and Charest accused the Harper government of planning to "implement a system that is not in line with Europe or anywhere else."

Charest said that regardless of who wins the U.S. presidency in November "there will be a 180-degree turn in (U.S. environmental) policies … there will be a (GHG) cap. So why wait for the Americans? Why not take the lead now?"

"By choosing to reduce 'intensity' levels rather than an absolute reduction of greenhouse gases the (federal government) is out of step. So if you have a choice between a VHS and a Betamax, it seems you go in the direction where technology is headed," he said.

McGuinty said the inter-provincial trading proposal should ideally serve as the foundation for a national program.

But Alberta and Saskatchewan are emphatic they want nothing to do with a cap-and-trade strategy, fearing that would stifle the rapid development of their petroleum resources, especially in the oil sands of Alberta.

At a meeting May 30, they reiterated their argument for carbon capture and storage as a better way to curb GHGs.

Harper said the national target of a 20 percent GHG reduction per unit of production by 2020 is mandatory and cannot be avoided by the provinces.

Federal Environment Minister John Baird attacked Ontario and Quebec for moving ahead without federal backing.

"It is somewhat disingenuous to sign a piece of paper which is a memorandum of understanding, saying that, because no action is being taken, they are going to set up a trading system.

"We've got an aggressive plan, requiring big polluters to cut their greenhouse gas emissions by an absolute 20 percent," he said.

Baird said the Ontario-Quebec approach could give "big polluters another three or four years before they're forced to do anything."

A spokesman for the Alberta government said the lead role being taken by Alberta and Saskatchewan in developing a carbon capture and storage initiative is the "right path" to achieve real reductions in GHGs without undermining the economy.

The Canadian Association of Petroleum Producers has expressed concern about the prospect of a fragmented federal and provincial approach on climate change, raising concern about "dueling regulations."

But the lobby group was not surprised by the Ontario-Quebec cap-and-trade proposal and limited itself to urging the two provinces to show some recognition as well for the steps being taken in Alberta. ●

ALTERNATIVE ENERGY

Kodiak utility expands wind power plan

Kodiak's electric utility will expand its plans to incorporate wind as a power generator in response to the high cost of diesel.

Kodiak Electric Association board members voted in late May to buy a third wind generator during the evaluation phase of their Pillar Mountain wind power project.

"With the price of fuel going where it's going, the added generation is a good thing for our community," said KEA President and CEO Darron Scott.

It makes sense to purchase a third wind generator now instead of waiting because it's likely to be more expensive, Scott said.

"We feel the added generation is a cost benefit back to the community due to the cost of diesel," Scott said.

Within two years, KEA hopes to have six generators on top of Pillar Mountain. The utility did not immediately buy three other generators because it's not ready to manage more wind power on its grid.

"We have some limits on how far we can push the system," Scott said. "Wind bounces up and down. So the electric generation coming out of wind bounces up and down. The system can only handle so much bouncing up and down."

KEA is replacing power regulators at Terror Lake so that the electric plant eventually can adjust for wind fluctuations.

see **WIND** *page 6*

● NATURAL GAS

Legislature begins AGIA license debate

By KRISTEN NELSON

Petroleum News

The Alaska Legislature settled down — en masse — June 4 to begin hearing testimony on awarding an AGIA license to TransCanada. The Legislature formally received the administration's recommendation to award the license June 3 and has 60 days under the Alaska Gasline Inducement Act to approve the license.

Presentations, beginning with consultants hired by the Legislative Budget and Audit Committee, are in the Terry Miller Gym, a room large enough to accommodate all members. The administration and TransCanada are up next, with that portion of the proceedings expected to run through June 10.

Then they hit the road: Fairbanks June 12-14; Anchorage June 16-20; Mat-Su June 24; Kenai June 26; and Barrow June 30. Ketchikan is on the schedule, at a date yet to be determined.

When the Legislature reconvenes after the July 4 holiday they will be back in Juneau.

House Speaker John Harris, R-Valdez, said June 3 that while the Legislature could simply let the proposal die — AGIA requires that the Legislature approve a license recommended by the administration — it is his intention to bring the license to a vote in the House. He said he expects members will want to vote and said he'd have to hear an overwhelming sentiment not to vote, from both Republicans and Democrats.

To handle the proceedings for the House John Coghill Jr., R-North Pole, chair of the House Rules Committee, designated a subcommittee with Harris as chair, House Minority Leader Beth Kerttula, D-Juneau, as minority member and LB&A Chair and House Majority Leader Ralph Samuels, R-Anchorage, as vice-chair.

The Senate established a 12-member Special Committee on Energy, chaired by Charlie Huggins, R-Wasilla; Bert Stedman, R-Sitka, is vice-chair.

Roundtables planned

Samuels said at the hearings that he planned a roundtable of the state's consultants following their presentation.

When House Rules met June 4 there was discussion about how to get all views aired; the consensus was that a larger roundtable would be held when the Legislature reconvenes in July.

Kerttula said House Democrats have found roundtables very useful in the past and would like to see all of the players assembled to answer questions.

Samuels said he hadn't had discussions with the producers on a roundtable, but had talked to ConocoPhillips about participating. He agreed with Kerttula and proposed a large roundtable after the road show, with participation by LB&A consultants, administration consultants and TransCanada.

Harris said that would help meet the goal of an "open and transparent process." A roundtable gives people the opportunity to immediately disagree and if a statement is going to be contradicted, we'd like it to be done immediately, he said.

Harris also noted that although there is a fiscal note, the AGIA bill was not sent to House Finance. There was no appropriation bill attached, he said, so at this point the fiscal notes are "really hollow fiscal notes" based maybe on future appropriations. Since that was the case, he said it wouldn't have facilitated the process to send the bill to House Finance. ●

● FINANCE & ECONOMY

U.S. Treasury: 'no quick fix' to high oil

By BARBARA SURK

Associated Press Writer

The U.S. Treasury Secretary said June 1 there is "no quick fix" to high oil prices on a trip designed to urge Mideast producers to allow more outside investment to help boost output.

Henry Paulson told reporters in the tiny Gulf nation of Qatar it was up to Gulf countries currently struggling with high inflation whether they wanted to de-peg their currencies from the dollar. He called it a "sovereign decision."

He also acknowledged the U.S. economy was experiencing a "downturn" and reiterated that a strong dollar was in the U.S. interest.

Paulson was in the Mideast to deliver a message to officials of Saudi Arabia and other oil-producing nations that soaring oil prices are putting a burden on the global economy. He is urging the countries to open up their oil markets to investment that can boost yields, exploration and production.

He said there is "no quick fix" to the record-breaking price of oil because it is an issue of supply and demand.

"I don't see a lot of short-term answers," he said.

Kuwait de-pegged from dollar

He acknowledged that inflation is a problem in the region, but he suggested that the weak dollar is not the only reason for it. He cited the example of Kuwait, which de-pegged from the dollar a year ago and is still combating inflation.

Kuwait was the first country in the six-member Gulf Cooperation Council, which includes Saudi Arabia, to shun its peg with the dollar by allowing the dinar to float against a basket of currencies. But other Gulf countries including Qatar and the booming United Arab Emirates are believed to be considering the move.

The dollar's decline has pushed up the cost of imports into the Gulf, fueling inflation. The decline has also watered down the benefit of record oil prices.

On May 28, David McCormick, Treasury's undersecretary for international affairs, said that Paulson will not make any specific request for nations to boost their production.

On a trip to the Middle East earlier in May, U.S. President George W. Bush failed to win the help he sought from Saudi Arabia to relieve skyrocketing U.S. gas prices. Saudi officials said they already were meeting the needs of their customers worldwide and there was no need to pump more. ●

continued from page 5

WIND

95% renewable planned by 2020

Wind generation is part of KEA's plan to use 95 percent renewable energy by 2020.

Two wind generators were expected to produce 9.5 million kilowatts of power a year, about 7 percent of the current load. A third will increase output to 12.2 million kilowatts a year, saving 830 gallons of diesel, Scott said. Phase I of the project begins this summer when KEA starts construction on Pillar Mountain Road to accommodate the wind generators.

Each generator stands about 250 feet high, with 120-foot blades.

Construction of the generators is expected to take place in summer 2009.

If everything goes according to plan, KEA hopes to have the generators on line by the fall 2009 and an additional three generators a couple years after that.

—THE ASSOCIATED PRESS

● EXPLORATION & PRODUCTION

Struggling with sands of time

Supermajors agree sands output vital to security, at odds over environmental impact; Keystone backers annoyed by 'dirty oil' tag

By GARY PARK
For Petroleum News

Under attack for setting up operations in the Alberta oil sands, the global supermajors agree the resource is a valuable part of energy security, but they take different routes at that point.

ExxonMobil boss Rex Tillerson, caught May 29 in a heated shareholder debate over the company's policy toward renewable energy and global warming, conceded he doesn't have all of the answers on the underlying reasons for climate change, but showed no desire to demonstrate political correctness.

On the same day, Royal Dutch Shell Chairman James Smith agreed the oil sands are "not a good thing" for the climate, although they are a "good thing" from an energy security standpoint.

Those comments came on the heels of criticism from 11 U.S. and United Kingdom investors that BP has taken a "disturbing step backwards" by entering the oil sands.

Tillerson, concerned about the consequences to world economies of government policies that have an impact on fossil fuel development, told reporters ExxonMobil is spending billions to manage the environmental fallout from its operations, become more energy-efficient and support research to lower energy consumption.

But even 25 to 30 years from now the world will require "substantial fossil fuels … two-thirds of it coming from oil and gas," regardless of advances in renewable, nuclear and biomass energy.

To not have a debate on climate change and for the industry to argue it knows everything it needs to about the issue is "irresponsible," Tillerson said.

"Anybody that tells you they have got this figured out is not being truthful," he said. "There are too many complexities around climate science for anybody to fully understand all of the causes and affects and consequences of what you may do to attempt to affect that," he said.

"We have to let scientists continue their investigative work, unencumbered by political influences."

Exxon won't abandon Kearl

For now, ExxonMobil, through its 69.6 percent Canadian subsidiary Imperial Oil, is not prepared to walk away from the C$8 billion Kearl oil sands project that has been tripped up by environment-related court rulings.

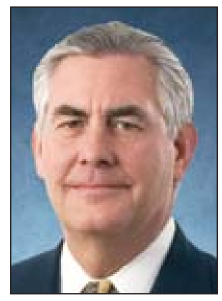
Tillerson said he is optimistic a water permit for Kearl will be restored "and we'll be able to get back on track with very little loss to the schedule," adding he understands the project has been given high priority by the Canadian government, which must decide how it will react to the court verdicts.

