



Special section

In memory of Ted Stevens: an amazing man, a remarkable life

August Mining News inside



The August issue of North of 60 Mining News is enclosed

Badami restart: Savant plans to bring six wells on line in BP-operated North Slope unit

The off-again, on-again story of BP's troubled Badami oil field, the most easterly of the developed fields on Alaska's North Slope, continues with a planned field restart in September. For the past two years independent oil company Savant Alaska and Arctic Slope Regional Corp. have been partnering with BP to bring new life into the field, with Savant drilling a new horizontal sidetrack well that may entice oil to flow more readily from the field's challenging reservoir, and also drilling an exploration well into another,

see **BADAMI** page 14

Harper waves Arctic flag; plans negotiations with Alaska to establish Beaufort boundary

Canadian Prime Minister Stephen Harper has just wrapped up his fifth annual summer swing through the Arctic, "vigorously defending" Canada's sovereignty claims in the region, pitching a new Arctic foreign policy statement and making a case for a commercially-viable, environmentally-sound development of petroleum and mineral resources at a time when hope is in short supply.



STEPHEN HARPER

The curtain-raiser for the trip occurred Aug. 20, when Foreign Affairs Minister Lawrence Cannon trundled out a new 27-page, four-pillar strategy for the Far North

see **HARPER** page 15

EXPLORATION & PRODUCTION

Exxon plans pipeline

Twenty-two mile line would deliver Point Thomson liquids to Badami

By **WESLEY LOY**

For Petroleum News

ExxonMobil is moving forward with its plans for the Point Thomson project, applying for a right-of-way lease for construction of a pipeline to carry liquids production from the remote field on Alaska's eastern North Slope.

PTE Pipeline LLC, a Houston-based affiliate of ExxonMobil Pipeline Co., submitted the application on July 23 to the Alaska Department of Natural Resources.

The 22-mile pipeline would link the ExxonMobil-operated Point Thomson field, now under limited development, to the existing Badami unit pipeline, which connects further west to the

Endicott pipeline that will soon be once again delivering Badami production to central North Slope facilities for processing and transport down the 800-mile trans-Alaska oil pipeline. (See related article on this page.)

The right-of-way application says the 12.75-inch Point Thomson pipeline will cost about \$80 million to build, with annual operating and maintenance costs of \$12 million. Construction is to begin in late 2011 with completion projected for 2014.

The pipeline will begin at the Point Thomson central pad and will end on a new gravel pad at Badami. It will cross state land along the Beaufort Sea coast, and will be elevated above ground on vertical support members. The line is designed for

see **PIPELINE** page 10

LAND & LEASING

Apache talks Cook Inlet

New independent attracted to basin's oil potential, plans to acquire more acreage

By **WESLEY LOY**

For Petroleum News

Managers with Apache Corp. were in Anchorage the week of Aug. 22, and they were sounding pretty bullish about their new acreage in Southcentral Alaska's Cook Inlet basin.

Apache's main interest is oil, although it's mindful of the ready local market for natural gas, said John Bedingfield, the company's vice president for worldwide exploration and new ventures.

Apache was much in the news in July, when it announced a \$7 billion deal to buy assets in

Canada, Egypt and the Permian basin in Texas and New Mexico from beleaguered BP. Speculation at the time was that Apache was angling for a piece of BP's stake in the giant Prudhoe Bay field on Alaska's North Slope, but nothing ever came of that.

The North Slope is a fascinating oil province, but for now Apache has its sights set on Cook Inlet, Bedingfield said.

"We believe this is a place that's got tremendous potential," he said.

Expect Apache to get right to work, he added. "We're not ones to wait around."

see **APACHE** page 13

LAND & LEASING

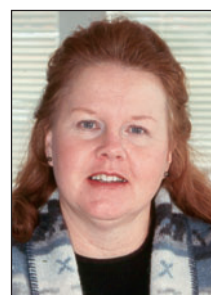
BLM to promote NPR-A

Dougan: Agency's duty to encourage oil, gas development, predictability for industry

By **ALAN BAILEY**

Petroleum News

The U.S. Bureau of Land Management's upcoming integrated activity plan and associated environmental impact statement for the National Petroleum Reserve-Alaska, or NPR-A, will improve the level of certainty for oil and gas leasing in the reserve, and the planning process will provide a transparent forum for addressing environmental issues associated with industrial development, Julia Dougan, BLM Alaska acting state director, told Petroleum News Aug. 20. BLM recently announced its intention to develop a new plan for the whole of NPR-A.



JULIA DOUGAN

Under the terms of the 1970's federal legislation establishing NPR-A as a BLM-managed petroleum reserve, BLM has to promote development of the reserve's petroleum resources while also ensuring adequate protection for the region's environment, Dougan said.

"The Secretary (of the Interior) and the BLM director recognize that NPR-A is really a huge piece of the future of traditional energy development in the

United States. I think they want to get that certainty out there," Dougan said. "... Let's together determine where we're going to develop oil and gas, and where we're not in this reserve, so that industry can move forward with its plans."

see **NPR-A** page 8

contents

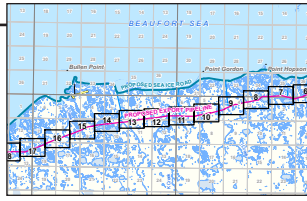
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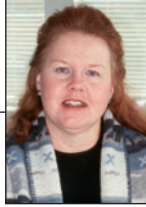
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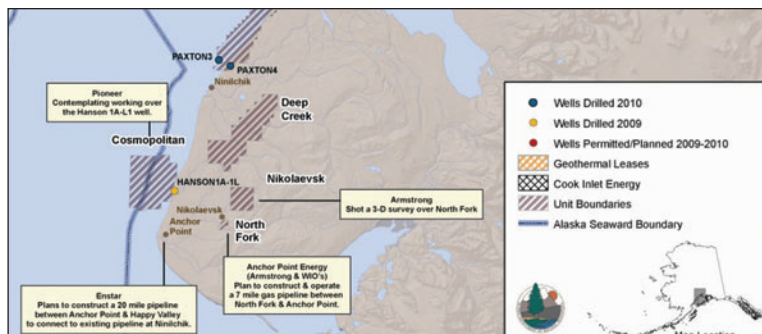
Dougan: Agency's duty to encourage oil, gas development, predictability for industry

Badami restart: Savant plans to bring six wells on line in BP-operated North Slope unit

Harper waves Arctic flag; plans negotiations with Alaska to establish Beaufort boundary

EXPLORATION & PRODUCTION

3 Greenland oil hunt strikes gas



6 Steady progress in the southern Kenai

Cook Inlet basin: Armstrong's headway at North Fork unit improves economics of three other prospects in area north of Homer

7 Mitsubishi targets B.C. gas deposits

Its second entry into Canada's oil, gas sector, the move bolsters prospects of establishing country's first LNG export project



11 Canada's offshore in melting pot

Drilling winds down at only well in Canadian waters as demands increase for tougher offshore, unconventional rules, more R&D spending

GOVERNMENT

9 DEC collecting Chukchi data

9 Northern Waters Task Force panel named

NATURAL GAS

3 Enstar: protection, not guarantees

New gas supply contract with Conoco gives Enstar another place to turn when demand peaks, but only on a non-firm basis

5 Unconditional approval for LNG plant?

Conoco, Marathon say new contracts should alleviate Alaska supply concerns through 2013, keep third party access open

10 Linc files for well in Point MacKenzie area

PIPELINES & DOWNSTREAM

4 RCA wants TAPS tariff hearings in Alaska

RCA says parties to case broke procedure by going to FERC first, and that the existing schedule puts RCA at a disadvantage

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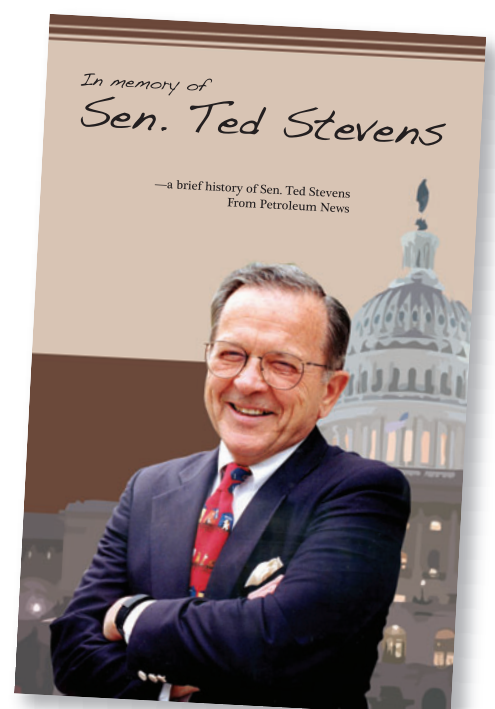
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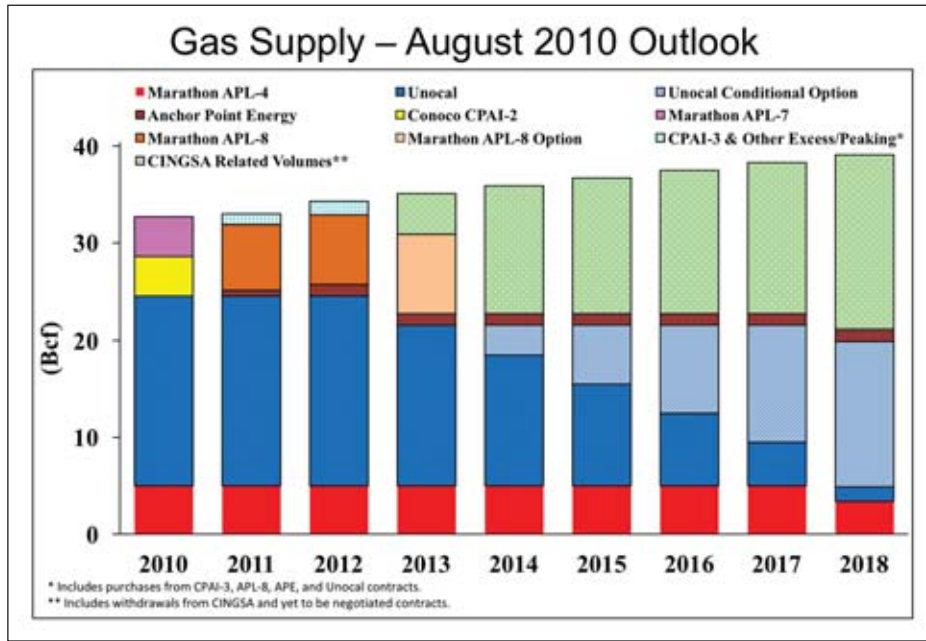


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Ted Stevens section
inside this issue



● NATURAL GAS

Enstar: protection, not guarantees

New gas supply contract with Conoco gives Enstar another place to turn when demand peaks, but only on a non-firm basis

By ERIC LIDJI

For Petroleum News

A newly proposed gas supply contract between Enstar Natural Gas and ConocoPhillips would give the utility a fifth and sixth line of defense when extreme cold causes natural gas consumption to peak in Southcentral Alaska, but still leaves Enstar without a guaranteed supply.

Under the non-firm contract, Enstar can ask ConocoPhillips for natural gas from the local Cook Inlet basin when demand peaks, but ConocoPhillips isn't obligated to provide the gas unless it has it available.

The contract also requires ConocoPhillips to divert supplies bound for the liquefied natural gas export terminal for local use, as long as the diversion won't harm the LNG plant. (See related LNG export story on page 5 in this issue.)

The contract employs a mechanism used to price excess volumes in a contract between Enstar and Marathon Oil that regulators approved earlier this year. The mechanism sets a price cap based on Heating Oil Futures Contracts on the New York Mercantile Exchange, although the actual price would be based on several market factors, including weather, time of year, the availability of natural gas from other producers and regional demand.

The contract would run from Jan. 1, 2011, to March 31, 2013.

While Enstar and ConocoPhillips have signed the contract, it still needs the approval of state regulators. Enstar asked the Regulatory Commission of Alaska to make a decision by Dec. 1, 2010, but didn't formally request an expedited review process.

Another non-firm option

The contract would give Enstar another supply option when demand spikes.

Based on a recent forecast, Enstar has estimated it could be facing a deliverability gap of around 40 million cubic feet of natural gas on the coldest days of 2011 and 2012.

Enstar now has six ways to fill that gap: non-firm volumes from four existing contracts, non-firm volumes in this newly proposed contract and diversions from the LNG plant.

If none of those suppliers — Marathon, Union Oil Co. of California (a subsidiary

Enstar supports continued exports because the plant moderates seasonal swings and serves as a back-up on cold days. Enstar also needs the plant to remain in operation, though, because without it, Marathon is contractually allowed to curtail gas deliveries.

of Chevron), Armstrong Cook Inlet and now ConocoPhillips — can meet the need, Enstar would be forced to use the 2009 Gas Emergency Agreement Letter, a document that requires Enstar, Chugach Electric Association, Anchorage Municipal Light & Power and Golden Valley Electric Association to work together to minimize the impact of a natural gas shortage.

At a test emergency exercise in September 2009, those four utilities

see **GAS CONTRACT** page 5

EXPLORATION & PRODUCTION

Greenland oil hunt strikes gas

The hunt for commercial volumes of oil in offshore Greenland by Cairn Energy turned up natural gas in small quantities just as the Scottish-based explorer is negotiating the sale of its Indian subsidiary and Greenpeace is targeting Greenland oil and gas activities.

Cairn said Aug. 24 it is encouraged by results from its first Greenland well which is still being drilled, but a second well has encountered problems penetrating volcanic rock.

The two wells are the first to be drilled in the highly-prospective Baffin Bay, and two more are scheduled for this year.

Most of gas biogenic

Most of the gas found in the T8-1 well (deemed to be non-commercial) was biogenic gas, which Credit Suisse said was normally unrelated to the processes that form oil. More results from the two wells are expected in September.

The company's deputy chief executive officer Mike Watts told analysts that there is no reason to assume that oil does not exist.

"From a technical viewpoint (the gas find) ... gives us a base for the campaign," he said.

Chief executive officer Bill Gammell said Cairn is "really focusing on Greenland, Greenland, Greenland" as it returns to its exploration roots after overseeing development of its onshore oil discoveries in India, 40 percent to 51 percent of which it is preparing to sell to metal and mining group Vedanta Resources for \$6.5 billion to \$8.5 billion.

Some of the proceeds from that windfall deal would be used to pay for the \$400 million Greenland program, but the bulk would be distributed to shareholders.

To date, only five wells have been drilled in Greenland, in the 1970s and one in 2000, before Cairn showed up with the goal of becoming the lead operator.

'Something very special'

"There's a system out there," said Watts. "It's a question of finding it. We have the stamina for a campaign of roughly \$1 billion. We think we're onto something very special."

Greenpeace shares that view, from a different standpoint, sending its protest ship Esperanza to confront the Stena Don rig that is drilling Alpha prospect. Stena Forth is drilling T8-1.

Greenpeace's vessel has also encountered Denmark's warship Vaedderen and been warned by Denmark — which runs Greenland's foreign affairs, security and financial policy — that it will be raided and its captain arrested if it enters a 500-meter security zone around the rig.

Greenpeace wants a ban imposed on exploration for oil and gas in frontier regions such as the Arctic, arguing that the challenging environment makes it impossible to drill a relief well in the event of a Macondo-size blowout.

Cairn said offshore Greenland carries some of the "most stringent regulations globally," modeled after Norway's regime.

—GARY PARK

Greenpeace's vessel has ... encountered Denmark's warship Vaedderen and been warned ... that it will be raided and its captain arrested if it enters a 500-meter security zone around the rig.

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RCA wants TAPS tariff hearings in Alaska

Regulatory Commission of Alaska says parties to case broke procedure by going to FERC first, and that the existing schedule puts RCA at a disadvantage

By ERIC LIDJI

For Petroleum News

State regulators say they'll hold joint hearings with their federal counterparts to discuss shipping rates on the trans-Alaska oil pipeline, but only if the hearings are held in Alaska.

The Regulatory Commission of Alaska and the Federal Energy Regulatory Commission are separately considering whether and how costs from a major upgrade to the 800-mile pipeline should be included in the fees shippers pay to move oil through the system.

The companies that own shares in the pipeline, all major North Slope oil producers, and several third parties requested a joint hearing earlier this year, but made the request to FERC before making it to RCA.

That move upset several RCA commissioners. RCA procedure requires requests for concurrent hearings to be filed with FERC and RCA at the same time.

FERC regulates interstate shipments, while RCA regulates intrastate shipments.

In Alaska? Or in D.C.?

A majority of the commissioners said the hearings were too important to Alaska not to be held in the state. Chairman Robert Pickett noted that State of Alaska revenues are overwhelmingly dependent on the pipeline system, and that the decisions made in this and future tariff cases "will strongly influence the economics of Alaska's petroleum industry."

He also noted that RCA and FERC signed a memorandum of understanding in January 2003 to address coordination when issues involve both commissions.

RCA Commissioner Kate Giard took a stronger stance.

"The professionals that represent the pipelines and the interveners in these proceedings know they are supposed to file motions concurrently," Giard wrote in a concurring statement to the decision. "Yet they filed their petition with FERC first, setting out a schedule that arguably denies RCA meaningful participation in these cases."

Giard wrote that without proper planning, joint hearings between the commissions would be "filled with awkwardness, repetition and many, many, many procedural hurdles."

FERC proposed an eight-week hearing in Washington D.C. followed by a one-week hearing in Anchorage, but RCA believes that schedule doesn't give its commissioners "the opportunity to actively and meaningfully participate" in the proceedings. RCA agreed to holding the concurrent hearings, but only if they were held entirely in Alaska.

Commissioner Janis Wilson dissented

from that view, though. "I do not believe it a wise course to commit five commissioners to sit through a lengthy hearing on complicated issues when the task could be delegated to the commission's well-qualified pipeline administrative law judge for proposed decision, as is our usual practice," Wilson wrote.

The concurrent hearing would consider how the costs of Strategic Reconfiguration would be included in shipping rates. Strategic Reconfiguration is a multi-million dollar effort to upgrade pipeline operations, but the project is past due and over budget.

In a motion filed in January, the pipeline owners and several third parties looking to keep rates as low as possible, including the State of Alaska, proposed a concurrent hearing as a way to simplify the proceedings, saying many issues before FERC and RCA are identical.

Even if RCA and FERC can agree on where to hold the hearings, though, the issue won't be resolved for some time. The schedule established by FERC calls for holding hearings in late 2011 and early 2012, and issuing an initial decision in June 2012.

CPAI gets third rate increase

RCA also temporarily approved higher shipping rates for ConocoPhillips.

The new rates increase ConocoPhillips' shipping rates for Alaska markets by 12 percent.

Now, the cost to ship a barrel of oil from the North Slope to North Pole is \$2.86, while shipping to various locations

see **HEARINGS** page 5

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• NATURAL GAS

Unconditional approval for LNG plant?

Conoco, Marathon say new contracts should alleviate Alaska supply concerns through 2013, keep third party access open

By ERIC LIDJI

For Petroleum News

The companies that own the liquefied natural gas terminal on Alaska's Kenai Peninsula want the federal government to extend their export license by two years, without any conditions on that extension.

In an Aug. 17 letter to the U.S. Department of Energy, ConocoPhillips and Marathon challenged those who are concerned about continuing exports at a time of tight supplies in Southcentral Alaska by saying recent contracts will ensure local needs get met during the extension period.

The current export license, approved by the Department of Energy, or DOE, in 2008 allows ConocoPhillips and Marathon to ship around 99 trillion British thermal units of LNG to Asia by April 1, 2011. Because of cutbacks in cargo tankers, though, the companies believe they will end up having shipped only about half that allotment by the deadline, and asked DOE for an addition-

al two years, until March 31, 2013, to ship the remaining amount.

DOE previously decided that those volumes were in excess of the needs of the Alaska marketplace, a determination based on remaining reserves. The request from the two companies, though, comes amid growing concerns about the Cook Inlet basin's ability to meet local needs, especially when regional demand peaks on cold winter days.

A group of Democratic lawmakers, several citizens and Gov. Sean Parnell, who filed late comments, asked DOE to guarantee local needs are met before exports continue.

ConocoPhillips and Marathon noted that despite those comments, their application remains "formally uncontested," meaning no one intervened or filed a legal protest.

Contracts meet local needs

The companies said three recent gas supply contracts should alleviate concerns about local needs during the extension period. Earlier this year, Marathon got

approval for separate contracts with Chugach Electric Association and Enstar Natural Gas. (See related Enstar story on page 3 of this issue.)