Royal Dutch Shell, which is similarly immersed in the oil sands, aiming at possible output of 700,000 barrels per day, is less certain about the oil sands.

Smith said the resource contributes 15 percent more carbon emissions "on a well-to-wheel basis" than conventional oil and gas.

But rising energy prices have enticed Shell to develop oil sands properties that were previously considered uneconomical.

"Oil sands from the point of carbon dioxide is not a good thing," he said. "It is a step in the wrong direction, but not quite as large a step as some people suggest."


Rex Tillerson, ExxonMobil


Royal Dutch Shell Chairman James Smith

Those who attach a "dirty oil" tag to the oil sands were rebuked May 28 by partners in the 600,000 bpd Keystone pipeline from Alberta to a ConocoPhillips refinery in Indiana and the Oklahoma trading hub at Cushing.

At a sod-turning ceremony to launch construction of Keystone, a $5.2 billion joint venture by TransCanada and ConocoPhillips, company executives fended off the "dirty oil" accusations.

TransCanada Vice President Steve Becker said the pipeline is a "valuable piece of infrastructure for the North American economy," while Meg Yeage, pipeline division president at ConocoPhillips," said the company would not be a "partner in the pipeline and an investor in the oil sands if we didn't have confidence in their future."

Environmental pressures taking toll on oil sands projects

Those views aside, environmental pressures are taking their toll on projects, with France's Total blaming a delay of more than six months in regulatory hearings — a claim rejected by the Alberta Energy Resources Conservation Board — for its already delayed Joslyn project.

The result will be a lost winter of construction, stalling the onstream startup to 2015 for an initial 100,000 bpd Total President Michael Borrell said earlier budget estimates of C$9 billion for the Joslyn mine and C$9 billion for an upgrader are likely to rise because of construction pressures in Alberta.

Joslyn also faces closer regulatory scrutiny than other oil sands projects based on comments by federal Environment Minister John Baird that the proposal will be subject to a public hearing and environmental review by an independent federal and provincial panel, rather than just a provincial hearing.

When it acquired the majority 74 per-

see SANDS page 9

● LAND & LEASING

Aleutians borough, MMS to cooperate

By ALAN BAILEY

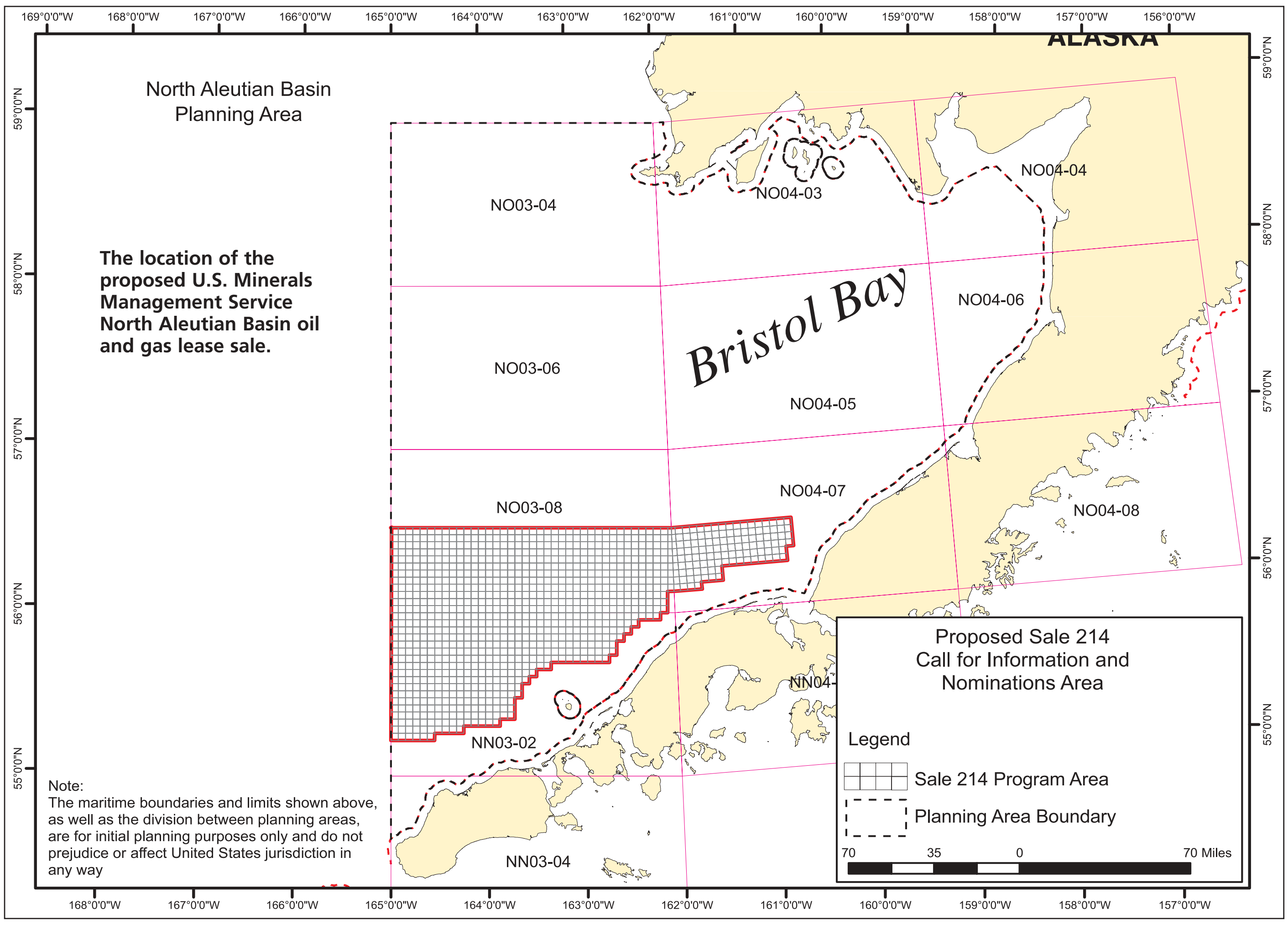
Petroleum News

The U.S. Minerals Management Service announced June 3 that it has signed a memorandum of understanding with the Aleutians East Borough to ensure that local interests are considered during the evaluation of the North Aleutian basin oil and gas lease sale proposed for 2011.

The borough will serve as a cooperating agency in the MMS preparation of an environmental impact statement for the lease sale. The memorandum of understanding "provides a framework for coordination, communication, collaboration and the exchange of ideas between MMS and the borough," MMS said.

"MMS is pleased to have the borough as a partner in this planning process," said MMS Alaska Regional Director John Goll. "Borough leaders and staff bring a wealth of knowledge about Bristol Bay, its people, their concerns and their economies, which will help us evaluate the proposal for lease sale 214."

"It's very important that the borough is at the table throughout this planning process," said Aleutians East Borough Mayor Stanley Mack. "The borough has consistently supported leasing in the North Aleutian basin, provided maximum protection is given to fishery and subsistence resources. Ensuring that offshore exploration and development is conducted in an environmentally safe manner is also crucial. We're very pleased to have come together to sign the memorandum of agreement and are going forward with the process.



The location of the proposed U.S. Minerals Management Service North Aleutian Basin oil and gas lease sale.

U.S. MINERALS MANAGEMENT SERVICE

Call for information

On April 13 MMS issued a call for information and a notice of intent to prepare an environmental impact statement for the North Aleutians sale. The proposed sale area lies offshore the northwest side of the Alaska Peninsula, west of Port Moller. The Aleutian East Borough encompasses the easternmost of the Aleutian Islands and the western end of the Alaska Peninsula, an area that includes the land that lies immediately adjacent to the proposed offshore sale tracts.

Geologists view the sale area as especially prospective for natural gas, although there is also a possibility of discovering oil. Shell is known to have an interest in exploring the region and has in the past suggested the possibility of an offshore pipeline feeding gas to an LNG facility on the southern side of the Alaska Peninsula, were gas to be discovered north of the peninsula.

But the sale area overlaps several major fisheries, all of which have operated in the southeastern Bering Sea for many years. The prospect of offshore co-existence with the oil and gas industry has raised concerns in the fishing industry. Those concerns include potential impacts on fish and crustacean habitats and the potential for a disastrous oil spill.

On the other hand, some sectors of the fishing industry have commented on the track record of successful co-existence of fishing with oil activities in regions such as Alaska's Cook Inlet, the Gulf of Mexico, eastern Canada and Norway.

On the Web

See previous Petroleum News coverage:

"MMS issues call for North Aleutian basin," in the April 13, 2008, edition at www.petroleumnews.com/pnads/772172603.shtml

"Benefits and risks," in the March 30, 2008, edition at www.petroleumnews.com/pnads/27976765.shtml

Local communities

Communities in the area, including those in the East Aleutian Borough, are concerned to maintain their ability to hunt for subsistence food resources including fish.

"We are all concerned about an oil spill," Justine Gunderson, a resident of the village of Nelson Lagoon and a member of the Aleutian East Borough Assembly, told the North Aleutian Basin Energy-Fisheries Workshop in March. "Not only would that devastate the commercial fishery, it would devastate our subsistence lifestyle."

But the communities also see the possibility of the oil and gas industry bringing jobs and prosperity to a region that has seen something of an economic decline in recent years. People want to stay in the villages and ensure a future for their children Gunderson said.

> *"The borough has consistently supported leasing in the North Aleutian basin, provided maximum protection is given to fishery and subsistence resources."*
> **—Aleutians East Borough Mayor Stanley Mack**

"People don't want to leave. People want to develop," Gunderson said. "… We do support this development. … There is always a risk, but you can't stand still."

And Mack told the forum that he felt encouraged by what he had seen on a recent trip to Norway, where local people had insisted that oil companies meet the needs of the locals as part of the stipulations for oil and gas development. The communities got what they wanted, Mack said.

"That's where I'm coming from today," he said. "… We're trying to train our youngsters … so that they can take part in what happens. … We're pro-development but we're always protective of our culture, our lifestyle. … We'll protect them at all costs." ●

● GOVERNMENT

Seeing the Norwegian experience

By ALAN BAILEY
Petroleum News

Several southwest Alaska government officials and representatives from the Alaska fishing industry attended Bodø University's third annual "dialogue and tour" meeting in the city of Bodø on the northwest coast of Norway in early May.