Those utilities are the two largest users of natural gas in Alaska. The contracts helped Chugach meet its supply needs through 2014, but still left Enstar with a 2 billion cubic foot shortfall in 2011 and 2012, about 3 percent of its expected total need in those years.

Enstar and ConocoPhillips recently signed a contract requiring the producer to divert natural gas from the LNG plant into the local grid during peak demand, as long as it didn't cause "material operational difficulties or technical harm to the facility."

That contract, awaiting approval from the Regulatory Commission of Alaska, would create another line of defense against supply shortages on the coldest days of the year, but would still leave

Enstar about 3 percent shy of estimated demand in 2011 and 2012.

Chugach and Enstar have both expressed support for the extension, primarily because the terminal moderates seasonal swings in demand by acting as a de facto storage facility.

Addressing a concern of the Parnell Administration, ConocoPhillips and Marathon said that over the past year they have purchased gas from other producers in the region for export and plan to continue doing so if the license is extended. The Palin Administration also made third party access to the LNG facility a condition for state support of exports.

ConocoPhillips and Marathon have asked for DOE to make a ruling by early September. ●

Contact Eric Lidji
at ericlidji@mac.com

continued from page 4

HEARINGS

in Valdez is about \$4.50, depending on the final destination. (There are two off-take points in Valdez: the PetroStar refinery and the Valdez Marine Terminal.)

ConocoPhillips can collect the new rates on a refundable basis until Feb. 22, 2011, while RCA investigates whether those rates are justified. ConocoPhillips said the rates are justified because pipeline throughput is declining while operating costs are on the rise.

The previous rates were \$2.55 per barrel to North Pole and \$3.98 per barrel to Valdez, but those represent temporary rates as well.

The request is ConocoPhillips' third over the past 21 months and represents a 130 percent jump in tariffs since October

2008.

ConocoPhillips' last permanent rates, set in 2002, charge \$1.25 to ship a barrel of oil from the North Slope to North Pole and \$1.96 to ship to various points in Valdez.

The company, along with three other owners of the pipeline, asked for rate increases in late 2008 and again in 2009. RCA recently consolidated those eight cases.

Subsidiaries of BP, ConocoPhillips, ExxonMobil, Union Oil Co. of California and Koch own an undivided share of the pipeline. All of those companies except BP, which owns nearly half of the pipeline, have been increasing rates in lockstep since 2008. ●

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continued from page 4

GAS CONTRACT

reduced daily natural gas consumption by 38 mmcf, just shy of the forecasted shortfall in 2011 and 2012.

Enstar believes this deliverability crunch will continue for at least two more years, until the company can develop storage where excess natural gas produced in the summer months can be kept until it's needed in the winter, when demand is 12 times higher.

Local gas and LNG get knotted

The contract would further intertwine the fates of the local natural gas system and the LNG export facility. ConocoPhillips and Marathon want the U.S. Department of Energy, or DOE, to extend the license allowing exports by another two years, to March 31, 2013.

Some, including Alaska Gov. Sean Parnell, generally want local needs are met before exports continue. The clause in the proposed contract might alleviate that concern, but it doesn't go as far as the demand made by seven Democratic lawmakers that DOE force the companies to meet local demand entirely before shipping any gas overseas.

Even with this newly proposed contract, Enstar expects a 900 mmcf shortfall in 2011, a 1.1 billion cubic foot shortfall in 2012, about 3 percent of total expected demand.

Enstar supports continued exports because the plant moderates seasonal swings and serves as a back-up on cold days. Enstar also needs the plant to remain in operation, though, because without it, Marathon is contractually allowed to curtail gas deliveries. ●

Contact Eric Lidji
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EXPLORATION & PRODUCTION

Steady progress in the southern Kenai

Cook Inlet basin: Armstrong's headway at North Fork unit improves economics of three other prospects in area north of Homer

By ERIC LIDJI

For Petroleum News

Just a few years ago, oil and gas development on Alaska's southern Kenai Peninsula was a chicken and egg situation.

Now it's poised to become a hatchery.

When Armstrong Cook Inlet brings its North Fork oil and gas project into production early next year, it could be the push needed to bring several other prospects in the region into development. (See related Cook Inlet story on page 1 about Apache Corp., whose entry into the Southcentral Alaska basin could represent a sea change in the region.)

The southern Kenai Peninsula is one of the more underdeveloped corners of the Cook Inlet basin, which supplies the natural gas that heats and powers more than half the state's population.

Despite oil and gas exploration in the region in the 1960s, development never took off like it did on the west side of the Cook Inlet or the northern half of the Kenai Peninsula. The past 15 years, though, have brought renewed interest to the southern Kenai, but development remained stalled until Denver-based Armstrong Oil and Gas acquired leases in 2007.

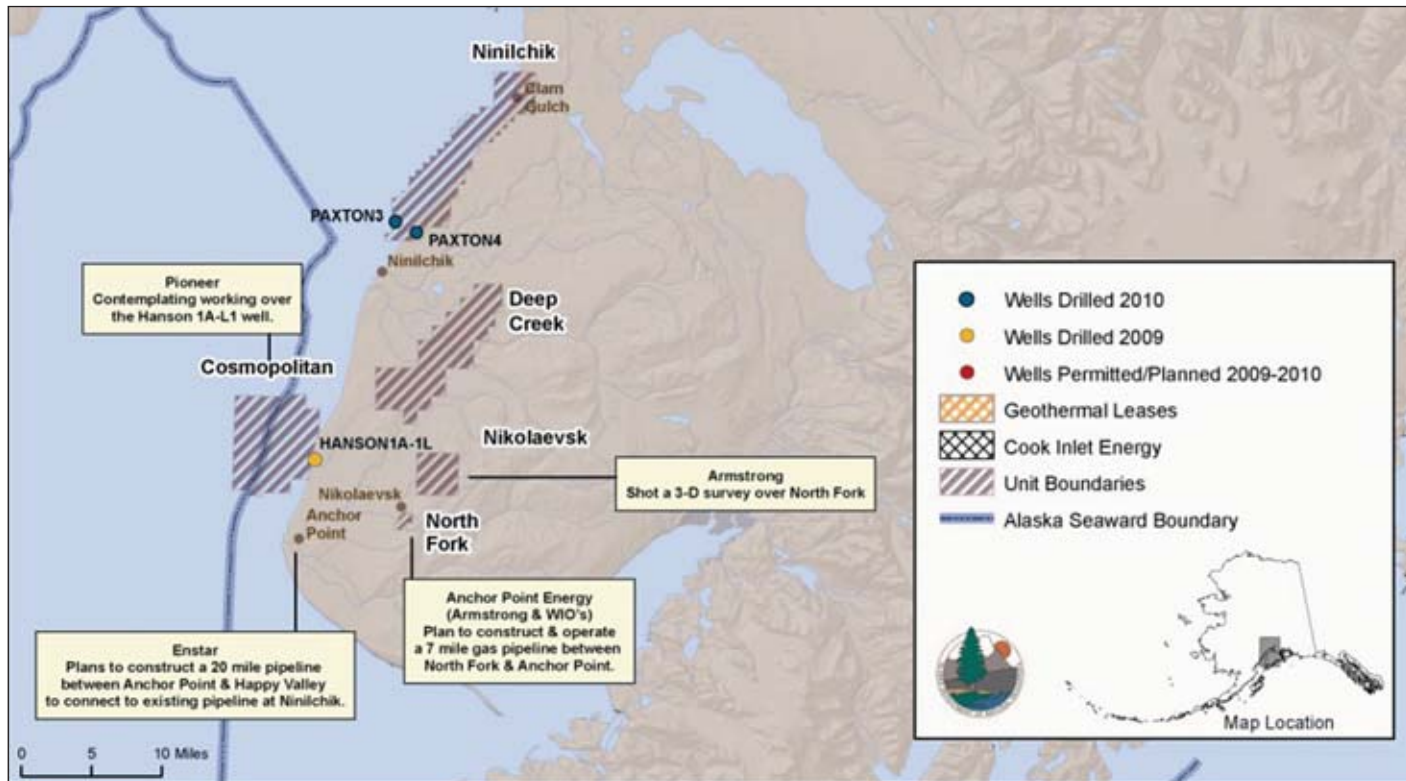
Armstrong drilled a well in the summer of 2008 and the results were good enough for the company to sign a natural gas supply agreement with Enstar Natural Gas late last year.

Now Armstrong is pressing ahead on development.

In mid-August, the company moved a rig to the North Fork Unit No. 41-35 pad to clean and flow test the well that Standard Oil of California drilled in 1965. That well Armstrong plans to make its first producer in the unit.

"That well has been suspended for the last 40 years," Alan Dennis, with the Division of Oil and Gas, told the Anchorage Mayor Dan Sullivan's Energy Task Force on Aug. 18.

Once the work on the old well is done, Armstrong plans to move the rig back to the main pad at North Fork to drill two development wells into the Beluga gas sands. One of those wells, though, would first test an oil target in the deeper Hemlock formation and then be plugged back to produce gas from the Beluga. "The first well is probably going to be the



Pioneer is currently delineating the offshore (Cosmopolitan) prospect from onshore facilities, but Dennis noted that if other companies successfully bring a jack-up rig to the Cook Inlet, then the company might be able drill offshore and tie the field back to the onshore pad.

oil and the second well will turn out to be the third test of the Beluga (gas sands)," Dennis said.

Armstrong also plans to build an in-field gathering line to connect the old and new well pads and is nearing construction on a dual pipeline to bring its natural gas to market.

The North Fork Pipeline would run 7.4 miles from the unit to just outside of Anchor Point, where it would connect to a planned extension of the Kenai Kachemak Pipeline, or KKPL.

Armstrong anticipates that pipeline will be in service by March 2011, Dennis said.

A better option for Cosmo

Once in place, that new pipeline system would put natural gas transportation infrastructure within a few miles of

Pioneer Natural Resources' Cosmopolitan unit.

Although Cosmopolitan is primarily an oil prospect, there is also some natural gas in the field. Dennis wouldn't quantify the gas potential, but said, "There's a substantial amount of gas."

Pennzoil discovered the prospect in 1967 and ConocoPhillips formed the Cosmopolitan unit in 2001, but neither company pursued development.

Pioneer acquired the prospect in 2006 and in 2007 followed up on a well and sidetrack drilled by ConocoPhillips.

Pioneer has proposed a development plan that would bring Cosmopolitan into production by 2014, but one of the biggest obstacles is figuring out how to market the oil and gas it produces at the unit.