The Bodø meetings provide an opportunity for dialogue on issues related to Arctic oil and gas development and to discuss stakeholder viewpoints. This year's meeting included a Norwegian coast cruise, culminating in a visit to StatoilHydro's new liquefied natural gas production facilities for the Barents Sea Snøhvit field.

According to an Aleutians East Borough newsletter, borough Mayor Stanley Mack and borough Administrator Bob Juettner attended the meeting. Glenn Garner, mayor of Sand Point; Lamar Cotton, chief administrative officer of the Lake and Peninsula Borough; Tiel Smith, land and resource manager for Bristol Bay Native Corp.; and John Goll, Alaska regional director for the U.S. Minerals Management Service also attended, the newsletter said. Alaska fishing industry representatives also attended.

Positive about development

"In general, our Norwegian counterparts were positive about offshore development and they didn't see too many conflicts with the fisheries," Juettner said in the newsletter. "However, they did want more local input included in the process."

Garner told Petroleum News June 4 that he found the Norwegian oil industry to be particularly advanced in the way in which it addresses offshore development issues. Garner particularly cited Snøhvit field where there are no offshore platforms. Fishing takes place in the Snøhvit area and cages cover the seafloor well heads, he said.

Garner also commented on the effectiveness of the road network that connects even the remote parts of Norway. That contrasts with the difficulty experienced in moving forward with road construction in Alaska in places like King Cove, he said.

From the perspective of potential oil and gas development in the Bristol Bay area of Alaska, Garner sees the Norwegian experience as highlighting the need for engagement of all stakeholders in the dialogue regarding development decisions.

"You've got to pull everyone into the fold … and I think it's doable," Garner said. "… I think if people saw what we've seen they'd be comfortable with going forward."

Childers: challenges in Alaska

Joe Childers, president of the United Fishermen of Alaska, also attended the meeting and told Petroleum News June 5 that the apparent desire for discourse between the oil and fishing industries in Norway had particularly caught his attention.

"There's a lot of challenge to do that in Alaska," he said.

Norway has a large population and a long tradition of involvement in fishing — an interface with a Norwegian community becomes in effect an interface with the fishing industry, he said. In Alaska, on the other hand, few people are conscious of the huge Bering Sea pollock fishery and would see a Bering Sea oil and gas industry as "out of sight, out of mind."

"There's fishing going on that most people in Alaska are not even aware of," Childers said.

The Bering Sea region of Alaska bears similarities with Norway in that the region hosts a rich fishery, Childers said. But the Bering Sea region is sparsely populated and much of the fishing occurs offshore in large boats. And the Alaska fishing industry is still living in the shadow of the Exxon Valdez disaster. Someone involved in a major Bering Sea fishing operation may have difficulty in seeing any benefit from the oil and gas industry.

"That's a hill that has to be overcome," Childers said. "… There may be an opportunity to have a meaningful, respectful dialogue with the oil industry."

And it would be helpful if more people in the fishing community saw what is happening in the oil and gas industry — many people view oil and gas as a short-term phenomenon rather than offering long-term career opportunities, Childers said.

Like Garner, Childers was very impressed by the offshore technology used in the Norwegian oil and gas industry. But the oil and gas industry needs to spend time getting to know the Bering Sea fisheries, to understand the industry that it plans to coexist with, he said. Perhaps oil and gas personnel should try going out on a Bering Sea fishing boat, Childers said. ●

continued from page 7

SANDS

cent stake in Joslyn in 2005, Total set an in-service date of 2010, which was pushed out to 2012, then 2014 as it worked on designs for an eventual 230,000 bpd operation.

StatoilHydro, North West Upgrader facilities also delayed

Norway's StatoilHydro has also said its planned upgrader in Alberta will be delayed from 2014 to 2016, partly because of U.S. regulatory issues related to the sale of crude derived from oil sands.

The company, which acquired 257,000 acres of leases from North American Oil Sands Corp. for C$2 billion and plans a 200,000 bpd operation, had an original price tag of C$9 billion each for its mine and upgrader, but concedes both are almost certain to rise because of construction pressures in Alberta.

A spokeswoman said a pilot project due to start producing 10,000 bpd in 2010, rising to 20,000 bpd, remains on schedule, but the upgrader needs more time.

North West Upgrader, a privately held company building a merchant heavy oil upgrader near Edmonton, has also been forced into the slow lane because of difficulties it has been having financing the C$4.2 billion facility.

Chief Executive Officer Rob Pearce said the planned launch in 2011 will be postponed because of a "very turbulent capital market," adding North West is open to including a third-party partner to deal with the problems.

The facility was designed to grow in three stages to process 231,000 bpd of bitumen blend feedstock by 2015. ●

● INTERNATIONAL ARCTIC

U.S. Department of Energy likes Murmansk port

Oil could be shipped from Murmansk to the United States if Russia would build a pipeline from producing areas — report

By SARAH HURST
For Petroleum News

Only a few large new oil fields are planned in Russia in the short term, and several of them are in or near the Arctic, the U.S. Department of Energy's Energy Information Administration says in its May country analysis brief on Russia. Those fields include Gazprom's 100,000 barrel per day Prirazlomnoye field (2010), Lukoil and ConocoPhillips' 150,000 bpd Yuzhno-Khylchuyuskoye field (mid-2008), and Rosneft's Komsomolskoye field.

On the topic of transporting oil, EIA's analysis shows that international shipping from the Murmansk area has two advantages: the port is ice-free most of the year, and it is deep enough to make shipping to the United States economic without reloading in Europe.

"Several pipeline proposals connecting the Murmansk area to existing producing areas in the south in the last several years have been met with lukewarm reactions by Transneft," the brief continues. "The state-owned company now plans a pipeline to Indiga, 240 miles from the Timan Pechora producing basin that is closer but iced over in winter. No timeline has been set for construction. Oil from Timan Pechora has a lower sulfur content and is lighter than the rest of the Urals blend."

OUR ARCTIC NEIGHBORS

Oil reaches Murmansk by rail

Russian oil is currently delivered to the Murmansk area by rail, and in 2007 around 270,000 bpd of crude oil and products were shipped from the area, according to the brief. Lukoil will complete its $1 billion, 240,000-bpd terminal at Varandey in June 2008, which will allow shipments from the northern part of Timan Pechora. Lukoil's major source of oil for this terminal will be the Yuzhno-Khylchuyuskoye field, where production is expected to rise to 150,000 bpd by the end of 2009.

"Government taxation of production and export revenues along with the continued lack of clarity concerning the ownership of subsoil resources contributed to lower output for 2007 and could possibly contribute to stagnating or even negative output growth during 2008," the brief says. Several proposals are currently being discussed to reduce the tax burden, including one by Prime Minister Vladimir Putin that would give a seven-year mineral extraction tax holiday to oil companies that develop fields in Timan Pechora, Yamal or on the continental shelf beginning in 2009. ●

● INTERNATIONAL ARCTIC

Consultant calls Norway's Snohvit a 'fiasco'

Arctic resources can and must be developed, Ian Fitzsimmons says, but Norway and Russia should learn from Alaska and Canada

By SARAH HURST
For Petroleum News

Almost all Arctic sea ice could disappear in the summer months as early as 2048, UK-based consulting engineer Ian Fitzsimmons predicts in a commentary piece published recently in Offshore Engineer. This could enable Arctic hydrocarbon resources to be developed as replacements for the world's largest producing oil fields, Ghawar in Saudi Arabia and Burgan in Kuwait, he believes. In an e-mail interview with Petroleum News, Fitzsimmons expanded on his views about the future for Arctic oil and gas.

"The Arctic ice sheet is going to disappear regardless of any oil exploration and production activities," Fitzsimmons said. "The Arctic is responding to global warming events that were instigated by Mother Nature (Gaia) more than 10,000 years ago. Nothing and nobody can change that. Animals and people around the Arctic rim have everything to gain from melting ice. Loss of the ice sheet will rejuvenate the Arctic Ocean in every respect and the human residents will be the biggest beneficiaries."

OUR ARCTIC NEIGHBORS

Alaska and Canada are further ahead than Norway in the development of offshore technology, despite Norway's claims to the contrary, according to Fitzsimmons, who isn't surprised that the Snohvit gas project in the Barents Sea has been experiencing startup problems. "The Snohvit fiasco graphically illustrates the shortfalls of Norwegian Arctic technology, both technically and financially," he said.

"Remember that Statoil is a state-owned organization, and it is funded by the state of Norway — regardless of financial control," Fitzsimmons continued. "The real problem with Norway is that Statoil only exists within domestic Norway — it simply cannot, and does not know how to compete with the outside world. ... Snohvit is a technical and commercial disaster, but Statoil is a state corporation, so the taxpayer always foots the bill and nobody is responsible."

Russia hostile environment

State involvement in the oil industry runs even deeper in Russia. "Russia is a hostile environment for all foreign companies at the moment and likely to remain so for the coming decades," Fitzsimmons said. "You have read about their 'asset recovery program' at the expense of BP, Shell and so on. ... I am sure that both Statoil and Total will come to regret their involvement with Shtokman-Gazprom in the same way that Shell regrets their involvement with Nigeria and Sakhalin Island LNG (and ENI with Venezuela)."

Nevertheless, Russia will initially be dependent on Western technology, Fitzsimmons thinks. "This will prove beneficial in the short term for foreign manufacturing-installation companies. In the long term this opportunity will disappear," he said. "All foreign design companies-consultants are required to have a Russian design house partner in order to get work for Russia. They will thereby acquire Western technology by stealth."


Consulting engineer Ian Fitzsimmons welcomes the disappearance of Arctic sea ice

The undeveloped Shtokman field in the Barents Sea contains an estimated 3.8 trillion cubic meters (134.1 trillion cubic feet) of natural gas and more than 37 million tons (1.8 tcf) of gas condensate. "The biggest hurdles that Russia faces in the development of Shtokman are the internal politics and parochial hurdles to be found within Russia. Bureaucracy and corruption are well to the fore in this respect," Fitzsimmons said.

"The West can supply all the hardware at a price, and the Russians have billions of dollars to invest. That is not a problem," he continued. "Yes, I am confident that Shtokman will be developed — eventually. But I am sure the Russians are playing the long game (nothing wrong with that) in anticipation of dwindling Arabian oil production. As the Russians see it, they have everything to gain by delaying Shtokman. The price of LNG increases by the minute."

Fitzsimmons has completed strategic and development studies for the North Sea, Newfoundland and the Barents Sea, and has worked as a consultant with Shell, Woodside, Eni Australia and other companies on offshore projects. ●

● LAND & LEASING

NPR-A holds 17B barrels recoverable oil

New BLM resource inventory for federal lands more than doubles recoverable crude estimates for northern Alaska petroleum reserve

By ALAN BAILEY
Petroleum News

The National Petroleum Reserve-Alaska could contain more than twice the recoverable oil and condensate reserves than previously estimated, according to an updated inventory of federal onshore lands. The U.S. Bureau of Land Management issued the inventory report as the third in a series of Congressional mandated studies to document federal oil and gas resources, as well as the existing limitations to developing those resources.

The Alaska part of the inventory includes federal oil and gas resources in northern Alaska, the Yukon Flats and southern Alaska. The northern Alaska region consists mainly of the National Petroleum Reserve-Alaska. The southern region includes the Alaska Peninsula, the Kenai Peninsula and Southeast Alaska.

In northern Alaska, the inventory put estimated technically recoverable oil and condensate at 17 billion barrels and gas at 79 trillion cubic feet. The gas estimate includes a 2007 U.S. Geological Survey assessment of coalbed methane.

The 2002 USGS assessment for NPR-A, sans coalbed methane, was an estimated 6.7 billion to 15.0 billion barrels of technically recoverable oil and 40.4 tcf to 85.3 tcf of natural gas.

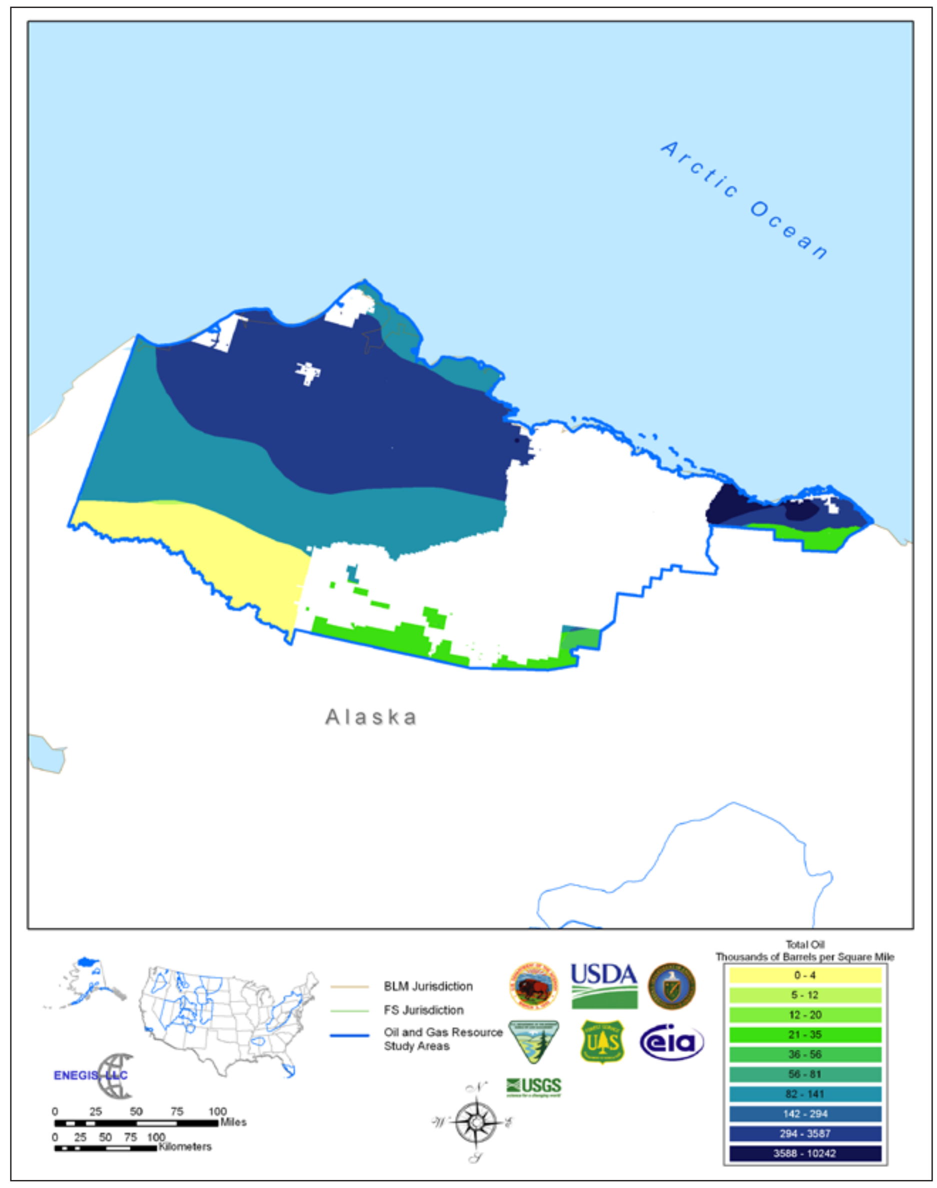
The inventory also says that almost none of the federal land in northern Alaska is accessible under standard BLM lease terms, in part because of restrictions on when during the year exploration activities can occur. Approximately 70 percent of the land is completely inaccessible for leasing at present, either as a result of land withdrawals or as a result of land use planning decisions.

The inventory estimated 149 million barrels of recoverable oil and condensate and 2.7 trillion cubic feet of natural gas in federal lands in the Yukon Flats, but 99 percent of that land is currently inaccessible for oil and gas leasing.

In southern Alaska, 98 percent of the federal land is inaccessible for leasing. BLM estimates 270 million barrels of recoverable oil and condensate and 394 billion barrels of recoverable gas in this region. The preponderance of the oil is thought to exist on the Kenai Peninsula and the coast of the Gulf of Alaska. The gas resources are thought to be more widely distributed, although the Kenai Peninsula is the most prospective area.

BLM's latest study says federal lands hold a total of 31 billion barrels of oil and 231 trillion cubic feet of natural gas.

But the inventory has also found that 60 percent of the of the onshore federal land that has potential for oil and natural gas production is closed to oil and gas leasing, thus rendering 62 percent of the oil and 41 percent of the gas inaccessible for development.



COURTESY BUREAU OF LAND MANAGEMENT

Map of total federal oil, northern Alaska study area

"America has abundant energy resources," said C. Stephen Allred, assistant secretary of the interior for land and minerals management. "However, for a variety of reasons, many of these resources are not available for development. At a time when energy prices have reached record levels and Americans are feeling the impact, we must find ways to develop those key energy resources that are available to us right here at home on our public lands."

"Current technology allows us to develop energy resources without adversely impacting the environment or permanently diminishing other non-energy resources found on public lands," said BLM director Jim Caswell. ●

● FINANCE & ECONOMY

Oil rises on ECB president's comments

Analysts believe global demand may have reached plateau, forcing prices down; gas prices continue to rise as profit margins shrink

THE ASSOCIATED PRESS

Oil prices rose on June 5 after the dollar fell in response to comments by European Central Bank President Jean-Claude Trichet suggesting the bank could raise interest rates. At the pump, meanwhile, gas prices nationally rose to a new record near $3.99, and are likely to hit $4 soon. Gas prices in Anchorage have hovered around $4.10 a gallon.

Light, sweet crude for July delivery rose $1.86 to $124.16 on the New York Mercantile Exchange after falling more than $5 since last Friday. The delivered price of Alaska North Slope crude oil closed on June 4 at $122.30 a barrel, down $2.01 for the day.

Trichet spoke after the ECB left a key interest rate unchanged amid concerns about inflation. While Trichet said a change in rates was not a certainty, he said some of the bank's governors favor an increase.

"Oil, which was very weak, rallied on those comments," said Phil Flynn, an analyst at Alaron Trading Corp. in Chicago. "They're out of step with the U.S., which is weakening the dollar."

More interest rate cuts unlikely

Earlier this week, Federal Reserve Chairman Ben Bernanke indicated that more interest rate cuts are unlikely in the U.S. Bernanke's comments sent the dollar higher, helping push oil prices lower.

When rates rise in Europe, or fall in the U.S., the dollar tends to weaken against the euro. Many investors buy commodities such as oil as a hedge against inflation when the dollar is falling. Also, a weaker greenback makes oil less expensive to investors dealing in other currencies.

Many analysts believe the dollar's protracted decline has been a major reason why oil prices have nearly doubled from year-ago levels. Oil's rally has pushed gas prices to record levels.

Gas prices continue to rise

The average national price of a gallon of gas rose 0.6 cent overnight to a record $3.989 on June 5, according to a survey of stations by AAA and the Oil Price Information Service. Prices have not fallen since May 6, AAA records show, and are likely to continue rising for at least a while before eventually turning lower.

"We may still get to $4 in the next couple of days, but I do think ... it's just a matter of time before the retail price starts to stall and maybe move lower," said AAA spokesman Geoff Sundstrom.

Gas prices are higher than $4 in many parts of the country including Alaska, and average more than that in 13 states and the District of Columbia.

Diesel prices are already falling; the average national price of a gallon of diesel slid 0.8 cent overnight to $4.77 on June 5, according to AAA and OPIS, though prices are above $5 a gallon in some areas. Diesel prices peaked at a record $4.792 on May 30, and have risen $1.87 in a year due mostly to rising demand for the fuel in the developing world. High diesel prices have boosted prices of food and consumer goods transported by truck, ship and rail, putting additional pressure on families already struggling with $4 gas.

Demand cuts lead to price drop

Following global trends based largely on concerns about demand, the price of Alaska crude has been falling steadily since peaking at $131.59 on May 23. Recent Energy Department data shows high prices have led to cut their gasoline consumption.

In its weekly inventory report, the U.S. Energy Department's Energy Information Administration said American demand for gasoline dipped 1.4 percent over the last four weeks. Meanwhile, gasoline inventories rose by 2.9 million barrels last week, more than three times the increase analysts polled by energy research firm Platts had expected.

Concerns about demand have helped pull oil down nearly 10 percent from its May 22 high of $135.09. Those concerns were exacerbated on June 4 by the EIA report and by moves by India and Malaysia to cut fuel subsidies, effectively raising their retail prices for everything from gasoline to cooking gas. Many investors believe subsidy cuts will choke off demand for fuel in the developing world.

"There's definitively smaller demand, (and) you have subsidies that are going to fall in energy consuming nations," said James Cordier, president of Tampa, Fla.-based trading firms Liberty Trading Group and OptionSellers.com. "The psychology is just changing."