One idea is to truck crude oil to the Tesoro refinery 75 miles north in Kenai, but that option would leave the gas stranded unless Pioneer builds a pipeline.

The KKPL extension could keep Pioneer from having to build a major pipeline.

"Once they have a place to put their gas, this project could happen," Dennis said.

Pioneer is currently delineating the offshore prospect from onshore, but Dennis noted that if other companies successfully bring a jack-up rig to the

Cook Inlet, then the company might be able to drill offshore and tie the field back to the onshore pad.

West Eagle and Nikolaevsk

The new infrastructure presents opportunities for other step-out development in the area.

Dennis noted that newcomer Buccaneer Alaska out of Australia is talking about exploring the Beluga and Hemlock formations at its West Eagle prospect east of Nikolaevsk.

Buccaneer plans to shoot 2-D seismic this fall in preparation for an exploration well in late 2011. That could lead to a 12-well development program.

The company believes it could see production rates of 30 mcf per day or gas and 2,000 barrel per day of oil.

North Fork development could also give a boost to the Nikolaevsk unit to the north.

Chevron operates Nikolaevsk, but is currently appealing a February decision by the State of Alaska's Division of Oil and Gas to reject a third plan of development for the unit.

In filings, Chevron blamed the slow pace of development on the lack of infrastructure in the region, but previously told the DOG that progress at the North Fork unit "may stimulate construction of

see **PROGRESS** page 7

Non-Binding Open Season Natural Gas Supplies in the Interior of Alaska

Energia Cura (EC) is pleased to announce a non-binding open season (NBOS) seeking indicative interest for firm, bundled supplies of natural gas and/or NGL commodities in the Interior of Alaska. EC is conducting this NBOS on behalf of Fairbanks Pipeline Company (FPC) under rules of conduct set forth within FERC, AGA, CEER, and ERGEG guidelines.

Interested parties (IPs) should request NBOS documents via Email. Upon receipt of request, a Confidentiality Agreement (CA) will be transmitted to IPs. Within 36 hr after receipt of signed CAs, EC will transmit FPC's standard NBOS package via Email in PDF format. The NBOS will commence on August 26, 2010 and extend through September 29, 2010 when completed and signed NBOS forms are due to EC's office via Email by **8 AM, GMT, 9/29/10**.

Telephone calls are discouraged in the opening phase of the NBOS. Please assist EC in documenting its non-discriminatory and transparent NBOS conduct by limiting all preliminary communications to Emails addressed to **fpc-nbos@energiacura.com**.



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• NATURAL GAS

Mitsubishi targets B.C. gas deposits

Its second entry into Canada's oil, gas sector, the move bolsters prospects of establishing country's first LNG export project

By GARY PARK

For Petroleum News

Japan has joined South Korea and China in a multi-billion dollar Asian parade into Western Canada's unconventional gas and oil sands region.

Industrial conglomerate Mitsubishi formed a joint-venture August 24 with Penn West Energy Trust for an initial outlay of C\$850 million to pay for assets and develop shale gas deposits in the Cordova Embayment of northeastern British Columbia – the smaller cousin of the more advanced Horn River Basin. It estimates the total investment could reach C\$3.8 billion over 15 years.

The deal gives Mitsubishi a role in 550,000 gross acres in B.C. (120,000 acres in Cordova) that includes a 50 percent working interest in the Wildboy conventional gas play which produces 30 million cubic feet per day. It also gives the Japanese company a gas processing facility, a sales gas pipeline connecting to a TransCanada gathering system and other related infrastructure.

It's Mitsubishi's second entry into Canada's oil and gas sector, further bolstering prospects of establishing Canada's first liquefied natural gas, or LNG, export project.

In early 2009, Mitsubishi, which handles about half of the LNG imports to Japan, agreed to purchase 1.5 million metric tons a year of the 5 million metric tons of capacity planned for the Kitimat LNG terminal, which is designed to process 700 million cubic feet per day of gas, most of which is expected to come from northeastern British Columbia.

Penn West said the joint-venture with Mitsubishi will "accelerate the exploration and development" of the 936,000 acres of Cordova land, which was quietly assembled in 2006 at a time when the attention was concentrated on the scramble to secure positions in Horn River, which covers 3.16 million acres.

Apache operator of Kitimat LNG

Once privately-owned, Kitimat LNG has been taken over by U.S. independent producers Apache, as 51 percent operator, and EOG Resources, both of which have substantial holdings in the Horn River Basin shale gas region, widely rated as second only in size to the Barnett Shale in Texas.

Penn West said the joint-venture with Mitsubishi will "accelerate the exploration and development" of the 936,000 acres of Cordova land, which was quietly assembled in 2006 at a time when the attention was concentrated on the scramble to secure positions in Horn River, which covers 3.16 million acres.

Penn West (which is due to convert to a tax-paying corporation later this year), Canadian Natural Resources and Nexen are operating experimental Cordova schemes targeting Devonian-age shale in an area east of locations that have well-established Devonian Jean Marie production and deeper targets such as Slave Point and Pine Point carbonates.

More than 325 wells have been drilled in the Cordova basin, but only a handful

have targeted shale gas and most of that information remains confidential, although it is scheduled to be made public within a couple of years.

From what limited information is available, the Cordova shales are "quite rich looking" and are shallower than Horn River, said Warren Walsh, a senior petroleum geologist with the B.C. government.

David Molinski, a principal with British Columbia-based OnPoint Consulting, cautioned that there is much still to learn about the Cordova rock, notably how it will respond to hydraulic fracturing and other technologies to release the gas.

Trail of Asian investments

The Penn West-Mitsubishi deal extends a trail of Asian investments over the past year in Canada's upstream:

- In early 2010, Encana reached an agreement with Kogas Canada, a unit of Korea Gas Corp., involving a C\$565 million investment over three years to earn a 50 percent interest in 154,000 acres in Horn River and 129,000 acres in the Montney tight gas formation. (In mid-2009 Kogas reached a memorandum of understanding with Kitimat LNG covering 40 percent of the planned output from the LNG project).

- In June, Penn West struck a deal with sovereign wealth fund China Investment Corp. which will buy Penn West equity for C\$435 million and invest C\$817 million to help develop the trust's Peace River oil sands deposits in northwestern Alberta.

The Canadian companies view these deals as their best hope of accelerating development of the remote plays and using the Asian investments to lower costs, reduce risks, increase capital efficiencies, improve project returns, optimize production techniques and tap into gas prospects that would otherwise remain dormant for years.

- In July, Encana and China National Petroleum Corp. opened negotiations targeting annual joint-venture investments of C\$1 billion-C\$2 billion to develop portions of Encana's B.C. gas plays in Horn River, Greater Sierra and Cutbank Ridge.

The Canadian companies view these deals as their best hope of accelerating development of the remote plays and using the Asian investments to lower costs, reduce risks, increase capital efficiencies, improve project returns, optimize production techniques and tap into gas prospects that would otherwise remain dormant for years.

Much now hinges on whether routes can be opened to Asia in the face of mounting opposition to tanker traffic off the B.C. coast from First Nations and environmental groups. ●

Contact Gary Park through publisher@petroleumnews.com

continued from page 6

PROGRESS

a pipeline route from Happy Valley that could be tied to Red, which may in turn enhance the farm-out opportunities at Nikolaevsk." Chevron preferred that route to the one Armstrong ultimately chose because it passed closer to Nikolaevsk.

Nikolaevsk probably won't see movement this year, while the appeals process plays out.

Positive signs for Homer?

Any of those three additional prospects would be beneficial to Homer, the city of roughly 5,500 people about 10 miles south of North Fork. Homer currently uses crude oil products for its heating needs, but would prefer to convert buildings to natural gas.

Using a small legislative grant,

Homer is building a pressure reduction station and a small stretch of pipeline this year, and plans to search for money to fund the rest of the pipeline.

Homer is in the Enstar service area, but with supplies tight in the Cook Inlet, it could take a sizeable find nearby to get backing for expanding the grid to include another city. ●

Editor's note: Word on the street is Chevron has minor oil and gas assets in the Cook Inlet basin up for sale, but is working to put all its inlet properties on the market after the first of the year. One Petroleum News source indicated Apache Corp. has approached Chevron about buying all of its Cook Inlet assets. None of this aforementioned information was confirmed by Chevron or Apache.

Contact Eric Lidji at ericlidji@mac.com



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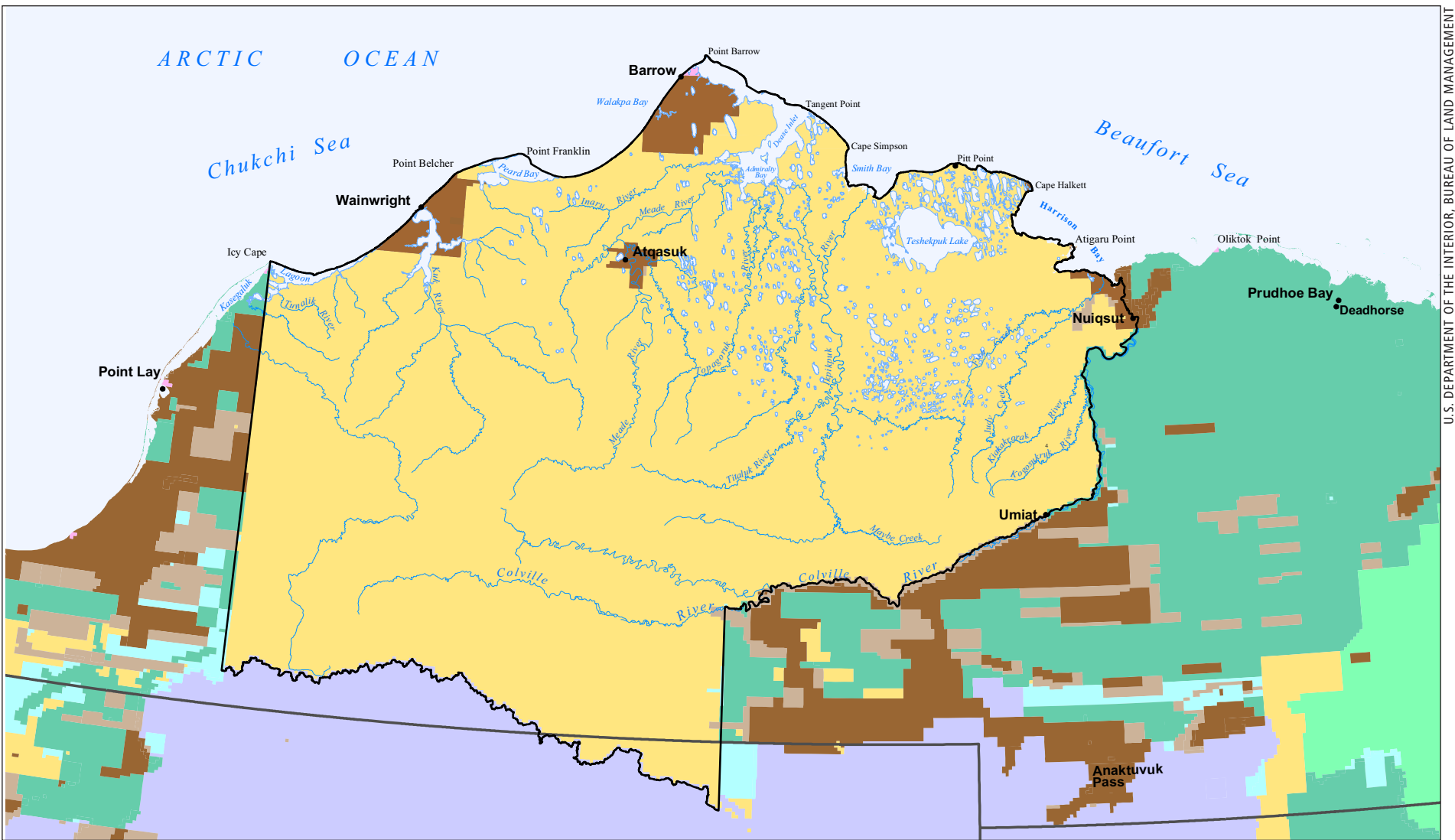
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The U.S. Bureau of Land Management is developing a new integrated activity plan for the whole of the National Petroleum Reserve-Alaska. This map depicts BLM administered NPR-A land in yellow, with brown areas indicating Native corporation and North Slope Borough land.