India announced increases that, for example, would boost gasoline prices in New Delhi by 11 percent. Malaysia said it would hike gasoline prices by 41 percent and electricity for commercial and industrial users by 26 percent.

The EIA also said inventories of distillates, which include diesel and heating oil, rose by 2.3 million barrels. Investors shrugged off an unexpected decrease in crude oil inventories.

Many analysts have long questioned whether high oil prices could be sustained; many blame speculative investing fueled by the falling dollar for a near doubling of crude prices over the past year.

A weakening dollar can spur investors to buy oil and other commodities as a hedge against inflation, but the effect tends to reverse when the dollar strengthens. A stronger dollar also makes oil more expensive to buyers dealing in other currencies.

Recently, with some fluctuations, the dollar has been gaining against the euro and yen as U.S. economic data supports the view that the Federal Reserve isn't likely to cut its key interest rate further. In Asian currency trade later afternoon in Tokyo, the dollar was above 106 yen, while the euro was changing hands around $1.54.

Among other main factors cited for sustained high prices over the past year is the unexpected declines in production from some of the world's key exporters, particularly Russia, Venezuela and Mexico.

Prices prompting changes for governments, industry

Meanwhile, many Asian nations are cutting fuel subsidies, effectively raising

see PRICES page 17

● EXPLORATION & PRODUCTION

EnCana sings Montney praises

By GARY PARK
For Petroleum News

EnCana has added its thunderous voice to the hallelujah chorus in British Columbia's Montney gas play, disclosing it has a production goal of 1 billion cubic feet per day, up from its current 280 million cubic feet per day in the Cutbank Ridge area.

Mike Graham, EnCana's Canadian Foothills president, told a gas conference in Vancouver that the Montney is without doubt the hottest gas play in Canada and possibly North America.

In the core of the Triassic-age formation he said it is likely 5 bcf will be recovered from each well and EnCana could drill 1,500 to 3,000 wells.

Hopes are also riding high in the Horn River basin, just south of the Northwest Territories border, where EnCana controls 346,000 (205,000 net) undeveloped acres in the Devonian-age shale formations and where its joint venture partner Apache has recently hiked its estimated net resources to 9 trillion-16 trillion cubic feet from an earlier 3 tcf-6 tcf, based on flow rates from three horizontal test wells.

EOG Resources and Nexen have tossed their own estimates of 6 tcf each into the Horn River mix, driving overall calculations to 18 tcf-28 tcf.

So far EnCana has not disclosed estimates from its operated wells in Horn River, but Graham said the rigs are drilling in the "heart of what we think is the thickest, cleanest part of the shale."

Pad drilling coming

He said Horn River wells currently cost C$10 million or more, but costs could be lowered once manufacturing-style techniques such as pad drilling are introduced.

In the Montney, EnCana's wells are achieving 5 million to 10 million cubic feet per day during the first month of production and, depending on the number of fracs, cost C$5 million to C$8 million.

Horn River has generated some of the highest prices paid for exploration rights in Canadian history, averaging C$23,568 per acre at a May 21 sale, easily surpassing the previous record of C$7,200 in December 2007, while three Montney parcels fetched an average C$62,720.

EnCana has 240,000 net acres and about 544,000 prospective acres in the Montney with 5 tcf-6 tcf of original gas in place, Graham said.

He said estimates of gas in place in the Upper Montney and Lower Montney ranges from 20 bcf to 100 bcf for every 640 acres.

Current infrastructure constraints

But the region is hampered by infrastructure constraints, although help is on the way.

Spectra Energy said it will start an open season June 13 for potential shipping commitments for an expansion of its pipeline network in the Horn River area.

EnCana is also doubling capacity at a gas plant to 140 million cubic feet per day that will include spare capacity for a significant ramp up in Cutbank Ridge later this year. The company's Cutbank output was 234 million cubic feet per day last year, up from only 40 million in 2004. ●

GOVERNMENT

Alaska BLM execs win national awards

One current and two former senior executives with the Bureau of Land Management in Alaska received Presidential awards for service on May 28.

Thomas P. Lonnie, state director for the BLM in Alaska, received a Presidential Meritorious Service Award, while BLM Deputy Director Henri R. Bisson and Linda S.C. Rundell, State Director for BLM-New Mexico, each received a Secretary's Executive Leadership Award, Silver.


TOM LONNIE


HENRI BISSON

JUDY PATRICK

Bisson served as BLM-Alaska State Director from 2002 to 2006, while Rundell served as BLM-Alaska Associate Director from 1999 through 2002.

Secretary of the Interior Dirk Kempthorne presented Presidential Rank Awards, also known as the Secretary's Executive Leadership Awards to 36 Senior Executive Service employees of the Department of the Interior at a ceremony held at the Main Interior Building in Washington, D.C.

Each year, the President of the United States recognizes and celebrates a small group of career senior executives and senior professionals with the Presidential Rank Award for long-term accomplishments.

Lonnie was one of 13 Department employees to receive a Presidential Rank Award.

—PETROLEUM NEWS

STATE OF ALASKA

SARAH PALIN, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES & DEPARTMENT OF REVENUE

ALASKA GASLINE INDUCEMENT ACT

May 29, 2008

Dear Alaskan,

Pursuant to AS 43.90.180, the Alaska Gasline Inducement Act (AGIA), and following an extensive evaluation process and consideration of public comments, the commissioners of natural resources and revenue conclude that the Alaskan natural gas pipeline proposed by TransCanada Alaska Company, LLC and Foothills Pipelines Ltd. (TC Alaska) maximizes the benefits to Alaskans and merits issuance of an AGIA license. The commissioners, along with a team of world-wide experts, spent months reviewing the TC Alaska proposal. Among the highlights for Alaskans:

- Commitments to expansion and real open access that will open the North Slope basin to competition, generating more long-term jobs than either an LNG option or the Producer's proposed project;
- Low tariffs, which encourage exploration, increase long-term jobs, and produce higher revenues to the state;
- Distance-sensitive rates, ensuring Alaskans only pay the costs incurred to ship gas from the North Slope to off-take points within Alaska;
- TC Alaska will hold an open season and file for regulatory permits by certain dates – enforceable timelines never seen before in a proposed Alaska gasline project; and
- LNG "Y-line" if shippers express sufficient demand.

These benefits are unique to TC Alaska's proposal and an AGIA-licensed gas pipeline. The important commercial terms of the BP/ConocoPhillips project remain undefined, and that project has no enforceable commitments. Additionally, approving the TC Alaska proposal will reduce costs, financing challenges and commercial coordination of the "Y line" LNG project, thereby enhancing its prospects.

The commissioner's Findings and Determination discusses each of these benefits in detail and responds to all public comments received. Additionally, all expert reports are included as appendices. The documents are available on-line at: www.gov.state.ak.us/agia and hard copies are available at all Legislative Information Offices and Department of Natural Resources Public Information Offices.

The notice of intent to issue a license under AGIA and the findings, supporting documentation and determination will be forwarded to the Alaska State Legislature and a special session will begin June 3. Pursuant to AS 43.90.190, the legislature then has 60 days to pass a bill approving the issuance of the license.

Thank you for your participation in the AGIA process. A TC Alaska gas pipeline will offer extensive benefits to Alaska. We urge you to encourage your legislators to approve the issuance of the AGIA license to TC Alaska.

Sincerely,

Thomas E. Irwin
Commissioner, Department of Natural Resources

Patrick S. Galvin
Commissioner, Department of Revenue

AGIA License Office 550 West 7th Avenue, Suite 1820 Anchorage, Alaska 99501

● EXPLORATION & PRODUCTION

Ivanhoe to use own technology in sands

By GARY PARK

For Petroleum News

A unit of international mining company Ivanhoe Mines has taken a plunge into the Alberta oil sands, hoping to use proprietary heavy oil upgrading technology to develop a commercial project.

Vancouver-based Ivanhoe Energy is paying C$105 million for Talisman Energy's interests in three oil sands leases, which could open the way to a C$1.8 billion project producing 30,000-50,000 barrels per day.

Ivanhoe Deputy Chairman Robert Friedland said the company has achieved its initial objective in the oil sands and "will now proceed full speed ahead."

He said the resource assets will anchor the rollout of Ivanhoe's heavy oil upgrading process, integrating established thermal recovery techniques with the first commercial test of its technology for processing, producing and marketing light synthetic sour crude.

Talisman has had the orphan leases on the market for the past two years.

Technology demonstrated on small scale at California facility

Ivanhoe Energy, with a market capitalization of C$650 million and nominal production of oil and natural gas in the United States and China, said the success of its technology to convert heavy oil to transportable, partially upgraded synthetic crude has been demonstrated at a 1,000-bpd facility at Bakersfield, Calif.

It believes the technology can be applied to consolidate oil sands assets owned by smaller companies, estimating an upgrader would cost about C$60,000 per flowing barrel.

Depending on further analysis and regulatory approvals, Ivanhoe expects the first oil can flow within five years.

Based on an evaluation of the Talisman leases by independent reservoir engineers at Sproule Associates, contingent bitumen resources in two of the leases could range from 216 million to 394 million barrels of an estimated 752 million barrels of discovered petroleum initially in place.

Talisman will retain back-in rights of up to 20 percent in all of the leases for three years and will have the right of first offer to acquire any participation interests in heavy oil projects in Alberta that Ivanhoe offers for sale.

Raymond James analyst Justin Bouchard said the technology is the key to Ivanhoe's hopes and the Talisman assets "get them off the ground in one fell swoop."

He said the technology is lower cost and cost effective at levels that are more suited to smaller projects.

Ivanhoe recently signed a deal with state-owned PetroEcuador to use its technology for developing a heavy oil field in Ecuador that could yield 120,000 bpd in six years. ●

● SAFETY & ENVIRONMENT

Conservation group files to protect seals

By DAN JOLING

Associated Press Writer

Fresh off a successful campaign to list polar bears as a threatened species, a conservation group May 28 petitioned to provide Endangered Species Act protections to the bears' main prey because of global warming.

The Center for Biological Diversity petitioned the National Marine Fisheries Service to list ringed seals and two other species — spotted and bearded seals — as threatened or endangered.

All three seals live in the Bering, Chukchi or Beaufort seas off Alaska's coast and depend on sea ice that is receding rapidly, according to the petition.

"Ice is essential for them to give birth and rear their pups," said Shaye Wolf, a biologist and the lead author of the petition.

"They won't be able to reproduce without ice."

The seals also rely on ice for molting.