continued from page 1

NPR-A

Addressing past inconsistencies

In the past, BLM has split NPR-A into three distinct planning areas, covering the northeastern, northwestern and southern parts of the reserve. But with no plan having been completed for the southern sector, with plans being developed at different times for the two northerly areas, and with

Offshore oil and gas development could drive a need for new onshore oil and gas infrastructure.

environmental issues constantly changing, there have been inconsistent rules and varying environmental protections applied to different parts of the reserve.

A new plan for the whole of NPR-A will bring much-needed consistency, especially given the emergence of much new information about environmental issues such as climate change, the status of the regional caribou herd, the regional hydrology and the specification of polar bear critical habitat around the coast, Dougan said.

"It's really to ensure that we have consistent decisions and protections across the entire reserve, because we don't right now," she said. "... I think another big part is to give industry certainty about what areas will or will not be available."

Focused lease sales

And to improve the efficiency of the lease sale process, BLM anticipates that in future it will schedule smaller, more focused NPR-A lease sales than in the past. Rather than offering land tracts

across broad swathes of the reserve, the agency wants to work with industry to ask for expressions of interest in specific areas in order to focus lease sales on acreage where there is industry demand, Dougan said.

"It takes a lot of work to do a lease sale and we'd like to hear what people have to say," she said.

But, if some acreage is not offered in one lease sale, that does not signal that BLM has decided to withdraw that acreage from future leasing. For example, although the last NPR-A lease sale only included tracts in the northeast of the reserve, BLM is aware of industry interest in the northwest.

"Because of some of the inconsistencies in planning we didn't feel comfortable offering those northwest tracts," Dougan said. "We thought we would put industry in a situation where they might bid on things that might be problematic later. We don't want that to happen."

And in the southern part of NPR-A, an area thought to be more prospective for natural gas than for oil, the prospect of a major North Slope gas line or a "bullet" gas line to Southcentral Alaska may trigger new exploration interest, thus elevating the importance of including this area in the activity planning scope.

However, although BLM will likely review any public comments relating to coal or metal mining, federal statutes prohibit BLM from issuing coal leases in the reserve or opening the reserve for mining claims, Dougan said. So the agency will

exclude mining activities from the new plan — opening NPR-A for mining would require Congressional action, she said.

But oil and gas development, in itself, presents some challenging issues in finding the appropriate balance between industrial activity and environmental protection.

The issue of Teshekpuk Lake

Possibly the single most sensitive issue is the question of potential development in the area around Teshekpuk Lake in northeast NPR-A. This particular area abounds with birdlife at certain times of the year but also sits right over a geologic structure known as the Barrow Arch that offers some of the highest oil discovery potential in the reserve — most of the existing North Slope oil fields, including giant Prudhoe Bay, are on the Barrow Arch.

Although the lake itself will likely remain off limits for oil and gas drilling, for example, there is scope for a public discussion of options for the land around the lake, and whether there are reasonable mitigation measures that might enable both energy exploration and environmental protection, Dougan said.

However, there are no easy answers — allowing exploration during the winter when the birds are not there, for example, would still leave the question of how to permit the subsequent construction of long-term oil facilities that would need to be compatible with the huge spring population of breeding waterfowl.

see NPR-A page 9

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"The Good Guys" — located 1/2 way to Prudhoe Bay

continued from page 8

NPR-A

BLM wants to hear from industry its views on what forms of environmental mitigation might be both technically and economically feasible within NPR-A. For example, modern techniques such as directional drilling with horizontal departures of several miles might provide a means of working around the need to limit the construction of surface facilities in some parts of the reserve, Dougan said.

Extending infrastructure into NPR-A

And, although BLM does not have a direct role in the current controversy over the U.S. Army Corps of Engineers' refusal to allow ConocoPhillips to construct a bridge across the Nigliq Channel of the Colville River, for oil development in the extreme northeast of NPR-A, the agency hopes that some form of agreement can be reached on how the North Slope oil infrastructure could be extended west into the reserve.

"We are very concerned because development in NPR-A is less likely to take place without some certainty for that access," Dougan said. "... If that type of access will not be allowed, then industry has to look at things differently. (Then) it's that cost difference. It's the investment difference."

Cumulative impacts, 'edge matching

But when it comes to developing the EIS for the new NPR-A plan, BLM will take into account the cumulative impacts of oil and gas activities across the northern Alaska region. For example, offshore oil and gas development could drive a need for new onshore oil and gas infrastructure.

"I think that's owed to the public, to try to see it in the most comprehensive way that we can," Dougan said.

And Interior Secretary Ken Salazar has emphasized the importance of coordinating the NPR-A plan with other plans from other jurisdictions around the perimeter of the reserve, Dougan said.

"He really expects us to look beyond our own jurisdiction, do what he calls 'edge matching,'" she said.

Appeals and litigation over government agency decisions have become de rigueur in response to oil and gas development plans in recent years. Dougan said that she supports the public's right to challenge government decisions through the courts. However, she hopes that, by engaging the public during the scoping and development of the new NPR-A plan, BLM will be able to address public concerns up front: The idea is to facilitate discussion

Preparing a plan for all 23 million acres of the reserve [within two years] will prove to be one of the biggest planning exercises that BLM has ever undertaken.

and take account of the issues that people raise.

"That's always the goal," Dougan said. "People will have felt that they're heard and we've considered their input."

Then, by following the requirements of the National Environmental Policy Act in preparing a thorough environmental impact statement, BLM anticipates a result that could be defended in court, if necessary.

"What makes something legally defensible, generally, is did you follow your required process, and we intend to do that," Dougan said.

Challenging timeframe of two years

But BLM wants to develop the new plan within two years, a timeframe likely to prove challenging given the complex issues surrounding potential oil and gas development in NPR-A — preparing a plan for all 23 million acres of the reserve will prove to be one of the biggest planning exercises that BLM has ever undertaken.

"It is a large challenge, especially in an area that is of national, if not international, interest," Dougan said.

Success will depend on collaboration with the public and with other state and federal agencies, she said. The North Slope Borough; the U.S. Fish and Wildlife Service; the Bureau of Ocean Energy Management, Regulation and Enforcement; and the State of Alaska are all signing up as cooperating government agencies, to participate in the plan development. And the North Slope Borough has been organizing meetings in North Slope communities as part of the scoping phase of the project.

BLM hopes to complete this scoping phase by Oct. 5, with the agency using the scoping comments to formulate plan alternatives in time for the publication of a draft plan in January 2012 for public review.

The agency has currently planned public scoping meetings in Anaktuvuk Pass, Anchorage, Atkasuk, Barrow, Nuiqsut and Wainwright, with further meetings possible, depending on the level of community interest. The public can also submit comments through the BLM Alaska website at www.blm.gov/ak. ●

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GOVERNMENT

DEC collecting Chukchi data

The Alaska Department of Environmental Conservation in partnership with the University of Alaska School of Fisheries and Ocean Sciences is collecting environmental data from the Chukchi Sea along the near-shore from Point Hope to Wainwright, DEC said Aug. 19. The \$2.15-million study, part of a U.S. Environmental Protection Agency assessment of the coastal waters of the entire United States, is taking place between Aug. 22 and Sept. 9 and will be completed in the summer of 2011, with the timing of the work intended to avoid conflicts with subsistence hunting and to avoid encounters with sea ice, DEC said.

Depending on funding, DEC may conduct similar studies in the Beaufort Sea and Bristol Bay in subsequent years.

"This year and next we are focused on the Chukchi Sea," said Doug Dasher, DEC's lead scientist for the survey. "The survey includes a comprehensive assessment of water quality, sediment and biological conditions for 50 statistically selected sites."

This year a team of 12 researchers will operate in the Chukchi, using the 115-foot Norseman II vessel as a work platform to gather information to support water quality evaluation, permitting actions, environmental baseline assessments, and to act as a basis for tracking environmental changes over time.

"The bottom line is this survey will provide resource managers with the high-quality scientific information they need to manage Alaska's resources," Dasher said.

—ALAN BAILEY

Northern Waters Task Force panel named

On Aug. 23 Alaska Senate President Gary Stevens and House Speaker Mike Chenault announced the names of people appointed to serve on the Northern Waters Task Force.

In March the Alaska Legislature passed a resolution mandating the formation of the task force, to assess and facilitate the creation of a joint state and federal entity for the coordination of U.S. and Alaska interests in the opening of Arctic waters, as Arctic sea ice recedes.