"They have to replenish their fur every year," Wolf said from her San Francisco office. "They rely on the safety of the sea ice to molt their fur."

NMFS already reviewing seals

Sheela McLean, NMFS spokeswoman in Alaska, said the agency had not received the petition yet but is already reviewing seals. The Center for Biological Diversity in December petitioned the agency to list ribbon seals and McLean said biologists were preparing status reviews for all four seals. Each use sea ice in different ways, she said.

"Careful status of each species is warranted," she said.

NMFS is part of the U.S. Department of Commerce. Polar bears are managed by the U.S. Fish and Wildlife Service, part of the Interior Department.

Interior Secretary Dirk Kempthorne in mid-May announced polar bears would be listed as threatened because of sea ice loss. The Center for Biological Diversity announced May 27 it would sue to force the Interior Department to respond to its petition to list walrus as a threatened species because of threats from global warming and offshore petroleum development.

Wolf said warming is occurring at a pace exceeding predictions of the most advanced climate models. Winter sea-ice extent in 2006 and 2007 declined to a minimum that most climate models forecast would not be reached until 2070, she said, and summer sea ice in 2007 shrank to record minimums.

Ringed seals are the most numerous of the seals that thrive off Alaska's coasts and the only seals that can survive in completely ice-covered waters.

They do so by digging out breathing holes in the ice with an adaptation on their front flippers — unusually stout claws — that allow them to excavate ice.

Holes dug by ringed seals eventually get covered by drifting snow. Within the drift, females dig out lairs to give birth and nurse pups. Pups stay on ice as their mothers dive below the ice to feed on fish and crustaceans.

With warming, ice and snow on top of it is disintegrating during critical rearing times, Wolf said, making pups vulnerable to predation by polar bears and their other enemy, the Arctic fox.

Bears can eat 40 seals a year

Polar bears can eat more than 40 ringed seals per year.

Pups also are susceptible to temperature stresses until they grow a blubber layer and shed their lanugo, the white, wooly coat they're born with.

"Mothers and pups get separated prematurely and the pups don't get nursed as long as they should be and they're not able to accumulate those critical blubber stores," Wolf said.

Bearded seals are the largest true seals off Alaska's coast and can reach weights of more than 750 pounds, according to the Alaska Department of Fish and Game. They are sought by subsistence hunters in Alaska for hides and meat. Bearded seals reproduce and rest on drifting pack ice.

Spotted seals are strongly associated with sea ice from autumn to late spring and bear young on drifting pack ice, according to state biologists.

Listing a species as "threatened" means it is likely to become endangered. "Endangered" is more dire and means a species is in danger of extinction throughout all or much of its range. ●

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INNIS

rights." He's advocating for a national energy policy geared toward increasing domestic supplies of traditional fossil fuels with the goal of lowering the price of gasoline, electricity and heat.

Higher energy costs disproportionately harm low-income and minority households, Innis says, which is why he believes that without cheap energy those households can't take advantage of constitutionally protected social and political reforms enacted decades ago.

"This is civil rights that applies not only to black people, not only to Hispanic people, but it applies to the majority of Americans," Innis said at the annual luncheon of the Resource Development Council of Alaska on June 4, where he was the keynote speaker. "This is the civil rights for everybody."

It's an uncommon stance. The financial debates around increased drilling usually concern the bottom lines of corporations or the stock packages of executives. "Green collar" economy groups and environmental investment firms predict an economy based on low cost sustainable energy and "green collar jobs," which Innis supports, but doesn't believe is currently realistic.

The "moral high ground"

Innis first presented his idea in a new book called "Energy Keepers-Energy Killers: The New Civil Rights Battle," published this year by Merril Press in Bellevue, Wash.

In less than 100 pages, Innis lays out a history of America where the "moral high ground" used to propel the civil rights movement in the 1960s transitioned into early efforts in the 1970s and 1980s to expose air and water pollution.

Now he believes the environmental movement has become radicalized and has lost touch with average Americans by opposing traditional fossil fuel development in Alaska and across the country, which he says leads to affordable energy and jobs.

"Not all of them are bad people, but they're wrong," Innis said about environmentalists to applause at the Resource Development Council luncheon.

Innis does not believe humans are responsible for climate change. While he likes the prospects of renewable energy, he doesn't believe the technologies are sophisticated enough to replace fossil fuels "any time soon" without unintended consequences.

He wants to allow drilling in the Arctic National Wildlife Refuge and the Outer Continental Shelf of Alaska, California and Florida. He wants to increase the production of coal, in addition to oil and natural gas.

Innis says these beliefs represent the new "moral high ground."

Unlikely ally

This argument has led Innis to become an unlikely ally of the development community.

In March, he spoke at the International Conference on Climate Change in New York, an event sponsored by the conservative think tank The Heartland Institute and designed to challenge popular thoughts and science on warming trends and human involvement in global climate change.

Innis gained local attention from his speech when he threatened to sue the Bush Administration if it listed the polar bear as threatened under the Endangered Species Act. The U.S. Department of the Interior made that listing in May and Innis said CORE is now deciding whether to file its own suit or support an existing suit.

Innis recently brought his message north, speaking on local talk radio programs and to a packed crowd at the annual luncheon of the Resource Development Council.

The alliance between the resource development community and an activist for black causes isn't so strange, according to John Shively, past president of the Resource Development Council.

During the early 1960s, Shively and Innis both worked for CORE and even went to jail together during a protest in Washington, D.C.

"Although Roy and I since that time have traveled vastly different paths, we have come, basically, to the same conclusion about what tying up resources does not only to states like Alaska, but particularly, of course, to people," Shively said.

New grass roots efforts

Innis believes a new grass roots effort, like those of the 1960s, is necessary to push an agenda of increased domestic supply and lower cost energy.

"When I speak of the new civil rights movement I'm talking about a rekindling of the premise of the civil rights movement," Innis said.

He plans to take his message across the country, particularly the West, hoping to start grassroots efforts aimed at increasing domestic production of fossil fuels. He asked the audience at the Resource Development Council to "pull together and form alliances to demand economic civil rights for the majority of us."

In his book he describes an "Energy Keepers Network," a coalition of pro-development groups working for lower costs through increased supplies. He says he's already started community groups in Colorado and Utah and is talking to groups here in Alaska.

Some challenge drilling-price connections

Increasing domestic supplies of energy is the forefront of debates over the rising cost of gasoline, fuel oil and natural gas.

Prices go down when supplies outpace demand. That's about as basic as economics gets. But the global nature of oil complicates the matter, because every barrel of oil produced in America can be offset by a barrel not produced abroad.

The U.S. Energy Information Administration recently presented that scenario as one reason why opening ANWR might help domestic energy security and tip the balance of trade in favor of the U.S., but probably wouldn't lower prices.

That's why some challenge domestic production for reasons other than environmental.

Speaking before the House Committee on Foreign Relations on May 22, Anne Korin, co-director of the energy think tank The Institute for the Analysis of Global Security, said the high demand for energy in America means the country will never produce all of its supply, and therefore increasing domestic supplies doesn't address the "strategic value" of fossil fuels and oil in particular.

Those traditional fossil fuels accounted for more than 85 percent of the energy consumption in the United States through the first two months of the year, the most recent figures available from the EIA.

—ERIC LIDJI

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REPORT

across the country.

Although the report looked at the impacts of the legislation by region, it did not include figures specific to Alaska, considered a relatively isolated market for natural gas.

The study determined that if producers bore the entirety of consumer emission costs, the additional financial burden would make approximately 32 to 46 percent of domestic production between 2012 and 2017 uneconomic to develop, equivalent to roughly 18.1 billion cubic feet per day to 25.9 bcf per day.

Bill features 'cap and trade'

The bipartisan bill, also known as the Lieberman-Warner bill after its original sponsors in the Senate, would create a "cap and trade" program, limiting the amount of greenhouse gas emissions from power plants and factories, and allowing companies to purchase "allowances" for emissions. The proceeds would go toward researching renewable technologies.

According to the Congressional Budget Office, the bill as written would bring in nearly $1 trillion through 2018, possibly through costs passed on to taxpayers.

The Senate began debating the bill on June 3, and early reports suggest diminished hope of the bill receiving the 60 votes needed for it to pass. President Bush said he would veto the bill as it is currently written.

—PETROLEUM NEWS

Petroleum news

Business Spotlight

Taiga Ventures

SUSAN CRANE

Roxanne Duplisea, Accountant

From setting up remote fuel storage-transfer systems to designing and deploying full-service camps, the team at Taiga Ventures says it's all in a day's work. This Fairbanks company also sells drilling supplies and soft-sided fuel storage systems. Its well-trained crews can do anything anywhere, including plumbing and satellite communications, and do it smartly and efficiently.

Accountant Roxanne Duplisea joined Taiga Ventures in January 2008. She had worked in both public and private accounting, with considerable experience in the automotive, manufacturing and mental health fields. She's been impressed with the Taiga staff's expertise and commitment to customer satisfaction. Her husband Jerry and she have five children (his, hers and theirs) and eight grandchildren. Fortunately, they relish chaos in the family's many activities.

—PAULA EASLEY

GPS Environmental LLC

COURTESY PHOTO

G. Paul Schuitt, Principal

Alaska-owned and operated GPS Environmental LLC focuses on marketing, sales, operations and maintenance of water and wastewater treatment equipment; solar, wind and hydro power systems; modular camps and facilities; marine equipment; alternative energy; and industrial equipment. The two principals have more than 50 years of combined industrial operations and maintenance experience to serve the oil, mining, and government sectors.

Since beginning a career in 1978 at Prudhoe Bay, Paul Schuitt has worked throughout Alaska in the emergencies services, water and wastewater industries. He's been a principal at GPS Environmental for 11 years, holds Level IV certification in water and wastewater treatment, and has an MBA in technology management. Paul and his wife Luz Angelica (who operates Bambinos Bilingual Montessori School) have three grown sons.

— PAULA EASLEY

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

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COURTESY COLVILLE

Colville expands service across North Slope, offshore

The Regulatory Commission of Alaska recently approved the expansion of Colville's solid waste service area across the North Slope, stretching from the eastern border of ANWR westward to Point Hope and extending offshore to the Chukchi and Beaufort seas. With the expansion Colville holds not only the largest certificated service area of any regulated utility in Alaska, but also one of the largest service territories of any regulated utility in the United States. The company's ultimate goal for the future is "zero landfill disposal," said Colville President and Chief Executive Officer Mark Helmericks. "We already supply a waste-to-energy plant in Spokane with valuable resources sorted and recycled from the solid waste stream. That material would have otherwise been buried, reducing the useful life of the NSB's Oxbow Landfill by many years." Colville's solid waste utility business was founded in 1981 by Mark's father, Bud Helmericks. The company maintains a fleet of specialized equipment, including vehicles, bear-proof dumpsters and trailers to move solid waste across northern Alaska's seasonal ice roads and year-round gravel roads.