"I believe we all recognize the strategic and security importance of Arctic waters, and the need to provide comprehensive support and infrastructure should new (Arctic offshore) development take place," said Chenault. "The task force ... allows us to bring in regional leaders from all aspects of government to work with residents, businesses and interests in the region to give all areas a voice and stake in state and federal policy moving forward."

"I am very pleased with the choices we have made for this task force, which will help us establish a federal/state policy group that will define government policy toward development in our Arctic waters," said Stevens. "I am comfortable that we have appointed a good cross section of legislators, local officials, and others whose constituencies are directly dependent on the Arctic."

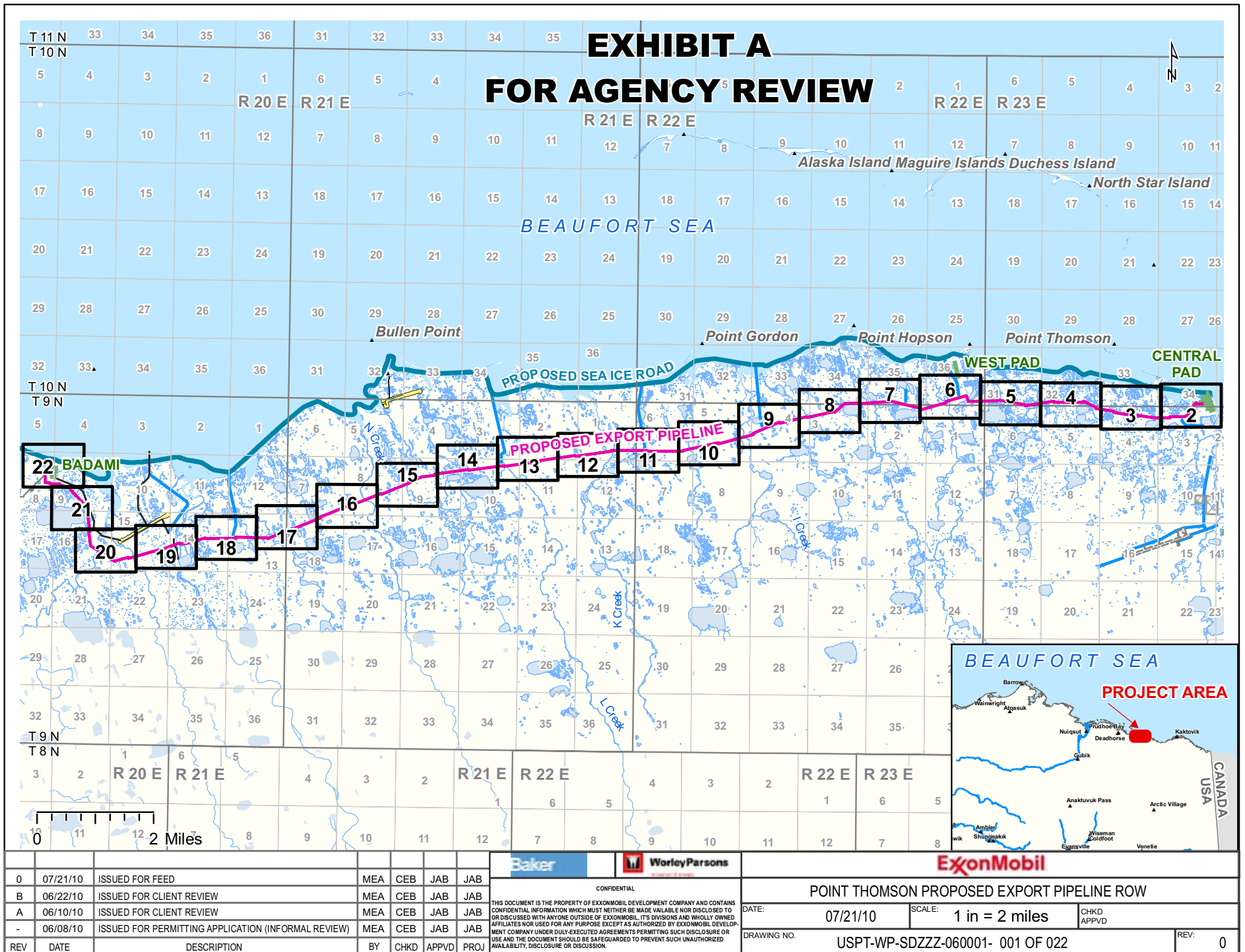
The appointees are: Senators Bert Stedman and Lyman Hoffman, with Donald Olson as alternate; Representatives Reggie Joule and Bob Herron, with Bryce Edgmon as alternate; North Slope Borough Mayor Edward Itta; Unalaska City Manager Chris Hladick; Nome Mayor Denise Michaels; Nana Corp. Vice President Chuck Green; Alaska Marine Conservation Council Chair Dave Kubiak; and Larry Hartig, commissioner of the Alaska Department of Environmental Conservation, with Governor's Office Fisheries Policy Advisor Cora Campbell as alternate from the state administration. The federal member of the task force has yet to be announced.

—ALAN BAILEY

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continued from page 1

PIPELINE

a throughput of 70,000 barrels per day.

The pipeline will feature increased wall thickness in areas where a high potential exists for accidental bullet strikes from North Slope hunters.

“The estimated commercial life of the pipeline is 30 years,” the application says.

On another front, the U.S. Army Corps of Engineers is preparing an environmental impact statement for the Point Thomson project.

Point Thomson production

ExxonMobil has drilled two wells at Point Thomson, and has said it intends to begin production of 10,000 barrels a day of natural gas condensate by year-end 2014.

Ultimate control of the Point Thomson field, however, remains the subject of a legal struggle between ExxonMobil and other major leaseholders and the state of Alaska.

David Eglinton, an ExxonMobil spokesman in Houston, said he was unable to provide any update on current Point Thomson activities.

But a Petroleum News source said the two wells have been tested, and the results were favorable.

The capacity of the pipeline obviously is several times greater than the initial production level ExxonMobil has stated.

But ExxonMobil managers have said in the past that they hope to expand production from Point Thomson. And state officials have said they certainly expect more than 10,000 barrels a day from a field estimated to hold hundreds of millions of barrels of petroleum liquids.

Mike Thompson, state pipeline coordinator with DNR, told Petroleum News on Aug. 25 that for purposes of securing a right-of-way lease the capacity of the pipeline really doesn't matter.

However, he noted that the pipeline will operate as a common carrier. So extra capacity in the line would be available to other producers, he said.

There are currently no developed fields near Badami or Point Thomson.

Legal conflict

Aside from operator ExxonMobil, other major leaseholders at Point Thomson include BP, Chevron and ConocoPhillips.

The companies are locked in a legal conflict with the state, which took steps beginning in 2005 to break up the Point Thomson unit and invalidate the underlying leases on grounds the companies had taken too long to develop Point Thomson. The

field was discovered in 1977.

Even though its hold on the field is clouded, ExxonMobil drilled the two wells with permission from DNR Commissioner Tom Irwin. ExxonMobil and the state are believed to be engaged in ongoing settlement talks.

At the moment, leaseholder legal efforts to preserve the unit are sitting before the Alaska Supreme Court, which agreed to take the state's appeal of Superior Court Judge Sharon Gleason's Jan. 11 ruling that nullified Irwin's unit termination.

Supreme Court records indicate the due date for the state's initial legal brief has been extended to Nov. 1. ●

—Kay Cashman contributed to this report

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NATURAL GAS

Linc files for well in Point MacKenzie area

The Alaska Coastal Management Program is reviewing Linc Energy's proposal to drill a well this fall in the Point MacKenzie area of the Matanuska-Susitna Borough.

The Australian company wants to drill the LEA No. 1 well to look for natural gas on ADL 390588, just north of Point MacKenzie Road across the Knik Arm from Anchorage.

Linc plans to build a 2.2-acre gravel pad for drilling and equipment, and will access the site using an existing gravel road. The company plans to get water for drilling from two sites, one at the well pad and another on private property half a mile to the south.

The ACMP review began on Aug. 19. The Division of Coastal and Ocean Management will take comments on the plan through Sept. 17 and make a final ruling by Oct. 7.

Linc Energy arrived in Alaska earlier this year, after purchasing the assets of GeoPetro.

— ERIC LIDJI

• EXPLORATION & PRODUCTION

Canada's offshore in melting pot

Drilling winds down at only well in Canadian waters as demands increase for tougher offshore and unconventional rules, more research and development spending, review of operator liability

By GARY PARK

For Petroleum News

The only deepwater well currently being drilled in Canadian waters is nearing completion in Newfoundland's Orphan Basin just ahead of what shapes up as a full-scale national debate on the future of offshore activity.

Unlike the Great Barasway F-66 wildcat, its predecessor in the same program, the Chevron Canada-operated Lona O-55 has apparently had a trouble-free run over the past three months in 8,500 feet of water, making it the deepest well in Canadian offshore history.

Trouble-free, that is, except for the tremors from BP's Macondo well blowout in the Gulf of Mexico that extended to Canada, where politicians, environmentalists and one of Canada's largest investment funds have called for either a ban on future offshore drilling or the imposition of tougher rules.

Facts didn't support shutting down drilling

The Macondo aftermath included offshore reviews by Canadian federal and provincial regulators, which generated an unusually swift response from the energy committee of the Canadian Senate, which heard from 26 witnesses at a public hearing and reached the unanimous conclusion that the facts did not justify shutting down the Lona well.

"We are satisfied that the oversights are such that there is not any imminent danger," said committee chairman Senator David Angus.