Northern Air Cargo nominated for freedom award

Northern Air Cargo said May 29 that it has been nominated for the prestigious Secretary of Defense Employer Support Freedom Award, the United States' highest recognition given to American employers of National Guard or Reserve members for their exceptional support above the requirements of federal law. The 2008 recipients will be announced midsummer and honored in Washington, D.C. at the 13th annual ceremony on Sept. 18. To learn more visit www.esgr.mil

ENSR wins multi-year Corps cleanup contract


CHRIS HUMPHREY

ENSR was recently awarded a $4.5 million, three-year U.S. Army Corps of Engineers contract to perform environmental consulting engineering services under the Hazardous, Toxic, and Radioactive Waste, or HTRW, program at multiple locations in Alaska. ENSR, part of AECOM, is a leading global environmental management firm. The Corps' HTRW program covers planning and design for cleanup of unsafe, hazardous, toxic, and radiological waste and debris as part of a broader Corps environmental program designed to clean up formerly-used defense sites. ENSR, which has worked with the Corps' Alaska District since 1994, will provide site investigation, remedial investigation and feasibility studies, hazard and risk assessments, and will ultimately develop the most appropriate, cost-effective remedial action plans, said ENSR Alaska operations manager Chris Humphrey, P.E.. For more information about ENSR go to www.ensr.aecom.com.

Editor's note: See full stories in the next edition of Petroleum Directory, a Petroleum News magazine that is published twice a year.

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PRICES

prices. Automakers are cutting production of gas-guzzling SUVs and trucks, and airlines are cutting capacity, both due to high fuel prices.

"There's a lot of empirical evidence that demand has plateaued," Sundstrom said.

Still, gasoline refiners, wholesalers and retailers are feeling pressure to keep prices high, for now. Crude prices have risen 89 percent in the past year, while gas prices are up only 27 percent. That discrepancy has pressured profit margins along the gasoline supply chain; falling demand has prevented gas suppliers from raising prices as much as they would like.

In many cases, retailers are selling gas at a loss, relying on sales of convenience store items to generate income, analysts say.

"One would have to think that they're very reluctant to bring down the price of gas when their overall business is under pressure," Sundstrom said.

In other Nymex trading on June 5, July gasoline futures rose 4.03 cents to $3.2354 a gallon while July heating oil futures rose 6.29 cents to $3.6087 a gallon. July natural gas futures rose 0.2 cent to $12.381 per 1,000 cubic feet. The Energy Department said natural gas inventories rose by 105 billion cubic feet last week, near the high end of the range of analyst estimates.

In London, July Brent crude futures rose $1.63 to $123.73 a barrel on the ICE Futures exchange.●

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FERC

Scott Hobbs of Energy Capital Advisers, whose firm advises on oil and gas asset acquisitions and divestitures, said federal regulators "will not always take care of Alaska's interests."

He described a typical process for negotiating transportation contracts for a major pipeline as one in which the pipeline sponsor identifies a project and market and begins technical work. As the project becomes "more real" — with potential shippers showing strong interest — significant negotiations begin between shippers and the pipeline.

A non-binding open season may be held, followed by more negotiations and then a binding open season to secure firm commitments.

Hobbs said it is natural for parties to try to understand the other parties in a potential deal. As for understanding the project, he noted that this pipeline has probably been studied more than any pipeline in the history of the natural gas pipeline business.

Regulators review, administer

The role of the FERC in the United States and the Northern Pipeline Agency and National Energy Board in Canada include reviewing and approving open season procedures, administering the environmental review process, holding pre-filing conferences, approving the certificate application, monitoring construction and resolving disputes after the pipeline goes into operation, including overseeing rate cases.

But the state can't rely on FERC to protect its interest because FERC's job isn't just to look out for Alaska, Hobbs said.

The regulators don't control costs (except for disallowing imprudent costs); they don't set terms for shipping contracts, establish key rates such as capital structures or establish deadlines.

On key rates, such as the debt-equity ratio, rates of 50-50 debt-equity are routinely approved, Hobbs said, so FERC wouldn't dictate the 70-30 ratio included in AGIA. The administration testified that the difference between the AGIA-required 70-30 debt ratio and 50-50 could be a difference of $1 in the tariff. A higher tariff reduces the wellhead value, and hence the take the state gets from the gas.

Open access up to state

Regulators also won't ensure physical access to the pipeline or expansions for new shippers.

Hobbs said FERC has limited authority in these areas, and his firm doesn't think the state should bank on the agency's authority in those areas.

When we say open access, he said, we say "genuine or enhanced" open access — because what is in AGIA is beyond that FERC would require.

FERC will use conventional recourse rates unless presented with innovative methodologies such as levelized rates (averaging shipping rates over the life of the pipeline, rather than higher rates at the beginning, declining over time), term-differentiated rates, capital structures, cost overrun recovery mechanisms and federal loan guarantees.

Regulators also won't impose project deadlines.

Hobbs said the "mandatory expansion" provisions in the Alaska Natural Gas Pipeline Act, the basis of FERC's authority in this area, risk litigation, delay and uncertain outcome.

AGIA vs. FERC Order 2005

A list of items mandated in AGIA but not in FERC Order 2005 includes:

- Sponsors conduct open seasons for the project by any date certain;
- Sponsors hold subsequent open seasons to test market demand for new capacity;
- Sponsors expand to meet new demand in reasonable engineering increments with commercially reasonable terms;
- File for certificate approval or accept certificate;
- Sponsors proposed rolled-in rates for expansions; and
- Project rates be lowest possible, based on 70-30 debt-equity structure.

TransCanada has committed to all of these requirements as part of its AGIA application.

Hobbs said that, as an example of the difference with a producer pipeline, those project sponsors would probably propose incremental rates to FERC, rather than rolled-in rates up to a 15 percent increase over original rates, as required by AGIA. Rolled-in rates are the standard in Canada and are said to encourage access by new shippers. Incremental rates require that new shippers pay the entire cost of any expansion, leaving original shippers at the original rate.

TransCanada and shippers will negotiate terms for line

Although TransCanada has committed to AGIA requirements in its application, TransCanada's proposal under AGIA isn't the final word on rates and terms for shipment on the line.

Greg Hopper of Black & Veatch Corp., a global engineering, consulting and construction company, said TransCanada's proposal will be negotiated with potential shippers and noted that ExxonMobil characterized the proposal in its comments on the TransCanada application as an opening offer.

Different shippers have different interests, and will negotiate agreements based on those interests, he said.

Because a long-term firm contract is important, Hopper said, shippers will have "considerable bargaining power," and the existence of the Denali pipeline proposal adds negotiating leverage.

He said that while the TransCanada proposal is well within the norm for the industry, the process of negotiating shipping agreements will take time — and a lot of give and take.

Major risks

Ken Minesinger, an attorney with Greenburg Traurig, said the major risks of the gas pipeline include capital costs and potential cost overruns; development costs of gas reserves, and whether new gas is found within economic reach of the pipeline; natural gas prices in Alberta and the U.S.; and schedule delays and the impact of those delays on costs, both for the pipeline and the gas treatment plant and for the development of reserves.

On the subject of risks around finding more gas, Minesinger said if the only gas ever shipped is from known North Slope resources, the project is still very economic for North Slope producers.

TransCanada has proposed measures to share risks and move the project forward, he said, including: equity participation by shippers; negotiated levelized rates; adjustments to return on equity for cost overruns; recovery of cost overruns tied to minimum market prices for gas; the federal loan guarantee; and the bridge shipper concept.

Other terms that may be considered include: improvement in terms offered by TransCanada; depreciation rates and contract terms; project milestones and triggers with termination rights with negotiated sharing of costs; and additional risk sharing on cost overruns. ●

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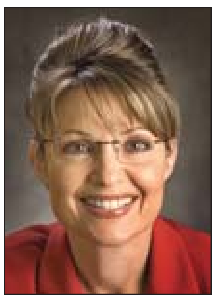
LICENSE

Inlet region," DOE said in its order authorizing the license extension. "In addition, DOE finds the arguments made by the non-settling interveners regarding deliverability constraints and other economic and contractual issues do not alter the basic supply and demand balance for the Cook Inlet region, thus reinforcing the conclusion there are adequate supplies to meet both domestic and export demand during the proposed export timeframe."



"This extension will secure a future for the LNG operation and is another step toward ensuring energy supplies and energy security for Alaska." —Alaska Gov. Sarah Palin

A blanket authorization for continued operation of the LNG terminal will enable the continuation of benefits that LNG exports bring to the Alaska economy and international trade, DOE said.

Alaska Gov. Sarah Palin praised the DOE decision.

"In these times of economic uncertainty, this is great news for the state and its residents," Palin said. "This extension will secure a future for the LNG operation and is another step toward ensuring energy supplies and energy security for Alaska."

State support

In January the state reached an agreement with the LNG plant owners that resulted in state support for the license extension. As part of that agreement, ConocoPhillips agreed to approve at least two wells for 2008 drilling and Marathon agreed to approve five wells for its 2008 program.

The companies also committed to sell Cook Inlet seismic and well data to other potential oil and gas explorers in the Cook Inlet region on a commercially reasonable basis to encourage exploration and development.

ConocoPhillips spokeswoman Natalie Knox Lowman confirmed June 4 that ConocoPhillips is moving forward with its drilling commitments as part of the agreement with the state.

"We have already started drilling at the Beluga River unit, with one well spud in the last week (May 31)," Lowman told Petroleum News. "A second well is also planned. In addition, we are mobilizing to drill three wells … from the North Cook Inlet unit platform, a development program that will continue into 2009."

Lowman also referenced a concern that some people have expressed about the need for the LNG plant as a means of meeting gas deliverability requirements during peak gas demand for domestic and commercial heating — on cold winter days supplies to the LNG plant can be curtailed to enable a boost in short-term deliverability to local utilities.

"Continued operation of the plant means natural gas will be available for local utility markets, including Anchorage, in the event of supply interruptions or peak demand on cold winter days," Lowman said.

Marathon told Petroleum News June 4 that it is pleased with the export license extension.

"This is good news for Southcentral Alaska for several reasons," said Lee Warren, Marathon's manager for external communications. "In addition to serving an important reliability role in the Cook Inlet by providing for the ability to divert natural gas for heating and electricity generation during peak demand periods, continued operation of the LNG facility has a positive impact on future investment in the development of regional gas supplies and provides employment and private and local government income in the Kenai Peninsula as well as royalty and tax income to the state."

In January the state reached an agreement with the LNG plant owners that resulted in state support for the license extension. As part of that agreement, ConocoPhillips agreed to approve at least two wells for 2008 drilling and Marathon agreed to approve five wells for its 2008 program.

Response to interveners

In support of its decision, DOE reviewed comments made by Agrium, Chevron and Chugach Electric Association, interveners in the case.

Agrium, owner of the now-closed fertilizer plant at Nikiski, had argued that the LNG terminal would use gas that could otherwise supply the fertilizer plant, an industrial facility that Agrium said can contribute more to the local economy than the LNG plant. Agrium also asserted that in making their application for the LNG export license extension ConocoPhillips and Marathon had significantly understated gas demand from the fertilizer plant.

DOE questioned Agrium's position, saying that the company "has not demonstrated that its decision to close its fertilizer plant … is the consequence of an actual supply shortfall, deliverability constraints at the production side of the local distribution system, infrastructure limits within the distribution network, or simply a business decision based on the market price of natural gas or, possibly, a number of other business judgments."

"Whichever is the case, it is clear that Agrium has not established a reason to reject the applicants' demand estimates," DOE said.

Chugach Electric, concerned about potential shortfalls of gas for power generation, had asked that granting of the LNG license extension should be contingent on contractual commitments to gas supplies and gas deliverability in Anchorage and the Cook Inlet region.

In response, DOE said that the interveners in the case had not provided any new study to challenge ConocoPhillips and Marathon's analysis of future Cook Inlet gas supplies. And "undisputed evidence of record indicates the total natural gas supply resources are distributed on a region-wide basis throughout the Cook Inlet region."

"On this basis, we do not find that the non-settling interveners have shown that there is a domestic supply shortage in the Cook Inlet regions," DOE said. "Rather, the applicants' submissions provide a reasonable basis for concluding that local supplies are adequate to support the proposed export as well as meet local demand requirements during the term of the proposed authorization and beyond."

Deliverability

DOE did accept that there are significant gas deliverability issues in the Cook Inlet region during peak demand on cold winter days. But there are conflicting claims regarding the reasons for gas deliverability curtailment, with differing views on who is responsible to meet deliverability needs — deliverability constraints may exist either within the Marathon and ConocoPhillips production facilities or within the local utility distribution networks, DOE said.

"We continue to believe that market forces will drive the installation of adequate delivery mechanisms and that the cost of such improvements will be appropriately addressed at a market-clearing price," DOE said. "While allegations have been made regarding a high degree of concentration of economic power in the hands of a few producers of natural gas in the Cook Inlet region, we do not find the non-settling interveners leveling those charges have attempted to substantiate them in a meaningful way."

Chevron's intervention emanated from a concern about the company's ownership position in two Cook Inlet fields operated by one or other of the LNG terminal owners. Gas production decisions relating to the needs of the LNG terminal could work to the detriment of Chevron's gas supply commitments to its own customers, Chevron commented.

While DOE sympathized with Chevron's concerns, the agency took a view that the LNG license renewal application was not an appropriate forum in which to address Chevron's particular issue.

"Chevron has recourse to the courts under standard oil and gas law principles," DOE said. "OFE (DOE Office of Fossil Energy) is not the proper jurisdictional forum for resolving these sorts of contractual disputes."

Tesoro, owner of the Nikiski refinery, had originally intervened to oppose the LNG license extension but later negotiated an agreement with ConocoPhillips and Marathon. Enstar Natural Gas, the main gas utility in Southcentral Alaska, also withdrew its intervention in the case following negotiations with the two LNG terminal owners — Enstar had not opposed extending the license but had expressed concerns about future gas availability. ●

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KVISLE

solution for the Alaska gas pipeline project for many, many years." The company was involved in the original project in the 1980s, he said, when the project died "for reasons of reservoir management but also due to gas markets."

(The price of gas tumbled in the 1980s after the U.S. deregulated the natural gas market and gas exploration in the Lower 48 — and discoveries in Canada — made large quantities of gas available at prices too low to justify the cost of a pipeline from the North Slope. Natural gas at Prudhoe Bay has been re-injected to maintain reservoir pressure, resulting in the production of far more crude oil than originally expected.)

Kvisle said TransCanada resumed work on an Alaska project in 2000, 2001.

"It was quite clear from our work that supply-demand fundamentals for natural gas in North America were moving in a direction where there would be a scarcity of natural gas," and the company focused on Alaska and the Mackenzie Valley as "projects that could bring significant gas to a market that we felt was going to increasingly need it."

Today's gas prices, he said, indicate a demand for Alaska North Slope natural gas.

Why TransCanada?

Kvisle argued the case for TransCanada as the company to bring ANS natural gas to market.

TransCanada is "the largest pipeline company in North America by a wide margin, by any measure."

"We're the only company that has ever built transmission projects of this scale, this length, this magnitude, before."

"TransCanada operates a very significant amount of 48-inch-diameter pipe (the diameter proposed for the North Slope to Alberta line) in our Canadian system," he said. The company "more than doubled" its Canadian pipeline network in the 1990s, much of that expansion with 48-inch pipe.

He said TransCanada has "developed the largest and most effective gas compression stations that exist today in North America; we've led the industry in developing that."

Other areas in which TransCanada had led the industry include development of high-strength steel pipe and automated welding.

"All of these are productivity improvements that are very important when building something like the Alaska pipeline system," he said.

TransCanada's largest project today is the Keystone crude oil pipeline system, which will carry Alberta oil sands production to Wood River, "which is a refining center near St. Louis, Missouri, and secondly, down to Cushing, Oklahoma, a large crude oil trading hub … and thirdly from Cushing down to the Houston, Texas, area." Once the line is completed, TransCanada plans to put in a 36-inch-diameter loop to more than double capacity.

Phase I, at $5.2 billion, will carry some 500,000 barrels per day; Phase II, at $7.5 billion, will carry an additional 750,000 bpd, Kvisle said. Keystone is much longer than the Alaska Highway project, although a smaller diameter pipe, so "the total tonnage of steel would be comparable and the number of parties that we deal with are comparable and interestingly the customers that will be major shippers on that pipeline are in some cases the same as customers we look forward to serving on the Alaska project."

Kvisle says TransCanada can get financing for Alaska project

On the financial side of the issue, Kvisle said "people have raised issues: Can a little company like TransCanada come up with the financing necessary to build this project?"

"And I assure you that we can," he said.

"We have actually invested $18 billion in projects over the last seven years; we will invest more than $6 billion this year alone," including acquisition of one of the largest power generating utilities serving New York City.

On both the gas pipeline side and its emerging crude oil pipeline business, "TransCanada has the technical capability, the commercial skills and the financial wherewithal to get these projects done."

Kvisle said that between now and when construction of an Alaska line would start, TransCanada will invest more than $12 billion in pipelines and about half of that in power projects.

Those are examples, he said, of the company's ability to raise capital and build "very large projects."

Sequence of projects

Kvisle said construction of Keystone will keep TransCanada busy for the next three or four years.

After that, the company expects to be working on the Mackenzie line and working with the State of Alaska and the producers on expediting the Alaska project. "Our inclination would be to figure out ways to speed this project up and bring it onstream sooner rather than later, but we are realists, we know how long these processes can take," he said. TransCanada is working with Canadian regulators to speed up the regulatory processes there and will work with FERC to speed up the regulatory process for the Alaska side of the project.

The Keystone project, which will be TransCanada's "major construction project focus over the next four years," will be complete by late 2011, early 2012, he said. At the same time, TransCanada will be investing $2 billion in large-diameter gas pipeline additions in Alberta.

Then will come the Mackenzie Valley project, he said.

Over that five to six year period, "we are going to develop a lot of young people with exceptional capabilities in both technical design and also project management, and we think all of that will position us very well — no better way to get ready to build the Alaska pipeline than to build a lot of other pipelines in the meantime."

TransCanada's partners in the Mackenzie Valley project are ConocoPhillips, ExxonMobil and Shell.

"And we're moving that project forward. We haven't quite resolved all the issues but it's a much smaller project than the Alaska one." Mackenzie is 700-plus miles of 30-inch-diameter pipe expected to move some 1 billion cubic feet a day to market, compared to 1,700 miles of 48-inch pipe (North Slope to Alberta) moving 4-4.5 bcf a day for the Alaska Highway gas pipeline.

He said they've come up with "a structure for the Mackenzie. While we haven't got that new structure formally sanctioned yet, we're optimistic that it will work for both the Mackenzie producers and the government of Canada."

The issue of gas

In addition to its proposal to the State of Alaska under AGIA, "we've worked closely with the Alaskan producers over the past seven or eight years to try to come up with a solution that would enable this gas to get to market."

Kvisle said he thinks the structure developed under AGIA "is a very solid approach to moving this project forward."

The next step is legislative approval, and once that is done, TransCanada will move on to finalize commercial elements.

Getting the North Slope gas producers to sign on with TransCanada will require developing "a commercial arrangement that they will find attractive, a commercial arrangement for the shipment of gas through the pipeline that will appeal to the North Slope producers and … we're committed to doing that," he said.

Kvisle called it "a collaborative process. We have to be able to offer something that they find appealing, but that's something I think we're pretty good at. We didn't become the largest mover of natural gas in North America without having good relations with our customers," he said. "That's important."

Two of the North Slope producers are partners in the Mackenzie project (ExxonMobil and ConocoPhillips) and ConocoPhillips is TransCanada's partner in Keystone.

He acknowledged that without customers the line wouldn't be built, but said he didn't see that as a likely outcome.

"The much more likely outcome is the outcome that has occurred in all of the other pipelines that we've built and that's as we have support of the state, as we move forward with a good technical design, as we share our cost estimates with the producers, and as we develop a commercial proposition — terms and tariffs and shipping commitments and long-term volumes and all of that — I'm pretty comfortable we're going to come up with something that they find attractive."

"So that's the outcome I foresee," Kvisle said.

All big pipeline projects involve government, "a pipeline company that knows how to get the job done and producers that own the gas — and a marketplace that wants the gas."

"And as I look at the Alaska project I see all of those elements falling into place, but I don't understate for a minute it's a lot of work to get there." ●