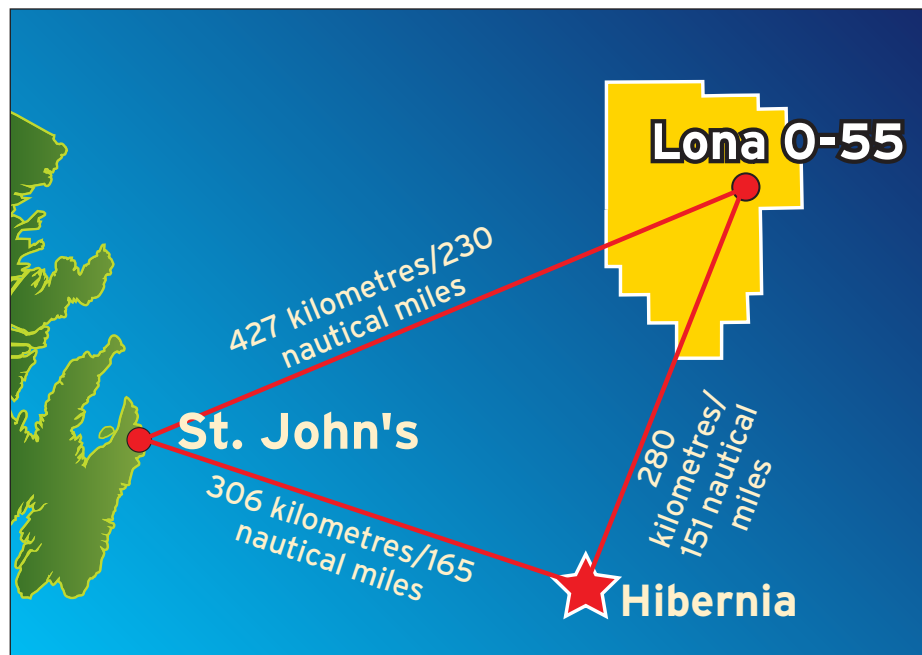
And the bipartisan committee said that there was, similarly, no risk of a spill in the Arctic or Western Canada, even though no drilling is happening or scheduled for those regions.

Angus said his committee rejected any suggestion that the Chevron operation should be stopped "just because of possible fears."

In any event, there was a good chance Chevron would have finished its drilling before any action could have been taken.

Chevron won't provide a specific timeline for completion of the current phase beyond promising a brief announcement. The results of the Lona well can remain confidential for up to two years.

But whether Chevron or any other operators can draw comfort from the Senate report is a matter of conjecture, since so much pressure is being applied on the Canadian government to, at the very least, expand its scrutiny of offshore exploration.



Senate committee urges more R&D spending

Even the Senate committee has urged operators to spend more on researching how to avoid and respond to deepwater failures.

"It appears from the evidence that technology to stop underwater blowouts a mile below the surface has not progressed at the same pace as technology to drill wells at that depth," the committee said.

"It would be reassuring to know that research and development into technologies for drilling at greater depths is match with corresponding R&D to respond to and contain potential spills in those areas."

But the committee indicated it was reassured by witnesses it heard from that as more is learned about the Macondo well events there will be greater emphasis on avoiding future failures.

Angus said Chevron has indicated that crude escaping from a catastrophic blowout would disperse without harming any sensitive areas.

"How comfortable are we that it won't happen?" he said. "We are not crazy enough to suggest that it will never happen, nor (is Chevron), but in terms of the balance of probabilities ... that has to be arrived at by people who are experts."

The committee said it was impressed by the R&D spending by major players in the Canadian offshore industry, but agreed that "more such spending is desirable and would have a positive outcome respecting the development of new technology addressing catastrophic incidents."

Over the past 15 years, the Sable offshore natural gas project in Nova Scotia waters has made R&D expenditures totaling C\$26.7 million, and the ExxonMobil Canada-led project has pledged another C\$3 million by 2012.

Offshore companies operating in

Newfoundland waters spend about C\$25 million-\$35 million per year, with ExxonMobil accounting for about C\$10 million.

Husky Energy has invested about C\$30 million over the past five years and Chevron expects to invest hundreds of millions of dollars over the next 10 to 20 years.

Concern expressed about private spill group

However, the committee expressed "serious concern" that the Eastern Canada Response Corporation – a private-sector funded and operated organization – would not see an operator's contingency spill plan in detail until there was a spill.

The committee also called for a comprehensive review of current mandatory levels of operator liability, which includes an automatic payout of C\$30 million from the absolute liability fund for damage claimants irrespective of fault or negligence, while the offshore regulatory boards can access an additional C\$70 million in cases where there is proof of fault or negligence on the

"In the event of a spill, the Beaufort Sea ice gyre rotates clockwise and would move the ice-plus-oil toward the Alaska offshore where, in the spring, it will be released in U.S. water by melting ice." —federal Department of Fisheries and Oceans

operator's part.

A company drilling in offshore areas must be able to show that it has the financial capacity to pay any third-party damage and spill clean-up costs of at least C\$250 million, but there is no ceiling on third-party damage claims or on what operators must pay to clean up a spill.

However, the committee said the liability thresholds, set in 1986, are due for adjustment.

Study did not include ice conditions in Arctic

Regardless of the Senate committee's initial findings, further exploration of the Canadian offshore is far from certain, especially in the Arctic, where no drilling approvals are expected before 2014.

Senator Grant Mitchell, a Liberal member of the committee, acknowledged that the offshore study did not cover "what it's like under the ice or above the ice" in the Arctic region.

"We don't know whether there will still be ice there when they give a license to drill," he said. "So we don't want anybody to go away thinking that we have views of the Arctic, because we simply didn't do that study."

Push for comprehensive industry review

Dennis Bevington, the Member of
see CANADA OFFSHORE page 13




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CMI holds annual customer appreciation barbecue

Construction Machinery Inc. held its annual customer appreciation barbecue on Aug. 19. The annual event, gives customers a chance to enjoy good food, this year provided by Sea Galley, and to preview equipment and speak with representatives from Volvo, Ingersoll Rand, Atlas Copco, Link-Belt, Skyjack, Doosan, Gorman-Rupp, Metso, and Hitachi, in a relaxed environment. In addition, the CMI sales staff was on hand to answer any additional questions. For more information visit www.cmiak.com.



COURTESY CMI

Crowley announces promotion of Evans and Otero

Crowley Maritime Corp said Aug. 19 that it is pleased to announce the promotion of Eric Evans and Tony Otero each to the role of vice president, finance and planning, supporting several different business groups within its holding company, Crowley Holdings Inc. "Tony and Eric were promoted to their positions based on their successful leadership

and performance within the financial and planning areas of multiple business units," said Tom Crowley, chairman, president and CEO of Crowley Maritime Corp. "We are pleased to recognize them in this way and fully expect continued excellence in their new roles."

In his new position Eric Evans will support Crowley's technical services, petroleum services, Alaska petroleum distribution and marine contract services business groups. His responsibilities include accounting, contract administration, budgeting, forecasting, analysis, and strategic planning.

In his new role Tony Otero will support Crowley's liner and logistics business units. He will be responsible for leading the finance and accounting functions and strategic business planning of the Latin America, Puerto Rico and Caribbean, and logistics business units.



ERIC EVANS



TONY OTERO

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

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continued from page 1

APACHE

Apache's Alaska move

The Houston-based independent recently worked a deal to pick up around 200,000 acres of leases scattered broadly around the Cook Inlet basin. Apache acquired the leases from a group that included long-time Alaska investors Daniel K. Donkel and Samuel H. Cade.

Apache approached the Donkel group about the acreage, and Bedingfield, without being too specific, said his company has also talked with a number of other Alaska players. The intent is to build on the Donkel deal and extend Apache's Cook Inlet presence, he said.

Bedingfield, making his first visit to Alaska, said the physical beauty of the landscape made an immediate impression on him.

Other visiting Apache managers were David Jennette, director of worldwide exploration and new ventures; David Allard, new ventures exploration manager for North America and the Caribbean; Graham Brander, director of worldwide drilling; and Bill Mintz, public affairs director.

Brander has a little history in Cook Inlet, having worked for a year as a drilling engineer with Unocal in 1995.

Seismic, drilling plans

Apache has never been an operator in Alaska. It hasn't opened an Anchorage office, and might not for a while. Initially, the company likely will hire a contractor to represent it locally, Bedingfield said.

Cook Inlet is intriguing for its oil potential, he said, noting the U.S. Geological Survey estimates close to a billion barrels remain to be discovered.

In a way, Cook Inlet was a victim of the enormous Prudhoe Bay discovery in 1968, which drew investment and attention away from what had been an impressive oil and gas province in its own right, Bedingfield said.

Although Apache has deepwater experience elsewhere in the world, it doesn't view the large body of water within the Cook Inlet basin, and carries the same name as the basin, a deepwater region. The company, he said, believes it can conduct most of its exploratory work from land, and is focused on the Tyonek and Hemlock formations.

Bedingfield touted the independent's experience and success in maximizing production from the aging Forties Field in the North Sea, which Apache bought from BP in 2003, and the western desert in Egypt.

The company makes great use of enhanced oil recovery techniques such as water and CO2 flooding, and has the will and the money to drill wells and commercialize finds, Bedingfield said.

The State of Alaska has offered some attractive tax incentives for Cook Inlet explorers, but those aren't why Apache is in the basin, he said.

Apache's plan is to acquire additional acreage, shoot 3-D seismic beginning next year, and drill in 2012 at the earliest, Bedingfield said.

The company isn't put off by the problem of Cook Inlet's endangered beluga whales, he added, saying Apache has plenty of experience working with reef habitat and marine mammals in Australia. ●

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On the Web



See previous Petroleum News coverage:

"Sale chatter resumes," in Aug. 1, 2010 issue at www.petroleumnews.com/pnads/305246055.shtml

"BP off death watch; future open question," in July 25, 2010 issue at www.petroleumnews.com/pnads/417508606.shtml

"Apache picks up Cade-Donkel inlet leases," in July 25, 2010 issue at www.petroleumnews.com/pnads/464500656.shtml

"Apache acquires BP's Western Canada natural gas operations in Alberta, British Columbia," in July 25, 2010 issue at www.petroleumnews.com/pnads/274924002.shtml

"Oil Patch Insider: Against drumbeat of Apache rumors..." in July 18, 2010 issue at www.petroleumnews.com/pnads/11470423.shtml

"Apache makes offer for Cook Inlet leases," in June 13 issue at www.petroleumnews.com/pnads/684302695.shtml

"BC Kitimat LNG project now in US hands," in May 30, 2010 issue at www.petroleumnews.com/pnads/565614248.shtml

"Wanted: AK jack-up rig contractor," in May 16, 2010 issue at www.petroleumnews.com/pnads/86979128.shtml

"Jack-ups headed north ... Apache looking at Cook Inlet," in April 25, 2010 issue at www.petroleumnews.com/pnads/191498595.shtml

"Arctic gas by 2017," in Feb. 21, 2010 issue at www.petroleumnews.com/pnads/593350350.shtml



COURTESY STENA

The Stena Carron is being used by Chevron for its Orphan basin drilling.

continued from page 11

CANADA OFFSHORE

Parliament for the Western Arctic and northern development spokesman for the New Democratic Party, dismissed the Senate report as a "whitewash" that failed to examine the offshore issue in depth.

He said the government should follow through on a recent vote in Parliament to conduct a comprehensive review of all unconventional oil and gas development along with its consequences, weighing that against options such as renewable energy.

"There's fundamental issues that have to be addressed in terms of the changing nature of the industry, whether it's shale gas, the tar sands or deepwater drilling."

The push for a wider review gained an added thrust in a Liberal party report urging the government to take action against air and water pollution from the oil sands sector.

Meanwhile, the British Columbia Investment Management Corporation, BCIMC, said federal regulators should impose "strong rules" on offshore drilling, describing BP's stock price collapse since the Macondo spill "one of the greatest environmentally-related destructions of shareholder value in history."

Doug Pearce, chief executive officer of BCIMC, which manages C\$80 billion in assets, said Canada's National Energy Board, NEB, should require companies to "seek a more sustainable approach to their pursuit of oil and economic prosperity" in the offshore.

NEB asked to look at all risks of oil and gas operations

The BCIMC got support from an unexpected quarter when the federal Department of Fisheries and Oceans broke ranks with other federal departments by calling on the NEB to broaden its offshore review to examine "all risks associated with oil and gas exploration and production."

It recommended a strategic environmental assessment of the Beaufort region, noting that the Arctic is a "data-poor region."

"For example, in the event of a spill, the Beaufort Sea ice gyre rotates clockwise and would move the ice-plus-oil toward the Alaska offshore where, in the spring, it will be released in U.S. water by melting ice," the department said. ●

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continued from page 1

BADAMI

deeper oil pool within the Badami unit.

Six wells

In the field restart, Savant anticipates bringing six wells into production, including the new horizontal well and the exploration well, Savant executive Greg Vigil told Petroleum News Aug. 24. Combined production from all six wells is projected at more than 4,000 barrels per day, Vigil said.

Savant drilled the exploration well, B1-38, in February of this year in the Red Wolf prospect and found oil in two horizons, with one of the horizons being in the Kekiktuk formation, the formation that contains the oil reservoir for the Endicott field, some miles to the west. But the oil production starting from the well in September will be from the late Cretaceous Killian sands, a discovery in a secondary exploration target at a higher level than the Kekiktuk, Vigil said.

Paperwork filed with the Regulatory Commission of Alaska for the restart of the Badami pipeline that carries Badami oil to the northern end of the trans-Alaska pipeline indicates that BP will start filling the line with oil from the Endicott field at around Sept. 1, with a view to restarting the Badami field on Sept. 5. But BP spokesman Steve Rinehart told Petroleum News Aug. 23 that it may be mid-September before field production finally gets underway.

"Savant's success is good news," Rinehart said. "We are pleased that this is leading to the restart of the Badami processing facility. We are aiming for mid-September, as we continue to inspect facilities and bring the plant online."

The mid-September timeframe takes account of minor glitches in the startup program, including some weather induced work delays and problems with a stuck pig in the Badami pipeline, Rinehart said.

Field crews are working their way through a list of field startup items and the main power turbine for the field facilities is now up and running, Rinehart said — in June BP notified RCA that it planned to ship natural gas by pipeline from Endicott to Badami, to power the Badami facilities until gas production from Badami becomes available.

Disjointed reservoir

The on and off story of Badami reflects the mixed results of oil development in the sand reservoirs of the Brookian sequence, the youngest and shallowest of the petroleum-bearing rock sequences of the North Slope. The Brookian reservoirs are typified by rocks called turbidites — interlayered



The Badami pad and central processing facilities.

sands and impervious shales formed by the flow of mixtures of sediment and water down the sloping sides of deep marine basins.

At Badami, the turbidite sands fill ancient channels aggregated in distinct lobes, charged with oil but isolated from one another in such a way that oil cannot flow freely through the entire field reservoir. Initially, oil tends to flow at a good rate into an individual production well as individual sand channels are drained, but production then drops off as barriers between the channels and lobes inhibit the drained sand from recharging, a problem compounded by the somewhat viscous character of some Badami oil.

Disappointment

BP originally placed the 120-million-barrel field on line in August 1998 amid euphoria about bringing a new Brookian oil play into commercial production. But that euphoria sank about as fast as the subsequent decline in oil flow through the Badami pipeline.

Initial production, anticipated at 30,000 barrels per day, actually came in closer to 18,000 barrels per day and dropped to less than 3,000 barrels per day by early 1999. Faced with unsustainable pipeline flow rates in winter conditions, BP subsequently shut the field in between February and May 1999.

And after restarting the field BP used

see **BADAMI** page 15



A technician prepares a smart pig for launch down the Badami oil pipeline, to check the pipeline prior to restart.

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continued from page 14

BADAMI

gas injection to try to force more oil up the production wells and unsuccessfully tried the drilling of lateral wells from the original well bores to further boost production.

Field suspension

By March 2003, with oil trickling down the Badami pipeline at the rate of 1,400 barrels per day, BP was considering options for selling the field. And in August of that year, as production continued to fall, the company finally suspended field operations, placing the field facilities in warm shutdown for two years.

The field duly came back on line in 2005, but production continued at rates not much above those before the 2003 shut in. And in 2006 BP said that it was now considering the use of horizontal wells to improve production rates by increasing the

reservoir volume exposed to each well bore.

But in September 2007 BP shut the field in again, to allow the reservoir to recharge.

New partnership

In 2008 Savant and ASRC formed a deal with BP in which Savant would drill the new development well and exploration well that are now scheduled to come on line. The development well is presumably testing the potential for horizontal drilling to finally unlock economic levels of sustained production in the field.

“We are optimistic that this will be the beginning of a long-term production period for the Badami unit,” Vigil said, in reflecting on the September 2010 restart of the field.

—ALAN BAILEY

Contact Alan Bailey
at abailey@petroleumnews.com



The first barge arrives at the Badami dock in August, with equipment needed for the Badami field restart.

SAVANT ALASKA

continued from page 1

HARPER

that targets the creation of a “rules-based region” with clearly defined boundaries, along with economic growth and trade leading to “vibrant northern communities and healthy, productive ecosystems.”

He said the statement represents a “strengthened platform from which we will send out a message to the world; a message of leadership and stewardship, but firmly rooted in our commitment to sovereignty in the North.”

Harper was even more emphatic that the “number one priority of our northern strategy is the promotion and protection of Canadian sovereignty in the North” — a goal he described as “non-negotiable.”

Cannon said Canada dismissed the premise suggested by “some” that the Arctic “requires a fundamentally new governance structure, or legal requirement.”

Boundary for Alaska, Yukon and who gets Hans Island

He said one of Canada’s overriding objectives is to start negotiations with the United States and Denmark on the remaining disputed boundaries — the line separating Alaska and the Yukon in the Beaufort Sea and control of Hans Island, a pinprick, uninhabited knoll between Ellesmere Island and northern Greenland.

He said Canada is determined to advance its sovereignty agenda by making progress on the boundary issues to secure “recognition of the full extent of the extended continental shelf.”

Cannon has also scheduled a meeting this fall with his counterparts in Russia,

Norway and Finland to discuss Arctic matters.

He said Canada will meet the United Nations deadline of 2013 for data submissions bolstering its claims to the ocean floor.

Layton criticizes willingness to use military force

Jack Layton, leader of the New Democratic Party, said it makes more sense for the government to focus on resolving the border issues rather than threatening to flex Canada’s military muscle in the Arctic.

“The idea that we can purchase large military vessels and go to war with other countries if there are boundary issues is ridiculous,” he said.

But Cannon argued that it “makes a great deal of sense” for Canada to exercise and assert its control over its Arctic territorial claims.

“For far too long the Arctic hasn’t been spoken for,” he told reporters.

In previous visits to the North, Harper has defended annual military exercises, noting that Canada “has a choice when it comes to defending our sovereignty in the Arctic: either we use it or we lose it.”

His latest trip — which included observing an oil-spill cleanup training exercise — coincided with a heightened public concern for the environmental integrity of the Arctic, with glaciers breaking loose and offshore drilling under intense scrutiny at a time when the future of the oil and gas industry in the Far North hangs by a thread.

Even if the National Energy Board and Canadian government give a green light this fall to the Mackenzie Gas Project, or MGP, and the corporate partners decide to

proceed after a decade of planning and regulatory hearings, some doubt that Arctic gas could compete with North America’s shale gas.

And the MGP is the springboard to oil and gas exploration in the Beaufort Sea, where a partnership of Imperial Oil/ExxonMobil and BP and a solo effort by Chevron Canada are embarking on seismic programs to possibly drill deepwater licenses within five years.

Canada committed to Arctic development

Regardless of the growing resistance among environmentalists and aboriginal residents of Canada’s three northern territories to resource exploitation, the Canadian government is committed to creating a “dynamic, sustainable northern economy and improving the social well-being” of northerners as an essential element of “exercising our sovereignty.”

The Arctic foreign policy statement said the petroleum and mining potential of the North underpins the government’s investment in mapping those resources.

The latest contribution, announced Aug. 20 by Yukon Senator Daniel Lang, involves C\$21.8 million of federal spending over five years on environmental and socio-economic research to “gather new information vital to future management of the Beaufort Sea.”

Lang said the data will help regulators such as the National Energy Board make decisions on oil and gas exploration and development.

Northerners, especially the Inuvialuit people who live near the Beaufort, will have a role in advancing the “research pri-

orities” along with industry and regulators.

Nellie Cournoyea, a former premier of the Northwest Territories and now chair of the Inuvialuit Regional Corp., said any moves to allow drilling in the Beaufort must be accompanied by a “comprehensive understanding” of the potential impacts on the Beaufort before any exploration permit is issued.

The federal policy statement said that in addition to the mapping investment, the government is pledged to improving regulatory systems across the North, to creating a Canadian Northern Economic Development Agency and to supporting improvement in indigenous skills and employment.

“As an emerging energy superpower, Canada will continue to support the responsible and sustainable development of oil and gas in the North,” the statement said.

To that end, mindful of BP’s Macondo well blowout in the Gulf of Mexico, it recognizes the values the importance of working closely with other Arctic states to take every step possible to prevent such a “terrible” incident in Canadian waters, which means no drilling will be allowed until at least 2014.

The statement also noted that the Arctic Council, comprising eight countries with claims to the region, has examined the impacts of oil and gas activities in the Arctic and, last year, issued new guidelines covering standards, technical and environmental best practices, management policy and regulatory controls.

—GARY PARK

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